

ACHIEVING EGYPTIAN EXPORT GROWTH

Final Report

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I. EXECUTIVE SUMMARY: A STRATEGY TO EXPAND EGYPTIAN EXPORTS

Export success can provide the key to Egypt's quest to achieve sustainable economic development and to assume a central position in the New Middle East. Expanding exports requires new investment. New investment creates jobs and income, upgrades technology and raises productivity. The economy needs a new engine of growth, and the export sector can serve as that engine.

Egypt's ability to play a significant role in foreign affairs is dependent increasingly on its stature as a player in the world economy. Thus, for Egypt to meet social and developmental goals at home, and maintain and enhance its leadership in The New Middle East, exports must rise.

"Egypt has considerable export potential." This simple statement is often expressed in various forms in the media and public forums by government and business leaders. However, when public opinion is examined in further detail, one discovers a strong sense of skepticism regarding Egypt's export growth prospects.

Which view is correct? Each opinion holds an element of truth. Those expressing doubt are basing their beliefs on Egypt's current, low level of exports, on the nation's actual export trends in recent years, and on constraints facing exporters. It is relatively easy to support an argument of "export pessimism."

At the same time, it is a fact that Egypt possesses the resources needed to expand exports significantly and to capture a much larger share of international trade markets. Therefore, "export optimists" can also present compelling arguments.

The reason why these opposing views are both reasonable is that Egypt's potential is latent rather than fulfilled. The basic ingredients necessary for export success are not yet sufficiently developed, and the overall framework for exporting requires improvement. Accordingly, Egypt could experience either an era of export-led economic growth, or a continuation of lackluster export performance.

Achieving export success in the current global economic environment is perhaps the most difficult challenge for both exporting companies and exporting countries. Exporting companies vie for overseas market shares with competitors from literally all nations. Domestic standards in terms of quality and price are irrelevant; exported goods must stand up against the best in the world. In most product categories Egypt is a new player in global markets, and thus producers face steep "learning curves." Egyptian exporters must fight an uphill battle.

Public and private sector leaders need to acknowledge that public statements do not generate exports. Egypt needs an unprecedented amount of action and cooperation between government and business - unprecedented in terms of both depth and breadth - if true export success is to be achieved. Based on recent experience of distrust and even competition between Egypt's public and private sectors, one could easily conclude that the most likely prospect is that the actions and cooperation required will not take place.

On the other hand, expanding exports for the good of the country could in fact serve as a jointly held goal, similar to competitors joining as allies against a common enemy. If Egypt can achieve real success in developing exports, this will signify that the economy is succeeding, that development progress is being made, and that Egypt is taking its rightful place in the economies of the New Middle East and the world.

A. A Vision for Achieving Egyptian Export Growth

Successful export growth must involve many actors and proceed at a variety of levels. It is important that the overall initiative be guided by a commonly-held vision for the future. This vision must embody the aspirations of the Egyptian people in a challenging but achievable way. This vision should be championed by the highest levels of leadership.

Need and Rationale for an Export Offensive

Egypt has not yet reached its true potential as a national or regional power. Notwithstanding Egypt's historical and political standing, cultural heritage, central geographic position and pivotal role in the Middle East peace process, Egypt's prominence will not meet its potential until its economy grows to equal the nation's cultural and political stature.

Economic growth in Egypt has faltered in recent years, while rapid population growth and pressure for employment opportunities have exerted themselves in both the social and political landscapes. Foreign exchange earnings from merchandise exports have dropped, and the traditional sources of hard currency can no longer be relied upon to deliver dramatic rises in national income. Egypt's future domestic prospects, including the growth of the overall economy and the well-being of the Egyptian people, depend directly on the ability of the nation to expand exports at a dramatically accelerated pace. Exports - and only exports - will generate the quantities of jobs, foreign exchange, tax revenues and income needed to support economic transformation and to improve standards of living.

The need for a strong push to Egypt's economy is critical, as the prospects of renewed regional peace offer an unprecedented opportunity for Egypt to capitalize on its central political role and become an important economic power in the Middle East. With world politics

increasingly dominated by economic might and by trading relationships, Egypt's future role in the New Middle East will in turn hinge on whether it can establish its economic strength in the region. As with the domestic economy, rapid growth in exports will serve Egypt's regional and international aspirations.

Export Development Solves Two Problems

The new importance of exports arises from two dilemmas facing Egypt -- the lack of effective alternative sources of foreign exchange, and the inability of the domestic economy to act as a sustainable source of growth. Egypt's external economy has been dominated by services income (primarily tourism receipts, Suez Canal fees and workers' remittances) and receipts of foreign assistance, supplemented by exports of oil and cotton. None of these sources is expected to expand significantly in the short term, and several are likely to decline. The only realistic new source of major streams of foreign exchange in the future is the expansion of "non-traditional" exports.

Reliance on the domestic market as in the past will simply not work and will lead inevitably to stagnation and rising unemployment. This in turn will reduce real incomes, raise demand for scarce government resources, and induce economic dislocation, the latter of which could result in economic and political instability. The Egyptian domestic market does not offer sufficient effective demand to serve as an engine of growth, and the local market does not stimulate competitiveness in terms of the quality and price of products. Egypt is also facing an enormous requirement for new employment opportunities for the expanding labor force. Growth of labor-intensive exports is the most viable means to meet this need.

Fortunately, exports provide the solution to both dilemmas, since exporting generates foreign exchange and stimulates domestic economic activity. Furthermore, Egypt possesses the resources needed to expand exports. Other countries in similar circumstances have successfully adopted export-led growth strategies which have delivered enormous benefits to their economies and people. The implementation of an aggressive export strategy is not simple, and success does not occur overnight. However, not a single nation that has seriously adopted such a strategy has regretted its decision and abandoned its export push.

Like any truly national campaign, Egypt's export drive must include and be guided by strategic objectives and specific actions. Those proposed consist of an overarching **Export Vision**, a set of **Strategic Export Goals**, and an **Action Plan** that transforms the vision into reality. These will be integrated into a logical, consistent initiative to accelerate Egyptian exports. The Export Vision and Strategic Export Goals for Egypt are presented below. The Action Plan is summarized at the end of this chapter and is presented in further detail in the final chapter of this report.

An Export Vision for Egypt

Strategies of truly national scope should be based on a coherent "vision" that sets forth the desired outcome in very clear terms. The vision serves as a rallying cry to obtain national consensus, mobilize actors and sustain commitment to implementation. One cannot overestimate the power of a vision or "call to arms" which is adopted as a central national goal.

The proposed vision statement for Egyptian export development is as follows:

EGYPT'S EXPORT SECTOR WILL BECOME THE ENGINE OF GROWTH AND WILL PROVIDE THE KEY TO EGYPT'S RISE AS THE LEADING REGIONAL CENTER FOR EXPORTS AND COMMERCE, REAFFIRMING EGYPT'S CENTRAL POLITICAL, ECONOMIC AND CULTURAL ROLE IN THE NEW MIDDLE EAST.

Government and business leaders have reached a broad consensus that for Egypt to grow and prosper, the economy must be transformed from an inward-looking, interventionist system to one which is based on market forces and international competitiveness. The export sector can serve as the "pioneer" to lead this transition and as the primary engine of growth for the next decade.

Expanded exports are needed to support economy-wide change, and increased exports also are a direct result of greater competitiveness. Thus exports are both a means to the end goal and a direct benefit itself. Exports will serve as the catalyst for appropriate change. Ultimately, a vibrant and significantly larger export sector will place Egypt - which already serves as a regional hub for certain services - at the center of Middle Eastern commerce, thus reinforcing Egypt's already strong political and cultural roles in the New Middle East.

Any export strategy must fit within the context of a vision that encompasses the desired path of long-term development for the overall economy. Simply articulated, Egypt has made a commitment to undertake fundamental structural change in order to achieve dynamic growth throughout the economy. In general, Egyptians have not yet benefitted from the fruits of reforms made to date, and further changes will be necessary. Exports and the gains derived therefrom will provide the initial positive results of economic transformation. This assertion is built on the following simple but powerful logic:

- Expanding exports will require significant amount of new investment, primarily by the private sector.
- New investments in the export sector will generate demand for new employment opportunities, as well as for technological improvements and higher productivity.

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- Exports are therefore the vehicle to create both investments and jobs in Egypt, thus contributing directly to Egypt's development priorities.
- In addition, both exporting firms and their employees will earn additional income, which will be used to purchase domestic goods and services and hence stimulate other sectors of the economy. Some of this additional income will also become increased government revenue to support social and economic development.

Creating and nurturing a dynamic export sector can form the nucleus of a broader national development strategy which removes obstacles to growth in all sectors in order to stimulate greater national output, income, and standards of living.

Strategic Export Goals

Vision statements are by definition broad in nature and hence must be made tangible through concrete goals which are ambitious but achievable. To monitor progress and motivate action, it is useful for goals to be quantitative, since in most human endeavors, "what gets measured gets done." The following goals are proposed:

- **Export Growth:** Egypt will double its nontraditional merchandise exports in four years (1999) and triple its exports in six years (2001).

Nontraditional exports are defined for this purpose as Egypt's total exports of merchandise goods except for oil and cotton. The basic figures underlying this goal are estimates, and are presented below.

EGYPT'S ESTIMATED MERCHANDISE EXPORT PERFORMANCE			
(BILLIONS OF U.S. DOLLARS)			
	<u>1995</u>	<u>1999</u>	<u>2001</u>
Nontraditional Exports	\$1.6	\$3.3	\$4.8
Oil & Cotton Exports	<u>\$2.0</u>	<u>\$2.0</u>	<u>\$2.0</u>
Total Exports	\$3.6	\$5.3	\$6.8

While final figures are not available, it has been estimated that Egypt's exports of nontraditional merchandise goods amounted to about \$1.4 billion in 1994. For this projection,

1995 exports in this category are assumed to be about \$1.6 billion. Oil and cotton exports are projected at a combined total of \$2.0 billion over the foreseeable future.

If nontraditional merchandise exports grow at an average annual rate of 20 percent, they will double between 1995 and 1999, and will triple between 1995 and the year 2001. This 20 percent growth rate is very ambitious by international standards, and is equivalent to rates posted by very successful countries such as Thailand and South Korea. For Egypt's merchandise exports to reach \$10 billion by the year 2000, growth in nontraditional exports would have to average 38 percent annually, assuming no increase in oil and cotton exports. A 38 percent growth rate for nontraditional exports is unrealistic.

- **Export Diversification:** By the year 2000, two thirds of Egypt's merchandise export income will be earned by nontraditional exports.

Nontraditional exports will account for approximately 44 percent of total merchandise exports in 1995. According to the projection, nontraditional exports will grow from approximately \$1.6 billion in 1995 to about \$4 billion in the year 2000, which will represent about two thirds of Egypt's total merchandise exports of \$6 billion. Export diversification to manufactured goods exports is critical for Egypt's creation of an export sector that generates significant amounts of investment and employment opportunities.

This report and Egypt's proposed export drive focuses on efforts to expand merchandise exports. The reason for this is that successful exporting countries have built their strategies around increasing foreign sales of goods. In addition, it is in the area of merchandise exports that Egypt has not achieved its true potential.

A concentration on goods exports does not imply that sales of services are insignificant or irrelevant. Indeed, from the standpoint of balance of payments or foreign exchange earnings, goods and services are interchangeable. As will be discussed later in this report, Egypt benefits from major service sector earnings, primarily from tourism, Suez Canal dues and workers' remittances. Ironically, while these exports have contributed strongly to the nation's payments balance, their magnitude has at the same time deflected attention from being given to agricultural and industrial exports.

While not including services exports as an explicit strategic goal, it is important to incorporate services as an element in a comprehensive strategy. For example, if one were to define exports as including merchandise exports (traditional and nontraditional) plus tourism and transportation receipts, Egypt will achieve a \$10 billion earnings goal by 1997 or 1998. Extrapolating from 1994 figures, it is assumed that merchandise exports (\$3.6 billion) plus earnings from Suez Canal fees (\$2.0 billion) and tourism (\$1.8 billion) will total \$7.4 billion in 1995. Projecting that \$2.0 billion of this (oil and cotton exports) will remain constant, and

assuming that the remaining items (nontraditional exports, canal fees and tourism) grow at 20 percent annually, Egypt will achieve total foreign exchange earnings from these activities in the amount of \$10.0 billion in either 1997 or 1998.

Under this scenario, Egypt's merchandise exports plus tourism and canal receipts will expand from a 20 percent share of Egypt's gross domestic product (GDP) in 1995 to 33 percent by the year 2000. Egypt's merchandise exports (traditional plus nontraditional) plus tourism and Suez Canal receipts (about \$7.4 billion) will account for about 20 percent of gross domestic product (about \$36.7 billion) in 1995. Economic forecasters project that Egypt's GDP will grow at an average rate of some 4.5 percent annually, to about \$45.7 billion in the year 2000. If merchandise exports plus tourism and canal income expand to about \$15.4 billion in 2000, they will account for about one third of Egypt's GDP. This increase in Egypt's "international sector" places Egypt in a much stronger position for sustainable growth.

Workers' remittances are very important to the Egyptian economy. In fact, in 1993 these remittances (\$5.7 billion) amounted to nearly one half of the nation's total current account earnings (\$12.6 billion). In the near term, these activities provide valuable foreign exchange as well as employment opportunities for Egyptian workers. Over time, however, one would have to be concerned with "brain drain," and seek to attract these talented workers back to Egypt to participate in productive economic activities such as exporting.

These quantitative goals are ambitious, and pose a serious challenge to Egyptian producers and policymakers, particularly in view of the current lackluster performance of the export sector. Nevertheless, these objectives can be attained through the aggressive implementation of the export development strategy.

B. Egyptian Export Performance

Historically, Egypt's exports were dominated by sales of cotton. As cotton exports declined, oil exports grew to take up the slack before reaching a plateau. In recent years, the export sector was buffeted by the rapid decline in sales to Central and Eastern Europe. However, throughout this period a new group of entrepreneurs has emerged to penetrate Western European and North American markets in a number of product lines, particularly goods requiring labor-intensive production.

Ironically, Egypt's export sector has been adversely affected by the nation's wide range of sources of foreign exchange inflows. Services income from tourism and Suez Canal fees, in combination with transfers from overseas Egyptian workers and international donors, have generated structural current account surpluses. This largess has detracted attention from merchandise exports and the needs of exporters. However, given the vulnerability of non-trade

inflows, only merchandise exports can provide a long-term, stable base of foreign exchange earnings.

Egypt possesses several significant comparative advantages in exporting. A large labor force and competitive wage rates give the nation an advantage in labor-intensive manufacturing. Egypt's climate and agricultural land support a wide variety of crops. A central location, offering proximity to Europe, North Africa, and the Far East means quick access to markets, and also opens opportunities as a hub for transport and other services, and as an export platform for international businesses.

Egypt's Export and Balance of Payments Performance

Historical Trade Developments

Egypt's merchandise exports have witnessed several important long-term developments in recent decades. The first was a decline in the importance of exports to the economy. In the 1950s, merchandise exports accounted for about 13-15 percent of Egypt's gross domestic product (exports of goods and non-factor services amounted to nearly one quarter of GDP in 1950). The share of merchandise exports dwindled continuously over the following two decades, to a level of about 10-12 percent on average. This was a result of the country's nationalization of private enterprises and Egypt's import substitution development strategy. This share spiked up only once, in the early 1980s, as a result of the second major rise in oil prices implemented by OPEC.

A second trend was the decline of cotton. Historically, Egypt was almost a single commodity exporter: Cotton was king, and Egypt dominated world markets in cotton. For practical purposes, the price of Egyptian cotton became the world price. In 1950, cotton accounted for over 85 percent of Egypt's total exports. This share fell to 68 percent in 1960, 45 percent in 1970, 14 percent in 1980 and 8 percent in 1990. The decline was due in part to a deterioration in Egypt's cotton production and marketing capacity under public enterprise management, but mostly to international market developments, including the rising worldwide use of synthetic fibers and the entrance of major new cotton producers such as India.

A third development was the entrance of oil exports to make Egypt a "two commodity" exporter. Oil sale increases picked up the slack left by falling cotton exports. Measurable exports of petroleum (crude and refined) began in 1960 but remained modest until the mid-1970s. Oil sales grew rapidly in the latter 1970s as OPEC oil price increases came into effect and newly discovered Egyptian petroleum reserves came on stream. Oil exports peaked at about \$2 billion annually in 1981 and 1982. Overall limits on reserves as well as growing domestic demand led to a falloff in oil exports in the 1980s, until they rebounded to \$1.8 billion in 1991 and \$1.3 billion in 1992.

A fourth event which has had a serious impact on Egyptian exports was the breakdown of the communist economies in Central and Eastern Europe. These nations, particularly the Soviet Union, had become major markets for Egypt's manufactured good exports such as apparel and footwear, as well as industrial products and construction materials.

Much of Egypt's trade with Eastern Europe was conducted under barter arrangements among government-owned companies on both sides of the transaction, since both sides wanted to avoid hard currency requirements. Purchases of Egyptian goods by Eastern European peaked at about \$550 million in 1990. This figure represented as much as 21 percent of Egypt's total exports in that year. The economic collapses of and political transitions in the former communist nations caused these markets for Egyptian goods to decline rapidly. By 1993, Egyptian exports to Eastern Europe fell to only \$314 million, further aggravating Egypt's deteriorating trade balance. Since the barter arrangements and the markets themselves did not place a high priority on quality, Egyptian producers have not been able to replace these markets easily, since other importers require higher quality standards.

The final development in Egypt's export pattern is more promising and provides a possible solution to the nation's current dilemma of economic stagnation. This is the emergence and growth of a new group of "export entrepreneurs" in several industries. These individuals and their firms are taking advantage of Egypt's comparative strengths and the nation's recent policy reforms to pursue export opportunities in new markets. These companies are found in a number of industries, such as apparel, textiles, horticulture, household decoration such as crystal, and others. Most are privately-owned and operated companies. They are breaking into the most sophisticated markets in the world, including Western Europe and the United States. They are breaking through remaining policy and regulatory constraints to exporting. They represent a new, diverse potential upsurge in Egyptian exports.

The mere existence of the burgeoning "nontraditional export sector" in Egypt gives credence to the concept that Egypt can become a major exporting nation. While many of these companies have experienced disappointing export results in recent years, they and other new export producers have shown that Egypt is capable of manufacturing internationally competitive goods in terms of both quality and price.

Egypt's Current Trade Structure and Performance

Egypt's export strategy -- a future-oriented initiative -- will seek to build the nation's capacity to produce and sell goods to international markets. As such, it must build upon Egypt's current export structure.

Exports Continue to Hold a Small Share of Output. For a country of its size and position, Egypt's merchandise exports as a portion of the nation's GDP are far less than desirable. This point is highlighted in the following table.

Key Economic Indicators: 1992

	Population (Millions)	Merchandise Exports (\$Billions)	GDP (\$Billions)	Exports/GDP (%)
Egypt	56	\$ 3	\$ 34	9%
Thailand	59	\$32	\$110	29%
South Korea	44	\$76	\$296	26%
Taiwan	21	\$81	\$176	46%

Source: International Monetary Fund, International Financial Statistics.

With a total population of about 56 million in 1992, Egypt produced about \$3 billion in merchandise exports. With reasonably comparable populations, Thailand and South Korea generated ten and twenty times as many exports, respectively. Taiwan, with a much smaller population, achieved \$81 billion in exports. This differential also shows up in export shares in total Gross Domestic Product (GDP). Egypt's export share of 9 percent is far below the shares for the other nations shown. The point of this is not to suggest that Egypt should export as much as these rapidly growing Asian countries, since each nation has a unique mix of production for domestic consumption and exportation, but only to indicate simply that Egypt should aspire to increase the magnitude of its exports.

The Commodity Composition of Exports Remains Concentrated. In addition to small size, the composition of exports is still concentrated in primary commodities. In recent years, exports of petroleum (and petroleum products) plus cotton (and cotton yarn) have accounted for 55-60 percent of total exports. While cotton exports have declined markedly, petroleum exports have increased, leaving their combined share of exports about the same. Of Egypt's total merchandise exports of \$3.0 billion in 1992, as much as \$1.7 billion was accounted for by petroleum and cotton (\$1.3 billion for petroleum and \$0.4 billion for cotton). The remaining \$1.3 billion of total exports was divided among a wide range of primary and manufactured goods.

There is nothing wrong with exporting primary, "traditional" goods such as petroleum and cotton. These are valuable commodities in international markets, and generate income and foreign exchange just as much as "nontraditional" exports. Consequently, Egypt should seek to maximize

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the benefits the country achieves from exports of these products. However, they provide little value added to the economy compared to manufactured goods. And as with other primary commodities, both cotton and petroleum are subject to significant fluctuations in global market conditions, beyond the control of producers. In addition, petroleum sales are dependent on declining levels of reserves.

Nontraditional Exports are Relatively Diversified. As noted above, a new set of Egyptian exporters of "nontraditional" products has emerged in a fairly broad range of goods. These firms have begun the process of diversifying the composition of Egyptian exports. Starting from close to zero, since nearly all production was geared toward domestic markets until at least the mid-1980s, these exports are in most cases still very small in value. Export gains have been led by the garment industry, but growth in sales of chemicals, pharmaceuticals, metallurgical products and others indicate the possibility of more diversified growth.

In the long run, these nontraditional exports with higher domestic added value represent the potential engine of growth for Egyptian exports. This assessment therefore focuses on nontraditional exports. One can argue that certain of these products have been sold overseas for many years, but the fact remains that until recently the value of these sales have been minimal, at least in international terms.

The following table shows Egypt's merchandise export performance in recent years (the latest data available in SITC classification at this time are for 1992). Acknowledging the generalized falloff of exports in 1992, growth areas include food and live animals, chemicals and miscellaneous manufactured goods. Apparel, footwear and other labor-intensive products generally fall into this latter category. Exports of crude materials and basic manufactures experienced structural declines.

EGYPT'S EXPORT TREND BY COMMODITY					
(Value: US\$ millions)					
SITC Code	Commodity	1989	1990	1991	1992
	All	2648	2582	3693	3050
0	Food/live animals	227	238	294	324
2	Crude materials	311	256	105	112
3	Mineral fuels	807	762	1993	1336
5	Chemicals	118	123	168	162
6	Basic manufactures	971	931	807	827
7	Mach, trspt eqpmt	11	17	46	38
8	Misc manuf goods	196	248	271	245

Source: International Trade Statistics Yearbook, United Nations

The following table shows Egyptian exports in greater detail, and by public and private sector firms, over the years 1991/1992 and 1992/1993. At first glance, it would seem that government companies dominate Egyptian exports. However, when one removes from the mix petroleum, cotton (plus cotton yarn) and aluminum -- three industries effectively reserved for public enterprises -- the picture becomes much more even. In fact, private companies out-export government firms in agricultural goods, engineering products, and processed foods. While there are a number of reasons for the decline in exports in recent years, the reason cited most often is the gradual effective appreciation of the pound, which has reduced margins for exporters and influenced them to turn their attention toward supplying the domestic market rather than exporting.

EGYPTIAN EXPORTS BY MAJOR COMMODITIES						
Products	1991/92		1992/93		TOTAL	
	Public \$ Mil.	Private \$ Mil.	Public \$ Mil.	Private \$ Mil.	91/92 \$ Mil.	92/93 \$ Mil.
AGRICULTURAL GOODS	116.7	140.8	72.6	125.6	257.5	198.2
Cotton	35.4	-	36.7	0.1	35.4	36.8
Fresh & Frozen Vegetables	1.9	40.2	0.9	25.6	42.1	26.5
Citrus	36.9	21.0	12.0	30.2	57.9	42.2
Potatoes	0.6	39.0	0.1	19.0	39.6	19.1
Rice	30.6	2.7	15.0	11.1	33.3	26.1
Medicinal Herbs	0.2	10.9	0.4	12.7	11.1	13.1
Fresh Onions	3.4	3.4	0.5	2.8	6.8	3.3
Flax	2.9	1.2	2.5	1.2	4.1	3.7
Other	4.8	22.4	4.5	22.9	27.2	27.4
INDUSTRIAL GOODS	2340.7	771.5	2392.6	551.9	3112.2	2944.5
A. Petroleum	1651.1	-	1802.9	-	1651.1	1802.9
B. Textiles	347.9	227.5	255.7	194.0	575.4	449.7
Yarn	243.5	39.6	162.5	41.3	283.1	203.8
Cotton Textiles	62.1	25.3	46.2	18.9	87.4	65.1
Ready-made Garments	40.0	130.0	42.5	108.5	170.0	151.0
Carpets and Kleem	0.3	28.9	0.8	18.3	29.2	19.1
Other	2.0	3.7	3.7	7.0	5.7	10.7
C. Engineering Industries	18.2	100.6	12.9	77.2	118.8	90.1
Wooden Furniture	1.1	37.0	0.7	22.1	38.1	22.8
Khan El-Khalili Products	1.2	8.1	0.1	4.2	9.3	4.3
Transportation Equipment & Parts	0.8	11.9	4.5	6.6	12.7	11.1
Refrigerators & Air Conditioning	1.1	9.9	1.0	7.4	11.0	8.4
Other	14.0	33.7	6.6	36.9	47.7	43.5
D. Food Processing	45.5	99.0	32.2	65.7	144.5	97.9
Canned Food	1.6	12.1	2.2	4.2	13.7	6.4
Molasses	4.3	2.8	5.9	2.7	7.1	8.6
Dried Onion & Garlic	4.3	3.6	4.1	5.4	7.9	9.5

EGYPTIAN EXPORTS BY MAJOR COMMODITIES (continued)						
Products	1991/92		1992/93		TOTAL	
	Public \$ Mil.	Private \$ Mil.	Public \$ Mil.	Private \$ Mil.	91/92 \$ MIL	92/93 \$ Mil.
Fish & Shrimps	0.9	8.1	0.4	3.9	9.0	4.3
Cigarettes & Tobacco	22.0	7.7	10.6	4.4	29.7	15.0
Sweets	1.0	10.7	1.0	7.4	11.7	8.4
Live Animals	0.8	11.6	0.2	6.4	12.4	6.6
Other	10.6	42.4	7.8	31.3	53.0	39.1
E. Chemicals	62.1	175.3	58.8	50.8	237.4	109.6
Paints & Cosmetics	1.5	100.5	0.8	8.1	102.0	8.9
Drugs	13.5	6.0	14.6	6.7	19.5	21.3
Glass Products	1.3	13.4	2.2	5.6	14.7	7.8
Detergents	7.8	9.3	5.0	5.5	17.1	10.5
Paper	0.2	10.8	0.7	4.1	11.0	4.8
Other	37.8	35.3	35.5	20.8	73.1	56.3
F. Metallurgical	167.6	94.2	173.8	100.1	261.8	273.9
Iron & Steel	21.2	52.6	34.7	49.1	73.8	83.8
Aluminum Plates & Products	142.0	28.7	132.1	27.3	170.7	159.4
Other	4.4	12.9	7.0	23.7	17.3	30.7
G. Mining	23.7	4.1	29.8	2.6	27.8	32.4
H. Construction	1.2	9.7	8.2	13.5	10.9	21.7
I. Other	23.4	61.1	18.3	48.0	84.5	66.3
Books & Printed Materials	21.0	5.5	13.0	4.1	26.5	17.1
Shoes	0.2	21.2	0.6	12.1	21.4	12.7
Leather Products	0.3	12.9	0.2	7.7	13.2	7.9
Other	1.9	21.5	4.5	24.1	23.4	28.6
TOTAL CLASSIFIED GOODS	2457.4	912.3	2465.2	677.5	3369.7	3142.7
UNCLASSIFIED	223.2	40.6	242.2	32.4	263.8	274.6
GRAND TOTAL	2680.6	952.9	2704.4	709.9	3633.5	3417.3

Source: Central Bank of Egypt

Balance of Payments Performance

Egypt is a victim of its own riches. To be more specific, the export sector has ironically been constrained by the diversified sources of foreign exchange Egypt receives on its services account and from transfers. The nation's current account is characterized by chronic trade deficits, more than offset by tourism and Suez Canal receipts and in part by private remittances (from Egyptians working overseas) and official foreign assistance.

In brief, inasmuch as Egypt could draw on a range of sources of foreign exchange, little attention has been given in recent years to merchandise exports. The country has been subject to a version of "Dutch disease," a condition describing the Netherlands' lack of initiative on exports due to its massive reserves of offshore natural gas deposits. This syndrome, in which riches in exports due to natural wealth result in overvalued exchange rates and retarded export sectors, is typically described of oil exporting countries. In Egypt's case, the riches are not only in the form of oil reserves, but also in the nation's resource base for tourism, transportation and workers' remittances.

The following table shows Egypt's overall balance of payments performance in recent years. Merchandise trade is "structurally" in a deficit position, since export earnings finance only about one third of imports.

Egypt's services account receipts have been sufficient to cover a major share of trade deficits. Suez Canal dues have stabilized at about \$1.9-\$2.0 billion annually. Tourism earnings, however, have fallen significantly, from \$2.5 billion in 1991/1992 to \$1.8 billion in 1993/1994. This drop stems directly from tourists' concerns over safety. The Gulf War and continuing tensions in West Bank and Gaza have stirred fears of regional conflict. While small in number, continuing terrorist activities in Egypt have generated high levels of coverage in the international media, thereby reducing tourism interest in Egypt.

Foreign exchange inflows from transfers, when combined with service sector earnings, have kept Egypt's current account in chronic surplus in recent years. Most remittances come from Egyptians working overseas, and there is some speculation that these inflows are in part masking capital inflows of "hot money" being placed by Egyptian's in high interest pound accounts. Egypt has also benefitted from inflows of official foreign assistance.

Egypt's capital account has fluctuated between surpluses and deficits recently, with the overall balance being negligible in magnitude. One positive note is the continued rise in annual inflows of foreign direct investment, indicating growing confidence in Egypt among international investors.

Egypt's structural current account surplus is unusual. Most countries at Egypt's level of development post chronic current account deficits, offset by capital account surpluses. At one level, Egypt is fortunate to possess such a range of sources of foreign exchange. This diversity provides a buffer against problems in any given area, such as the recent decline in merchandise exports.

On another level, however, Egypt's export sector has been adversely affected by current account surpluses. First, the foreign exchange inflows received from other sources have retarded the growth of any sense of urgency toward the need to expand merchandise exports. These earnings have allowed Egypt to remain an economy dominated by imports rather than exports; in such an environment, the interests of importers take precedence over those of exporters. Second, the overall payments balance has likely contributed to the strong exchange rate value of the pound, despite growing disparities in relative inflation rates domestically versus overseas.

Balance of Payments in Egypt (US\$ Million)			
	1991/92	1992/93	1993/94
A. CURRENT ACCOUNT	3,753	4,549	2,857
1. Trade Balance	(6,421)	(7,311)	(7,651)
Exports, of which	3,633	3,417	3,065
Petroleum	1,651	1,803	1,499
Cotton	35	37	45
Imports, of which	10,054	10,728	10,716
Food Products	2,206	2,183	2,215
2. Services Account	5,413	4,568	3,515
Receipts, of which	9,589	9,762	9,004
Suez Canal Dues	1,950	1,941	1,990
Tourism	2,529	2,375	1,779
Payments, of which	4,176	5,194	5,489
Interest Payments	1,320	1,455	1,382
3. Transfers	4,761	7,292	6,993
Official, excl. Exceptional grant	1,039	1,353	829
Remittances	3,722	5,939	6,164
B. CAPITAL ACCOUNT (net)	(209)	325	317
Disbursement	1,452	1,090	787
Instalments	(1,721)	(1,009)	(803)
Direct Investment	359	453	520
Interest on deposits abroad	(299)	(209)	(187)
Errors & Omissions	1,526	(852)	(1,370)
TOTAL BALANCE	5,070	4,022	1,804
Source: Central Bank of Egypt Report, 1994			

Future Trade and Payments Prospects

Egypt needs to develop a strong export base not only to contribute to domestic competitiveness and growth, but also to create a sound balance of payments structure for the future. In other words, many of the traditional sources of foreign exchange earnings noted above are subject to limits, and are in some cases vulnerable to events beyond Egypt's control.

- Oil export volumes are anticipated to remain about the same, and future exports are likely to remain in the \$1.0-\$1.5 billion range. They could fall, however, due to rising domestic demand, declining reserves, or decreases in international prices.
- Few predict a significant reversal in the decline of cotton exports, at least in the near term.
- Egypt has significant potential for growth in tourism, but these activities may continue to deteriorate until security concerns are removed.
- There is little likelihood for major increases in Suez Canal fees, and changes in international market conditions could adversely affect Canal traffic.
- Private remittances from abroad could fall precipitously due to several developments, such as declining interest rates or concerns over the exchange rate.
- There is no guarantee that inflows of official development assistance will increase or even remain constant in future years.

Among all sources of exchange earnings, the most likely set of activities to have the potential for significant growth is in merchandise exports. In the short term, the expansion of merchandise exports will supplement current exchange earnings for development purposes, providing funds for investment and growth-oriented imports. This outcome alone is sufficiently beneficial to support an export drive.

In the medium and long term, export growth will give Egypt a uniquely solid base of "international activities," placing the country in the enviable position of having multiple sources of exchange earnings. This diversified base can contribute strongly to Egypt's goal of becoming a regional commercial center. In addition, it will support the economy in the event that one or several exchange-earning activities are seriously disrupted.

C. Egyptian Comparative Advantage and Competitiveness

Each nation possesses resource endowments that determine its basic comparative advantages relative to other countries. Comparative advantage is dynamic in that the quality and quantity of resources change over time. Egypt's primary export assets at this time are the nation's labor force for labor-intensive production, land and climate for high value agriculture, and geographical position for accessing a diversified set of markets. Egypt's capital resources are relatively neutral -- neither a major asset nor a liability -- as is infrastructure. The lack of modern technology in many (but not all) industries tends to act as a liability in general export activities. All of Egypt's export-oriented resource endowments can and should be enhanced.

Possession of a resource base is a necessary but not sufficient condition for successful exporting. The ultimate requirement is competitiveness, measured by price and quality in international markets. It is possible for a nation to be well endowed with a given resource, but for any number of reasons may not be competitive in that resource area.

Egypt offers current and potential exporters both tremendous advantages and ongoing challenges. Among the principal advantages Egypt offers are a large, competitively priced labor force, a large local market, and preferential access to the European Community. Business incentives outside of free zones are modest by international standards.

The quality of Egyptian output varies but often falls short of what is required. The inefficient transport system frustrates exporters' attempts to meet delivery deadlines, and raises spoilage rates. Export marketing programs among individual firms, while in some cases good, are in general poor or nonexistent. Current capacity in many industries is insufficient and too outdated to drive an export boom.

Egypt's overall resource assets, particularly its labor force and location, should give the nation a cost advantage compared with neighboring and competitor countries. The cost advantage is offset somewhat in certain industries by lower productivity. It is also reduced by policy constraints, all of which raise costs, directly or indirectly. Nonetheless, the prevailing cost structure is an important advantage for Egypt in producing labor-intensive goods at prices that are competitive in world markets.

D. Lessons Learned From Successful Exporting Nations

A popular saying states that "nothing breeds success like success." Relating this to Egypt's export initiative, policymakers and business leaders designing export growth plans should analyze the strategies used by their neighbors and competitors.

Egypt's export potential cannot be assessed in a vacuum. To provide some perspective, Chapter III of this report describes the policy and institutional strategies other nations have utilized to catalyze export growth. The nations included in the review are Tunisia, Turkey, Cyprus, Indonesia, Malaysia, Thailand and Brazil.

For each country, the export promotion policies, regulations, and activities that led to export success are evaluated. The analysis was conducted with the goal of identifying the export development mechanisms that have a proven record in stimulating exports, as well as drawing lessons for Egypt. The following overall lessons were drawn from the analysis:

A stable macroeconomic foundation for economy-wide growth is a necessary building block for export success. Businesses need policy stability to make large investments and plan long-term. Trade liberalization and simplification, reasonable tax rates, and simplified foreign exchange procedures all contribute to export dynamism. Cyprus, for example, sees the role of the state as facilitator rather than an active player, and this strategy had led to good economic results.

In successful exporting nations, a network of government and private sector organizations provide services to exporters. Services typically include responding to foreign buyer requests for information, maintaining databases of foreign buyers, providing one-on-one technical assistance to potential exporters, and organizing trade missions. A pervasive problem among government-run organizations is bureaucracy, little responsiveness to the ultimate client (the potential exporter), and a tendency to grow too large to operate effectively.

Adequate infrastructure is vital to export success. Functioning, dependable, and appropriately priced electricity, telecommunications, water, and transportation services are key links to enhanced exports.

Many nations have utilized inward investment to finance export growth. In some cases, such as Tunisia and Thailand, nations have offered targeted foreign investment incentives to strengthen key export sectors; in others, foreign investment across broad sectors has stimulated exports.

Most nations offer incentives to exporters. Typical incentives include tax holidays, duty exemptions on imported inputs and machinery, tax reductions for businesses in outlying regions, investment allowances, training subsidies or tax credits, and preferential access to credit.

An appropriate exchange rate which does not penalize exporters is an important factor in export growth. Many nations, among them Malaysia, marked their export push with a realignment of their currency to encourage exporting.

In industries dominated by state-run companies, divestiture, privatization, commercialization and competition with private-sector firms have increased efficiency and quality and enhanced export opportunities. This was evident in Tunisia, among other nations.

Around the world, free zones have played an important role in producing for export markets. Most nations offer manufacturers a free zone option.

Nations typically have found it difficult to transform a regulatory agency into a promotional organization. In response to a changed policy climate supportive of exporting, several nations, including Tunisia, attempted to adapt an existing organization to the challenge of promoting exports, with limited results.

Exporters need adequate access to financing. Many nations, such as Turkey, established export-import banks to provide pre-shipment export credit, credit guarantees, long-term trade financing, and insurance against commercial and political risks.

E. Exports and Employment

Providing high-quality jobs for its citizens is one of the most challenging goals for all nations today, and Egypt is no exception. Unemployment in Egypt is estimated at 10 percent of the labor force of 16 million. The excess labor supply exists in nearly all occupations. The Ministry of Planning projects that one million new jobs must be created annually over the next ten years.

The only sustainable source of jobs offering good wages, job security, and opportunities for advancement is firms in the export sector. Stagnant domestic demand translates into few new hires to produce for local consumers. State enterprises face downsizing and privatization. Around the world, developing and developed nations alike are finding the export sector offers the greatest opportunities for generating new jobs. A variety of research projects conducted for Egypt have come to this same conclusion.¹

¹ See for example, Dr. Heba A. Handoussa, "Prospects for the Development of Export Oriented Industries in Egypt," January 1993 (p. 35).

The job creation power of the private sector, and of the export-oriented private sector in particular, is already manifest in the Egyptian economy. During the decade from 1982 to 1992, the private sector created three jobs for every job created by the public sector (2.3 million new jobs and 700,000 new jobs, respectively). Job growth occurred very quickly in those sectors experiencing increases in export demand. Export demand boosts not only total employment but also productivity, paving the way for greater efficiency and competitiveness, wage increases and career advancement.

The experience of other countries strongly confirms the power of export growth on employment generation. For example, East Asia has utilized an export thrust to boost its production and employment; the region has experienced a per capita GNP growth rate of over 5 percent annually since 1965. This is more than double the growth achieved by any other region. In particular, eight East Asian nations have utilized an export orientation to generate extremely high rates of growth and job creation (and often reduce economic inequalities at the same time): Japan, Hong Kong, South Korea, Singapore, Taiwan, Indonesia Malaysia, and Thailand. Each of these countries used export growth to eliminate high levels of unemployment. Unemployment in these nations is now extremely low by world standards, on the order of 3-4 percent. In fact, Japan and the "Four Tigers" (Hong Kong, South Korea, Singapore and Taiwan) face chronic shortages of labor.

Virtually every country which seriously pursues an export-oriented development strategy enjoys significant employment generation benefits. For example, a definitive study on export/employment linkages² produced the following findings:

- In South Korea, exports caused rapid employment growth in the 1960s, relatively full employment since about 1970, and higher real wages than would otherwise been possible.
- Thailand's strategy of promoting manufactured exports was favorable to employment, and assisted desired structural adjustment.
- In Tunisia, import substitution policies in the 1960s were clearly biased against employment, and led to negligible increases in jobs.

Additional evidence can be drawn from other countries. In the Dominican Republic, about 140,000 new jobs were created in export processing zones in the late 1980s and early 1990s, a period of general stagnation for the rest of the economy. Mauritius has reached a state of near

² ***Trade and Employment in Developing Countries***, Edited by Anne Krueger, Hal Lary, Terry Monson and Narongchai Akrasanee, National Bureau for Economic Research, 1981.

full employment due to its export drive. The employment boom in the "special economic zones" of eastern China is due primarily to export growth. In short, while trade liberalization can cause job losses in the near-term due to greater competition from imports, export promotion yields more and better jobs which are sustainable over time.

Given the scarcity of data on the Egyptian economy and export sector, it is not possible at this time to estimate with any degree of accuracy the employment impacts of export growth. However, one can indicate an order of magnitude impact. Drawing from information provided by exporters, labor inputs account for about 20 percent of the value of Egyptian exports (official figures tend to underestimate labor inputs). A good manufacturing wage in Egypt is about \$1,500 per year. Therefore, about \$7,500 in exports translates into one job. As a result, exports of \$1.0 billion account for approximately 133,333 jobs. Through the economic multiplier (about 2.0), the eventual employment creation effect of \$1.0 billion in exports is doubled to 266,000 jobs. One can therefore conclude that the employment benefits of increased Egyptian exports would be substantial. In addition, the efficiencies introduced by a market-oriented export push would be felt throughout the economy, thereby expanding productive employment throughout Egypt.

F. Exports and Foreign Investment

The experience of successful exporters highlights the fact that foreign investment is a key driver of export success. Foreign investors bring capital, management expertise, new technologies and market linkages. Foreign investment boosts productivity directly and by example. In many nations, foreign direct investment has assisted to create new industries, enhance competitiveness of existing industries, and link local suppliers with world markets.

In Egypt, however, foreign investment has been stymied from playing this critical role. Even with modifications to the investment law and regulations, investors face a multitude of restrictions and delays, and an overall orientation that still bears the stamp of decades of statist intervention and antipathy toward foreign investment. As part of Egypt's export enhancement effort, as well as to spur its overall economic development program, critical program and policy enhancements must be put into place to welcome foreign investment.

The following list summarizes the general aspects of any location's business climate that most foreign investors evaluate as they select a location. Egypt's performance on these variables will be a critical factor in determining the nation's competitiveness in attracting foreign direct investment, including export-oriented investment, which can then boost revenues, exports, and job creation.

FACTORS AFFECTING FOREIGN DIRECT INVESTMENT

Labor

- Quality of Labor Force
 - Educational Preparation
 - Productivity (speed, quality)
 - Dependability
- Labor Costs
- Size of Labor Pool
- Language Capabilities (for certain functions)

Infrastructure

- Transport Costs
- Shipping Duration (air, maritime, overland)
- Transport Ease (quality of infrastructure, quality of service)
- Telecommunications (cost, dependability)
- Electricity (cost, dependability)
- Water (cost, availability)
- Land (cost, availability)
- Office and Factory Space (cost, availability)

Business Policy

- Policy Stability
- Investment Start-Up Process (restrictions, delays)
- Taxes (income, duties, fees)
- Customs (ease, costs)
- Labor Laws and Requirements
- Pricing Policies
- Regulatory Requirements
- Capital and Profit Remittance Allowances
- Foreign Exchange (rate, availability, stability)
- Assistance Programs (start-up, worker training, other)
- Incentives (tax rebates, tax exonerations, etc.)

Other

- Financing (cost, availability)
- Information (accuracy, dependability)
- Market Access (geographic location, trade bloc agreements)
- Business Support Services (accounting, printing, etc.)
- Access to Suppliers (local availability of inputs)

As one can see, the variables that shape a nation's investment climate include many of the factors that determine overall economic growth. Problems in certain areas such as capital availability and labor productivity can only be overcome over time. However, generally the most important constraints are inappropriate business policies, and these can be changed relatively quickly.

Even a sound export strategy will not be sufficient to encourage foreign direct investment. While the proposed export development strategy does not present a comprehensive plan for promoting foreign investment, a focus on enhancing the investment climate represents one of the ten points of the Action Plan. In addition, it is important to note that many of the recommendations in this report will boost exports and also make foreign investment more attractive.

The improving policy regime and increasing emphasis on the private sector has already begun to create a vibrant although still relatively small private, domestic investment community. Foreign direct investment, which has been focused on meeting the consumer needs of Egypt's large population, is just beginning to become redirected to view Egypt as an export platform. Thus, increased investment from both domestic and international sources is catalyzing greater productive capacity and new export opportunities.

The detailed analysis described in the body of this report indicates that in many export industries, installed capacity is insufficient to produce goods of sufficient quality and quantity to support significant export growth. While certain industries (e.g., tourism, chemicals, spinning and weaving, and construction and building materials) are attracting some foreign investment, others, such as transportation, electronics, leather goods, packaging, automotive parts, and printing and publishing, have yet to attract fresh injections of capital, technology, and market links. In these and other industries, inflows of foreign investment should be viewed as an important, beneficial ingredient in Egypt's integration into the global economy.

G. Egypt's Global Export Potential

If Egypt undertakes a strong national initiative to expand exports, what will be the course of the nation's overall export performance? Forecasting future outcomes is challenging under any circumstances, but particularly if one must assume the fulfillment of actions not yet taken. Export growth is the sum result of scores if not hundreds of variables that collectively determine a nation's competitiveness. One should therefore view forecasts as simply orders of magnitude, not as precise estimates.

Notwithstanding the pitfalls of forecasting, it is useful to project a likely outcome as a general vision of what can be achieved. The strategic goal set forth above is to attain an average

ACHIEVING EGYPTIAN EXPORT GROWTH

growth of 20 percent in "nontraditional" exports (merchandise exports other than petroleum and cotton), yielding a doubling of these exports by 1999 and a tripling by the year 2001. This section offers a more detailed look at Egypt's export pattern over this period.

At the outset it is important to acknowledge that what are presented are potential rather than guaranteed outcomes, as well as the fact that major shifts can take place in individual categories due to unforeseen developments, both positive and negative. In addition, data for 1995 exports are clearly estimates, since even disaggregated 1994 data are not yet available. With these caveats in mind, the following table shows Egypt's overall export potential.

EGYPT'S GLOBAL MERCHANDISE EXPORT POTENTIAL (Millions of U.S. Dollars)

	1995	1996	1997	1998	1999	2000	2001
Oil and Cotton	2000	2000	2000	2000	2000	2000	2000
Nontraditional Total	1600	1920	2300	2760	3300	3960	4800
Fruits/Vegetables	180	220	260	300	340	380	420
Other Foodstuffs	120	150	180	220	260	310	360
Chemicals	200	240	280	320	370	410	460
Footwear/Leather	25	35	45	60	80	100	120
Apparel	200	250	310	390	480	600	750
Household Textiles	50	60	70	85	105	125	150
Machinery/Nonelect.	50	60	75	95	120	150	190
Electrical Mach.	25	35	45	55	70	90	120
Other Engineering	100	125	150	190	240	300	375
Iron/Steel	150	170	195	225	250	280	330
Aluminum/Products	170	200	230	260	300	340	380
Metal Manufactures	50	60	70	85	100	120	140
Other	280	315	390	475	585	755	1005
TOTAL EXPORTS	3600	3920	4300	4760	5300	5960	6800

The projection shows steady growth in all product categories throughout the period. The experience of other countries is typically lower growth rates in initial years. However, Egypt's current exports are so low and are even depressed from previous years that strong recovery rates are possible. The table also attempts to indicate differential growth potential. For example, exports of fresh fruit and vegetables falls off in later years due to both demand and supply constraints. On the other hand, apparel, electrical machinery and other labor-intensive manufactures are anticipated to expand at rates higher than the average of 20 percent.

The following table shows how the expansion of merchandise exports might fit into Egypt's earnings of goods and services in the current account.

EGYPT'S POTENTIAL EARNINGS FROM EXPORTS OF GOODS AND SERVICES
(Billions of U.S. Dollars)

	1995	1996	1997	1998	1999	2000	2001
Oil and Cotton	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nontraditional Total	1.6	1.9	2.3	2.8	3.3	4.0	4.8
Total Merch. Exports	3.6	3.9	4.3	4.8	5.3	6.0	6.8
Suez Canal Earnings	2.0	2.2	2.4	2.6	2.8	3.0	3.2
Tourism Receipts	2.0	2.3	2.6	3.0	3.4	3.9	4.5
Remittances	7.0	7.0	7.0	7.0	7.0	7.0	7.0
TOTAL	14.6	15.4	16.3	17.4	18.5	19.9	21.5

In this exercise, Suez Canal earnings, which have remained flat at about \$2.0 billion in recent years, are expected to grow by 10 percent annually over the period -- an ambitious target. Tourism receipts are estimated to grow even faster at a rate of 15 percent per year. Workers' remittances are projected to remain flat at \$7 billion annually. It is likely that even this level will not hold, since it is already unusually high (perhaps masking capital flows) and since many overseas workers could be expected to return to Egypt as employment opportunities arise. The major point to be stressed here is the growing importance of merchandise exports as a source of foreign exchange earnings.

Turning briefly to the prospective geographic destination for Egyptian exports, one can see from the industry assessments in Chapter IV that the logical markets for different clusters of goods

and services vary significantly. Fresh fruit and vegetables are destined for European markets, whereas other agricultural products and processed foods are candidates for Middle Eastern countries. Light manufactures (e.g., apparel, footwear, electronic components) will be sold to North America and Europe. In short, one should target markets only at the product level, not at the macro level.

Egypt currently exports to as many as 130 countries, but only limited amounts to each. If the overall growth strategy places a major emphasis on labor-intensive consumer goods, one should expect that the primary destination of these products will be Western Europe and North America. This is clearly in line with the experience of successful exporting countries. However, Egypt is well placed to pursue a diversified strategy, with growth in sales to Eastern Europe, the Middle East, Africa and even Asia. Due to the very low base of current exports, one should clearly expect growth to all regions if a strong export growth initiative is implemented.

H. High-Potential Export Sectors for Egypt

The recent incipient successes of Egyptian entrepreneurs in sectors ranging from apparel to electronics prove that Egypt can and does manufacture products that can compete in international markets. While traditional commodities -- oil and cotton -- continue to dominate Egypt's exports, nontraditional goods exports have begun in earnest.

To assist Egypt to diversify export markets and export products, Chapter IV identifies the types of industries in which Egypt has considerable export potential. A single list of products or product groupings that hold potential for export growth cannot convey important information concerning growth potential, scale, ease versus difficulty, constraints to growth, and other industry-specific factors. There is a tendency to view such a list simplistically as a list of "winners." The fact is that no firm, industry or nation "wins" without considerable hard work.

With this caveat in mind, along with the fact that the analysis does not include all industries with export potential, one should begin with the premise that Egypt will expand exports in industry groupings in which the nation has current or prospective comparative advantage. A first set of high potential products are based on existing comparative advantages, are currently being exported in reasonable quantities, and offer good prospects for growth in the near term without requiring much change. These include garments and clothing accessories, leather footwear and other products, household textiles (linens, floor coverings), and horticulture.

A second set of products represent possible (export) extensions of production now devoted mostly to domestic consumption. In other words, Egyptian firms currently manufacture these goods, but for any number of reasons have not succeeded in penetrating overseas markets in large volumes. Attaining significant exports in these products will require improvements in efficiency,

productivity and quality. These improvements could be achieved through privatization, increased domestic competition, and possible joint ventures with foreign firms. Export prospects in this category include chemicals and pharmaceuticals, fertilizers, iron and steel, construction materials, aluminum, electrical machinery, glass (primarily consumer products), processed foodstuffs, and jewelry.

A final set of products constitute the next phase of Egyptian export development. World markets for these goods are large and vibrant, and Egypt possesses the potential for developing competitive advantages to succeed in these export markets, but these advantages have not yet been actively exploited. It is likely that foreign investments will be required to develop Egyptian export capabilities in these industries. Products in this category include toys and athletic equipment, plastics manufactures, footwear (rubber), kitchen appliances, electronic assembly components, tableware, motor vehicle parts, communications equipment, and metal manufactures.

In addition to commodity exports, opportunities also exist in the services sector, which earns valuable foreign exchange for the Egyptian economy. The services sector can offer considerable synergies with other sectors, particularly as services exports increase demand for other Egyptian-produced products. A number of services have short-term or medium-term export potential in Egypt. They include data processing and software development, tourism-related exports, construction services, transportation services, financial services, cinematography services, and printing and publishing. In addition, as noted earlier, a very important Egyptian export is "manpower," since remittances from Egyptians working overseas are substantial.

The export success and prospects of many of the industry sectors identified above were assessed in the course of this export strategy design process, and results are summarized below. Detailed analyses of the prospects for Egyptian exports in these sample industries are provided in Chapter IV.

Apparel. As one of the industries with demonstrated export success and good export prospects, the apparel sector could realistically triple its exports before the end of the century. The industry already has a substantial export base and has developed valuable marketing networks and sales relationships with overseas buyers. The future market niche for Egyptian exporters will not be in high-volume, low-priced apparel but one step above into the better quality, mid-range products. These would include both woven and knitted products of quality design and manufacture, and with proper packaging.

Leather Footwear and Other Products. Worldwide consumption and trade in leather footwear have grown rapidly in recent years, offering good opportunities for Egyptian producers to expand their export sales in this sector. The niche markets identified for Egyptian producers are in the labor-intensive, mid-range price segments which require a certain degree of quality. Those products will include dress shoes of more classical cuts and styles, and leather jackets and

other accessories with mid-range prices. The high potential markets for Egyptian products will continue to be countries in the Middle East, North Africa, and selected countries in Western and Eastern Europe.

Household Textiles. The Egyptian household textiles and carpet sector has demonstrated its market competitiveness and its export potential with vibrant export growth in recent years. The major export markets are the European Union (EU), the United States, Japan, and the former Soviet Union. The principal products are machine-made carpets, towels, bed sheets and table cloths. This sector is currently producing high-quality, competitively priced products, and has the capacity to expand its exports given appropriate marketing assistance and improvements in the general policy environment.

Horticulture. Egypt's prospects for expanding horticulture exports are favorable if key policy, institutional and marketing constraints are adequately addressed. The best markets for Egypt's horticulture exports are most likely to be nations in the European Union, especially the United Kingdom and Germany. Gulf countries should be considered as the second most important market, as they already account for a growing share of sales. The best export opportunities will be for seedless grapes, potatoes, citrus and tomatoes. New products for which demand may be boosted by emerging consumer preferences include mango, nectarine and off-season grapes. Markets for "older" products such as pineapples, coconut and bananas are nearing saturation in the EU.

Processed Foods. Opportunities for Egypt to expand its exports in this sector are reasonably attractive. Near-term prospects are best in neighboring Near East markets. There are also good opportunities in the EU markets, especially Germany, the United Kingdom and the Benelux countries, for intermediate processed foods. Products with good prospects include concentrated juices and bulk vegetable products such as tomato paste to Germany and the Benelux countries, and bulk edible oils for further refining or blending in markets like Italy. Additional opportunities include exports of convenience foods, particularly frozen vegetables.

Pharmaceuticals. The recent growth of pharmaceuticals exports, albeit starting from a small base, has demonstrated substantial growth potential in a sector in which production capacity has been built up over years of import substitution. Selected pharmaceutical products, especially in the generic categories, are judged to meet international standards at competitive prices. The best sales prospects for Egyptian pharmaceutical products will be both licensed and generic drugs in the Arab, African and Eastern European markets, as well as generic drugs to the EU, to which Egyptian pharmaceutical products can enter duty-free.

Fertilizers. Opportunities for Egypt to expand fertilizer exports appear limited. Over the medium term, fertilizer exports are likely to result in only modest but still welcome contributions to export earnings, mainly because of declining international demand. Egypt should continue to

use its advantage as a producer of petroleum-based natural gas feedstock for production of nitrogenous fertilizers, but use this mainly to meet domestic fertilizer demand. Additional production should then be considered for export markets, depending on international demand and market prices. At present, most export opportunities are likely in Asia where the great majority of new growth in demand will occur, followed by Latin America and Africa. Declining demand is likely to continue in both Western and Eastern Europe. Demand will be strongest for Egypt's nitrogenous products, ammonium nitrate and urea, and less so for phosphates such as TSP and SSP.

Electronics. Although the electronics industry in Egypt is fairly new and small, primarily engaged in assembly and dependent on imported components, Egypt has the potential for establishing export competitiveness in certain product segments. Several new companies are beginning to export an appreciable amount of their production to niche markets. The best market potential for electronics products and household electrical goods are mainly in nearby Arab and African nations. There are also good prospects in Europe, especially Eastern Europe, in the medium and long term. Best prospects are in the assembly of electrical and electronics products, taking advantage of Egypt's competitive wage rates. The principal problem which has constrained growth is lack of investment, which hinders technology transfer and the development of market connections.

Automotive Components. While the Egyptian automotive components industry is very small and underdeveloped, the fact that some Egyptian suppliers are currently exporting small quantities of their products indicates that an export base and capabilities exist in certain market segments. The main overseas markets are neighboring Arab and African countries such as Saudi Arabia, Libya, and Sudan. Due to the relatively low technical capability which exists in the industry, the best export prospects in the short to medium term will continue to be in the labor-intensive, less technically complex components, such as wheels, filters, and tubes; chemical-based parts such as batteries and tires; and electrical, metal, and other generic parts.

Services Exports. Unlike many developing countries, Egypt possesses strong potential -- some actual and some latent -- to establish a diversified base of services exports.

Data processing is a fast-growing international market, currently dominated by the United States and Europe. Egypt is very cost-competitive in software development, with its technical competence highly rated in the industry. Egypt's best export prospects are in Arabization of existing software, new Arabic software and custom software. The highest potential markets are the Gulf countries and North Africa.

In the tourism sector, good prospects for enhancing tourism to Egypt include focusing on attracting special-interest travelers to Egypt's rich historical and cultural offerings. Egypt is also well-suited to take advantage of the world boom in cruising, which could link the nation's

historical and cultural sites with new "sun and sand" tourism developments. In addition, Egypt could increase its tourism receipts by tapping into the previously neglected convention market.

In the construction sector, the best prospects for Egyptian engineering services in the short term will continue to be relatively simple design projects in African countries funded by multilateral donors. These projects may include road design and construction supervision, small ports development, and land reclamation project design. Increasing Egyptian engineering exports will also open the door to new markets for Egyptian building materials. Africa and the Gulf will continue to be the major export markets for Egyptian construction services.

Egypt's central location linking Europe, Africa, South Asia and the Far East, is a valuable economic asset that creates major economic opportunities in international transportation. It appears that good opportunities exist in both maritime and air transport. The dismantling of policy and infrastructure barriers will be critical in restoring the transportation sector to its rightful role in generating foreign exchange as well as in facilitating Egyptian exports.

Although Egypt is not currently an offshore banking sector, Egypt has as its goal, over time, to develop into a regional and eventually an international banking center. Egypt's competitiveness in international banking is likely to be linked with the nation's ability to emerge as a transport and manufacturing hub for the New Middle East, as well as for Europe and the Far East. In addition, communications infrastructure improvements will be required to provide the quantity and quality of services demanded by international banks.

The cinematography industry is the only Egyptian industry that exports 100 percent of its production. That is, all Egyptian-made movies are distributed both locally and internationally. Egypt's best export potential will continue to be Arabic language films and videos for the Gulf and North African markets. Coproduction with foreign film companies offers Egypt one of the most promising ways to confront its technological and market size constraints. Related to film making is printing and publishing, in which Egypt has the potential to expand exports of Arabic language publications.

Packaging. The Egyptian packaging industry, while exporting some basic packaging materials to surrounding African and Gulf States, is primarily a supplier of inputs to Egyptian producers. Through packaging's appearance, environmental soundness, quality, protection, and other qualities, packaging can dramatically improve or harm the marketability of Egyptian exports. Currently, firms producing basic packaging materials such as plastic films and commercial printers export up to 30 percent of their product. Surrounding African and Gulf States, limited in their basic technologies for raw materials and packaging production, are and will continue to be good customers for the Egyptian packaging and converting manufacturers.

I. Policies Affecting Exports

Export success is never easy, not even in the most conducive business environment. Export entrepreneurs must first link high-quality inputs, sometimes from around the globe, with a productive labor force, technologically sound machinery, comprehensive knowledge of product standards, an accurate quality assurance program, and attractive packaging. Exporters must then ship goods rapidly to customers identified and convinced to buy their products during an export marketing campaign that was no doubt lengthy and expensive. Any weak link in the chain results in poor quality or late delivery, unsatisfied customers, and canceled or unrenewed export contracts.

In the past, Egyptian exporters faced tremendous obstacles to exporting, some of which linger stubbornly in the current business climate. The combination of nationalization and an import substitution regime created innumerable constraints to exporting. Local content requirements and high import tariffs focused business attention on the domestic market.

Today, exporters report that the most serious constraints on increasing sales abroad include: high and uneven import tariffs; low-quality domestic inputs; cumbersome duty-drawback and temporary admission regimes; excessive paperwork, fees and delays for customs and various inspections during import and export; workers that are poorly prepared for the jobs available; insufficient incentives to export; and lack of access to information on foreign markets and product standards.

Major progress has been achieved in policy reforms in Egypt, primarily in such macroeconomic areas as foreign exchange, finance pricing, and import policies. However, additional change is necessary to stimulate exports, and there is a need to institutionalize a continuous reform process. For example, trade policy reform cannot succeed in the absence of a wide range of other supporting reforms. Domestic markets in agriculture, manufacturing and services need to be opened to market forces if these sectors are to achieve the competitiveness needed to break into overseas markets.

Chapter V analyzes Egypt's export policy environment's strengths and areas for enhancement. Specific recommendations for reform are included in the Ten Point Action Plan, and are summarized at the end of this chapter. They seek to address constraints in import and export policies, foreign exchange policies, investment policies, and the tax regime.

While not traditionally viewed as a "policy," one additional area requires immediate attention – a dramatic increase in the quality and quantity of information flows. Data on domestic economic and operating conditions, overseas market developments, trade opportunities and potential joint ventures are the core of market intelligence that serves exporters. In virtually all successful exporting countries, trade and economic information is reliable, relatively up-to-date,

and made readily available to exporters. The information system in Egypt is improving but still poorly serves exporters, as described in Chapter II, and needs to be overhauled as a key part of Egypt's export growth strategy.

J. Export Support Services and Institutions

In addition to a supportive policy environment, exporters need a variety of support services. Successful export support systems typically provide the following forms of assistance:

- In-Country Trade Information Networks
- In-Country and Overseas Export Promotion and Marketing
- Import Credit Facilities
- Export Credit Facilities
- Credit Guarantee Facilities
- Export Insurance
- Training and Technical Assistance
- Quality and Standards Assistance
- Free Trade Zones

Experience has shown that to the maximum extent possible, business-related inputs should be provided by the private sector. This is because services rendered by the private sector tend to be furnished more effectively. However, there are areas such as export promotion in which government agencies legitimately offer valuable assistance that might not be offered privately. Most countries place such a high priority on exporting that they augment private assistance to exporters with government programs and agencies.

The challenge facing Egypt is that the existing export sector is very small. As a result, the system of exporter assistance is not well developed, and there are few export leaders to emulate. It has only been in recent years that producers of nontraditional export goods and services have actively sought to break into overseas markets. As a result, Egyptian producers need an extra push to enter into exporting. At the same time, export-related services must be provided effectively and efficiently.

The following list indicates sources of assistance in Egypt, categorized according to the export services identified above. Each of these agencies or programs is described and assessed in Chapter VI.

In-Country Trade Information Networks

Trade Point
Trade Net
Egyptian Export Promotion Center
Business Associations

In-Country and Overseas Export Promotion and Marketing

Egyptian Export Promotion Center
Trade Development Center
General Authority for Exhibitions and International Fairs
Commercial Representation Offices

Import Credit Facilities

Foreign (e.g., U.S., European, etc.) Export Import Banks and Commodity Import Programs

Export Credit Facilities

Export Development Bank of Egypt
Commercial Banks

Credit Guarantee Facilities

The Export Credit Guarantee Company of Egypt
Commercial Banks

Export Insurance

Insurance Companies

Training and Technical Assistance

Egyptian Export Promotion Center
Trade Development Center
Donor-Supported Technical Assistance Programs
Department of Productive Efficiency and Vocational Training

Quality and Standards Assistance

Most standards organization are regulatory rather than assistance oriented

Free Trade Zones

Public Free Trade Zones

Private Free Trade Zones

There are two primary reasons why Egypt exports so little in comparison to other countries of similar size and resources, and so little in relation to Egypt's true export potential. The first is the policy environment, which is improving but still bears the vestiges of decades of government interventionism and an inward-looking trade strategy. The second is the absence of qualified, "export ready" firms capable of producing goods at international standards of quality and price.

Beyond these principal constraints, the lack of an effective exporter support system stands out as a major cause for the lack of export growth. According to current or would-be exporters, gaps in the provision of export assistance are present in virtually all areas identified above. There are, in fact, institutions charged with extending help to exporters in most functional areas. In reality, these organizations are largely ill-equipped to fulfil their roles effectively. In short, the assistance network needs to be improved substantially across the board. Specifically:

- The availability, reliability and accessibility of trade and economic data are very poor.
- The quality and extent of export marketing and promotion need to be enhanced.
- The cost of financial services, as well as the time and effort required to obtain letters of credit and other documents need to be reduced.
- In-country transportation services and facilities should be improved, and port charges and delays are excessive.
- Government agencies tend to have large staff sizes, but lack technically qualified personnel.
- Many government agencies view their role as regulatory rather than as providing assistance.

- While there is nothing wrong with competition, due to jurisdictional histories there are in some cases (e.g., information networks, export promotion) excessive and unnecessary "turf battles" between organizations providing similar services.
- Most government assistance agencies are poorly financed and hence do not possess the equipment and operational funds necessary to carry out their functions.
- Business associations are becoming increasingly involved in export development, but generally lack the qualified staff and equipment needed.

In short, most if not all of Egypt's export support system needs to be strengthened. Each of the institutions described below possesses assets that can be drawn upon and used more effectively, but each also requires improvements in management, staff quality, focus, and efficiency. The Action Plan presented later in this report includes recommendations for restructuring and enhancing these institutional resources.

K. Ten Point Action Plan for Achieving Egyptian Export Growth

Any strategy is meaningless without action -- in this case, action to be taken by exporters, the government and business organizations. Many successful exporting countries have organized their export initiatives around action plans which assign tasks and responsibilities. The Ten Point Action Plan presented below is designed to yield accelerated and sustained growth in Egyptian exports.

1. ELEVATE EXPORT STRATEGY TO A NATIONAL INITIATIVE

The Egyptian Export Development Strategy will be promulgated by the President and endorsed by the People's Assembly as a national initiative. The strategy will also be adopted as a priority initiative by Egyptian business associations and their leaders.

2. LAUNCH AN EXPORT STIMULUS PACKAGE

The Egyptian export sector will be designated and treated as the highest priority sector in terms of business policies.

- Grant exporters a five-year corporate income tax holiday to stimulate a boom in export activity.

- Reduce import duties on imported inputs, and exempt them from sales tax.
- Adopt and maintain a competitive exchange rate.
- Open opportunities for the private sector to participate fully in enhancing Egypt's export services, including transportation, so that private business can contribute capital, expertise, worldwide market access, and state-of-the-art operating practices.
- Enhance tax incentives to attract more domestic and foreign direct investment.

3. REMOVE REMAINING EXPORT CONSTRAINTS AND REDUCE COSTS

Accelerated efforts will be undertaken by the High Committee on Exports and other bodies to remove existing policy and administrative constraints to export growth, focusing special emphasis on implementation of decisions made.

- Restructure customs procedures.
- Continue investment deregulation.
- Develop broader capital markets and ease private sector access to investment financing.
- Speed up progress on privatization.
- Strengthen enforcement of intellectual property rights protection.
- Reduce transaction taxes and fees.
- Improve tax administration and enforcement.

4. ACCELERATE OVERALL ECONOMIC REFORM ACTIVITIES

The Export Development Strategy will be most successful if it is implemented within the context of overall economic reform including continued deregulation, liberalization, privatization, and progress toward a market-led economy.

5. ATTRACT EXPORT-ORIENTED INVESTMENT

Concerted efforts will be undertaken to attract new investments in export industries. Legal or administrative restrictions against new investment - foreign or domestic - will be eliminated for investments in export industries.

- Select target investment sectors.
- Utilize experienced business staff with extensive sector-specific knowledge and expertise to attract investment.
- Design and implement precision marketing campaigns in target markets, defined both by sector and geographic location.
- Utilize an automated database to keep track of contact with potential investors.
- Enhance the business climate for export-oriented investment.

6. BUILD A MAJOR EXPORT INFORMATION NETWORK

A major initiative by both Government and business organizations will be the development, preparation and dissemination of statistics, trade opportunities and other relevant information on export development through a public/private network of information systems.

- Primary sources of data will be charged with responsibility for creating information relevant to exporting on a regular, reliable, up-to-date basis.
- The government will establish appropriate "wholesale" sources of economic/trade information.
- The business community will create a network of information dissemination services for exporters.

7. ESTABLISH EFFECTIVE EXPORTER ASSISTANCE SERVICES

Government and private sector leaders will implement a series of "exporter assistance" activities. Responsibilities will be divided among private and public sector organizations.

- Assist exporters to conduct market research and identify and capture new target markets.
- Provide information and facilitation on import/export policies, documentation and regulations.
- Provide training and technical assistance on a range of export issues, such as international marketing, input acquisition, quality control and standards, finance, and technology upgrading.
- Improve vocational education and training, and offer tax incentives for firm-level productivity enhancement activities such as training.
- Actively assist exporters to reach ISO-9000 quality assurance guidelines.
- Expand access to export financing and general financial services, particularly for medium-size firms and first-time exporters.

8. UNDERTAKE INDUSTRY-DRIVEN EXPORT MARKETING

Based on the experience of successful exporting countries, export marketing and promotion strategies will be organized at the industry or product-group level. The Federation of Egyptian Industries (FEI) will use its individual Industry Chambers as a focal point for organizing industry-specific export growth councils.

9. CREATE A DYNAMIC EXPORT STRATEGY MANAGEMENT STRUCTURE

The High Committee on Export Development will oversee the strategy, and will advise the President on all decisions deemed necessary to expand exports. Major Egyptian business associations will organize and provide representatives to an Export Council that provides guidance and expertise on export development matters and coordinates public/private sector initiatives.

- The High Committee will serve as the "Board of Directors" for the export development strategy.

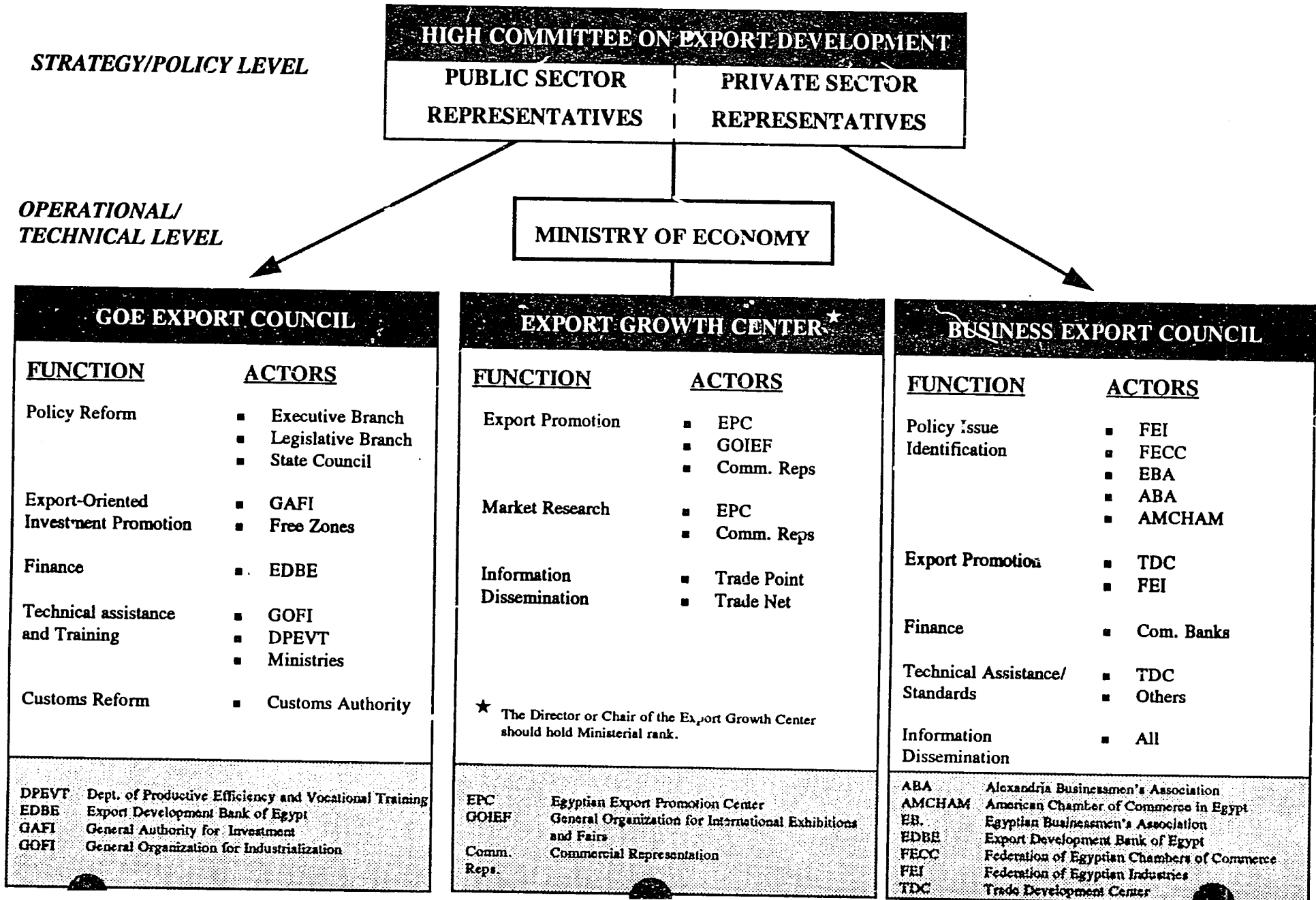
- The private sector will organize its participation through a Business Export Council, consisting of business representatives on the High Committee plus other relevant organizations.
- The Egyptian Government will organize its participation through a GOE Export Council, consisting of government representatives on the High Committee plus other relevant agencies.
- Strategy implementation will be divided among private sector and government organizations, working collaboratively.

10. REINVENT GOVERNMENT AGENCIES TO EXPEDITE STRATEGY IMPLEMENTATION

Key government export development agencies will be fully incorporated into the Action Plan and will be strengthened by bringing them together under a single unit -- the Export Growth Center -- within the Ministry of Economy and Foreign Trade.

- Overlapping roles will be eliminated and a coherent, aggressive operating plan will be adopted by the Export Growth Center.
- Efficiency will be enhanced through specialization and adherence to performance targets.
- Staff capabilities will be improved through training and technical assistance.
- Additional institutional resources will be solicited to bolster productivity and performance.
- Inter-Agency linkages will be strengthened through Action Plan coordination and sharing of resources and information.

EXPORT STRATEGY IMPLEMENTATION STRUCTURE



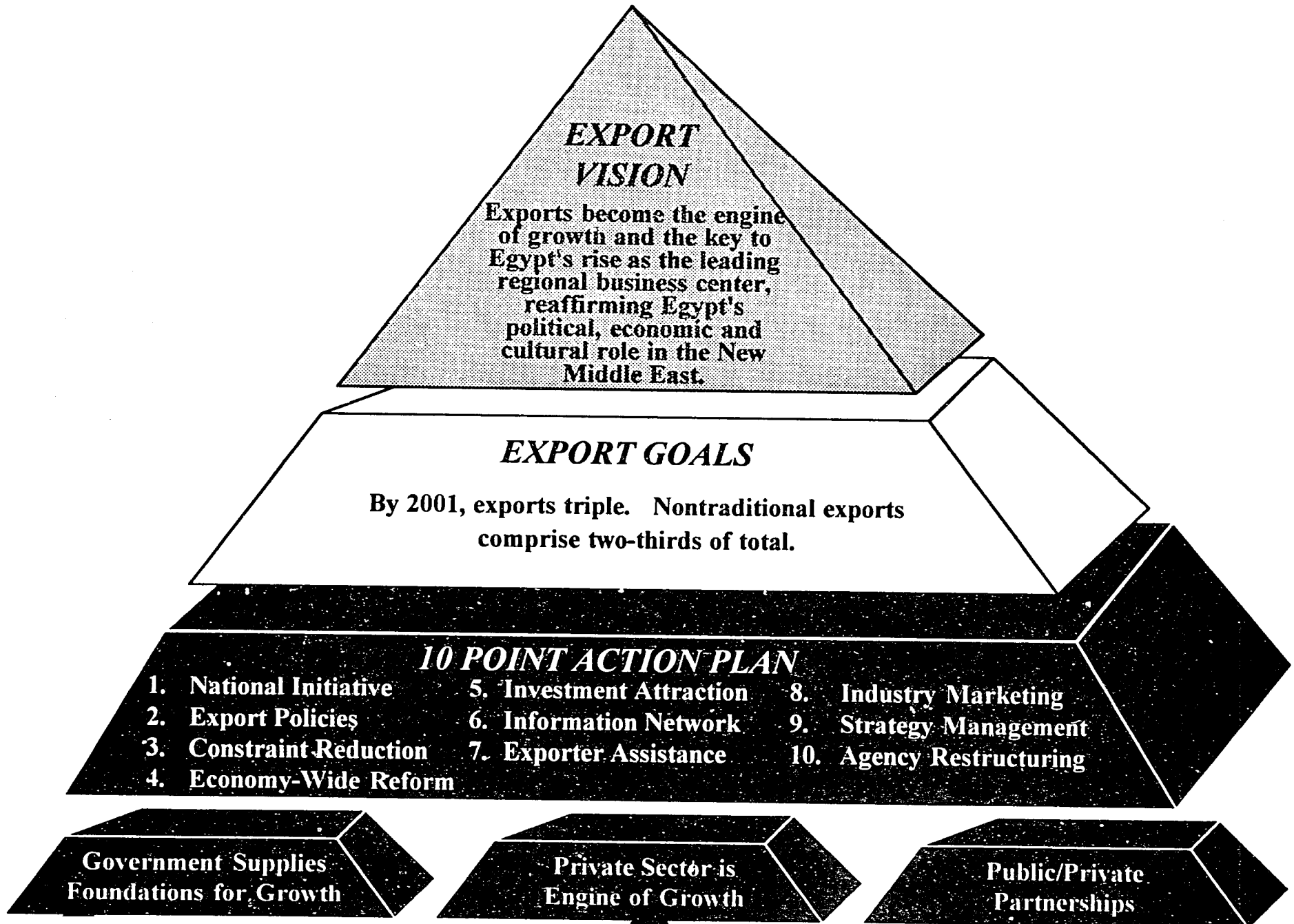
EXPORT STRATEGY IMPLEMENTATION RESPONSIBILITIES

As noted above, the successful achievement of the Egyptian Export Development Strategy will require serious commitment and action by both the Government and industry. The overall strategy calls for three implementation "thrusts," which represent the distribution of responsibilities to the principal actors charged with bringing the goals and vision into reality. Responsibilities for implementing the 10-Point Action Plan are assigned through the following:

1. **The Egyptian Government will become an aggressive advocate for exports and exporters, in both word and deed.** This means that the Government will put into place a policy and regulatory environment that is highly conducive to exporting, and that concerted efforts will be made by the Government to assist Egyptian exporters. This thrust will be manifested in specific changes in policies and in government institutions.
2. **The private sector of Egypt will bear principal responsibility for expanding exports.** This responsibility will be borne by individual firms, which will improve the competitiveness of their products and services, and by business organizations, which will organize themselves to assist exporters effectively and efficiently. Government companies will continue to export, but international experience shows that private firms will achieve the strongest growth.
3. **The Government and private sector of Egypt – both organizations and leaderships – will forge a new relationship of collaboration to meet the goal of expanding Egyptian exports.** The collaboration required will be unprecedented in the historical environment of distrust prevailing over the past four decades. However, it is essential that an effective coalition be built and maintained if Egypt's export goals are to be achieved.

In summary, Egypt possesses many attributes that equip the nation for export success. However, exporters continue to suffer under the vestiges of past export-constraining policies and the lack of effective export services. The Export Development Strategy presented herein builds on Egypt's export assets, highlights steps for reducing export impediments, and crafts a vision to guide Egypt toward export success and full assumption of its rightful role as the political, economic, and cultural leader in the New Middle East.

EGYPT EXPORT DEVELOPMENT STRATEGY: TURNING VISION INTO REALITY



II. EGYPT'S COMPARATIVE ADVANTAGES AND COMPETITIVENESS

A. Egypt's Comparative Advantage Balance Sheet Assessment

Like every company, every nation possesses "assets" and "liabilities." Production and growth performance are based on the capacity of the firm or country to capitalize on and develop productive assets, and to overcome or at least manage liabilities. The aggregate mix of assets and liabilities represents an overall "balance sheet," which in turn establishes comparative advantage.

In the case of nations such as Egypt, assets take the form of endowments of resources -- labor, land and natural resources, capital, technology, and so forth. Liabilities are shortages of the same factor inputs. Established economic theory suggests that a nation's comparative advantages are based on its abundance of various factor endowments relative to those of its trading partners and competitors. In practice, it is also critically important to assess the quality of resource endowments in addition to absolute quantities.

Before embarking on a major export initiative, Egyptian officials and business leaders need an objective assessment of the country's basic export assets and liabilities. This assessment will not and should not lead to an exercise of picking prospective export "winners." That should be left to market forces. However, the assessment yields three important, strategic judgements:

1. Direct inferences regarding comparative advantage, which indicates the types of production or even product "clusters" which are most likely to expand.
2. Identification of key resource strengths that can be developed and utilized more effectively.
3. Identification of weaknesses that need to be corrected or accommodated through corporate and public initiatives.

Assessment of economic balance sheets first indicate general advantages and disadvantages among overall factor inputs. For example, Egypt is relatively strong in the area of labor, but lags behind in technology. In addition, one always finds strengths and weaknesses within individual resource endowments. In labor, Egypt shows strengths in middle skill categories, and weaknesses in low skill categories.

As will be indicated below, Egypt's primary export assets at this time are the nation's labor force for labor-intensive production, land and climate for high value agriculture, and geographical position accessing a diversified set of markets. Egypt's capital resources are relatively neutral (neither a major asset or liability), as is infrastructure. Technology tends to act as a liability in

general export activities. The effects and strategic implications of this mix will be addressed later in this report.

Labor and Entrepreneurship

Labor is Egypt's strongest asset for expanding exports, and the nation clearly possesses the potential for labor-intensive export growth. Egypt has the largest and lowest cost semi-skilled labor market in the Mediterranean region. Egypt's labor asset could be utilized for significant increases in export goods requiring labor-intensive production. Unfortunately, widespread illiteracy and a mismatch between education and the types of jobs currently available reduce productivity.

Egypt's population is 60 million, and is growing at an annual rate of 2.7 percent. If current growth rates persist, Egypt's population will reach an estimated 70 million in 2000, and 92 million in 2010. The nation is increasingly urbanized, with 44 percent of the population living in urban areas, including 14 million in Cairo and 4 million in Alexandria. Urbanization is creating shortages in skilled agricultural labor.

The domestic labor force is estimated at 16.2 million, and is growing at a 2.7 percent annual rate. Unemployment is officially approximately 10 percent. The World Bank estimates that 66 percent of females and 52 percent of males are illiterate, while a 1990 CAPMAS survey determined that 50 percent of the labor force is illiterate. The mean years of schooling among the population 25 years or older is just 2.8 years.

Relatively low labor force participation, due to the age structure of the population and cultural factors, has resulted in a relatively high dependency ratio of 3 dependents per 1 employed person. Expressed in other terms, the 25 percent of the population which is employed supports the remaining 75 percent of the population.

School attendance has increased significantly in recent years. Primary education until age 12 is compulsory in Egypt, and the entire age-appropriate cohort is enrolled in elementary school. Egypt has achieved a teacher/pupil ratio in primary school of 24, which is less than the ratio in most low-income and even middle-income nations. Fully 80 percent of the secondary school-age population attends school. Nineteen percent of adults pursue a university-level degree, the highest percentage among all low-income economies and one percentage point above the average attendance in middle-income economies. The nation has four state universities, in Cairo, Alexandria, 'Ayn Shams, and Asyut, and one private university, the American University in Cairo, as well as numerous institutes of higher learning.

From the 1960s through the 1980s, the Egyptian government maintained a policy of employing all new labor force entrants (college graduates) in Government departments and public

sector companies. Although this practice has gradually been abandoned, its legacy remains in the form of budget deficits, a bloated government bureaucracy, low worker productivity and work ethic in some cases, and poor performance of state-owned enterprises.

An export-led strategy which creates jobs in labor-intensive industries not only matches Egypt's comparative advantages, but also eases the critical social problem of unemployment. Even if Egypt were to maintain the current unemployment level of 10 percent, 3.6 million new jobs must be created by the year 2000 to absorb new entrants to the labor force. If efforts are made to reduce unemployment to half its current level, to 5 percent, then 5 million new jobs must be sought.

While Egypt's competitive wage levels and large available labor force are seen as attractive to manufacturers, the workers must demonstrate acceptable quality and productivity skills in order for firms to compete internationally. Much remains to be done in enhancing these qualities of the Egyptian labor force. The Egyptian labor force is relatively young, with two-thirds under 39 years of age. Thus, the labor force is likely to be receptive to additional training, and education and skills enhancement effort will result in marked increases in labor quality and productivity.

Egypt, like many developing nations, is experiencing a series of skill mis-matches at both ends of the employment scale. At the top of the scale, the skilled portion of the labor force faces too few skilled jobs. At any given time, approximately 200,000 university graduates are unable to find appropriate work. Toward the other end of the continuum, the unskilled, illiterate portion of the labor force is unable to provide the technical qualities sought by employers. The local educational system is not currently preparing the workforce for the jobs being offered.

Facing relatively few high-paying, satisfying career options in either the private sector or the public sector, many Egyptians migrate to overseas jobs, either in the Gulf, Europe, or the United States. Approximately 7 percent of the Egyptian labor force is working overseas at any time; the percentage peaked at 13 percent in 1988. Overseas workers can be categorized in two distinct types -- skilled and unskilled -- with relatively little middle ground. Skilled workers take high-paying positions not available in Egypt. Unskilled workers, who usually have little or no formal education and often worked in either agriculture or the informal sector or were unemployed prior to emigrating, find work in construction or another relatively low-level positions overseas. Importantly, however, these workers are very likely to find a position once they return to Egypt, thus foreign employment not only reduces Egyptian unemployment, it offers useful training and experience and facilitates employment upon return.

Labor rates are competitive in Egypt compared to competitor nations. Egypt's minimum wage, include fringe benefits, is \$0.31 per hour, significantly lower than Thailand's \$0.47 to \$0.58, Cyprus' \$0.83, Turkey's \$0.74 to \$1.03, Israel's \$2.78 - \$3.60, or Tunisia's \$3.53 -

\$3.76. For both unskilled and skilled workers, wage rates in Egypt are below those in other nations, making Egypt cost-competitive for local firms seeking to export.

The level of craftsmanship available in Egypt is indicated by high quality handicrafts. However, this latent skill base has not been translated sufficiently into labor-intensive exports. A major exception is found in apparel, an industry which is often a key source of training on eye-hand coordination and work on detail and quality. These skills can be developed for use by other industries, such as electronics assembly.

Egyptians have historically been entrepreneurial in nature. However, the forced or voluntary emigration of business leaders in the 1950s and 1960s, followed by the predominance of the government over three decades, clearly impeded growth of private enterprise leaders. An entrepreneurial class is now re-emerging. A growing number of private entrepreneurs are successful competing in both Egyptian and international markets. It will take time, however, for numbers of qualified upper and middle managers to grow to any satisfactory point.

Approximately 4 million individuals work in small and micro-enterprises, defined as businesses with less than 10 employees, mostly in retail, restaurants, hotels, personal services, and manufacturing. Entrepreneurs face many challenges. Extensive governmental regulations take up an estimated 30 percent of a each business executive's time.¹ Most businesses are family-run, limiting access to professional skills in the areas of marketing, finance, customer service, etc. However, it is likely that family businesses will lead Egypt's export push in the future.

Overall, Egypt's labor resources are likely to be the dominant factor driving the nation's export growth. Egypt boasts a labor pool that is lower in cost and much larger than other countries in the region. Like other successful exporting countries, Egypt can draw upon this resource to produce goods requiring labor-intensive production. However, achieving this goal will require considerable efforts, particularly basic education and technical/vocational training, to upgrade the lower skilled levels of the labor force.

Geography and Natural Resources

With its year-long growing season, extensive irrigation network, and high-quality soils, Egypt boasts strong agricultural resources. Arable land, 3 percent of the total area, is clustered around the Nile Valley and Delta. Approximately 1.2 million acres are planted with cotton each year. Other major crops include wheat, barley, beans, maize, fruits, and sugar cane. While there is no pasture land, livestock are raised in farms and villages.

¹ The World Bank, "Private Sector Development in Egypt: The Status and Challenges," Volume 1: Main Report, February 1994, p. 20.

The topography is not as flat as is commonly thought, with mountainous areas occurring in the southwest Western Desert, along the Red Sea, and in southern Sinai. Cool, mild winters last from November to March, during which temperatures range from 48 to 65 degrees Fahrenheit. Summer begins in May and lasts through September, characterized by high temperatures which reach into the 90s Fahrenheit in Cairo.

Egypt is sunny throughout the year, receiving 12 hours of sunshine in the summer and 8 to 10 hours daily in the winter, a boon for tourism. Rainfall is scarce and variable. Alexandria receives approximately seven inches annually, Cairo one inch, and Aswan only one-tenth of an inch. Egypt is 96 percent desert.

As would be expected in a nation dominated by desert, water is scarce. From 1970 to 1992, Egypt utilized 97.1 percent of its total ground water resources each year, an estimated 56.4 cubic kilometers annually. The Nile directly or indirectly supplies almost all of Egypt's water needs. Egyptians consume 1,028 cubic meters of water annually per capita, 72 for domestic use and a 956 for industrial and agricultural use (principally irrigation).

From an international perspective, Egypt has only modest mineral reserves, including iron ore, petroleum, natural gas, gypsum, phosphates, marble and uranium. Petroleum exports provide high levels of foreign exchange earnings, but based on proven reserves, export volumes are not expected to grow and may even decline. Egypt's oil resources have also provided feedstocks to other domestic and export industries, such as fertilizer production and refined petroleum products. Other mineral and energy resources are sufficient to support a number of export industries, such as aluminum products and construction. However, Egypt should not be viewed as rich in mineral resources, nor as having major comparative advantages due to these resources.

Egypt is well-located to serve as a hub for both production and transport, offering proximity to the large European Union (EU) and Middle Eastern Markets, and trade routes to the Far East. With a total area of 385,230 square miles, approximately 1,000,000 square kilometers, Egypt borders Sudan in the south, Libya in the west, and Israel in the northeast, as well as the Mediterranean, the Red Sea and the Gulf of Aqaba.

The Suez Canal is already a major economic asset for Egypt, generating significant foreign exchange earnings from Canal fees. Over time, Egypt should be able to leverage additional benefits from the Canal and from Egypt's unique geographic position.

As in many other countries, pollution and environmental degradation is an economic liability in Egypt. Industrial waste is a particular problem; industry produces 3-5 million tons of industrial solid waste annually, 20,000-50,000 tons of which is hazardous. In addition, the combination of price controls and centrally planned production has resulted in usage of resources

that is not always environmentally or socially sound (i.e., excessive use of energy, water, fertilizers, pesticides, natural resources).

The chemical industry discharges heavy metals, while the food processing and textile industries generate large liquid waste flows, much of which is discharged untreated. Emissions from factories are a major source of air pollution. Ninety-five percent of firms are located in Cairo and Alexandria, cities which already exceed air pollution standards by several hundred percent. For example, the tanning industry, with its highly polluting processes, is crammed into a small section of Cairo. There is not sufficient land to set up modern factory designs with appropriate pollution prevention equipment, and so most factories simply empty their chemical wastes into the streets and sewer systems.

On the bright side, environmental "consciousness" has grown steadily, and increasing attention is being given to pollution prevention and abatement. An additional focus is being given to land preservation. For example, Egypt has designated 13 nationally protected areas, totally 8,000 square kilometers, 0.8 percent of the nation's total area.

Capital and Finance

Access to appropriate financing is neither a major asset nor a significant liability in Egypt. Exporters report that they are generally well-served by the nation's finance system, and that access to credit is not a major problem, at least for established producers. However, exporters complain about both transaction fees and the amount of time and effort needed to obtain even routine financing.

One must keep in mind that current exporters are typically large, long-established firms, or companies with strong family support. Access to capital and credit by small firms, which are generally not exporters, is very limited. Therefore, to the extent that Egypt needs new firms to enter into exporting activities, one can conclude that financing is a liability that should be addressed in a comprehensive export growth strategy.

The Egyptian financial system consists of approximately 100 banks and two stock exchanges. Venture capital funds are rare, so most new enterprises turn to family or business associates for start-up funding. In the past, the government and/or government-owned companies absorbed most investment funds created through savings and placed in banks. This had the effect of "crowding out" private firms and entrepreneurs from access to capital and credit. With recent reforms, lending to public companies is more limited, thereby increasing funds available to private borrowers. Financial and economic reforms are having the effect of reducing this problem.

The Egyptian financial system includes five types of banks: The Central Bank, Specialized Banks, State Commercial Banks, Joint Venture Banks, and Private Banks. As elsewhere, Egypt's

Central Bank sets banking policies, and controls the money supply via interest rates and reserve requirements. Unlike many central banks, Egypt's also sets commission structures for bank services and fees, thereby limiting price competition.

Specialized banks channel government and donor funds to large industrial or agricultural projects. Egypt has four large State Commercial Banks: The National Bank of Egypt, Banque du Caire, Bank of Alexandria, and Banque Misr. These banks offer local currency and foreign currency accounts as well as the normal range of banking and loan services to commercial and private accounts. Joint venture banks are collaborations among top international banks and the four state commercial banks. Since 1974, several private banks owned by shareholders have emerged, including the Nile Bank, Al-Ahram Bank, and El-Mohandes Bank.

Stock exchanges in Cairo and Alexandria, which flourished prior to nationalization in the early 1960s, are again playing an increasing role in channeling funds to private firms. The Capital Markets Law of 1992 should strengthen the stock markets by clarifying oversight and facilitating involvement in the exchanges.

The structure of Egypt's foreign exchange system has been improved significantly through a series of major reforms. Currently, there are no major problems in the system itself. Exporters report good access to foreign exchange to pay for imports, although they voice a need for a realignment of the exchange rate to provide incentives for exporting. The Government of Egypt created a unified exchange rate in 1987. Any individuals or companies may hold foreign currency accounts.

Technology

With respect to the nation's overall export potential, Egypt's technology base is not an asset. The technologies used in many traditional industries -- geared toward serving the domestic market -- lagged behind those employed by successful exporters. Public sector firms have often devoted capital resources to covering chronic deficits rather than to investing in new equipment and production methods. Lack of interactions with overseas markets has placed producers out of touch with technological innovations.

Notwithstanding the general need for technological upgrades, in every industry there are certain firms, mostly but not exclusively private sector companies, that have sought out and invested in modern technologies. These are often the firms that have succeeded in expanding exports. In other words, most industries in Egypt are not uniform in their technological bases, indicating that advanced technologies can successfully be introduced. The most effective means for technology improvements are through investments in new equipment, joint ventures with foreign firms, licensing agreements, and technical assistance.

The majority of Egyptian producers makes only modest investments in research and development (R&D) leading to new technologies. Most formal R&D is undertaken by a network of government laboratories, among them the National Academy of Research, the Ministry of Education, the Ministry of Scientific Research, and the Ministry of Industry. In 1992, Egypt's public R&D investment totaled 0.06 percent of GDP, much less than its competitors: Turkey spent three times as much as a percentage of GDP, Mexico ten times as much, and Korea thirty times as much. Even more disturbing, the private sector reports that the research that is undertaken is not directly relevant to business needs.

Infrastructure

The lack of modern, reliable infrastructure is a serious impediment to better Egyptian export performance. On the positive side, energy is competitively priced and generally dependable. However, telecommunications line, while competitive in price, can be difficult to obtain or repair, creating significant problems for businesses and resulting in poor customer service for domestic and export clients alike. Transport is a major obstacle, with poorly maintained infrastructure and disinterested customer service, resulting in lengthy delays. Lack of physical infrastructure is a substantial problem in some new cities.

Energy. As is common in industrializing nations, energy use per capita in Egypt has skyrocketed in the past two decades, more than doubling. During the 1970s, the growth rate of energy production, 14.2 percent annually, greatly exceeded the growth rate of consumption, 8.9 percent. However, the situation reversed in the 1980s, with production up just 4.4 percent in the face of a 6.1 percent annual usage increase.

Approximately one-sixth of Egypt's electrical power is generated by the two large hydroelectric stations at Aswan and Aswan High Dam. The nation also operates ten thermal plants and five gas turbine plants, and additional plants are under construction. Nuclear power plants are planned to supplement the existing capacity. A rural electrification program is underway.

Telecommunications. In 1990, Egypt possessed 33 telephone mainlines per 1,000 people, the highest among all low-income economies, and three times more than the Philippines, Yemen, or Papua New Guinea. Egypt's phone lines are dependable by international standards, with only 5 faults per 100 mainlines per year, a lower rate than most other nations regardless of income level. Nonetheless, some exporters surveyed did indicate a severe shortage of lines and lengthy delays for repairs, and pointed out a strong need for a cellular phone system. Expanding exports will require much easier business access to telephone hookups, as well as lines for other communications systems such as facsimile machines.

Water. Water is generally available, although competing uses and low levels of effluent treatment are becoming issues. Ninety percent of the population has access to safe water, although only fifty percent have sewerage connections. Water shortages and quality problems are found primarily in areas outside of major metropolitan zones.

Transport. Egypt's basic transportation infrastructure is essentially in place, but service is poor in the opinion of exporters. Most of the transport system is state-owned. Lack of capacity, delays, and low responsiveness to exporter needs characterize the system.

Ninety percent of domestic freight moves by truck. Egypt has 45,000 kilometers of paved roads. While the World Bank estimates that only 39 percent of the paved roads are in good condition, the vast majority of the 17,000 kilometers of intercity roads are in fair to good condition.

Exporters report that the Egyptian trucking industry is in a critical state. The industry is composed of approximately five government-operated public sector firms, and independent truckers. However, because of lack of responsiveness to customer needs, due on the part of the government-owned firms to a lack of incentives and on the part of the private truckers to high costs and policy constraints, foreign truckers dominate the Egyptian market. Jordanian, Syrian, and Saudi truckers haul approximately 95 percent of Egyptian truck freight, leaving only five percent of the market in Egyptian hands.

Seven percent of domestic freight is shipped by rail. The railway system consists of 5,000 kilometers of track, one-fifth of which needs replacement. Major lines link Cairo to Aswan, Alexandria, the Libyan border, and the Suez Canal.

Exporters, in contrast to suppliers for the domestic market, utilize primarily maritime and air transport services. Unfortunately, the current degraded condition of Egyptian ports is reducing export competitiveness by raising costs and resulting in lengthy delays. For example, while Port Said is an ideal multi-purpose port that could serve exporters from the 10th of Ramadan City, its high costs and delays result in low usage. Additional quays should be constructed, and the entrance to the port deepened. International shipping companies are likely to be willing to finance and operate the quays. Arabia Port needs a large quay, storage space, and stations for vehicles, especially those carrying refrigerated goods. Safaga port needs to be deepened, and a passenger quay opened. Nuweiba Port needs one or more quays. Alexandria Port must be deepened, waiting stations opened for freighters, and freight storage increased. To facilitate the diversion of grain to Damietta, additional silos are needed, along with modern unloading equipment.

Maritime infrastructure problems are aggregated by government monopolies in loading and shipping services. Since competition is not allowed in certain ports, public sector firms have little

incentive to provide good service. They are criticized by exporters as being badly organized and managed, causing delays, and providing inefficient services.

Air transport is preferred by exporters when a short travel time is essential, as for example for perishable fruits and vegetables, or inputs and intermediate components for just-in-time manufacturing. Air transportation accounts for less than one percent (0.5 percent) of the total tonnage of Egyptian exports, but as much as 25 percent of the total value of exports. Most exports transported by air cargo are "non-traditional," fragile and high in value.

Egypt Air is the key provider of air cargo services, and accounts for about 40 percent of total exports transported by air. Most cargo is loaded aboard scheduled passenger flights. Dedicated cargo capacity is very limited, and constrains export growth. Exporters in general find air cargo rates competitive, but are frustrated by shortages of cargo capacity.

B. Egyptian Competitiveness

Possession of a resource base is a necessary but not sufficient condition for successful exporting. Nations need to translate comparative advantage into competitive advantage. Competition is measured by price and quality in international markets. It is possible for a nation to be well endowed with a given resource, but for any number of reasons not be competitive in that resource area. For example, a country might have abundant labor, but costs are too high due to inappropriate labor laws, or quality is low because of poor educational systems.

It is difficult to measure "quality" as a competitiveness indicator at the macroeconomic level. However, one can quantify costs and certain other competitiveness measures. Even if they did nothing else, countries embarking on export growth strategies would be well served by focusing on initiatives to reduce the costs and increase the quality of their basic resource inputs.

Egypt offers current and potential exporters both tremendous advantages and ongoing challenges. This section analyses the competitiveness of Egyptian exports in terms of input costs, business incentives, productivity, quality, on-time delivery, export marketing programs, installed capacity, and technology.

Among the principal advantages Egypt offers are a large, competitively priced labor force, competitive maritime and air freight rates, a large local market, and preferential access to the European Community. Electricity rates are high by most standards. Business incentives outside of free zones are modest by international standards.

The quality of Egyptian output varies but often falls short of what is required. The inefficient transport system frustrates exporters' attempts to meet delivery deadlines, and raises

spoilage rates. Export marketing programs among individual firms, while in some cases good, are in general poor or nonexistent. Current capacity in many industries is insufficient and too outdated to drive an export boom. For details on how these factors affect individual export sectors, see Chapter IV.

Egypt's overall resource assets, particularly its labor force and location, should give the nation a cost advantage compared with neighboring and competitor countries. The cost advantage is offset somewhat in certain industries by lower productivity. It is also reduced by policy constraints, all of which raise costs, directly or indirectly. Nonetheless, the prevailing cost structure is an important advantage for Egypt in producing labor-intensive goods at prices that are competitive in world markets.

The tables on the following pages compare Egypt's cost structure with those in competitive and neighboring nations, including Brazil, Cyprus, Indonesia, Israel, Turkey, Tunisia, Thailand, Singapore, and Malaysia. These are the same countries whose export strategies and performance are assessed in Chapter III of this report. Cost figures are presented in terms of U.S. dollars, unless otherwise specified; accordingly, one should keep in mind that all costs presented will fluctuate directly in relation to exchange rate changes.

It is important to acknowledge that specific costs (e.g., wage rates) vary considerably by industry, locale, and other factors. Therefore, the costs shown below may not fit the circumstances of specific industries. Nevertheless, since the data were collected in a similar fashion for all countries selected, they do provide an overall comparative measure of cost competitiveness.

Labor Rates. At \$0.31 per hour, excluding bonuses, Egypt's minimum wage is significantly lower than many competitors and neighbors. For example, Egypt's minimum wage is approximately one-third of the minimum wage in Cyprus or Turkey, and one-tenth of the minimum wage in Israel or Tunisia. Egypt's labor rate competitive advantage is illustrated in the following table, "Minimum Wage Comparison for Egypt and Competitors." Egypt remains competitive in wage costs even when one compares the prevailing unskilled wage, which at \$0.55 in Egypt is significantly lower than Cyprus' \$1.88-\$3.13 or Turkey's \$1.72.

Labor Availability. Is labor readily available in Egypt? One indication of availability is the level of unemployment. Officially, Egypt's unemployment rate is given at 10 percent. Many analysts suggest that the true rate is well above the stated rate, due to underemployment, survey techniques employed, and other factors.

At 10 percent, Egypt's unemployment rate falls in the middle range when compared with neighboring nations, exceeding Cyprus' 2 percent and Turkey's 8 percent, equal to Israel's rate, and lower than Tunisia's 16 percent. The unemployment rate is several times greater than the

extremely low rates prevalent in the Far Eastern economies, which are experiencing unemployment of only 3-5 percent. Countries like Japan, Taiwan and South Korea are experiencing major labor shortages, particularly in low-skilled and medium-skilled worker categories.

Unemployment is a serious economic and social issue that needs to be addressed, and should never be viewed as positive. Nevertheless, it also signals to investors that labor is widely available, which from a long-term perspective can be seen as an advantage. Egypt's position relative to other nations is illustrated in the following table, "Labor Availability in Egypt."

Cost of Electricity. According to the Egyptian Electricity Authority, Egyptian electricity costs roughly 2.5-5.0 cents/kilowatt hour for industrial consumers, prices which are competitive compared with other nations. The Far Eastern producers pay costs \$0.05-\$0.10/kwh, while Turkey charges \$0.19. Some industries benefit from subsidized rates, whereas others pay higher than average rates. In particular, it is often noted that certain public enterprises receive preferential rates. Egypt's competitive position is depicted in the following table, "Egypt's Cost Competitiveness in Electricity."

Transport Costs. Egyptian exporters point to high transport costs, lengthy delays, poorly maintained facilities and a lack of customer service from port authorities and shipping companies as serious impediments to export growth. With private entry into transport services barred by law, exporters must depend on public monopolies supplemented by a plethora of small companies. As a result, many businesses find that they are charged twice for the same services, while the overall service level remains low.

A recent comprehensive study on costs facing exporters identified a wide range of transportation problems leading to high costs and delays.² For example, loading and port charges for imported inputs are much higher in Egypt than in other countries in the region. It is extremely difficult to obtain truly reliable, comparable transport cost data. For example, shipping prices can vary depending on specific cargoes, on shipper/manufacturer relationships, on volume and other factors. In addition, different nations calculate costs in different ways, precluding comparisons.

While the comparative maritime costs to the U.S. East Coast summarized in the following table were collected from international shippers, they fail to include important information. Thus, while at first glance Egypt may appear to enjoy competitive shipping costs, other factors greatly diminish if not eliminate any apparent cost advantage. Specifically, these shipping costs do not include port changes and do not take into account delays and uncertainties involved in shipping through Egyptian ports.

² "Transaction Costs to Private Exports," World Bank, December 21, 1994.

As one indication of these shipping problems, it has been documented that many ships which previously used Egyptian ports no longer do so, and freight consolidation, transit shipping and other transportation activities have relocated from Egyptian ports to other ports in the region. This migration of business demonstrates that the value offered by Egyptian transport services has lost competitiveness.

In addition, Egypt does not offer exporters a major advantage regarding duration of maritime shipping, either to Europe or the United States. Compared with cargo originating in Cyprus or Turkey, Egyptian cargo took six more days to arrive in the United States, and five more days to arrive in Naples, Italy. As expected, Egyptian cargo does reach the eastern United States several days ahead of cargo originating in the Far East. See the following table, "Shipping Duration for Egyptian Cargo to the United States."

Some exporters prefer to move their goods by air, and Egypt may have a slight cost advantage. As the following table demonstrates, "Air Freight Costs for Egypt and Competitors," at \$2.25 per kilo, Egypt can air freight goods to the eastern coast of the United States less expensively than Tunisia, Turkey, or any of the Far Eastern nations. On the other hand, exporters of horticultural products complain about the absence of sufficient air freight space during peak seasons, as well as inefficiencies in service.

Preferential Access to the European Union. Egypt's preferential access to the EU market differentiates the nation's exports from those originating in several Far Eastern nations, including Thailand and Malaysia. Those nations are unable to gain special access to the EU. Most neighboring nations, however, do have preferential access, making this feature less of a comparative advantage for Egypt.

Local Market. Egypt's large local market is an important asset for the business community. While the population of 60 million has a relatively modest GDP/capita of \$706, nonetheless the resulting consumer buying power is significant enough to attract many major producers of both consumer and industrial goods, both international and domestic. While Egypt's consumer spending power is less than other nations in the region, it nonetheless has reached a critical mass that is sufficient incentive for local and international industry.

Investment Incentives. Egyptian exporters can select among two regimes which offer tax incentives. If they choose to locate in a free zone, they are eligible for a 100 percent exoneration on corporate taxes and tariffs in perpetuity. This tax advantage compares favorably with those offered by Egypt's competitors, some of which offer only partial exonerations or for periods of time limited to ten years in most cases. It is important to note that according to the Federation of Industries, a square meter of land in Egypt's new cities costs 3 - 20 times that of a square meter in other nations. These costs could be lowered through tax concessions or government subsidies.

If an exporter chooses to become a Law 230 company, the financial incentives are lower, but the producer has a much wider choice of geographic locations. The corporation tax exoneration is still 100 percent, but lasts only 5-15 years; this combination of benefits is approximately the standard around the world but falls short of advantages offered by Cyprus, or Turkey. See accompanying tables which depict the extent and duration of tax exonerations for Egypt and its competitors.

**COST COMPARISON:
EGYPT AND SELECTED NATIONS**

		EGYPT	BRAZIL	CYPRUS	INDONESIA	ISRAEL	SINGAPORE	MALAYSIA	THAILAND	TUNISIA	TURKEY
LABOR											
Minimum Wage (w/Fringe)	US\$/Hr	0.31 ¹	.52 - .53	0.83	0.28	2.78 - 3.60	None	None	.47 - .58	3.53 - 3.76	.74 - 1.03
Unskilled Wage (w/Fringe)	US\$/Hr	0.55	N/A	1.88 - 3.13	N/A	N/A	3.49	2.49	0.91	N/A	1.72
Unemployment	%	10	4.5 - 8	1.8	2.64	10	2.7	5.2	3.3	16	7.8
Size of Labor Force	Million	16.2	58	0.27	80	1.97	1.6	7.66	33	3	20.3
PRICE OF ELECTRICITY											
	US\$/KWH	.025-.05	N/A	N/A	0.1	N/A	0.05	0.07	0.06	N/A	0.19
TRANSPORT COSTS											
To the U.S. East Coast:											
Shipping (see text)	US\$/40ft Con.	2,050	4,042	3,100	5,380	N/A	4,880	5,180	5,180	3,800	2,558
Port Charges ²	US\$/40ft Con.	600	300	All In	1,053	N/A	1,053	1,053	1,053	All In	1,203
Duration	days	21	25	15	26	N/A	27	28	27	20	15
Air Freight	\$/Kilo	2 - 2.5	2.8	1.9	4.8	5.55	7.2	8.2 - 11.1	3.8	2.3	2.8
To Naples, Italy:											
Shipping (see text)	US\$/40ft Con.	1,300	N/A	1,800	3,100	N/A	2,700	3,000	3,100	N/A	1,700
Port Charges ²	US\$/40ft Con.	All In	N/A	All In	131	N/A	131	131	131	N/A	All In
Duration	days	8	N/A	3	31	N/A	28	29	28	N/A	3
EC PREFERENTIAL ACCESS											
		YES	N/A	YES	N/A	YES	YES	NO	NO	YES	YES
SIZE OF LOCAL MARKET											
Population	Million	60	154	0.7	184	60	2.8	19	58	8.5	59
GDP/Capita	US\$	706	471	8,659	706	11,312	19,168	3,371	2,064	1,785	1,919
¹ - Does not include bonuses.											
² - All In means port charges are included in the shipping price.											
N/A - Not Available											

COST COMPARISON: EGYPT AND SELECTED NATIONS

		EGYPT ¹	EGYPT ²	BRAZIL ³	CYPRUS ³	INDONESIA ⁵	ISRAEL ³	SINGAPORE ⁴	MALAYSIA ⁴	THAILAND ³	TUNISIA ⁶	TURKEY ⁶
INVESTMENT INCENTIVES												
Corp. Tax Exoneration	%	100	100	50 - 100	75 - 100	0	100	27 - 90	70	100	100	30 - 100
Length of Exoneration ⁴	Years	Perpetuity	5 - 15	10 - 15	Perpetuity	0	2 - 10	5 - 10	5	3 - 8	10	Perpetuity
Tariff Exoneration	%	100	0	100	100	100	N/A	100	100	100	100	0 - 100
Length of Exoneration	Years	Perpetuity	0	Perpetuity	Perpetuity	Perpetuity	N/A	Perpetuity	Perpetuity	Perpetuity	10	Perpetuity
EXPORT INCENTIVES												
Corp. Tax Exoneration	%	100	100	N/O	50 - 100	N/O	N/O	N/O	N/O	N/O	35 - 100 ⁷	30 - 100 ⁷
Length of Exoneration ⁴	Years	Perpetuity	5 - 15		Perpetuity						10	Perpetuity
Tariff Exoneration	%	100	0	N/O	100	N/O	N/O	N/O	N/O	N/O	90 - 100	100
Length of Exoneration	Years	Perpetuity	0		Perpetuity						10	Perpetuity
¹ Industrial Zones/ Authorized Enterprise Zones												
² Law 230 Companies												
³ Supported Industries/ Approved Industries												
⁴ Pioneer Co./ Approved Enterprises												
⁵ Free Trade Zones												
⁶ If no specific length was given, perpetuity was assumed.												
⁷ Amount depends upon the percentage of total production exported.												
N/A - Not Available												
N/O - Not Offered. Many nations offer various incentives to producers in certain industries, zones, or regions, as opposed to incentives specifically designated for exporters.												

**COMPARISON OF EXPORT PERFORMANCE:
EGYPT AND SELECTED NATIONS**

	Egypt	Brazil	Indonesia	Israel	Malaysia	Singapore	Thailand	Tunisia	Turkey
Merch Exp '92 (US\$ Millions)	3,050	35,956	33,815	13,082	40,705	63,386	32,473	4,040	14,715
Merch Exp/GDP (1992)	9%	10%	27%	19%	71%	138%	29%	29%	15%
Merch Exports per Capita (US\$)	51	233	154	2,468	2,142	22,638	560	475	249
Sources: The World Bank Group: <u>World Development Report, 1994</u>; International Monetary Fund: <u>International Financial Statistics, September, 1994</u>.									

Sources for Cost Comparison Among Egypt and Selected Developing Countries

Labor: Foreign Labor Trends, U.S. Department of Labor, 1992-1993; Social Security Programs Throughout the World 1993, U.S. Department of Health and Human Services; U.S. Department of Commerce; Facts About Cyprus, 1993, Malaysia: Investment in the Manufacturing Sector, 1994; Manual for the Investor in Israel, 1994.

Electricity: Previous SRI Studies.

Transport

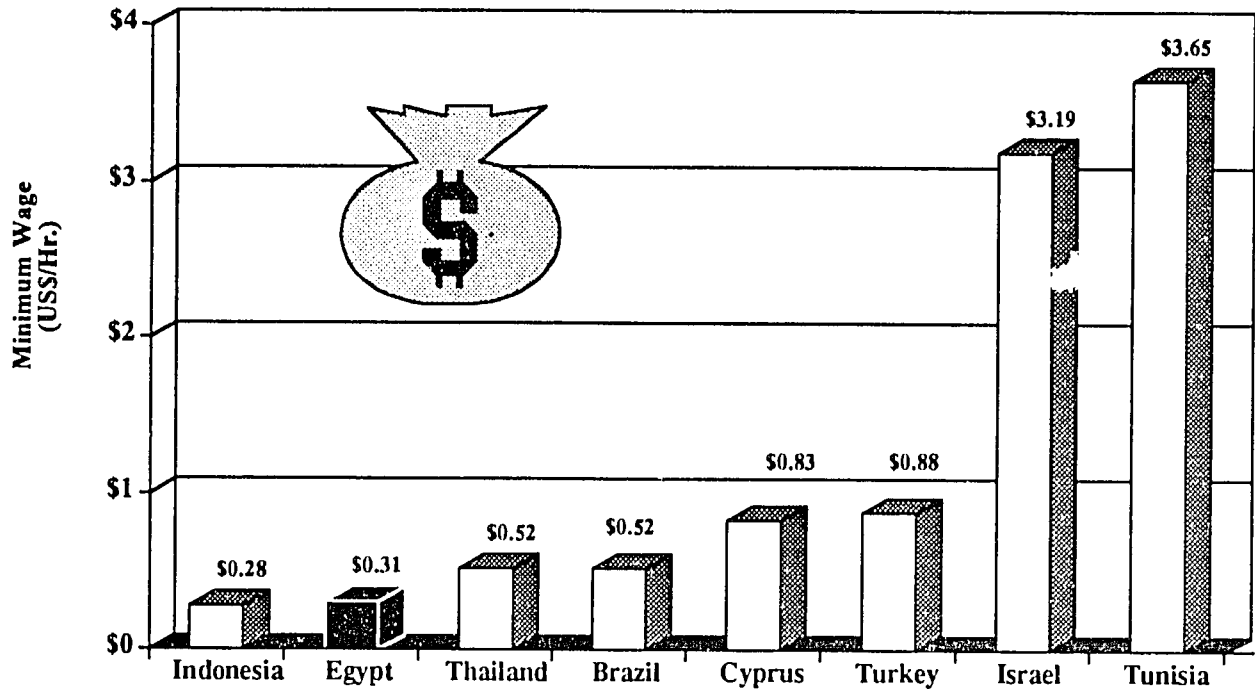
Costs: Sealand; Farrell Lines; Nakufreight Ltd.; United Airlines; American Airlines; British Airways; Egypt Air; Garuda Indonesian Airways; Malaysian Airline System; Tunis Air; Turkish Airlines.

Size of Local

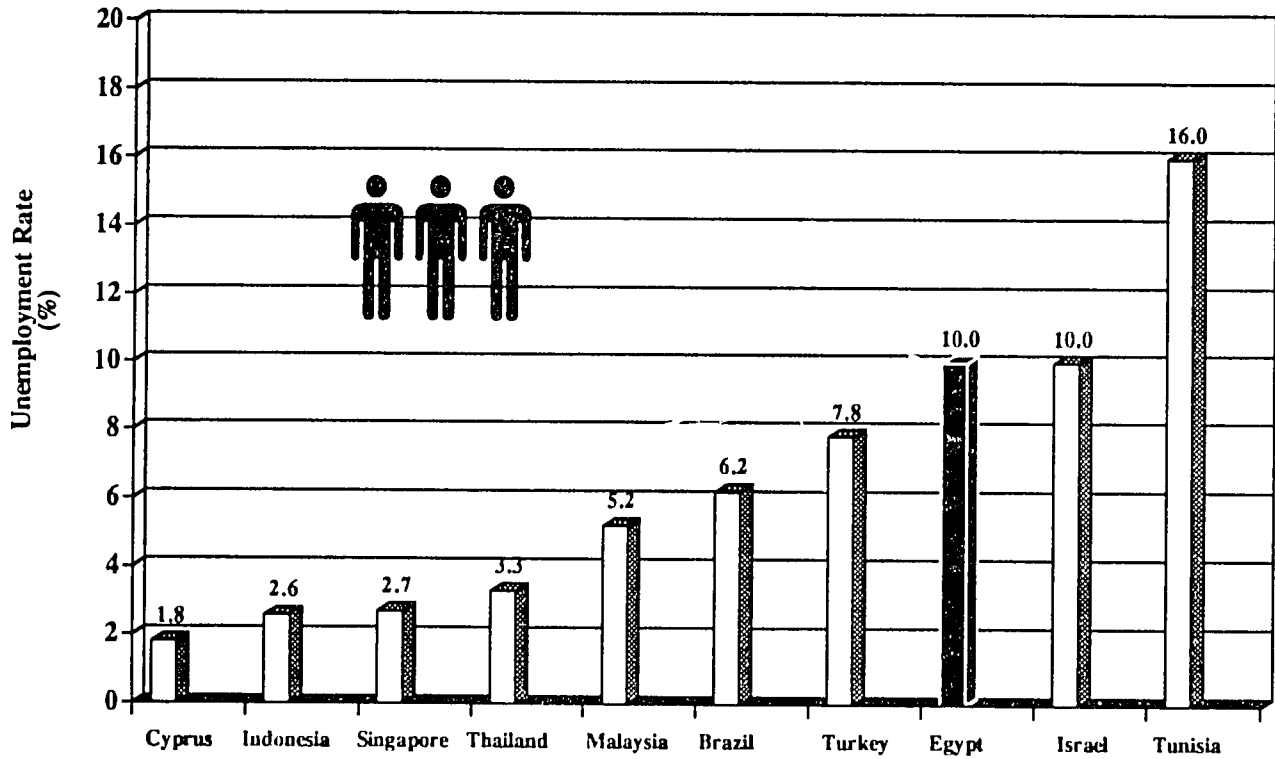
Market: The World Bank Group: World Development Report, 1994; The WEFA Group: World Economic Outlook, July 1994, International Monetary Fund: International Financial Statistics, September, 1994.

Incentives: Price Waterhouse; Key Indicators in Thailand; Indonesia: Quarterly Bulletin, Winter, 1994; The Investor's Guide to Singapore, 1994; Incentives for Investment in Tunisia, 1994; Manual for the Investor in Israel.

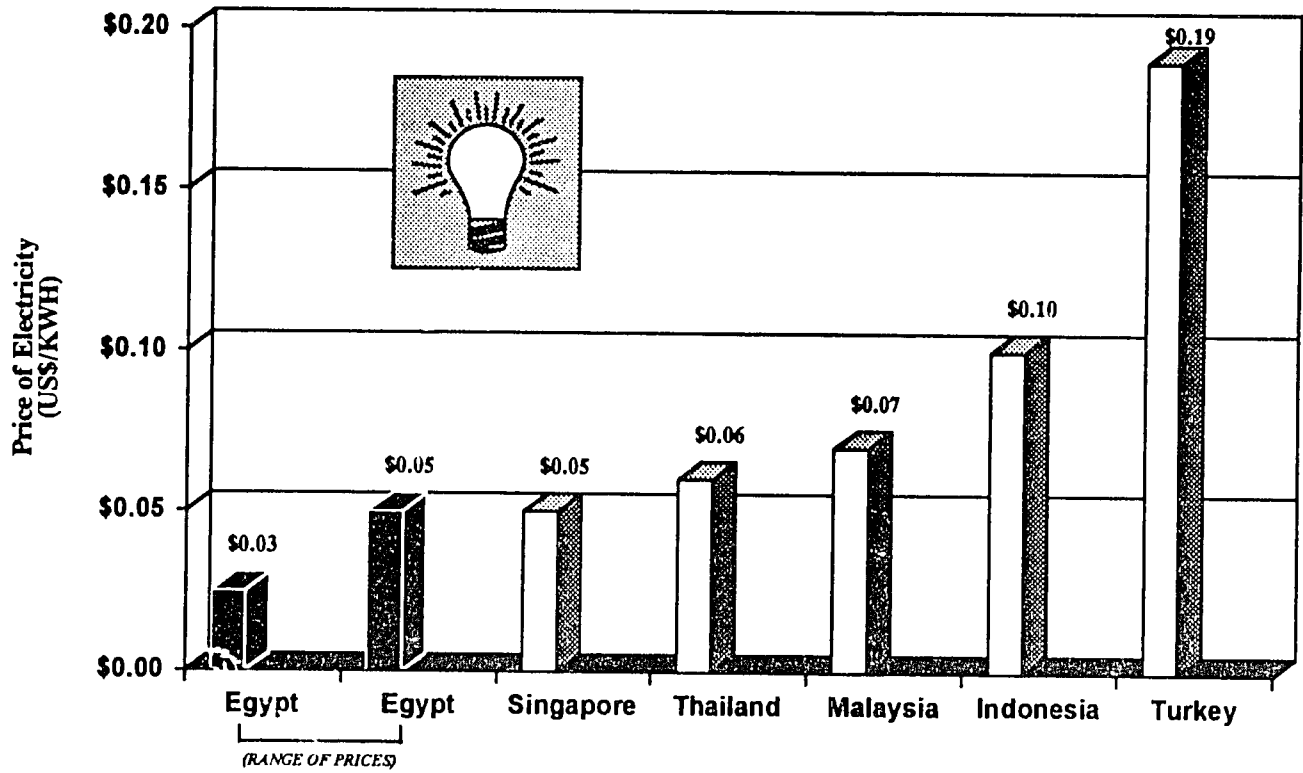
MINIMUM WAGE COMPARISON FOR EGYPT AND COMPETITORS



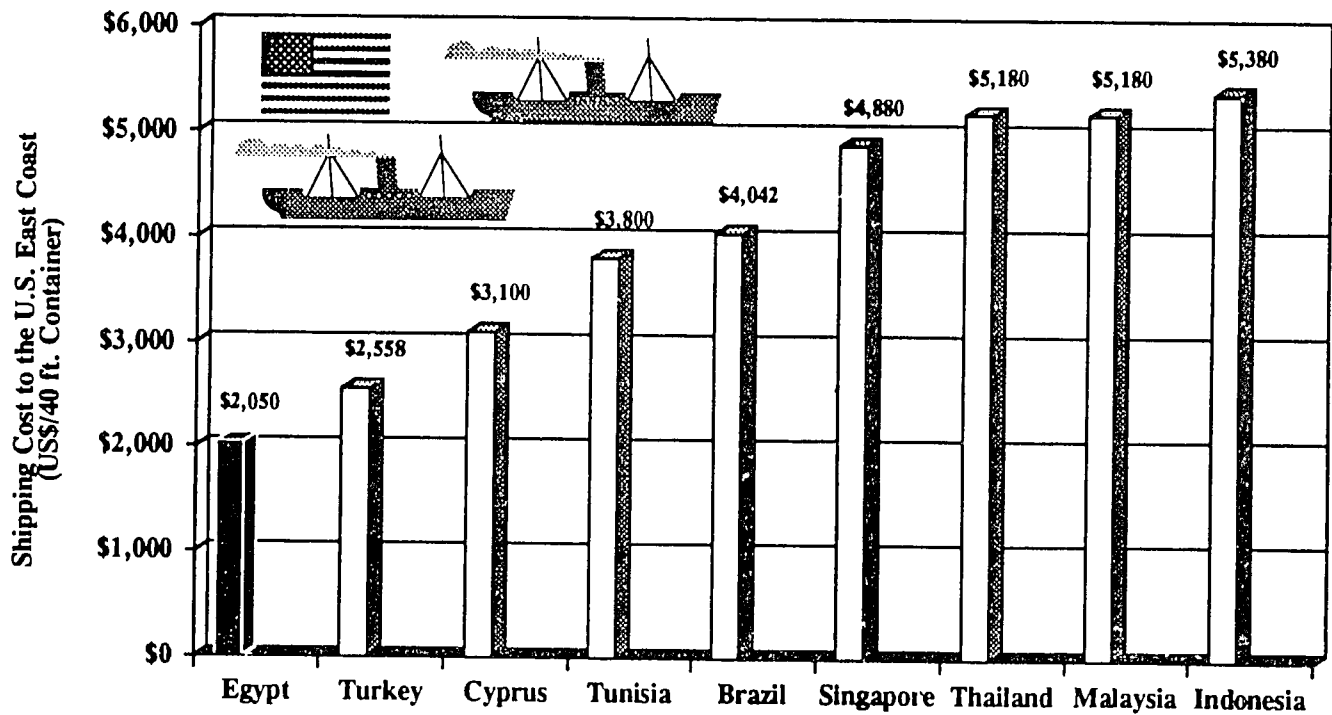
LABOR AVAILABILITY IN EGYPT



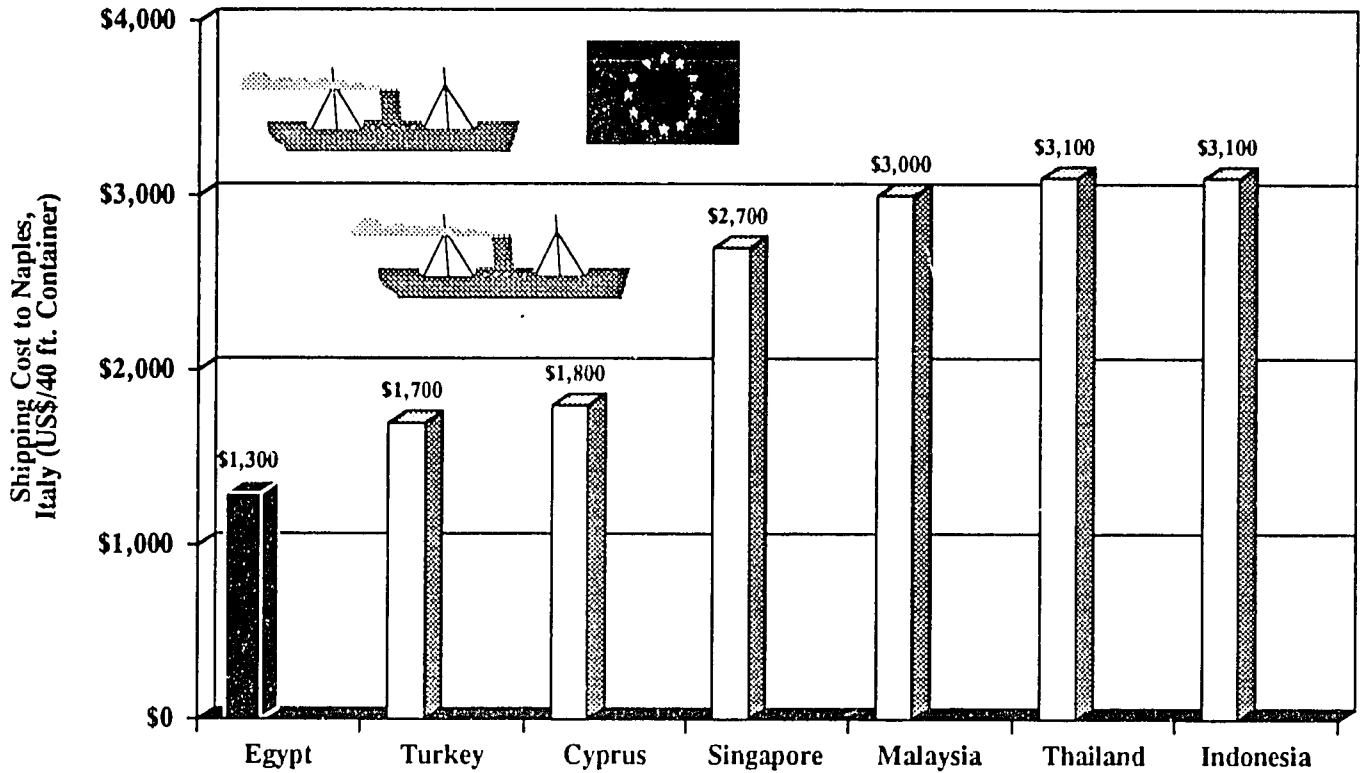
EGYPT'S COST COMPETITIVENESS IN ELECTRICITY



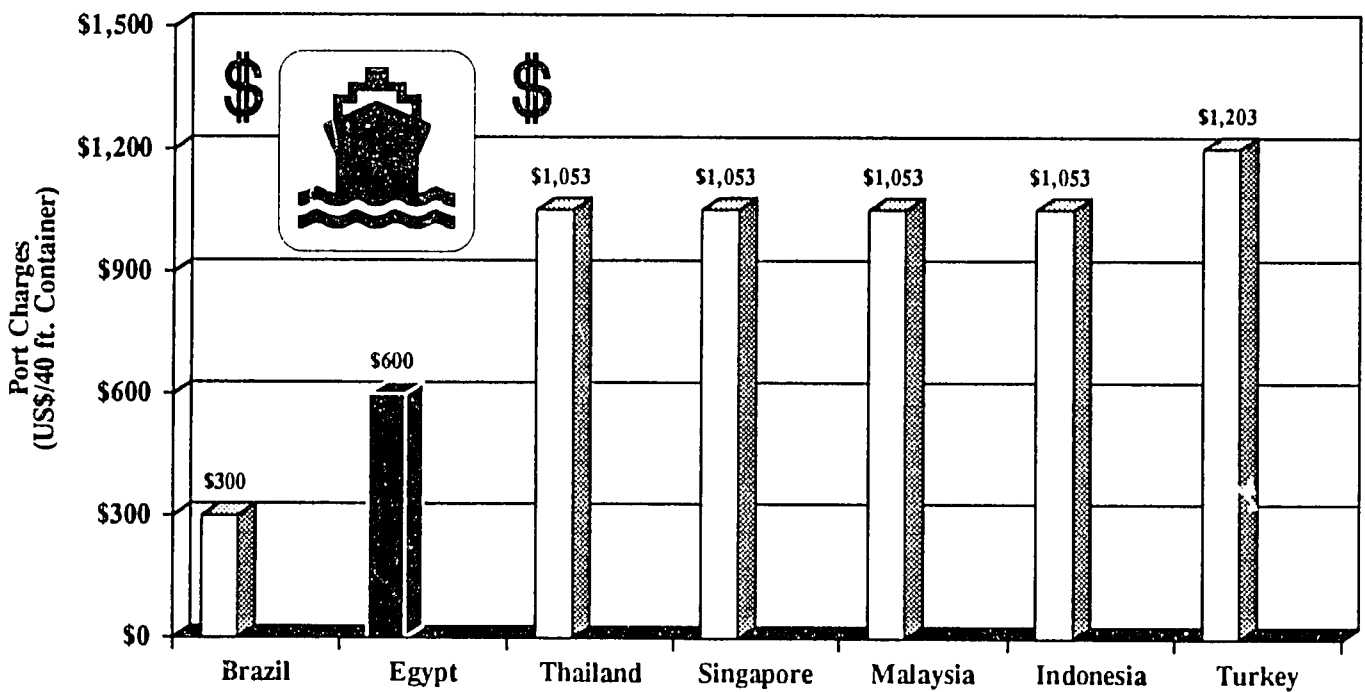
EGYPT'S COST COMPETITIVENESS IN SHIPPING TO THE UNITED STATES



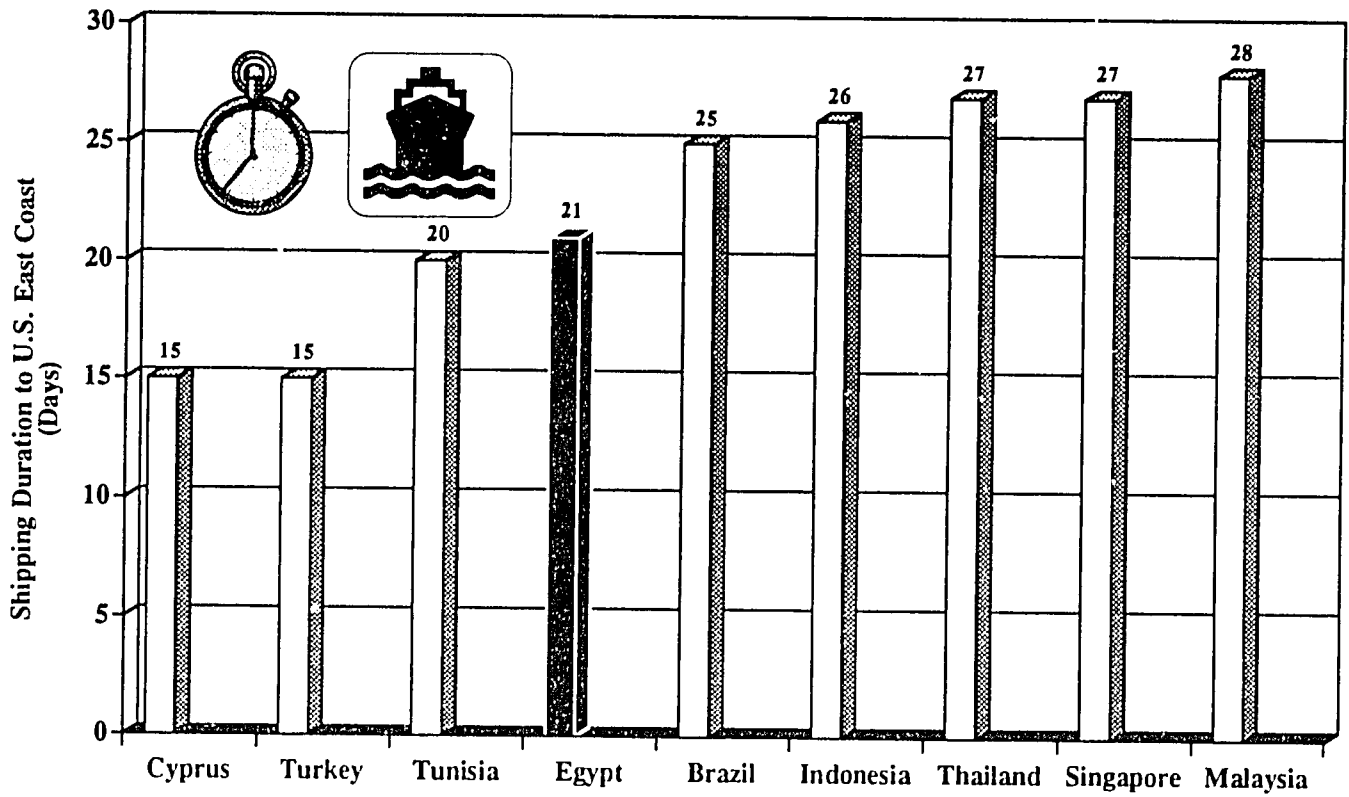
EGYPT'S COST COMPETITIVENESS IN SHIPPING TO EUROPE



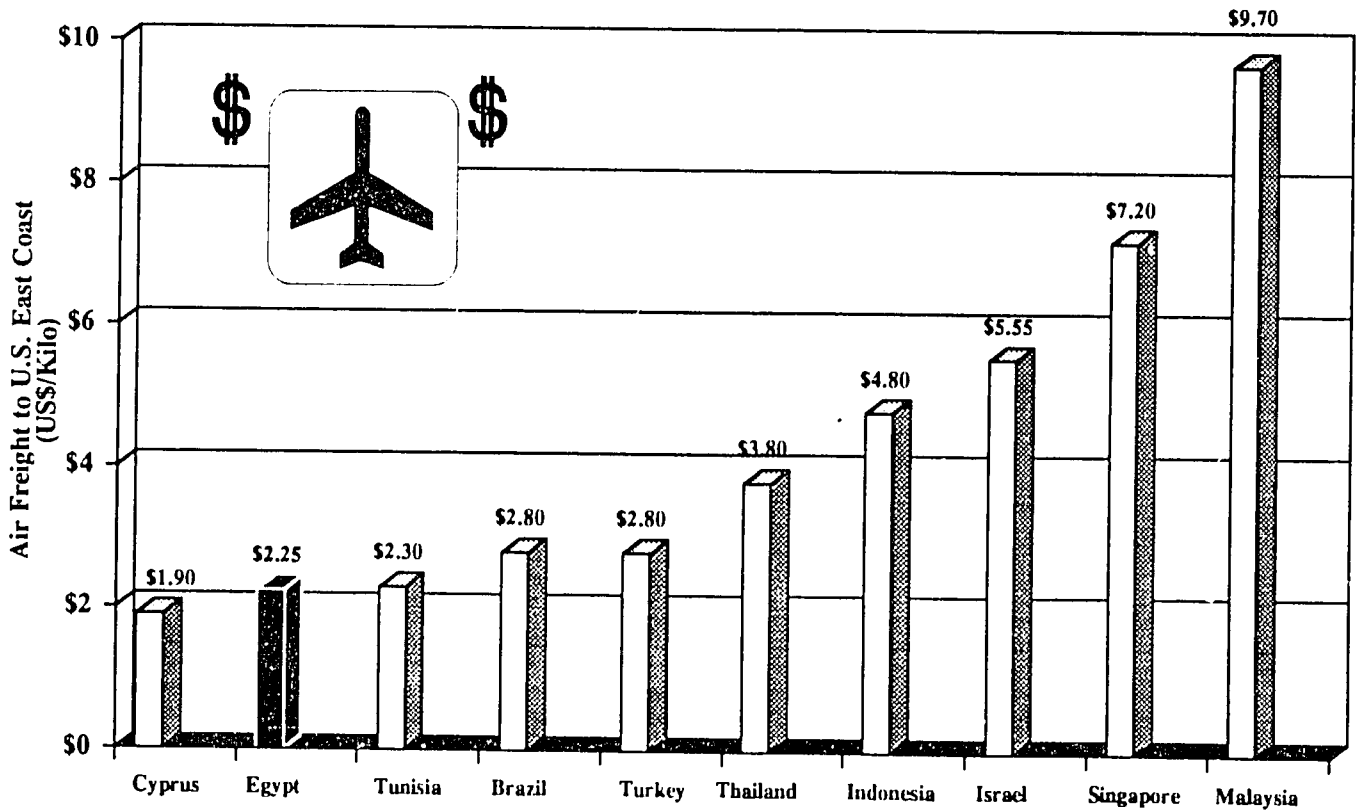
EGYPT'S COST COMPETITIVENESS IN PORT CHARGES



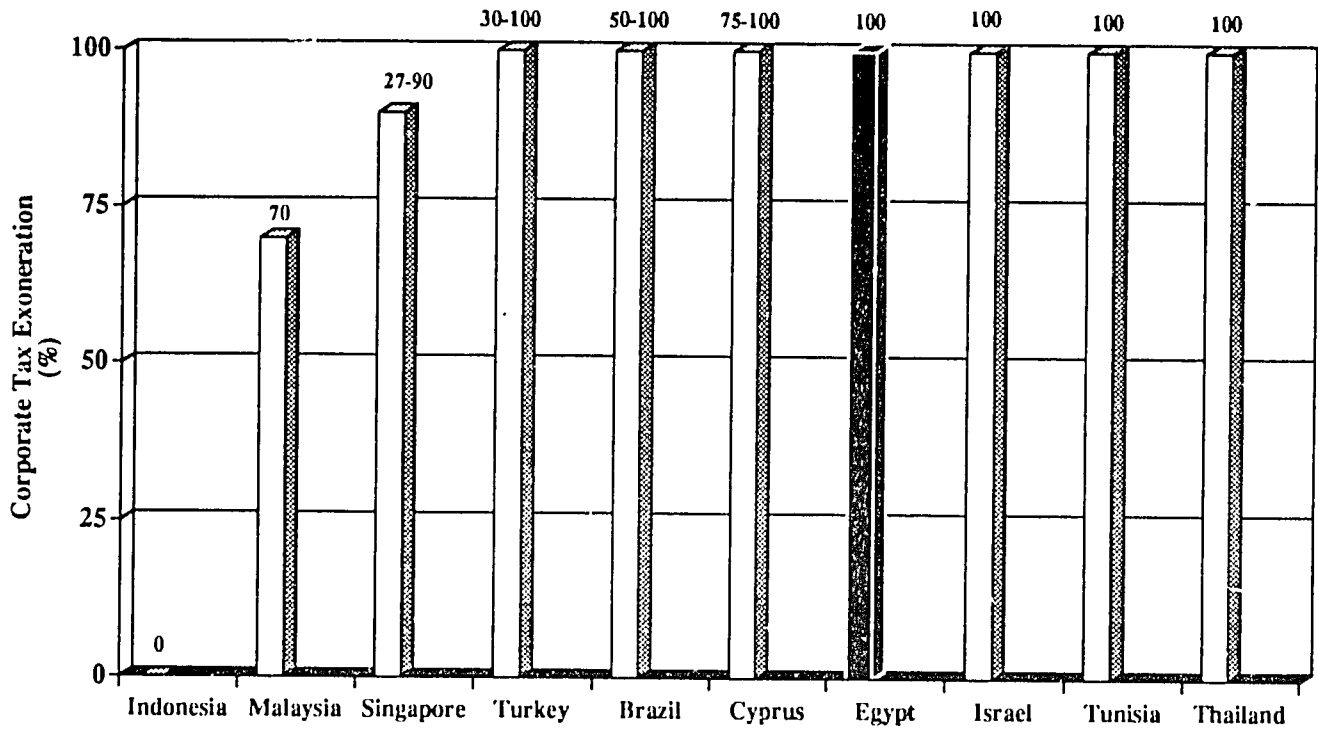
SHIPPING DURATION FOR CARGO TO THE UNITED STATES



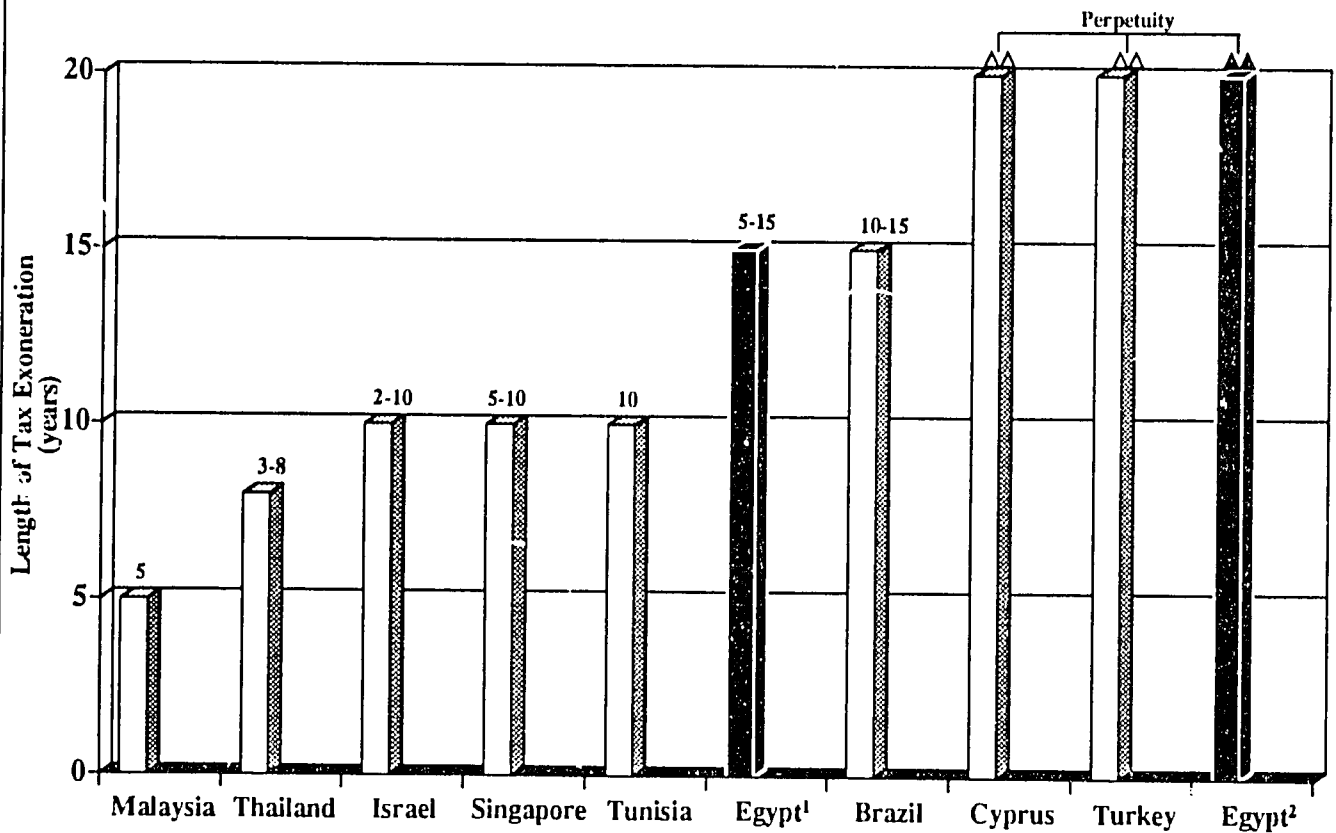
AIR FREIGHT COSTS FOR EGYPT AND COMPETITORS



CORPORATE TAX EXONERATION IN EGYPT AND COMPETITORS



LENGTH OF TAX EXONERATION IN EGYPT AND COMPETITORS



¹ Law 230 Companies

² Free Zone Companies

Other Competitiveness Factors

In addition to cost, several other requirements factor in to overall export success. While these factors vary by industry, in general they can be summarized as productivity, quality, on-time delivery, and export marketing programs.

Productivity. Productivity varies by individual worker, by firm, and by industry. Productivity can be increased by investing in equipment and technology, by revising employee supervision to closely monitor output, and by adopting new work practices modeled on international best practices. In some cases, joint ventures or licensing agreements play a key role in boosting productivity by bringing in new methodologies. While objective, quantitative measures of productivity by industry in Egypt and around the world are not available, in each industry assessed in this report, productivity is addressed (see Chapter IV).

Quality. Meeting international quality standards is an iterative process that is just beginning in most Egyptian industries. Domestic quality in most cases is not sufficient for international markets, due to worldwide variations in sizing, specifications, and standards. Similarly, the barter agreements that resulted in exports to the former Soviet Union and the Eastern Bloc did not emphasize quality or international standards. Thus, in most cases, firms seeking to export their products as of yet have little or no knowledge of the quality standards, sizes, and specifications required in target markets. In addition, most export product packaging also falls short of international standards, particularly with regard to "environmentally friendly packaging."

In several industries, most notably garments, agricultural products, and processed foods, Egypt has already attained international standards and is successfully exporting in volume. Nonetheless, product quality remains uneven even in industries that have developed an export track record. Egyptian pharmaceuticals generally meet all quality standards, as all products must in this health-related business. Similarly, the fertilizer produced for domestic and export use meets all quality standards.

In several industries however, quality is a key constraint on exporting. Automotive parts, for example, long produced to meet local content standards, are of such low quality that exports are limited to just a few markets with very low standards, such as the Sudan. The international quality of footwear and leather products varies significantly.

In the remaining export sectors in which Egypt is a relatively new entrant, Egyptian manufacturers will gain knowledge of required specifications in foreign markets through contracts with buyers, licensing agreements, joint ventures, training, technology agreements, and similar mechanisms. Thus, while quality standards are an issue, they will be addressed in the normal course of increasing exports.

On-Time Delivery. Just as products must meet or exceed international standards, they must meet or beat delivery schedules. "Just-in-time manufacturing" and "responsive manufacturing" are becoming standard practices in many industries, not only in the fashion garment industry. These practices are spreading across industries and sectors, and so there is even greater pressure on manufacturers to keep to tight production and delivery schedules. Of course, in agricultural exports, the delivery issue is key.

Because of the importance of on-time delivery, Egypt needs to improve its transportation infrastructure and services. State ownership of transport companies and services has resulted in poor customer service and lengthy delays, while state maintenance of facilities has been faulted for deteriorating conditions and lack of capacity. The transportation system is an integral component of a successful export drive, and serious policy constraints must be addressed to improve Egypt's transport competitiveness and by extension, its export competitiveness. Egypt's fruit and vegetable exporters raise the non-dependability of the transport sector as a key constraint on their competitiveness, pointing to high spoilage rates caused by transport delays. Delays also adversely affect other exporters.

The information processing industry, while small, is nonetheless dynamic and growing, and essentially bypasses traditional transportation routes since products can be delivered by modem or by small package courier services. However, the vast majority of export industries do not face this particular advantage, and must necessarily depend on Egypt's transportation infrastructure to get their products to market.

Marketing. Export success depends on identifying and fulfilling market needs, and the Egyptian capacity for marketing needs to be improved in almost every aspect in every industry. To put it briefly, most Egyptian producers either sold to captive local markets or to Eastern Europe under barter arrangements, and so did not have to engage in marketing, either at home or abroad. The degree of marketing knowledge varies widely across Egyptian industries, but overall it needs to be enhanced through training, technical assistance, and support activities. Even executives in the garment industry, one of the largest export sectors, report a need for marketing assistance, particularly among the medium-size firms and the new entrants. Similarly, fruit and vegetable exporters lack knowledge about niche market windows for their products.

Pharmaceuticals exporters successfully export generic drugs throughout Africa and Europe, yet they are seeking additional expertise and advice on sales and marketing, including training for their marketing staffs. Processed foods exporters have penetrated Arab markets with their products, but have yet to move their products into the lucrative European market. Services exporters, including engineers and information processors, report strong interest in teaming with additional resources to identify marketing opportunities overseas.

C. The Capacity of Current Investment

As the foregoing discussion indicated, new investment is an important catalyst for exports, not only because of the new productive capacity created, but because of the new technology and market linkages often utilized by new investors. In many nations throughout the world, export success has been stimulated in large part by new investments, often in the form of foreign direct investment or joint ventures, which create new industries and link the receiving nation with world markets via the entrepreneur's existing market networks.

In Egypt, overall investment levels have been dampened by domestic policies and the dominance of state-operated industries. However, the new policy regime and emphasis on the private sector is catalyzing a vibrant although still relatively small private, domestic investment community. Foreign direct investment, which has been focused on meeting the consumer needs of Egypt's large population, is just beginning to become redirected to view Egypt as an export platform. Thus, increased investment from both domestic and international sources is catalyzing greater productive capacity and new export opportunities.

The public sector in Egypt still dominates investment in the country, accounting for over 54 percent of total investment in FY 1991/92. Private sector investment continues to lag behind, and in fact declined by nearly two-thirds in real terms over the period 1982-93. This has occurred despite the economic reform programs, beginning in the late-1980s, which have aimed at reversing investment policies to encourage greater private sector investment.

Prior to the reform programs, investment flows were strictly controlled under Egypt's socialist-oriented policies. Public sector organizations were targeted as investment priorities, at the expense of private sector enterprises, many of which were marginalized into the informal sector. Investment in state-owned enterprises was encouraged through elaborate incentive regimes, in many cases providing subsidized interest rates, protection from international competition through import bans and high tariffs, protection from domestic private competition through restricted licensing and private sector investment bans, and monopoly positions.

Foreign direct investment (FDI), rather than being actively sought, was accepted only under strict limitations. Most foreign firms were required to enter into joint-ventures with large public or quasi-public companies, under a complex licensing system. Local content regulations were imposed under import-substitution policies. Compliance was effectively rewarded with protection against local and international competition. Incentives for investment included a wide range of subsidies, particularly low-interest credit and subsidized energy costs.

At present, there are two major kinds of public sector enterprises relying to varying degrees on government investment (in addition to local government ventures and services): (1) "Economic authorities," numbering about 50, include public utilities, social and health insurance

agencies and the state petroleum company, which transfer profits to or cover losses from the government budget; and (2) "public enterprises," about 400 in all, remain active in virtually every sector of the economy but have become "semi-autonomous" since reforms in the early 1990s.

Recent reforms have removed many investment restrictions, regulations and subsidies. But the effective monopoly positions that many public firms retain as a legacy of previous restrictions, along with many that remain, constitute considerable barriers to new and expanded private sector investment.³ Public investment reforms since the late-1980s have included major cuts in Egypt's public investment program and significant subsidy reductions, especially in energy pricing. A major restructuring program for public enterprises was begun under Law 203, effective in July 1991, which removed ministerial control over 300 public companies and reorganized them initially into 27 financially autonomous holding companies and then in early 1993 consolidated them under 17 diversified holding companies. Law 203 also halted public investment financing and public credit guarantees for these companies and prepared selected companies for restructuring, liquidation or privatization.

Private investment now accounts for about 9 percent of GDP, a relatively low figure well below the proportion in developing countries such as Indonesia, Mexico and Brazil.⁴ The main sectors attracting private investment are real estate, petroleum and industry, accounting together for about 75 percent of all private gross fixed investment from 1983-92. Each accounts for about 25 percent, but the share of real estate has fluctuated widely since the mid-1980s, while industry's share has declined and petroleum has increased. These sectors are followed by hotels and restaurants, transport, and agriculture, which have dropped since 1987 from about 10.0 percent to 6.5 percent of the total.

To finance investments, the private sector sourced over 85 percent of its capital requirements from domestic banks from 1983-92. Most of these firms are medium to large companies; micro and small enterprises rely on retained earnings and private (mostly family) capital, and have virtually no access to formal credit. Financial sector resources in Egypt were estimated at three times the size of private gross fixed investments in 1992,⁵ and are composed mainly of social security reserves, investment certificates, and insurance funds. Public pension funds are estimated to have about \$10 billion of accumulated reserves and to generate around \$700 million in surpluses per year.

³ "Private Sector Development in Egypt", The World Bank, October 1994.

⁴ Ibid.

⁵ "Arab Republic of Egypt: Reform and Development in the Securities Market", World Bank, February 1992, Washington, D.C.

These funds represent substantial domestic resources that could be tapped to finance private sector investment. However, they are by law under public sector control either by the National Investment Bank or insurance companies, and investment is biased toward public instruments, especially treasury bills. The private sector is not permitted by law to bid for funds from reserves and surpluses of the public pension fund and social insurance system (reforms are planned in the medium term). Almost none of these financial resources reaches the private sector, not only because laws permitting such use are not in place, but neither are proper financial instruments nor institutional arrangements.⁶

Private foreign direct investment (FDI) accounted for about 4 percent of total private sector investment, or a little over half of one percent of GDP as of 1992, a considerable decline from 2.4 percent of GDP in 1980.⁷ Foreign investment in Egypt has recently averaged about \$200 million annually. This accounts for only about 2 percent of total external funding sources (mainly workers' remittances, external borrowing mostly by public sector banks for public companies, and grants). About 50 percent of Egypt's FDI has gone into manufacturing and some 30 percent into the banking sector.⁸

The requirements for new investment to undergird Egypt's export drive vary by industry. In a few cases, the current capability is sufficient to produce for exporting; that is, current investment offers enough capacity and current investors have significant contacts with world markets to support an export boom without large new infusions of capital. In both the garment industry and agriculture, current capacity is supporting a successful export drive.

In most industries, however, it appears that installed capacity will not be able to produce goods of sufficient quality and quantity to spark an serious export supply. In nearly all industries dominated by public sector firms, it is unlikely that current investments (companies) will ever achieve significant competitiveness. The export achievements of successful countries have never been led by government enterprises.

In new export areas, Egypt clearly needs new investment. The current electronics industry, for example, consists of small firms, very few of whom are export-capable. The international electronics market is dominated by direct investments, joint ventures, and long-term supply arrangements. In the heavy industries, while Egypt possesses considerable investment,

⁶ "Egypt: Financial Policy for Adjustment and Growth", World Bank, October 1992, Washington, D.C.

⁷ "Linkages between Egyptian and Foreign Firms", Foreign Investment Advisory Service, IFC/World Bank, 1994, Washington, D.C.

⁸ "Egypt: Foreign Direct Investment Climate", Foreign Investment Advisory Service, IFC/World Bank, Washington, D.C., January 1991.

outdated technology and low productivity limits the competitiveness of outputs, and so joint ventures are needed to modernize production.

The following table depicts local and foreign investment by sector in Law 230 companies, from the law's inception until June 30, 1994, ranked by size of total investment. The table demonstrates that certain sectors have drawn significant interest from investors, while others are yet to be developed in a significant way.

**Inland Investment Expected in Approved Projects Through June 1994
(L.E. million)**

Sector	Local Investment	Foreign Investment	Total Investment	% of Total
Manufacturing	6793	11144	17937	45.5
Chemicals	903	2993	3896	9.9
Spinning & Weaving	1313	1463	2776	7.0
Minerals	828	1720	2548	6.5
Engineering	846	1550	2391	6.1
Building Materials	630	1149	1779	4.5
Medicine	730	861	1611	4.1
Mining	205	13	218	0.5
Wood Products	88	114	202	0.5
Other	1235	1281	2516	6.4

ACHIEVING EGYPTIAN EXPORT GROWTH

Continued...

Sector	Local Investment	Foreign Investment	Total Investment	% of Total
Services	4942	8185	12227	31.5
Tourism	3224	6683	9907	25.1
Petroleum	189	691	880	2.2
Hospitals	371	248	619	1.6
Transportation	44	317	361	0.9
Consultants	10	25	35	0.1
Other	204	221	425	1.0
Construction	1362	515	1877	4.8
Housing	1172	379	1551	3.9
Contracting	190	136	326	0.9
Agriculture	641	650	1291	3.3
Agroindustry	271	313	589	1.5
Eggs & Poultry	142	215	357	0.9
Reclamation	121	69	190	0.5
Fodder	62	39	101	0.3
Fisheries	30	14	44	0.1
Animal Husbandry	10	0	10	0.03
Fertilizers	0.5	0	0.5	0.0

ACHIEVING EGYPTIAN EXPORT GROWTH

Continued...

Sector	Local Investment	Foreign Investment	Total Investment	% of Total
Finance	2322	2729	6051	15.3
Corporate Investment	1417	2500	3917	9.9
Banks	905	1229	2134	5.4
Total Investment	15190	24213	39383	100.0⁹

**Free Zone Investment Expected in Approved Projects
Through June 1994, L.E. millions**

Sector	Investment Expected
Spinning & Weaving	150
Food Industries	128
Chemicals and Construction	1681
Engineering	179
Medical	38
Television Production	106
Subtotal, Manufacturing	2282
Warehousing	1037
Services	1282
Total	4551

Analyzing trends in investment, it becomes clear that certain sectors dominate, while others are languishing. Tourism has received more than 25 percent of total expected investment; chemicals nearly 10 percent; and spinning and weaving, 7 percent. Construction and building materials are experiencing investment booms: Investments in the two sectors receive one out of every ten pounds invested.

In contrast, the transportation industries have benefitted from only LE 361 million in investment, less than one percent of the total. While this figure excludes infrastructure and other

⁹ Total may not equal 100.0 due to rounding.

investments made by the public sector, it nonetheless indicates that private sector investment in transport industries is not meeting current demand, for reasons discussed elsewhere.

Perhaps the most telling statistics in the previous table are the ones that are not there, that is, the industry sectors which receive so little investment that they are not listed. Electronics, leather goods, packaging, automotive parts, and printing and publishing are just several of the industries in which Egypt has comparative export advantages that are not yet being maximized. Investment will need to increase in these and similar sectors in order to finance an export drive, create productive capacity, purchase new technology, and support marketing efforts.

D. Quality and Usefulness of Available Data

A major constraint confronting both exporters and government policymakers in Egypt is the lack of accurate, reliable, reasonably up-to-date data on export-related trends and conditions. This problem is sufficiently significant to warrant a prominent position in issues related to export development.

Business executives have little reliable data on overall trends -- sales, costs, exports, productivity, and so forth -- beyond the walls of their factories. Government officials have precious quantitative information on which to base policy decision. Entrepreneurs have very limited means to identify emerging markets and products, or even to support detailed feasibility studies.

To achieve real export growth, Egyptians must have access to trade-related information. Economic theory posits that a condition of perfect market information among economic actors is a necessary condition for perfect competition. To suggest that perfect information is available to Egyptian exporters is a clear understatement. Successful exporting countries such as South Korea, Singapore and Taiwan place a high priority on the collection, analysis and dissemination of economic information.

Addressing the nation's overall information needs is a large issue that goes well beyond exporting. However, a major initiative on information is part of the export growth plan presented later in this report. This section seeks to contribute to that initiative by identifying and assessing export-related data. It is organized in terms of data sources, both primary and secondary.

Customs Authority

As in all nations, Egypt's Customs Authority is the major source of primary data on Egypt's exports and imports. At customs clearance and customs duties collection points, the

Customs Authority keeps records on the volume and value of traded commodities and issues Customs Certificates (in the case of exports) and Release Certificates (in the case of imports).

The trade figures collected by the Authority are disaggregated into detailed commodity categories under the Brussels Trade Nomenclature (BTN) System. The raw data is then provided to Central Agency for Public Mobilization and Statistics (CAPMAS) for dissemination to other government agencies and to the public. As in most other countries, trade data are not usually available directly from the Customs Authority to individuals and businesses entities, but instead are transmitted by Customs to secondary sources.

The Central Agency For Public Mobilization And Statistics (CAPMAS)

CAPMAS makes available to the public detailed trade data on Egypt in two forms:

- (I) Publications with trade data which is sold to the public; and
- (ii) Custom-tailored data retrieved from a central data bank for a fee based on connect time.

Publications. CAPMAS regularly publishes the Monthly Bulletin of Foreign Trade, which provides import and export data on a monthly, quarterly, and biannual and annual basis. The Bulletin is sold to the public for a fee and includes data on:

- Egypt's foreign trade according to the BTN System;
- Bilateral trading volumes by major trading partners; and
- Egypt's trade balance.

Monthly trade data are provided on up to the 2-digit level, and quarterly figures are available to up to a 6-digit level. CAPMAS is in the process of replacing the BTN System with the Harmonized System. F.O.B. prices are applied to export values and C.I.F. prices are used for import values. Re-exports are included as exports in the CAPMAS figures. Imports subject to the Temporary Admission (TA) System are usually not posted in the CAPMAS figures until customs duties are paid, which could be months after those items have been admitted.

In addition, CAPMAS publishes 12 monthly summaries providing information on the most important Egyptian exports, imports, and trade partners by major groups. While data on customs duties are also prepared, they are not published by CAPMAS. Other publications prepared by CAPMAS include the following:

- Bulletin of Foreign Exchange Receipts;
- Statistics and the Financial Indicators for the Investment Private Sector;
- Annual Bulletin of the Labor Force Sample Survey;
- National Economic Statistics for Companies of the Business Public Sector;
- Annual Industrial Production Census (private sector);
- Wholesale Price Index; and
- A Guide to Statistics Publications of CAPMAS.

Data Bank. CAPMAS's data bank includes up-to-date monthly trade data by commodity, country, port, tariff, and public and private sectors, on which five-year time series can be generated. According to the Statistics Department of CAPMAS, the implementation of the Harmonized System in lieu of the BTN System in 1994 has resulted in some difficulty in comparing 1994 trade figures with those from previous years, mainly due to the differences in the commodity classification. The service of the data bank is available to private companies for a fee based on connect time.

The Central Bank of Egypt

The Central Bank of Egypt (CBE) is the primary source of information on the country's monetary flows, foreign exchange positions and balance of payments. CBE figures are mainly used for constructing the country's balance of payments which the CBE publishes with other trade statistics in two documents:

- The Economic Review (quarterly); and
- The Annual Report.

Until recently, CBE collected trade flow statistics primarily using the Statistics Forms A (for imports) and TS (for exports), on which currency transfers, trade transactions, credit facilities etc., were reported. Import and export flows were registered on settlement regardless of the timing of the actual movements of commodities. Commodity imports and exports were classified according to the BTN classification and reported in both volume and value. In addition, exports were categorized according to the exporting sector (e.g. public, private, cooperative, and

investment) while imports were classified by the means of settlement (e.g. transfers, suppliers credits, commodity grants, etc.).

With the recent elimination of Forms A and TS, bank customers are no longer required to specify the reasons for their foreign exchange transfers for permission to carry out transactions. Thus, it is likely that in the future foreign exchange transactions reported by CBE will not be provided in as much detail as in the past.

The National Bank of Egypt

The Research Department of the National Bank of Egypt (NBE) publishes regular reports on financial and economic indicators which are distributed to interested organizations and individuals free of charge. It is the primary source of financial and banking data such as interest rates and foreign exchange. In addition, the NBE collects economic data from CAPMAS, GAFI, the Central Bank of Egypt, the IMF, the World Debt, and other sources, and compiles them into monthly and quarterly reports. The statistical section of the Quarterly Report usually covers employment, national accounts, agricultural and industrial production, prices indices, the banking system indicators, government budget, balance of trade and balance of payments.

Export Development Bank

The Export Development Bank provides information resources to assist Egyptian exporters through its library and Export Information Center.

Library. The library is equipped with trade-related publications and directories which accessible to its dues-paying members. Annual dues are set at LE 100. Publications which will be of interest to exporters include:

- Commodity Outlook;
- Currency Bulletin;
- Exporters Encyclopedia;
- International Directory of Importers;
- Maritime Directory;
- Middle East Monitor; and

- World Bank and IMF reports, Country forecasts, country outlooks, political risk letters, etc.

Export Information Center. The Export Information Center (EIC) provides on-line trade information services through its connection with international trade databases. Exporters can obtain names of importers and local producers and information on foreign trade fairs free of charge. In addition, market surveys, international tenders and the credit background of foreign importers are provided to Egyptian exporters for a small fee.

EIC is planning to launch a monthly publication which includes data on selected products, export markets, international trade fairs, and the quality standards set by the Egyptian Organization of Export and Import Control. This publication will be distributed to the EDB's departments, the Commercial Representation office in the Ministry of the Economy, banks, and the Cabinet Information Decision Support Center.

Trade Point

The Egyptian Trade Point was established in March 1993 as a pilot program under the UNCTAD-sponsored International Trade Point network, whose goal is enhancing international trade between industrialized and developing countries, utilizing electronic information and data transfer and advanced communications networks. As of November 1994, 25 Trade Points were in operation worldwide. Created by Ministerial Decree No. 87 of 1993, the Egyptian Trade Point is administered by the Ministry of Industry's Under Secretary for Research, Information and Statistics.

As an information clearinghouse, Trade Point's primary function is to package existing information on policies, economic and market conditions and trade transactions in a "user-friendly" format to disseminate to the Egyptian export community. Visual presentation techniques such as charts, graphs, and windows are utilized to present these data and information. For example, Trade Point Staff generate tables, line graphs and bar charts on exports.

While Trade Point does not produce its own primary-source statistics or information, it packages existing information on policies, economic and market conditions and trade transactions to be disseminated to the Egyptian export community. The information it provides includes the following:

- Sector-specific trade data such as commodity export volumes and values by harmonized code (provided by CAPMAS), in addition to basic economic information and indicators (growth rates, exchange rates, interest rates, etc.);

- Export-related services available from financial institutions, insurance companies, transportation and shipping companies, storage and packaging firms, etc.;
- Exporting procedures and regulations in Egypt;

Market intelligence such as demand, prices, quality requirements for selective products, as well as the importing requirements, procedures, tariffs and concessions in the foreign markets;
- Trade leads collected through the International Trade Point Network and the Egyptian commercial attaches; and
- Listings of Egyptian importers and exporters by product.

Trade Point's information, data and services are available on request to Egyptian exporting firms with a minimum paid-in capital of L.E 250,000. To date, services have been provided free of charge, but Trade Point plans to collect fees starting in March 1995 to recover part of its telecommunications costs. Businesses making inquiries are required to fill out an application form which requests basic company information such the commercial register number, product information, production capacity, etc. Then he/she can request services and information which, if available, could be provided on the same day. Same day service covers general information areas such as overall market conditions, regulatory procedures and export-related services. More specific information on products, markets, and product-specific trade data could take longer.

Trade Net

Trade Net is an economic information resource center established under the Cabinet Information Decision Support Center of the Ministry of Information and Scientific Development. It is primarily an information clearinghouse for existing data and reports on markets, trends, companies, and business laws and regulations.

Trade Net uses some data from primary sources. For example, trade statistics are generated using data from the Customs Department. In addition, Trade Net receives information from Ministries (e.g., Transport, Tourism, Telecommunications and Civil Aviation, Electricity and Energy), the Central Bank, embassies, commercial attaches, etc. Local company information is collected through periodic company surveys.

Trade net draws the bulk of its international data and information from international databases such as Data Star, Dialogue, IB Sharp. Data collection, research, programming, and information retrieval support is provided by the Economic Research Division under the Cabinet

Information Decision Support Center. Trade Net does not conduct market assessment or feasibility studies for businesses.

Until 1991, the services of Trade Net was only available to the Cabinet, government institutions and public sector companies. Since 1991, Trade Net's services can be accessed by private sector companies for an annual fee of LE 2,000.

The data and information available from Trade Net fall into the following categories:

- Import and export data by commodity and by country. Times series can be generated on request, based on the BTN or Harmonized System classifications;
- Business laws and regulations in Egypt and in other countries;
- Marketing information such as country profiles, market assessments, international trade fairs, lists of Egyptian exporters and importers, international tenders and commodity prices.
- Trade opportunities published in a weekly bulletin, mailed only to subscribers in the relevant sectors;
- Market information package tailored to specific products and/or specific markets, on request; and
- General economic indicators in Egypt and in selected countries, in a monthly bulletin mailed to business members.

For private companies, the services of Trade Net is only available to dues-paying members (currently there are 400 members). For an annual fee of LE 2,000, companies receive a set of monthly bulletins and weekly trade leads. In addition, member companies receive software and services to be electronically connected to the Trade Net, as well as a 3-day training session for two company employees to use the network.

The monthly bulletins are published in Arabic, English and French. Trade leads are published in English only. Since many of the market reports are provided in English through the networks, they are only available in English. Egyptian trade and investment laws and regulations are available in Arabic.

In addition to the annual subscription fee, private companies are charged for each information request. The fee ranges from LE 1-5 for general trade, investment and economic

information to LE 50-350 for specific studies and reports on markets and commodities, and company profiles. The fees are assessed based on estimated database connection times in order to cover partially the telecommunication costs. The response to requests may take two days to two weeks, depending on level of difficulty and time required to obtain and compile the information.

Egyptian Export Promotion Center

Established under the Ministry of the Economy and Foreign Trade, the Egyptian Export Promotion Center (EPC) provides a range of information and services to enhance the export capability of exporters and facilitate exports. Although EPC is not viewed as an export data center, it keeps up-to-date trade statistics in an database to be provided to potential exporters who request them. Trade data as detailed as the export of a specific product to a specific country (e.g., Egypt's export of lemons to the United Kingdom in 1993) can be obtained from its database.

In addition, the Industry Researchers at the EPC periodically prepare market research reports on products viewed to have high export potential to be disseminated to Egyptian producers of those products. In preparation for foreign trade missions studies on specific target markets and sectors are also conducted and distributed to the participants.

Egyptian Business Associations

Most business associations in Egypt, including the Federation of Egyptian Industries, the Egyptian Businessmen's Association, the American Chamber of Commerce, Egyptian Chambers of Commerce, the Alexandria Businessmen's associations, and others, claim that one of their primary roles is to provide information on business conditions to their members. In practice, these associations are not currently acting as dissemination points of relevant statistics and other information related to exporting. Nevertheless, this is a legitimate role that the associations want to and should play.

Conclusion

This brief review indicates that there is no shortage of organizations that serve as "secondary sources" of trade related information. In fact, there are probably too many governmental agencies, some of which compete for clients. To be sure, even these organizations are only now putting their systems into place, so current capabilities are rudimentary.

As any exporter will confirm, however, the quality, specificity and utility of the current statistics and other relevant information is poor. The problems lie in both the primary and the secondary sources of data, but mostly the former.

The Egyptian Government and private sector need to overcome problems in three areas of information -- basic statistics, policies, and trade opportunity leads. Improvements in basic statistics and their dissemination are needed in almost every area. Very often key data simply do not exist. In other cases, statistics are so far out of date that it would be dangerous to base decisions on this information. Other information is often presented in such aggregate form that it is meaningless. For example, in many successful exporting countries, new exporters enter the market by copying the moves of others. If entrepreneurs see that major increases are being recorded in specific products, this "revealed performance" may encourage them to enter into the same market.

Current and prospective exporters are hindered by lack of detailed information on business and export policies. Exporters do not have access to simple information on procedures for such programs as temporary admissions and duty drawbacks. In the absence of knowledge on procedural requirements, the entire system loses clarity and transparency. Both the government and business organizations need to produce documents describing export policies as well as changes in them.

All successful exporting countries have active systems for collecting and disseminating trade opportunity leads. In the past in these countries, commercial enterprises published daily "trade lead" printouts to clients. These would specify product(s) desired, quantities, specifications, and importer/trader contact point. Currently, many of these systems are computerized. In other cases, this role has been assumed by trading companies. In Egypt, where exporters truly need new contacts with buyers, such services are not available in any form.

In addition to developing more and improved export information, Egypt needs to establish an effective network structure for disseminating relevant information. This requires both information wholesalers and retailers to provide exporters with the data they need. A proposal for such a system is included in the 10 Point Action Plan presented at the end of this report.

III. EXPORT DEVELOPMENT STRATEGIES EMPLOYED BY SUCCESSFUL EXPORTING COUNTRIES

Successful corporations collect intelligence on their competitors before they embark on major new product lines. Similarly, countries designing export enhancement plans should analyze the strategies used by their neighbors and competitors. Included in this assessment are a number of Egypt's competitors in the region, and several Far East Asian nations that have generated double-digit export growth in recent years and used the export sector to propel economy-wide development.

The nations included in the review are Tunisia, Turkey, Cyprus, Indonesia, Malaysia, Thailand and Brazil. Each nation's export success is measured by export growth and diversification of products and markets. In each country, the export promotion policies, regulations, and activities that led to export success are evaluated. The analysis was conducted with the goal of identifying the export development mechanisms that have a proven record in stimulating exports, as well as drawing lessons for Egypt from the experience of its neighbors and competitors.

The following overall lessons for Egypt were drawn from the analysis:

- **A stable macroeconomic foundation for economy-wide growth is a necessary building block for export success.** Businesses need policy stability to make large investments and plan long-term. Trade liberalization and simplification, reasonable tax rates, and simplified foreign exchange procedures all contribute to export dynamism. Cyprus, for example, sees the role of the state as facilitator rather than an active player, and this strategy had led to good economic results.
- **In successful exporting nations, a network of government and private sector organizations provide services to exporters.** Services typically include responding to foreign buyer requests for information, maintaining databases of foreign buyers, one-on-one technical assistance to potential exporters, and organizing trade missions. A pervasive problem among government-run organizations is bureaucracy, little responsiveness to the ultimate client (the potential exporter), and a tendency to grow too large to operate effectively.
- **Adequate infrastructure is vital to export success.** Functioning, dependable, and appropriately priced electricity, telecommunications, water, and transportation services are key links to enhanced exports.

- **Many nations have utilized inward investment to finance export growth.** In some cases, such as Tunisia and Thailand, nations have offered targeted foreign investment incentives to strengthen key export sectors; in others, foreign investment across broad sectors has stimulated exports.
- **Most nations offer incentives to exporters.** Typical incentives include as tax holidays, duty exemptions on imported inputs and machinery, tax reductions for businesses in outlying regions, investment allowances, training subsidies or tax credits, and preferential access to credit.
- **An appropriate exchange rate which does not penalize exporters is an important factor in export growth.** Many nations, among them Malaysia, marked their export push with a realignment of their currency to encourage exporting.
- **In industries dominated by state-run companies, divestiture, privatization, commercialization and competition with private-sector firms have increased efficiency and quality and enhanced export opportunities.** This was evident in Tunisia, among other nations.
- **Around the world, free zones have played an important role in producing for export markets.** Most nations offer manufacturers a free zone option.
- **Nations typically have found it difficult to transform a regulatory agency into a promotional organization.** In response to a changed policy climate supportive of exporting, several nations, including Tunisia, attempted to adapt an existing organization to the challenge of promoting exports, with limited results.
- **Exporters need adequate access to financing.** Many nations, such as Turkey, established export-import banks to provide preshipment export credit, credit guarantees, long-term trade financing, and insurance against commercial and political risks.

TUNISIA

A. Export Development Mechanisms

Export Successes

Tunisia has steadily and without fanfare increased its exports throughout the early 1990s, and continued healthy growth is foreseen. Exports rose by 9.0 percent annually in real terms from 1991 - 1993 to \$4.0 billion U.S. dollars, and future real annual growth of 4.5 percent is predicted by a major econometric forecasting entity.

The European Community receives three-quarters of Tunisian exports. The largest markets are France (\$1.1 billion U.S. dollars), Germany (\$661 million), and Italy (\$642 million).

The textile and apparel industries have led the export boom. In 1992, textiles and clothing accounted for 42 percent of Tunisian exports, with fuels, minerals and metals contributing an additional 16 percent. Agricultural production and exports have also risen; in 1991-1992, Tunisia enjoyed a position food trade balance for the first time in twenty years. In the services sector, tourism is booming, fueled by the government commitment to seek higher-grossing individual tourists instead of budget-conscious prepaid-package visitors.

Export Strategy

Much of Tunisia's export success can be credited to the steady flow of inward investment from Europe, principally Italy, France, Germany and Belgium. Agricultural production from local farms is up due to fortuitous weather but also to improved government policies toward the sector, including divestiture of nationalized farms and the removal of price ceilings on agricultural products.

With an eye to positioning the nation for future competitiveness in the light of increasing pressures from low-wage nations in South East Asia and the former Communist bloc, Tunisia is interested in attracting exporters of higher technology products and services such as computing and software. Tunisia is particularly interested in attracting export-oriented firms in sectors in which the nation has determined that it offers attractive competitive advantages, and which will assist the nation to increase value-added, generate foreign exchange, and create high-paying jobs. These areas include:

- Small electronics, including consumer electronics and appliances;
- Computers and computer equipment, such as circuit boards
- Software, especially French and Arabic language software;
- Medical supplies and pharmaceuticals;
- Spices;
- Canned fruits;
- Vegetables;
- Seafood; and
- Telecommunications equipment.

Tunisia is actively recruiting American companies. The nation signed a bilateral investment treaty with the U.S. to safeguard U.S. investment.

Export Assistance Infrastructure

Tunisia has developed a network of government organizations to promote exports, and attract export-oriented investment. The organizations include the External Commerce Department of the Ministry of National Economy, the Export Promotion Center (CEPEX), the Agency for the Promotion of Industry (API), the Commerce Office of Tunisia, the Export Federation (FEDEX), and the Tunisian Union of Industry, Commerce and Artisanry (UTICA). In addition, the Commercial Counselors at Tunisian Embassies around the world respond to requests for information by mailing copies of investment and incentive laws. It is telling to note that in preparation for this document, requests for information were responded to only by the Tunisian Embassy in Washington and API; other offices charged with promoting exports did not respond.

Tunisia's experience trying to transform a regulatory agency into a promotion institution is telling for other nations. Tunisia's Agency for the Promotion of Industry (API), was created to regulate investment; its promotion tasks were added on as the government stance toward exports evolved over time. While API does an adequate job of responding to inquiries by sending out copies of investment regulations, etc., it has retained many of its bureaucratic, regulatory attitudes. Businesses interviewed by SRI report still see their function as one of regulation. Entrepreneurs report that API is now reviewing applications in a more straightforward and timely manner, thus it is carrying out its regulatory tasks better. Nonetheless, because the same staff are attempting to carry out a new mandate, lack of training and experience, and a mismatch between old attitudes and new purposes are stymieing the transformation of API to a promotional institution.

B. Export Policy Environment

Export Business Climate

Export Incentives. The current Tunisian investment code for exporting firms is very competitive with the incentives offered by other nations in the region and around the world. Incentives for businesses which export 100 percent of their product include:

- Ten-year corporate income tax holiday;
- Full exoneration from customs duties and suspension of VAT on imported equipment not available locally; and
- Duty drawback for import duties paid on inputs utilized in exports.

Interviews of Tunisian entrepreneurs by SRI indicated that the duty drawback system does not operate well in practice, resulting in extensive delays and a substantial amount of paperwork and resources devoted to obtaining import duty reimbursements.

Each wholly exporting company may employ up to four expatriates, each of whom receives the following incentives:

- Flat income tax rate of 20 percent; and
- Exemption from customs duties on import of personal effects and one passenger car.

Infrastructure. Tunisian infrastructure is deemed by the international business community to be fully adequate. Transport links are good. Enhancements planned to ensure that capacity meets growing demand include an extension of the national highway system and expansion of two major ports, Bizerta and Zarzis to include the ability to handle containerized cargo.

Planned infrastructure improvements to enhance the business climate as well as make life easier for Tunisian citizens include a \$188 million telecommunications investment to increase phone lines from 350,000 to 800,000 by 1996, and add an additional 700,000 lines by 2000.

Tax and Interest Rate Policies. To spur private investment, the government cut the top personal and corporate income tax rates to 35 percent from 68 percent and 45 percent, respectively. Coverage was increased substantially, making the tax structure clearer.

Banking controls have been largely eliminated in the past several years. Interest rates are now set by the market, although the margin between lending and borrowing rates is fixed. Money market rates rise and fall in concert with inflation, reaching a high of 11.8 percent in 1991, but fell to 8.8 percent in March of 1994.

Attitude Toward Foreign Investment. In January 1994, Tunisia implemented a new unified Investment Code covering all sectors of the economy except for mining, energy, and finance. The new law offers numerous export incentives (see Export Incentives, below).

Other incentives, available to exporters and businesses serving the local market, include:

- Ten-year tax holiday for agricultural businesses;
- Full subsidy of the employer's contribution toward Social Security (valued at 17.5 percent of wages) for five years for Tunisian staff employed in designated regional development areas; and
- Partial or total subsidy of training programs which introduce new technologies or increase worker productivity.

Free Zones. Tunisia offers export-oriented investors a choice of two free trade zones, Bizerta Free Zone in the North and Zarzis Free Zone in the South. Free zone incentives include those available for wholly exporting firms plus:

- Full exoneration from customs duties for raw materials, semi-finished products and services necessary for production

Intellectual Property Rights Protection. Intellectual property rights violations have not been an issue in Tunisia. The nation signed the Paris Convention for the Protection of Industrial Property in 1887, as amended in 1975.

Foreign Exchange Controls. The Dinar Convertibility Act of 1993 (Law 93-48) greatly facilitated foreign exchange transactions for businesses located in Tunisia. Companies can freely repatriate profits and capital, including capital gains.

Price Controls. Under the structural adjustment program administered by the International Monetary Fund, Tunisia has embarked on an aggressive program to remove price controls. As of late 1992, nearly half of all retail products faced price controls; by 1996, that number will be reduced to 5 percent. Fully 87 percent of producer prices have been freed from controls.

Political Stability. Tunisia's political stability is one of its strongest selling points. The republic is headed by a president who serves as chief of state and head of the government, and the nation has seven legal political parties.

Macroeconomic Performance. Since embarking on economic reforms in 1986, the Tunisian economy has demonstrated enviable growth. The Government's seventh economic plan (1987 - 1991) has catalyzed exports and economic growth. In accordance with the plan, the Government lifted restrictions on imports and prices, divested state-owned enterprises, and implemented monetary and fiscal controls to reduce inflation. The government shifted resources to the private sector by reducing the government budget share of GDP from 40 percent in 1989 to 35 percent in 1993.

Buoyed by rising domestic and foreign investment, trade liberalization, and privatization, the Gross Domestic Product rose by nearly 11 percent on average from 1987 to 1993. Even after inflation, GDP rose by 26 percent in real terms over the period. The government reforms have placed Tunisia firmly on a path toward a vibrant, outward-oriented economy. While inflation fell from the heights it reached in the late 1980s, it remained a concern in the 1990s, averaging 7 percent annually from 1990 to 1993.

Foreign investment and exports responded positively to the government stimuli. Foreign investment was stagnant during the late 1980s, ranging from \$63 to \$91 million U.S. dollars, but jumped to \$122 million in 1991 and \$374 million in 1992. Half of foreign investment is in the energy sector.

Over the seven years ending in May, 1994, the Tunisian dinar was depreciated by 32 percent in relation to the U.S. dollar, making Tunisian exports more cost-competitive. Exports in dollar terms rose by 14 percent annually from 1987 to 1993. However, as exports over this period nearly doubled to over \$4 billion, imports more than doubled, to over \$6 billion, resulting in a burgeoning trade deficit and current account deficit.

Economic progress has benefitted the entire society. In the 1970s, 30 percent of the population survived below the official poverty line. As of 1993, that proportion had shrunk dramatically to only 7 percent, according to government figures.

Economic reforms will continue under the eighth economic plan (1992 - 1996), and good economic prospects are foreseen. The WEFA Group predicts that Tunisian gross domestic product will continue to rise an average of 5.5 percent annually, and merchandise exports will increase by 7.0 percent each year, as inflation slows to under 5 percent.

Market Access. Tunisia has positioned itself as an export platform to the large, wealthy EC market, where many Tunisian products have preferential access via the fourth Tunisia-EC

protocol, which lasts until 1996. In 1992, fully 77 percent of Tunisia's exports were destined for the EC. Discussions of exports of Tunisia's agricultural products, especially olive oil, will loom large in trade negotiations with the EC. A full customs union is not expected until approximately 2010.

Import Duties and Restrictions. The International Monetary Fund (IMF) structural adjustment program has mandated the removal of protectionist import duties. Tariffs which ran as high as 200-plus percent have been reduced to an average of 43 percent. More than 85 percent of imports have been freed from restrictions.

When combined with the malaise in the EC market, which purchases 80 percent of Tunisia's exports, the dismantling of import duties is bringing about adjustment in marginal industries. The textile and garment industries have been particularly hard hit. The government estimates that 10 percent of the nation's firms in these industries may not be able to compete successfully in competitive markets.

Additional reforms are needed. Economists estimate that fully 70 percent of imports which compete with local goods still face restrictions. The government is seeking to determine the appropriate pace for reform that will catalyze economic growth and opportunities while easing the transition for affected firms and workers.

TURKEY

A. Export Development Mechanisms

Export Successes

Turkey expanded its exports by 12 percent on average from 1987 to 1993, to \$16 billion U.S. dollars. Turkey has successfully diversified both its export products and export markets. The export mix is currently 85 percent manufactured goods, 13 percent agricultural products, and 2 percent mining and mineral products. Turkey's largest market is Germany, which receives \$3.7 billion U.S. dollars in Turkish exports, followed by the United States (\$1.2 billion), and France, the United Kingdom and Italy (\$0.7 billion each).

The textile and apparel industry has been at the forefront of Turkey's export push; it is Turkey's largest single export sector, contributing 36 percent of total exports. Iron and steel comprise 11 percent of exports, and processed food products, 9 percent.

Export Strategy

An important component of Turkey's export enhancement strategy is the encouragement of export-oriented investment. When they open a facility in Turkey, foreign manufacturers-exporters bring with them the technical and marketing know-how to access foreign markets with nontraditional exports. Turkey's approach to enhancing exports by attracting foreign manufacturers-exporters has also been used successfully by other nations, including Singapore and Mauritius, and in export processing zones in Malaysia and the Caribbean.

To encourage investment in Turkey, the government offers investors (both domestic and foreign) a wide variety of incentives including tax exemptions, subsidized credit, and customs duty exemption or deferral for investments in target sectors and geographic regions. Target sectors currently include: Computer software, tourism, medical supplies and research and development, energy, automotive and auxiliary products, electronics, apparel production, and agricultural products.

Turkey also improved the supply side of the export equation by providing business technical assistance services to potential exporters from the International Executive Service Corps, funded by USAID, is a useful model for Egypt. Potential exporters need detailed, industry-specific information on designs, materials, and specifications for their products, international "best practices" production techniques, and up-to-date information on documentation, labeling, packaging, and shipping. Because of the need for detailed information, it is best if the technical

assistance is provided one-on-one to firms with export potential, or perhaps in small groups of similar producers. Information provided must be tailored to each firm's existing production technologies and management and marketing skills.

Supply-side technical assistance in these areas has also proven extremely useful in enhancing exports from other nations. World Bank documents conclude that USAID's provision of technical assistance to Spain from a retired shoe buyer, Lou Feeman, almost single-handedly launched that nation's shoe exports, which are now among the world's largest.¹

Export Assistance Infrastructure

A network of aggressive export promotion organizations can be given credit for assisting Turkish entrepreneurs to export successfully. The Turkish export promotion network includes a government-sponsored agency, the Export Promotion Center (IGEME); a private, non-profit Association for Foreign Capital Coordination (YASED); a private, non-profit business association, the Foreign Economic Relations Board (DEIK); the Union of Chambers of Commerce (TOBB); and sectoral Exporters Unions.

Turkey established its Export Promotion Center in 1960 within the Prime Ministry, an indication of the high-level governmental support for the initiative. Known as IGEME, its Turkish acronym, the agency maintains offices in Istanbul, Ankara, Izmir, and Rotterdam.

IGEME is charged with developing Turkey's exports. To accomplish this goal, IGEME undertakes the following activities:

- Conducts country and market surveys, providing the information to potential exports. Market surveys include market characteristics, patterns of demand, quality and labeling requirements, trade regulations, and purchasing and distribution methods utilized in foreign markets.
- Maintains a computerized trade information system to provide Turkish exporters and potential buyers with up-to-date trade information.
- Provides training to exporters.
- Matches interests of foreign buyers and Turkish exporters.

¹ Donald B. Keesing and Andrew Singer, "What Goes Wrong in Official Promotion and Marketing Assistance for Manufactured Exports from Development Countries," October 1989.

- Organizes trade missions to facilitate direct contact between foreign buyers and Turkish exporters.
- Facilitates participation by Turkish exporters in international trade fairs.

Complementing the work accomplished by IGEME is the small, private, non-profit Association for Foreign Capital Coordination (YASED), formed in 1981. With a paid staff of only two, the group provides invaluable assistance to exporters and investors. Business analysts offer advice and distribute attractive, professionally produced informational publications. In addition to providing information to businesses, the group serves a second function of pressing for public policy reforms to enhance the export climate.

The Foreign Economic Relations Board (DEIK) is a second private, nonprofit business association that gathers and disseminates trade and economic information for members. Founded in 1986, DEIK now includes 917 representatives from 580 companies. The representatives are divided into 47 Business Councils, each charged with developing bilateral business relations. DEIK provides the Business Councils with a permanent secretariat and access to research institutions in Turkey and abroad. Participation is voluntary, and the institution is privately funded.

An additional program which is indirectly assisting Turkish exports is the Business Assistance Program offered by the Union of Chambers of Commerce, Industry, Maritime Commerce and Commodity Exchanges of Turkey (TOBB) with the International Executive Service Corps (IESC) of the United States. Retired business executives assist their Turkish counterparts to improve production, quality, marketing, and other aspects of their businesses, with a particular emphasis on creating linkages with U.S. companies to facilitate the transfer of technology. Because membership in TOBB is mandated by the government, the organization was widely viewed by the private sector as ineffective until it began offering real services such as the IESC assistance.

Turkish exporters are also required to become members in Exporters Unions, which are grouped together into the Turkish Exporters Assembly. Nominally charged with representing the exporters' interests in the development of government policies, in practice many of the unions are dormant. The Istanbul Textile and Apparel Exporter Association (ITKIB) is one of the more active groups. ITKIB monitors government policies toward the textile and apparel industry, continually assesses Turkey's cost competitiveness in this cost-conscious industry, and provides information to investors and buyers considering business in Turkey.

B. Export Policy Environment

Export Business Climate

Export Incentives. Turkey offers a wide variety of export incentives. Exporter-producers may deduct 8 percent of their export revenue above \$250,000 from taxable income. Imported machinery and equipment enters duty free but is subject to a housing fund contribution of 5 - 20 percent. Employees working in priority industries and regions pay no wage or salary tax, which can reduce employers' gross wage bills. Credit is heavily subsidized, but not readily available. Import VAT is usually postponed until export VAT is available for offset purposes.

Via the Turkish Export-Import Bank, founded in 1987, Turkey offers credit to exporters. The Bank offers:

- Preshipment export credit;
- Short-term rediscount credit;
- Buyers' credit;
- Credit guarantees;
- Long-term trade financing; and
- Insurance against commercial and political risks.

A study by a private, nonprofit Turkish business association, YASED, estimates that incentive package offered by the Turkish government reduces the costs of doing business by 25 percent, 35 percent in priority, underdeveloped regions.

Infrastructure. Turkey boasts a well-developed transportation system, with 6 international airports, 5 main international ports, and extensive roadways and rail systems. While the number of phone lines per capita remains low by European Community standards, the Post, Telegraph and Telephone Administration (PTT) maintains good communications facilities through an extensive investment program that has included procurement of thousands of automatic exchanges as well as several satellite earthstations. PTT, a state monopoly, is expected to begin to utilize licensing arrangements to privatize some services. In contrast to the well-developed physical infrastructure, the educational infrastructure has lagged. The illiteracy rate among adults is 19 percent, and only 9 percent of the population graduated from high school. Vocational training is woefully inadequate, thus most companies offer in-house training for employees.

Tax and Interest Rate Policies. The corporate tax rate has remained high, at 46 percent, although exemptions of 30 to 100 percent are available. Interest rates are high due to inflation and a shortage of credit. The government subsidizes interest rates for approved investments, making funds available at rates from 15 to 35 percent depending on the location of the investment.

Attitude Toward Foreign Investment. The Turkish government welcomes foreign investment, granting it the same incentives available to domestic investors. Investment in underdeveloped regions, new activities, and export-oriented businesses is particularly encouraged.

The principal tax concession is the investment incentives allowance: a deduction from taxable income of a percentage of the fixed capital investment. One hundred percent of the investment is deductible from taxable income for investments in the following sectors: Medical equipment; agriculture; tourism and education; marine products such as seafood; pharmaceuticals; shipping; electric power; and investments over TL10 billion (\$917,000 dollars) in electronics, textiles, shoes, leather, and machinery.

From 1987 to 1992, the number of foreign companies operating in Turkey grew from 800 to 2,300. Foreign capital is concentrated as follows: 70 percent in manufacturing, 27 percent in services (primarily hotels and banking), 2 percent in agriculture, and 1 percent in mining.

Free Zones. Turkey authorized the creation of free zones in 1985. Five zones are in operation, and four additional zones are planned. Free zones firms benefit from numerous incentives, including no corporate taxes, no income taxes on employees, no import restrictions, and no customs duties. These exonerations last for 99 years.

Intellectual Property Rights Protection. Turkish intellectual property protection is inadequate. Counterfeiting and unauthorized sales are occurring in motion pictures, sound recordings, computer programs, books, pharmaceuticals, seeds, and jeans. Investors in the entertainment, software, apparel, and pharmaceuticals industry report that the threat of unauthorized copying has caused them to put investment plans in Turkey on hold, pending resolution of the issue. Turkey's copyright law dates to 1951 and requires substantial revision to deal with new technologies and products.

Foreign Exchange Controls. Turkey places no restrictions on the transfer of profits abroad or on repatriation of capital, provided an investment permit was obtained from the Foreign Investment Directorate (FID). The Turkish Lira has been fully convertible since 1990. The currency value is set by the market.

Price Controls. Turkey sets prices only for pharmaceuticals and agrochemicals.

Political Stability. Turkey offers investors and exporters a large measure of political stability. As set out in the 1982 Constitution, the elected Parliament elects a President, who in turn appoints a Prime Minister. The judicial system was adapted from systems in Switzerland, France, and Italy.

Macroeconomic Performance. Fundamental reform of Turkey's economic climate toward free market forces has catalyzed impressive rates of economic and export growth. Until 1980, Turkey had a centrally controlled economy, dominated by State Economic Enterprises (SEEs). The incipient private sector was heavily protected by interventionist investment regulations and foreign exchange and import controls.

Under the leadership of then Prime Minister Turgut Ozal, Turkey embarked on a transition toward a market economy. The reforms were sweeping in scope: Turkey adopted an export-led growth strategy, reduced tariffs, encouraged foreign investment, arranged for the convertibility of the lira, instituted market-set interest rates, and overhauled the tax system.

Turkey's economy has shown dramatic, steady growth in response to the stimuli. During the 1980s, Turkey logged the highest economic growth rates in the Organization for Economic Cooperation and Development (OECD). Real growth has continued into the 1990s: real Gross National Product rose 5.5 percent in 1992.

Exports were both a primary beneficiary of the new government policies and a primary engine of growth for the rest of the economy. Turkey exported only \$3 billion dollars in 1980; that figure more than quadrupled to \$13 billion just ten years later. From 1987 to 1993, exports rose an average of 7.5 percent annually in dollar terms, to \$15.6 billion. Manufactured exports account for 83 percent of all exports, with the remainder consisting of agricultural products (15 percent) and mining and mineral products (2 percent). Turkey's single largest export is textiles (36 percent of exports) followed by iron and steel (11 percent) and processed foods (9 percent). Twenty five percent of Turkey's exports are destined for Germany, Italy purchases 6.4 percent, and United States receives 5.9 percent.

Once foreign investors became convinced of the permanency of the economic reforms, an investment boom occurred. Annual foreign direct investment rose sharply in the late 1980s, from \$106 million dollars in 1987 to \$700 million in 1990; it has remained in the \$700 million range in subsequent years.

Even in the face of sustained growth, economic challenges remain, particularly in the areas of inflation and privatization. Inflation raged from 66 to 70 percent annually from 1991 to 1993. Virtually no progress has been made on privatizing State Economic Enterprises (SEEs) since the government first began making pronouncements regarding privatization in 1980. While numerous laws and decrees have been passed, only 16 SEEs have been privatized. The inertia is attributed to the poor financial condition of the firms and concerns regarding high unemployment that is expected once turnaround measures are applied to the SEEs.

Market Access. Turkey's Association Agreement with the EC offers preferential access for Turkish exports in EC markets.

Import Duties and Restrictions. In December 1992, Turkey introduced a simplified import regime, replacing eight types of customs duties and six surcharges with a single, lower tariff and single surcharge. By the completion of the customs union with the EC in 1995, Turkey's tariff will equal the common external tariff of the Community. The sole remaining surcharge will be phased out by 1998.

Turkey is gradually moving away from a system of mandatory import licenses for each category of imports. Each importer must still obtain an annual import certificate from the Secretariat of Industry and Trade and pay a fee for each category of goods to be imported.

CYPRUS

A. Export Development Mechanisms

Export Successes

Cyprus nearly doubled its exports from 1987 to 1992, from \$570 million U.S. dollars to over \$1 billion. Just as important as the export growth, from a national economic perspective, is the export diversification which has occurred. Over the past two decades, the importance of agricultural exports has diminished (from 51 percent of exports in 1973 to 21 percent in 1992) while manufactured exports have played an increasingly important role (rising from 9 percent to 69 percent of total exports). Cyprus' best export markets are the United Kingdom (\$136 million U.S. dollars), Lebanon (\$111 million), and Greece (\$67 million). Tourism has also become an important foreign exchange earner: Tourist arrivals rose from 800,000 in 1985 to 2 million in 1992, while foreign exchange receipts tripled from 200 million Cypriot pounds to 700 million.

Export Strategy

Export enhancement is one of the four pillars of the Cypriot government's economic strategy. To fulfill the export development goal, the nation has developed an export strategy consisting of:

- Seeking to create and maintain an institutional structure that effectively encourages exports;
- Pursuing differentiated exports and export markets;
- Encouraging the production and marketing of new products;
- Pushing product quality enhancement; and
- Promoting Cyprus as a services export center.

Cyprus emphasizes providing a stable macroeconomic foundation for businesses, and low overall taxes. The government has traditionally viewed its role as an economic facilitator, not an active player.

Cyprus' efforts at brand creation also raise interesting possibilities for other nations seeking to enhance exports. The Cyprus Potato Board has created a brand, the CPMB brand, and is attempting to capture a portion of the generic potato market and create a brand loyalty. Ads urge purchasers to "look for the CPMB brand." By banding together, the private sector is seeking to increase market share for all Cypriot exporters rather than compete head-to-head for the same export contracts.

Export Assistance Infrastructure

Cyprus has developed a network of exporter assistance institutions offering a range of services. The Cyprus Trade Center is the principal organization dedicated to export promotion; supporting roles are also played by the Central Bank, the Ministry of Commerce and Industry, the Cyprus Chamber of Commerce, and specialized marketing boards.

The Cyprus Trade Center offers information and assistance to firms seeking to purchase Cypriot goods, and invest in Cyprus. The Trade Center, which maintains offices locally and in London and New York, has three goals. They are:

- Disseminate information on local products to potential buyers abroad;
- Distribute information on foreign markets to local manufacturers; and
- Provide technical assistance to exporters and potential exporters in the areas of export procedures, export financing options, and marketing.

The Trade Center's marketing strategy is principally reactive, to service incoming inquiries, however it includes several pro-active elements. The Trade Center places ads in media such as the "Financial Times" extolling the advantages of Cyprus. The Trade Centers distribute attractive, full-color informational brochure on offshore investing, drafted and printed by the Central Bank. The Trade Center offices are seriously understaffed, and the telephone in the New York office often goes unanswered during business hours.

As in many nations, the Cyprus Central Bank finances the development and publication of a glossy, full-color guide to doing business in Cyprus. The Central Bank prepared a first edition in 1982, and began disseminating the third edition in 1992. The guidebook is divided into six sections: Entrepreneurial Environment, Prices and Earnings, Registration Procedures, Regulatory Framework, Fiscal Considerations, and Offshore Activities. In addition to financing the promotional guidebook, the Central Bank serves as a source of information and assistance for foreign investors and exporters.

In some cases, Cyprus is generating export growth through marketing boards dedicated to specific goods. The Cyprus Potato Marketing Board has an office in London, and places large advertisements in publications such as the "Financial Times" aimed at encouraging the retail market to purchase Cyprus potatoes.

B. Export Policy Environment

Export Business Climate

Export Incentives. As a means to achieving its export growth goals, the government has developed a set of attractive export policies. Specifically, the government:

- Guarantees loans by commercial banks for working capital for exporters;
- Allows duty-free import of practically all machinery and equipment;
- Reduces to half the normal rate the corporation tax on profits arising from exports;
- Readily grants permission for the remittance of dividends, profits, and initial capital, including capital appreciation;
- Offers draw-back for duties on raw materials and components used in exports.

In its bid to catalyze the export of services, the government has implemented an innovative set of tax incentives. Specifically, the government exempts from income taxes 60 percent of the profits imported into Cyprus from rendering professional services abroad.

Cyprus levies no taxes on exports.

Infrastructure. Cyprus' telecommunications infrastructure is rated one of the world's best, behind only the United States, Great Britain, and Australia. The educational infrastructure is strong in the areas of technical and vocational schooling to prepare the work force for the tourism and manufacturing industries. While Cyprus has no university, it ranks among the top nations in the world in college graduates per capita because of the large number of students who earn degrees abroad. The nation boasts two international airports served by 32 international airlines and 27 charter operators. Two major seaports serve both containerized and break-bulk cargo. The roadway system includes many four-lane divided highways, and links all areas of the nation.

Tax and Interest Rate Policies. Cypriot macroeconomic planning is structured with an eye to full EC status later this decade. A 5 percent value-added tax was imposed in 1992, and the Cyprus pound is unofficially pegged to the ECU, the European currency unit. Interest rates are pegged at 5.75 for depositors and 9.0 percent for borrowers.

Taxes in Cyprus are among the lowest in the region, and can be credited as one of the nation's strongest investment and export enhancement incentives. Corporations are taxed at a progressive rate of only 20 or 25 percent. Income of foreign employees is taxed at 0 to 20 percent, half the regular rate. Foreign employees may bring in household items (excluding furniture) and cars duty-free.

Attitude Toward Foreign Investment. Cyprus welcomes foreign investment, particularly in export-oriented and high-technology industries. Majority and 100 percent foreign ownership is allowed in many cases although foreigners are limited to 49 percent ownership in certain industries, including data processing and professional services, and the manufacture of textiles, machinery, metal, petroleum, and rubber products.

Free Zones. Cyprus has developed a system of free zones and industrial estates to facilitate investment and exports. The nation's free zone, located at Larnaca, is near an international airport and Cyprus' major seaport, Limassol. Free zone enterprises are granted:

- Minimum customs formalities;
- 100 percent exemption from import duties on machinery, equipment, and raw materials and components;
- 50 percent reduction in income taxes on expatriate employees, to a rate of 0 - 20 percent; and
- Below-market long-term lease rates for fully serviced factory sites.

In addition to the free zone, the government operates seven industrial estates which lease or sells sites to businesses at below-market rates. The sites are fully serviced, thus eliminating the hassles that can accompany obtaining land, land rights, building permits, and utilities.

Intellectual Property Rights Protection. A signatory to the International Convention for the Protection of Industrial Property of 1993 and the Berne Convention for the Protection of Intellectual Property of 1882, Cyprus affords good protection to intellectual property rights (IPR). IPR infringement is in general not an issue.

Foreign Exchange Controls. Cyprus requires prior permission for importing capital, borrowing abroad, or signing technology or technical services agreements, but such permission is usually granted in a timely fashion by the Central Bank. Permission is readily granted for remittance of dividends, profits, and initial capital repatriation, including capital appreciation.

Price Controls. A limited number of items in Cyprus, primarily petroleum products, building materials, and foods, are subject to price controls.

Other Policies and Business Assistance Programs. In addition to pro-business policies, the government of Cyprus also assists industries through its Industrial Extension Service. The Service assists small- and medium-size businesses with technical and managerial issues that are beyond the scope of the businesses' limited personnel, such as planning, construction, operational, and management problems.

Political Stability. In comparison to the buoyant economy, on the political front the future is more problematic. The division of Cyprus into Greek and Turkish Cypriot sectors separated by a United Nations peacekeeping force is matter of continuing concern to the international business community.

Macroeconomic Performance. Cyprus' economic performance has been strong, and the prospects remain bright for the future. Exports have risen 13 percent per year on average since 1987, to 1.5 billion pounds in 1992. Gross Domestic Product has grown commensurately, demonstrating a 38 percent real rise over the same period. Annual direct foreign investment has more than doubled, to \$107 million U.S. dollars in 1992. Consumer prices have been buoyed by the economic surge, increasing 5 - 6 percent annually since 1990. The nations imports \$3 in merchandise for every \$1 it exports, but the merchandise trade deficit is partially offset by other transactions, bringing the current account deficit to only \$242 million U.S. dollars in 1992. The currency has been stable: The real effective exchange rate of the Cyprus pound was essentially unchanged over the past several years.

The Cyprus economy operates on a laissez faire basis, with the government limiting its role primarily to regulation, system safeguards, and the provision of public utilities. The government is pursuing four macroeconomic goals:

- Maintenance of high rates of economic growth;
- Diversification of the economy;
- Maintenance of full employment and price stability; and
- Promotion of exports and improvement of the balance of payments.

Market Access. Cyprus offers its exporters preferential access to the EC market by means of the customs union agreement signed with the EC in 1987. The agreement called for removing

most import duties by 1998, although some protection for manufacturing industries will remain. A full customs union is due to come into effect in 2003.

Import Duties and Restrictions. Most imports into Cyprus enter duty-free or with a low duty rate, including most raw materials, components, machinery and equipment, essential food items, mineral products, and fertilizers. Certain imports are prohibited: Firearms, narcotics, seditious publications, and various agricultural products including raw vegetables, mushrooms, citrus fruits, vine plants, and grapes. Duty drawback is offered to exporters.

INDONESIA

A. Export Development Mechanisms

Export Successes

Indonesian exports are rising at double-digit rates, and continued increases are forecast. Exports rose an average of 13.6 percent from 1987 to 1993, to \$37 billion U.S. dollars. Export growth has occurred in a broad range of product categories and to both established and new export markets. Indonesia is a top world supplier of both commodities (tin, palm oil, coffee, liquified natural gas and petroleum gas, rubber, and spices) and manufactured products (electronics, textiles, sporting goods, cement, processed foods, rattan furniture, and footwear). Indonesia exports to a diversified group of nations, principally Japan (\$11 billion U.S. dollars), the United States (\$5 billion), Singapore (\$3.3 billion), Korea (\$2.2 billion), Taiwan (\$1.5 billion) and China, Germany, the Netherlands, and the United Kingdom (\$1 billion each).

Indonesia's success in building forward linkages from its commodity resources is an interesting case study of export success. Blessed with rich timber resources, Indonesia became an important exporter of logs in the 1960s and 1970s, but plywood exports were negligible. During the 1980s, largely due to the technology transfer and marketing acumen of two joint ventures with foreign firms, Indonesia was transformed from a plywood importer to the world's leading hardwood plywood exporter, holding almost 70 percent of the world market. Plywood became the number two foreign exchange earner for the nation, second only to oil and gas. The nation is now producing high quality hardwood products such as furniture, further increasing the national value-added, creating jobs, and increasing worker skill levels.

On the other hand, Indonesia's expensive and unfruitful endeavors to target its aircraft production industry for special assistance serve as a warning regarding the risks of "picking winners." Indonesia's aircraft producer, IPTN, received more than \$1 billion from the government from the 1970s to the 1990s, but was unable to sell large quantities of its products overseas, or even to make a profit from domestic sales.

Export Strategy

Indonesia brought about this successful export diversification strategy in large part by attracting foreign investment. Joint ventures have brought manufacturing equipment, technology, market contacts, and labor training to Indonesia.

A second important factor in Indonesia's export success is one-on-one business assistance to potential exporters. Firms considering exporting have specific needs, which vary from financing to market information to buyer specifications. Rather than have each firm seek out the necessary information, which would be time-consuming and would keep some firms from becoming exporters, Indonesia's Export Support Board brings the services to the firms. Importantly, the firms pay approximately 25 percent of the cost of the technical assistance provided to them. Time and again, studies have shown that services offered at no cost are not valued highly, nor utilized well (or at all) by intended clients.

In contrast to the praises earned by the Export Support Board, the National Agency for Export Development is widely regarded as an ineffective, bloated bureaucracy. The challenges facing are common to most all government agencies: Personnel are often selected based on connections rather than merit, and low pay and lack of career-track incentives result in lackluster performance. In addition, vagaries in government funding make it difficult for the agency to plan its promotional activities far enough in advance to allow private businesses to participate fully, with advance advertising prior to shows.

Sectoral Strategy. By explicit choice, the Indonesian government does not offer incentives for certain sectors, preferring to rely on markets to signal growth opportunities to investors and exporters. While Indonesia desires to expand its non-traditional exports, the nation's leaders believe that the best path for doing so is not to grant sectoral incentives but rather to create a level playing field that encourages all investments and exports.

Export Assistance Infrastructure

A plethora of public and private institutions assist Indonesian firms to boost exports. The two largest players are the National Agency for Export Development (NAFED) and the Export Support Board (ESB).

The National Agency for Export Development is a subdivision of the Department of Trade, established in 1971. A government agency, it is staffed with 300 government employees. NAFED operates 11 Indonesian Trade Promotion Centers (ITPCs) in nine countries: Australia, Germany, Iraq, Japan, the Netherlands, Saudi Arabia, the United Arab Emirates, the United States, and the United Kingdom.

NAFED has three main activities:

- Supporting buyers and sellers by providing market information;
- Assisting exporters to tailor their products to market specifications; and
- Training exporters on overseas marketing.

Specifically, NAFED:

- Offers on-line lists of U.S. buyers;
- Holds a 5-day National Merchandise and Commodity Show in Jakarta featuring Indonesian industrial, craft, and agricultural products;
- Maintains a Buyers' Inquiry Service to match foreign buyers with Indonesian exporters;
- Publishes product-specific buying guides listing Indonesian sellers;
- Prints a "Directory of Indonesian Exports," a comprehensive listing of Indonesian sellers;
- Operates a Buyers' Reception Desk to provide ground support services for buyers including making hotel arrangements, meeting the buyer at the airport, arranging transportation and translation services, setting up appointments, and accompanying the buyer to appointments; and
- Facilitates exporter participation in foreign trade shows.

The overseas offices gather information on market developments, gather leads, identify opportunities for Indonesian exporters and facilitate the introduction of buyers and sellers.

While its goals are laudable, in practice NAFED is severely criticized as ineffective. Employees apparently have little or no motivation to work hard (for example, they have no quantitative targets). Leads are not followed up with, and little attention is paid to establishing that an export sale was ever made. Lists of buyers and sellers are out-of-date and not useful. Trade missions are planned with too little time to allow exporters to plan for full participation, including advance advertising.

In contrast to exporter frustrations with NAFED, the business community views the Export Support Board as a very useful exporting tool. The Export Support Board is an autonomous organization reporting directly to the Ministry of Trade, that was established in 1986 with \$7 million in funding from the World Bank. The ESB mandate is to improve the supply of exportable goods by working with potential exporters one-on-one and in small groups. Clients pay 25 percent of the cost of all technical assistance. ESB services include:

- Providing detailed information on export opportunities;

- Subsidizing attendance in overseas product exhibitions (participants pay 25 percent of the costs while ESB contributes the rest);
- Offering business consulting to improve productivity (i.e., inventory, production schedules, factory layout, cost control, management techniques);
- Holding seminars on exporting, i.e., pricing for international markets, quality standards, distribution methods;
- Developing sector-specific catalogs of Indonesian exports; and
- Providing company-specific marketing assistance, i.e., arranging overseas product demonstrations, selecting advertising media and promotion programs.

ESB assists firms that meet the following criteria:

- Current or potential exporter;
- Size (firm must be small or medium);
- Firm's product has high export potential;
- Product has high local content; and
- Product is labor intensive.

The ESB has a five-member board composed of three private sector members and two government officials. In contrast to NAFED's 300 employees, the ESB has a staff of only 15 individuals, and utilizes technical advisors who are contracted from private firms to provide specialized assistance to exporters.

Private associations also play a very significant role in encouraging exports. Their private, voluntary nature assures that the institutions serve the needs of the members; if they don't, they quickly are disbanded. The Indonesia Association of Plywood Manufacturers (APKINDO) has been credited by the industry with providing timely information on overseas marketing information, as well as coordinating export manufacturing and bringing issues to the attention of the government.

Indonesian Embassies around the world also encourage the sale of Indonesian goods. The government operates 24 Indonesian Trade Representative Offices in various Embassies.

B. Export Policy Environment

Export Business Climate

Export Incentives. Indonesia grants firms that export at least 65 percent of their production the following incentives:

- No import restrictions;
- 100 percent exoneration for import duty and VAT on machines and raw materials; and
- Foreign ownership up to 95 percent allowed.

Indonesia also offers a comprehensive export finance system including pre- and post-shipment credit at preferential interest rates and related guarantee and insurance schemes. Preferential medium- and long-term loans for exporters were introduced in 1986.

Infrastructure. Indonesia has invested in excellent infrastructure for its business community. Because the nation is an archipelago, sea transport provides the major links, and port facilities are very good. In addition, the nation boasts 14 major airports served by numerous international airlines. Paved roads links major cities.

Communications have also been a government priority, and the nation has a satellite system of domestic and international telecommunications.

Education remains a challenge for Indonesia. Twenty-two percent of Indonesians have completed only elementary school, 15 percent have finished high school, and less than 2 percent have a university education.

Tax and Interest Rate Policies. Indonesia does not offer tax holidays or tax-free zones. Personal income is taxed at a flat 35 percent rate. The value-added tax is 10 percent. Corporate income is taxed at a top rate of 35 percent. Interest rates are market-set, with lending rates ranging from 21 to 24 percent since the late 1980s, approximately four point above deposit rates.

Attitude Toward Foreign Investment. Indonesia's commitment to foreign investment is evident in recent policy enhancements which include:

- Streamlining investment application procedures;
- Relaxing foreign ownership restrictions;
- Broadening sectors open to foreign investment;
- Reducing import monopolies and nontariff barriers;
- Eliminating duties on goods for re-export;
- Offering special incentives for export-oriented investments;
- Lowering import duties and surcharges on certain commodities; and
- Simplifying controls systems for the movement of goods.

Nonetheless, some restrictions on foreign investment remain. Indonesia mandates an Indonesian joint venture partner with an equity share of at least 20 percent (except for businesses in bonded zones). Several industries and all retailing is closed to foreign investment.

Indonesia does not offer special tax concessions to foreign investors, but accelerated depreciation is available.

Free Zones. The Indonesian government has designated two free zones, Batam and Tanjung Priok. Firms located in free zones benefit from the following incentives:

- Advanced infrastructure facilitating cargo handling, shipping and communications;
- Less complex procedures for obtaining land titles, building permits, and site information ;
- Ability to employ foreign expert personnel as required;
- Initial 100 percent foreign ownership permitted, decreasing to 95 percent within five years; and
- Exemption from import duties on goods to be re-exported.

In addition to free zones, investors may locate in any of 79 industrial estates. While the industrial estates do not offer the benefits of less onerous foreign investment restrictions, they do offer excellent road systems and electricity and water capabilities to tenants.

Intellectual Property Rights. In the past, Indonesia has not provided sufficient protection to intellectual property rights, but tough new standards are being implemented. The nation is on the United States' "Watch List" under the "special 301" provision of the 1988 Trade Act as a result of inadequate protection of patents, trademarks, and copyrights, and limitations on motion

picture access. Indonesia has demonstrated that it is committed to ending counterfeiting and piracy, and is diligently enforcing the new protections. The international business community is watching eagerly to see if the government's commitment to intellectual property rights protection can be translated from paper to practice.

Foreign Exchange Controls. Indonesia places no exchange controls on businesses. Firms may move funds freely into and out of the country, denominated in any currency desired.

The government manages the market value of the rupiah, reviewing the rates for a basket of currencies and fixing the rupiah rate daily. The rupiah is a fully convertible currency.

Price Controls. The government controls the prices of only a few basic living commodities; all other prices are set by the markets.

Political Stability. Indonesia offers domestic and foreign investors a stable political environment in which to conduct business. The 1945 Constitution provides for a sharing of powers among the executive, the legislature, and the judiciary.

Macroeconomic Performance. Indonesia's moniker as one of South East Asia's "Little Tigers" is well earned. Economic performance has been extremely dynamic. Gross Domestic Product in real terms rose an average of 6.7 percent from 1987 to 1992. Exports increased by 13.6 percent each year over the same period, even as oil and gas exports stagnated.

Foreign investment played an important role in catalyzing Indonesia's growth. Annual direct foreign investment is nearing \$2 billion, up from \$385 million in 1987, an annual increase of 37 percent.

The Indonesian rupiah depreciated by 26 percent from 1987 to 1992, making Indonesian goods more cost-competitive on world markets. Inflation was problematic, averaging nearly 10 percent over this period. Because of the inflation, lending rates remained in the low 20s during these years, rising slightly over time and maintaining approximately a four point margin above deposit rates.

Indonesia's growth has been distributed to all segments of the population, raising the living standards of individuals who had been living in poverty. In 1976, the lowest 40 percent of households earned only 16.4 percent of total income; by 1990, this percentage had increased to 20.8 percent, while the income of the top quintile fell from 49.4 percent to 42.3 percent.

Market Access. Indonesia belongs to the Association of South East Asian Nations (ASEAN) which has as its primary objective economic cooperation but also offers limited

preferential trading arrangements among its six member states (Indonesia, Brunei, Malaysia, the Philippines, Singapore, and Thailand).

Import Duties and Restrictions. Indonesia has significantly liberalized its trade regime in the past decade. A lengthy series of trade reforms in 1987, 1988, 1990, 1991, and 1992 have reduced tariff levels, simplified the tariff structure, removed import restrictions for export-oriented manufacturing, and replaced non-tariff barriers with more transparent tariffs. In the wake of these reforms, most imports to Indonesia are subject to tariffs ranging from 5 to 40 percent. Import surcharges ranging from 5 to 35 percent are placed on 255 categories of goods, down from 396 categories in 1991. Four hundred sixty four products are subject to import restrictions regarding the type of company that can import the goods.

To speed customs clearance of imports, Indonesia implemented sweeping reforms in 1985, including contracting a private firm, SGS, to clear imports at the point of origin.

MALAYSIA

A. Export Development Mechanisms

Export Successes

Malaysia has generated a 17 percent increase in exports on average from 1987 to 1993, to \$47 billion U.S. dollars. Malaysia's continued industrialization is reflected in its export mix; manufactured goods accounted for 71 percent of 1993 exports. Malaysia's major commodity exports are crude petroleum, logs and timber, palm oil, rubber, and liquified natural gas. Among manufactured exports, electrical and electronic machinery and appliances are a strong leader, contributing 60 percent of manufactured exports. Electronics exports are followed by textile and apparel exports; chemicals and petroleum; and iron, steel, and metal.

Malaysia has successfully diversified its export markets worldwide. ASEAN nations receive 29 percent of Malaysian exports, Japan 17 percent, the EEC 16 percent, and the United States 15 percent. Malaysia's principle export markets are: Singapore (\$10 billion U.S. dollars), the United States (\$9 billion), Japan (\$6 billion), and the United Kingdom, Germany, Hong Kong, Korea, and Thailand (\$2 billion each).

Export Strategy

Foreign direct investment (FDI) has been the principal engine behind Malaysia's astounding recent export success. Malaysia did not initially embrace foreign investment. While the country has followed market-led economic strategies since the 1950s, initial reticence to welcome FDI was apparent in local ownership restrictions. It was not until the recession of 1985-1986 that Malay officials saw the need to open its economy to injections of foreign capital, technology, and marketing skills. The government boosted tax incentives and reduced local ownership requirements, and the foreign business community responded quickly. FDI in Malaysia jumped tenfold from 1987 to 1991, from \$400 million U.S. dollars to \$4 billion annually, and has remained at that level ever since.

FDI has benefitted the Malay export situation in many ways. Foreign investors have expanded their product lines both forward and backwards from their starting point. In the 1970s, foreign investment made Malaysia the world's third largest producer of semiconductors. Soon thereafter, companies began producing wafers to supply their semiconductor operations, a backward linkage. Then companies entered the disk drive market, and then software development, both forward linkages.

FDI has also assisted Malaysia to diversify away from dependence on its traditional commodity exports -- rubber, tin, oil and gas, palm oil, and timber -- which face uncertain world prices. Electronic components are now one of Malaysia's leading exports.

Malaysia's Free Trade Zone experience shows the costs of implementing liberal policies in free zones but maintaining a closed stance toward foreign investment in the economy as a whole. Malaysia embarked on an FTZ strategy in 1972, but restricted foreign investment in the rest of the economy. Studies of the economic impact of the early FTZ firms concluded that the high subsidies for land and infrastructure, combined with low tax revenue due to incentives, made the economic impact of the FTZ investments negligible or even negative. Thus, an FTZ strategy is not a substitute for economy-wide reforms, although it can be viewed as a first step in the right direction. FTZs are only one element, albeit an important one, in a broader export enhancement strategy that encompasses local producers as well.

An additional factor in Malaysia's export success is its system of providing assistance and financing to all manufacturers, including exporters. The approach leads to a generalized increase in all manufacturing and has facilitated growth in the export of a broad range of goods, diversifying Malaysia's export base and catalyzing widespread participation in international markets by the manufacturing community.

Targeted incentives are another reason for growth in Malaysian exports. Malaysia offers incentives for producers with plans to export, locate in undeveloped regions, import new technologies, and/or invest in nontraditional products. The categories of goods which receive tax incentives are:

- Agricultural Production
- Integrated Agriculture
- Processing of Agricultural Produce
- Forestry and Forestry Products
- Manufacture of Rubber Products
- Manufacture of Palm and Palm Kernel Oil Products and Their Derivatives
- Manufacture of Chemicals, Petrochemicals and Pharmaceuticals
- Manufacture of Wood and Wood Products
- Manufacture of Pulp, Paper and Paperboard
- Manufacture of Textile and Textile Products
- Manufacture of Clay-Based, Sand-Based and Other Non-metallic Mineral Products
- Manufacture of Iron and Steel and their Products
- Manufacture of Non-Ferrous Metals and their Products
- Manufacture of Machinery and Machinery Components

- Manufacture of Transport Equipment, Components and Accessories
- Supporting Products/Services
- Manufacture of Electrical and Electronic Products
- Manufacture of Measuring Equipment and Components
- Manufacture of Photographic, Cinematographic, Video and Optical Goods and Components
- Tourist Industry and Hotels
- Film Industry
- Miscellaneous, including musical instruments, furniture, handicrafts, toys, sporting goods, eyeglasses, and fire fighting equipment

Export Assistance Infrastructure

Malaysia supports exporters with a range of services offered by governmental and private institutions, described below.

Malaysia's International Trade Division (ITD) of the Ministry of Trade and Industry is charged with promoting exports, particularly of manufactured goods, and handling related issues such as market access and textile quotas. The ITD is divided into eight sections, described below.

Export Development. This section established 29 trade offices in major commercial centers, including Brussels, Cologne, the Hague, Hong Kong, Los Angeles, Moscow, New York, Paris, Seoul, Singapore, Stockholm, Sydney, Toronto, Vienna. Each office is charged with analyzing and identifying markets, and determining how Malaysian products should be adapted and marketed.

International Trade Relations. This section monitors trade issues.

ASEAN, EEC Regional Groupings. This section coordinates Malaysia's involvement in ASEAN and EEC.

Shipping and Freight. This section is responsible for monitoring shipping and freight services.

Trade Fairs and Missions. This section organizes domestic and overseas trade exhibitions.

Textiles. This section oversees textile issues, including quotas.

Countertrade Unit. This section serves as clearinghouse for the government and the business community on countertrade (barter).

The eighth section is the Malaysian Export Trade Centre (MEXPO), established in 1980 to market Malaysian manufactured goods abroad. MEXPO's objectives include:

- Providing trade information on foreign markets, including statistics, trends, relevant laws and regulations, and market studies on individual products;
- Responding to inquiries from potential buyers;
- Maintaining a register of potential buyer names and addresses;
- Organizing seminars for Malaysian exporters on export opportunities; and
- Publishing surveys of promising export markets for the Malaysian business community.

To accomplish these objectives, MEXPO is divided into four units: Trade Information; Exporters Register; Exhibition; and Seminars, Workshops and Conferences.

The government also facilitates exports by simplifying foreign investment assistance, processing and approvals in a "one-stop shop," the Malaysian Industrial Development Authority (MIDA). MIDA brings together top officials from the various ministries that approve foreign investments, including the Federal Treasury, the Royal Customs and Excise Department, the Immigration Department, the Ministry of Labor, and the Ministry of Trade and Industry.

MIDA both regulates and promotes foreign investment. The Authority assists in the formulation of industrial policy and industrial incentives, and identifies which product categories will be eligible for pioneer status. At the same time, MIDA advises local and foreign businesspeople on opportunities, and evaluates applications for manufacturing licenses, incentives, tariff protection, and import duty exemptions. To carry out its regulatory and promotional objectives, the Authority maintains eight regional offices in Malaysia and offices overseas in Chicago, Cologne, Hong Kong, London, Los Angeles, Milan, New York, Osaka, Paris, Seoul, Singapore, Stockholm, Sydney, Taipei, Tokyo, and Zurich. Some of the office are direct dependencies of MIDA, while some utilize representatives such as Consuls or Economic Counselors at Embassies.

Complementing the services provided by the government is the private Federation of Malaysian Manufacturers (FMM), formed in 1986. A private, nonprofit, membership

organization, the FMM has over 700 members representing a broad range of Malaysian manufacturers. The FMM is devoted to:

- Promoting, preserving and protecting the interests of the manufacturing sector;
- Serving as spokesperson for the sector in discussions with the government and the business community;
- Providing a focal point for the manufacturing community to meet to solve common problems;
- Obtaining and disseminating relevant information to members on trade opportunities and government policies; and
- Organizing and assisting members to participate in local and international trade fairs.

The Malaysian government also offers financing to exporters and manufacturers in general, through the Malaysian Industrial Finance Board (MIDF). With capital from the Malaysian government and the World Bank, the MIDF provides medium and long-term loans for plant and equipment, and underwrites share issues. In conjunction with the financial services, the Board provides clients with business advice and management consulting services. MIDF financing is enhanced by a below-market credit refinancing scheme for exports available from the Central Bank of Malaysia.

B. Export Policy Environment

Export Business Climate

Export Incentives. Malaysia offers its exporters the following incentives:

- 50 percent abatement on corporate taxes;
- Tax deductible export allowance valued at 5 percent of exports;
- Double deductions of costs associated with exporting, including export marketing costs, export credit insurance premiums, and insurance of imported cargo;

- Full exemption from customs duties on imported raw materials, machinery and equipment; and
- Duty drawback on intermediate goods used in exports.

Infrastructure. Malaysia's transportation infrastructure includes well-maintained roads, railways, and 5 major seaports. Malaysia boasts an excellent educational system, preparing its young population for active participation and advancement in the workforce. Numerous vocational schools offer training at the skilled and semi-skilled level, with a particular focus on engineering. In addition, the nation offers a choice of eight universities.

Tax and Interest Rate Policies. Businesses and individuals are taxed at a flat rate of 32 percent. Lending rates have remained a steady 8 percent, approximately 3 percentage points above inflation.

Attitude Toward Foreign Investment. Foreign investors in target industries receive a 5-year tax holiday on 70 percent of their profits, which is raised to 85 percent for firms located in priority areas. Target industries (which are known as firms with "pioneer status") are selected by the government. Currently 287 products in 23 categories receive pioneer status from the government.

Free Zones. Malaysia offers investors a choice of twelve free zones. Firms located in the zones take advantage of the following incentives:

- Minimum customs control and formalities for imports and exports;
- 100 percent exoneration from customs duties on imported inputs; and
- 100 percent exoneration from customs duties on exports

To encourage exporters to locate throughout the nation, Malaysia grants free zone incentives to firms not located in free zones as long as they export 80 percent of their production and utilize imported raw materials. The firms are designated "Licensed Manufacturing Warehouses" and receive the same advantages as free zone companies.

Intellectual Property Rights Protection. With the implementation of three new patent and copyright laws in the mid 1980s and early 1990s, Malaysia has significantly improved the protection the nation affords to intellectual property. Malaysia acceded to the Berne Convention in 1990. Nonetheless, the international business community still voices some concerns about IPR violations.

Foreign Exchange Controls. Malaysia has historically maintained a liberal foreign exchange regime. Profits and capital may be freely remitted and repatriated.

Price Controls. Malaysia maintains price controls for only a few selected foods, commodities, and manufactured products.

Political Stability. Malaysia was granted independence from Great Britain in 1957. Since then, Malaysia has functioned as a constitutional monarchy. The lower House of the Parliament is elected every five years; all adults have voting privileges. Sultans, the heads of nine of Malaysia's 13 states, elect a King from among themselves every five years. The King appoints the members of the Senate. The political system has granted a large degree of continuity and stability to Malaysia's pursuit of market-led economic development.

Macroeconomic Performance. Malaysia's high growth rates and low inflation make it the envy of many developed and developing nations. Malaysia's economy (GDP) grew by nearly 9 percent annually in real terms from 1987 to 1993; exports rose by an annual average of 17 percent over the same period. Inflation has not been a concern, averaging only 4 - 5 percent per year over the past six years.

Growth has been distributed to all segments of the Malaysian population. The ratio of the income share earned by the top 20 percent of households to that earned by the bottom 20 percent of households has fallen from 16 to 11.

Market Access. Malaysia is a member of the Association of South East Asian Nations (ASEAN) which offers preferential trading arrangements with Brunei, Singapore, Indonesia, the Philippines, and Thailand. Malaysia is also a member of the General Agreement on Tariffs and Trade (GATT). Nearly three-quarters of Malaysia's trade is with Japan, the United States, Singapore, and the European Community.

Exchange Rate Policies. Malaysia originally pegged its currency to the British pound, then floated it in the mid 1970s. The Malaysian Ringgit appreciated 88 percent against the U.S. dollar from 1976 - 1985, and has remained relatively stable since then at 2.5 Ringgit per U.S. dollar.

Import Duties and Restrictions. As part of ongoing trade liberalization, Malaysia is reducing its import barriers, including tariffs. The government eliminated tariffs on 600 goods in 1993, and reductions from 5 - 30 percent are expected on an additional 500 items during 1994.

In general, most raw materials, machinery, essential foodstuffs, and pharmaceuticals face no or low duties; those items used for export enter duty-free. Import duties range from 2 to 100 percent. Duties above 30 percent apply mainly to goods that compete with Malaysian production

or luxury items: Rubber tires (30 percent), plywood (45 percent), cassette and video recorders (50 percent), and cars, either completely knocked-down (CKD, 42 percent) or completely built-up (CBU, 140 - 300 percent). In addition to the duty, most imports are subject to a 10 percent sales tax.

THAILAND

A. Export Development Mechanisms

Export Successes

Thailand's export history reveals important insights into the impact of government policies and institutions on trade. During the 1960s, Thailand was known as an exporter of traditional agricultural commodities, principally rice, rubber, teak, and tin ore. The government's import substitution stance focussed entrepreneurs on supplying domestic markets.

During the late 1970s and 1980s, the government gave greater support to exporters. Thai exports of traditional products were complemented by sales of agro-industrial and manufactured products. Given the nation's cost structure relative to its trading partners, most exports were labor-intensive, such as canned food, apparel, wood products, and jewelry.

As the government cemented its support for exporting, opened to foreign investment, and targeted high-potential industries for special incentives, exports grew and diversified. Thailand's major exports now include microchips, integrated circuits, electrical appliances, leather products including footwear, and plastic products. Manufactured goods constitute 54 percent of Thailand's exports.

Thailand's exports grew 23 percent annually in dollars terms from 1987 to 1993, reaching \$37 billion U.S. dollars. Thailand's major export buyers are the United States (\$8 billion), Japan (\$6 billion), Singapore (\$4.5 billion), Hong Kong (\$2 billion), and Germany, the Netherlands, United Kingdom, and Malaysia (\$1 billion each).

Export Strategy

The export policy tools credited with catalyzing Thailand's export successes include:

- Tax privileges and refunds;
- Electricity cost reduction (double deduction of electricity costs from income);
- Refinancing facilities;
- Marketing assistance; and
- International trading firms.

Foreign investment is credited with playing a significant role Thailand's export successes, particularly in electronics and footwear. It is interesting to note that Thailand's experience has demonstrated that foreign investment is not as "foot-loose" as some critics have charged. In large measure, companies that located in Thailand have stayed in Thailand, altering their product lines as the cost structure has risen over time relative to the competition.

Thailand's industrial policy can also be credited with boosting the nation's exports. Beginning in the 1950s, Thailand liberalized its trade policies, eliminating export taxes, devaluing the baht, and reducing import tariffs. Nonetheless, Thailand maintained a high effective rate of protection of domestic manufacturing -- 52 percent compared to Korea (28 percent) and Malaysia and Philippines (23 percent). Only in the last few years has Thailand made important inroads in reducing restrictions on manufactured imports. Thus, the sequencing that worked well for Thailand was export liberalization first, followed by manufactured import liberalization.

Sectoral Strategy. BOI's success in attracting export-oriented investment to Thailand can be credited in large measure to precise identification of high-potential target industries for promotion. Target markets, both sectorally and geographically, were selected based on an objective assessment of Thailand's comparative advantages as measured by costs, market access, infrastructure, and location.

One technique Thailand used very successfully in identifying sectors to target was to first determine the "revealed preferences" of investors. By assessing investment trends, the BOI discerned those industries and capital-exporting nations which were most appropriate for Thailand, as evidenced by investment flows. Once the BOI perceived increases in investment inflows in sectors such as canned tuna, canned fruit, and jewelry, they capitalized on these revealed preferences by targeting additional firms in these and related fields. For utilizing this strategy, BOI has been unfairly criticized by some analysts for being a follower, not a leader, but this judgement demonstrates a lack of understanding of cost-effective investment promotion. Investment and trade promotion organizations around the world have wasted millions of dollars chasing uninterested leads in inappropriate sectors selected more on the basis of a "wish list" than an accurate understanding of international cost structures.

Export Assistance Infrastructure

Three major institutions directly or indirectly promote Thai exports: The Ministry of Commerce's Department of Export Promotion, the Federal of Thai Industries, and the Board of Investment. Each is described in turn.

The Department of Export Promotion (DEP) has three principle functions: To promote international recognition of Thailand as a source for industrial, consumer and agricultural

products; to match foreign buyers with Thai manufacturers; and to suggest policy enhancements to improve Thai export competitiveness. The DEP employs 800 people in Bangkok

The DEP maintains 9 offices in commercial centers around the world, including Atlanta, Los Angeles, and New York. Each overseas office is staffed with two representatives plus support staff. Complementing the 9 offices are links with 30 Thai Commercial Counsellors in Embassies around the world.

The DEP has three divisions: Export Promotion, Export Development, and Supporting Functions. The divisions undertake the following tasks:

Export Promotion Division

- Tracks market trends;
- Recommends sectors for promotion;
- Develops strategies for product promotion;
- Organizes trade fairs, missions and exhibitions;
- Designs in-store promotions in foreign department stores;
- Maintains a permanent exhibition of Thai products in DEP's Bangkok headquarters; and
- Arranges in-country appointments for visiting buyers.

Export Development Division

- Conducts product and market research;
- Offers a trade information service for the government and the business community;
- Identifies new market opportunities through research; and
- Offers courses for the private and government sectors in export rules and regulations, trade prospects, production techniques, and quality control.

Supporting Functions Division

- Produces marketing brochures for Thai products; and
- Publishes the Thai-language Daily Trade News and the Export Magazine to inform Thai manufacturers of export opportunities.

The DEP has an annual budget of approximately \$12 million. Funding is provided by three sources: The Ministry of Commerce, the European Community, and import-duty revenues.

The Federation of Thai Industries complements the work of the DEP. The Federation is an official entity, reporting to the Ministry of Industry, although it has its own private Board of Directors. The Federation's goals are to enhance the capabilities of its 1,600 members, representing 22 industries, by providing them with information on new technologies, domestic and international market opportunities, and courses and seminars for executives and technical staffs. In addition, the Federation monitors government policies affecting the business sector, and serves as the voice of industry in policy discussions with the government.

The Board of Investment (BOI) promotes exports only indirectly, by promoting investment, but the preceding discussion makes clear that the BOI has played the critical role in charting the path for Thailand's export growth. Created in 1977 by the Investment Promotion Act, the BOI assists projects which meet the following national goals:

- Strengthen Thailand's industrial and technological capability;
- Use domestic resources;
- Create employment opportunities;
- Develop basic and support industries;
- Earn foreign exchange;
- Contribute to the economic growth of regions outside Bangkok;
- Develop infrastructure;
- Conserve natural resources; and
- Reduce environmental problems.

The BOI provides the following services:

- Appraises investment incentive applications;
- Grants a wide range of tax and non-tax incentives;
- Provides assistance obtaining licenses and permits;
- Designs and implements investment promotion campaigns overseas;

- Publishes and distributes promotional literature;
- Maintains investment statistics for the government;
- Builds backward linkages to Thai firms by identifying subcontracting opportunities; and
- Promotes Thai investment overseas by organizing missions.

The BOI maintains offices in Bangkok, four regional Thai offices and investment promotion offices in New York, Tokyo, Sydney, Frankfurt, Paris, and Hong Kong.

To accomplish these objectives, the BOI is organized into several divisions. The Investment Promotion Division is subdivided into seven industry specialties: Agriculture; Mining and Metals; Light Industries; Machinery and Transport Equipment; Electronics and Electrical Industries; Chemicals, Paper, and Plastic Products; and Services and Infrastructure. Organizing by sector assures that interested investors are serviced by investment promoters knowledgeable in the fields, who know the industry terminology and have a sense of the type of information and assistance most useful to the firm as it makes a site location decision.

B. Export Policy Environment

Export Business Climate

Export Incentives. Thailand's Board of Investment (BOI) grants significant incentives to export-oriented foreign firms. Foreign-owned exporters can own land (non-exporters can not); they can freely bring in expatriate personnel (non-exporters face restrictions). Firms which export 100 percent of their production may be 100 percent foreign-owned; others face local ownership requirements.

Exporters receive tax incentives based on their location, with greater incentives going to firms located outside of Zone 1, the Bangkok area, in either Zone 2, the provinces surrounding Zone 1, or Zone 3, the outlying provinces. Zone 1 exporters receive:

- 50 percent import duty reduction on machinery;
- 3-year corporate income tax exemption (only for firms located in industrial estates); and
- 1-year import duty exemption on raw materials.

Zone 2 exporters benefit from:

- 50 percent import duty reduction on machinery;
- 3-year corporate income tax exemption (increased to 7 years for firms in industrial estates); and
- 1-year import duty exemption on raw materials.

Zone 3 exporters have the following advantages:

- 100 percent exemption on import duty on machinery;
- 8-year corporate income tax exemption, followed by a 5-year reduction of corporate income tax by 50 percent;
- 5-year import duty exemption on raw materials; and
- Double deduction from taxable income of water, electricity, and transport costs for 10 years.

Infrastructure. Thailand's infrastructure has not kept pace with the economic boom, and represents a bottleneck to businesses in many areas. Power and water are scarce in certain areas, and the road network is congested.

Airports and ports are adequate to meet current demand, and enhancements are already planned to ensure that capacity rises in concert with projected growth. Thailand boasts six international airports, with a seventh planned. Six international deep sea ports service the nation's businesses, and two are under development.

Infrastructural shortages are also apparent in education, with businesses finding skilled technicians and engineers to be in short supply.

Aware of the impact of the infrastructural deficiencies on its international competitiveness, the Thai government is moving rapidly to close the gaps. The Sixth Development Plan, operational from 1987 to 1991, oversaw a 76 percent rise in government spending for infrastructure, and the Seventh Plan, for 1992 - 1996, foresees a 148 percent increase in expenditures. In addition, the government is pursuing the privatization of port management, airlines, and electricity generation in order to clear the way for a fresh infusion of badly-needed capital.

Tax and Interest Rate Policies. Thailand taxes corporate net profits at 10 percent. The nation has a 7 percent Value Added Tax. Personal income is taxed at a sliding rate from 5 - 37 percent. Profits remitted are taxed at 10 percent. Interest rates, set by market forces, average several points above inflation, and are currently in the range of 9 percent.

Attitude Toward Foreign Investment. In contrast to the policies in many nations, foreign direct investment has always played an important role in Thailand's development strategy. Foreign investment has historically faced few restrictions. While most foreign investment in the 1960s and 1970s was aimed at serving the large, protected domestic market, the economic strains of the mid 1980s forced Thailand to shift focus toward exporting.

Free Zones. Thailand does not offer free zones, preferring instead to liberalize investment, tax, and import and export policies for the nation as a whole. Thailand does offer industrial zones, which package infrastructure and utilities needed by industry. Firms located in industrial zones receive longer corporate income tax exemptions (see above).

Intellectual Property Rights Protection. Thailand does not provide adequate IPR protection, particularly in the areas of software, and audio and video cassettes. Food, beverages, and pharmaceuticals and their ingredients are denied patent protection. While Thailand is a member of the Berne Convention and IPR enforcement has been improving in recent years, this issue remains a source of friction with many capital-exporting nations.

Foreign Exchange Controls. Thailand removed most of its remaining foreign exchange restrictions in 1991, freeing repatriation of capital and remittance of profits. The Thai government is a signatory to IMF Article VIII guaranteeing currency convertibility and free movement of funds.

Political Stability. Thailand offers investors the stability of a constitutional monarchy. Although 18 military interventions have occurred since 1932, the coups are viewed by the business community as a standard feature of Thai political life. Because macroeconomic planning is undertaken by technocrats rather than political appointees, it is sharply divorced from the political swings, affording a strong measure of stability and continuity to the economy and the investment climate.

Other Business Support Programs. Thailand has found partnerships between private industry and foreign donors to be a useful tool in encouraging technology transfers and technology advancement in target industries. For example, the Japanese International Cooperation Agency (JICA) is a major supporter of the Metalworking and Machinery Industries Development Institute, which provides technical support for small and medium-size firms in these industries, assisting them to stay current regarding technology, training, and international marketing.

Macroeconomic Performance. Fueled by foreign direct investment and macroeconomic stability, Thailand's economy and exports are booming. From 1955 - 1988, Thailand's annual growth rate of per capita GDP, 3.9 percent, was surpassed by only four developing nations: Brazil, Malaysia, Taiwan and Korea.

The strong economic performance has continued into the 1990s. Gross Domestic Product jumped by 10 - 13 percent annually in real terms in the late 1980s, slowing only slightly to 7 - 8 percent real growth in the 1990s. Exports surged ahead an astounding 23 percent annually in dollar terms since 1987, reaching \$37 billion in 1993. While the growth in exports was dampened in the early 1990s by the weak world economy, nonetheless the 1994 forecast calls for a 14.4 percent rise in Thai exports. Inflation has been controlled at a modest 3 - 4 percent per year.

Foreign investment has been a primary catalyst of the Thai economic miracle. FDI jumped tenfold during the late 1980s, and averages approximately \$2 billion each year, half from Japan.

Macroeconomic stability is the foundation upon which the Thai economy is laid. Thailand's real exchange rate has been stable since 1955. Even in the face of the bloodless coup d'etat that occurred in 1991, macroeconomic fundamentals were not utilized for political ends and commercial policies were maintained by the new government.

Thailand's economic development has lifted millions of Thais out of poverty. The number of households living below the poverty line has dropped sharply from nearly 60 percent in the early 1960s to 24 percent in the 1980s.

Market Access. Thailand's goods have Generalized System of Preferences access to markets around the world, but have preferential access only to members of the Association of South East Asian Nations (ASEAN), namely Indonesia, Brunei, Malaysia, the Philippines, and Singapore. Thailand's domestic market of 60 million consumers, with rapidly rising incomes, is a significant draw for manufacturers.

Exchange Rate Policies. Stability in the real exchange rate as been an engine of growth for Thai exports. The baht, tied to the U.S. dollar during the 1960s and 1970s, was pegged to a basket of currencies, including the U.S. dollar, in 1984. This change resulted in a 15 percent devaluation, which spurred exports. As the dollar fell in the late 1980s, the baht continued to devalue against regional currencies including the Japanese yen and the New Taiwan dollar. Thailand's currency policy stimulated foreign investment from nations in the region, particularly Japan, which found their currency appreciating versus the baht.

Import Duties and Restrictions. Import duties in Thailand range from 5 - 60 percent, and average 23 percent (trade-weighted), high relative to other industrialized nations. The government is in the process of reviewing and liberalizing import tariffs. Nontariff barriers include arbitrary customs valuations, a significant problem noted by approximately half of the foreign businesses operating in Thailand.

BRAZIL

A. Export Development Strategy

Export Successes

Although Brazil witnessed negative to sluggish growth in exports between 1989 and 1991, export levels have been improving. After a slight increase in 1991, total exports jumped 17.2 percent in 1992 to \$35.8 billion and grew at a more moderate pace of 4.7 percent in 1993 to reach \$38.8 billion. The overall average increase in export levels between 1987 to 1993 was roughly 8.8 percent. A comparison of export levels in the first halves of 1993 and 1994 show a marked improvement with exports rising 21 percent during the first six months of 1994.

Brazil exports both primary and manufactured products. Its top export earners include: Metallurgical products (\$6.1 billion), transport equipment (\$4.2 billion), soybeans (\$3.1 billion), chemical products (\$2.6 billion), and iron and other ores (\$2.5 billion). Brazil's largest export markets are all industrialized nations including the United States (\$8.03 billion), Argentina (\$3.7 billion), the Netherlands (\$2.5 billion), Japan (\$2.3 billion) and Germany (\$1.8 billion). However, Brazil's exports to developing countries have been increasing steadily over the past few years. While exports to industrial countries fell by 18 percent between 1990 and 1993, exports to developing country markets rose by 42 percent over this period.

The agricultural sector, especially the soybean industry, has been performing quite well. From 1991 to 1993, exports of soybeans and soybean products rose at an average annual rate of 27.5 percent. Producers expect this growth to continue as crop yields and demand remain high. They estimate that soybean exports will increase between ten to thirty percent in the marketing year 1994-1995.

Brazil's export programs emphasizing industrial production have been quite successful. Machine and instrument exports have risen an average of 39 percent per year from 1991 to 1993. Other industrialized products which have performed extremely well are textile products. Brazil's textile industry is the largest in South America. In 1993, total industry output grew 6.4 percent to \$19.5 billion. Of this, 7.4 percent (\$1.4 billion) was for export, a seventeen percent increase from 1991. This increase reflects a change in the type of textile product exported. A significant number of these exports are now high-value textile products such as silk blends, jeans, and suits.

Not all of Brazil's exports have done well. The footwear industry, known for producing low-priced, lower quality shoes, is facing a significant decrease in its sales abroad. The industry estimates that footwear exports in 1994 fell by roughly 38 percent. This is not a short-term

phenomenon. The decline in demand is due to increased competition from Chinese footwear producers who have been taking advantage of wage rates significantly lower than those in Brazil. Brazilian producers estimate that, in the long term, some shoe exporters will lose their overseas markets. In fact, some Brazilian shoe producers are considering relocating to China. If this occurs, Brazil would witness further declines in shoe exports.

Export Strategy

Previously known for its aggressive import substitution policies, Brazil has shifted its focus to export-led expansion. Currently, the government offers several export incentives and encourages foreign investment in labor-intensive industries, agriculture, high technology industries and those industries competing with imports.

Export Assistance Infrastructure

Brazil has several programs designed to increase its economic development. These programs focus on certain key industries and export-oriented businesses. To assist with exports, the government has established agencies which deal only with exports. The National Council for Export Processing Zones runs Brazil's processing zones and assists exporters with transportation of their goods. BEFIEX, a federal commission, is in charge of increasing Brazil's exports. It has oversight responsibility for Brazil's special export programs. However, BEFIEX itself does not have a very aggressive export promotion program. Most export incentives are offered by state and local governments.

B. Export Policy Environment

Export Business Climate

Brazil has a well developed and extremely diverse economy. Based on the free enterprise system, the economy supports many different private companies. However, government entities own important enterprises such as the public utilities, the petroleum companies, and some mining enterprises. The government has been working towards liberalizing and simplifying its trade policies and has several economic development plans in effect. As part of these plans, Brazil has begun a privatization program and is promoting investment in target industries through various incentive programs. It has also changed its export regulations. As a result, the majority of Brazilian exports no longer require prior approval.

Export Incentives. Brazil offers numerous incentives to companies involved in export activities. State and municipal governments offer most of the incentives for export production, while the federal government offers only a few. Some of the export incentives offered include:

- Exemption from the financial operation tax for deposit receipts on exports;
- Exemption from the withholding tax for overseas remittances;
- Exemption from excise and sales taxes on imports for up to two years;
- Exemption from excise and various other taxes on exports of manufactured goods; and
- Rebates for excise taxes if a company uses goods in the manufacture of export products.

Brazil also provides low-cost export financing and makes land for industrial development available at subsidized prices.

Infrastructure. Because Brazil is a large country with a very diverse terrain, developing and maintaining an adequate infrastructure poses quite a challenge. Brazil has managed to maintain a good highway system, however, its railroad system is underdeveloped. Consequently, most land travel occurs via its highways. For other methods of transport, Brazil boasts several large ports and two major international airports offering excellent freight and shipping facilities. It also has a very modern telecommunications system. Most firms communicate via faxes and electronic mail.

The level of skill and training of Brazil's labor force varies widely across the country. In some areas workers' skill levels, as well as the literacy rate, can be quite low. The national illiteracy rate is roughly 24 percent, and only a small percentage of the population, five percent, pursue higher education. In an effort to improve the skill level of its workforce, the government has been offering worker training programs. These are free and usually take place in major cities.

Tax and Interest Rate Policies. Brazil used to have a complicated and quite burdensome tax system, which it has recently taken steps to simplify. Reforms include a reduction of the tax rate on profits and royalty remittances as well as the tax on profit and dividend remittances. Brazil offers several tax incentives to certain targeted industries and companies located in free trade zones. These include tax holidays and exemptions which range from 50 to 100 percent for 10 to 20 years depending on the location and type of industry. The uniform corporate tax rate is 25 percent and there is a surcharge on any taxable income exceeding a specific level.

Brazil does allow the market to determine interest rates. Although the government has been keeping tight control over the money supply, inflation and interest rates have been extremely high (over 1,000 percent) for several years. By the end of 1993, the Bank Lending Rate had

reached 5,757 percent. In 1994, the high rates continued, and despite government intentions to maintain its tight monetary policy, interest rates are expected to remain high.

Attitude towards Foreign Investment. At one time hostile to foreign firms, Brazil's investment regime has become more open since 1990. To increase foreign investment, Brazil has decreased tax rates, simplified procedures and increased the number of activities open to foreign investment. Today, a foreign investor can:

- Invest in the securities market;
- Freely remit dividends, capital, and royalties if they have registered the investment; and
- Participate in Brazil's privatization programs.

Some barriers to foreign investment do remain. Brazil still prohibits foreign investment in some sectors including: Petroleum, public utilities, real estate, shipping and certain strategic industries. Also, an investor must register intangible goods with the National Institute of Industrial Property prior to making an investment. Some burdensome taxes also remain. Although profits can be remitted freely, they are subject to a 15 percent withholding tax. In addition, Brazil maintains its withholding tax on royalties of 35 percent.

Brazil does not offer tax concessions to foreign investors separate from those offered to domestic investors.

Free Zones. Currently, Brazil has four free trade zones: Manaus, Macapa/Santana, Tabatinga, and Guajari. Three others are in the planning stage. Most of the free trade zones are administered by the Regional Development Secretariat of the Ministry of Regional Integration.

The Manaus Zone already has generated roughly 140,000 jobs. Recently, Brazil altered the incentives offered at Manaus to create a duty-free industrial, commercial and agro-industrial center with an area of 589,334 hectares. Currently, Manaus has 462 industrial enterprises, 6,028 commercial firms and one agro-industrial district. It offers the following benefits:

- Exemption from import duties on products consumed in the Zone and a reduction of tariff rates for inputs used in production in the Zone;
- Full exemption from other duties on products consumed or used for production within the Zone;

- Ten year tax holiday for approved enterprises;
- An exemption from the tax on the circulation of merchandise if products are sourced from other countries and used in the Zone; and
- A services tax exemption or reduction.

Brazil also has export processing zones run by the National Council for Export Processing Zones. Enterprises which are located within these zones are exempt from most operating taxes and a ship freight surcharge. They are also free to import equipment and inputs without special import licenses for at least 20 years.

Intellectual Property Rights. Brazil is improving its intellectual property protection. It has toughened its copyright laws as well as given greater protection to internationally "famous" marks and pharmaceutical processes and products. However, some difficulties still exist. For example, the time period for Brazil's copyright and computer software protection is too short and enforcement of this limited protection remains a major problem.

Foreign Exchange Controls. Brazil has had a managed floating exchange rate system since 1989, and foreign investors can freely convert currency. However, all foreign capital must be registered with the Central Bank and foreign exchange earned from exportation has to be repatriated 45 days after a sale and must be sold in the foreign exchange market.

Political Stability. Brazil has a very solid government structure and no recent history of political instability. Although tourists fear crime and violence in some cities, civil disturbances affecting businesses are expected to remain extremely small in both size and number.

Macroeconomic Performance. The past twelve years have been difficult ones for the Brazilian economy. They have been marked by slow growth, falling investment and savings levels, and hyperinflation. In 1990, a government stabilization plan helped to stem surging inflation rates. Unfortunately, the plan was short-lived and high rates returned. In 1992, Brazil underwent severe policy changes and the government has been keeping tight control over the money supply. Despite these efforts, inflation and interest rates remain extremely high. In 1993, the average inflation rate reached 2,489 percent.

Real GDP growth has been weak, but it is improving. Real GDP declined by 4 percent in 1990, and grew at only 1 percent in 1992. However, in 1993, it grew at a rate of 5 percent. GDP per capita fell sharply in 1991 but has been rising slowly. In 1993, it was roughly \$2,998 and is projected at \$3,007 for 1994. The unemployment rate has remained between 4.2 and 4.5 percent.

The Brazilian government has begun a new economic stabilization program. The program entails balancing the budget, and instituting structural reforms. In the second half of 1994, it introduced a new currency. It is too early to predict the overall effect of these new policies, however, the new policies have already managed to decrease inflation. Although the projected average inflation rate for 1994 is 1,171 percent, the estimated average rate for the last two months of 1994 is only two and a half percent, a significant improvement. The estimated overall GDP growth for 1994 is two percent.

Market Access. Brazil has become a signatory to several trade regimes. It belongs to the Latin American integration association and has signed the GATT. Brazil is also a member of the Southern Common Market, MERCOSUR, with Argentina, Paraguay and Uruguay. Greater access to other South American economies has led to marked increases in Brazil's exports to these countries.

Import Duties and Restrictions. Brazil used to have major barriers to foreign goods and investment. However, since 1990, it has been liberalizing its trade regime and has managed to greatly reduce most quantitative restrictions. It extinguished its non-tariff barriers and import quotas and has been phasing out duties on most imports. Brazil has also been deregulating its ports and eliminating other tariff barriers such as licensing, approval requirements for investment plans, and domestic production and distribution quotas. Today, most imports face duties of around 15 percent, although a few have rates as high as 65 percent.

IV. INDUSTRY EXPORT PROSPECTS

A. Industry Overview

Export success is a function of many factors operating on at least three levels. National level determinants are the attainment of macroeconomic stability and appropriate laws and regulations to support exporting, along with effective institutional support systems. Sector level requirements include adequate infrastructure, interactive industry clusters, international competition, market access and other elements. Finally, firm level or microeconomic factors include the presence of firms capable of producing competitively (price and quality) and with appropriate economies of scale.

Since all of these variables must interact constantly in a complex and dynamic environment, it is practically impossible to predict the export performance of an industry with any accuracy. In reality, specialization often happens as a matter of unforeseen circumstances, and international competitiveness can only be gauged after continued and consistent export successes are recorded.

For a country of its size, endowments and position, Egypt's current level of exports is significantly too small. In addition, the composition of exports is overly concentrated in primary commodities, the international prices of which are subject to significant fluctuations. To augment Egypt's export earnings will require the nation to expand and diversify its current export base to include a larger number and variety of products and services.

In other words, to achieve the export targets desired by government and business leaders will demand no less than a significant export expansion across the board. Thus, it is critical that legal/policy/regulatory structures and institutional support systems to enhance exports should apply and be made available to all current and prospective exporters in any sector.

In developing an effective export strategy, economic theory and practice have both shown that it is inappropriate to create biases in favor of certain products at the expense of others. History is replete with examples where major errors and resource losses emerged from efforts to pick and then subsidize "winners," or to constrain identified "losers." For example, Japanese authorities for years sought to halt efforts by Japanese firms to export automobiles, based on the notion that Japanese cars could not be competitive in international markets. Moreover, today's "winners" could become tomorrow's "losers" and vice versa due to circumstances beyond the control of national industries and governments. These market circumstances could range from technological, lifestyle, demographic and other changes to the emergence of new competitors and products. Those who picked as winners horseshoes a century ago or typewriters a decade ago are long since out of business.

Maintaining a level playing field for all industry sectors is particularly important in the case of developing an export strategy for Egypt, as its current export base is too small to indicate which industries have clearly demonstrated international competitiveness. For example, dramatic export growth could be recorded as a result of a single shipment in a sector where exports have been negligible, and may not necessarily indicate export prospects in the long term. Developing discriminatory policies which favor specific sectors (e.g., export subsidies) could run the double risk of wasting scarce government resources on those which may turn out to be "losers" as well as stifling the growth of others which could have flourished in the absence of favoritism and a distorted policy environment.

That being said, experience has also shown that from a strategic standpoint, certain types of initiatives could be targeted toward industries or subsectors that hold the greatest promise for growth. To give a specific example, financial resources for proactive export promotion are limited, and since marketing experts concur that targeted marketing is much more effective than general marketing, this leads to the conclusion that scarce promotional resources should be spent on marketing the most viable export commodities. Similarly, infrastructure improvements should be based on some calculation of the growth prospects of industries to be served by that infrastructure.

Egypt is not yet at a stage where such industry-specific or product-focused efforts are possible or desirable, given the small size of the export sector. However, limited resources in export promotion, technical assistance and training could be focused on enhancing the competitiveness of certain clusters of industries in which Egypt possesses resource endowments and comparative advantage.

Looking strictly at factor endowments and comparative advantages, Egypt offers the following advantages to exporters: abundant, relatively low-cost labor; rich agricultural potential for high-value crops; and geographic position for accessing European, Middle Eastern and African markets. An initial look at Egypt's endowments suggests that some of the nation's best export prospects will be in a cluster of labor-intensive, consumer industries which do not require large amounts of new capital investment.

The recognition of Egypt's comparative advantage is especially important given the scarcity of investment funds and the paramount need to create new employment opportunities in Egypt. The table below compares the amount of investment required to create one new job in the United States in selective industries. The investment amounts in Egypt undoubtedly differ and are probably considerably lower. However, the figures provide powerful indication of the capital or labor intensity of different industries.

**INVESTMENT REQUIRED PER NEW JOB IN
SELECTED INDUSTRIES IN THE UNITED STATES 1992**

Food Products	\$ 70,000
Textile Products	\$ 75,000
Apparel	\$ 46,000
Lumber and Wood Products	\$ 88,000
Furniture and Fixtures	\$ 22,000
Paper Products	\$707,000
Chemicals	\$145,000
Petroleum Refining Products	\$1.5 million
Rubber and Misc. Plastic Products	\$111,000
Leather and Leather products	\$ 10,000
Stone, Clay and Glass Products	\$170,000
Primary Metal Industries	\$315,000
Fabricated Metal Products	\$ 50,000
Machinery	\$ 77,000
Electronic Assembly	\$117,000
Transportation Equipment	\$560,000
Measurement/Control Instruments	\$130,000

Source: *Site Selection Magazine*, February 1993.

The capital investments required per job in leather, furniture and apparel are clearly well below those in other industries. In some industries deemed to be labor intensive, such as electronic assembly, investment requirements are unexpectedly high, but it is known that in certain segments of this industry (e.g., circuit board stuffing) capital outlays can be much smaller. With some exceptions, Egypt is likely to be more successful in labor-intensive activities.

Competitive advantage derives from comparative advantage but includes additional variables. According to Michael Porter, these include the relative effectiveness at the level of the firm of "primary" activities (e.g., logistics, manufacturing, marketing and sales, and after-sale service) and "support" activities (e.g., infrastructure, human resource development, technology development and procurement).¹ Porter suggests that the determinants of national advantage fall into four categories:

¹ Michael Porter, *The Competitive Advantage of Nations*, 1990.

- Factor Conditions;
- Demand Conditions;
- Firm Strategy, Structure and Rivalry; and
- Related and Supporting Industries.

These factors are of critical importance to Egypt's export prospects, and they have been examined in support of the assessment of the export prospects of the industries highlighted in this chapter.

B. Potential Commodities for Export

A single list of products or product groupings that hold potential for export growth cannot convey important information concerning growth potential, scale, ease versus difficulty, constraints to growth, and other factors. There is a tendency for readers to view such a list simplistically as a list of "winners." The fact is that no firm, industry or nation "wins" without considerable hard work.

It is typical for countries to steer special incentives toward particular industries once these industries have been "selected" as strong export growth prospects. In Indonesia, continuing subsidies have been extended to the domestic aircraft building industry, an industry that has never achieved export success. This practice is wrong and should be avoided. Policies should be applied evenly among all export industries.

While picking winners is not useful and can prove to be counterproductive, identifying categories of industries with potential for growth based on resource endowments and comparative advantage can serve to focus promotional energies and resources. From this perspective, the following three categories of Egyptian industries/products offer clear potential for export growth. All are driven by comparative advantage but each differs in terms of timing and requirements for improvements or new investment. This division is based on the basic nature of the products identified, as well as underlying factors at work:

1. **Near-Term Export Growth Prospects:** These products (1) are based on existing comparative advantages and competitiveness, (2) are currently being exported in reasonable quantities, and (3) offer good potential for growth in the near term.
2. **Prospects for Extending Domestic Production Into Exporting:** These products are defined as possible (export) extensions of production now devoted mostly to domestic consumption. In other words, Egyptian firms currently manufacture these goods, but for any number of reasons have not succeeded in penetrating overseas markets. Privatization, improvements in competitiveness and new investment will be required.

3. **New Start Export Growth Prospects:** These products represent the next phase of Egyptian export development. World markets for these goods are large and vibrant, and Egypt possesses the potential for developing competitive advantages to succeed in these export markets, yet these advantages have not yet been actively exploited. New foreign investment in these industries will be necessary.

Before proceeding to identify products in each of these three categories, it is useful to note which export goods have grown in recent years. This gives an indication of "revealed competitiveness" in that export markets have been accessed. It also shows orders of magnitude of different export categories. In other words, exports of some products have risen significantly in terms of rates, but remain low in value. Other exports may be of higher value but have grown at lower rates.

To a certain extent, the commodities on the following table are all "winners" in that exports have grown. One should keep in mind that the year 1992, a year of "structural adjustment," was a poor year for Egyptian exports in many areas. Accordingly, it is more appropriate to examine growth between 1989 and 1992, rather than from 1991 to 1992. The products listed below include goods that fall into both the "comparative advantage-driven" category and the "domestic capacity-driven" category noted above.

The products in the following table, as well as those prospects noted in the final section of this assessment are not the only products that will experience gains in exports. Many nations and firms learn to their surprise that goods generally considered unlikely candidates for growth find strong niches in world markets. Changing world economic and political conditions, as well as aggressive entrepreneurial activity among Egyptian producers, will constantly add new products to the export growth category.

EGYPT'S MAJOR EXPORT GROWTH COMMODITIES

SITC Code	Commodity	1989	1990	1991	1992
	All	2647.8	2582.1	3692.6	3050.0
0	Food/live animals	227.3	238.0	294.3	323.7
05	Veg & fruits	149.1	143.3	162.0	162.2
054	Veg & fruits, fresh and simply prsvd ²	56.2	62.5	87.1	91.4
056	Veg prsvd, prepd	8.7	11.3	12.3	16.5
0579	Fruit fresh or dried	6.8	6.1	7.6	13.4
5	Chemicals, related products, nes	118.2	122.9	167.7	162.3
51	Organic chemicals	8.2	6.4	8.4	10.0
52	Inorganic chemicals	3.5	4.4	19.1	16.5
541	Medicinal, pharm prod	12.0	12.1	20.7	28.7
551	Essntl oils, perfume	9.2	5.4	4.6	10.4
553	Perfumry, cosmetics	15.0	40.3	34.5	10.4
562	Fertilizers, manuf	7.1	7.5	13.5	43.6
61	Leather, drsd furs	3.5	6.7	6.7	11.2
658	Textl artl nes	21.8	33.3	38.8	38.3
6584	Linens etc.	20.1	29.4	36.0	36.7
659	Floor coverings	15.7	30.8	25.0	26.8
67	Iron & steel ³	61.3	81.0	60.3	138.3
69	Metal manuf nes	32.9	40.6	40.0	52.1
7	Mach, transp equip	10.9	17.5	46.3	37.9
77	Electr mach nes	5.8	8.3	24.3	20.1
84	Clothing & access	133.5	144.4	174.6	163.5
851	Footwear	8.3	16.7	20.2	19.9
85102	Footwear leather	7.6	16.2	18.7	17.1
8939	Misc plastic article	3.8	4.2	8.8	11.5

Note: Multi-digits denote subcategories (e.g., 05 includes 054).

Source: *International Trade Statistics Yearbook, United Nations*

² Mainly consists of potatoes, tomatoes, and other fresh vegetables.

³ Growth mainly attributed to pig iron (671) and iron and steel bars (6732).

Near-Term Export Growth Prospects

The products and industries which are driven by Egypt's true international comparative advantages (labor, agricultural potential, geographic position) are most likely to record the most export growth in the near term, assuming appropriate domestic and international conditions. Most developing countries that have made the transition from traditional to more advanced exports have initiated their export thrusts by exploiting "traditional" resource endowments (usually minerals deposits and agriculture) and then shifting to utilization of abundant labor resources. For example, Taiwan shifted from agricultural exports (sugar) through the mid-1960s to labor-intensive consumer goods (garments, footwear and plywood) through the early 1980s, before turning to technology intensive exports.

From this perspective, Egypt's export prospects in products embodying current comparative advantages should include the following:

1. Garments
 - Men's outerwear (cotton, not knit)
 - Women's outerwear (cotton, not knit)
 - Undergarments (not knit)
 - Outerwear (knit, non-elastic)
 - Children's apparel
2. Clothing Accessories
3. Footwear (leather)
4. Leather Accessories
5. Household Textiles (linens, etc.)
6. Floor Coverings
7. Fresh Fruit
8. Fresh Vegetables
9. Fruit (simply preserved or prepared)
10. Vegetables (simply preserved or prepared)

Egypt has attained some access to international markets in each of these product categories, indicating that producers have met a threshold of competitiveness in terms of cost and quality. The first 6 categories encompass non-agricultural, labor-intensive consumer goods, whereas the latter focus on Egypt's agricultural capacity. It should be noted that among agricultural product exports, some are relatively "traditional" (e.g., sales of potatoes to the Middle East) and some are "nontraditional" (e.g., sales of fresh fruit and vegetables to Europe).

Prospects for Extending Domestic Production Into Exporting

Egypt has considerable domestic capacity in many industries, ranging from construction materials to chemicals to food processing. Firms in these fields have devoted nearly all of their attention to serving the domestic market, pursuing the country's import substitution strategy. Many firms have over time become very inefficient and have lagged in product quality, since the firms did not have to worry about competition. On the other hand, some firms have broken into international sales, whereas others could potentially become sufficiently competitive to begin exporting. Achieving success will for most firms require privatization, improvements in quality, and upgraded technology.

Egypt's export prospects in products in which Egypt possesses domestic production capacity and current or potential international competitiveness could include the following.

1. Chemicals
 - Organic
 - Inorganic
 - Dyes, etc.
 - Household Chemicals (soaps, cleaning agents)
2. Pharmaceuticals
3. Fertilizers (manufactured)
4. Iron and Steel (primarily pig iron and rebar)
5. Construction Materials (cement, other)
6. Aluminum
7. Electrical Machinery, Parts
8. Glass (primarily consumer products)

9. Processed Foodstuffs (primarily for Middle Eastern markets)

- Sauces and Preparations
- Jams and Jellies
- Biscuits
- Confectionery Products

10. Jewelry

Reviewers might be surprised by some of these product categories, since many of these industries are capital intensive and are known to be inefficient and/or heavily subsidized. However, many of these and related industries are differentiated, with some efficient firms and some inefficient firms. The former are much more likely to break into exporting, at least in the near term.

New Start Export Growth Prospects

A number of important export product categories are in industries essentially absent from Egypt, at least in terms of current exporting. However, an examination of Egypt's resource base would indicate that some "new starts" could yield considerable export growth in the future. Many of these items are typically part of the export strategy or success of newly industrializing countries, and warrant further investigation. Developing an export capacity in these areas will require new foreign investment or joint ventures.

Egypt's export prospects in products in which Egypt currently possesses little or no domestic production capacity but could be developed over time include the following:

1. Toys and Athletic Equipment
2. Plastic Manufactures
3. Footwear (rubber)
4. Kitchen Appliances
5. Electronic Assembly Components (mostly through subcontracting)
6. Tableware
7. Motor Vehicle Parts

8. Communications Equipment
9. Metal Manufactures

The list of products under these three categories represents a "first-cut" assessment of potential exports for Egypt, and should be subject to continued analysis, refinement and revision. Some of the exports listed will grow dramatically in the short term, whereas others will expand more slowly in the medium and long term.

Products on the list will respond to a variety of export enhancement tools. Some will increase as soon as policies improve, and others will require more tailored technical assistance to improve standards and meet export market specifications. Under changing circumstances and dynamic market conditions, some products may drop out while new ones will be added. Taken together, the exports represent a valuable set of opportunities for Egypt to generate jobs and foreign exchange, develop forward and backward linkages into the local economy and into small and medium businesses, and train the workforce.

The export prospects identified in this preliminary assessment cover a wide range of products. Those familiar with the Egyptian economy could argue that the list covers too many items, and that Egypt's prospects in certain areas identified are very limited. These points are certainly valid, but at this stage it is better to be inclusive than exclusive. In addition, as noted above, some companies in each industry (but not necessarily the whole industry) have attained a reasonable degree of competitiveness. In addition, niche markets can be penetrated in each category identified.

C. Summary of Selective Industry Export Prospects

The products listed above should not be considered to have equal prospects. This assessment does not differentiate products according to the following:

- Magnitude of current and prospective exports;
- Rates of potential growth in the near term, medium term and long term;
- Global or regional market conditions and outlook;
- Policy/regulatory constraints to competitiveness;
- Industry or firm-level constraints facing producers;

- Requirements to generate competitiveness; and
- Probability of export success.

To look in more detail at Egypt's export outlook, these important variables have been investigated in ten representative industries drawn from the high-potential industries identified above. The ten industries selected for detailed investigation were not chosen as "winners," but rather as alternatives that are representative of different types of products. In other words, other products/industries might well perform better in terms of export growth.

The ten industries include nine that produce merchandise goods, and a tenth (services exports) that covers a number of important service industries. In addition, an analysis of Egypt's packaging capabilities has been conducted in view of the importance of this vital input to export competitiveness.

In each case, the industry's export prospects and potential markets have been summarized below. The summary will be followed by detailed assessments of those industries.

Apparel. As one of Egypt's industries with demonstrated export success and good export prospects, the apparel sector could realistically triple its exports before the end of the century. The industry already has a substantial export base and has developed valuable marketing networks and sales relationships with overseas buyers.

To date, the best prospects exist in the European market. The U.S. market can also be lucrative, and should be targeted more aggressively by Egyptian exporters. The Arab and African countries also represent potential markets, especially in the light of the need for diversification. In addition, the former Soviet states could offer some opportunities if a viable barter system can be arranged. The future market niche for Egyptian exporters will not be in high-volume, low-priced apparel but one step above into the better quality, mid-range products. These would include both woven and knitted products of quality design and manufacture, and with proper packaging.

Leather Footwear and Other Products. Worldwide consumption and trade in leather footwear have grown rapidly in recent years, offering good opportunities for Egyptian producers to expand their export sales in this sector. The niche markets identified for Egyptian producers are in the labor-intensive, mid-range price segments which require a certain degree of quality. Those products will include dress shoes of more classical cuts and styles, and leather jackets and other accessories of mid-range prices. The high potential markets for Egyptian products will continue to be countries in the Middle East, North Africa, and selected countries in Western and Eastern Europe.

Household Textiles. The Egyptian household textiles and carpet sector has demonstrated its market competitiveness and its export potential with vibrant export growth in recent years. The major export markets are the EU, the United States, Japan, and formerly, the Soviet Union. The principal products are machine-made carpets, towels, bed sheets and table cloths. This sector is currently producing high-quality and competitively-priced products, and has the capacity to expand its exports given appropriate marketing assistance and improvements in the general policy environment.

Horticulture. Egypt's prospects for expanding horticulture exports are favorable if key policy, institutional and marketing constraints are adequately addressed. The best markets for Egypt's horticulture exports are mostly likely to be nations in the European Union, especially in the United Kingdom and Germany. Gulf countries should be considered as the second most important markets, as they already account for a growing share of sales. The best export opportunities will be for seedless grapes, potatoes, citrus and tomatoes. New products for which demand may be boosted by emerging consumer preference include mango, nectarine and off-season grapes. Markets for "older" products such as pineapples, coconut and bananas are nearing saturation in the European region.

Processed Foods. Opportunities for Egypt to expand its exports in this sector are reasonably attractive. Near-term prospects are best in neighboring Near East markets. There are also good opportunities in the EU markets, especially Germany, the United Kingdom and the Benelux countries, for intermediate processed foods that are in between raw products and highly processed final products. Products with good prospects include concentrated juices and bulk vegetable products such as tomato paste to Germany and the Benelux countries, and bulk edible oils for further refining or blending in markets like Italy. Additional opportunities include exports of convenience foods, particularly frozen vegetables.

Pharmaceuticals. The recent growth of pharmaceuticals exports, albeit starting from a small base, has demonstrated substantial growth potential in a sector in which production capacity has been built up over years of import substitution policy. Selected pharmaceutical products, especially in the generic categories, are judged to meet international standards at competitive prices. The best sales prospects for Egyptian pharmaceutical products will be both licensed and generic drugs in the Arab, African and Eastern European markets, as well as generic drugs to the EU, to which Egyptian pharmaceutical products can enter duty-free.

Fertilizers. Opportunities for Egypt to expand fertilizer exports appear limited. Over the medium term, fertilizer exports are likely to result in only modest but still welcome contributions to export earnings, mainly because of declining international demand. Egypt should continue to use its advantage as a producer of petroleum-based natural gas feedstock for production of nitrogenous fertilizers, but use this mainly to meet domestic fertilizer demand. Additional production should then be considered for export markets, depending on international demand and

market prices. At present, most export opportunities are likely in Asia where the great majority of new growth in demand will occur, followed by Latin America and Africa. Declining demand is likely to continue in both Western and Eastern Europe. Demand will be strongest for Egypt's nitrogenous products, ammonium nitrate and urea, and less so for phosphates such as TSP and SSP.

Electronics. The worldwide electronics industry, which is expected to grow rapidly to reach \$1 trillion in sales by the year 2000, offers considerable potential for the Egyptian exports. Although the electronics sector in Egypt is fairly new and small, primarily engaged in assembly and dependent mostly on imports for components, Egypt has the potential for establishing a competitive electronics industry in certain product segments. Several new companies are beginning to export an appreciable amount of their production to niche markets. The best market prospects for electronics products and household electrical products are mainly in Saudi Arabia and nearby Arab and African nations. There are also good prospects in Europe, especially in Eastern Europe, in the medium and long term. Best prospects exist in the assembly of electrical and electronics products, taking advantage of Egypt's competitive wage rates. The principal problem which has constrained growth in the sector is lack of investment, which hinders technology transfer and the development of market connections.

Automotive Components. While the Egyptian automotive components industry is very small and underdeveloped, the fact that some Egyptian suppliers are currently exporting small quantities of their products indicates that an export base and capabilities exist in certain market segments. The main overseas markets are neighboring Arab and African countries, such as Saudi Arabia, Libya, and Sudan. Due to the relatively low technical capability which exists in the industry, the best export prospects in the short to medium term will continue to be in the labor-intensive, less technically complex components, such as wheels, filters and tubes; chemical-based parts such as batteries and tires; and electrical, metal, and other generic parts.

Packaging. The Egyptian packaging industry, while it does export some basic packaging materials such as plastic films to surrounding African and Gulf States, is primarily a supplier of inputs to producers for the domestic and export markets. Through packaging's appearance, environment soundness, quality, protection, and other qualities, packaging can dramatically improve or harm the marketability of Egyptian exports. Currently, firms producing basic packaging materials such as plastic films export up to 30 percent of their product. Surrounding African and Gulf States, limited in their basic technologies for raw materials and packaging production, are and will continue to be good customers for the Egyptian packaging and converting manufacturers.

Services Exports. In addition to commodity exports, opportunities also exist in the services sector, which earns valuable foreign exchange for the Egyptian economy. The services sector can offer considerable synergies with other sectors, particularly as services exports increase

demand for other Egyptian-produced products. The services highlighted in this section are viewed to have short-term or medium-term potential in Egypt. They include: Data Processing and Software Development; Tourism-related Exports; Construction Services; Transportation Services; Financial Services; Cinematography Services; and Printing and Publishing.

Data processing is a fast-growing international market, currently dominated by the United States and Europe. Egypt is very cost-competitive in software development, with its technical competence highly rated in the industry. Egypt's best export prospects are: Arabization of existing software; new Arabic software; and custom software. The highest potential markets are the Gulf countries and North Africa.

In the tourism sector, good prospects for enhancing tourism to Egypt include focussing on attracting special-interest travelers to Egypt's rich historical and cultural offerings. Egypt is also well-suited to take advantage of the world boom in cruising, which could link the nation's historical and cultural sites with new "sun and sand" tourism developments. In addition, Egypt could increase its tourism receipts by tapping into the previously neglected convention market.

In the construction sector, the best prospects for Egyptian engineering services in the short term will continue to be relatively simple design projects in African countries funded by multilateral donors. These projects may include road design and construction supervision; small ports development (e.g., fishing ports); and land reclamation project design. Increasing Egyptian engineering exports will also open the door to new markets for Egyptian building materials. African and the Gulf will continue to be the major export markets for Egyptian construction services.

Egypt's central location, linking Europe, Africa, South Asia and the Far East, is a valuable economic asset that creates massive economic opportunities in international transportation. It appears that good opportunities exist in both maritime and air transport. The dismantling of policy and infrastructure barriers will be critical in restoring the transportation sector to its rightful role in generating foreign exchange as well as facilitating the export of goods and services.

Although Egypt is far from being an offshore banking sector, Egypt has as its goal, over time, to develop into a regional and eventually an international banking center. Egypt's competitiveness in international banking is likely to be linked with the nation's ability to emerge as a transport and manufacturing hub for the New Middle East, as well as for Europe and the Far East. In addition, communications infrastructure improvements will be required to provide the quantity and quality of services demanded by international banks.

The cinematography industry is the only Egyptian industry that exports 100 percent of its production, i.e., all Egyptian-made movies are distributed both locally and internationally. Egypt's best export prospects will continue to be Arabic language films and videos for the Gulf

and North African markets. Co-production with foreign film companies offer Egypt one of the most promising ways to confront its technological and market size constraints. Related to film-making is printing and publishing, in which Egypt has the potential to expand exports of Arabic language publications.

D. Conclusions

The following table summarizes the main advantages and challenges for each of the industries assessed in this report. For each industry, competitiveness factors are gauged to be a significant advantage, an advantage, neutral, a disadvantage, or a significant disadvantage. The ratings given are based on analyses of each industry and exporter interviews, and are necessarily somewhat subjective. The industries chosen do not cover the entire range of industries with export potential, but do provide inferences in a broad mix of industries and product groupings.

As would be expected, individual export sectors exhibit great diversity, with the strongest advantages of some sectors being the greatest disadvantages for others. Thus, any export enhancement program must be tailored to the specific needs of individual sectors.

Nonetheless, amid the variations several common threads can be distinguished. Quality can be enhanced across the board: Each industry would benefit from additional information on international product standards. On-time delivery is almost universally weak, leading to the conclusion that addressing Egypt's maritime transport system would grant export gains to most if not all industries. Similarly, marketing programs are an across-the-board disadvantage.

In contrast, installed capacity and technology vary greatly, with sufficient modern facilities in garments, pharmaceuticals, electronics, and tourism, and insufficient investment in most other sectors. Thus, an investment attraction program, which will yield important benefits by jumpstarting a number of industries, should be targeted.

**SELECTED COMPETITIVENESS FACTORS
AFFECTING EGYPTIAN EXPORT SECTORS**

Industry	COMPETITIVENESS FACTORS				
	Quality	On-Time Delivery	Marketing	Installed Capacity	Technology
Apparel	+	+	-	++	●
Leather Footwear and Other Products	-	-	-	++	-
Household Textiles	+	●	-	+	+
Horticulture	+	-	-	+	+
Processed Foods	+	-	-	+	-
Pharmaceuticals	+	-	-	++	+
Fertilizers	+	-	●	++	++
Electronics and Electrical Machinery	+	+	-	+	+
Automotive Components	- -	●	-	-	-
Services Exports					
Data Processing and Software Development	+	++	-	-	+
Tourism	+	+	+	++	++
Construction	-	n/a	- -	●	●
Transportation	- -	- -	- -	- -	- -
Financial Services	-	n/a	- -	-	-
Cinematography	●	n/a	- -	-	-
Printing and Publishing	+	- -	-	+	-
Packaging	-	●	-	+	-

Key

- ++ Significant Advantage
- + Advantage
- Neutral
- Disadvantage
- - Significant Disadvantage
- n/a Not Applicable

APPAREL

Apparel is a very important export sector in Egypt, earning over LE 400 million in foreign exchange for the economy in 1993. As one of the industries with demonstrated export success and good export prospects in Egypt, the apparel sector could realistically triple its exports before the end of the century. The industry already has a substantial export base and has developed valuable marketing networks and sales relationships with overseas buyers. In addition, "Egyptian cotton" has an established worldwide reputation and is becoming synonymous with high quality cotton internationally, even for textile and apparel products that are not made in Egypt. Building upon its export base and international brand name recognition, the industry has enormous potential to expand its exports dramatically over the next five years.

To date, the best prospects exist in the European market due to its proximity and high purchasing power. The U.S. import market is one of the largest and can be very lucrative, although its potential has not been fully tapped by Egyptian exporters. While demand exists in Africa, payment difficulties have rendered it a more uncertain market which might still offer selective opportunities. The Arab countries have a more limited apparel variety sales potential but still represent a potential market especially in the light of the need for diversification. The former Soviet states could offer some opportunities if a viable barter system can be arranged.

The future market niche for Egyptian exporters will not be in high volume, low-priced apparel but one step above into the better quality, mid-range products. More room in pricing will allow Egyptian producers to produce quality, labor-intensive garments for the medium-priced retail outlets. These would include both woven and knitted products of quality design and manufacture, and with proper packaging. Finding their exact market niches will require producers to invest time and effort in market research and understanding the distribution channels in target markets. Overall, products competitive in the international markets will have to meet the conditions of price, quality and delivery.

A. Overview of Worldwide Apparel Market and Trade

Rising rapidly throughout the 1980s and into the 1990s, apparel exports has been one of the fastest growing product groups in world merchandise trade. Global apparel exports grew 7.5 percent annually since 1989 to reach \$134 billion (f.o.b.) in 1992. The following table indicates the distribution of world apparel exports.

APPAREL EXPORTS OF MAJOR SUPPLIERS IN 1992 (U.S.\$ BILLION)			
COUNTRY	EXPORT VALUE F.O.B. PRICES	% OF TOTAL	ANNUAL % GROWTH 1988-1992
World	133,814	100.0	7.5
Asia	70,511	52.7	9.7
Hong Kong	20,071	15.0	9.4
Italy	12,247	9.2	6.7
China	16,736	12.5	19.7
Korea	6,869	5.1	-7.2
Taiwan	3,129	2.3	-5.6
Indonesia	3,220	2.4	29.3
Thailand	2,820	2.1	9.9
Germany	8,358	6.2	0.4
France	5,268	3.9	9.8
United Kingdom	3,660	2.7	11.6
USA	4,217	3.2	18.2
Belgium	2,359	1.8	12.6
Portugal	4,027	3.0	11.6
Turkey	4,179	3.1	11.1
India	3,266	2.4	20.1

Source: United Nations

The top five apparel exporters are Hong Kong, China, Italy, Germany and Korea, which together account for almost half of the world's total. Among developing country suppliers, China continues to benefit from a thriving exporting industry which experienced a 20 percent annual growth between 1989 and 1992, surpassing Italy as the second largest exporter. Several new players in the global garment market are also enjoying a recent export boom, including Indonesia, which tripled its exports between 1989 and 1992, and India, which more than doubled its exports during the same period. Other developing country suppliers among the top 15 apparel exporters include Taiwan, Thailand, and Turkey.

ACHIEVING EGYPTIAN EXPORT GROWTH

The major apparel markets are the European Union and the United States, which absorb two-thirds of the world exports in the sector. Japan and Hong Kong together account for another 15 percent of the total. In recent years, the EU markets have grown rapidly (at an annual rate of 13.5 percent since 1989) to reach \$64 billion (c.i.f.) in 1992. Germany, France and the United Kingdom are among the principal EU importers. By contrast, the U.S. and Japanese markets have experienced more modest growth in recent years. The high apparel income growth rates in Hong Kong reflects both an expanding market with rising income and purchasing power and the vibrant import and re-export trade between China and Hong Kong.

APPAREL IMPORTS BY MAJOR BUYERS 1992 (US\$ MILLION)			
COUNTRY	EXPORT VALUE C.I.F. PRICES	% OF TOTAL	ANNUAL % GROWTH 1988-92
EEC	66,723	43.9	13.5
USA	33,192	22.8	6.1
France	9,769	6.7	11.1
Germany	24,859	17.1	14.1
United Kingdom	7,896	5.4	13.0
Japan	11,229	7.7	3.7
Hong Kong	10,355	7.1	16.1

Source: United Nations

The Multi-Fibre Arrangement (MFA)

The Multi-Fibre Arrangement (MFA) has been the most comprehensive system for regulating international apparel and textile trade. The MFA is a code which sets general and specific guidelines on the restraints that importing countries can impose on developing country textile and apparel manufacturers. The first MFA was signed in 1973 and renewed in 1977, 1982, 1986, and 1991. Signatories to the MFA (with the EU acting as one member) include all major developed market economies with the exception of Australia and New Zealand. Egypt was a signatory to the 1991 protocol. Within the MFA framework, export quota limits (in weight or in the number of items depending on the product category) are established bilaterally between importing and exporting countries.

Initially designed to control growth of exploding textile and apparel exports from some of the major developing country suppliers, the MFA has contributed to several trends in the international apparel trade. For more advanced developing country suppliers such as Hong Kong,

Taiwan and South Korea, the MFA restrictions have forced their producers to make adaptations to maintain competitiveness:

- Quota restrictions have encouraged exporters to upgrade product quality to achieve higher unit export values.
- Many East Asian exporters have moved their production to offshore sites unconstrained by quotas.
- Product-specific quotas have encouraged diversification and the use of new fiber products.

The MFA has diverted trade from Hong Kong, South Korea and Taiwan to other developing countries. To a considerable extent, the market shares lost by the top East Asian suppliers, especially in the lower value-added market segments, have been taken up by newly developing, low-cost supplier countries such as China, Turkey, Mauritius and more recently Thailand, Indonesia and India. Egypt has also benefited from this trend in those market segments.

Agreement on Textiles and Clothing in GATT 1994

The latest GATT agreement has established a gradual phasing out of the MFA quotas over a ten-year period to bring textiles and apparel trade into the general GATT framework. Under the current agreement, member nations are immediately required to integrate into GATT 1994 products which accounted for no less than 16 percent of their total import volume of apparel and textiles in 1990.⁴ The volume of imports to be integrated will be raised to 17 percent in 3 years, to 18 percent in 7 years, and to 100 percent in 10 years.

As a result, many of the traditional apparel producers will gradually lose their quota rents while many of the emerging low-cost producers such as China, India, Indonesia, and Egypt will benefit from the overall dismantling of the quota system. However, the long phase-in period of the agreement and the limited extent of integration in the initial years imply that worldwide apparel trade will continue to be conducted within the MFA framework in the medium term. Egyptian producers argue that interim U.S. quotas for Egyptian apparel are unfairly low.

⁴ The apparel and textile products to be included are listed in the Annex to the Agreement on Textiles and Clothing of GATT 1994. They include tops and yarn, fabrics, made-up textile products, and clothing.

B. Key Competitive Factors in Apparel Exports

Price, Quality, Design, and Delivery

Traditionally, price, quality and punctuality of delivery have been considered the most important factors in the choice of suppliers from the perspective of apparel buyers. In recent years, however, the apparel market in industrialized countries has reflected an increasing emphasis towards quality, design and variety, especially in upmarket segments. Compared to the Americans, Europeans on average tend to buy more expensive, high-quality garments but in fewer pieces. The East Asian market is also emerging as an important market for higher quality, design-content clothing.

Demographics and lifestyle changes have increased the demand for more clothing varieties. For example, the expansion of women in the workforce has been the crucial factor in the growth and diversification of the womenswear market. Rising income, health-consciousness and individualism in industrialized countries have also encouraged the proliferation of the sportswear and casualwear markets.

In the apparel market where fashion and fads quickly come and go, most store buyers and importers increasingly place a premium on quick turnarounds and the reliability of deliveries.

Technology and Apparel Manufacturing

In response to changing market conditions and intense cost-competition from developing countries, many producers in industrialized countries have adopted the so-called quick response system aimed at reducing turnaround time and improving services through closer linkages between producers and retailers. In addition, technical innovations have been introduced in the production process, especially in the pre-assembly stages (e.g. designing, grading, marketing and cutting) to reduce production cost. The increasing use of Computer-aided design (CAD) systems and computerized cutting systems have increased flexibility and yielded labor and input-cost savings and reductions in turnaround time. In recent years, the focus has been on reducing operator handling of garments and work in progress through production organization.

Both the market and production organization trends indicate that labor costs have declined somewhat in importance as a competitive factor in the apparel market. Many East Asian suppliers have already adopted technological innovations and organizational changes to upgrade product design, quality and variety to offset rising labor costs.

While the shares in lower-end markets formerly held by the East Asian suppliers are now mostly taken up by the new low-cost suppliers, market and industry conditions suggest that those suppliers may eventually face competition from countries with lower wages. Thus the key to

long-term competitiveness cannot be based on cost alone but also on other factors such as quality, reliability of delivery, quick turnaround time, and flexibility in producing a variety of products.

In addition, it is critical that potential exporters understand the industry distribution channels and sourcing arrangements in order to market effectively.

Knowing the Distribution Channels

The structure of the apparel retail industry varies greatly among countries. In Germany and the United Kingdom, for example, department stores and specialized clothing chain stores account for about two-thirds of the sales. In Germany, mail order houses, hypermarkets⁵, and superstores have been gaining market shares in the last several years, reflecting the increasing need of German consumers to balance style and quality with price and convenience.

In France and Italy where consumers are more fashion conscious, the retail market is dominated by a network of small independent specialty stores. These outlets sell high-priced, good-quality garments and often have low turnover. In contrast, the Spanish clothing retail sector is rapidly evolving into an organized distribution structure. Traditional, single clothing stores as well as well-established department stores have steadily lost market shares to specialized clothing chain stores, many of which target specific market segments (e.g., Benetton).

In the U.S. market, discount chains and mail order houses have undergone rapidly expansion at the expense of traditional department stores. The trend reflects the growing importance of product value and shopping convenience among U.S. consumers. The increasing market share of specialized clothing chains such as the Limited also indicate the success of market strategies focussing on quality, design, and selection as well as value. On the other hand, traditional department stores have been plagued by leveraged buyouts, consolidations and restructuring (e.g. R.H. Macy's). The competition and growth constraints they face will continue to force those industry giants to reduce margins, and lower operating costs and overhead.

Knowing the Sourcing Arrangements in Target Markets

A variety of distribution channels are used to bring apparel from the production site in a developing country to the final market, depending on sourcing arrangements, and the types of market segment and retailer (e.g., department stores, specialty clothing chains, discount stores, etc.). Among the major sourcing mechanisms used by retailers in industrialized countries are:

⁵ Hypermarkets are large-scale stores, usually part of a chain, which sell a wide variety of products ranging from grocery to books, records, and clothes. The clothing articles carried by hypermarkets are usually in the low to medium price range.

- 1) **Purchase directly from overseas suppliers.** Large multiple chain stores and department stores often use in-house buyers, overseas offices and local agents to arrange direct sourcing to increase profit margin and product quality control. Examples are Peek & Cloppenburg in Germany and J.C. Penney in the United States.
- 2) **Use contract manufacturers** which in turn subcontract with a network of suppliers, including overseas suppliers, to fill orders. One example is the Limited chain which sources close to half of its merchandise through Mast Industries.
- 3) **Buy merchandise through associated buying offices** (through membership or shareholding) which provide centralized sourcing and distribution services. Associated buying groups often have freedom in selecting suppliers, maintain overseas offices and use local agents to coordinate production and delivery. One of the largest U.S.-based buying groups, the Associated Merchandising Corporation (AMC), has over 30 international offices with a network of 1100 employees.
- 4) **Utilize independent buying agencies.** Specialty retailers and discounters often use the services of buying offices on a commission basis to source merchandise from overseas. Usually smaller in size, buying agencies may give local agents more responsibility in coordinating production and delivery.
- 5) **Buy through local agents.** Most of the small retailers which sell high-fashion products in small volumes use agents for sourcing. They may handle very small purchase volumes, but charge a relatively high commission in return. Similar to buying groups, agents only place orders on behalf of the retailers and assume no risk in the transaction.
- 6) **Use the services of importers.** Importers are used by many medium- to low-end retailers in both the U.S. and European markets. The main difference between importers and agents is that importers select their own merchandise, pay for them and market them to suppliers, often taking more risks in the process. Importers source merchandise from a variety of production and distribution arrangements. They work on an ad hoc basis with contract manufacturers, agents and overseas producers. Sometimes importers get involved in joint-venture arrangements to finance the production process.

Generally, central store buyers and associated buying groups prefer to stay with familiar and dependable suppliers and are more reluctant to consider new suppliers unless they are very cost-competitive and reliable. They are also very sensitive to prices and quality of the garments due to the importance of maintaining store reputation and image. Many potential sourcing relationships have not materialized because of the reluctance of the new supplier to accommodate low-volume trial shipments. Comparatively, importers and agents are often more willing to consider new suppliers due to their smaller volume orders and less stringent quality requirements

for the products. Importers in particular are willing to take higher risks to try out new suppliers and sourcing arrangements which in turn may yield higher profits.

C. Assessment of Egypt's Export Prospects

Capabilities of Egyptian Apparel Manufacturing

Visits conducted by an international apparel manufacturing expert to selected plants in Egypt indicated that product quality is quite good, especially based on the observation of men's suits, which require the most labor input and quality attention. Design capability is limited to the larger firms with CAD facilities. Computer pattern making, grading and marking can be accomplished by some firms.

It is observed that some of the spreading and cutting facilities in Egypt are not up-to-date. There is a need for spreading machines such as CRA which will spread rolls of material with one operator and do face to face laying without the need to cut at each end. However, more advanced and expensive machines such as automatic electric spreading machine or a Gerber laser cutting machine setup may not be cost-effective at this point. In the cutting process, the electric up and down blade and self sharpening systems used in Egypt are observed to satisfy normal cutting requirements.

The bundling of goods by shades and color is mostly done by hand in Egypt. Increased use of computer production bundle tickets with style, color, quantity and tickets for each operation could accomplish better work-in-process inventory control and output by each operator. This method can also help produce a costing system and the use of piece work or bonus payments.

The machinery being used is from good manufacturers and is reasonably up-to-date. Factory layouts of section work for small quantity production lots showed good work flow. Where large lots were being made the line system had good movements of operations with minimum handling. Modular systems were not widely seen in Egypt but full automation is not necessarily cost-effective given Egypt's low wages.

Skills of the plant workers appeared to be adequate with motivation and good morale observed on the factory floor. However, many factory managers complained of the lack of skilled workers. Their solution has been to hire unskilled workers and provide them with on-the-job training, which could be costly and may interfere with normal factory production.

Of the list of 25 garment manufacturers provided by the Ready-Made Garment Exporters Association, firms export anywhere from 20 percent to 100 percent of the production. The factory exporting 100 percent of its production is a contractor for U.S. manufacturers performing cut,

make and trim operations on materials supplied by the buyer. Most other exporters are selling to the EU and many have been unsuccessful in penetrating the U.S. market, due in part to the quota restrictions.

Production and Export Potential of the Apparel Industry

The Egyptian apparel industry has the ability to penetrate the EU, U.S. and other markets, especially with its wage advantages in the labor-intensive garment subsectors. In particular factories with over 500 employees have the production capacity to increase exports.

Plant space existing and under construction can accommodate additional production volumes. Most plants still have open production time and most of them are only working one shift. However, one constraint would be the difficulty and cost of recruiting and training skilled workers. Transporting workers to the factories in the industrial zones remains expensive, but those costs could be alleviated by structuring different starting times to enable greater use of existing transportation arrangements.

With improvements in the cutting department production output, the factory machinery currently available can accommodate quality improvements and production expansion for exports. Prompt delivery can be accomplished with proper supplier coordination, better factory production scheduling and improved floor management. In addition, export capacity could be expanded by subcontracting with small manufacturers, given proper quality supervision especially during the sewing and finishing stages. Smaller factories can also enter into cooperative agreements with a distributor/exporter to enter the export market.

High Potential Markets for Apparel Exports

To date, the best prospects exist in the European market due to its proximity to Egypt and its high purchasing power. Currently accounting for over 90 percent of Egypt's total exports of clothing and accessories, EU represents an established market which also provides the opportunity for higher prices with lower c.i.f. and landed costs. Europeans are more inclined to buy mid-range priced apparel compared to U.S. consumers even though they tend to buy fewer pieces. With its large population, high incomes and purchasing power, Europe should be the prime marketing target for Egyptian producers to increase exports. In general, European retailers have the following list of basic requirements for doing business:

- fresh and innovative merchandise suited for the current market trends;
- merchandise that meets high quality standards consistently;
- prompt delivery, with huge markdowns for late arrivals; and
- products tailoring to regional tastes and requirements.

Considerable potential also exists in the U.S. market, which is one of the world's largest and can be very receptive to imports from developing countries, especially in Asia. Egypt currently ships under five percent of its apparel exports to the U.S. In general, U.S. buyers are more volume and price conscious than EU buyers. Egyptian exporters should pursue the U.S. market more aggressively in the mid-range priced apparel groups rather than compete in the high volume, low-priced chain store garment market, which is firmly held by exporters from countries in East and Southeast Asia and the Caribbean.

There is also unmet demand in Africa. However, payment uncertainties have rendered Africa a more marginal market which might still offer selective opportunities. The Arab countries have a more limited apparel variety sales potential but still represent a potential market, especially in the light of the need for diversification.

The former Soviet Union used to be an important market for Egyptian apparel, although most of the business was done on a barter basis between government agencies. With the political breakup and economic disintegration in many of the republics, the Newly Independent States are probably not the most viable markets for export expansion in the short term. However, it may be wise for Egyptian producers to retain some presence in the former Soviet markets even if trade has to be conducted through a barter system. The former Soviet states could become a good potential market in the longer term.

High Potential Products

The future market niche for Egyptian exporters will not be in volume low-priced apparel but one step above into the better quality, mid-range products. A number of Egyptian manufacturers have found that in trying to obtain volume business, they are often underpriced by exporters in the Far East, the Caribbean, India, China and other established exporters. Particularly in industrialized country markets in which quotas restrict imports by volume, it would make more sense for Egypt to move upmarket in order to maximize export sales value. Efforts should instead be directed to medium-priced, labor-intensive cotton apparel.

Medium-ranged pricing will allow Egyptian producers to produce quality, labor intensive garments for the medium-priced retail outlets. These would include both woven and knitted products of quality design and manufacture, with proper packaging. The attached chart of "Principal Apparel Products Categories" represents the standard garments being sold today in most of the global markets. Many of the items are made of cotton and some of nylon, synthetic/cotton combinations and wool. Specific products which should be considered by Egyptian producers include:

- naturally 100 percent cotton raincoats, jackets, outerwear, active wear, jogging suits, broadcloth or flannel shirts;

- knitted cotton sweater, cardigans, pullovers, and active wear;
- two-ply sweaters of 70 percent cashmere and 30 percent wool;
- cotton terry and patterned velour bathrobes;
- plaid flannel/fleece quilted shirts, dress shirts and pajamas, and lounge wear; and
- satin and cotton lingerie, robes, and undergarments.

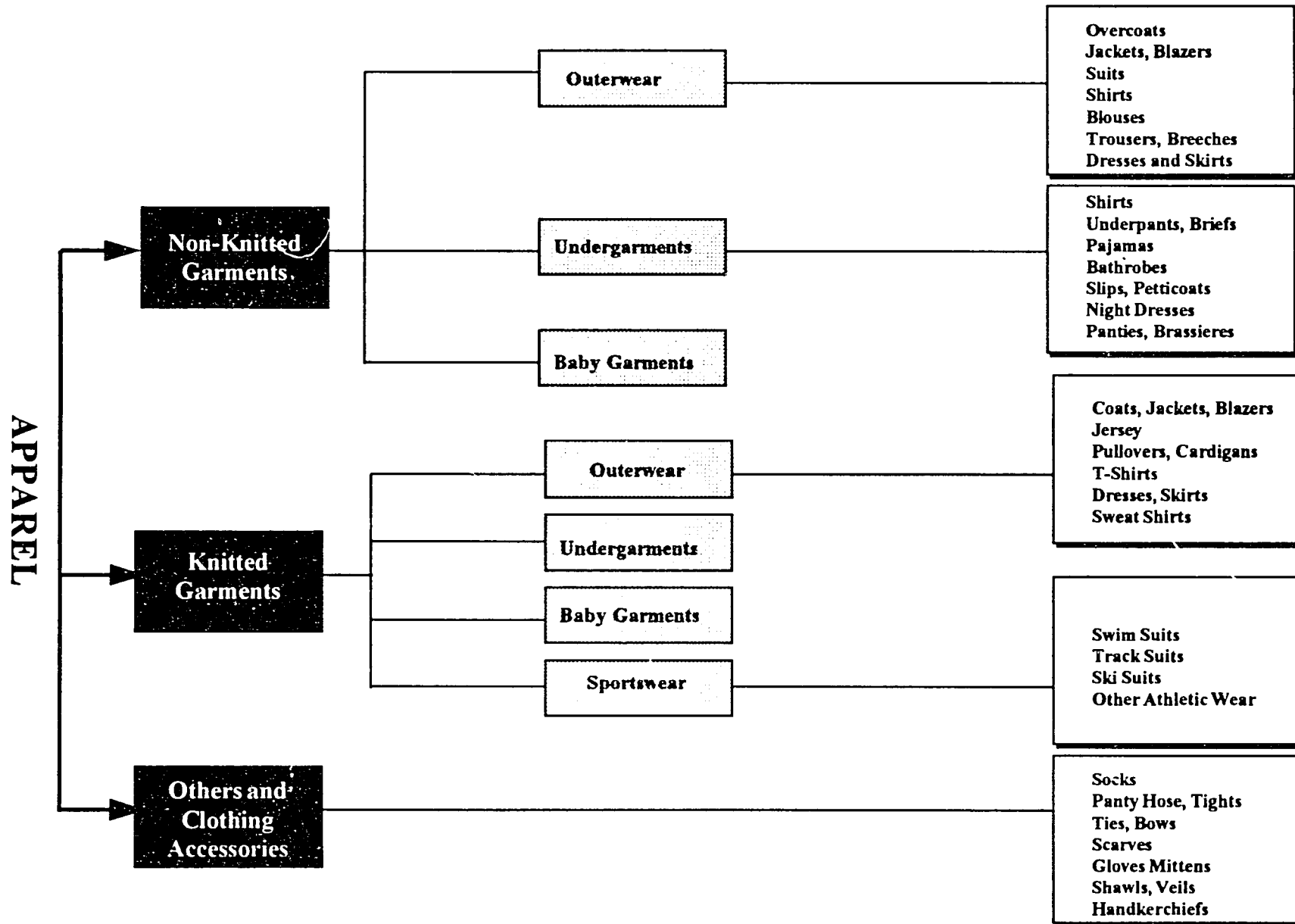
Wool products or combinations in outerwear can be a higher-valued export line of products which is now being sold in the United States in small quantities and could be increased. The European market can be sold a quality wool outerwear line in mid-price range. In contrast, apparel accessories exports should not be pushed because they are generally much less labor intensive than apparel products.

Quality Considerations

Finding the exact market niches will require Egyptian producers to invest time and effort in market research and understanding the distribution channels in target markets. Overall, products competitive in the international markets will have to meet the conditions of price, quality and delivery. If the quality and delivery requirements of the buyers are not met, price usually becomes irrelevant.

Quality requirements are determined in the long range by the "ultimate consumer" who sets standards for current styles, fit, materials, color, and construction of the apparel. Quality considerations start with selecting the basic materials for the design of garments to meet current fashion trends, with suitable trimmings and construction. Another critical factor is the reliable supply of quality inputs and components for the garment. To manufacture a quality product, it is important to implement quality assurance in every step in the production. Quality requirements in the factory should demand that each operation is performed properly before the material is passed on to the next operation. The worker performing operation number one should view the worker performing operation number two as his immediate customer and so forth. That way, mass quality inspections at the garment completion will only be a final check as each operation had its proper quality control.

PRINCIPAL APPAREL PRODUCT CATEGORIES



D. Elements of a Successful Export Enhancement Strategy in Apparel

Given worldwide industry trends, competitive structure, and sourcing mechanisms, the greatest challenges for existing and potential Egyptian apparel exporters are to produce cost-competitive and quality garments in a timely manner, and to establish and strengthen information channels to gain information on markets, fashion and production technology. An effective strategy for Egyptian producers to increase their apparel export sales should have the following characteristics:

1. Enhance the capability of Egyptian producers to meet the requirements in a competitive market.

As a important first step to expand export sales, it is imperative that Egyptian producers have good products to promote to potential buyers. In the apparel industry, meeting market requirements would mean using quality inputs (fabric, threads, accessories such as button and zippers etc.), developing capabilities to meet product specifications (such as cut, style, color, and fabric), meeting quick turnarounds in a reliable manner, and doing so at competitive costs. Assistance in developing those capabilities and skills transfer are sometimes accomplished through international subcontracting arrangements.

In terms of inputs, the current cotton production may have to undergo substantial modifications into using thick yarns (No.-40) to produce the kind and quality of cotton products desired in the international markets. In addition, yarn mill prices may have to be stabilized to avoid frequent seasonal price increases so that factories can meet existing export contracts with projected costs of materials. This will enable exporters to offer more realistic and competitive prices to obtain contracts.

Quick response is needed in the apparel business to fulfill contracts on short notice. Delivery of garments can be made more efficient and reliable by incorporating some technological innovations such as CAD which enables faster design, costing, pattern-making and grading. Early line planning is vital to the execution of rapid product development, and should include variables such as the number of potential styles; colors, quantity and material and trim requirements for each style; and estimated costs and sale prices.

2. Leverage training resources at the Fashion & Design Center in Cairo

While many factory managers interviewed indicated the lack of trained workers as a serious constraint, most did not appear to know about the existence of a Fashion & Design Center

in Cairo.⁶ Established by the Textile Industries Holding Company with collaborative assistance from the Fashion Institute of Technology, New York, the Fashion & Design Center provides training programs in the following areas at reasonable costs (e.g., LE 200-250 per instruction level):

- fashion design
- pattern making
- pattern grading and marking
- garment manufacturing technology
- fashion marketing and merchandising
- window display and exhibit design
- computer usage in fashion designing

The curriculum is reportedly quite flexible and can satisfy the needs of apparel manufacturers for specialized training. The existing training resources at the Fashion & Design Center should be leveraged through coordination and co-sponsoring training workshops by export developing institutions such as the Egyptian Export Promotion Center.

3. Increase market knowledge to identify niche markets in which Egyptian products are competitive.

As the apparel market becomes increasingly diversified and fragmented, it is important for Egyptian importers to assess their relative strengths in various product categories. The fact that the major apparel exporters worldwide include industrialized, newly industrializing and developing countries proves that producers with varying cost structures can all be competitive in different niche markets. This task has been performed by the Egyptian Export Promotion Center and the Trade Development Center in the past, but only sporadically. The Egyptian Commercial Attache posted in potential markets could also take a more active role in conducting periodic market research in selected sectors, including apparel, and disseminate results to the suppliers through export assistance institutions such as EEPC and TDC.

4. Gain access to information on production technology and organization.

Staying up-to-date with the technological and organizational innovations in the industry (e.g., automation, buyer-supplier communications, computer-aided design, etc.) is critical for producers to gauge their competitive strengths and meet market requirements. While many of the technological innovations are more relevant for upmarket suppliers in industrialized and more

⁶ The Fashion & Design Center is located in the center of Cairo City, El Taher Street, Abdin PO Box 190 MOH, Farid Cairo, Phone: (02) 390-32-38.

advanced developing countries, Egyptian producers may selectively adopt them to improve their production flexibility, reliability and efficiency. CAD computer facilities, for example, can save significant time and costs in styling, fabric selection and color coordination by eliminating the need for sketches, creating first patterns, fabric sample cuts, sample sewing, etc. On the financial side, more rapid standard costing of a piece of garment could be made with existing software programs to obtain final production costs. Financial constraints on increasing investment could be mitigated by encouraging foreign investment and joint venture arrangements in the sector.

5. Increase exposure to international apparel buyers

Since most apparel buyers prefer to work with existing suppliers and are wary of new ones, it is important that Egyptian manufacturers increase their visibility in the international apparel market and make contact with potential buyers. The principal channels to achieve this include:

Trade Shows and Trade Missions: They provide opportunities for Egyptian suppliers to establish contact with a variety of purchasing sources, display their product range and capabilities, answer questions, and receive trial orders. They may help Egyptian producers to deepen their understanding of market trends, demands, and production technologies, and provide opportunities for Egyptian producers to collect intelligence on their overseas competitors and to gauge their own competitive positions in the market. Examples of some major international trade shows include the **Bobbin Show** in the United States, **It's Cologne** and **Import Fair Berlin** in Germany, **Intermoda** in Lisbon, Portugal, and the **Hong Kong International Apparel Fair**.

Company Visits can be effective in developing personal contacts and communicating to buyers that Egyptian producers are interested in doing business. Since overseas visits could be very costly, the suppliers most likely to benefit are those who have established a product line, who could provide samples, and are ready to accept trial orders. To reduce costs, Egyptian exporters can schedule company visits around major trade shows and follow up on the leads collected during the shows. Experience has shown that exporters who vigorously follow up on their trade show leads with personal visits are most likely to turn them into real sales.

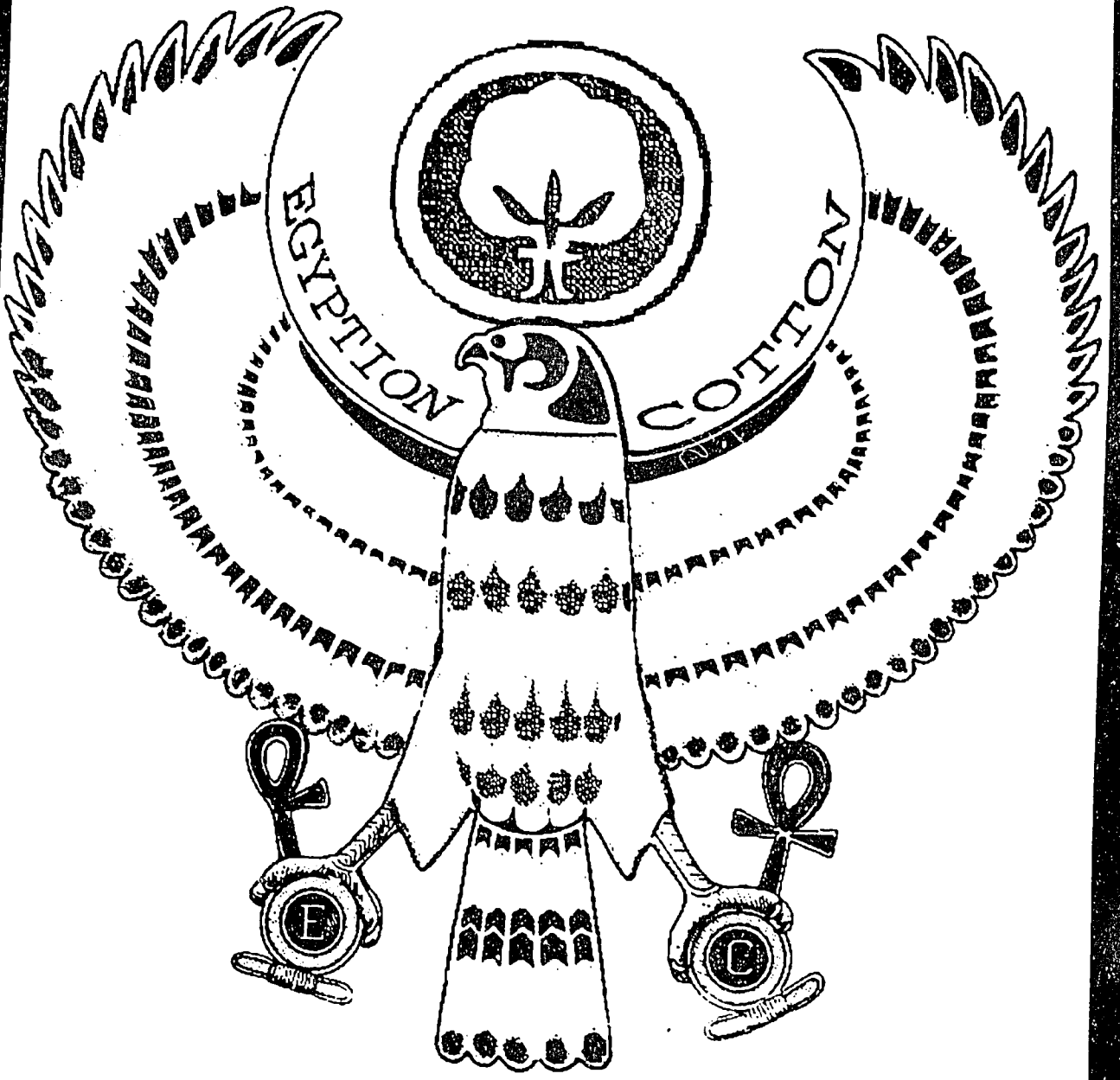
Advertising in apparel trade journals has been confirmed by research as a cost-effective means to reach target audiences. Examples of leading apparel publications with wide industry circulation include the **Bobbin Magazine**, **Daily News Record** and **Women's Wear Daily** in the United States and **Textile Wirtschaft** in Germany. Placing advertisements in apparel magazines is very expensive, however. Thus it is important that producers research and target those issues of the journals which feature their specific product lines when they place advertisements.

6. Enhancing the global image of Egypt's apparel products

Egyptian cotton has already developed a global image as a high quality product, and the term "Egyptian cotton" has become synonymous with the best cotton in the international markets, even for products not produced in Egypt. The Egyptian apparel industry is thus in the position to build on the reputation of Egyptian cotton to create an image of quality for Egypt's apparel products, especially in all-cotton apparel items. An effective means is to establish an easily recognizable logo or a brand name to represent the Egyptian apparel industry, which could be attached to all Egypt-produced garments as a label. An illustrative logo developed by the Fashion & Design Center in Cairo is provided in the following page. A logo can be used for product identification and acts as an easy marketing tool for Egypt. It could also help to create product differentiation. This method has been used with great success by the Cyprus Potato Board to promote potato exports.

7. Become familiar with the major buyers, major distribution channels and the specific garment retailing structure in target markets.

The importance of knowing the market and sourcing structure cannot be overemphasized. As discussed in the previous section, the garment sourcing mechanisms vary greatly by country. Depending on the market segment and the country, different buying channels (central store buyers, associated buying offices, agents, importers, etc.) should be targeted. The market structure and distribution systems in the major markets are provided below.



E. Apparel Market Structure and Distribution Systems in Europe and the U.S.

BELGIUM

The import market in 1990 was \$2,530 million with an estimated annual growth for the next 3 years of +3%.

Best Sales Prospects

Ladies & Girls:	trousers	+16%
	shorts and short pants	+59%
	polo's	+12%
	t-shirts, sweat shirts	+12%
	blouses	+10%
	jeans	+13%
Men & Boys:	suits	+21%
	coats	+12%
	beachwear	+ 1%
	shorts and short pants	+19%
	polo's, t-shirts, sweat shirts	+17%

Distribution Channels in 1989

Chain stores accounted for 30.1% of total sales volume; boutiques 26.5%, and supermarkets 21.3%, with mail-order markets and others doing the balance. Importers usually have a margin of 30%, wholesalers 30%, retailers between 30 and 100%.

DENMARK

Lingerie -- May 1991 research shows that this market is expected to grow at an annual rate of 10% from \$11.5 million in 1990 to \$19 million in 1994. Best sales prospects include brassieres, bodysuits, underwear, nightwear and homewear of stretch-lycra/cotton.

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Distribution/Business Practices

Making contact with Danish trading partners will have to take place in Denmark, at one of the large European fairs such as Igedo in Dusseldorf or Pret-a-Porter in Paris.

There are an estimated 400-500 lingerie outlets and about 300 perfumery/cosmetics shops. Department stores and retail chains account for about 55% of the market and lingerie outlets 45%.

Distribution to a large extent is handled by agents and distributors. Agents working on commission will charge 10%. A stocking distributor in his calculations would add from 50 to 100%. The retailer is likely to add from 100-200% to his purchase price. Additionally, there is the 22% VAT.

Financing will vary considerably, depending on agreement, such as volume, customer demand, and credit rating. A retailer will often have a 30-day credit, or pay cash against a 5% discount.

GERMANY

Imports of yarns, fabrics, apparel, and home textiles in 1989 amounted to \$22.6 billion. It is estimated that imports of textiles and apparel will continue to increase to \$39 billion in 1993.

The wholesale and retail trade are already actively establishing contacts with partners in the East. This is especially true of the larger chains, such as Hertie, Horten, Quelle, Woolworth, Spar and franchise outlets like Levi's. Worldwide, Germany is the second largest importer of textiles and apparel after the U.S.

Major suppliers of cotton yarns were Turkey, Greece and Italy. Fabric imports in 1989 were \$5.4 billion with the major suppliers being Italy, Benelux and France. Apparel imports totalled \$13.3 billion in 1989, with the major suppliers being EC countries, 12%; Hong Kong, 9.8%; and the U.S. playing a minor part in the German market.

Egypt cannot compete on price alone. The best prospects for exporting textiles and apparel are in the niche and prestige products not adequately supplied by other sources.

Trade Promotion Opportunities

Participation in international trade fairs in Germany is an outstanding vehicle for entry into this highly competitive and sophisticated market. Igedo/Igedo Dessous and Munich Fashion Week are considered the world leaders in trade shows in the international fashion fair scene. According

to a survey, 37% of orders in women's wear are placed at regional fashion marts, 29% at fairs, 22% at in-house presentations and 12% at hotel shows.

Best Sales Prospects

Carded cotton yarns, combed cotton yarns, cotton fabrics/greige goods, finished cotton broadwoven fabrics, terry towels/luxury quality, men's sportswear, men's athletic wear, women's fashion dresses (also in large sizes), women's fashion coordinates, and in large sizes, women's lingerie, and women's swim/beachwear.

Distribution

The appointment of sales agent would usually be the first step in entry into the German market. Commissions may range from 7% to 12%, according to price levels and expected sales volume. Sales offices of agents are in the major fashion marts and are located in Hamburg, Hanover, Dusseldorf, Neuss (near Dusseldorf), Eschborn (near Frankfurt), Sindelfingen (near Stuttgart), Nuremberg and Munich.

Buying cooperatives play an important role in the distribution of merchandise. The advantage of large volume buying results in price discounts which are then passed on to the retailer. The two large buying cooperatives are:

Arno GmbH Alt Eschersheim 34, 6000 Frankfurt 50, Phone: (069) 18007 Fax: (069) 517182 Contact: Klaus-Dieter Gehm, Gen. Mgr.

Einmar Einkaufs GmbH, Lutherplatz 1, 6070 Langen Phone: (06103) 21038 Fax: (06103) 21077 Contact: Ludwig Friedrich, Gen. Mgr.

SWEDEN

Sportswear is the market sector that offers the best opportunity for high-quality, innovative apparel. In 1987 total private consumption of apparel in Sweden amounted to \$4.8 billion, including \$480 million in sportswear. Imports account for approximately 91-92% of total consumption of apparel in Sweden.

Competitive Position

Portugal is the largest supplier of apparel. Imports of medium-style, medium-price apparel comes mostly from Finland, Denmark and the United Kingdom. The low-wage countries of the Far East and India are other important sources of basic, low-priced merchandise.

Distribution

The major sales outlets for apparel are approximately 7,100 specialty stores, accounting for 78% of sales, with the department stores accounting for 16%, and the mail order houses, 7%. For active sportswear, the general sporting goods stores now account for 50% of total sales.

Most retailers prefer to do their buying through local agents/distributors. It may therefore be important for the manufacturer/exporter to appoint a local agent. The large chains also buy directly from the exporter and frequently visit international trade shows for this purpose.

The premier promotional vehicle is the Stockholm Fashion Show held each year in March and September. The number of exhibitors average 850, showing approximately 5,000 collections to 18,000 trade visitors.

Best Sales Prospects

Best sales prospects include men's and boys' knit sport shirts, men's and boys' outerwear/non-tailored, women's knit outerwear, and socks. The products with the greatest sales opportunities include specialty wear for jogging, skiing and hiking. Casual sportswear, rather than tailored or fashion outerwear, represents an opportunity. These opportunities exist where the styles, novelty and strong brand image merchandise attract consumers who are willing to pay a premium for such products.

SWITZERLAND

Clothing retailers throughout Europe have witnessed an increasing emphasis on casual, informal styles. The Swiss are no exception to the trend of unconventional, functional sports, casual and leisurewear.

Swiss importers concentrate on the specialized trade including independent retailers, multi-branch clothing stores and upper priced department stores (Globus, Jelmoli, Bon Genie). This group absorbs close to 50% of the total market.

Egyptian exporters should abstain from trying to sell direct to retailers but should rely on a locally established sales agent or wholesaler. Mail order houses and the giant food and supermarket cooperative chains (Migros and Coop) often carry unlabelled or own-brand items of middle-to-lower price category. The multinational and highly successful Dutch group, C&A, with 30 stores in Switzerland, relies on some 20 long-term suppliers of whom only 2 or 3 will be replaced in the course of a year.

Best Sales Prospects

These include sweatshirts, T-shirts/ensembles, functional hiking/trekking apparel, sports jackets, blue jeans, warm-up/jogging suits, bike shorts, western apparel, flannel shirts, army type casual wear, and hunting/fishing/survival apparel.

Distribution

As turnover time requirements become shorter, a reliable distribution network preferably from a central warehouse in Europe would be ideal. Except for single transactions, the letter of credit procedure should be avoided.

Sales people are mainly free-lance and work on a commission basis of 7-10%. Large multi-branch clothing store chains and department stores often expect foreign suppliers to at least contribute to costly, full-page advertisements in newspapers and women's trade magazines.

Trade Promotion Opportunities

Buyer weeks and new collection showings are organized twice a year by "Trade & Fashion Center Zurich", a complex with permanent showrooms of 350 firms of which 100 are dealing in sports, leisure and casual wear.

UNITED KINGDOM

The import market of children's wear dominates the U. K. scene with imports of \$1,750 million. Estimated real growth of 8% is calculated for the year. According to recent surveys, the United Kingdom will soon have more children than any other European country.

Best Sales Prospects

Clothing fabric should preferably be natural which indicates cotton rather than synthetic. Fashionable clothing is a major purchasing determination. Boys' wear is currently one of the areas most in demand. Sales prospects for both sexes are: Trucker jackets, jeans, shorts, little girl dresses, sweatshirts, casual shirts, dungarees, skirts, T-shirt dresses, sweaters and blouses.

Competitive Situation

Relatively cheap imports come from the Far East, and some of the more expensive brands from France, Italy and Holland. Chipie, Chevignon and Oilily are European companies much in evidence in the children's wear marketplace. The French company Oilily has now established the U. K. market as its third largest customer worldwide, with an annual turnover of over \$5 million in the U. K. alone.

Trade Promotion Opportunities

Important trade fairs include: Junior Fashion Fair, Olympia, London and Junior Fashion Fair, Earls Court, London - Organized by Blenheim JFF, 71/73 Great Portland St., London WIN SDH, Phone: 011/4471/323-3302. The National Children's Wear Association organizes these events.

FRANCE

France, with a population of 56.6 million, has a traditionally high level of per-capita consumer spending. Paris, home of 16.5% of the nation's households, remains the place to be for international retailers. The new movers and shakers in the retail industry who operate on lower profit margins and offer wider product assortments and different brand names than any of their European neighbors, are dramatically changing the traditional forms of distribution in France. Major distribution channels in 1992 of women's ready-to-wear are as follows: Independents with 46.7% of the market, multi/chains with 21.6%, mail order 11.6%, department stores 6.0%, etc.. In men's apparel independents accounted for 46.7%, multi/chains 24.2%, hyper/supermarkets 10.4%, department stores/discount 5.8%, markets/street vendors 4.5%, mail order 4.3%.

Among the fastest growing franchises, CAMAIEU (225 stores for women, 70 stores for men), CELIO (102 stores for young men), KOOKAI (trendy stores for women), NAF NAF and ETAM (180 owned stores and 63 franchises) are the ones who have hit the right note with consumers.

Deep discounters like HALLE AUX VETEMENTS, HYPER AUX VETEMENTS, and VETIMARCHE are playing an increasing important role. The department stores are slowly losing market share, such as PINAULT-PRINTEMPS who acquired LA REDOUTE (mail order and stores) and GALERIES LAFAYETTE who purchased the 90 store NOUVELLES GALERIES.

Image/Promotion

Independents: Good location and well promoted branded merchandise are the main selling tools of this channel of distribution. Advertising takes the form of product displays in shop windows and the widespread distribution of product brochures given to customers.

Multi/Chains: This group promotes the "shop" concept which is heavily oriented towards private level merchandise that is sold 30 to 35% cheaper than comparable branded products.

Department Stores: This group relies heavily on newspaper and billboard advertising, special events, and large quantities of brochures handed out at entrance, exit doors and at information desks.

Service

Independents: For fashion merchandise, orders are placed well ahead of the season in small quantities (6 units per style and shade on average). Timely delivery is expected. These independents buy from domestic distributors or agents who invoice in French francs.

Multi/Chains: This group stresses central buying, private label, and the replenishment of fresh merchandise during the selling season.

Department Stores: Department stores buy centrally by merchandise classification. Purchase orders are placed six months in advance of each season for basic products which are sourced in the Far East; two months lead time is normal for products sourced in Europe and two to four weeks lead time for apparel which is selected from available piece goods.

Characteristics of Desired Apparel

Sellers must be familiar with the product lines being offered. Buyers are asking for casual and leisure wear as can be found in THE GAP (U. S. chain retailer) and jeanswear. A vendor's ability to offer fresh merchandise 8 to 10 times a year is very important to Multi/Chains. Department Stores are looking for jeanswear, streetwear, and niches in lingerie such as nightwear and loungewear.

BEST AVAILABLE DOCUMENT

Margins

Store Category	Multiples of Cost
Independents	2.4
Multiples/chains	2.0 - 2.4
Department stores	2.2 - 2.4
Popular chain stores	2.0
Hypermarkets/supermarkets	1.8 - 2.0
Mail order	2.4

Commissions

Agents commissions are 10% and distributor commissions are 15-30%.

Payment Terms

Standard for Independents is 60 days, end of month; for Department Stores it is 90 days, end of month.

Price Points

Product Category-Basics	Price Point/Ranges (US\$)
Jeans	\$35.25 - 53.00
Men's shirts	17.50 - 21.00
100% cotton sweaters	22.85
Linen/cotton slacks	69.50
Woven tops	35.00
Dress shirts	35.00
Skirts	45.00
Women's jackets (private label)	70.60
Lamb's wool sweaters	52.95
Women's linen/cotton slacks	52.95

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ITALY

Italy has a population of 57.8 million with apparel purchases of 5.5% of disposable income in 1993, below the European average of 6.5%. Italy is a prime market for any apparel vendor who is able to meet the consumer wants for style, quality materials, and attention to detail.

Retail

Apparel retailing is still dominated by single unit independent specialty stores, in spite of growing competition from new retail formats such as franchised concept stores and hypermarkets. During 1993, Milan lost 10% of its independent apparel retailers (700 out of 7,000 closed their doors), whereas approximately 4% folded in the entire country (5,000 out of 120,000 closed their doors).

The Independents have a 70% market share and Multiples/Chains have only a 12% market share. It is expected that the restructuring of the Italian apparel retail industry will take a minimum of 3 to 5 years and that only the independent retailers who are able to adapt to the consumers' desire for affordable yet fashionable apparel will survive.

Franchises like STEFANEL and MAX MARA and newcomers like PINKO are doing very well with their private label, segmented merchandise. As of 1993, 120 apparel franchisers and 3,600 franchisees are active.

Image/Promotion

Independents: This group depends on their reputation for carrying stylish and quality merchandise of mostly branded apparel. They depend on word of mouth and familiarity with customer tastes.

Multiples/Chains: This group is attempting to establish a concept store image in which quality, price, freshness, and an attractive shop environment are given equal importance. The Benneton group is a good example of franchising stores following this formula.

Department Stores: This group strongly promotes store image and wide merchandise selection. Promotional activities are moving to in-store catalogs, brochures, billboards, and newspaper advertising.

Service

Independents: 90% of purchases are made well in advance of each season. They complain about the unwillingness of vendors to take small orders at the start of the season combined with a replenishment possibility during the season.

Multiples/Chains: This group emphasizes central buying, private labels and requires fresh merchandise to be delivered in the season.

Department Stores: This group uses central buying. Open to Buy is growing and buyers are pushing for vendors who are willing and able to:

- Replenish inventory from factory stocks throughout the season.
- Maintain inventory of rolled piece goods, ready for cutting.
- Replace non-moving merchandise during the season.
- Lease floor space within stores and sell their own product lines.

Characteristics of Desired Apparel

Independents: They are looking for less formal tailored or dressed-up casual merchandise which can attract the younger generation. Donna Karan and Calvin Klein as well as the new generation of Belgian designers were mentioned often fill that slot, provided that the price points come within the reach of the consumers.

Multiples/Chains: This group requires private labeling designed for their specific customers; fresh merchandise during the season at moderate to upper moderate price levels. They desire basic casual and basic leisure wear such as found in THE GAP and BANANA REPUBLIC, and this same apparel with a fashion twist for their private label program.

Department Stores: This group requires fashion that gives a youthful impression, priced at moderate levels, both branded and as private label merchandise. They are looking for "American" jeanswear, active wear, and men's and women's fashion accessories.

Margins

Independents and Department Stores work on a multiple of cost of 1.8 to 2.0 while Multiples/Chains work on 2.0 to 2.2. Commissions of agents are 10% and Distributor commissions are 15-20%.

Payment terms are 60 to 90 days. Discounts of 5% are offered for 30 day payments and 120 to 180 day payments are more the rule.

Price Points

The following price points are for moderate private label goods.

Product Category	Price Point/Range (US\$)
Men's wool sport coats	\$155.60
Dress pants	55.60
Ladies' wool sweaters	55.60 - 61.90
Wool skirts	34.40
Men's blazers	93.10
Safari jackets (100 % wool)	99.50
Men's cotton slacks	36.85
Cotton skirts	30.60
Blouses	43.15
Marino wool sweaters	44.0

PORTUGAL

Portugal has a population of 10.6 million people. Lisbon (1 million people) and Oporto (500,000 inhabitants) attract shoppers from wide areas surrounding each city and are the centers for apparel retailing.

A massive change is taking place in retail formats for food, housewares and apparel. The small independent apparel retailers who had 76% of the market in 1993 are finding consumer resistance to perceived high prices and frustration at the lack of merchandise assortment and fresh merchandise. To make matters worse, they are feeling the effects of intense competition from the new retail formats the past few years.

The Hyper/Supermarkets are growing fast as powerful foreign retailers enter the Portuguesc market. JUMBOS (Portuguese), CONTINENTS (Spanish) and MAKRO (Dutch) are the dominant players. Apparel accounts for 10% of their sales with basic and closeout merchandise.

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ZARA (Spanish), SPRINGFIELD (Cortefiel-Spain), and PULL & BEAR (Spanish) offer basic fashion merchandise at moderate prices to segmented target groups. Monthly or bi-weekly offerings of new merchandise are partly responsible for consumer draw.

Service

Independents: These stores order fashion merchandise twice a year for Fall and Spring, imported mainly from France or Italy. They expect 2 week delivery for re-orders in basic merchandise from both local and European vendors.

Multiples/Chains: These are characterized as mostly central buying, private label, frequent fresh merchandise, no replenishment after existing stock is sold.

Hypermarkets: These prefer central buying, preferably in container size quantities to Distribution Center. They expect a minimum of 12 inventory turns.

Desired Apparel

Independents: These will carry any line that is branded and heavily promoted. They depend on vendors' support to create demand and traffic in the store. In general, their moderate merchandise is 60% branded and 40% store label.

Multiples/Chains: These demand private label merchandise, designed for their specific age group and sex. Their designs follow the store trends.

Activewear, Western style tops and bottoms, swim and beachwear (catering to the tourist areas like Estoril), and lingerie are in demand. In niche markets, such as activewear, expect a small demand and select an importer or distributor who covers that segment.

Margins

Merchandise classification	Multiple of Costs
Bridge and Designer Merchandise	2.2 - 2.5
Better and moderate	1.8 - 2.0
Multiples/chains	1.8
Hypermarkets	1.3
Importer	1.45 - 1.50

Sales Commissions

Retailers, mainly in Lisbon or Oporto, can also act as agents to independent retailers in other parts of the country. These retailers carry lines on an exclusive basis and receive a 15% commission on sales.

The standard sales agent commission is 10%.

Payment Terms

Retail - 90 to 105 day drafts.

Price Points

The following prices refer to moderate, primarily store-label merchandise. Prices include 17% VAT.

Product Category	Price Range (US\$)
Men's suits	\$115 - 165
Dress shirts	25 - 32
Sport coats	87
Women's blazers	65
Blouses	35 - 52
Denim Jackets	63
Wool sweaters	54 - 60

SPAIN

Spain has a population of 39 million and is struggling with a deep recession. Although the growth of consumer spending slowed since 1991, consumer purchases of apparel products are rapidly approaching the levels of the rest of Europe.

Madrid and Barcelona, and the large trading areas which surround them, account for nearly one fourth of the nation's population. Madrid has a formal dress code, whereas Barcelona, which has been strongly influenced by the Olympic Games, tends towards a more relaxed dress code.

Retail

Foreign retailers, mainly French owned, jumped at the opportunity to establish their Hypermarket or Supermarket formats in the Spanish market. The squeeze on independent retailers is less obvious here than in Italy and Portugal due to the growth in consumer spending.

The Independent Stores current share of the market is 60%, and they still play an important role in the better bridge and designer merchandise categories. Companies like Versace, Zegna, and Armani have their own stores in Madrid. Other independent retailers are supplied with wide merchandise assortments by strong apparel manufacturers.

Hypermarkets, like PRYCA (70% owned by Carrefour), ALCAMPO (French owned), CONTINENT (part of Promodes), EPARCOR (owned by Corte Ingles), and EROSKI are capturing an increasing share of consumer spending. (Apparel accounts for 15% of sales but is rapidly approaching 20%).

Mature Specialty Retailers such as CORTEFIEL and newcomers such as ZARA are opening "concept" stores which are either company owned like SPRINGFIELD, MILANO, WOMENS SECRET, and PULL & BEAR, or franchised like DON ALGODON (ZARA is primarily franchised). Their merchandising formula offers a limited selection of basic fashion merchandise at moderate price points to target consumer groups. Monthly or bi-weekly sales of new merchandise are contributing factors to the increased store sales.

BENNETON, LAS REDOUTE, STEFANEL, and C&A BRENNINKMEYER are some of the foreign-owned players in the specialty apparel group.

Department Stores lost market share (1989 - 20.5%; 1993 - 15%) and are diversifying into new retail formats. The main players in this group are Corte Ingles (20 large stores) and Galerias Preciados (31 small).

Image/Promotion

Independents: These depend heavily on good location and promotion of primarily domestic and some foreign branded merchandise through advertisements in newspapers and brochures.

Multiple/Chains: These promote the store concept, and offer mainly private label merchandise to the very price sensitive Spanish consumer.

Hypermarket: These heavily promote the store name, attracting a cross section of consumers through weekly newspaper advertising of food, housewares, and apparel at low prices.

Department Stores: These promote a broad assortment at high and moderate prices with strong customer service. Branded merchandise represents approximately 40% of the mix but is decreasing to 30%, while store labels are running 60% and growing to 70%.

Service

Independents: Independents continue to order fashion merchandise twice a year (Fall and Spring) from domestic sources. France and Italy are the main players in the import market. Stores expect a maximum of 2 to 4 week delivery for reorders of basic fashion merchandise.

Multiples/Chains: These are characterized by central buying and central distribution. Bar coding and uniform shipping and wrapping standards are important. Purchase orders to the Far East are placed one year in advance while seasonal orders are written six months before the season starts.

Department Stores: These also exhibit central buying and central distribution. They expect a minimum of four inventory turns for apparel products.

Characteristics of Desired Apparel

Independents: Independents carry branded lines and look for dressed up, casual apparel from their domestic sources.

Multiples/Chains: Multi/chains emphasize private labels designed for moderate price points and need frequent fresh merchandise during the season.

Department Stores: Department stores seek branded designer merchandise and affordable branded and private labels in all classifications.

Hypermarkets: Hypermarkets specialize in basic in all classifications, end of season, and distressed merchandise for special promotions. Average turns are 26 times.

Price Points

The following prices refer to moderate, store-label merchandise. Prices include VAT.

Product Category	Price Point (US\$)
Denim shirts	\$22.50
Denim jackets	52.00
Polo shirts	18.50
Cotton dresses	22.50
Bermuda shorts	22.50
Cotton sweaters	29.75
Leather belts	17.95

Margins

Store Type	Multiple of Costs
Independents	1.8 - 2.2
Multiples/chains	1.7 - 1.9
Hypermarkets	1.4 - 1.7
Importers	1.4 - 1.5

Agent commissions are 10%, and standard payment terms are 90 days, although hypermarkets are known to pay cash or very short terms for distressed or end-of-season merchandise.

UNITED STATES

In the U.S. market, discount chains and mail order houses have undergone rapid expansion at the expense of traditional department stores. The trend reflects the growing importance of product value and shopping convenience among U.S. consumers. The increasing market share of specialized clothing chains such as The Limited also indicate the success of market strategies focusing on quality, design, selection, and value. On the other hand, traditional department stores have been played by leveraged buyouts, consolidations and restructuring. The competition and growth constraints they face will continue to force industry giants to reduce margins, and lower operating costs and overhead.

The U.S. market should be pursued aggressively in the mid-range apparel groups rather than compete in the high-volume, low-priced garment import market. Despite the low Egyptian wage scale, it would be difficult to compete with exporters from the Far East, India, the Caribbean, Thailand, and other producers entrenched in the U.S. market.

To penetrate this market will require visits to the U.S. and much research into the apparel retail market. One of the first tasks should be the appointment of a sales agent who has connections with major buyers and is knowledgeable in the import market.

Having a local U.S. sales representative will enable the Egyptian manufacturer to learn about the market. All the recommendations of quality, timely delivery, fast response, and competitive prices are musts for market entry.

The fastest way to gain a foothold is to obtain connections with established U.S. manufacturers and undertake to do cut, make and trim (CMT) with their material and accessories. This direction will permit the Egyptian vendor to avoid problems of design and sizing.

The large department store chain buying offices such as Associated Merchandising Association and the Federated Stores can also furnish designs and technical assistance in meeting quality specifications and other requirements. The Limited store chain can be approached through Mast Manufacturing.

J.C. Penney and Sears should be approached for the mid-range price level of very high quality apparel. Egyptian manufacturers should not hesitate to produce private label merchandise.

Trade missions from Egypt to the U.S. and missions from the U.S. to Egypt will be a very important avenue for obtaining U.S. buyers. Personal contacts are very important to start business relationships, and must be maintained constantly. Attendance at trade fairs both in the U.S. and in Europe will give access to new buyers.

Finding Egypt's niche will not be easy and will require a long-term commitment. Attaining projects sales goals will required an open mind, market research, a good agent, and investment in travel and time.

LEATHER FOOTWEAR AND OTHER PRODUCTS

Worldwide consumption and trade in leather footwear have grown rapidly in recent years, offering good opportunities for Egyptian producers to expand their export sales in this sector. Leather footwear in particular is a large manufacturing sector employing over 130,000 employees, and its export potential has been demonstrated in the almost eight-fold export increase between 1988 and 1992. Based on factory visits made by industry experts, the production facilities in Egypt are judged to be capable of producing at competitive costs for several niche markets in leather footwear and other products.

While existing capacity would allow producers to perhaps double their current export sales, Egyptian producers may find it difficult to compete with the established producers in Asia, the Caribbean and South America in the low-priced, volume markets. The niche markets identified for Egyptian producers are in the labor-intensive, mid-range price segments which require a certain degree of quality. Those products will include dress shoes of more classical cut and styles, and leather jackets and other accessories of mid-range prices. The high potential markets for Egyptian products will continue to be countries in the Middle East, North Africa, and selected countries in Western and Eastern Europe.

A coherent strategy for enhancing sales in the leather sector would include: (i) Improved access to raw materials; (ii) Improving the global image of Egyptian leather products; (iii) Export-oriented investment promotion; and (iv) Worker training.

A. Overview of Worldwide Footwear Market and Trade

Worldwide trade in leather footwear has grown rapidly in recent years, at an annual growth rate of 10.6 percent between 1988 and 1992. In 1992, leather footwear exports totaled \$24.6 billion (f.o.b.), accounting for 79 percent of all footwear exports. During the same period, leather manufacturers also experienced vibrant export growth (12 percent annually) to reach \$3.7 billion in 1992. Footwear parts (leather uppers, soles, etc.) accounted for 82 percent of world trade in leather manufactured goods.

Over the past decade, industrialized countries have gradually lost production and export shares in leather footwear to low-cost developing countries. Currently the four largest exporters of leather footwear producers are Italy, China, Korea and Hong Kong, which together account for over 53 percent of the world's total.

In just four years, China has surpassed Korea, Taiwan and Hong Kong to become the second largest leather footwear exporter. Among developing country producers, the last several

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years witnessed a shifting of high volume, low-cost footwear manufacturing from Korea to Thailand and Indonesia, making these countries important new sources of footwear in Asia. The principal reasons for the shift are low wages, labor peace, political stability, and an adaptable workforce.

Similar trends are observed in the world trade of leather footwear parts. Traditional, industrialized country producers such as Italy, Germany and the United States have lost market shares to low-cost producers such as Hong Kong, China, Hungary, Tunisia and Thailand. The largest exporters in leather footwear parts in 1992 were Italy, Hong Kong, Germany, India, China and the United States.

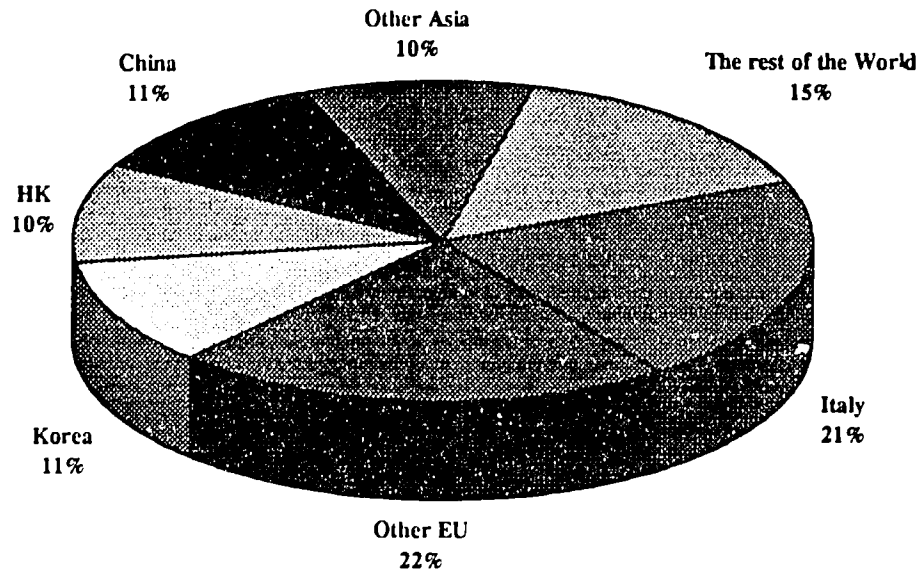
Industrialized countries import the bulk of leather footwear products. The European Union, the United States and Japan account for three quarters of the world's total. Within the EU, Germany and France are the major importers. Recent years have witnessed a rapid expansion of the Asian leather footwear import market, which grew 22 percent annually between 1988 and 1992. In contrast, the EU and the U.S. import markets only showed modest growth of 8.5 and 5.5 percent respectively during the same period.

A smaller share of the world's import of leather footwear parts is accounted for by industrialized countries. The EU and the United States imported under half of the world's total in 1992. China and Hong Kong together accounted for another 18 percent and their import share has grown steadily in the past five years.

Trade Barriers

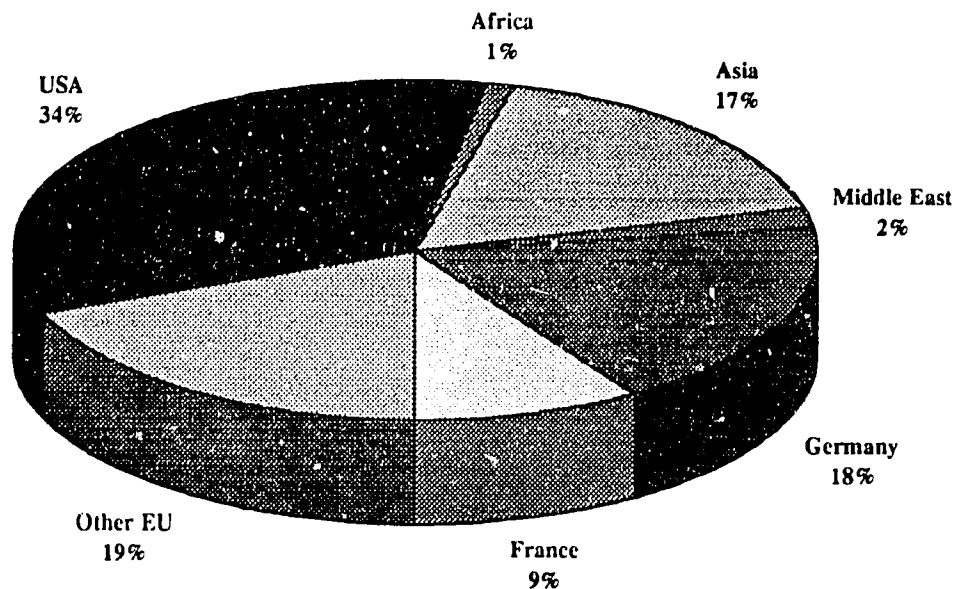
Tariff rates on leather footwear in industrial countries are moderate. The past-Tokyo Round MFN (most-favored-nation) bound external tariff for the EU was established at 8.0 percent on leather footwear and 4.6-5.8 percent on footwear parts. The dramatic increase of footwear imports into the EU has prompted several European countries to obtain voluntary export restraint (VER) agreements from developing countries. Examples of such agreements include the VER negotiated between Italy and Korea and Taiwan in 1987. Those agreements, both of which expired in the early 1990's, have encouraged many Korean and Taiwanese manufacturers to move production offshore to other Asian countries not subject to VER (such as Thailand and Indonesia), or to enter the European markets through countries such as Belgium and Netherlands. Currently, footwear is an import item subject to surveillance measurements in the EU, allowing EU the right to impose quantitative restrictions if export from a certain country rises dramatically. To date, quantitative restrictions have only been applied to footwear exported from China.

LEATHER FOOTWEAR EXPORTS WORLDWIDE 1992



Source: United Nations

LEATHER FOOTWEAR IMPORTS WORLDWIDE 1992



Source: United Nations

In the United States, the MFN duties on leather footwear range from 0-10 percent ad valorem. The General System of Preferences (GSP) status allow many developing countries, including Egypt, to pay only 3.7 percent ad valorem on leather uppers for footwear imported into the United States. However, footwear itself is excluded from duty-free treatment under GSP. Compared to Egypt, countries benefiting from the Caribbean Basin Initiative have the advantage of paying duties only on the value-added for footwear made of U.S. components. The U.S. footwear industry has made several attempts since 1985 to have Congress pass footwear import quotas legislation, but Congress failed to override Presidential vetoes. It is unlikely that further attempts will be made.

B. Key Competitive Factors in Footwear Exports

Price is the principal competitive factor in leather product exports, especially in the market for low-priced footwear in large-volume sales. Buyers in this market tend to switch suppliers based on slight differences in wholesale footwear prices. Rising labor costs in the Asian NICS in recent years have prompted industrial country buyers to switch to more cost-competitive suppliers in less developed countries for the lower-end products.

Quality is becoming an important determining factor in footwear and leather sourcing. Quality requirements may vary with product categories and market segments. For example, expensive leather shoes are expected to wear well, to be made from high-quality material and to reflect the latest trends in fashion.

A recent trend is increasing consciousness and sensitivity towards quality and fashion, even for medium-priced products. A contributing factor to this trend is the growth of designer labeling, which places greater emphasis on the exclusiveness of the design and quality of the products sourced from overseas producers.

Many industrial country buyers have complained about defects in footwear sourced from developing countries, such as unevenness between the left-side shoe and the right-side shoe in size and weight, unreliable color fastness, deformed uppers, and defective adhesion between soles and uppers. Increasingly, producers who choose to ignore quality, design and fashion will only be competitive in the low-end markets based primarily on costs.

Timely and reliable delivery is especially crucial for new suppliers to establish good reputations, secure repeat orders and foster long term relationships with buyers. With rapid and seasonal changes in footwear fashion, incomplete or late delivery often means large markdowns, cancellation of the entire order, or loss of future sales.

Production and Technological Trends

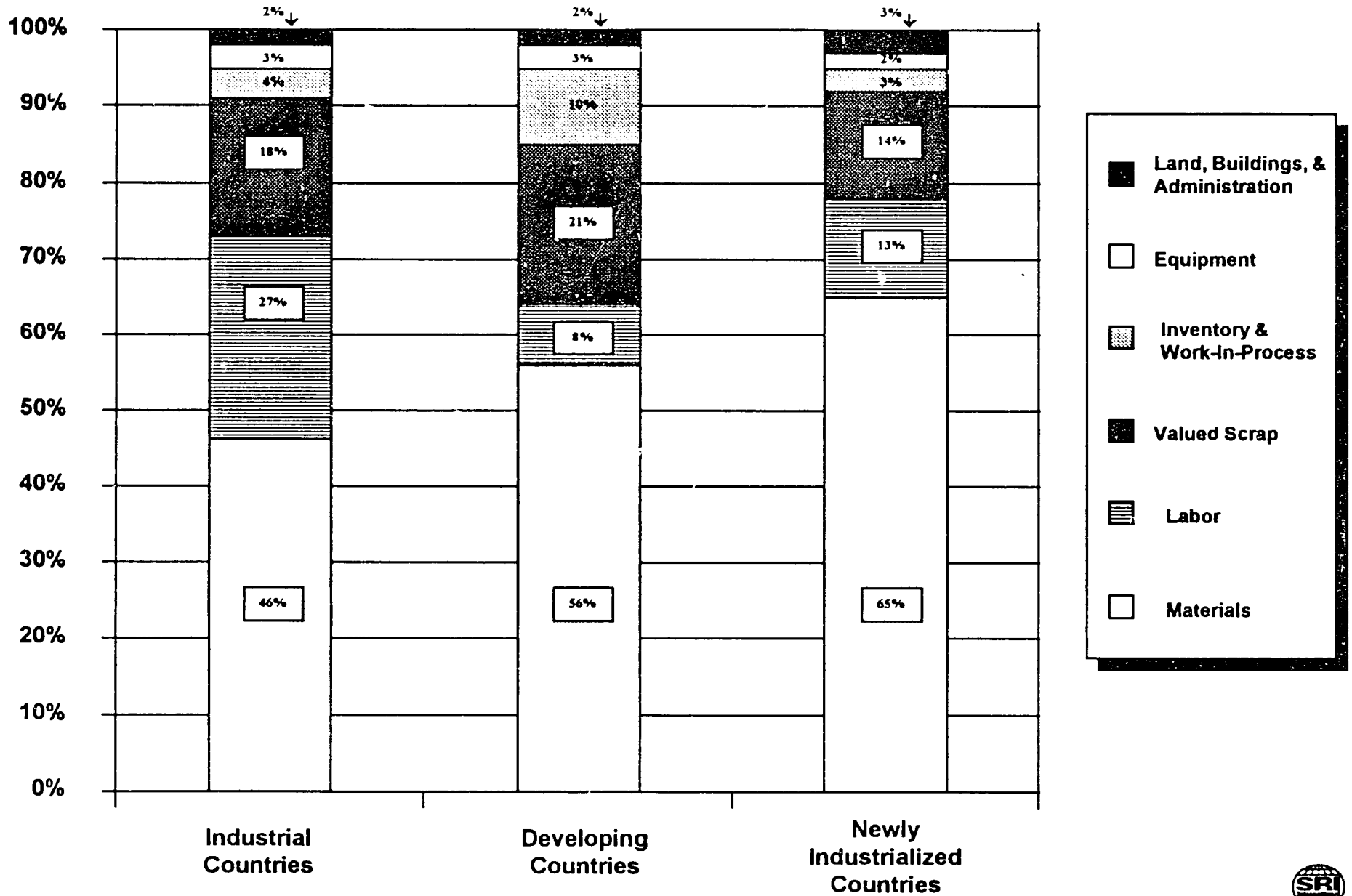
The competitiveness of newly industrialized countries in manufacturing footwear has largely been based on their labor cost advantages. A World Bank study comparing the production cost of a men's leather dress shoe across countries found that labor accounts for a significantly smaller share of production costs in developing countries (8 percent) than in newly industrialized (13 percent) and industrial countries (27 percent). However, the cost share of valued scrap, inventory and work-in-progress is much higher in developing countries, suggesting room for improvement in streamlining production and reducing material wastes. See the following production cost breakdown.

Forced out of the low-end footwear market due to their high labor cost structures, many industrial country producers have focussed on special or high quality footwear with superior design and craftsmanship. Many have also taken advantage of the market trend towards quality, design and quick delivery in adapting production innovations to offset their cost disadvantages, among which are the so-called quick response system and microelectronic technology.

Quick Response (QR) encompasses a set of organizational mechanisms aimed at achieving timely delivery through partnership between raw material suppliers, manufacturers, and retailers. Studies indicate that footwear production from order to delivery, can be reduced 60 percent through a QR program by combining reduced inventories, shorter production runs, and streamlined production techniques. QR techniques have also helped producers cut cost by improving quality control, and reducing material wastes, surplus materials and inventories. Heavily dependent on management information technologies such as electronic communications, QR has become popular in manufacturing in several industrial countries, including Japan, the United States, the United Kingdom and Australia.

In addition, microelectronic technologies have transformed footwear production in stages ranging from design, closing, bottom stock preparation, making and finishing. In particular, computer aided design (CAD) has yielded cost savings in the design stage, as well as the conversion of designs into patterns for producers. The adoption of CAD to introduce automation in design and grading is possible without a company having to automate manufacturing at the same time. In recent years the cost of CADs has also declined with the proliferation of the smaller personal computers (PCS). A description of some of the major microelectronic technologies in footwear production is provided in the following page.

LEATHER SHOE PRODUCTION COST COMPARISON



Source: World Bank



MAJOR MICROELECTRONIC TECHNOLOGIES FOR FOOTWEAR PRODUCTION

TECHNOLOGY	DESCRIPTION	LABOR IMPLICATIONS
Computer-aided design (CAD)	Shoe styles can be depicted rapidly on a screen. CAD is also used to derive measurements for component parts of a shoe prior to its production.	Unit labor requirements can be greatly reduced compared to the manual process.
Microcomputer-based management systems	Includes standard accounting and administrative programs, leather measurement systems, databases for piecework prices, components and materials stock control systems, production scheduling and finished stock control systems.	Reduces the requirement for white-collar workers. Provides the opportunity to increase responsiveness to market needs and to reduce costs.
Computer-controlled stitching	Most advanced stitching is on micro-processor controlled machines. The machines--used for functional and fancy stitching--stitch automatically with plug-in modules that contain stitching patterns.	A productivity increase of at least 25 percent is associated with some decline in employment and replacement of skilled workers by semiskilled operators. A mechanic can often be trained to program the modules.
Numerically-controlled (NC) upper roughing machine	The machine automatically directs a brush in roughing part of the shoe upper to provide a base for cementing.	Unit labor are slightly lower than for manual roughing, since operator may perform other work after machine is set in motion. Operator skill requirements are also reduced.
Forepart pulling and lasting machine with microprocessor control	Automatic size determination and positioning assure precise cementing of upper to the insole.	Unit labor requirements and skill requirements of operators are reduced. Programming can be easily mastered by workers with experience in lasting.
Injection molding machine with microprocessor control	Automatically molds a shoe bottom from thermoplastic or polyurethane to the upper.	Injection molding eliminates steps and is therefore much less labor intensive. Automatic loading feature may eliminate one operator on a molding machine.
Sole laying press	Machine automatically determines the contour of shoe's bottom and adjusts for heel height to assure that shoe is accurately positioned before permanent attachment of sole to shoe bottom.	Less operator skill is required and quality of output is improved over that of machines without automatic adjustments.

Source: U.S. Department of Labor

Despite their potential benefits, the diffusion of technological innovations footwear production has been limited for several reasons. First, due to the complexity of footwear design and construction, many production processes do not lend themselves to automation. For example, automating stitching has proven difficult due to the variety of stitches and shapes especially in short runs and more complicated stitchwork. In addition, worldwide demand continues to be strong for quality dress shoes and shoes of traditional design and construction, which require traditional methods of production involving skilled workers.

In the short to medium term, leather footwear production is expected to remain labor-intensive and labor cost will continue to be a competitive factor especially for the low-end market segments. In the long run, it is possible that industrial country mass producers could gain a comparative advantage over current developing country producers by better integrating production technology into footwear design, manufacturing and delivery, particularly in the high-end segments.

Sourcing and Distribution Channels

Knowledge of the distribution structures, the major sourcing mechanisms and the market segment requirements in the target export markets is critical to successful export promotion. This information allows producers to choose market niches that best match their production capabilities and export experience. This kind of information also would help potential exporters select the appropriate audience to target promotion and marketing.

Most leather footwear and leather accessories are imported by three groups of buyers: Retailers, domestic manufacturers, and importers or wholesalers. Sourcing is usually done through subcontracting, although in recent years joint ventures and licensing have become more common. Joint ventures are more often used by European and Asian buyers than the United States. A typical sourcing pattern for leather footwear and accessories is illustrated in the figure in the following page.

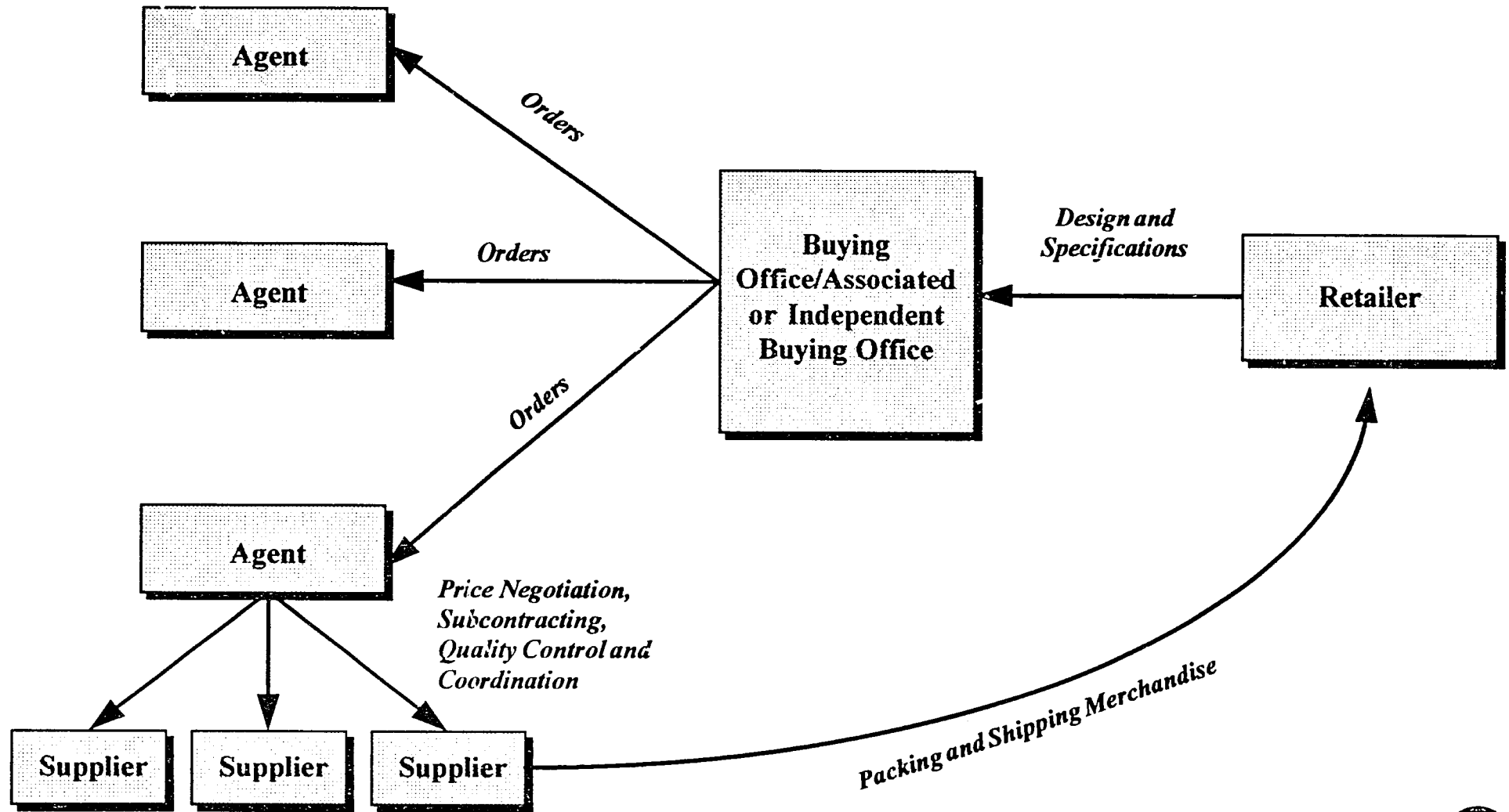
Retailers. A variety of sourcing methods are used by retailers, depending on their size and the market segment they serve. Large retail chains often source through their own buying offices (including overseas offices). Small retail chains or retailers generally buy leather footwear and other accessories through associated or independent buying groups, or buy through importers or wholesalers. Associated buying groups generally only service members or shareholders, while agents work on a commission basis.

In European countries, central buying groups are very popular. In Germany, the major groups are Garant Schuh, Ariston, Rector, and Nord-West Ring. These buying groups have extensive networks of overseas offices and local agents and may independently select suppliers and footwear styles for their retail clients. Garant, for example, offers its clients a selection of about 1,300 footwear styles from 400 suppliers each season.

In France, large retail chains and central buying groups account for about 30 percent of footwear imports. Except for major chains, retailers are reluctant to carry large stocks and prefer to rely on stocks held by central buying groups and importers. French buyers usually prefer to stay with existing overseas producers and rarely visit potential new suppliers.

The U.S. import market is dominated by volume retailers and domestic manufacturers. Leading mass merchandise chains such as J.C. Penney and Sears have their own buying offices overseas. Many retailers also use associated buying agencies, the largest of which is Associated Merchandising Corporation (AMC), which provides both product development services and undertakes sourcing for retail clients. Some of AMC's activities are illustrated the box below.

TYPICAL SOURCING PATTERN FOR LEATHER FOOTWEAR AND ACCESSORIES



Illustrative Activities of the Associated Merchandising Corporation (AMC)

AMC serves a consortium of over 50 department store and national chain shareholders. AMC supplies many of the top U.S. department stores including Dayton Hudson, Mervyn's, Bloomingdales, Marshall Fields, and Woodward & Lothrop. AMC maintains over 32 overseas offices, staffed by merchandise representatives familiar with the structure and production capacity of the local industry. They develop their expertise through market research, trade shows, consultation with trade associations, and most importantly, by word of mouth.

Merchandise designs are usually produced by AMC in collaboration with retail clients. Once the designs are determined, merchandise representatives identify producers who can deliver the particular line footwear and the quantity wanted by the retail client. AMC will first request samples before placing a final order with the overseas manufacturer. The merchandise representatives are also responsible for quality control, with their overseas offices technicians working with factories to achieve the desired quality levels.

Manufacturers. Over the past ten years, many industrial country manufacturers have responded to import competition by expanding into retail operations and have in fact become major importers of leather footwear and accessories. This trend is the most pronounced in the leather footwear sector in the United States. Domestic producers buy finished footwear, which they resell through their own retail operations or to other distributors.

To take advantage of the lower wage rates in developing countries, many producers ship cut footwear parts to low-wage countries for the most labor intensive part of the production such as sewing the uppers. Once the shoe is back in the United States, less labor-intensive operations such as bottoming, finishing and packing are performed. Major U.S. manufacturers that have shifted their production operations overseas are the U.S. Shoe Corporation, Fisher Camuto ("9 West"-brand), G.H. Bass Co., and the Brown Shoe Co. These companies have sourced heavily from Brazil, the Dominican Republic, and Taiwan, and more recently China, Thailand and Indonesia.

Many European manufacturers have sourced footwear from overseas suppliers through joint ventures or direct investment. German manufacturers, for example, have long made use of low-cost producers by setting up their own factories or through joint ventures in countries like Austria, Portugal, Russia and China. The articles are sold either to wholesalers or through the manufacturers' own retail shops.

Importers and Wholesalers. Importers and wholesalers are important sourcing channels especially for leather products in the low-end market segments. Importers usually buy merchandise from overseas and sell it to wholesale distributors and retailers. Most importers have long-term contracting relationships with their suppliers and require exclusive production rights.

Often they also provide technical assistance to the suppliers through all stages of production and handle the delivery logistics and distribution of the final product.

In Germany, importers and wholesalers tend to specialize in footwear from certain areas, for example from Italy or East Asia. They supply both independent retailers and the centralized purchasing organizations of the large retail chains and buying groups as channels for importing footwear.

In France, importers are responsible for 50 percent of imported footwear. French importers usually demand exclusive production rights. Often importers also are distributors for French manufacturers. When visiting supply countries, French importers will seek the services of export agents who assemble the footwear for inspection and accompany the importers on factory visits. These agents are required to arrange export documentation and shipment of the goods.

Importers are less important in the United States, accounting for less than one-quarter of the footwear sourced from overseas.

C. Assessment of Egypt's Export Competitiveness

Egyptian Industry Overview

The leather industry is the fifth largest industrial sector in Egypt, with total production of over LE 1,800 million in 1992. More than 250,000 people currently work in some 30,000 small, medium and large enterprises. The leather sector contains three main industries: Tanning; shoes; and other leather products.

As the backbone of the leather shoe and leather products industries, the 350 or so tanneries (mainly in Cairo) are the main source of leather components necessary for use in the downstream industries.

Footwear. In 1992, the footwear and components industry produced 65 million pairs of footwear valued at LE 1,200 million. The shoe and components industry consists of 30 fully mechanized factories, 200 semi-mechanized factories and about 25,000 small workshops, employing over 130,000 workers. It is estimated that 30 percent of the employees working in fully mechanized factories are women. Shoe factories are concentrated in four main areas: Cairo; Alexandria; 10th of Ramadan City; and 6th of October City. These factories produce all types of shoes: mens', ladies', childrens', infants', casual and sport shoes. Egyptian producers are currently manufacturing some international brand shoes, including Bally and Adidas.

The export potential of the Egyptian footwear industry was demonstrated by the dramatic rise in exports between 1988 and 1992, as the exports of footwear increased from just LE 9.5 million to LE 73 million. The main markets were Saudi Arabia and other Gulf countries, the former USSR, Romania and other East European countries.

EGYPTIAN EXPORTS OF SHOES		
Year	Quantity '000 pairs	Value LE '000
1988	959	9457
1989	1365	17994
1990	3079	44958
1991	3382	64509
1992	3534	73026

Source: CAPMAS

Leather Garments. The leather garment industry represents 3-5 percent of the total production value of the leather sector. The industry consists of some 300 factories, most of which are small-scale factories with a few medium-sized ones. Over half of the workers employed in this sector are women.

Recent export performance in the garment sector has been rather poor, declining from LE 16.7 million in 1992 to LE 5.7 million in 1993. This is primarily due to the political and economic changes in the former USSR and Eastern European countries, which were the major markets for Egyptian leather garments.

In addition to direct export sales, the industry also makes substantial sales to tourists, earning foreign exchange for the economy. The decline in tourist visits in the past two years has also hurt local sales in leather apparel.

The industry reportedly has not received much technical and marketing assistance from the government in the past. Many industry owners believe that they could benefit from additional training facilities to provide skilled leather garment workers.

EGYPTIAN EXPORT OF LEATHER GARMENTS IN LE '000		
Country	1992	1993
USSR	5987	----
Russian F.	6296	3346
Ukraine	906	1227
Greece	1014	319
Denmark	373	189
Germany	278	66
Canada	128	----
Libya	333	168
Portugal	126	----
Saudi Ar.	118	174
Kuwait	34	20
Italy	47	----
Sudan	151	----
Total	16725	5725

Source: CAPMAS

Leather Goods Industry. Leather goods represent 4-5 percent of the total production value in the leather sector. The leather goods sector consists of over 3,000 units of mostly small workshops. They produce mainly leather bags, purses, belts, and other accessories.

EGYPTIAN EXPORTS OF LEATHER GOODS	
Year	in LE '000
1989	23248
1990	30057
1991	38577
1992	43400

1999

Production Capability of the Sector

The four footwear factories visited⁷ by the sector expert were only producing at 50 percent capacity. They are exporting between 20 and 100 percent of their output. The factory producing solely for exports is performing cutting and making of shoe uppers for an Italian manufacturer. Judging from the capacity utilization in the sample plants visited, Egyptian firms have the capacity to increase significantly their current level of footwear exports. Export sales are now made to the Gulf countries and Africa, Europe and the former Soviet states. Footwear exports to the U.S. are negligible. In recent years, a good portion of the production has turned from classical to casual shoes to meet the changing design trends in the market.

Based on visits to sample firms, production facilities in Egypt are judged to be capable of producing at competitive costs for the international markets. Generally, ample space is available for expanding production to meet increased export sales. On the production side, all four factories have clicker presses for cutting; some hand cutting is also used in the plants. While most of the factory facilities are not automated, it should be noted that the complexity involved in sewing shoe uppers does not easily lend the process to automation. The industry expert observed that better usage of the salvageable scrap could help reduce production costs. On the design side, all have a limited design room, although one of them is equipped with excellent computer CAD design facilities.

In terms of product quality, it is observed that some of the producers are able to produce very high-quality leather products such as attache cases, handbags, wallets and other accessories. Other mainly produce for the low-price market segments in N. Africa and Middle East. Their prices are likely to position them to be competitive in the medium-price-range markets internationally. Some of the producers are currently exporting to industrialized country markets including Germany, France, the United Kingdom and the Netherlands.

In marketing, some firms are already quite sophisticated in terms of establishing a brand name and a quality image. For example, one manufacturer has put up a high quality display in their retail stores selling leather goods with their own logo and have printed attractive, colored brochures illustrating the line of leather goods available in their stores. Those types of marketing techniques and resources could also be used in promoting export sales.

According to industry operators, constraints to expanding leather exports include:

- The image of Egyptian producers as supplier to the low-end market;
- The lack of skilled workers and training facilities;

⁷ All four firms visited are mid-size plants with 125 to 270 workers.

- The low quality of some of the local inputs; and
- High duties and onerous procedures in importing leather and other components.

High Potential Markets and Products

For the overall leather shoes and leather products sector, the market segment with the best export potential for Egyptian producers would be in the mid-range prices and not in the volume low-price sector.

For footwear exports, opportunities are particularly good in casual shoes for all ages and sexes which are in high demand, especially in industrialized countries. Continued demand will exist for classic shoes, which are more labor-intensive and can take advantage of Egypt's competitive wage rates. However, expanding sales in the classic shoe sector will require more up-to-date designing to keep up with the requirements for style, construction, material, color and quality in today's market. The principal product categories of leather footwear are illustrated in the chart in the following page.

Although there is also increasing demand for athletic footwear, those products are less labor intensive and usually require substantial investment and automation.

The primary markets for Egyptian leather shoe exports will be in the Middle East, North Africa, and selected European markets. Among countries in the Middle East, Saudi Arabia, Kuwait and Yemen have been good markets for Egyptian-made footwear. In addition, Egypt has made substantial sales to Sudan in the past. Selected potential markets in Europe will include Greece, Romania and Hungary in the short term and the former Soviet states in the medium term.

Although the U.S. market is the second largest in the world and is receptive to imported footwear, it is extremely price competitive. Moreover, U.S. manufacturers and importers tend to bulk buy especially in the low-priced sector, and often have volume requirements which many Egyptian firms currently do not have the production capacity to meet.

Among other leather products, leather jackets continue to be in high demand, especially those in the mid-range price segment. Since leather apparel is labor-intensive, it serves to take advantage of Egypt's comparative advantage in low wages. Both the EU and the United States are good markets for the mid-range price leather apparel sector, although Egyptian producers are not currently making significant sales to the United States. Greece will continue to be good market for medium-priced leather garments. Germany also offers good market potential, particularly for leather jackets with a lot of details such as pockets, zippers and other popular features.

PRINCIPAL LEATHER FOOTWEAR PRODUCT CATEGORY

FOOTWEAR

Men's Leather Footwear

dress shoes
casual shoes
athletic shoes (e.g., tennis shoes, hiking shoes)
specialty shoes (e.g., orthopedic shoes, dance shoes)
sandals
slippers
boots

Women's Leather Footwear

dress shoes
casual shoes
athletic shoes (e.g., tennis shoes, hiking shoes)
specialty shoes (e.g., orthopedic shoes, dance shoes)
sandals
slippers
boots

Children's and Babies'
Footwear



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There are also opportunities for leather accessories. However, price, quality and attractive packaging are very important to compete in this market segment which offers a range of products from very high quality brand name merchandise (mainly from Italy and France) to inexpensive goods with reasonable quality mainly from South America and Asia. One effective marketing technique in Europe is to prepare and supply attractive color catalogues or brochures to enhance the image of Egyptian products.

Overall, in the leather footwear and products sector in Egypt faces strong competition from the established producers in East Asia, India, Thailand, the Caribbean and South America who have already established a foothold in the low-priced volume market. Thus, the most promising niche for Egyptian producers would be in producing medium-quality products, delivering with "fast response," and offering competitive prices to beat the branded designer producers. The world market demand for medium-range, good quality products will continue to grow as consumers become more price-conscious and reluctant to pay premium prices for branded merchandise as quality differences are minimized.

D. Elements of a Successful Export Enhancement Strategy

1. Improve Access to Raw Materials

One of the first steps in producing a quality product is to ensure the supply of quality inputs. The difficulty of obtaining quality inputs for leather shoes and other products has been cited as one of the main constraints in making Egypt's exports competitive. Some manufacturers complained of low-quality domestic inputs, and the high customs duties (20 percent) and as well as the onerous procedures for importing leather.

Worldwide experience in the sector has demonstrated that footwear manufacturers in developing countries who rely on low-quality, local raw materials are often relegated to the low-end markets. To help their producers move upmarket, for example, the Indian government allows exporters of leather footwear to import all leather free of duty, in addition to offering concessionary import duties on other components and liberalizing the import of footwear machinery. In Indonesia, shoe manufacturers can also import raw materials duty-free if the final product is destined for export. These countries have consequently seen expansion in their footwear export sales.

Following the examples of those competitor countries, the Egyptian government could also improve the policy environment for producers and enhance their ability to produce high-quality, competitively-priced products.

2. Enhance the Global Image of Egyptian Leather Products

An important step to expand Egyptian leather products export is to distinguish Egypt from other developing country producers of high-volume, low-price, low-quality products. Egyptian producers should focus on building an image and reputation for supplying quality leather products for the mid-range price sector. Clearly, to establish an good product image requires a quality product which is desirable in the market. Egyptian producers should focus on promoting, via venues such as trade shows and missions, products that meet the market requirements of price, quality and delivery.

Trade shows are good opportunities for Egyptian manufacturers to learn about new designs, price trends, new production technologies in the industry, as well as gauge their competition from other producers. Trade shows are also good opportunities to meet prospective buyers. Generally, follow-up visits after making initial contact at the trade show will yield the best results. While producers themselves would bear the primary responsibility of exhibiting a quality product, making contact and effecting sales, export promotion institutions such as the EEPC could help producers take the most advantage of the often expensive event by preparing profiles and analyses of the target markets and supplying participants with a list of potential buyers who may be present. Export development institutions can also organize seminars or workshops to help prepare participants prior to the trade shows.

Two-way trade missions - Egyptian producers visiting prospective overseas buyers and prospective buyers visiting Egypt - are good opportunities for producers to spend quality time with potential clients, showcase their products, production capability and interest, as well as build familiarity and trust. These events could be organized by government export development agencies in conjunction with the Leather Industry Association. For example, the EEPC, which has reportedly organized successful trade missions for leather producers in 1994, should be encouraged to undertake more of this type of activities and accordingly be allocated the financial resources to do so. In organizing a trade mission to promote a specific product, it is critical that the promoter be knowledgeable in the sector and not a mere generalist in export promotion.

3. Promote Export-oriented Investment

While the market segment identified to have the highest export potential would be primarily labor-intensive, additional investment to upgrade production equipment, technology and improve production organization would be necessary to improve the product quality and reduce costs. Export-oriented investment promotion in this sector, whether in the form of subcontracting, joint-venture and other forms of partnerships should be encouraged. The Dominican Republic, for example, has been tremendously successful in expanding their footwear sales to the United States by attracting U.S. investment and technology to its export processing

zones. One method to encourage those types of investments would be to give additional investment incentives for enterprises manufacturing primarily for exports.

4. Offer Worker Training

As in the apparel sector, many leather industry owners interviewed also complained of the difficulty of hiring trained workers especially in footwear sector, not only in production but in design and management. To this end, the Leather Industry Association could work with Fashion and Design Center in Cairo to develop appropriate training for leather fashion. While the existing curriculum at the Center is oriented towards apparel, some of the courses could be modified and tailored to train skills needed in the footwear industry. Making use of the existing training resources would be much easier and more cost-effective than starting a program at a new institution.

HOUSEHOLD TEXTILES

The Egyptian household textiles and carpets sector has demonstrated its market competitiveness and its export potential with a 21 percent annual export growth between 1989 and 1992. The major export markets for these products are the EU, the United States, Japan and formerly, the Soviet Union. The principal products are machine-made carpets, towels, bed sheets and table cloths.

The household textiles sector is dominated by public sector companies with some small to medium size private firms. While their products are of high quality and well-designed, and most firms have the capacity to increase production, they are not yet exporting significant quantities of their products. Most firms could benefit from additional private investment to upgrade design and production capabilities to increase efficiency and competitiveness, as well as marketing assistance to penetrate the international markets.

In contrast, the machine carpet sector is dominated by several large, private sector firms which operate highly mechanized and automated plants with existing distribution networks in principal industrialized country markets. Already exporting from 50-80 percent of their production, those firms are competitive in the international markets. They also have the capacity to expand their exports given improvements in the general policy environment.

A. Industry Overview

Household textiles, also called household furnishings or "domestics" has a large a vibrant international market. It includes: Bed linens (sheets, pillow cases, quilted mattress covers, bed spreads, comforters, etc.); bathroom linens (towels, bath mats, bathrobes and beach robes); and table linens (mainly table cloths and napkins). Related to household textiles but often considered as a separate industry is floor coverings (or carpets), which covers machine-made, tufted, and hand tufted carpet and other woven materials to cover the floor. Between 1989 and 1992, exports of linens (SITC 6584) and floor coverings (SITC 659) grew by 21 percent annually to reach \$63.5 million, demonstrating their internationally competitiveness and export growth potential in the future.

Household Textiles

In 1993 Egypt exported LE 400 million worth of household textiles, mainly to the EU (Germany, United Kingdom, Italy, France, Greece), Middle East (mainly Syria), and African countries. Shipments to Soviet Union, which used to be major market, ended in 1993. The

ACHIEVING EGYPTIAN EXPORT GROWTH

production and exports of household textiles are dominated by public sector enterprises, which account for approximately 85 percent of the household textiles exports. The major markets and products are illustrated below.

EXPORT SHIPMENTS OF HOUSEHOLD TEXTILES TO THE EU (IN TONS)						
Product	Country	1993	1992	1991	1990	1989
Bed Sheets	France	154	18115	18235	168057	15493
	UK	295	16244	15750	15959	16242
	Germany	678	33000			
	Italy	709	10700	6000	5100	
Towels	France	165	18511	17621	16696	15616
	UK	185	14821			
	Germany	60	21000			
	Italy	141	10000	5500	4250	
Table Cloths	France		3600	3747	3918	3841
	UK		1950	1759	1362	1408
	Germany		5300			
	Italy		7000	5450	4360	

Source: Egyptian Export Promotion Center

EXPORT SHIPMENTS OF HOUSEHOLD TEXTILES TO THE UNITED STATES 1993	
Product	\$ '000
Pillow Case	75
Bed Sheets	458
Towels	3405
Carpets	6020
Others	2000

Source: Egyptian Export Promotion Center

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Findings by the industry specialist who visited several household textiles manufacturers suggested that Egypt has the products and the capability needed to expand its export sales in this sector. A variety of products are currently produced, including embroidered bedspreads, sheets, pillow cases, bath mats, towels, tablecloths and terry robes. Both the products and packaging are judged to be satisfactory. One factory was sending 70 percent of sales overseas, primarily to the Arab markets and the EU. A point raised by one observer was that linen patterns are often copyrighted, and certain producers in Egypt do not honor copyrights, thereby constraining large scale sales to Europe, where many copyrights are in force. This point was not confirmed by firm visits.

Production in these plants is semi-mechanized, with some hand cutting and basic machines for weaving. Some plants have design capabilities and are equipped with multiple section embroidery machines. It is observed that most of the firms are producing under capacity. Most firms are of small to medium size and financially constrained to upgrade their equipment of production technology. Many are unaware of and do not utilize the marketing and export assistance resources available from government agencies.

Floor Coverings

Egypt has a well-established carpet sector, which consists of several large manufacturers in the machine carpets and hundreds of small workshops in hand-made carpets. The export of machine carpets has been particularly vibrant, with a total shipment of LE 83.7 million recorded for 1992, an 18 percent increase over the 1991 level. The major markets are the United States, Germany, Italy, Japan, and formerly, the Soviet Union. See table below for the major export markets for machine carpets.

The main competitors to Egypt in machine-made carpets are the European countries including Belgium, Netherlands, United Kingdom and France. The major competitive factors in the industry are: (i) good quality products with fashionable designs, color tones; (ii) competitive prices; and (iii) reliable delivery as carpets is a seasonal item which commands considerable storage space.

EXPORTS OF MACHINE CARPETS 1991-1992			
Year	1991	1992	Growth
Country	Value LE	Value LE	
Japan	2,040,132	3,518,352	42%
Belgium	393,751	1,274,758	69%
Germany	10,391,737	14,902,855	26%
United Kingdom	434,873	264,957	-64%
France	545,550	3,174,836	82%
U.S.A.	7,832,970	18,769,793	58%
Italy	2,246,512	9,092,212	75%
U.S.S.R.	34,572,548	9,128,183	-278%
Sweden	194,479	534,953	63%
Canada	948,805	1,854,235	48%
Libya	4,539,713	2,653,143	-71%
Singapore	180,945	2,653,144	93%
Other Countries	8,831,597	15,908,087	44%
TOTAL	73,053,612	83,729,508	18%

Unlike the household textiles sector, the carpet industry is dominated by private companies. There are five major machine carpet manufacturers in Egypt: Oriental Weavers, Makarem Group, Rug Art, and Misr American Carpet Mills, all of which are privately-owned, and the Arab Carpet Company, which is a public company. Together these companies produce over 31 million sq. m. of carpets annually. Oriental Weavers, which is reportedly the third largest machine carpet manufacturer in the world, has a highly automated plant using Belgian technology. It produces 8.7 million square meters of carpets annually, 80 percent of which is exported to markets in Europe, the United States, Asia and the Middle East. Oriental Weavers also has plants producing directly for markets in Germany and the United States.

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Overall, machine carpets is a very sophisticated sector in Egypt with demonstrated export capability and established market linkages. Investment in design capability, production technologies and equipment by the major industry players has also enabled Egypt to produce quality products at competitive price carpets and build a solid export market base. Plants also have the capital and capacity to expand their production to accommodate export growth if given a market friendly policy environment.

B. High Potential Markets and Products

In household textiles, the following products are considered to have good potential in the world market: Towels, Curtains, Bed Sheets, Pillow Cases, Bed Covers, Cotton Covers, Quilts, Table Cloths, Napkins, Embroideries, Parachutes, Flags, Camping beds for travel, Fishing nets, Umbrellas, Beach towel mats, and Tents. Building on the nation's reputation as the source of superior quality cotton, Egyptian household textile manufacturers are in a good position to expand export sales especially in those market segments where a premium is paid for 100 percent cotton products.

In terms of prospect markets, Egyptian producers should pursue repeat sales from its existing client base in Europe, United States and the Middle East, but they should also consider other high potential markets such as Japan, which is already a good market for Egyptian-produced machine carpets.

In the machine carpet sector, the Big Five are already exporting a considerable amount and are fairly diversified in their markets. However, a major marketing effort would be necessary to develop new sales to compensate for the loss of clients in the former Soviet Union. If possible, manufacturers should also maintain a foothold in Eastern Europe and the Newly Independent States (NIS), which accounted for close to 10 percent of Egypt's machine carpet exports prior to 1993. Those markets could offer substantial potential for export sales in the medium term.

C. Elements of a Successful Export Enhancement Strategy

In both the carpet and household textile sectors, Egyptian producers basically have a product that meets international market requirements and should receive more publicity. The household textiles sector, which is dominated by public sector companies, could benefit from new, private investment to upgrade its design capabilities, production technology and machinery and equipment. Additional investment is likely to increase production efficiency, reduce costs and improve the competitiveness of Egyptian-made household textiles overseas. Investment in

the sector, whether by foreign or local entrepreneurs, could be encouraged by improvements in the investment policy climate as well as export-performance-tied investment incentives.

While the Egyptian carpets industry has already proven its competitiveness in the international market, further increases in exports could be achieved with a general improvement in the policy environment and infrastructure for exporting enterprises, and financial incentives targeted specifically toward export enterprises such as a more user-friendly duty-drawback system and other tax incentives.

Both the carpet and household textiles sectors would also benefit from marketing assistance in the following forms:

- Market research and analysis on the textiles and carpet sectors in target markets, conducted by the EEPC, Commercial Attaches and other export assistance institutions to be disseminated to the industry;
- Seminars and workshops focused on meeting market requirements and trends (such as the type of fibers, designs, colors, proper labeling), especially for the household textiles sector, which is dominated by small to medium-sized firms who lack knowledge in the export markets;
- Increased utilization of bilateral import assistance offered by governments in target markets, such as JETRO in Japan;
- Using trade shows as an opportunity to keep abreast of design and market trends and production technologies, and meet prospective buyers and local agents. Some important trade shows include: INTER-DECOR in Netherlands; Domotex in Germany; and JAPANTEX Fair sponsored by Japan Interior Fabrics Association. To economize resources, small and medium-sized producers should be assisted by the EEPC in coordinating the sharing of exhibit space. If attendance at shows is not possible, obtaining the list of attendees could also be a good potential buyer marketing tool.
- Two-way trade missions can also be organized by export assistance agencies to bring industry vendors to meet prospective buyers in a new market, and to bring potential buyers to Egypt to showcase the product quality, and the design, production and delivery capabilities of Egyptian firms.

HORTICULTURE

Egypt's prospects for expanding horticultural exports are favorable if key policy, institutional and marketing constraints are adequately addressed. Egypt's advantages as a horticultural producer and exporter include its highly favorable climate with year-round frost-free conditions; excellent soils and water supply; low wage rates and costs of key inputs; relatively low sea transport costs compared to more distant competitors; and its well-placed seasonal position for EU markets.

Moreover, recent reforms in agricultural and other regulatory policies, including liberalization in price controls and in import and export restrictions, have created a more hospitable business climate for private sector producers and exporters. Many have already increased planted area and production in most crops including grapes, tomatoes and other vegetables. Further initiatives could significantly help expand exports.

The best markets for Egypt's horticulture exports are most likely to be nations in the European Union, in view of its overall market size, its promising market prospects for niche products, and Egypt's relatively close location. Specific EU countries with growing opportunities include those with established ties to Egypt, such as the U.K., as well as Germany. Export prospects to countries with strong domestic production such as France and Italy will be more moderate. Gulf countries should be considered as the second most important markets, as they already account for a growing share of sales.

The best export opportunities will be for seedless grapes, potatoes, citrus and, depending on seasonal windows in EU markets, tomatoes. New products for which demand may be boosted by emerging consumer preferences include mango, nectarine and off-season grapes. Markets for "older" products such as pineapples, coconut and bananas are nearing saturation in the EC.⁸

⁸ "Prospects for Exports of Fruit and Vegetables to the E.C. After 1992", FAO, 1993, Rome.

A. Overview: World Horticulture Markets and Trends

World trade in horticultural products, mainly fresh fruits and vegetables,⁹ essentially doubled between 1983 and 1992 to reach \$65 billion.¹⁰ Major exporters include Spain, Italy and other EU members which together accounted for 40 percent of total horticultural exports in 1992. Another 10 percent was exported by the United States.

Fruit and vegetables exports from developing countries doubled in a decade to reach \$18 billion in 1992, accounting for nearly one third of world's total. Major exporters are Chile, South Africa, and some tropical producers of off-season products mainly for the EU and U.S. markets.

Near East horticulture exports amounted to over \$3.2 billion in 1992, showing moderate growth of about 50 percent since 1983. Fruit and vegetable exports accounted for about 20 percent of their total merchandise exports, and about half of their agricultural exports.

HORTICULTURE EXPORT TRENDS, 1982 - 1992						
	1982		1987		1992	
	\$ million	% of total	\$ million	% of total	\$ million	% of total
World Total	30,000	---	x	---	63,000	---
Near East *	2,031	6.80	2,780	x	2,970	4.70
Egypt	148	0.05	176	x	162	0.03

Source: *F.A.O. Annual Trade Yearbook, 1992*

* *Egypt, Israel, Jordan, Morocco, Tunisia, Turkey.*

⁹ In addition, horticultural products are generally considered to include cut flowers and foliage, live plants and processed products, such as orange juice and olive oil. In this study, processed foods are covered in a separate Industry Assessment in this section.

¹⁰ "Analysis of Horticultural Trade in the European Market - Implications for the Near East", Economic Research Service, U.S. Department of Agriculture, Washington, D.C., October 1993.

Major Export Markets

Major markets for horticultural products are the EU (56% of total imports in 1992), followed by Asia-Pacific countries and United States. Eastern European countries and the former Soviet states also represent potential markets over the long term.

Germany is by far the largest single importer of fruits and vegetables in the EU, accounting for over one third of the EU total, as well as the world's largest importer of those products.¹¹ Following it are France (\$5.8 bn); the U.K. (\$5.5 bn); and the Netherlands (\$4.2 bn) with Belgium and Luxembourg buying another \$2.7 billion. EU imports have grown at an even faster pace in the past decade than the world rate, achieving 148% growth between 1982 and 1991. Horticultural imports are likely to continue growing briskly over the medium term given more favorable GDP growth prospects as Europe emerges from recession.

¹¹ "Market Oriented Development for Major Horticultural Crops in Egypt", prepared for Ministry of Agriculture & Land Reclamation, NARP, by RONCO Consulting Corp, May 1994, Washington, D.C.

European Union Agricultural Imports
from outside EU, selected, 1990:

Import	Value-\$m	Major Suppliers - %	Major Markets - %
Shrimp & prawns	\$ 907m	Ecuador - 12% Thailand - 9 India - 8	Spain - 70% France Italy
Other Fresh Fish	\$ 178	Morocco - 29 Senegal - 20 Tunisia - 10 Egypt - 7	Italy - 56 France - 50 Italy - 66 Italy - 90
Oranges	\$ 453	SA/Arg/Namibia - 50 Morocco - 25	France; NL
Clementines	\$ 62	Morocco - 98	
Tomatoes	\$ 330	Morocco - 38 (Canary Is - 58)	France - 89
Grapes	\$ 225	Chile - 47 S.A. - 25 Namibia - 13	NL - 50 Germany - 66
Potatoes	\$ 210	Morocco - 27 Egypt - 27 Cyprus - 24	France UK
Cut flowers	\$110(carnations) \$ 63 (roses)	Colombia, Israel Kenya, Turkey Israel - 37	Germany; UK - 66
Olive oil-lampante	\$119	Tunisia - 66 Morocco - 18	Italy - 100
Dates	\$ 82	Tunisia - 60 Algeria - 15	France - 50
Fresh beans*	\$ 64	Kenya - 45 Burkina Faso - 13 Egypt - 11	France - 50 France NL
Preserved olives	\$ 58	Morocco - 89	France - 84
Canned sardines	\$ 54	Morocco - 89	France - 30
Dried onions	\$ 42	US - 45 Hungary - 17 Egypt - 16 Morocco - 8	UK, Germany Germany UK, NL, Germany France
Frozen veg.* \$272			
of which, beans = \$ 26		Morocco - 61 Poland - 24	France - 90 Germany - 50

Source: The European Market & Near East Agricultural Exports, Abt Assoc., Mach'93.

* Exports of fresh vegetables other than fresh beans are minimal for Egypt and other Near East exporters, as are exports of frozen vegetables other than beans.

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EU markets have been quite well-supplied, especially since Spain entered, supplying fresh produce during off-season periods. However, Spain's advantages within climatic, land and water conditions have been pressed about as far as they can go, and with labor costs rising in Spain, there are still considerable opportunities for other producers.¹²

The EU is already a \$1.5 billion market in agricultural exports for Morocco, Egypt, Tunisia & Jordan. Still, these four countries only represent 2.5 percent of EU horticultural imports, indicating considerable room for expansion.

Near East Agricultural Exports 1992
(\$ million)

	Total Value	Ag. exp. as % of total exp.	EU Mkt as % of total ag exp. mkts ('90)
Morocco	\$ 581	14%	75%
Egypt	\$ 401	13	26
Tunisia	\$ 338	8	79
Jordan	\$ 187	15	5

Source: The European Market & Near East Agricultural Exports, Mar. '93, Abt Associates.

Impact of EU Agricultural Trade Policies

While EU trade policies will remain a limiting factor on expanding agricultural imports to the EU markets, they are expected to be liberalized somewhat over time. Many tariff and non-tariff barriers have been or are being eased, and future EU agreements with regional producers and implementation of the GATT Uruguay Round Agreements are likely to further lower EU tariff barriers to many products.

The reduction of EU trade barriers to Mediterranean producers include:

- a) Ad valorem duties were reduced to zero as of Jan 1 1993;
- b) Tariff quotas - or volume limits on off-season imports - are quite modest under the "New Mediterranean Policy" of June 1992; tariff dismantling was completed in January 1993. Tariff quotas and reference prices will increase by 5 percentage points each year for selected agricultural products between 1992 and 1995, but only by 3 points for the most important exports, including potatoes, tomatoes, oranges, clementines, cut flowers, orange juice, and wine.

¹² Ibid, Vol. I, p. 27.

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- c) Minimum or reference prices - which are effectively price floors, are established under which countervailing duties are charged on imports;
- d) Reference quantities - the EU "may" decide to impose quota limitations when the reference quantity is exceeded.

In practice, tariff quotas have not proven to be significant barriers to entry for most products. For instance, Morocco exported nearly twice its tomato and orange quota in 1991 even though it had to pay duty on the excess, showing that margins still provide sufficient incentives to accept off-season tariffs for some exporters.

The EU Mediterranean Policy at present includes:

a. Cooperation Agreements, which provide for duty-free admission of industrial products, other than processed foods. In response to Spanish and Portuguese membership, protocols were signed in 1988 with all Mediterranean countries calling for the phasing out of duties in parallel with those of Spain & Portugal within average quotas based on 1980-84 imports. North African exporters have benefitted from limited duty reductions in tandem with reduced duties on Spanish & Portuguese exports. Still, Spain and Portugal benefit from CAP provisions of countervailing duties, and will become stronger competitors with Near East exporters as they complete their 10 year entry period in 1995.

b. The "New Mediterranean Policy", agreed on in December, 1990, called for technical and financial assistance, but its implementation is still being postponed due to lack of EU agreement on trade issues.

c. Mahgreb Negotiations, which have not yet been agreed on by all EU members. A basic problem is a continuing lack of harmonization of individual EU member's regulations. On imports of tomatoes, four different EU members have four sets of regulations. This is likely to be a continuing near-term problem.

Impact of the new GATT Agreements

Generally, the average tariffs on Egyptian foodstuff imports before the recent GATT Uruguay Round agreements, were relatively high in Europe and Japan, and lower in the U.S. Under the new GATT agreement however, tariffs faced by Egyptian foodstuff imports will be considerably reduced. The tariff rate on fruits and vegetables will be reduced from 8.6 percent to 5.6 percent after the Uruguay Round.

ESTIMATED EFFECTS OF THE URUGUAY ROUND ON MFN TARIFF BARRIERS			
Food and Agriculture Products	Tariff Rate		% Reduction
	Pre-Uruguay	Post-Uruguay	
Cocoa products	4.5	2.5	- 44
Tobacco	17.3	11.2	- 35
Coffee, tea, sugar	9.4	6.4	- 32
Fruits, vegetables	8.6	5.6	- 35
Oilseeds, fats, oils	1.7	1.1	- 35
Grains	6.6	4.5	- 32
Dairy products	15.8	11.9	- 25
Spices, flowers and plants	2.2	1.1	- 50

Source: "Export Prospects of Mid-Eastern Countries, A Post-Uruguay Round Analysis, Alexander J. Yeats, The World Bank, 1994, Wash. D.C.

As for non-tariff barriers (NTBs), most of those in agriculture are to be "tariffized," and then gradually reduced by industrial countries by 36 percent over six years with minimum reductions of 15 percent on all tariff lines, with a few exceptions. Consequently, the proportion of Egyptian exports facing NTBs will drop from 32 percent to 2 percent.

B. Key Competitive Factors

Total world imports and per capita consumption of many fresh fruits and vegetables have grown significantly over the past decade, and the trend is likely to continue for a number of reasons.¹³ In the major markets, particularly Europe and North America, off-season fresh fruit and vegetables have been available for many decades, beginning with globally-marketed bananas and citrus.

However, not until the post-war years did rising per capita income help make year-round fresh produce less of a luxury product available mainly to upper-income consumers. In addition

¹³ "Market Oriented Development for Major Horticultural Crops in Egypt", Vol I, Panorama, prepared for the Ministry of Agriculture and Land Reclamation, NARP, Ronco Consulting Corp, May 1994, Washington, D.C.

to income effects, fresh produce has been made more affordable mainly due to improved efficiencies of post-harvest technology and international transportation, reflected in lower prices to consumers. Moreover, consumption has been boosted by recent trends in consumer preferences, with many favoring the flavor of fresh produce over processed fruit products. Finally, sales have been boosted by growing public awareness of nutritional and other health benefits that have been linked to fresh fruit and vegetable consumption, and the trend among many consumers toward general physical fitness.

Reflecting these consumption trends, the most important market factors determining which items are imported and their sources of supply include: quality standards; specific varieties most in demand; shelf-life; suppliers' ability to meet seasonal windows of demand for fresh produce; and prices.

Quality: Perhaps the most difficult challenge for horticulture exporters is achieving the "seemingly unrealistic level of quality"¹⁴ needed to successfully compete in the U.S. and EU markets. Consumers and governments have become extremely sensitive to horticulture quality standards, particularly for more perishable items such as grapes and tomatoes.

The European Commission and the U.S. Department of Agriculture set quality criteria for fresh produce in their respective markets in the form of "grades", the various quality levels, and "standards", the specific characteristics which constitute a grade. In addition, growers or shippers also set "specifications" referring to size, number of items in a carton, or placement of brand labels. Import inspections, either at the time of packing or arrival at a port or market, use the standards as a base to check the number of "defects" found in a random sample, which then determine the grade or "failure to meet the grade" of the produce. This quality certification is often the basis for negotiating prices or settling disputes.

Quality assurance must begin with selection by the producer of marketable fruit or vegetable varieties that have good post-harvest handling characteristics. Cultivation practices are critical as quality cannot be improved after harvesting; it can only be maintained or deteriorate. Optimal post-harvest handling requires quality packaging (an especially important factor in the EU, and particularly in Germany, which is becoming more complex due to environmental concerns over disposal of used packaging), transportation, refrigeration if necessary, and above all a minimum number of physical handling steps.

Specific varieties: Consumers preferences or tastes vary by market, reflecting local culture, tradition and current trends or fads; successful exporters must supply specific varieties

¹⁴ "European Export Market Analysis for Five Egyptian Horticultural Crops" Kelly Harrison Associates, NARP, August, 1994, Cairo.

most in demand. For example, certain varieties such as "sweet peas" are not traditionally produced in Egypt, but because of European demand, could and should be.

Shelf life: Buyers also increasingly demand produce with a long shelf life, a function of both variety produced, and quality of post-harvest handling. Fast and reliable transport is critical along with cooling facilities where needed.

Off-season market windows: As the EU is well-supplied with most fruits and vegetables during much of the year, exporters must take advantage of seasonal opportunities. This requires producers/exporters to meet often narrow market windows in which products can be profitably supplied during seasons of low production within the EU, which vary by product. Profitability is also influenced by EU import restrictions, including *ad valorem* tariffs, reference prices, minimum import prices, excise taxes, and countervailing duties. During some seasons there may be little competition for certain items, while in others it will be intense and must be carefully calculated.

Price factors: Although prices must be within a competitive range, they are generally considered to be a less critical factor than produce quality, reliability and consistency of supply during appropriate market windows, which if met, will command top market prices. If those criteria are not met, produce will often not be accepted regardless of the price. This is especially true for items admitted under the reference price system under which minimum import prices have been set. For Near East exporters, the largest single item in unit costs in general is the cost of transportation, particularly air freight for perishable produce, which often accounts for 20-30 percent of total costs, and can make the difference in competitive pricing.

Distribution Arrangements

Importers within the EU markets generally use three main kinds of contractual arrangements¹⁵ in purchasing fruit and vegetables: 1) consignment, with the exporter assuming price risk; 2) firm pricing, with the importer assuming the risk; and 3) joint account, with both parties assuming price risk. Most European importers purchase on the consignment arrangement.

Inspection of horticultural products is being liberalized in the EC, with authority being given to other countries' inspection services, depending on whether non-EU exporting countries request recognition. Whether or not inspection is done by EU authorities does not affect the smoothness or level of surveillance; some countries may actually prefer continued EU inspection depending on whether inspection costs are higher in their own countries.

¹⁵ "Analysis of Horticultural Trade in the European Market – Implications for the Near East", Economic Research Service, USDA, Oct. 1993, Washington, D.C.

C. Egypt's Export Trends and Prospects

Egypt exported \$162 million in horticultural products in 1992, which accounted for about 40 percent of its total agricultural exports and about 13 percent of total merchandise exports. While this represents a valuable contribution to export earnings, a key issue is why horticulture earnings are not significantly higher given Egypt's increasing output, its favorable climate for horticultural production, low wage rates, favorable location near major EU markets, and growing export opportunities in many of those markets.

Egypt's production of fresh fruits and vegetables rose by 30 percent from 1983 to 1992, led by oranges, dates, lemons and limes, and other fruit and vineyards that have benefited from government land reclamation of desert areas. But vegetable production has fluctuated widely due partly to price incentives after 1987 which encouraged a shift into wheat production. Regionally, Egypt is one of the largest Near East producers of fresh fruits and vegetables such as dates, lemons, limes, potatoes and tomatoes, leading Morocco, Tunisia and Jordan in output of most commodities, and generally second in output only to Israel and Turkey.

However, in horticultural exports, Egypt falls behind most of its neighbors. It exports less than 10 percent of Turkey's export levels, about 20 percent of that of Israel's, and about one-third of that of Morocco. Egypt faces its toughest competition from Morocco in potatoes; from Israel and Morocco in citrus and from Tunisia in grapes. In dates, Egypt produces over three times more than these other countries combined, but exports less than 1 percent of its date output.¹⁶

REGIONAL HORTICULTURAL EXPORTS, 1983 - 92		
(\$ MILLION)		
	1983	1992
Egypt	176	162
Israel	457	608
Jordan	72	77
Morocco	312	468
Tunisia	34	84
Turkey	874	1,570
Total	1,925	2,969

Source: F.A.O. Trade Yearbook, 1992, Vol. 46.

¹⁶ "Analysis of Horticultural Trade in the European Market - Implications for the Near East" Economic Research Service, USDA, Oct. 1993, Washington, D.C.

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ACHIEVING EGYPTIAN EXPORT GROWTH

Despite solid advantages in production and recently improved incentives, Egypt's fruit and vegetable export growth has been generally stagnant over the past decade, rising from only about \$142 million in 1982 to a peak of \$176 million in 1987, and declining thereafter with only a moderate rebound in 1992. Fresh vegetable exports rose only moderately over the 1980s, while fresh fruit exports were virtually stagnant, and the share of both in total exports declined.

The declines have been due partly to steeply falling sales since the late 1980s to Egypt's previous markets in Eastern Europe and the former Soviet Union. These markets earlier had absorbed much of Egypt's second-quality produce, such as oranges, since standards were not as stringent as the EC's. The drop would have been even steeper without the compensation provided by higher potato sales to the EC, although most other Egyptian fruits or vegetables failed to increase sales in the EU. Other markets which have helped compensate for lost Eastern European markets are those in the Arabian peninsula, especially in the Gulf region.

EGYPT: HORTICULTURE EXPORTS			
1970-72 - 1990-92			
Export (SITC)	<u>1970-72</u>	<u>1980-82</u>	<u>1990-92</u>
Fresh vegetables (054)			
Value (\$000):	25,605	57,158	80,340
Percent of total exports:	3.2	1.8	2.6
Fresh fruit and nuts (051)			
Value (\$000):	16,715	52,179	56,163
Percent of total exports:	2.1	1.7	1.8

Source: "Export Prospects of Middle Eastern Countries", A.J. Yeats, The World Bank, 1994.

Horticulture Sector Structure

Egypt's horticultural sector, like other sectors of the economy, is still in the early stages of moving toward a competitive, market-oriented system. It continues to be characterized by a

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very high-cost marketing network lacking in coordination and efficiency.¹⁷ This is partly due to previous government policies which, until the mid-1980s, focused on output expansion, land reclamation and state control of distribution and prices, creating market distortions and neglecting the development of a modern, efficient food marketing system.

Despite recent reforms, inefficiencies remain, especially when the effects of past policies are combined with Egypt's complex traditional production and marketing network. On the production side, thousands of smallholder farmers cultivate tiny plots primarily on "old" Delta land. Larger scale producers are located mainly on "new" land brought under cultivation through land reclamation and irrigation schemes, but are more distant and isolated from markets. The distribution network for fruits and vegetables consists of thousands of small and medium wholesalers, and at least 100,000 small retailers. The marketing system's high costs and low efficiency are major characteristics of the domestic market, and inevitably also hurt Egypt's export marketing efforts.

Major Egyptian horticultural products, in order of area planted and volume, are: tomatoes, potatoes, oranges, grapes and onions. These crops represent (with the exception of onions) almost 75 percent of all land planted to horticultural products, and all four have been increasing in production recently. However, vegetable output has been increasing at a slower pace than fruit, due to earlier price incentives favoring cereal grains, and because fruit production has benefitted from increased planting on reclaimed land. Other horticultural crops currently produced in smaller volumes, but with good export potential, include asparagus, green beans, sweet pepper, garlic and mango.

Agricultural policy reforms, while proceeding slowly and not yet fully in place, are encouraging. On the positive side, privatization of horticultural production and marketing is now underway. Marketing functions are being put more into the hands of private cooperatives of growers, including the Horticultural Producers Association, the Potato Growers Cooperative (reportedly quite successful and a good model for other groups), the Grape Cooperative, and ventures such as New Desert Growers, a fruit producers association receiving support from the Trade Development Centre. The December 25 announcement of a new center for sorting and packing agricultural exports at the Cairo Airport, as well as centralizing all administrative procedures and providing market and price information to exporters, is an important advance and should significantly assist Egyptian fruit and vegetable exporters.

Other regulatory reforms have included the lifting of the Government monopoly on the exports of oranges, onions and garlic and processed products using these inputs. The potato export monopoly was also lifted early on. Other major agricultural policy reforms include

¹⁷ "Market Oriented Development for Major Horticultural Crops in Egypt", prepared for Min. of Agriculture and Land Reclamation and US AID, Ronco Consulting Corp., May 1994, Washington, D.C.

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private sector participation in input distribution, the reduction or elimination of subsidies for fertilizers and other inputs, the cancellation of mandatory low-priced government procurement of eleven crops, the elimination of subsidies for imported corn, and lifting of restrictions on the export of cotton and rice. The government reinstated a ban on rice exports in November 1994, after having allowed them in recent years, because a surge in exports resulted. Overall, however, many encouraging reforms are proceeding. And in regard to food subsidies, all subsidies except on bread are to be lifted by the end of 1995.

However, a number of continuing policies regulating general agricultural activities, specific horticultural production and marketing remain obstacles. In production, government price incentives to increase food self-sufficiency in cereal grains may help meet national food security goals, but may come at the expense of plantings of horticultural export crops. A recent food policy study concluded that the largest potential for improving food security through trade liberalization comes about through increasing the integration of Mid- Eastern commodity markets with those in West Europe and the world at large.¹⁸

Similar policies promoting increased sugar and cotton output may also reduce horticultural crop area. Policies that could increase fruit and vegetable production, include the planned reclamation of 3 million acres identified by the Government, to be reserved mainly for high-value export crops of citrus and vegetables, but due to perceived high risk and likely profitability only in the long term, it is still considered uncertain.

Government regulation of private-sector horticulture marketing is also a continuing obstacle. Import duties continue to be levied on certain imported inputs required for packaging, with rebates difficult to obtain. Health and sanitation requirements are stricter for imports than for exports, where the need to meet quality standards is critical. And despite recent reforms, a less than fully hospitable climate continues to exist for foreign investment, which could help transfer desperately needed production technology and provide training in market-oriented distribution systems.

Continuing government regulations and red-tape are an important issue, because, while individually none is critical, when added up they represent a formidable burden to exporters, in terms of transaction time consumed if not in absolute cost. To illustrate the problem, an FEI study listed 22 distinct transaction steps required for an agricultural air freight shipment to proceed.¹⁹ Most require that a small official fee be paid in the form of a stamp tax, adding up to minimal revenue to the government. But the costs to administer all 22 steps must be significant:

¹⁸ "Food Security and Food Policy Reform", International Food Policy Research Institute, June 1994, Washington, D.C.

¹⁹ "Transaction Steps and Costs of an Agricultural Air Freight Shipment, Federation of Egyptian Industry Study for the High Committee formed by the Decree of the Minister of Economy and Foreign Trade No. 84, 1994.

11 separate steps are required to be processed through Customs; 5 steps through the export division of the airline; 3 steps through GOEIC; one step through a commercial bank; one through the Agricultural Quarantine office; and one through the Sales Tax office.

Finally, a wide array of marketing obstacles also limit Egypt's horticultural export potential. Problems of quality and standards persist at all stages of the production/distribution system, from harvesting to packing, grading, and shipping. For example, inadequate post-harvest handling is a major problem, with losses in product of 25-30 percent of value; there is a lack of refrigerated storage, a lack of adequate sturdy packaging, and inefficient transport from the field to the domestic transport network. The primary road transport network, however, does appear adequate; transport before this point is the problem. Regarding air transport, the new international airport at Alexandria is providing welcome support, but other regional airports should also be used for air cargo. In sum, many steps and transactions in the entire marketing system could be simplified or eliminated, better-coordinated, and less regulated to improve critical quality and time standards for high-value perishable produce.

Export Prospects: Most Favorable Markets and Products

Egypt's best market opportunities include the EU generally, given declining trade barriers, and specific markets within the EU with growing demand, especially Germany and the Benelux countries, or where ties are established as in the U.K. Good prospects also exist in the Arabian Gulf where Egypt has recently boosted its market share. East European and former Soviet Union markets, have effectively been "lost" with the demise of former barter arrangements and are not likely to revive in the medium term, even for "second-quality" produce, given their continuing lack of resources. The U.S. market will remain a distant third-choice export destination given its distance and closer established suppliers.

In the E.U. markets, future growth in overall fruit and vegetable demand and imports, is likely to depend mainly on population and growth. Overall within the EU, per capita consumption has been relatively static, but there are major differences in the pattern of consumption, with some markets expanding (Germany, Benelux for vegetables generally) and others static (Italy) or declining (France). Growth patterns also vary by product, as consumer "fads" rise and fall. For example, the product life cycle of fruits and vegetables in France has been described as including a growth period ahead for products such as off-season grapes, mango, nectarine and kiwi, but market saturation and decline for products like pineapple, bananas, tomatoes and coconut.²⁰

²⁰ "Prospects for exports of fruit and vegetables to the EC after 1992", FAO, 1993, Rome.

For Egypt, a key need is to create a favorable market image and brand name for itself. Egyptian produce has not yet developed a quality image.²¹ Examples cited in recent studies include the consumer perception that Egyptian green beans packed in the field by small farmers suffer from quality and presentation and that "Kenyan beans are better"; artichokes exported to France have been sent in cartons labelled for beans; and only one out of 12 varieties of oranges grown in Egypt are of a quality suitable for juice processing.

In developing quality and brand names, Morocco has emerged as a leader; following its example could help improve Egypt's export prospects. Morocco has achieved high standards in quality and packaging due partly to its investment policy encouraging joint-ventures with mainly French-based multinational investors from whom technology and training has been obtained, as well as having developed a brand and label establishing a regional identity, the "Maroc" label.

In sum, to expand export prospects, Egyptian exporters will have to: a) maintain consistent quality and reliable supplies; b) respond quickly to changing customer tastes; and c) expand sales within the EU beyond traditional markets, such as the U.K., to others, particularly to Germany as the largest single market.

The best export products for promotion are those that meet opportunities which are likely to be found in early, late, and off-season sales of a few traditional products but increasingly "exotic" products in niche markets. In the EU there is a pronounced shift in market demand toward new imported crops. For example, major west European markets have recently been glutted with tomatoes and oranges during the European growing season. In EU markets, many other vegetables are also now available year-round. Thus, successful imports will be "new" export products aimed at winter markets in Europe such as sweet corn, melons, green beans, squash, leeks and strawberries.²²

Among "traditional" products with good export prospects are:²³

- **Seedless grapes:** Very strong export potential due to an estimated unsatisfied seasonal demand in the EU's 3 major markets of Germany, France and UK, of up to 144,000 tons with an annual value of \$150 million. Recent planting in Egypt means that production will soon expand dramatically. Increased exports are also likely to the Saudi and Gulf markets.

²¹ "Europe's Single Market: Implications for Agricultural Exporters from North Africa and the Near East", Abt Associates, July 1993, Washington, D.C.

²² "Europe's Single Market: Implications for Agricultural Exporters from N. Africa and the Near East", APAP II, Abt Associates, USAID, July 1993.

²³ "Market Oriented Development for Major Horticultural Crops in Egypt, RONCO, May 1994.

- **Potatoes:** Exports have been growing (up 130% to the EU from 1983-92), particularly to Germany. Prospects are favorable if domestic production is encouraged by effective supply policies and adequate virus control. Best export market potential is for fresh potatoes, certified seed potatoes, and expanding frozen French fry and other processed potato markets.
- **Citrus:** While export markets for citrus are becoming more saturated, opportunities are best in the Gulf, West Europe market niches, East Europe and former Soviet Union in the longer term, and Asia. Redistributing some citrus production to areas needing less water use and better land allocation could increase yields and profits.
- **Tomatoes:** Prospects are lower due to nearly fully saturated, highly competitive export markets, except for possibly processed tomatoes. Farmers should be helped to diversify into more promising crops. Egypt will also need to bring under control various pests through improved plant protection measures.

Among "new" export products are several for which a recent study indicates that Egypt could be either the lowest cost foreign supplier to the EC or in a few cases the second lowest cost supplier for all five of the following products.²⁴

- **Asparagus:** EC markets are large and growing in four major markets. Egypt can be the lowest cost competitor in them.
- **Green beans:** Egypt should switch from producing lower "quality" and priced "bobby beans" to "fine" beans with a 40 percent higher value.
- **Sweet peppers:** Egypt's delivered costs are less than any other EC supplier. The major supplier, Spain, may have reached its capacity limit.
- **Garlic:** Egypt is a low cost supplier, with production windows not in competition with the major world supplier, China.
- **Mangoes:** If Egypt produced more "yellow" varieties it could be the lowest cost supplier to the EU.

²⁴ "European Export Market Analysis for Five Egyptian Horticultural Crops", prepared by Kelly Harrison Assocs., for NARP, August 1994, Cairo.

Fresh fruits and vegetables that should not be targeted for major exports, due to large EU supplies or limited growing opportunities in Egypt, include: Grapefruits, lemons, limes, pears, apples, peaches, onions and cucumbers.

D. Elements of a Successful Export Strategy for Fruits and Vegetables

1. Develop and Maintain New Quality Standards

The government needs to develop two separate sets of laws on quality assurance; a) one for food safety and consumer protection covering mainly domestic production and imports; and b) a separate law to improve quality standards for agricultural and food exports. The government should also consider developing a program to help producers and exporters meet the ISO 9000 standards now being adopted more widely internationally and especially in the EU.

2. Coordinate and Disseminate Market Information More Widely

Market information on horticultural export opportunities already exists in abundance (e.g. the studies and reports cited in this paper), but most information is not effectively coordinated or disseminated to producers and exporters who are unaware of it, or lack easy access to it. Exporters cannot succeed without current, accurate marketing information especially on seasonal market windows, prices, consumer tastes and the international regulatory environment. Thus it is critical that trade information sources be better coordinated, supported with adequate resources to ensure their wide dissemination and distribution.

3. Streamline Horticultural Export Procedures

The government should consider reducing the number of regulations and steps applied to horticulture exports. The number of steps now range from 20 to over 40 depending on what constitutes a "step". Many could be made annual procedures rather than being required with each distinct export shipment. The largest number of steps, up to ten or fifteen required by Customs, could be combined into only two or three and implemented concurrently.

4. Improve Marketing Systems and Post-harvest Handling

Losses of from 25-30 percent of horticultural crops continue as a direct result of poor harvesting, packing, grading and shipping; much of the problem lies in the domestic production and marketing system before produce reaches export ports or even main transport routes. Both the government and the private sector, through cooperatives or other producer groups, need to work together in developing a major extension education program, fully supported with adequate

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financial resources, to help growers and exporters learn the production and post-harvest technology and management practices needed for a successful export drive.

5. Promote Foreign Investment and Encourage Joint-Ventures

A major factor cited in Morocco's success as a horticultural exporter has been the market-oriented technology and training gained from foreign joint-venture partners. While several of Egypt's restrictions on foreign investment have been relaxed, the government could further liberalize them, including laws restricting foreign ownership or shared-ownership of farmland, and provide further fiscal incentives including tax holidays or a low, flat corporate income tax, to improve the general climate for foreign direct investment.

6. Improve Infrastructure, Especially Transport and Port Facilities

The Government should continue improving the rural road network, particularly smaller feeder roads, especially in the new lands where the most severe transport problems lie; and also improve and expand port facilities. In addition, training should be provided to port workers to improve cargo handling and port management.

7. Promote Egypt's Most Promising Horticultural Export Crops

Detailed commodity sub-sector analyses have recently been conducted for seedless grapes, potatoes, citrus and tomatoes,²⁵ identifying them as among the most promising horticultural export-earners for Egypt. Based on these studies and their recommendations, the Government could first mount a major campaign to support production and marketing of those high potential products, and gradually shift resources to support other promising export products.

²⁵ "Market Oriented Development for Major Horticultural Crops in Egypt" Ronco Consulting Corp, May 1994, Washington, D.C.

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PROCESSED FOODS

Opportunities for Egypt to expand its exports of processed foods are reasonably attractive, as international trade in processed foods has been growing strongly in recent years. Near-term prospects are best in neighboring Near East markets. There are also good opportunities in the EU markets, especially Germany, U.K. and the Benelux markets, for intermediate processed foods that are in between raw products and highly processed final products.

Egyptian processed food exports with the strongest comparative advantages in the short to medium term will be: (i) Those that are cost-competitive, using inexpensive domestic inputs; (ii) those that involve relatively simple processing, in the median value-added range, but are convenience products (canned or frozen food); and (iii) those that meet quality and taste standards beyond the region.

Products with good prospects include, among others, concentrated juices and bulk vegetable products such as tomato paste to Germany and the Benelux countries, and bulk edible oils for further refining or blending in markets like Italy. Additional opportunities include exports of convenience foods, particularly frozen vegetables for which demand is growing strongly in developed markets, due to rising incomes and consumer trends. While regional markets will remain important and must be pursued, opportunities for increasing exports in terms of value are strongest in the major markets of the EU.

A. Overview: Markets and Trends

Processed food products vary widely, from simple dried foods such as onions or nuts, to high value-added frozen foods, such as pre-cut vegetables or pre-cooked products. Among Near East exporting countries, most processed foods tend toward the simpler products. Indeed, several countries in the region remain net food importers themselves, particularly of cereal grains, including Egypt. Still, the region has strong advantages in many domestic products with promising export potential, including edible oils, mainly olive oil; fruit juices, especially citrus; prepared fish including canned sardines and anchovies; canned products such as olives, peeled tomatoes and apricots; and certain frozen products, mainly vegetables such as green beans and peas.

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Several NE countries have yet to become major exporters of processed foods other than seafood²⁶. Potential exports have not been realized even in the EU markets, where preferential, duty-free access for specific quotas has been granted for certain products including olive oil, juices, sardines and wine. Among regional exporters, Morocco and Israel are the major countries to have begun to meet their export potential.

Egypt's processed food exports only amounted to about \$40 million in 1993, among the lowest in the region, declining from \$72 million in 1989. Processed foods are also small as a proportion of Egypt's own total exports, accounting for about 3 percent of the total in 1992, even when using a relatively wide definition of food exports.²⁷

Egypt's major processed food exports are dried vegetables, mainly onions, and cane molasses, a by-product of sugar refining, both of which are exported mainly to the EU. Together they accounted for over half of Egypt's total processed food exports of \$40 million in 1993. Other processed exports include frozen vegetables, hard and soft cheeses (mainly to regional markets), biscuits, fruit juices and some processed vegetables.

EGYPT: PROCESSED FOOD EXPORTS, 1989 - 1993 (LE MILLION)					
	1989	1990	1991	1992	1993
Dried vegetables*	16.2	24.5	31.7	50.6	42.5
Frozen vegetables	11.5	10.9	21.2	26.4	26.3
Confectionery**	5.1	9.5	26.0	19.4	29.1
Cheese	8.2	9.9	13.0	13.5	9.0
Biscuits	4.3	7.6	26.8	8.4	8.5
Stock	27.6	25.8	15.0	9.5	7.0
Fruit juices	3.1	9.0	14.9	4.0	5.6
Processed vegg.	2.5	5.7	7.4	4.0	5.0
Jams	0.7	0.8	2.4	1.0	1.1
Tomato paste	0.03	0.2	0.08	0.09	0.4
Total LE million	79.20	103.90	158.40	136.80	134.60
Total \$ million	72.0	52.0	47.6	41.1	40.0

Source: CAPMAS, *Processed Foods & Confectionery Exports, 1994*.

* Mainly dried onions

** Mainly cane molasses

²⁶ "Europe's Single Market: Implications for Agricultural Exporters from North Africa and the Near East", Abt Assocs., July 1993.

²⁷ Defined as "food, beverages and tobacco"; International Trade Statistics Yearbook, 1993.

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Major Export Markets

The EU is the primary market for processed food imports, although much of the imports is accounted for by intra-EU trade. Still, supplies from outside the EU are strong for a number of products in which NE exporters including Egypt have advantages. For example, in 1990 47 percent of all EU imports of prepared/preserved fruit were from outside the EU, in addition to 59 percent of most dried vegetables and 59 percent of seafood products. Moreover, growth rates for exports of these products from outside the EU are relatively high, with average annual growth rates of 20 percent for prepared/preserved fruit, 12 percent for dried vegetables and 21 percent for seafood from 1986-90. For the major export item of frozen vegetables, while non-EU imports only account for 13 percent of EU's demand, these extra-EU imports have been growing rapidly at 47 percent p.a. recently, indicating considerable future opportunities.

Egypt's current major processed food exports are dried vegetables, mainly dried onions, and cane molasses, both of which are exported mostly to the EU. In 1991, Egypt exported nearly \$10 million of molasses to the EU, mainly to Italy, Spain and France. Egypt also exported \$10.5 million of dried onion to the EU, primary to the UK, Germany and the Netherlands.

The Arabian peninsula and the Gulf are the other major regional destinations for Near East processed food exports, including those of Egypt. They should remain a considerable market, considering that many oil-exporting countries will continue to be net food importers. Reinforcing this, in the case of processed foods, are cultural factors and tastes of the region, a major determinant of export markets. Consumers in Near East markets have an obvious preference for NE traditional processed foods. These markets should continue to grow in line with population and income. Moreover, Egyptian workers in the region will also provide a market base particularly for "Egyptian" foods.

Still, even "generic" food exports of Egypt tend to go disproportionately to Gulf markets. For example, the major market for Egyptian fruit juice exports in 1993 was Libya, with Germany second, but followed by Lebanon and Saudi Arabia. In frozen vegetable exports, the Saudi market was the largest, followed by Kuwait, and after France and the United States, the Emirates, Lebanon and Qatar. While regional markets should be retained, market diversification toward the EU is likely to pay off in the long run.

Impact of GATT and other Trade Agreements

Egyptian processed food exports are likely to be among the export categories that benefit most from the new GATT agreement. Most processed food exports outside the Near East region now go to the EU, where, up until now, tariff barriers have generally been higher than in the U.S. or Japan for many food products. Tariff reduction averaging 35 percent should bring a

corresponding increase in Egyptian food exports estimated at about \$8 million initially, a large proportion of Egypt's total likely benefit of a \$20 million increase in all export categories.²⁸

Generally for agricultural exports, the new GATT agreement will mean that most non-tariff barriers will be "tariffized", with major developed countries then cutting them by about 36 percent over 6 years. There will be a minimum reduction of 15 percent on most tariffs, with a few exceptions. Market access for agricultural products will involve the elimination of quantitative restrictions. Also negotiated were reductions of 36 percent in budgetary outlays on export subsidies and in the quantities of subsidized exports, affecting mainly developed country exports.

Another aspect of the new GATT treaty is the adverse price impact it may have on net food importing countries, including Egypt. International food prices are expected to increase for some products as a result of the treaty, possibly benefiting some Egyptian food exports, but also increasing prices of other foods imported into Egypt. The extent of the net cost or benefit will depend on the extent of net food imports, and how much would be offered under food aid programs. The challenge for the Government is to provide producer incentives to expand domestic food production, but without doing so at the expense of export crop production and foreign exchange earnings.

Processed food exports by Egypt will also be affected, but not as strongly as by the new GATT treaty, when new negotiations are conducted between the EU and Mediterranean countries on the EU's Mediterranean trade policies. In recent years, the European Council's "New Mediterranean Policy" has gradually increased tariff quotas and reference quantities to liberalize imports of some agricultural products, mostly fresh produce, but also some processed foods such as orange juice and wines. These trends are likely to continue now that negotiations have been set to resume in late 1994 or early 1995 on developing a broad EU-Mediterranean "free-trade area", to replace the 1977 cooperation agreement. While it may be several years before a new treaty is in place, Egypt's food exporters may benefit broadly and should closely monitor developments.

B. Key Competitive Factors

Growing demand for processed foods in the major markets has been spurred in recent years by consumer trends strongly favoring "convenience" foods. In particular, the trend in Western markets toward growing numbers of women working outside the home has strongly influenced demand for convenience foods, and has also contributed to increased household purchasing

²⁸ "Export Prospects of Middle Eastern Countries: A Post-Uruguay Round Analysis", Alexander J. Yeats, The World Bank, 1994. Washington, D.C.

power, supporting demand for higher value-added, and higher priced, processed products. The proportion of women who work outside the home ranges from 71 percent in the UK, to 65 percent in France, 60 percent in Germany, and 43 percent in Italy.²⁹

Frozen food products: Demand is likely to continue growing rapidly especially for frozen food products. Growth in per capita consumption is estimated over the next decade at 31 percent in Germany (and at 67 percent in former East Germany), 36 percent in Portugal, 17 percent in Spain, 13 percent in Denmark, 11 percent in Italy and at 8 percent in France. Other factors influencing demand include the trend toward "light" or low calorie and low fat food products, but consumer inclinations here tend to vary more widely depending on national markets.

Packaging issues: Suppliers of processed foods must also be increasingly sensitive to the "environmentally-sound" packaging of products. As environmental concerns take growing prominence among Western consumers, so too are national and EU-wide regulations governing packaging materials, with major issues including their re-use and recycling, reducing the amount of packaging used, and their disposal. Germany's regulations are the strictest in the EU and most influential, placing responsibility on the retailer to take back excess packaging. As similar laws spread through the EU, the ability to comply with them will increasingly affect the competitive position of processed food suppliers.

Distribution: An important trend among distributors is the move toward "Euro-brands," or common brand images across the entire EU, being developed by major multinational food companies. Also influencing competitive positioning of food products is the trend toward strong retailer brands controlled by major supermarkets and hypermarkets in Europe. As retailers are further consolidated into large chains, and the number of small retailers shrinks, a focus on marketing products toward the large retailers will be increasingly important. Producers and suppliers should place more emphasis on direct marketing to the large retailers, while also maintaining a presence at major European trade fairs, as in Paris and Cologne.

Quality assurance: A major factor influencing the competitive position of processed foods, just as for fresh produce, is quality assurance. This will be even more important as the distribution structure evolves. As the largest retail outlets consolidate into a more limited number of chains, they will increasingly insist on quality, while smaller retailers willing to accept "second-range" products will also become fewer in number.

Reliability of input supplies: Another major competitiveness factor in processed food production is the upstream element of a reliable supply of inputs to the manufacturing process. Reliable supplies of fruit, vegetables, and other inputs are critical to steady, regular flow for processing, without which delays or complete stoppage of plants may result, with highly adverse

²⁹ "Europe's Single Market", Abt Associates, July 1993.

impact on the processors' ability to retain buyers in key export markets who can switch to more reliable suppliers easily.

C. Egypt's Export Trends and Prospects

While Egypt retains considerable comparative advantage in several specific processed food exports, there has been a significant decline in general food products as a share of its total exports over the past two decades. From the mid-1970s to the mid-1980s, the general category of "all food exports" dropped from about 18 percent to 9.5 percent of total Egyptian exports.³⁰ Much of the decrease was due to the increasing importance of petroleum and related exports which had grown to two-thirds of the total. However, by the early 1990s, when oil exports had declined to around 44 percent, food exports only rose minimally in relative importance to 9 percent.

Within the general food category, exports of fresh fruit, vegetables, and rice have grown considerably over the period and together now account for two-thirds of total food exports. In contrast, processed food products exports have declined from \$72 million in 1989 to just \$40 million in 1993.³¹ The decline was due partly to the loss of barter and other reciprocal marketing arrangements with Eastern Europe and the former Soviet Union. So far, Egypt has been unable to compensate through increased sales to the EU, other than in sales of lower value-added and more generic food products such as cane molasses and dried onions.

As illustrated in the table below, Egypt is a minor exporter of processed foods compared to its regional competitors. In addition, to Tunisia and Morocco, Israel and Turkey are both growing exporters. Yet a number of Near East countries still have minimal processed food exports outside the region, such as Jordan, which does not report any major exports of processed foods except for small start-up volumes of juices.

³⁰ "Export Prospects of Middle Eastern Countries", A. J. Yeats, The World Bank, 1994.

³¹ Not included in these export figures are dried fish or preserved meat, which are generally marketed nearby in the region.

NEAR EAST MAJOR PROCESSED FOOD EXPORTS TO EU, 1991							
Egypt		Morocco		Jordan		Tunisia	
Item	\$ mil.	Item	\$ mil.	Item	\$ mil.	Item	\$ mil.
Cane molasses	10.7	Prepared foods	52.1	Orange juice	0.2	Olive oil	247.0
Dried onions	10.4	Preserved olives	52.3			Wine	9.0
		Orange juice	31.5				

Source: Eurostat, Abt Associates, 1993.

Many of Egypt's other food exports with higher value-added have been more targeted toward meeting regional tastes, rather than those of European markets. Of Egypt's trade within the Near East region, food products play a major role: Four of Egypt's eight largest regional exports are food products. In 1992, over 55 percent of its total regional food exports were accounted for by just one market, Saudi Arabia.³² Major food exports to the region, in addition to certain fresh horticultural products, include processed products tailored to regional tastes, such as soft and hard cheeses, preserved vegetables, mango and guava juices, biscuits, candy and confectionery.

Processed Food Industry: Structure and Impediments

Egypt's food processing industry consists of a few relatively large companies (both public and private) and hundreds of smaller private companies. Over 600 companies are represented in the Chamber of Food Industries. Their major products include preserved foods, such as dried, canned and frozen fruit and vegetables; preserved or processed meat, poultry and fish; processed food by-products and fodders; milk and dairy products; edible oils and oil by-products; sugar and confectionery; fermented and distilled beverages; and to a lesser extent, tobacco and cigarettes; and aerated and mineral water production.³³

Historically, for the majority of the smaller companies, processed foods have been produced almost exclusively for the domestic market, with some surplus exported to immediate

³² Ibid.

³³ The later three product categories are not included in data presented here for purposes of this analysis.

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neighbors, especially the Sudan. With the domestic market for processed foods now estimated by producers to be growing at not more than 2-3 percent annually, there appears to be increasing interest in exports. But most small to medium enterprises either lack any export experience or have yet to set their sights on exporting much beyond "small, easily met orders" of relatively low value-added products to close neighbors with similar tastes. Most exports of more highly processed products to regional markets, or to the EU or US, are made by the larger public and private food companies.

The public sector still accounts for most food production in terms of output value, given that it still fully controls the sugar industry, and much of the fruit juice sector for domestic consumption. Among the larger public sector companies, a major area of activity is in preserved fruits and vegetables. These include Edfina Company for Preserved Foods, active in canning and freezing of fruits and vegetables, as well as processed fish; and "Kaha", the El-Nasr Company for Preserved Food, active in frozen and canned fruits, vegetables, honey and juices. However, both are now struggling to compensate for declining sales to markets in Eastern Europe and the former Soviet Union.

Major foreign investors in processed foods in Egypt include Heinz Ltd., producing canned tomatoes and tomato paste and sauces, and Nestle SA which entered into a joint-venture with a local private company a few years ago. Reportedly, other local companies were initially wary of its potential influence as a large multinational, but many have since been impressed by its positive influence through technology transfers, training and business associations that have helped a number of local suppliers improve their quality standards.

Among private food processing companies that have recently been more successful are AGA, the Nile Agricultural Industrialization Company (in vegetable preparation, freezing and packaging) and Vitrak, the "Egyptian-French Company for Agro-Industries" and the major Egyptian producer of preserved fruit jams and honey, with much of their success due in large part to expanding exports. Vitrak currently exports 52 percent of its production, and is now doubling production capacity with the aim of boosting exports to about two-thirds of total production by fully exporting all new output.

The export experience of Vitrak illustrates key opportunities, as well as barriers, facing Egyptian food exporters. Vitrak's major advantage is that it processes relatively low-cost fruits produced in Egypt, helping to make its jams cost-competitive internationally. In addition to inexpensive local strawberries and other fruits, which have been in excess supply, much of Vitrak's packaging in glass jars is produced at lower cost in Egypt than in Europe. However, imported inputs account for about 25 percent of total unit costs, of which the major items are sugar imports at world prices, and bottle caps. Of Vitrak's total production, about 15 percent is exported to Japan, another 15 percent to the U.S. and Canada, and 10 percent to Australia, with smaller exports to the Gulf, where Egyptian workers provide a market base (no exports go

to Europe due to protection of the EU sugar industry). Transport is not a major problem as Vitrak product, like much processed food, is not highly perishable. Quality standards, and tastes, of foreign markets, have been met for the most part. Many Government regulations are not considered as burdensome as previously due to recent reforms.

Impediments to expanded exports of processed foods, however, include several major barriers, mainly related to a lack of supportive government policies; continuing problems in quality standards often in raw agricultural inputs; high costs of imported inputs; and marketing information and contacts.

Government policy / regulatory obstacles. Many companies welcome recent reforms that have eased many bureaucratic hurdles to exports - including fewer requirements for export licenses; the lifting of the quarantine to examine exports; and a smoother, but not ideal, duty drawback system. However, many firms wish to see further reforms. Others point out that rather than simply reduce the government to a passive or neutral role, it should take a more active part in assisting companies to expand exports through fiscal incentives, training assistance and marketing assistance.

Quality standards. Meeting quality standards is less a problem for processed foods than fresh produce, which is highly perishable. But uniformity of product is still a concern. For example, obtaining uniform varieties of fruit is difficult; they often vary widely due to the small size of most farmers' plots. Government laws restricting membership of cooperatives stand in the way of resolving problems of uniformity and quality.

High costs of imported inputs. Many processors identify their major cost component as packaging, much of which is imported. To help Egyptian food exports become more cost competitive, some firms recommend cuts in the 25 percent tax on imported packaging, made up of 10 percent import duty, 10 percent sales tax plus 2-5 percent for various "services".

Lack of marketing information and market access. As in other industries, many small and medium firms feel they do not have adequate access to market information. This problem also extends to larger food processors, however, who tend to restrict their marketing activities toward "product-friendly" markets within the Near East region. Among companies interviewed, those producing not just "regional-taste" products such as candy and confectionery, biscuits or edible oils, indicated that their exports were predominantly to the region, but this was also the case for firms producing more "generic" products potentially competitive in broader markets, such as fruit juices and frozen vegetables.

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Export Prospects: Most Favorable Products and Markets

Egyptian processed food exports with the strongest comparative advantages will be, by order of importance: (1) Those that are cost-competitive, using inexpensive domestic inputs; (2) those that involve relatively simple processing, in the median value-added range, but that are convenience products, such as canned or preferably frozen foods; and (3) those that meet quality and taste standards beyond the region.

The most cost-competitive exports are mainly those that avoid costly imported inputs and utilize mainly locally-produced, less expensive, and labor-intensive primary agricultural products. These exports would mainly be based on processing of domestic fresh fruits and vegetables, many of which are likely to remain relatively inexpensive and in excess supply in the medium term.

As food processing is not itself a labor intensive industry, it must use inputs that are and that reflect Egypt's competitive advantage, such as its low wage-rates. Local inputs less appropriate are agricultural products requiring highly expensive irrigation systems, e.g., milk products, and other inputs produced more cheaply outside Egypt, such as grains like wheat, edible oils like palm oil, and inputs like chocolate. Currently many present Egyptian food exports use such inputs (e.g. cheeses, candies and confectioneries), the cost of which has limited their export growth potential.

Products in the median value-added range will have a good potential as exports. Currently, Egypt's major food exports (mainly dried onions and molasses) are too low in value-added. Adding further value to other products can help boost export earnings while also making use of products that because of timing or quality cannot be sold locally as fresh produce, but can be processed. A highly sophisticated level of processing, however, would at this time be prohibitively expensive for most sub-sectors, and would require more experience in competing with major international producers. However, producing more "convenience" products that are canned and especially frozen will help Egypt's food exports aim at market segments that are likely to expand most rapidly.

Markets likely to have the fastest growth are mainly those in the EU. Up to now, much of Egypt's food exports have been targeted largely at regional markets where "tastes" are easier to meet. These markets should of course be retained, but because they do not represent as large a market opportunity as the EU and are not likely to grow as quickly, new efforts should be redirected toward marketing more exports to the EU. To meet EU standards and tastes should not require producing major new products but would require a refocussing on products that are cost-competitive, of medium value-added, meeting basic quality standards.

Specific export products with the best potential include fruit and vegetable preserves; fresh and concentrate juices, especially mango and guava juices rather than citrus where technology is lacking; frozen vegetables and fruits of varieties familiar to consumers in major EU markets, such as sweet peas, green beans, artichokes, strawberries; and others that can be produced domestically at relatively low costs.

GROWING AND DECLINING EGYPTIAN FOOD EXPORTS 1980-82 TO 1990-92			
	1980-82 Ave. Exports(\$000)	1990-92 Ave. Exports(\$000)	Compound growth rate
Growing Exports			
Food preparations	484	10,897	+ 36.5
Meat, fresh and frozen	226	12,504	+49.4
Cheese and curd	150	3,863	+38.4
Cereal preparations	100	4,220	+45.5
Declining Exports			
Essential oils	10,982	7,928	- 3.2
Oil seeds and nuts	7,787	5,832	- 2.8
Preserved fruit	6,795	3,720	- 5.8

Source: Export Prospects of Middle East Countries, 1994.

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Among export products that have been growing over the past ten years are basic food and cereal preparations, cheese and curd, and fresh and frozen meat. Many of these have gone mainly to regional markets, and have helped compensate for other products which lost markets in Eastern Europe and have been declining, including preserved fruit. While regional-oriented products should be retained, others should be more aggressively pursued.

D. Elements of a Successful Export Strategy in Processed Foods

1. Adopt active government policies providing positive support for food exports.

Policies that go beyond recent reforms (which have already removed key obstacles such as export licenses and quarantines) would include actions to specifically support the private sector to expand exports by improving the enabling environment, rather than direct subsidies. Actions should include: Reforming major laws such as the cooperative law, allowing the development of more efficient production organizations; further liberalizing labor laws to allow a more flexible labor market for private firms in food processing; and reform of privatization laws to accelerate the transfer of large public sector food processing firms to entrepreneurs able to respond to export incentives while government agencies focus on food security and other overview policies.

2. Encourage adoption of higher processed food quality standards.

The government should consider programs at the farm level to make agricultural production in key inputs for food exports more uniform in terms of varieties of crops produced. This will require programs to select and promote cultivation of appropriate, high yield seeds, e.g. in horticulture crops such as uniform citrus varieties for juice processing.

3. Support infrastructure improvements.

While transport improvements are less critical for processed compared to highly perishable fresh produce, processed food exports are nonetheless burdened in cost-competitiveness by many port transaction costs. The de-monopolization of harbor service firms should be considered, especially in major cargo ports like Alexandria, where container clearance costs are reportedly double those of neighboring export competitors, particularly Israel.

4. Consider duty elimination for imported inputs for processed foods.

Recent streamlining of the drawback system remains difficult to implement in practical terms for many firms, especially smaller private companies. In its place, the Egyptian Government should consider removing all tariffs for exporters, and putting customs inspection on a one-time, annual basis.

5. Improve dissemination of marketing information.

As in other industries, many Egyptian processed food producers contend that they "don't see results" from present government export information agencies such as EEPC. Many feel that all existing marketing information could be better coordinated and consolidated under a central "wholesaling" unit. Moreover, additional market research and export opportunities in the processed food sector should be supported, and their findings widely disseminated throughout the industry.

PHARMACEUTICALS

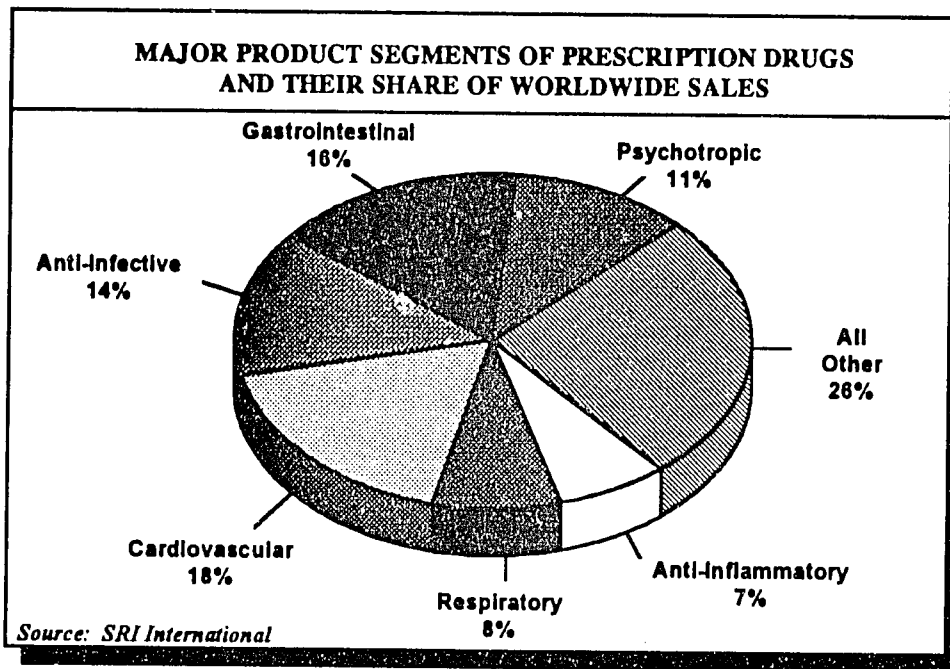
Under licensing and technology cooperation agreements with foreign companies, the Egyptian pharmaceutical industry has developed into a modern and relatively advanced industry, particularly compared to developing countries with similar levels of income. However, both production technology and equipment are mainly imported, as are the raw materials for pharmaceuticals. The recent growth of pharmaceuticals exports (from LE 51.4 million in 1989 to LE 90.4 million in 1993), albeit starting from a small base, has demonstrated substantial growth potential in a sector in which production capacity has been built up over years of import substitution policy. Selected pharmaceutical products, especially in the generic categories, are judged to meet international standards at competitive prices.

The best sales prospects for Egyptian pharmaceutical products will be both licensed and generic drugs in the Arab, African, and Eastern European markets, as well as generic drugs to the EU, a market which Egyptian pharmaceutical products can enter duty-free. The principal constraints to expanding export sales are the dearth of sales experience and international marketing knowledge, and Egypt's image as a developing country producer of a technology-intensive product. A coherent export development strategy should thus focus on overcoming these constraints by (i) improving access to market information; (ii) increasing training for sales and marketing staff; and (iii) enhancing the image of and publicity for Egyptian products in the international markets.

A. Overview of Worldwide Pharmaceuticals Market and Trade

Pharmaceuticals or drug products may include bandages, diagnostic reagents, vitamins, intravenous solutions, medicated toiletries, and a host of other products. Products may be available by prescription only or over the counter. Currently about 82 percent of worldwide pharmaceutical sales is accounted for by prescription products.

As in many technology-intensive sectors, the consumption and trade in pharmaceutical products are dominated by industrialized countries. It is estimated that close to three-quarters of the world's pharmaceutical products are consumed by Western Europe, the United States and Japan. Similarly, the major import markets are concentrated in industrialized countries, with the exception of the former Soviet Union, which had been the world's largest pharmaceuticals importer until 1991.



Between 1988 and 1992, the import markets for pharmaceuticals in the EU countries grew at a rapid rate of 18.3 percent, primarily due to an expansion in intra-EU trade. In contrast, U.S. imports grew at a much slower growth rate of 4.5 percent, as U.S.-based companies continued to be the dominant suppliers to its domestic market.

In the developing world, pharmaceuticals imports by African countries increased at a healthy rate of 12 percent between 1988 and 1992, while the Asian import markets grew 8.1 percent annually. Given the market saturation in the industrialized countries, many pharmaceutical suppliers are increasingly turning to East and Southeast Asia and Eastern Europe for sales expansion, especially as income rises in these markets and consumers demand higher quality healthcare and pharmaceutical products.

Currently more than eight percent of the world's population is older than 65. This "graying of the globe" will continue to increase demand for medicines, particularly for chronic illness. However, factors that will increase pharmaceutical consumption will be offset by others that decrease it, such as more effective dosing, cures, and nonpharmacological approaches. To a certain extent, the market for pharmaceutical products especially in industrial countries bears the characteristics of a mature market. Thus it is reasonable to assume that the number of doses per capita will not see a major increase. In most cases, new medications will be product improvements involving product displacements rather than dosage add-ons.

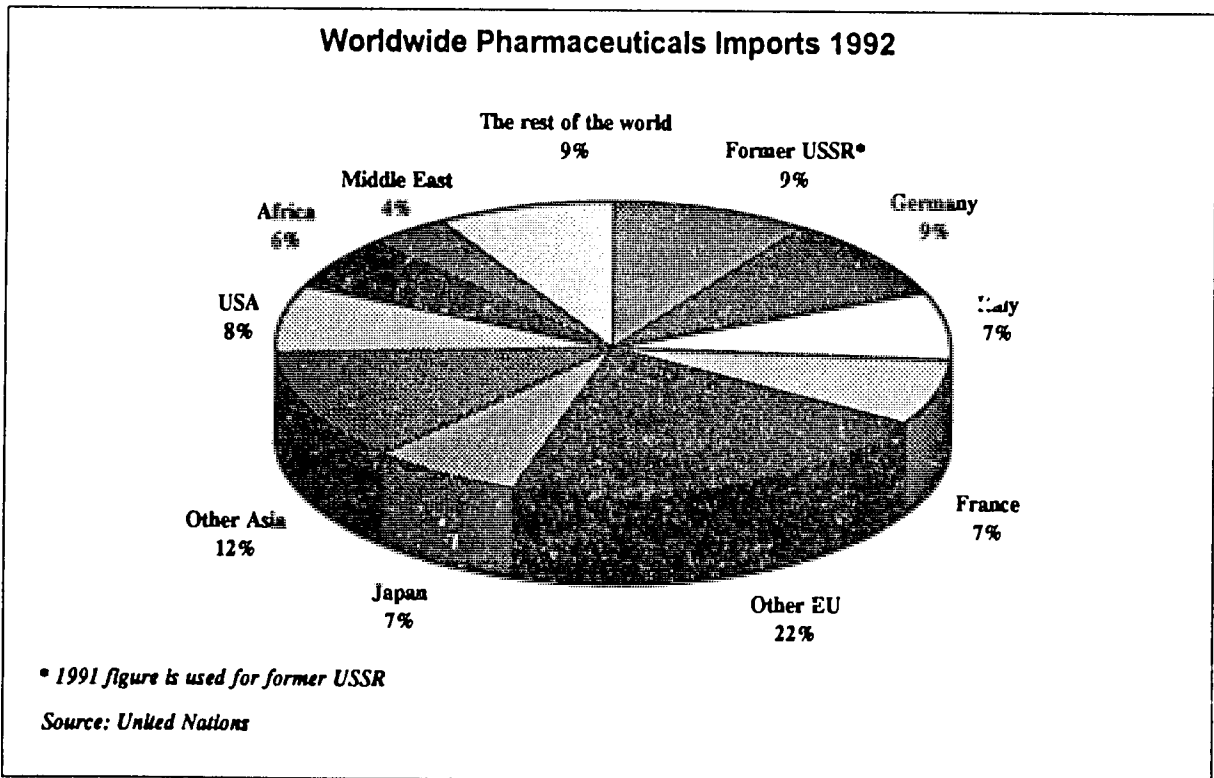
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Pharmaceuticals Imports of Major Markets (US\$ mil) in 1992

Country	Import Value <i>c.i.f. prices</i>	% of Total	% Growth 1988-92
World	50,590	100.0%	11.9%
Former USSR*	4,766	9.4%	36.5%
Germany	4,698	9.3%	17.0%
Japan	3,673	7.3%	8.4%
Italy	3,722	7.4%	16.7%
USA	3,861	7.6%	4.5%
France	3,614	7.1%	21.0%
UK	2,929	5.8%	17.0%
Belgium-Lux	2,112	4.2%	20.3%
Netherlands	2,004	4.0%	15.8%
Switzerland	1,648	3.3%	15.8%
Spain	1,573	3.1%	25.6%
Austria	1,196	2.4%	16.0%
Canada	1,293	2.6%	17.0%
Africa	2,883	5.7%	11.9%
Middle East	1,970	3.9%	2.8%
Asia	9,867	19.5%	8.1%
EU	22,874	45.2%	18.3%

* Figures are for 1992 only.

Source: United Nations

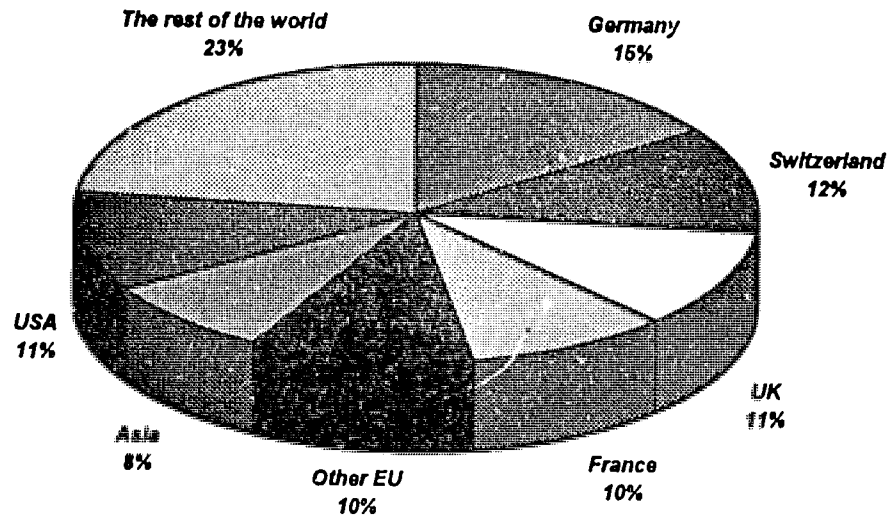


Pharmaceuticals Exports of Major Suppliers (US\$ mil) in 1992

Country	Export Value f.o.b. prices	% of Total	% Growth 1988-92
World	49,103	100.0%	13.0%
Germany	7,461	15.2%	12.5%
USA	5,446	11.1%	6.7%
Switzerland	5,686	11.6%	14.7%
UK	5,254	10.7%	14.2%
France	4,829	9.8%	16.8%
Belgium	2,550	5.2%	20.7%
Italy	2,472	5.0%	18.2%
Sweden	2,116	4.3%	24.5%
Netherlands	1,826	3.7%	11.2%
Denmark	1,475	3.0%	14.6%
Ireland	1,532	3.1%	28.6%
Japan	1,367	2.8%	17.5%
China	895	1.8%	16.6%
Asia	4,059	8.3%	13.4%
EU	28,349	57.7%	15.2%

Source: United Nations

Worldwide Pharmaceuticals Exports 1992



Source: United Nations

In some countries, notably the United States, generic products are increasingly important as patents expire and new product introduction slows. It is estimated that some one-third of U.S. sales are generic, but in the major European countries, the proportion is much lower. Traditionally, anti-infective agents have constituted the largest product or therapeutic class segment. However, many factors, including aging populations, new products, early diagnosis, and wider therapeutic applications have pushed sales in the cardiovascular product group. The persistence of chronic illness and challenges such as the acquired immune deficiency syndrome (AIDS) have also increased demand for therapeutic solutions.

The world pharmaceuticals market is dominated by a few large players. The top companies, such as Merck & Company, Ciba-Geigy, Hoechst-Roussell, SmithKline Beckman, and Pfizer, each account for 3-5 percent of the world pharmaceuticals market. While all large companies make international sales, almost all of them tend to derive the majority of their sales in their home country. Doctors are in many respects nationalistic in that they tend to prescribe products from the national industry to treat "national" diseases (for example, liver problems in France, circulatory disorders in Germany).

B. Key Competitive Factors in Pharmaceuticals Exports

The worldwide pharmaceuticals market is undergoing rapid changes. In particular, technological advances, new competitors, shifting purchase-decision criteria, new marketing approaches, and changing government regulations are affecting the ways firms compete and do business.

The Importance of Marketing and Sales

Despite the high-tech image of the pharmaceutical industry, the primary elements of successful pharmaceutical business are marketing and sales. Even during this time of rapidly increasing R&D expenditures, most branded companies spend two to three times as much money on marketing and sales as they spend on R&D. A successful marketing and sales organization provides knowledge and directions all the way from discovery through development and on through the total life of the product. In the worldwide export market, companies must develop a thorough understanding of the demand and conditions in target markets.

Knowing the Distribution Systems

Another critical factor for success in pharmaceuticals sales and exports is knowledge and understanding of the distribution systems in particular markets. For over-the-counter drugs, products may be available in a variety of outlets which vary by country, making targeting distribution channels a difficult task. Hospitals and other related institutions (doctor's offices,

nursing homes, clinics) are an important outlet and, in industrialized countries, may account for up to 25 percent of the prescription or professional drugs market. In Japan, where distribution of most drug products is through doctor's offices, the percentage share of prescription drugs in the overall drug sales market is considerably larger than in most other countries. In contrast, in the newly industrialized and developing countries where the pharmaceuticals sales are somewhat less restricted by prescription, more drugs are available over-the-counter. Thus, potential exporters must study the distribution channels in their target markets in order to make their marketing efforts more efficient and effective.

Price Competition

Traditionally, price has been a less important factor especially in the prescription market segment, due to the relatively inelastic demand for effective, quality products. However, the generally sluggish economic conditions, rising health care costs and the strained medical reimbursement systems especially in the industrial countries have made pharmaceutical buyers increasingly price sensitive. The payers who feel the pinch include governments, insurers and managed-care providers. Consolidations has also improved the buying power of health services providers, a trend which is more pronounced in the United States. Industry sources estimate that by year 2000, 90 percent of pharmaceutical sales worldwide will be subject to some form of payment control. The rising cost consciousness in the industry will make price an increasingly important decision criteria in pharmaceuticals sales.

The Rise of Generic Drugs

As the pharmaceuticals market becomes more price-sensitive, the less expensive, generic versions of off-patent compounds are becoming more popular and provide customers with more purchasing options. Since 1992, patents have expired for pharmaceutical products worth more than \$12 billion in worldwide sales, opening gates to price competition by other manufacturers. The growth of the generic drug market should be beneficial to the smaller producers which are not leaders in R&D and product pioneers. A successful over-the-counter (OTC) brand can mean healthy domestic and export sales well beyond a typical patent term, as in general the OTC market experiences only mild swings. Thus, effective participation in the generic market may provide a steady sales momentum and help a producer to discipline its manufacturing and distribution system.

The Entry of Nontraditional Competitors

Recent years also witnessed the entry of nontraditional competitors in the worldwide pharmaceutical sector, many of which enter the business because they believe their technical and related business expertise will allow them to exploit the new openings and niche markets. In Japan, new companies are entering the fray from myriad industries, such as brewing, tobacco,

cosmetics (including Asashi Brewing, Japan Tobacco, Shiseido Co.). In the US, new companies encompass only a few related industries such as chemical (e.g. Dow Chemical) and consumer product (e.g. Eastman Kodak) companies. The entry of nontraditional producers and distributors is likely to intensify competition in the pharmaceuticals market.

C. Assessment of Egypt's Export Prospects

The Pharmaceuticals Sector in Egypt

The pharmaceutical industry has traditionally been a protected sector. It is estimated that local products still account for 90-95 percent of local consumption. The industry mainly comprises production under licensing agreements with multinational drug companies, local fabrication and packaging of imported bulk raw materials.³⁴ It is estimated that close to 90 percent of the raw materials for pharmaceutical products are imported. Taking into account imported machinery as well, local value-added may fall in the range of 25-35 percent.

There are 11 public sector firms in the sector, producing and trading pharmaceutical end products, chemicals and other raw materials. There are three foreign-Egyptian joint-venture companies (Hoechst, Pfizer, and SwissPharma), eight investment sector (Law 230) companies, and seven public-private joint-venture firms. In addition, there are over 250 scientific offices, which are primarily engaged in marketing products to doctors and hospitals and contract out manufacturing to local producers. Some of the largest drug companies in the world, such as Merck and SmithKline, operate in Egypt through scientific offices.

In recent years, the private sector share of production has risen rapidly as private investment poured into the pharmaceutical sector to take advantage of Investment Law 230 and the partial liberalization in the pharmaceuticals sector in Egypt. According to industry sources, the private sector may account for as much as 55 percent of total production, compared to just 30 percent in 1980. The prospects of privatization of state-owned firms and the liberalization of pharmaceutical imports have put increasing pressure on both public sector and private companies to diversify their client base.

³⁴ Some of information on the industry structure is drawn from the draft report "Price and Market Liberalization in Egypt: Pharmaceuticals, A Case Study," October 1994, prepared by L.G. Thomas, Harold Lubell and Richard Sines, under funding from USAID.

Production and Export of Pharmaceutical Products in Egypt				
(in LE million)				
	1980	1985	1989	1993
Production				
Total	173.8	597.9	1059.9	1700.0
State	122.1	378.0	580.7	765.0
% Total	70.2%	63.2%	54.8%	45.0%
Private	51.7	219.9	479.2	935.0
% Total	29.8%	36.8%	45.2%	55.0%
Export	2.9	10.2	51.4	90.4
% Export/Prod.	1.7%	1.7%	4.8%	5.3%

Source: Egyptian Export Promotion Center.

Export Performance and Prospects

Exports of pharmaceutical products from Egypt have grown rapidly in the past several years, from a very low export base. In 1993, Egypt exported LE 90.4 million (\$26.7 million) of pharmaceutical products, compared to LE 51.4 million (US\$15.5 million) in 1990, representing a two percent annual growth rate. Since exports only accounts for five percent of total production, there exists sufficient capacity in the industry to expand its export sales.

Export growth in pharmaceutical products has been led by the private sector, which accounts for about two-thirds of total pharmaceutical exports. Export sales are mainly concentrated in generic products such as aspirin and antibiotics. A smaller amount of sales have also been made to Arab and African countries under licensing agreements.

The largest markets are in Arab and African countries, including Saudi Arabia, Yemen, Kuwait, UAE, Iraq, Sudan, Nigeria, and Zambia. Smaller sales have been made to Asian countries, e.g. Philippines, Korea, and Sri Lanka and to the EU. Some firms are also beginning to make sales to former Soviet states such as Russia, Ukraine, Azerbaijan, and Uzbekistan.

The best sales prospects for Egyptian pharmaceutical products will be both licensed and generic drugs in the Arab, African, and Eastern European markets. There is also moderate prospects in the EU, a market which Egyptian pharmaceutical products can enter duty-free. For example, a public sector drug company has recently negotiated substantial sales of aspirin and

other generic drug products to Germany as a result of a trade mission organized in 1994 by the Egyptian Export Promotion Center (EEPC). Several large pharmaceutical companies in Netherlands, Germany, and Austria have also expressed interest in Egyptian pharmaceutical products.

In the EU market, however, Egyptian exporters will need to overcome several constraints in addition to price competition, such as the long, complicated, and costly process of registration as a supplier in a new market. Industry sources indicated that it could take between a few months and three years to register as a supplier of a new drug product, in a process which costs \$3,000 to \$5,000 per item depending on whether clinical trials are required.

In addition, Egyptian exporters will need to overcome their image as a developing country producer of a technology-intensive product. The recent trade mission in Europe has demonstrated that Egyptian producers can succeed in doing so if they have more direct contact with international buyers and are given opportunities to demonstrate their production capability and product quality.

Competitiveness of the Egyptian Pharmaceutical Sector

Under licensing and technology cooperation agreements with foreign companies, pharmaceuticals has developed into a modern and relatively advanced industry, particularly compared to developing countries with similar levels of national income. The Egyptian industry has the capability to produce a large variety of drug products (e.g. aspirin, antibiotics, dermatologicals, ophthalmics, vitamins, proteins, etc.) in a variety of forms (e.g. capsules, tablets, syrups, ointments, powders, gels, solutions, viles, etc.).

Currently, both production technology and equipment are mainly imported, as are the raw materials for pharmaceuticals. The technical sophistication, high capital intensity and economies of scale required have precluded the development of a local fine chemicals industry to supply raw materials. In addition, price regulation in the pharmaceuticals industry has discouraged multinational firms from transferring production of bulk raw materials to Egypt. The price competitiveness of Egyptian producers would be enhanced if a large proportion of their raw materials and capital equipment could be sourced locally and at lower prices.

The recent growth of pharmaceuticals exports, albeit starting from a small base, has demonstrated substantial growth potential in a sector in which production capacity has been built up over years of import substitution. Selected Egyptian pharmaceutical products, especially in the generic categories, are judged to meet international standards at competitive prices. The quality of Egyptian drug products is reportedly superior to those from India, Pakistan, Indonesia, and China. Thus, Egyptian producers have the potential for multiplying their sales especially with the proliferation of generic drug products in industrialized countries.

One development in the global trade which may have a negative impact on Egypt's pharmaceuticals sector is the standardization of patent terms to 20 years under GATT's Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Current Egyptian law allows patents to expire in ten years, after which generic versions can be manufactured and marketed. TRIPS would mean that Egyptian manufacturers must postpone the fabrication and sales of generic drugs to comply with the new GATT standards. Since Egypt's current exports, especially to Eastern and Western Europe, are mainly in the generic drug categories, TRIPS may constrain export growth in those areas. Fortunately, under the transitional arrangements allowed by GATT, Egypt may apply to delay compliance with the new patent law for four to nine years in order to mitigate the negative impact of the TRIPS agreement on its domestic industry.

An important factor which has constrained the development of pharmaceutical export sales is the lack of international market knowledge, sales expertise, and the need for exposure, contacts, and connections in target markets. For decades the Egyptian drug companies could rely on a captive domestic market and thus have not been inclined to think and act globally or to diversify their market bases. The need for market diversification has become more apparent in recent years due to gradual liberalization in the industry. Increasing competition in the domestic market will force Egyptian companies to become more outward-oriented in order to survive.

With industry giants spending billions of dollars per year on marketing and sales promotion, Egyptian producers cannot afford to be ignorant about international trends and market practices. As previously discussed, since pharmaceuticals distribution systems vary dramatically from one country to the next, market understanding and sales organization are critical to success in the pharmaceutical business. Export assistance officials have indicated that many Egyptian pharmaceutical suppliers lack up-to-date knowledge on international product prices and pricing practices and consequently have negotiated unwise business deals or have missed out on good sales opportunities. Visits to some of the major private pharmaceuticals companies also revealed that an international marketing department could be staffed by as little as one person. Thus, Egyptian producers have a lot of catching up to do in building market knowledge and sales organization and expertise.

D. Elements of a Successful Export Development Strategy in Pharmaceuticals

Constraints on export growth in the pharmaceuticals sectors exist primarily in the area of marketing and sales and less so in product quality. Thus, an effective export strategy for the pharmaceutical sector would include the following:

1) Improve Access to Market Information

Some of the industry price information is available from international databases which are accessible to pharmaceutical firms through export assistance institutions (e.g. Trade Net) or through private database subscriptions. Reports on market trends and conditions in individual countries which are useful to potential producers can also be obtained from those sources. Many companies have not reported use of the existing information sources, and many are not aware that those information clearing houses exist. Market knowledge of industry firms could be enhanced by increasing use of the existing information services which are provided free or at a small fee through export assistance institutions.

2) Increase Training for Sales and Marketing Staff

Since Egyptian suppliers have only recently begun to focus on penetrating export markets, most are relatively inexperienced in conducting market research, organizing international sales operations, and making market contacts and connections. An effective export development strategy should include sector-specific training in international marketing and sales, which could be sponsored by the export assistance institutions such as the Export Promotion Center or the Trade Development Center, co-sponsored by bilateral donor agencies such as USAID or other multilateral organizations.

The International Executive Services Corps, which already has an active presence in Egypt providing firm-level assistance, could be an efficient channel for delivering short courses and assistance in sales and marketing. Such courses and assistance need not be fully funded since some of the large pharmaceutical companies interviewed have indicated willingness to cover the full or partial costs of training in marketing and sales.

3) Enhance Image of and Publicity for Egyptian Products

Egyptian producers also need to increase their exposure to the international buyers and enhance their image as quality producers through more face-to-face contacts in events such as trade missions and trade fairs. A recent trade mission to several Western European countries organized by the Export Promotion Center for chemical and pharmaceuticals suppliers has reportedly resulted in substantial sales. The key to a successful trade mission is to have good initial contact with potential buyers, a task which could be undertaken by the Commercial Attaches posted in the target markets.

International trade fairs, which are regular events attended by major pharmaceutical distributors, manufacturers, agents, etc. are also good opportunities for producers to make contact with buyers and collect market intelligence. Some of the major international trade fairs include:

- Therapy Week Karlsruhe - Congress and Exhibition for Pharmaceutical Products, Medical Equipment and Technical Medical Products (Germany), with annual attendance of over 10,000. Principal exhibits are pharmaceuticals, bandaging materials, technical medical products, dietary products etc.
- Interphex Korea, with an annual attendance of over 15,000, including industry purchasing and marketing managers, and end-users.
- Interphex Japan, with an annual attendance of 49,000. The target audience includes buyers, executives, mid-level purchasing managers and marketing managers in the pharmaceuticals and cosmetics markets.

Since attendance of trade shows could be very expensive, it is critical that company representatives attending these events are armed with product samples, company information and product knowledge and are ready to take trial orders from potential buyers. Trade shows could also be good opportunities for Egyptian exporters to identify local sales agents and representatives, and to gather intelligence on the products and prices from their international competitors.

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FERTILIZERS

Opportunities for Egypt to expand fertilizer exports appear limited. Over the medium term, fertilizer exports are likely to result in only modest but still welcome contributions to export earnings, mainly because of declining international demand. Egypt should continue to use its advantage as a producer of petroleum-based natural gas feedstock for production of nitrogenous fertilizers, including ammonium nitrate, ammonia and urea, but use this mainly to meet domestic fertilizer demand. Additional production should then be considered for export markets, depending on international demand and market prices. At present, most export opportunities are likely in Asia where the great majority of new growth in demand will occur, followed by Latin America and Africa. Declining demand is likely to continue in both Western and Eastern Europe. Demand will be strongest for Egypt's nitrogenous products, ammonium nitrate and urea, and less so for phosphates such as TSP and SSP.

To increase Egypt's competitiveness in a shrinking worldwide market, it is critical that Egyptian producers become more efficient, cost-effective and market-oriented. To encourage the industry's development, the overall policy environment needs to be further liberalized. Improvements in transportation and infrastructure will help industry firms to lower production and delivery costs. In addition, more accessible market information such as pricing and market demand will help producers become more competitive.

A. Overview: World Fertilizer Markets and Trends

International exports of manufactured fertilizers³⁵ declined by about 10 percent between 1990 and 1992, dropping in value from about \$13.4 billion to around \$12.2 billion. World trade in crude fertilizers also fell from \$1.6 billion to \$1.2 billion, reflecting falling international demand for fertilizers.

Declining demand for the three major fertilizer nutrients (nitrogen, phosphate and potash) is partly due to an excess in overall world food supply, particularly for major crops including wheat, maize and rice. As a result of excess food supply, world demand for fertilizers has slowed, leading to accumulation of excess fertilizer products and falling international prices. Most of the decline in world fertilizer consumption has occurred in Eastern Europe and in the

³⁵ Manufactured fertilizer data refer to nitrogenous, phosphate, potash and compound fertilizers; crude fertilizer data refers to animal or vegetables fertilizers, natural potassic salts, natural sodium nitrate and rock phosphates.

former-USSR, but West Europe has also been a shrinking market, along with parts of Latin America and Oceania.

With consumption likely to grow in Asia and other developing countries, it is estimated that the drop in world consumption bottomed out in 1992/93 and that the first steps toward a tentative recovery are now in place.³⁶ However, the outlook for world demand through year 2000 is that it will only grow slowly, at an average of 1.1 percent p.a.³⁷ The main growth areas should be in Asia, particularly China and India. These markets, however, are increasingly meeting domestic demand with their own production, as capacity utilization increases in their major manufacturing plants. Other growth areas will include Latin America and Africa, but growth will start from smaller bases.

WORLD FERTILIZER NUTRIENT PRODUCTION & CONSUMPTION 1990/91						
	<i>Total nutrients (million tons)</i>		<i>% of world total</i>		<i>Annual growth rate (%)</i>	
	Prod.	Cons.	Prod.	Cons.	Prod.	Cons.
Nitrogen	82.3	77.1	55.6	56.1	-2.7	-2.7
Phosphate	38.9	36.0	26.3	26.2	-2.0	-3.7
Potash	26.7	24.4	18.1	17.7	-5.7	-9.2

Source: "Current World Fertilizer Outlook 1990/91-96/97", FAO, 1993.

Overall fertilizer demand is expected to fall in industrialized countries. No significant growth is likely in the United States, while EU consumption is expected to decline steadily due to policies limiting agricultural production as well as growing environmental concerns. In East Europe and the former USSR, demand may still drop a bit more before recovering slowly in the late-1990s. Production forecasts indicate a large surplus for nitrogen, phosphate and potash through 1997 and beyond, with international fertilizer prices likely to remain depressed.

International fertilizer trade patterns are likely to remain about the same over the next decade. The major importers will be in Asia and to a lesser extent in Latin America, for all three fertilizer nutrients. The main exporters of nitrogen fertilizers and ammonia should be the former

³⁶ "Outlook for Sulphur Supply and Demand, 1991-98", FERTECON, International Fertilizer Industry Assoc., October, 1993, Dublin.

³⁷ "Current World Fertilizer Situation and Outlook, 1990/91 - 1996/97," U.N. Food & Agriculture Organization, 1993, Rome.

USSR and increasingly the Gulf countries. Major suppliers of phosphates will be North America and West Asia. The two major potash suppliers will be Canada and the former USSR.

EXPORTS OF MANUFACTURED FERTILIZERS, 1988-92			
(\$ MILLIONS)			
	1988	1990	1992
World	13,345	13,462	12,205
Europe	5,161	5,056	4,537
Near East	1,116	798	732
Egypt	7	7	43

Source: FAO Trade Yearbook, Vol 46, 1993, Rome

World exports of manufactured fertilizers are mainly made up of nitrogen products including nitrogen fertilizers and ammonia, which together account for about 55 - 60 percent of total exports. As Egypt is mainly a producer and exporter of nitrogen products, international supply and demand patterns for this fertilizer category are most relevant.

While European countries as a group are the major exporters of nitrogen fertilizer (40 percent of total fertilizer exports), the single largest net exporting country is the former USSR, followed by the United States. Other major exporters include Canada, the Netherlands, and Indonesia. Major nitrogen fertilizer importers are China, the United States and other Asian markets.

The other major nitrogen product, ammonia, accounts for another 20 percent of total exports. The former USSR is the largest ammonia exporter with about one-third of the world market, followed by Trinidad, the Netherlands and Canada. The Arabian Gulf is a growing exporter, but still behind the others. Major importers of ammonia will remain Western Europe (40 percent of total imports), the United States (30 percent), and South and East Asia (15 percent).

B. Key Competitive Factors

A major influence on the competitiveness of fertilizer exports is their price. This is especially true given projections that international demand and prices are likely to decline in real terms for the rest of this decade. The real costs of inputs in fertilizer production largely determine export competitiveness.

Among Egypt's advantages in fertilizer production are its domestic supplies of key inputs. For nitrogenous fertilizers, Egypt's major advantage is its petroleum industry and domestic supplies of natural gas, on which production is based for ammonium nitrate, ammonia and urea, which are growing exports. Generally, production in Egypt of ammonium nitrate and urea is economic by international standards, but improvements can still be made in energy efficiency, employment levels, management and the overly-protective regulatory policy environment.³⁸

The domestic phosphate industry uses key inputs of phosphate rock sourced from Upper Egypt. The cost of Egypt's rock phosphate at \$23/MT is lower than, for example, Morocco's at \$33/MT. But poor quality supplies have resulted in production of substandard CSP (concentrated superphosphate) and SSP (single superphosphate).³⁹ Moreover, another key input for phosphate fertilizers, sulphur, must still be imported mainly from Saudi Arabia and Poland, and world sulphur prices are rising sharply. Still, the Egyptian export price of bagged phosphate at \$62 f.o.b. Suez/Red Sea appears competitive with the price of \$65. f.o.b. Bombay.⁴⁰ In any event, phosphate exports are relatively small and likely to remain so under present conditions of rising domestic demand and limited production capacity.

Transport costs for Egyptian exports are in a similar range as those of its major competitors in the region, Morocco and Tunisia; indeed, Egyptian exports to Asia have an advantage in being able to use the Red Sea ports of Suez, El Hamaween and Safaga, and avoid Suez Canal fees. Another factor in competitiveness is that various forms of some fertilizers are more in demand than others, such as powdered TSP which can be used as a raw material for mixed fertilizer, as opposed to granulated TSP, which is more environmentally sound, but has a slightly higher production cost.⁴¹

C. Egypt's Export Trends and Prospects

In the Middle East region, total exports of manufactured fertilizers have declined from about \$1.5 billion in 1988 to \$1.3 billion in 1992. Part of the drop was due to disruption among Gulf producers during the Gulf War and its aftermath in 1990/91. Gulf production will likely pick up as new ammonia production capacity comes on line soon. However, total Middle East

³⁸ "Fertilizer Policy Impact Study", International Fertilizer Development Center, June 1993, Muscle Shoals, Ala., USA.

³⁹ Nutrient analyses of Egyptian-produced CSP and SSP are at 15 percent and 37.5 percent P205 respectively, compared to 18 percent and 46 percent P205 for international specifications.

⁴⁰ "Agricultural Inputs: Phosphatic Fertilizer", p. 24, 1994.

⁴¹ Ibid.

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ACHIEVING EGYPTIAN EXPORT GROWTH

exports remain a small proportion, about 10 percent, of total world fertilizer trade, and are unlikely to increase their share as long as world demand remains stagnant.

Egypt faces strong competition in fertilizer exports from nearly all its neighbors in the region, including Morocco and Tunisia, and also more recently Israel, but with whom Egypt is set to cooperate more. Even Jordan, generally a minor competitor with Egypt in other export sectors, is strong in fertilizer exports, along with the oil producers of the Gulf.

REGIONAL EXPORTS OF MANUFACTURED FERTILIZERS, 1990-92 (\$ MILLION)			
	1990	1991	1992
Israel	253.9	253.3	302.0
Morocco	411.2	381.8	286.8
Tunisia	261.0	240.0	236.5
Jordan	252.8	269.2	234.3
Saudi Arabia	106.7	145.3	160.0
Qatar	88.5	105.6	120.0
Egypt	6.7	13.6	43.6

Source: *FAO Trade Yearbook, Vol. 46, 1993, Rome.*

Egyptian exports of manufactured fertilizers have increased from just \$7 million in the late 1980s to over \$43 million in 1992. Most of the increase is due to a boost in new production capacity, particularly the new plant of the Abu Qir Fertilizer Co. which started production in 1991.

EGYPTIAN EXPORTS OF MANUFACTURED FERTILIZERS, 1989-92 (\$ '000)				
	1989	1990	1991	1992
Total Fertilizers, Manufactured	7,112	7,523	13,549	43,565
Of which: Nitrogenous	6,864	7,232	13,273	41,920
Of which: Ammonium Nitrate	2,458	3,647	4,906	33,224

Source: *U.N. International Trade Statistics Yearbook, 1992.*

Ammonium nitrate is now Egypt's leading fertilizer export, accounting for 76 percent of total manufactured fertilizer exports in 1992, followed by urea (20 percent) and the phosphate fertilizers (TSP and SSP).⁴² Most of Egypt's export markets are in Asia including the Philippines, New Zealand, Bangladesh and Sri Lanka. Smaller markets exist in Africa, such as Sudan and Nigeria, but fertilizer application rates in most African markets remain extremely low, and increasing demand is now met by South Africa and oil producers like Nigeria. Egypt also has smaller exports to the EU, including Italy and Spain, but demand throughout both East and West Europe is falling.

Fertilizer Sector Structure

Egypt's fertilizer production capacity has been developed largely in response to strong demand from its own domestic market. Egypt dominates fertilizer consumption in North Africa, with application rates that are among the highest in the world.⁴³ Indeed, a key issue is how much Egypt's total production of fertilizer will exceed aggregate domestic demand and be available for export, especially with rising domestic fertilizer consumption under recent policy reforms.

Prior to the agricultural/fertilizer policy reform period of about 1986/91, the government fully controlled the production, procurement and distribution of fertilizer and other agricultural inputs. In 1976 a monopoly had been granted to the Principal Bank for Development and Agricultural Credit (PBDAC) for fertilizer procurement and distribution at controlled, subsidized prices. The reform program, along with macroeconomic policy initiatives, included:

- (I) Phasing out nearly all fertilizer price controls and subsidies between 1988 and 1991, ending the PBDAC distribution monopoly;
- (ii) Allowing cooperatives and private dealers direct access to fertilizer supplies at factories;
- (iii) Setting ex-factory prices at full border-equivalent values; and
- (iv) Reducing interest-rate subsidies on loans for pesticides and on farm loans, and providing cash rather than in-kind credit.

The initial impact of the reforms was decreased fertilizer demand due to higher prices. However, overall real prices subsequently declined by over 40 percent from before the reforms

⁴² "Fertilizer Policy Impact Study", International Fertilizer Development Center, Muscle Shoals, Alabama, USA, June 1993.

⁴³ "Current World Fertilizer Situation and Outlook, 1990/91-96/97", FAO, 1993, Rome.

due to efficiency and production technology improvements, boosting aggregate average fertilizer use by about 30 percent.

The major fertilizer producers remain the five large public sector companies (private firms are only permitted in mixing and liquid fertilizers). Most of them operate with relatively old and inefficient physical plants, and in the case of nitrogen fertilizer production, remain protected by a continuing 30 percent tariff on nitrogen imports. The two phosphatic fertilizer companies are held by the Holding Company for Mining, Refractories and Ceramics. Both of them export small quantities to the Asian markets.

The three nitrogenous fertilizer producers are the Egyptian Chemical Industry Co. producing ammonium nitrate at Kima, which operates at a loss without the benefit of electricity subsidies; El Nasr, producing ammonia and urea at Talkha and also experiencing losses⁴⁴ (new nitrogen capacity is coming into production at the El Nasr Suez plants); and Abu Qir Fertilizers and Chemicals Industries Company.

Abu Qir is reportedly the most efficient of all the producers, mainly due to its new production facilities. Currently Abu Qir produces about 60 percent of Egypt's total output of nitrogenous fertilizers of about 2 million MT p.a. Abu Qir is likely to significantly expand its ammonium nitrate and urea capacity soon by up to 300,000 MT p.a., with a large share allocated for exports, depending on local demand. However, as indicated in the table below, there is likely to be strong growth in domestic demand, which will not be met by domestic production without a significant expansion of capacity.

PROJECTS DOMESTIC SUPPLY/DEMAND BALANCE FOR NITROGEN FERTILIZER 1994-2000				
	'000 MT			
	1994	1996	1998	2000
Potential Nitrogen	1,035	1,035	1,035	1,035
Potential Demand	991	1,073	1,163	1,260
Exports (Imports)	44	-38	-128	-225

Source: "Fertilizer Impact Study", IFDC, June, 1993.

⁴⁴ "Agricultural Inputs: Nitrogenous Fertilizer", 1994.

Export Prospects

International demand for nitrogenous fertilizers, Egypt's most important fertilizer export, has been forecast to grow at a rate of 1.1 percent between 1991 and 2001.⁴⁵ Most of the new growth in demand will occur in Asia, followed by Latin America, Africa and Oceania. Overall demand will decline by about 15 percent over the decade in Europe and the former USSR.

World supply of ammonia, based on known plans, should increase by about 11 million tons by 1997. Over 7 million tons of this will be in Asia, mainly in India and China, for domestic consumption, but also in Indonesia and the Arabian Gulf for export. Planned increases in the former USSR remain uncertain. Supplies from Europe and North America are expected to remain steady.

Egypt also exports minor amounts of phosphate fertilizers, including SSP and TSP. Again, growth in demand should only be about 1.1 percent, with most growth occurring in Asia. Supply of phosphoric acid is expected to grow by about 2.5 million tons by 1997. Morocco would account for much of this if it decides to go ahead with a planned capacity expansion. China will account for the rest. No capacity increases are likely in the United States or Europe.

The overall supply and demand balance internationally, barring major disruptions such as occurred during the Gulf War, is forecast to show a significant surplus of all fertilizer nutrients through the end of this decade. Given these forecasts, it appears unlikely that Egypt can substantially increase its fertilizer exports, even with a major expansion of capacity. The prospects appear best for Egypt to continue to keep a foothold in the export market, seeking out market niches in south Asia and Africa, and concentrate on remaining cost competitive in nitrogenous production. Meanwhile, manufactured fertilizers, particularly ammonium nitrate, should be able to remain among Egypt's top export-earners if the industry's domestic operating climate is further liberalized. This should be warranted by the fact that fertilizers are among Egypt's ten major export items with a strong revealed comparative advantage for Egypt.⁴⁶

D. Elements of a Successful Export Strategy in Fertilizers

Egypt's domestic supply/demand conditions, mainly for the major exports of urea and ammonium nitrate, are likely to remain in relatively close balance, and should determine when domestic production will be available for export, given the importance of maintaining Egypt's food security policies. Domestic sales should be made at ex-factory prices based on border

⁴⁵ "Current World Fertilizer Situation & Outlook 1991-1997", FAO, 1993 Rome.

⁴⁶ "Export Prospects of Middle Eastern Countries", A. J. Yeats, The World Bank, 1994, Washington, D.C.

equivalent pricing to take account of international prices. If domestic demand does not lift total production, then exports should be encouraged at prices at least equal to domestic prices, and timed to periods of low domestic demand.⁴⁷

In addition, a number of operating impediments need to be removed to encourage a generally more efficient, cost-effective, and market-oriented industry, as a basis for expanded exports, including:

1. Reducing Import Regulations and Tariffs

Protection is provided to domestic fertilizer producers through tariffs on imports of nitrogenous and phosphatic fertilizers. The tariffs were raised from 5-10 percent up to 30 percent beginning in July 1991, when the PBDAC monopoly on imports was lifted. Tariffs should be gradually removed to encourage greater efficiency of domestic producers through competition, and to remove limits on private sector imports.

2. Reducing Subsidies

Almost all direct fertilizer production subsidies were phased out by 1989 and indirect energy subsidies were progressively removed by 1993. However, direct subsidies still remain in the case of potassium sulfate, which should also be progressively removed. Also lifted should be the prohibition on the import and use of potassium chloride. The private sector should be permitted to import and distribute both fertilizers.

3. Accelerating Privatization

All fertilizer producers remain in the public sector. Some steps have been taken to move toward greater involvement of the private sector, but these have been slow. For example, in July 1992, new boards of directors were announced for fertilizer production companies that included some external private members. In 1993, four fertilizer companies were transferred out from the authority of the Chemical Industries Corporation holding company, but only to other holding companies of the Ministry of Industry. The acceleration of the privatization process will help to bring market discipline to the industry and force firms to increase efficiency.

4. Improving Port Facilities

Despite the end of the PBDAC monopoly on distribution, the off-loading and bagging system used at the port of Alexandria and its pricing system remain unreformed. There is still no real competitiveness among services and both the private sector and PBDAC must use

⁴⁷ "Fertilizer Policy Impact Study", June 1993.

whatever services are available. The implementation of a market-oriented system will facilitate more efficient handling of exports at the ports.

5. Enhancing the Dissemination of Market Information

Data on fertilizer demand and production domestically, let alone internationally, has become more difficult to obtain since the reform process disengaged PBDAC from fertilizer distribution, and switched production companies to different holding companies. With no central system existing to collect and distribute information on fertilizer production, imports, stocks, prices and export markets, any new government information system should be centralized under a single unit, perhaps within the Ministry of Industry, and should coordinate closely with a central export data center on fertilizer trade data.

6. Improving Cost-efficiency

Public sector producers operating technologically inefficient plants at a loss should not be kept operating through indirect government subsidies. They could either be converted to a more cost-efficient system, privatized or closed if they are fundamentally not feasible.

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ELECTRONICS AND ELECTRICAL MACHINERY

The worldwide electronics industry, which is expected to grow rapidly to reach \$1 trillion in sales by the year 2000, offers considerable potential for the Egyptian exports. Although the electronics sector in Egypt is fairly new and small, primarily engaged in assembly and depending mostly on imports for components, there exists a basic infrastructure in Egypt to begin the development of a world-class electronics industry. Several new companies are beginning to export an appreciable amount of their production to niche markets. The best market prospects for electronics products and household electrical products are mainly in Saudi Arabia and nearby Arab and African nations. There are also good prospects in Europe, especially in Eastern Europe in the medium and long term. Best prospects exist in the assembly of electrical and electronics products which takes advantage of the competitive wage rates in Egypt. The principal problem which has constrained growth in the sector is the lack of investment, which hinders technology transfer and the development of market connections.

A. Overview of Worldwide Electronics Market and Trade

The worldwide electronics industry is expected to grow by a rate faster than overall economic growth for the rest of the decade, possibly reaching \$1 trillion dollars by the year 2000. At the current growth rate of about 10 percent annually, it is expected that the electronics industry will represent 5.4 percent of world GNP by the end of the century.

The Far East continues to dominate the market, producing approximately 40 percent of worldwide electronics, and 63 percent of consumer electronics. However, the top three electronics exporters are the United States, Germany, and Japan. Japan by itself produces 38 percent of worldwide consumer electronics. It is the rate of growth in the Far East that far exceeds any other region. The Pacific Rim Four Tigers-- Taiwan, Hong Kong, South Korea, and Singapore -- have developed their electronics industry at a growth rate of 22 percent. As labor becomes scarce in these countries, industries are looking to other locations for a source of low-cost labor, such as Indonesia, China, Thailand, and Malaysia. The tables in the following pages show the top ten exporters and importers for five different electronics-related products: Transistors & Valves, Television Receivers, Household Type Equipment, Electric Power Machinery, and Electrical Machinery.

The governments of these countries have played a large role in the success of the electronics industry. For example, in Korea, the government gave strong support to megacorporations and helped stimulate local demand by opening new diplomatic doors. In Taiwan, the government has supported local entrepreneurs through global market research. In Singapore, heavy government investment has created a world-class infrastructure. Hong Kong's

system of government nonintervention has helped small companies grow and attract foreign investment. All of these countries have provided low interest and no-interest loans to projects in order to promote the industry. As a result of these efforts, these four countries have a total High-Technology production of over \$75 billion per year, which is an average of 23 percent of these nations' total GNP.

India is a developing country that is actively pursuing a role in the electronics industry. The Indian government has helped the industry through active global marketing and attracting foreign investors. Recognizing the importance of the electronics industry for its development, India has created a Department of Electronics, directed by the Prime Minister. The agency actively solicits joint ventures and sponsors delegations of Indian businesspeople in their efforts to attract foreign partnerships. The government has also created a venture capital fund through one of its development banks to promote the high technology industry. Because of the large pool of skilled technicians and expatriate Indians living in the West, the target industries for India are software, components, and design. India's initiative may serve as a model for other developing countries that hope to enter the electronics market.

In the Middle East, the most highly developed electronics industries are those of Turkey and Israel. In terms of growth, Algeria's electronics industry is doing quite well due to an aggressive government campaign. All of these nations have taken many steps in the last decade to encourage foreign investment, set up joint ventures, and establish local companies for exporting products in the region. The Middle East peace process has opened new doors for Israel on the economic trade front. Many Middle Eastern countries, particularly in the Gulf region, are characterized by a high dependence on foreign imports, a high level of consumption, and an underdeveloped electronics industry.

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TRANSISTORS, VALVES, ETC.

Top Ten Nations in Electronics Components Exports

Country	1992 Exports (\$000)	% Total 1992	% Total 1988	% Growth 1988 to 1992
Japan	\$17,479,622	22.7	23.0	-1.30
USA	\$16,781,584	21.8	19.5	11.79
Korea Republic	\$7,762,913	10.1	7.2	40.28
Malaysia	\$5,330,462	6.9	6.2	11.29
Germany	\$4,034,327	5.2	6.4	-18.75
Singapore	\$5,447,811	7.1	5.9	20.34
United Kingdom	\$3,742,932	4.9	4.2	16.67
Hong Kong	\$3,155,322	4.1	4.6	-10.87
France	\$2,607,933	3.4	4.1	-17.07
Italy	\$1,836,439	2.4	2.5	-4.00

Top Ten Nations in Electronics Components Imports

Country	1992 Imports (\$000)	% Total 1992	% Total 1988	% Growth 1988 to 1992
USA	\$16,644,248	21.5	21.1	1.90
Korea Republic	\$6,011,505	7.8	6.5	20.00
Singapore	\$6,221,522	8.1	7.2	12.50
Germany	\$5,107,787	6.6	6.8	-2.94
United Kingdom	\$4,556,443	5.9	5.9	0.00
Hong Kong	\$5,633,480	7.3	6.3	15.87
Malaysia	\$6,257,044	8.1	4.9	65.31
Japan	\$3,988,253	5.2	4.1	26.83
Italy	\$3,363,684	4.4	4.5	-2.22
France	\$2,926,953	3.8	4.5	-15.56

Source: United Nations International Trade Statistics Year Book (1993)

TELEVISION RECEIVERS

Top Ten Nations in Television Receivers Exports

Country	1992 Exports (\$000)	% Total 1992	% Total 1988	% Growth 1988-1992
Germany	\$1,002,218	6.6	12.3	-46.34
Japan	\$2,402,216	15.7	15.3	2.61
Korea Republic	\$1,536,527	10.1	12.2	-17.21
Singapore	\$1,310,689	8.6	7.7	11.69
United Kingdom	\$997,899	6.5	4.5	44.44
Austria	\$371,749	2.4	4.8	-50.00
France	\$823,777	5.4	2.5	116.00
Hong Kong	\$1,088,675	7.1	5.3	33.96
Belgium/Luxembou	\$475,372	3.1	5.0	-38.00
USA	\$775,927	5.1	4.9	4.08

Top Ten Nations in Television Receivers Imports

Country	1992 Imports (\$000)	% Total 1992	% Total 1988	% Growth 1988-1992
Germany	\$1,886,248	12.0	11.2	7.14
USA	\$2,639,577	16.8	12.9	30.23
Italy	\$908,921	5.8	8.7	-33.33
France	\$907,602	5.8	8.7	-33.33
United Kingdom	\$659,961	4.2	7.1	-40.85
Hong Kong	\$1,646,256	10.5	5.2	101.92
Netherlands	\$577,449	3.7	6.4	-42.19
Singapore	\$627,420	4.0	2.9	37.93
Spain	\$657,294	4.3	1.9	126.32

Source: United Nations International Trade Statistics Year Book (1993)

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HOUSEHOLD TYPE EQUIPMENT

Top Ten Nations in Household Equipment Exports

Country	1992 Export value (\$000)	% Total 1992	% Total 1988	% Growth 1988-1992
Germany	\$4,585,185	18.2	16.8	8.33
Italy	\$3,837,970	15.2	13.8	10.14
USA	\$2,096,533	8.3	6.2	33.87
Hong Kong	\$2,152,286	8.5	7.0	21.43
France	\$1,824,624	7.2	5.4	33.33
Japan	\$1,413,551	5.6	8.5	-34.12
Korea Republic	\$1,096,935	4.3	6.9	-37.68
United Kingdom	\$875,000	3.5	3.3	6.06
Netherlands	\$672,756	2.7	2.7	0.00
Spain	\$676,427	2.7	1.8	50.00

Top Ten Nations in Household Equipment Imports

Country	1992 Import value (\$000)	% Total 1992	% Total 1988	% Growth 1988-1992
USA	\$3,740,674	13.9	16.2	-14.20
Germany	\$3,184,138	11.9	9.0	32.22
France	\$2,258,909	8.4	9.8	-14.29
United Kingdom	\$1,694,085	6.3	9.4	-32.98
Hong Kong	\$1,706,265	6.4	3.8	68.42
Netherlands	\$1,233,338	4.6	4.3	6.98
Italy	\$956,588	3.6	3.1	16.13
Spain	\$1,162,087	4.3	2.1	104.76
Canada	\$951,346	3.5	3.5	0.00
Belgium/Lux	\$906,768	3.4	3.0	13.33

Source: United Nations International Trade Statistics Year Book (1993)

ELECTRICAL POWER MACHINERY

Top Ten Nations in Electrical Power Machinery Exports

Country	1992 Export value (\$000)	% Total 1992	% Total 1988	% Growth 1988-1992
Japan	\$1,822,150	14.7	17.5	-16.00
Germany	\$1,649,063	13.3	14.0	-5.00
USA	\$1,288,673	10.4	5.8	79.31
Hong Kong	\$1,159,669	9.3	7.8	19.23
France	\$767,838	6.2	4.4	40.91
United Kingdom	\$480,020	3.9	3.6	8.33
Korea Republic	\$377,670	3	3.9	-23.08
Singapore	\$413,261	3.3	3.1	6.45
Netherlands	\$313,156	2.5	3.1	-19.35
Italy	\$355,333	2.9	2.2	31.82

Top Ten Nations in Electrical Power Machinery Imports

Country	1992 Import value (\$000)	% Total 1992	% Total 1988	% Growth 1988-1992
USA	\$2,208,994	16.5	23.9	-30.96
Germany	\$1,104,232	8.2	6.6	24.24
Hong Kong	\$1,009,602	7.5	4.9	53.06
United Kingdom	\$646,951	4.8	4.9	-2.04
France	\$681,013	5.1	4.6	10.87
Japan	\$678,310	5.1	4	27.50
Singapore	\$647,902	4.8	4.6	4.35
Canada	\$366,914	2.7	2.3	17.39
Netherlands	\$327,110	2.4	2.7	-11.11
Italy	\$331,666	2.5	2.4	4.17

Source: United Nations International Trade Statistics Year Book (1993)

ELECTRICAL MACHINERY**Top Ten Nations in Electrical Machinery Exports**

Country	1992 Export value (\$000)	% Total 1992	% Total 1988	% Growth 1988 - 1992
Japan	\$9,004,412	20.6	19.8	4.04
Germany	\$7,411,895	16.9	15.5	9.03
USA	\$6,418,286	14.7	12.8	14.84
United Kingdom	\$2,825,220	6.5	7.3	-10.96
France	\$2,551,577	5.8	5.4	7.41
Italy	\$1,872,980	4.3	3.9	10.26
Netherlands	\$1,577,247	3.6	4.8	-25.00
Switzerland	\$1,273,886	2.9	3.2	-9.38
Belgium/Lux	\$1,316,872	3.0	2.8	7.14
Hong Kong	\$1,717,410	3.9	2.1	85.71

Top Ten Nations in Electrical Machinery Imports

Country	1992 Import value (\$000)	% Total 1992	% Total 1988	% Growth 1988 - 1992
USA	\$6,853,189	14.6	18	-18.89
Germany	\$5,555,206	11.8	9.0	31.11
France	\$2,903,443	6.2	6.1	1.64
United Kingdom	\$2,986,522	6.4	6.2	3.23
Canada	\$2,081,696	4.4	5.2	-15.38
Italy	\$2,006,840	4.3	4.3	0.00
Netherlands	\$1,676,382	3.6	3.9	-7.69
Japan	\$1,444,587	3.1	2.9	6.90
Hong Kong	\$2,008,423	4.3	2.7	59.26
Spain	\$1,458,217	3.1	2.5	24.00

Source: United Nations International Trade Statistics Year Book (1993)

The major electronics markets are the European Union and the United States for finished products, and the Far East for components. Germany, France, and the United Kingdom are the principal European importers. Although these nations continue to import most of their products from the Far East, products coming from nations with a closer proximity and lower price would

certainly be welcome. This large market may serve as a great potential market for Egypt given its inexpensive labor and close proximity to Western Europe.

The ISO 9000 Award

Many of the top companies in the electronics industry are seeking the ISO 9000 award, which is a certificate issued by the European Bureau Veritas Quality International, indicating that the company has been assessed and found to be in accordance with the requirements of international quality standards. The certificate is valid for a period of three years, and must be confirmed by inspection every six months. For companies in developing countries which has yet to establish a reputation for quality, ISO 9000 is an excellent means to demonstrate quality and a desire to compete in the international market. However, it must also be noted that the ISO 9000 award is geared towards a quality management system, not specific quality production. The certificate itself does not insure product quality; rather, it insures that the company is operated in accordance with quality standards.

Range of Products

The range of products to be discussed in this report can be divided into three categories: Electrical Home Appliances, Electronic Equipment, and Others. The Electrical Home Appliances category includes household appliances, water heaters, vacuum cleaners, washing machines, fans, and stoves. The Electronic Equipment category includes consumer electronics such as televisions, VCRs, stereos and radios, CD players, and cassette players. Other products include computers and printers, printed circuit boards, and FAX machines. See table below.

Range of Products in Electrical Machinery and Electronic Equipment

Electrical Home Appliances	Electronic Equipment	Others
Air Conditioners	CD Players	Alarm Systems
Dish Washers	Cam Recorders	Calculators
Electric Heaters	Electric Alarm Clocks & Radios	Computers
Electric Fans	Radios	Digital Printed Circuit Boards
Electric Ovens and Stoves	Record Players	Dot Matrix Printers
Electric Water Heaters	Speakers	FAX Machines
Irons	Tape Recorders	Laser Printers
Light Bulbs	Television Receivers	Smoke Detectors
Mixers, Blenders and Food Processors	VCR's	Telephones
Refrigerators		
Vacuum Cleaners		
Washing Machines		

B. Key Competitive Factors in Electronics Exports

(1) Price

As the product life of electronics is getting shorter and shorter with each passing year, leading companies tend to search for countries in which assembly will be inexpensive due to low-cost labor and other factors. However, because many of the necessary steps for assembly have become automated, cheap labor no longer stands alone as the most important factor in choosing a country in which to invest. In fact, in most electronics products today, the labor only makes up 5 percent of the total product cost. Accordingly, cheap labor alone cannot assure success in a company that wishes to export its products abroad. There are many other factors one must consider.

(2) Quality Standards

In order to effectively compete in the world market, a company must have a reputation for upholding quality standards. Quality can be demonstrated in several ways. A company that already has a reputation for quality has the advantage of a brand name that stands alone as synonymous with quality; the Japanese have been highly successful in this area. A newer company must prove itself, and simple word of mouth from consumers may not be the most effective means due to the necessary period of time needed for good reputation to spread. The aforementioned ISO 9000 award is a good means for a company to demonstrate that it upholds international quality standards. Another means is by obtaining a license from a well-known company or by establishing a joint venture with that company, in order to "borrow" from the original company the reputation for quality standards. After its reputation for quality is accomplished, a company may in the first case develop its own designs, or in the second case gain an edge over the mother company in order to be able to export its products successfully.

(3) Marketing

Marketing is another major factor that must be mastered before an export industry can be successful. This category includes both pre-establishment marketing and post-production marketing. Pre-establishment marketing includes researching product markets both locally and abroad, attracting foreign investors and joint ventures, and developing strategic objectives for the company. Post-production marketing includes launching an active campaign to establish the company as a local success, sell the company's products abroad, and demonstrate international competitiveness in standards and prices. Both types of marketing are essential for Egypt to enter the world market in an industry currently dominated by a single region.

(4) Reliability

The final factor that is essential for an effective export strategy is reliability of the product. This includes several items ranging throughout several stages of the production process. Firstly, the design of the product must be a durable one, reflecting a high level of technology and a low maintenance level. Secondly, delivery of the product must be made in a timely manner. Finally, the after-sales service of a product, particularly electrical machinery and large household appliances, is essential to assure customer satisfaction and develop a reputation for quality. The reliability of a product may be seen as a major obstacle for companies that wish to export, for the need to establish offices abroad and maintain their products outside their country requires large capital investment. It is for this reason that many companies choose to remain local or to export to a very limited, regional area.

Stages of Production

There are six basic stages of production, the details of which vary by the type of company developing the product.

(1) Market Research. The first stage of production is market research. As mentioned earlier, detailed knowledge of the company's buyers, value-added resellers, and competitors is essential in determining the current status and the potential direction of the industry.

(2) Product Design. The second stage of producing a product is creating its design. The design, which should in large part be based on market research, should constantly be reevaluated to improve the product efficiency, lower its cost, and improve specifications. It is also important that the design output be protected by the appropriate intellectual property laws.

(3) Engineering. Engineering is the third stage, which takes the design output and produces samples according to market standards. Extensive testing is done at this stage, and samples are used to test the market response and make adjustments where necessary. Production documents for mass manufacturing are also prepared at this stage.

(4) Production. The production stage, which is the actual manufacturing of the product, involves the most labor, land, and capital; for this reason, some companies choose to subcontract to other companies for the entire production process. Others choose to produce entirely internally, to the extent of producing the actual product components of a finished product. Most companies, however, lie somewhere in between, importing some parts and manufacturing some internally.

(5) Sales and Distribution. This stage again involves marketing, particularly in the case of companies that wish to export. Generally, manufacturers sell to local or foreign retailers, which in turn are sold to individual customers.

(6) After-Sales Support. This is the final stage of production. As mentioned earlier, this stage is extremely important for customer satisfaction. After-sales service should ideally be a continuous process that begins when a customer buys a product and ends only when that product is permanently out of service.

Types of Manufacturing Companies

The three types of companies that were studied in this report are local manufacturers, licensed manufacturers, and joint ventures. The difference between these three types is evident mainly in the earlier stages of production. For example, license manufacturers and joint venture companies do not conduct market research, design the product, or conduct product engineering. The production stage may be simple assembly of imported parts, or may involve manufacturing some parts and importing others. Local manufacturers, on the other hand, conduct their own market research, design their own products, and engineer the product to reach worldwide standards. See the following figures.

The other main difference between the types of companies is ownership division. Joint ventures are generally divided about evenly, with half the ownership of the company going to the mother company (the brand name), and the other half to the local company. This arrangement may limit the local company from developing its own designs and investing in its own research and development. On the other hand, licensed manufacturers may be 100 percent locally owned, and are only dependent on the brand name company for the products with which it uses the name. After establishing its own reputation, however, a licensed manufacturer is free to develop its own designs under its own name and become completely independent of the brand name company. Local manufacturers, in contrast, have no constraints, as the products they make are purely their own, from design to distribution.

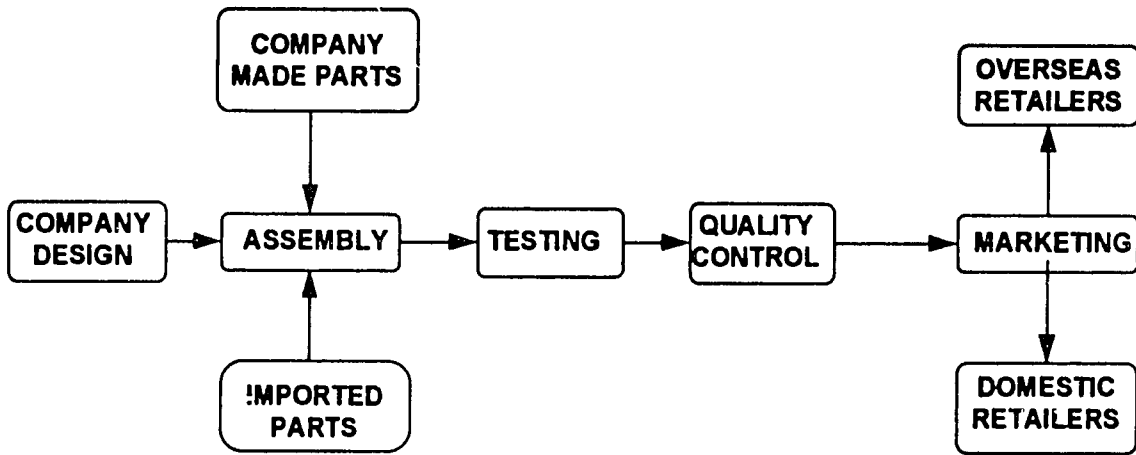


Fig. 1 Internal Manufacture Process

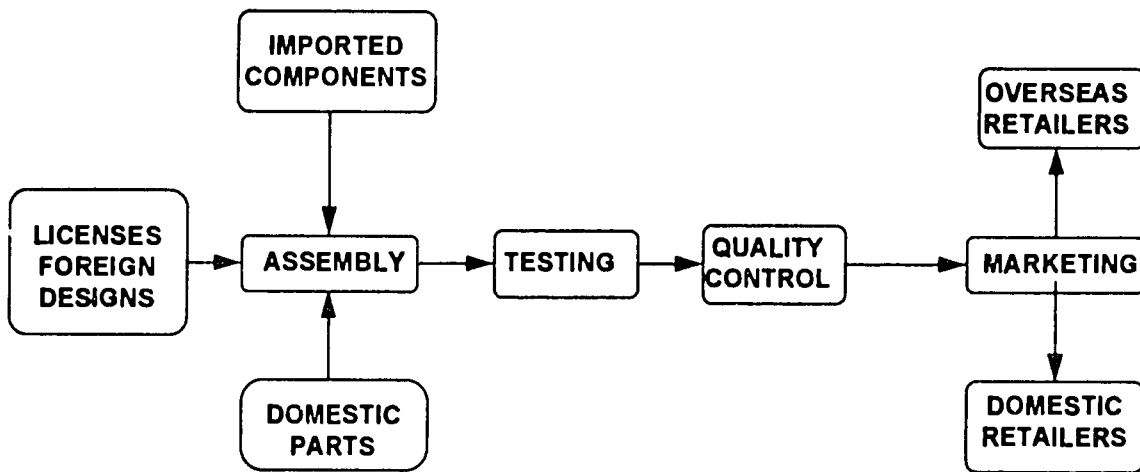
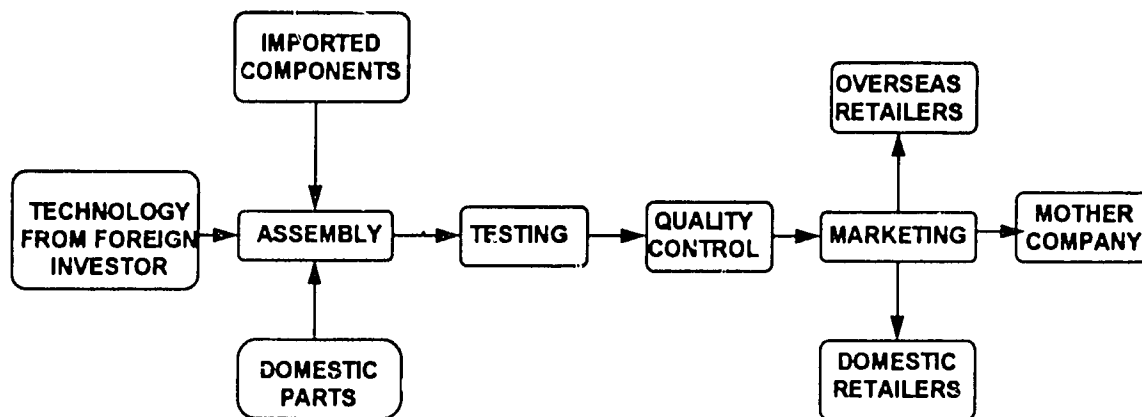


Fig. 2 License - 100% Egyptian Owned Manufacture Process



**Fig. 3 Joint Venture - Components Part Foreign
Part Egyptian Manufacture Process**

C. Assessment of Egypt's Export Prospects

The Electronics Sector in Egypt

The High Technology Industry sector in Egypt is still fairly new. In 1992, there were only 220 registered companies in the industry, contributing 0.3 percent of the nation's GDP. The vast majority of these companies are limited to local production, which accounts for approximately 90 percent of the total production.

Although the country provides a vast pool of consumers for both electronics and electrical machinery, over \$500 million of the \$688 million consumption in Egypt was imported. Despite this dependence on imports, Egypt has the potential to begin the development of viable and competitive electronics industry.

Competitiveness of the Egyptian Electronics Sector

There are several large public sector companies that produce electronics in Egypt. Two of the larger ones are Telemisr and Nasr Company. Most current investment is still made in the public sector, a legacy from past public policies. In addition, most of the labor force works in the public sector, despite the fact that there are now more private companies than public. As of 1991, the workers in the electronics public sector outnumbered those in the private sector by almost 5:1.

Telemisr produces its own products and also serves as an agent for Goldstar International, a Korean television company that has also licensed two other Egyptian companies. Nasr company currently produces over 200,000 television annually. Other well-known public sector companies include Benha, producer of antennas, television, wireless communication, and computers; the Arab Electronics Factory; Ideal, which makes refrigerators and washing machines; the Nasr Company for Engineering and Cooling; and Al-Nasr Company for Electrical and Electronic Equipment. All of these companies work under license from internationally known companies such as Samsung, Philips, and Coldair. Overall, production in the public sector is relatively limited to simple assembly.

Until the mid-1980s, the public sector companies were the major distributors of locally produced electronics. Because of the generally low labor productivity, low salaries and lack of competitive pressure, public sector products are usually seen as having low quality standards and a reputation for unreliability. Private sector companies have the advantage of newer facilities, smaller and more efficient factories, and lower overhead costs. Many Egyptians, however, still prefer to buy from the public sector because of a traditional feeling of distrust of private companies, which are viewed as more interested in profit-making than in pleasing their customers.

Since the mid to late 198's, several private companies have sprung up in Cairo suburbs and elsewhere. Some companies now produce their entire finished products locally. One such company is the GMC group, which produces electrical machinery such as washing machines, water heaters, range-top stoves, and oil heaters. The company was founded in 1984, and in March 1994 was awarded the ISO 9000 certificate. GMC currently has over 1600 employees, and is growing rapidly in terms of both product variety and sales volume. Unlike any other factory we visited, GMC does not import technology from abroad. Rather, the designs and engineering are completely Egyptian, carrying the Egyptian GMC brand name. The name seems to have established itself as a reliable, high- quality product.

All GMC product parts are also made in Egypt except the main component of the washing machine, the motor. All motors are imported from a German company in Slovakia. When asked why GMC could not undertake a project to build its own motors, the response was that importing from abroad was less expensive and more reliable; the managers seemed to think that the numbers were not sufficient to make production of motors profitable in Egypt. This is a typical response; companies feel that the volumes of a given product are too small to justify local production of custom-made parts. This type of thinking reflects the fact that many Egyptian companies have not seriously considered the prospect of producing in mass volumes for foreign exports.

GMC is one local company that has reached quality standards that are competitive in the world market. The company's pride in its ISO 9000 certificate is evident from the cleanliness of the factory, the organization of the labor force, and the documentation of all activities. In addition, the rules of the award are written and displayed in several places throughout the factory.

We cannot state as a rule, however, that all local manufacturers of electrical machinery share these standards. Other factories visited were covered with dust, employees were smoking on the production site, and although the factories were quite large, they were used very inefficiently, with finished products scattered around and no organized assembly line. In addition to the problems observed at the factory, there seemed to be an overall sense of dissatisfaction among consumers regarding the quality of some local products. These problems must be addressed, for such practices help feed the general perception that local products are not of good quality. This perception helps explain why foreign brand names are preferred over locally produced brands, and severely limits the growth potential of local products. Consequently, export potential of the product is also limited by the local manufacturer's reputation and lack of mass production.

A common way that local companies overcome the obstacle of reputation is by becoming an agent of an internationally known company. Two companies which manufacture under licensing agreements were visited. International Electronics, which makes televisions and VCRs, is an Egyptian-owned company that works as an agent for Goldstar International. Olympic

Electric works under license from Gibson International. Because these companies feel that the Egyptian market is not fully ready to accept local designs, they engage in technology transfer from well-known companies in order to avoid risks.

There is, however, a movement towards local design which is evident in both of the aforementioned companies. Olympic Electric, for example, after initial success with Gibson, began designing their own products. Currently, 50 percent of the company's products carry the Olympic name. The company produces, among other products, washers, dryers, electric water heaters, and radiators. Although the quality of the products seems up to par with international standards, the price is still not competitive in the world market due to the small production volumes. Similarly, the company finds importing its motors and control units from the United States more efficient than building them in Egypt.

International Electronics, on the other hand, at the present time only produces Goldstar products. The factory, which is an extremely efficient four-story assembly line, produces four products: three sizes of Goldstar televisions and one Goldstar VCR. It was quite evident from our visit that this company has mastered the concept of total quality control. The company has developed a reputation for high quality products, reflected in the fact that the company's revenues triple every year. The company's strategy is to keep profit margins low in order to avoid making the market attractive to competitors, which is a tactic successfully used by Japanese manufacturers in the world market. Since the company is only three years old, there has not been much room for design growth. The manager we interviewed indicated, however, that IE was developing its own television design which they hoped to market next year. Such a trend toward companies making their own designs creates much needed flexibility in lessening dependence on larger companies and substituting imported components. In the absence of large scale global manufacturing, a large local design content is imperative to the development of a local components industry.

The components company we visited is also a joint venture company that began four years ago. Goldstar Egypt is a daughter company of Goldstar International of Korea. The company is 51 percent Korean owned, 10 percent owned by the public sector (5 percent each by Nasr Company and Telemisr), and the remaining 39 percent is owned by various private Egyptian entrepreneurs. The company has been a huge success, netting \$60 million in sales in 1993. Currently, Goldstar is producing five components for television sets, including flyback transformers, deflection yokes, and tuners. Imitating billionaire businessman Bill Gates of Microsoft, the chairman of Goldstar Egypt has created a community among his 104 workers in the Ismalia factory. The technicians work twelve hours a day, seven days a week, and are paid handsomely. The factory contains a playground for recreation breaks, a mosque, a hospital, and a cafeteria. The pride of the labor force in their work is reflected in the cleanliness of the factory and the efficiency of the assembly lines. The result is the production of 1700 units daily, and a payback period of just 18 months.

The sale of components in Egypt has an edge over many other regions because of cost. The cost of making a flyback transformer in Korea, for example, is \$5.70, whereas it costs only \$4.90 in Egypt. For this reason, Goldstar Egypt sells its components to International Electronics, Telemisr, and other Egyptian manufacturers. The current tax on importing components is 10-30 percent, which gives local manufacturers yet another incentive to buy locally. The result of the production of local components is less expensive electronics products in Egypt. Furthermore, in the past manufacturing companies had a problem in that components were not always readily available due to the waiting period needed for opening letters of credit; during this waiting period, the work force remained idle. Thus locally producing components can also improve the efficiency of other manufacturers. Moreover, as there are 28 components in a television set, there is still much room for growth in this young company.

One development in the global trade market which may encourage competitiveness is the General Agreement on Tariffs and Trade (GATT). The GATT will have a significant impact on the tariffs of electronics products, which currently stand at about 70 percent. According to the companies visited, the tariff will be reduced at an annual rate of 10 percent, significantly lowering the price of imports in Egypt. This may have the effect of preventing new companies from opening because of fear of unsuccessful results. On the other hand, it may put pressure on existing electronics companies to accelerate the manufacture of products which will compete in the world market. Changes in quality, design, and efficiency will be necessary to overcome the competition from international corporations. If the industry does indeed improve its standards to compete in a world market, the groundwork for a successful export industry will be in place.

A major constraint on the development of the Egyptian electronics industry is the lack of investment, which hinders technology transfer and the development of marketing networks. There is a need to attract global companies such as Goldstar in order to jump-start the mass production in this industry.

According to industry estimates, the average productivity per worker in the Egyptian electronics industry is \$10,600 annually, which is only 10-20 percent of those in the Far East and North America. In order for Egypt to be able to compete in the world market, productivity must be improved drastically through increased efficiency of both the factories and the individual workers. The high productivity rate reached by Goldstar Egypt is comparable to the rate of countries with highly developed electronics industries.

Other problems restraining the development of this industry include a weak link between university research and development and industry design efforts; severe customs delays; and lack of economic stability. Another major problem is the distrust private companies have of the government, which is often viewed mainly as a hindrance to business. The overwhelming comment managers of private companies made was: "Let the government leave us alone." Such

comments indicate that government nonintervention, such as that practiced in Hong Kong, may be very conducive to the flourishing of electronics companies.

Export Performance and Prospects

By far the greatest export performance we witnessed was that of the joint venture Goldstar Egypt. The company started exports in its second year of inception; today, it produces 1.2 million units annually, and exports about 60 percent of its products. Current buyers include companies in Turkey, Tunis, Saudi Arabia, Jordan, and South Africa. In addition, the company has begun exporting to its mother company, Goldstar International, of Korea. Since the same components are made in Korea for a higher price, there is great market potential in this country to sell to other Korean companies. Goldstar Egypt is also currently negotiating with Germany, the United Kingdom, and Morocco to export to these markets.

Despite the fact that more than half of the company's products goes to exports, only 38 percent of its profits come from export production. These numbers indicate that local consumption is still more profitable due to the intense competition abroad. However, the company plans to continue expanding its exports both horizontally and vertically. Television components such as flyback transformers and deflection yokes are also used in the manufacture of computer monitors, providing opportunities for export to other companies not limited to television production.

Goldstar Egypt intends to concentrate on the regions of the Middle East, North Africa, and South Africa. Long-term objectives include exporting to Western Europe and North America. In the long term, a large market potential for exports is China, where components are produced at a better price but with poorer quality. If the company can convince Chinese producers that importing from Egypt would be worthwhile, a huge market could be opened up.

There is one public sector company, Benha, which produces printed circuit boards under license. The current local production is about 70,000 square meters per year. The cost, however, is still 20 to 30 percent higher than that of Taiwan. This underscores the importance of mass production on a global scale in order to develop the potential for a successful components industry.

Although it is clear that the components industry is the most successful with regards to exports, several companies that produce finished products are beginning to export as well. Olympic Electric, which currently exports 12 percent of its products, has a goal of exporting 20 percent in the next few years. Target countries include the Gulf countries of Saudi Arabia, the United Arab Emirates, Kuwait; African countries of Libya, Algeria, Sudan, and South Africa; as well as smaller countries such as Lebanon, Cyprus, and Chile. More recently, Olympic has entered the Russian market and hopes to export to Kazakhstan and other Newly Independent

Republics. The company has an export manager and has entered all of the aforementioned markets in just four years. Nonetheless, it faces many barriers within Egypt such as a 20 percent stamp tax on all imports and the high cost of marketing.

The other companies we interviewed were just beginning to execute an export strategy. GMC has opened an office in Saudi Arabia, and hopes to sell washing machines throughout the Gulf by the year 2000. The company has also received requests and is currently contracting export agreements with Tunisia, Russia, and the Ukraine.

International Electronics currently sends a small number of televisions to Jordan and Syria, and indicated that it would like to enter other parts of the Middle East, Africa, and Europe. IE, working under license, has the additional restriction of not being able to export to countries wherein Goldstar International has already penetrated the market. Furthermore, there appears to be a higher profit margin and an increasing demand for these products locally. Finally, since 45 percent of the parts needed for production are imported, the lack of a fully developed local components industry severely restricts the price competitiveness of IE products abroad.

The Fresh Company currently exports water heaters in limited quantities to Saudi Arabia, the United Arab Emirates, and Tunisia. It has also begun exporting to Spain and assembles irons for a German company. The main obstacles this company pointed out was the fact that the same products produced by the Far East are much less expensive; there is a long waiting period for profits on exported products; and after-sale service for major appliances is difficult to establish abroad. Because of these reasons along with the fact that Fresh is doing quite well domestically, there appears to be very little effort to create a strategic plan for exporting its products.

These findings reflect the fact that there is a possibility for active growth of exports in certain aspects of the electronics and electrical machinery sector, in which Egypt has numerous advantages. The factors most often mentioned are low-cost labor and the availability of low-cost land. Egypt also has a large pool of experienced technicians, researchers, engineers, and a large supply of semiskilled work force. Finally, the nation has shown a rapid move towards an open market economy which is a good means of attracting foreign investment.

Although far from the efforts of countries like India and the Four Tigers, the government has taken some measures to encourage industry. For example, in 1989 the government established four Free Trade Zones and began selling inexpensive land in the New Industrial Communities of 10th of Ramadan City, Sadat City, and 6th of October City. The Information and Decision Support Center, a government agency, established the Pyramids Technology Valley (PTV) to promote the high-technology industry.

D. Elements of a Successful Export Strategy

There exists some real potential for a successful electronics industry in Egypt that can effectively export its products abroad. Product quality is quite competitive, and product prices would be also if more products were produced in mass volume. However, there are still many steps that need to be implemented before an effective export strategy can be achieved. Elements of an effective export strategy in this sector include:

(1) Prioritizing the Industry

The government and the private sector alike must establish the high technology industry as a high priority because of the many benefits a successful industry will produce. For example, the industry has the potential to boost national productivity and thus the national standard of living, create 50000-60,000 new jobs, and earn up to \$1 billion in foreign exchange. Furthermore, a successful electronics industry will help bring the prices of Egyptian electronics goods down to competitive international standards, which will directly affect the average consumer. The industry should be highly publicized by the government as a high priority, in order to make the Egyptian public and local companies aware of the current development efforts.

(2) Creating a Market Infrastructure

The most emphasis in developing the electronics industry should be placed in creating a marketing infrastructure. It is essential that a program be developed to disseminate market information to be provided to the entire Egyptian high-technology industry. Furthermore, Egypt should consider actively marketing its engineering talent abroad in order to boost research and development. This may be accomplished by establishing offices overseas where engineering talent is needed.

(3) Attracting International Corporations

In order to compete in an international market, Egypt must actively seek the participation of global electronics. The government can help in this vein by using established diplomatic channels (e.g. Commercial Attaches) to attract major global companies. This may be accomplished through the development and implementation of a targeted investment attraction program. Furthermore, economic and political stability, as well as reduced bureaucratic regulations, will greatly help to create an atmosphere attractive to global corporations.

(4) Building Trust in the Government

The Egyptian government is looked upon with severe distrust by many private companies. Many business owners view the existing policies as a major obstacle to their success, and

associate government with extraordinarily high taxes, severe customs delays, and other constraints. Government regulation such as labor and environment laws should be carefully balanced so as not to overburden local companies. There is a desire by the government to help these companies flourish, but this desire must be reflected in important changes that effectively loosen these restraints. Law 230 is a good example of such a change, but much more must be done in order to overcome this problem.

For most companies, the best way for the government to help them is by nonintervention. There must be an effective mix of constructive laws and noninterference that encourages these companies to flourish. Examples of constructive measures include providing tax incentives, supporting companies with local market information, and continuing to create an open-market environment. Government support can also be utilized through making local investment capital readily available through development banks. In addition, the government needs to develop a program in order to convince potential investors that the liberalization policies are permanent and that the economy is gradually stabilizing.

(5) Stimulating Local Demand

Another way the government can boost industry development is by implementing a rule mandating state-of-the-art products in major government facilities and projects. Since the public sector still has a great influence on the nation's day-to-day life, a change in government facilities can have a drastic effect on overall demand. Not only will the electronics companies have to expand their facilities to meet these needs, but they will also have to produce in much larger quantities to fulfill the needs of the public sector. This mass production in turn will lead to increased capacity for exporting.

(6) Establishing an Industry Training Program

Availability of skilled personnel is a major issue companies consider when deciding to invest in a new country. Egypt needs to train its labor force to become effective technicians in the electronics and electrical machinery industry. A training program should be developed outside of the university system, with the sole purpose of preparing workers to compete in a global electronics industry. The training should also provide qualified management and instill a quality culture.

(7) Encouraging Availability of Local Components

In today's environment, more technology is embedded in components than ever before. Egypt has great potential to be an exporter of many different types of components; the quality is good and prices are competitive, even with the Far East. Productivity of each worker is also far higher in this industry than in finished products. In addition, availability of local components

will greatly lower the price of locally manufactured finished products. Consequently, producers of finished products may have a price edge over foreign companies, encouraging the companies to sell more both locally and abroad.

(8) Investing in Research and Development

There is a vast pool of highly educated engineers in Egypt, but most of the research they are doing is unrelated to the practical work done inside the country. On the other hand, the present technology transfer that exists between Egyptian companies and foreign companies consists of buying designs from the source and localizing the production. Locally improving the design product is an important way for the industry to create a higher-value added product. Steps must be taken to create an environment within Egypt conducive to the design and development of products. Technology innovation is the key to maintaining a competitive edge in the world market; companies cannot expect to flourish for a long period of time simply by borrowing designs from companies under license.

One way for licensed companies to begin investing in research and development is by obtaining the process technology from the international company. The company should develop a team of researchers to modify the designs to better suit consumer needs. If several companies joined their forces and invested together in a large R&D team, design and development efforts can be effectively supported.

India has greatly invested in research and development through a creative program of technology-talent swapping. For \$1 million, a group of Indian engineers were sent to the United States to help American companies in design efforts. They returned to India trained in new technologies. Egypt should strongly consider taking a similar step to develop a design culture among its citizens.

(9) Adopting a Global Outlook

For a company to be able to successfully cover development and expansion costs, its volumes have to be quite large. A global outlook, therefore, must be taken on from the very inception of a large company. Many Egyptians are trapped in a Catch-22: They do not want to make their own parts because they feel the demand does not justify investment in establishing the capability for mass production; yet at the same time, it is precisely mass production that would lower the price and open up the possibilities for export growth. More companies need to be aware of the great potential for exports if they manufactured a greater volume of products; Goldstar Egypt is a good example of such success.

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(10) Changing the Global Image of Egypt's Industry

Egypt is still generally viewed by many as a country where work habits are poor, systems are relatively primitive, and production is slow. This image may hinder many countries from investing in Egypt, and steps must be taken to show that the nation has developed a very strong work ethic, particularly in the private sector.

(11) Creating a Role for Expatriate Egyptians

Egypt has a huge pool of highly educated engineers and businesspeople living in the West. The country should follow the example of India and Taiwan and use these people to its advantage. For example, Egypt could create an institution similar to the Taiwanese Technology Review Board—a group of expatriate engineers who meet several times a year in order to develop products according to recent engineering trends. Another way is to use the knowledge of nonresident Egyptians to market Egyptian skills, talents, and even encourage investment from foreign companies.

Expatriate Egyptians are willing to invest money in ventures if the government can assure the nation's stability. They can also provide experienced managerial skills for companies in their home countries that wish to invest in Egypt. These skills are essential to assuring overseas companies that their businesses will be supervised by an experienced and educated staff.

Conclusions and Time Frame

Many of the strategy objectives mentioned above require very modest investments on the part of the Egyptian government or the private sector and can thus be implemented immediately. The payoff of this implementation, however, can be quite substantial.

A reasonable objective would be to increase the percentage of locally manufactured electronics and electrical machinery products from the current 27 percent to 70-80 percent by year 2000. Concurrently, the industry should be able to export products equivalent in value to the local consumption within this same time frame.

Much progress has been made in the last decade in the development of the Egyptian electronics and electrical machinery sector. If the above objectives are reached, it is entirely possible that Egypt can become a key global competitor in the future of this increasingly significant industry.

AUTOMOTIVE COMPONENTS

Overall, the Egyptian automotive components industry is very small and has existed primarily to supply simple components to automobile assemblers in order to meet local content requirements in Egypt. Protected for years by the import substitution policy in automobiles, many manufacturers lack production efficiency and their products are not viewed to be very competitive internationally. However, the fact that some Egyptian suppliers are currently exporting small quantities of their products indicates that an export base and capability exist in certain market segments. The main overseas markets are neighboring Arab and African countries, such as Saudi Arabia, Libya, and Sudan. Due to the relatively low technical capability which exists in the industry, the best export prospects in the short to medium term will continue to be in the labor-intensive, less technically complex components, such as wheels, filters, tubes; chemical-based parts such batteries and tires; and electrical, metal, and other generic parts.

Most automotive firms cite the lack of technical capability and insufficient market linkages as the two principal constraints. An effective export development strategy would seek to reduce those constraints through (i) Implementing a sector-specific foreign investment promotion campaign to facilitate technology transfer; (ii) relaxing local content requirements for foreign investment; (iii) offering technical assistance and training; and (iv) improving market knowledge and contacts.

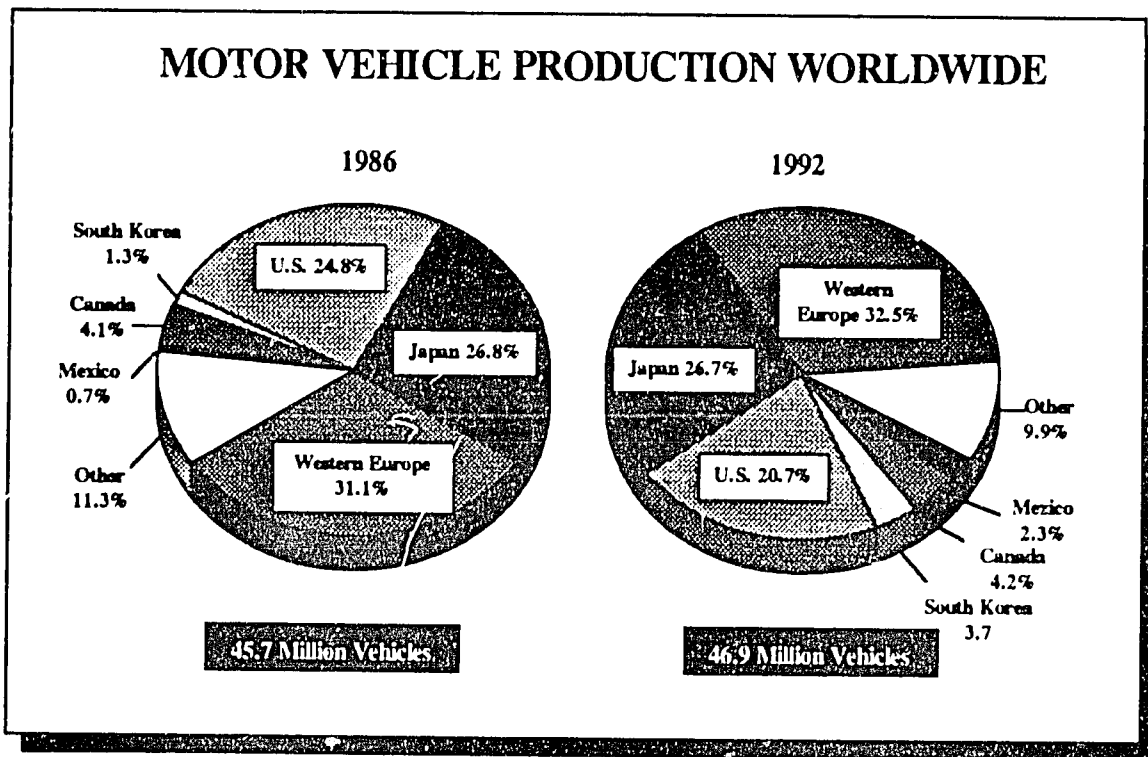
A. Overview of Worldwide Automotive Components Market and Trade

The automotive components sector is divided into two basic types of producers: **original equipment manufacturers (OEMs)**, who manufacture up to half of their own components, and **parts suppliers**, who produce parts to the manufacturers' specifications and service the aftermarket for repairs and replacements.

The OEMs are highly concentrated, with the world's ten largest companies producing 70 percent of the total automobile output of more than 35 million units. Three of them are headquartered in the United States (General Motors, Ford, Chrysler), three in Japan (Toyota, Nissan, Honda), two in France (Peugeot SA, Renault), and one each in Italy (Fiat Group) and Germany (Volkswagen). All of the world's major OEM have plants located across the globe to service different markets.

The top OEMs are also the world's major producers of trucks and buses, a market of over 12 million units worldwide. Behind the top ten OEMs are another ten companies: Six smaller Japanese companies which account for a combined 10 percent of the world market, and four European manufacturers of high performance automobiles which together account for another five percent of the world market.

Geographically, the production of the world's automobiles is also highly concentrated, with Western Europe, United States and Japan producing 80 percent of the world's automobiles. In recent years, developing countries have taken up increasing market share, notably Mexico and South Korea. In 1992, these two countries together manufactured six percent of all motor vehicles, compared to only two percent in 1986.



Similarly, industrialized countries also export the bulk of the world's automotive components. In 1992, over half of the components exported (by value) were produced in the EU, with another one-third accounted for by the United States and Japan. See table below.

**AUTOMOTIVE COMPONENTS EXPORTS OF MAJOR SUPPLIERS, 1992
(US\$ MILLION)**

Country	Export Value f.o.b. prices	% of Total	% Growth 1988-92
World	89,590	100.0	5.8
Germany	19,438	21.7	8.8
USA	17,038	19.0	6.9
Japan	12,900	14.4	8.0
France	9,394	10.5	12.2
Canada	6,234	7.0	-0.8
UK	5,635	6.3	8.6
Italy	4,464	5.0	7.5
Spain	2,809	3.1	14.6
Sweden	1,968	2.2	-1.6

Source: United Nations.

The relationship between the major OEMs has become extremely complex as joint ventures and share acquisitions become an increasingly common approach to penetrate new markets and retain market share.⁴⁸ The parts suppliers, on the other hand, are relatively fragmented. The average automobile model has on the order of 2,000 parts which can be grouped in the following seventeen general categories:

- Engine components (e.g. camshafts, cylinder heads, pistons)
- Fuel system (e.g. filters, injectors, pumps, turbochargers)
- Exhaust system (e.g. catalytic converters, mufflers)
- Transaxle (e.g. clutches, transmission, differentials)
- Drive train (e.g. axles, drive shafts)
- Steering (e.g. steering columns, tie rods, power steering)
- Wheels and tires (e.g. hubs, wheels, tires, hub caps)
- Suspension (e.g. shock absorbers, strings, struts)
- Braking system (e.g. linings, shoes, drums, calipers)
- Body (e.g. panels, bumpers, frames, mirrors, windshields)
- Seating (e.g. seat assemblies, covers, padding)

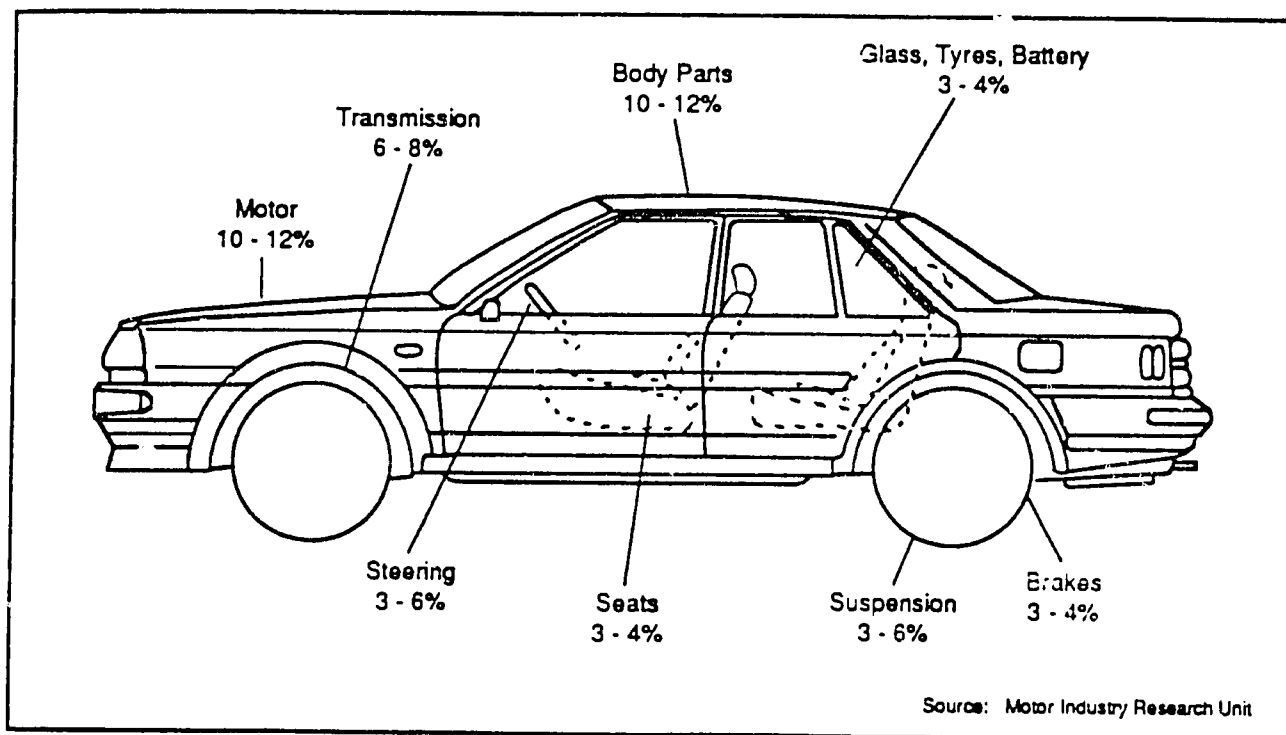
⁴⁸ For instance, General Motors, the world's largest automotive manufacturer, owns 37.5 percent of shares of Isuzu, 5 percent of Suzuki, and 50 percent of Saab Automobile. Ford, another U.S. American automotive giant, owns 25 percent of Mazda, 10 percent of Kia Motors (South Korea), 100 percent of Jaguar, and 75 percent of Aston Martin (United Kingdom). Source: U.S. Department of Commerce, 1994.

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- Passenger restraint (e.g. seatbelts, air bags)
- Trim (e.g. carpeting, headliners, ornamentation)
- Electrical (e.g. batteries, audio, instruments, lights)
- Climate control (e.g. air conditioners, heaters)
- Engine electrical (e.g. alternators, ignition, starters)
- Generic (e.g. bearings, belts, wire, fasteners, hoses)

These components represent a significant portion of the value of an automobile. In Germany, the value of each of these component groups varies from 3 to 12 percent of the total value of the automobile.

**Percentage Costs of Components in an Automobile
Manufactured in Germany**



Several of the larger automotive suppliers produce products in more than one of the 17 generic groups, but none covers the full range. Thus, when taking into account the different top producers in a specific category (for example, tires) and the partially horizontally integrated conglomerates, the number of key companies becomes quite large. In Japan, for example, the 70 largest component manufacturers represent approximately 65 percent of the total supply of auto parts. In Europe, 35 companies have sales of over US\$ 500 million. In the United States, ten components manufacturers have North American sales of over \$1.8 billion, each specializing in distinctive groups of auto parts.

TOP TEN AUTO PARTS SUPPLIERS IN THE UNITED STATES

Company	Auto Parts	1993 Sales to North American Auto Manufacturers (in \$ billion)
GM Automotive Components Group	Lights, engine management Systems, suspensions	\$21.2
Ford Automotive Components Group	Climate Control, fuel systems, electronics	\$9.0
Delco Electronics	Audio and Communications equipment	\$3.9
TRW	Occupant restraints, engine components	\$2.4
Du Pont Automotive	Polymers, finishes, fibers	\$2.1
Johnson Controls	Seats, batteries, interior trim	\$2.0
Magna International	Components, assemblies systems	\$1.9
Nippondenso Electronics	Electronics, heating and cooling systems	\$1.8
Eaton	Transmissions, axles	\$1.8
United Technologies Automotive	Interior trim, electronic controls, motors	\$1.8

Source: Fortune Magazine, September 1994

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In serving the OEMs, the approaches taken by suppliers differ by region. In Japan, suppliers are usually very closely involved during the vehicle design and development stage, and are expected to participate in component R&D during the two to three years involved in bringing a new model to market. Japanese component suppliers produce about 70 percent of the components used in the average automobile, with the OEM producing the balance internally. In Europe, the suppliers tend to become involved in a relatively later stage in the model development cycle, with European suppliers producing about 60 percent of the total.

Suppliers in the United States used to participate more as arms-length, bid-to-specification contractors and supply under half of the components in a typical U.S.-manufactured vehicle. Recently, however, the relationship between the Big Three (GM, Ford, and Chrysler) and their affiliated and independent suppliers has changed dramatically. As the automakers worked to lower their production costs through reorganizing and focussing on the main aspects of their business (e.g. engine design, transmission, etc.), they are quickly shedding many of their parts supply operations. They are also demanding that their suppliers be responsible for much more of the engineering, design, prototype, testing, and systems development work for parts and components. Since 1993, GM has disposed of radiator caps, vacuum pumps, and 41 other lines of business in its \$25-billion-a-year parts operation. In the past two years, both Chrysler and Ford sold their seat production and assembly operations. Chrysler currently produces 34 percent of its parts, versus 38 percent for Ford and 47 percent for GM.⁴⁹

In serving the aftermarket, suppliers typically target repairs and maintenance of the world's more than 400 million automobiles in operation. Currently, North American and European markets dominate with a combined 80 percent of the total. Those regions are also the markets for 70 percent of the world's automotive components exports. However, developing country markets have grown rapidly in recent years. In the Far East, Japan, Thailand, and China offer promising markets. Good prospects also exist in the African markets, which posted a very healthy annual import growth rate of 13.5 percent in automotive components since 1988. See the following table.

⁴⁹ Industry Technology Institute, Ann Arbor, Michigan; *Fortune Magazine*, September 5, 1994.

**AUTOMOTIVE COMPONENTS IMPORTS OF MAJOR MARKETS, 1992
(US\$ MILLION)**

Country	Import Value c.i.f. prices	% of Total	% Growth 1988-92
World	90,699	100.0	6.5
USA	16,729	18.4	0.2
Canada	10,363	11.4	-1.0
Germany	9,777	10.8	18.3
UK	7,500	8.3	10.2
France	4,736	5.2	9.0
Mexico	6,846	7.5	57.1
Belgium	3,481	3.8	7.9
Spain	3,639	4.0	15.5
Italy	2,626	2.9	7.3
EU	35,782	39.5	11.6
Asia	9,103	10.0	2.2
Africa	3,199	3.5	13.5
ME	2,802	3.1	7.1

Source: United Nations.

B. Key Competitive Factors in Automotive Components Industry and Exports

Price

Price is expected to remain a major competitive factor in the automotive components industry. Cost has been the driving factor behind the reorganization of some of the major automobile suppliers in the past several years, as many of them spin off nonessential operations and source parts from suppliers who can manufacture them at lower costs. Many major suppliers have also consolidated their purchasing operations in order to get better deals from suppliers and have switched to competitive bidding when they procure components. As the automakers continue to operate under intense cost pressure in the end-user markets, price will be a dominant factor in choosing suppliers.

Technology

Technology plays a key role in competition among the top OEMs. All have highly sophisticated design centers, some with R&D budgets in excess of US\$1 billion. A vast network of computer aided design, test and manufacturing systems tie together and accelerate the process of bringing a new model to market. The methods used to reduce product development cycle time

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and increase production productivity and quality are among the most important innovations of the Japanese OEMs.

New technologies are constantly evaluated on test tracks, in wind tunnels, on the race track and in the field. Among the most important technical goals of these expensive development and test programs are safety, performance, fuel efficiency, and pollution reduction. The advertising of the OEMs reflects their use of technological improvements to differentiate their products and to market specific models aimed at consumer niches.

Component suppliers in each of the seventeen general product groups use technology to gain a competitive edge. This includes design technology using computer-aided-design, manufacturing technology using robotics and computerized logistics, and new product development for higher performance and improved quality. In some cases, such as advanced battery technology, the component manufacturers join with the OEMs and other interested parties (such as electric utilities) to sponsor new product development for the overall automotive industry. Increasingly, electronics and new materials are being applied to all types of components to achieve "smarter", lighter, stronger, more long-lasting automobiles.

Delivery

Automakers today are seeking suppliers not only capable of designing and manufacturing a part but also delivering globally. As major automakers increasingly rely on parts suppliers as an integral part of their manufacturing operations, they will only work with those who can deal with logistics and make reliable deliveries. Shipping a fully assembled instrument panel or brake system is cumbersome and expensive unless the companies which make them are nearby. Some automakers may even demand that their parts suppliers build new satellite facilities near their assembly site.

Knowing the Distribution System

In serving the aftermarkets, one major key to success is distribution through automotive chains, discount store chains, and department store chains. Car owners making their own repairs most frequently purchase batteries, brake products, exhaust products, filters, ignition systems, lights, shock absorbers, and tires from these outlets. Service stations and specialty repair garages often carry their own branded products while the service operations of the OEMs use the same suppliers as for the original equipment.

C. Assessment of Egypt's Competitiveness and Prospects

Industry Overview

The automotive industry in Egypt basically developed under the protection of the Government's import substitution policy, which had included the outright banning of most vehicle imports. Only two large scale assemblers have operated for more than ten years in Egypt, both of which are public sector companies with foreign connections. Recently some foreign auto companies have entered the market in joint venture arrangements with Egyptian and other Arab investors (e.g. General Motors, Isuzu, and Suzuki). Automotive assemblers operating in Egypt are subject to a local content requirement of 40-60 percent. The capacity of the local industry is modest compared to the level of the demand. Industry sources suggested that the current production of about 16,000 units of automobiles and small trucks is severely short of the estimated 150,000 units required to meet local demand.⁵⁰

Egyptian automotive component manufacturers supply original equipment to assemblers under licensing agreements as well as to the aftermarkets. The number of suppliers to each automotive assembler in Egypt ranges from about 50 to 400 companies. General Motors Egypt, for example, has approximately 90 local suppliers. Assemblers typically buy from local producers some of the more labor-intensive and technically less sophisticated components such as tires, batteries, springs, seats, radiators, mufflers, shock absorbers, and various plastic and metal parts. All assemblers import engines and the basic component systems which local producers lack the technical capability to produce.

Because of the sophisticated technology and complex production processes in the automotive industry as well as the high R&D costs required, the Egyptian automotive assembly industry relies mainly on foreign partners for market linkages and technical know-how. Among the parts suppliers, most do not have formal links to foreign companies because of their small size. Most automotive assemblers provide technical and engineering support to their suppliers in order to assure the quality of the components. Local components suppliers are mostly producing according to specifications and are not sufficiently sophisticated technically to innovate in the areas of engineering and design.

Egyptian Industry Comparative Advantage

Protected for years by the import substitution policy, many Egyptian automotive components manufacturers lack production efficiency and their products are not viewed as internationally competitive in price and quality. Overall, the automotive components industry

⁵⁰ See "Linkages Between Egyptian and Foreign Firms," Economics Department of the International Finance Corporation and the Foreign Investment Advisory Service, Washington DC, October 1993.

in Egypt is very small and has existed to supply components to automobile assemblers in order to meet the local content requirements in Egypt. Industry sources indicated that prices for locally-manufactured parts can exceed international market prices by as much as 30 percent and that auto assemblers would import a higher proportion of their components if they were allowed to do so. Parts suppliers are also in urgent need of technological upgrades and knowledge of modern management practices. Many would welcome assistance in identifying potential joint venture partners and technology transfer arrangements.

However, the fact that some Egyptian suppliers are currently exporting a small quantity of their products indicates that an export base and capability exist in certain market segments. The international competitiveness of selected automotive components has also been highlighted in a World Bank report on engineering industries.⁵¹ The main overseas markets are neighboring Arab and African countries, such as Saudi Arabia, Libya, and Sudan. According to the Export Promotion Center figures, Egyptian suppliers exported LE 33.7 million (US\$ 10.0 million) of motor vehicle parts in 1992. Those export items are mostly labor-intensive and do not require sophisticated technology or large investments. They cover a range of metal, electrical and petroleum-related products such as spark plugs, radiators, brake pads, belts, ball bearings, batteries, filters, springs, tires, tubes, etc. Most are exported to the aftermarkets rather than to original equipment manufacturers in auto assembly.

Best Export Prospects

Due to the relatively low technical capacity which exist in the industry, the best export prospects in the short to medium term will continue to be in the labor-intensive, less technically complex components, such as wheels and tires, and electrical, metal, and other generic parts. The African and Arab countries will remain markets with the best prospects, although good market potential also exists in Eastern Europe, especially in the Newly Independent States.

D. Elements of a Successful Export Development Strategy in Automotive Components

Industry firms cite the lack of technical capability and insufficient market linkages as the two principal constraints to expanding exports in the automotive components sector are. An effective export development strategy in the sector would seek to reduce those constraints through the following mechanisms:

⁵¹ See "Egypt: Strategies for Growth in the Engineering Industries," January 18, 1990, World Bank.

1. Implementing a Sector-Specific Foreign Investment Promotion Campaign to Facilitate Technology Transfer

Given the limited local R&D and technical capability in the sector, the Egyptian automotive industry will need to import technology and know-how to upgrade its production capability, improve product quality and efficiency. The transfer of production technology and management techniques could be achieved by encouraging:

- Joint ventures;
- Technical agreements; and
- Licensing arrangements.

To date, foreign investment in the automotive sector has been concentrated in the assembly industries rather than in the components sector. Investment promotion could be directed to those auto manufacturers who already have a local presence (e.g GM, Suzuki, etc.) and who have a demand for locally produced original equipment. Linkages with foreign partners help suppliers to acquire technical know-how, management expertise, international market knowledge and foreign market contacts.

2. Relaxing Local Content Requirements for Foreign Investment

There are concerns among foreign assembly companies that the local content requirements in the automotive industry have created a captive market for local components producers who have little incentive to upgrade their products. Studies have shown in the automotive industry, local content requirements are often unrealistically high and entail many drawbacks such as low-quality products, high prices, and a lag in technological development.⁵² Easing local content requirements will force local producers to improve quality and become more efficient, thus ensuring a reliable supply of good quality components and making the Egyptian automobile industry more attractive to investors.

3. Offering Technical Assistance and Training

Due to their small size, many parts suppliers lack the technological and management capacity to upgrade and expand their production, and do not have the resources to provide training to their workers. Training and technical assistance can be organized at both the firm and industry subsector levels. These activities could take the form of firm-level technical assessments and assistance, or quality control and management workshops offered to industry firms. They can be most effectively organized by export assistance institutions in coordination with industry

⁵² Ibid.

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associations. Bilateral and multilateral assistance resources can also be tapped. The International Executive Services Corps, for example, has a well-established practice in Egypt assisting Egyptian industries at the firm level.

4. Improving Market Knowledge and Contact

Auto parts suppliers need to increase their contact with original equipment manufacturers, purchasing agents, as well as importers for the aftermarkets in order to expand export sales. They will also benefit from knowledge of market practices such as pricing, quality requirements, contract negotiation, technology agreements, etc. Market knowledge and contact can be enhanced via the following:

- Trade missions to major target markets.
- Participation in international trade shows and exhibitions which highlight automotive equipment and accessories.⁵³
- Outreach by Commercial Attaches to original equipment manufacturers in major industrial countries and buyers and agents in the overseas auto equipment aftermarkets.

⁵³ Some of the major international trade shows include: AAA - Berlin Automobile Show; AAAE - Asian Automotive Accessories Exhibition in Singapore; Automobile and Autoparts Show in Sao Paulo.

SERVICES EXPORTS

In addition to commodity exports, opportunities also exist in the services sector, which earns valuable foreign exchange for the Egyptian economy. The services sector can offer considerable synergies with other sectors, particularly as services export increase demand for other Egyptian-produced products. The services highlighted in this section are viewed to have short- term or medium-term potential in Egypt. They include: Data Processing and Software Development; Tourism-related Exports; Construction Services; Transportation Services; Financial Services; Cinematography Services; and Printing and Publishing.

Data processing is a fast-growing international market, currently dominated by the United States and Europe. Egypt is very cost-competitive in software development, with its technical competence highly rated in the industry. Egypt's best export prospects are: Arabization of existing software; new Arabic software; and custom software. The highest potential markets are the Gulf countries and North Africa.

In the tourism sector, good prospects for enhancing tourism to Egypt include focussing on attracting special-interest travelers to Egypt's rich historical and cultural offerings. Egypt is also well-suited to take advantage of the world boom in cruising, which could link the nation's historical and cultural sites with new "sun and sand" tourism developments. In addition, Egypt could increase its tourism receipts by tapping into the previously neglected convention market.

In the construction sector, the best prospects for Egyptian engineering services in the short-term will continue to be relatively simple design projects in African countries funded by multilateral donors. These projects may include road design and construction supervision; small ports development (e.g. fishing ports); and land reclamation project design. Increasing Egyptian engineering exports will also open the door to new markets for Egyptian building materials. Africa and the Gulf will continue to be the major export market for Egyptian construction services.

Egypt's central location, linking Europe, Africa, South Asia and the Far East, is a valuable economic asset that creates massive economic opportunities in international transportation. It appears that good opportunities exist in both maritime and air transport. The dismantling of policy and infrastructure barriers will be critical in restoring the transportation sector its rightful role in generating foreign exchange as well as a facilitator of the export of goods and services.

Although Egypt is not currently an offshore banking sector, Egypt has as its goal, over time, to develop into a regional and eventually an international banking center. Egypt's competitiveness in international banking is likely to be linked with the nation's ability to emerge

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as a transport and manufacturing hub for the New Middle East, as well as for Europe and the Far East. In addition, communications infrastructure improvements will be required to provide the quantity and quality of services demanded by international banks.

The cinematography industry is the only Egyptian industry that exports 100 percent of its production, i.e., all Egyptian-made movies are distributed both locally and internationally. Egypt's best export prospects will continue to be Arabic language films and videos for the Gulf and North African markets. Coproduction with foreign film companies offers Egypt one of the most promising ways to confront its technological and market size constraints. Related to film making is printing and publishing, in which Egypt could expand exports of Arabic language publications.

DATA PROCESSING AND SOFTWARE DEVELOPMENT

A. Profile of International Markets

North America dominates the computer equipment and services market, with sales totaling \$1.5 trillion, nearly half of the world total. Europe follows in second place with sales of \$910 billion. While these regions will continue as major players, fastest growth is expected from economies starting at smaller sales bases, among them Japan, Mexico, China, South Korea, Finland, Portugal, Brazil, and Thailand.

U.S. - The World's Largest Buyer and Seller

The United States is the world's single largest player in the information services industry with a domestic market valued at \$140 billion. The market is subdivided as follows: Computer professional services (consulting, training, systems integration, and custom programming), \$67 billion; data processing and network services, \$54 billion; and electronic information services, \$16 billion. Future growth rates of 9-15 percent are expected in each of the industry subsectors over the next several years.

Major players in the U.S. industry include Apple Computer, Automatic Data Processing, Inc., AT&T, Electronic Data Systems (EDS), GE Information Services, IBM, and Microsoft.

Packaged Software Market

The world packaged software market is valued at \$72 billion in 1993, and is forecast to grow at an annual rate of 13 percent until 1997. As the following table depicts, the United States is the largest purchaser of packaged software, followed by Western Europe.

**WORLD PACKAGED SOFTWARE MARKET, 1993 - 1997
(IN MILLIONS OF DOLLARS)**

	1993	Expected Growth 1993 - 1997
World	71,864	12.8
United States	32,040	12.7
Western Europe ⁵⁴	25,699	10.3
Japan	6,938	18.7
Canada	1,374	10.4
Latin America ⁵⁵	1,471	18.0
Australia	1,094	13.3
Asia ⁵⁶	974	21.4
Other	2,094	14.9

Source: U.S. Department of Commerce

The United States is the world's largest software producer, holding a 60 percent market share in Western Europe and Japan, and a 73 percent market share in the rest of the world. The strong international market position of U.S. software around the world is due to its high quality. The following table lists the top software suppliers worldwide; six of the largest ten are from the United States, including number-one-ranked IBM.

**WORLDWIDE REVENUE OF TOP 10
SOFTWARE SUPPLIERS, 1992
(IN MILLIONS OF DOLLARS)**

Company	Country	Software Revenue, 1992
IBM	U.S.	11,366
Fujitsu	Japan	3,525
Microsoft	U.S.	2,960
NEC	Japan	1,840
Computer Associates	U.S.	1,771
Siemens Nixdorf	Germany	1,058
Novell	U.S.	989
Hitachi	Japan	983
Lotus	U.S.	810
DEC	U.S.	800

Source: U.S. Department of Commerce

⁵⁴ Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, and United Kingdom.

⁵⁵ Argentina, Brazil, Chile, Mexico and Venezuela.

⁵⁶ China, Hong Kong, India, Malaysia, Singapore, South Korea, Taiwan, and Thailand.

The packaged software market consists of three segments: Application tools, application solutions, and systems software. The U.S. packaged software market increased by 12.6 percent in 1993 to \$32 billion.

The software market in the United States is highly concentrated, with the two largest firms, EDS and Microsoft, accounting for 40 percent of sales and 54 percent of total profits. Other major software and services firms in the United States are:

ASK Group, Cabletron Systems, Ceridian, Cisco Systems, Combisco, Computer Associates, Computer Sciences, EMC, First Date, Gtech Holdings, Lotus, Novell, Oracle, Safeguard Scientifics, Shared Medical Systems, SynOptics Communications, Western Digital

The largest category of PC application software sales in the U.S. and Canada, 27 percent of total sales in the first half of 1993, includes communications, personal and business productivity, and project management software valued at \$828 million. Word processors contributed 15 percent of sales (\$461 million), followed by spreadsheets (\$382 million), databases (\$262 million), and finance (\$167 million).

Firms in the United States, Japan, and Europe are facing shortages of trained personnel to develop software. U.S. companies report a three-year backlog on software development due to the personnel shortage. Japan's MITI estimates that in Japan alone, there is a shortfall of 1,000,000 software developers. These shortages represent opportunities for nations such as Egypt. Currently, India, Ireland, and other nations boasting well-trained laborforces and competitive wages have begun to take advantage of opportunities in software development.

Egyptian companies seeking to export their software development skills, such as "Arabization" of software packages, can obtain access to the U.S. market via the Software Publishers Association, which groups all of the major players and holds annual events (see Exporting Resources and Contacts, below).

Intellectual Property Rights protection is a critical issues for software developers. Copyrights are the most common form of IPR protection for computer programs. Egyptian firms estimate that between 60 to 80 percent of the software utilized in the Gulf is pirated, drastically reducing the profitability of the market for Egyptian and other software developers.

Custom Software Market in Decline

The market for custom software development is slowing due to the proliferation of prepackaged software. At the same time, the market for training individuals to make use of the

fourth-generation languages and computer-aided software engineering tools available on the market is growing rapidly.

Growth Segment: Multimedia

Multimedia is an emerging segment that has exhibited enormous growth and holds potential in both entertainment and business markets. Multimedia combines video, animation, still pictures, voice, music, graphics and text into a single system. Worldwide sales of multimedia components jumped from 4.8 million units in 1992 to 10.3 million units in 1993, and increase of 114 percent. Future growth is forecast at an annual compound rate of 27 percent.

Exporting Resources and Contacts

Information Industry Association
555 New Jersey Ave. NW, Suite 800
Washington, DC 20001
Phone: (202) 639-8262

Software Publishers Association
1730 M Street NW, Suite 700
Washington, DC 20036
Phone: (202) 452-1600

B. Profile of the Egyptian Industry and Exports

Approximately 200 Egyptian firms currently develop software. While the vast majority are very small, with less than 5 employees, approximately 10 companies employ 15 - 40 software developers. While most of the major international computer firms have offices in Cairo, they principally distribute rather than develop products.

The Egyptian firms principally engage in three types of software development: Arabization of existing packaged software; development of new Arabic software; and custom software development for a particular client. Typical products developed by Egyptian firms include document management software, multimedia, imaging systems, and custom inventory and financial systems.

All three types of software are currently exported to other Arab nations in the Gulf and North Africa. Several firms export as much as 80 percent of their production. Nonetheless, overall industry exports are relatively low, estimated at under \$1 million per year.

Egyptian Software Development Industry Competitiveness

Egypt is very cost-competitive in software development. Beginning software developer salaries are in the range of US\$275 - \$450 per month, between one-tenth and one-fifth of the cost in Europe or the United States.

The technical competence of Egyptian software developers is rated by the industry as very high, however the work ethic is sometimes criticized. Worker productivity has been assessed at 70 percent that of European software developers. However, companies which recruit carefully, train their workers and provide close supervision report good quality results.

The industry's competitiveness is marred by several factors. Unreliable and scarce telephone lines limit some companies' productivity; one firm reported it had no telephone for six months. General governmental interference was also mentioned by several firms as a nuisance or hindrance. Electricity unreliability was also cited as a problem. Continual policy changes make long-range planning problematic. Credit is expensive and difficult to obtain; several industry representatives indicated that the banking industry does not understand software development and is wary about lending to the industry.

Interestingly, however, the software development industry is not affected by several obstacles faced by traditional commodity exporters, particularly high transport charges and problems with customs. Because the final products are small enough to be shipped via international couriers or transmitted via modem, the software industry in essence jumps over some traditional exporting barriers. The Customs Authority was still cited as an obstacle for minor transactions such as returning a damaged computer part, but software exports in general have minimal contact with the Customs Authority.

C. Best Export Prospects

The primacy of Arabic in Egypt both opens and closes doors to information processing export opportunities. Egypt does not currently demonstrate any competitive advantages in data entry or back office operations (processing coupons, airline vouchers, insurance forms, etc.). However, significant export opportunities exist in the development and Arabization of software. In fact, Egyptian entrepreneurs have demonstrated that they can successfully export three types of software products: Arabization of existing software, new Arabic software, and custom software. The highest potential markets are Arab markets in the Gulf and North Africa.

D. Elements of a Successful Strategy to Promote Exports

The following activities will assist the Egyptian software development industry to reach its full export potential.

■ **Encourage Private Sector Cooperation**

To market Egyptian software development skills in a meaningful way, it will be necessary for the industry to band together. Several years ago, the industry unsuccessfully attempted to create a professional organization. A second effort to associate is overdue. It should become clear to industry firms that, while it is not necessary to share trade secrets or contacts, they can accomplish much more together than separately. To break into the Arab markets in a substantial way, the firms need to impart information about and gain acceptance for Egyptian software development skills; this can best be accomplished jointly.

■ **Provide Marketing Assistance**

The industry needs to be marketed professionally. The marketing campaign should be designed in conjunction with the industry itself, and led by an expert in the industry (not a generalist). Marketing activities to consider include an Egyptian pavilion at the Gulf Information Technology Exchange (GITEX) in Dubai, and a catalogue of Egyptian software development capabilities. It may be advisable to hold a conference in Cairo to showcase Egyptian products and skills, to which foreign buyers are invited. Direct mail and advertising may also be useful. Networking with international colleagues at the Global Alliance of Information Industry Associations, Special Working Meeting, October 10 - 14, 1995 in China, or the Information Industry Association's 26th Annual Convention, October 23 - 26, 1995, in New York, NY, may be beneficial.

■ **Undertake Policy Reform**

The industry reports that policy instability makes long-term planning difficult. In addition, there is a general need to reduce governmental interference in doing business.

■ **Consider a Science Park**

One tool which has been utilized with great success in other nations eager to enhance their high-technology capabilities is the science park. A science park is an industrial development dedicated to technology industries. Clustering high technology businesses in a single location leads to positive synergies as they trade ideas and personnel, attract suppliers, and create a "critical mass."

Several criteria must be met for the park to catalyze growth and exports. It must be easily accessible to buyers and workers, located near enough to an existing supply of high-quality, educated labor to facilitate easy commuting without requiring families to relocate; it must be equipped with reliable infrastructure (telephone and data transfer lines, electricity, water, roads); and it must be responsive to tenant needs and therefore should probably be owned and operated by the private sector. Subsidies for rent or utilities are not required or even desired. Cost-cutting is not the goal: Provision of high-quality services is.

■ **Enforce Intellectual Property Rights Protection**

In order to restore profitability to the software development industry, the Arab nations, including Egypt, must crack down on software piracy.

TOURISM-RELATED EXPORTS

A. Profile of International Markets

Tourism is one of the world's largest industries. The World Tourism Organization estimates world tourist arrivals at approximately 450 million. More than 60 percent of all tourists visit Europe, while the Americas host 20 percent of world travelers, followed by 11 percent in Asia and the Pacific. The Middle East is the destination for approximately 1.5 percent of world international visitors. At its peak in 1991, Egypt received 0.62 percent of all international visitors. Currently, that percentage has fallen to less than one-half of one percent.

Most world travelers originate from Europe, North America, or Japan. Citizens from 15 nations together generate approximately 80 percent of foreign tourism expenditures: Australia, Austria, Belgium/Luxembourg, Canada, Denmark, France, Germany, Italy, Japan, Mexico, the Netherlands, Sweden, Switzerland, United Kingdom, and the United States.

Tourism can be a significant foreign exchange earner and employer. The following table depicts tourism revenue as a percentage of exports of goods for selected nations.

TOURISM REVENUE AS A PERCENTAGE OF GOODS EXPORTS

Nation	Tourism Revenue as a Percentage of Goods Exports
Barbados	87
Tunisia	34
Cyprus	20
Kenya	11
Philippines	10
Chile	4
Ecuador	3

Source: U.S. Department of Commerce

International tourism expenditures are expected to increase at an annual rate of approximately 5 percent until the turn of the century. However, several market segments are growing at faster rates. The cruise market is perhaps the fastest growing segment, and one which suits Egypt well, with the attractions of the Nile, the Red Sea Coast, and the Mediterranean Sea. Cruise participants are principally aged 25 to 39, although seniors cruises are also popular; cruisers include both families and singles. Cruise participants demonstrate tremendous loyalty to this type of travel, with 76 percent of those who cruise planning another cruise.

Executives of cruise companies report that they seek the following factors when determining where to base-port (that is, begin and/or end cruises):⁵⁷

- Air Service
- Security
- Ease of customs and immigration procedures
- Hotels (with food and beverages (as holding area or extension of air/cruise land programs
- Comfort and convenience in airport and harbor terminals
- Tour and other recreational activities
- Duty-free shopping
- High-quality, generic tourist literature
- Destination promotion by government
- Services to the vessel at reasonable cost

⁵⁷ "Caribbean Cruise Ship Study," Caribbean Tourism Research and Development Center, published by the Organization of American States, 1988.

Regardless of location around the world, the hard and soft infrastructure requirements for successful cruise ports of call include the following:

- Tourist safety
- Establishment of educational programs for guides
- Training of multi-lingual guides and interpreters
- Preservation and restoration of historical sites
- Construction and maintenance of rest room, changing and shower accommodations
- Provision of a broad range of beach and water sports facilities available to day visitors
- Development of cultural exchange programs
- Provision of pavilions where local artists can demonstrate their craft and sell products

The convention market is a second booming sector. More than 6,000 congresses of international associations (as opposed to merely local or national associations, some of which also meet outside of their home country) meet each year around the world. Expenditures by participants exceed \$26 billion. Importantly from the point of view of host nations, congress participants spend approximately three times as much as an average leisure tourist, the higher expenditures resulting from the predominance of congresses in relatively high-cost major cities, as well as the third-party payment factor as employers pay the bills. The average international congress participant spends approximately \$1,800 abroad during a 3-4 night stay, distributed as follows:

DISTRIBUTION OF CONGRESS PARTICIPANT EXPENDITURES

Item	Expenditure	Expenditure as % of Total
Accommodations	\$648	36 %
Food	\$396	22 %
Shopping	\$306	17 %
Local Transport	\$270	15 %
Entertainment	\$108	6 %
Miscellaneous	\$72	4 %

Source: U.S. Department of Commerce

Europe is by far the most popular destination for congresses of international associations; the continent books approximately 58 percent of all such meetings. The remainder are distributed among Asia and the Pacific (14 percent), North and South America (9 percent), and Africa (6 percent).

An additional target market which is growing significantly is special interest travel, including enhanced interest in historical and cultural destinations, adventure travel, and educational travel. Egypt offers a wealth of opportunities to visitors interested in history, culture, nature, and educational experiences.

Today perhaps the most sought-after international tourist is Asian, particularly Japanese. More than 13 million Japanese travel internationally each year, spending approximately \$4,000 per person during a typical 11-day trip. However, the Japanese market may not be the most appropriate target market for Egypt at this time, for several reasons. First, Japanese are extremely security conscious. Second, Japanese are not typically adventurous tourists, preferring well-known major cities in Europe and North America.

One less-well-known market that may be more open to Egyptian tourism is the Australian market. Australians have the luxury of taking long vacations, averaging 23 nights, due to the government policy of 7 ½ weeks of annual paid leave. Australians spend an average of \$2,140 per capita during their vacation.

U.S. citizens continue to indulge in their penchant for international travel. Seventeen million Americans travelled overseas in 1993, up one million from the previous year, and they spent \$57 billion. The median length-of-stay was 11 nights, during which time each traveller spent \$2,388. Most travellers are residents of large cities, principally New York City, Boston, Miami, Dallas, Chicago, Los Angeles and San Francisco. Mexico, Canada, the Caribbean, and Western Europe are the major destinations. Only 3 percent of U.S. travellers visit the Middle East.

B. Profiles of the Egyptian Industry and Exports

Tourism is critically important industry to the Egyptian economy, generating \$1.78 billion in fiscal 1993/4, down from \$2.38 billion the previous year, according to Central Bank Figures.⁵⁸ Tourists experts who have reviewed the Central Bank's statistical procedures agree with the accuracy of their estimates of tourism receipts. The Ministry of Tourism estimates that the industry employs 150,000 Egyptians, or 1.1 percent of the laborforce. All but 7,000 of the workers are employed in the private sector.

During calendar year 1993, 2.5 million tourists visited Egypt, staying a total of 15 million tourist nights. The region of origin of tourists to Egypt is summarized in the following table.

⁵⁸ "Egyptian Economy Grew Faster than Expected," *The Egyptian Gazette*, November 16, 1994.

TOURISTS TO EGYPT, 1993

Region/Country of Origin	No. of Tourists	Percentage Change from 1992
OECD	1,211,604	-31.9
Arab Nations	922,389	-16.3
Israel	123,985	12.5
Eastern Europe	85,716	16.3
Asia	83,222	-3.2
Africa	32,066	22.9
Latin America	29,778	4.8
Others	19,002	-20.1
Total	2,507,762	-21.8

Source: U.S. Department of Commerce

The vast majority of tourists, 68 percent, arrive by air. Twenty percent arrive by land and the remaining 12 percent arrive by sea.

Several isolated violent incidents have played havoc on the Egyptian tourism industry. The following table illustrates the gradual growth and sudden drop in tourists to Egypt.

TOURISM IN EGYPT, 1982 - 1993

Year	No. of Tourists (millions)	No. of Tourist Nights (millions)	Revenue (LE million)
1982	1.4	9.3	317.5
1983	1.5	8.8	245.0
1984	1.6	8.6	265.0
1985	1.5	9.0	233.4
1986	1.3	7.8	311.5
1987	1.8	15.9	1,242.0
1988	2.0	17.9	1,917.2
1989	2.5	20.6	2,373.7
1990	2.6	19.9	2,914.5
1991	2.2	16.1	4,375.5
1992	3.2	21.8	7,578.1
1993	2.5	15.0	5,214.2

Source: National Bank of Egypt, *Economic Bulletin*, Vol. XXXXY, No. 1,2, 1993, p. 119., and SRI Interviews.

Egyptian Tourism Infrastructure

Accommodations. The Chamber of Tourism estimates that Egypt boasts a total of 94,000 hotel rooms in 695 hotels (including floating hotels).⁵⁹ An additional 166 hotels and floating hotels are under construction. Many of Egypt's hotels, including nearly all of its five-star accommodations, are owned by the public sector company, Egyptian Organization for Tourism and Hotels, EGOTH. The hotels are operated by management contract, a common mechanism worldwide used even in hotels owned by private companies. Because the management contract includes incentives for meeting and exceeding financial and operating targets, the quality of hotel service does not suffer as might be expected with public sector ownership. While the sector is proceeding with privatization of hotels, the transfer of ownership is not expected to have a significant impact on hotel quality or tourism.

Most of the hotel furnishing are purchased locally, representing an additional boost to the Egyptian economy. Unlike other nations with limited manufacturing capabilities, Egypt is able to furnish its hotels with locally made carpet, furniture, bed and bath textiles, ceramic and other accessories, as well as supply food products to the restaurants.

Travel Agencies. Egypt is home to 777 travel agencies, including Misr Travel, the largest travel agency in the Middle East. The largest travel agencies, including Misr Travel, are owned by the public sector; the rest are private.

Attractions. Egypt is rich in tourism attractions. By one accounting, Egypt boasts two-thirds of all the historical monuments in the world. Beyond the obvious pyramids, Egyptian Museum, and other historical and cultural sites unique to the world, Egypt boasts the Red Sea corridor with diving, snorkeling, fishing, and water sports; the Sinai, dotted with holy places and pilgrim routes; and other attractions.

Egypt receives all types of visitors, including leisure, business, and convention travellers. A partial list of major congresses which have taken place in Egypt recently includes the American Society of Travel Agents Annual Meeting (October 1992) and the United Nations Population Conference (September 1994).

Organizations. The tourist sector is one of the best organized in the nation, with a plethora of active, well-run, tightly-staffed associations. Organizations include the Egyptian

⁵⁹ In nations around the world, the tourism industry faces particular statistical challenges, and Egypt is no exception. The large number of small, family-owned motels and inns make it extremely difficult to maintain accurate statistics on the number of hotels and hotel rooms. The Chamber of Tourism statistics demonstrate a significant discrepancy from the CAPMAS statistics on hotel capacity. According to the Statistical Yearbook 1992 - 1993, (Cairo: June 1993), pp. 292 - 297, Egypt has 1,379 hotels with a total of 60,647 rooms. The CAPMAS statistics appear to include large numbers of small inns.

Federation of Tourist Chamber, the Egyptian Travel Agents Association, the Egyptian Hotel Association, the Chamber of Tourist Establishments, and the Egyptian Chamber of Tourist Commodities. One of the most important benefits of the inter-industry cooperation is the easy availability of statistics on all aspects of the industry, statistics which facilitate planning and decision-making.

Constraints on Tourism Growth. Security concerns are the largest constraint on Egyptian tourism. Isolated yet worrisome terrorist attacks have had a devastating impact on tourism to Egypt, reducing 1993 visitor volume by 30 percent and expenditures by 40 percent compared with the previous year. Upper Egypt, the site of most of the problems, has been the most severely affected by the decline. Many hotels have shut down operations temporarily, and those remaining report 30 percent occupancy levels.

Other constraints on tourism growth that have been identified by visitor surveys include concerns about trash and litter in the streets, a lack of information kiosks around the town to direct tourists, and insufficient training for taxi drivers.

Government Involvement. The Ministry of Tourism plays an important role in regulating and promoting tourism. Its dependency, the Egyptian Tourist Authority, has 17 offices abroad, in Chicago, Houston, New York, San Francisco, Montreal, Athens, Frankfurt, Geneva, London, Madrid, Paris, Rome, Stockholm, Vienna, Tokyo, Dubai, and Kuwait.

The Ministry is embarking on a number of initiatives to promote the current tourist product and to broaden the product to attract additional types of tourists. The promotional arm of the Ministry has developed a strategic plan in conjunction with the private sector, to focus on high-potential target markets. Market research indicates the most appropriate markets are England, Germany, Italy, France, and Japan. The government has readied and began recently to implement a \$42 million promotional campaign targeting these markets. One-sixth of the funding, \$7 million, was to be put forward by the private sector.

Unfortunately, in the face of serious security concerns, the government and private sector decided jointly to postpone the active marketing campaign until a more appropriate time. The consensus was that no promotion could persuade a frightened public to visit Egypt at this time, and therefore the resources would be more effective if utilized in the near future.

The Ministry is moving forward aggressively, however, with a strategic plan to diversify the Egyptian tourism product from one focussed on historical and cultural tourism, which attracts only some 10 to 15 percent of the travelling public, and cannot produce repeat visitors, to include "sun and sand" attractions sought by an estimated 60 percent of international tourists. The government is seeking financing from the World Bank and private sources to plan and build tourism infrastructure in the South Sinai and Red Sea Coast. These tourism villages will offer

hotels, shopping areas, golf courses, marinas, and water sports to tourists. Supporting infrastructure to be built will include airports, roads, and utilities, including wastewater processing to protect the environment, particularly the coral reefs. In November 1994, Minister of Tourism Dr. Mamdouh el-Beltagui announced an Egyptian-Italian joint venture to construct 325 rooms in South Sinai.

No efforts are currently underway, however, to attack deep problems limiting Egypt's share of the lucrative convention and congress market. The public sector Cairo International Convention Center Organization owns a large convention facility in Nasr City. The covered facility is reportedly poorly managed. Few if any conventions have been staged there recently. The hall is not near any hotels, which would facilitate convention attendance. There may be some private sector interest in constructing a hotel and shopping area near the convention hall. If the hall were upgraded to include the amenities required by today's convention-goers, and marketed aggressively, it could prove to be a valuable asset for filling Cairo's hotel rooms. Most cities around the world have found that a public/private sector Convention and Visitor Bureau (CVB) partnership with active participation by area hotels is the most effective method for marketing convention facilities.

C. Best Export Prospects

With its unique cultural and historical offerings, and its new thrust to also offer "sun and sand" tourism, Egypt has valuable tourism assets that will continue to generate billion of dollars in foreign exchange and hundreds of thousands of jobs. The current political climate, marked by unfortunate attacks on tourists, is expected to improve significantly in the short-term as the entire region reaches consensus and stability. Once sufficient time has passed for the public's notoriously short memory to refocus from fear to renewed interest in Egypt, visitor stays shall again increase.

As the discussion of the world market above demonstrated, good prospects for enhancing tourism to Egypt include focussing on attracting special interest travellers to Egypt's rich historical and cultural offerings. Egypt is well-situated to take advantage of the world boom in cruising; cruises could link the nation's historical and cultural sites with new "sun and sand" developments. However, until the organizational efficiency of the Cairo International Convention Center Organization is improved, it is unlikely that Cairo will become a major player in the large congress market, although individual hotels will continue to host events.

D. Elements of a Successful Export Strategy

Several important initiatives are already underway to spur the tourism industry to reach its potential. The Ministry of Tourism' efforts to attract private capital to build resorts in the South Sinai and Red Sea are to be applauded, as are its cooperative marketing efforts with the private sector. These two activities will play an important role in assuring the prompt recovery of the tourism industry, once the current political difficulties are resolved.

Several other actions would also speed the resurgence of the industry. While Egypt is already offering two out of three of the major types of tourism -- leisure and business -- convention-goers have not yet been targeted. An effective convention strategy must be built around the private sector, particularly hotel operators. Public participation may be required in financing the necessary convention infrastructure, as convention facilities worldwide are becoming larger and more technologically sophisticated, and Cairo's current offerings are insufficient.

The creation of visitor information kiosks in popular tourist areas would confront the common criticism of lack of information. Taxi-driver training is also recommended.

CONSTRUCTION SERVICES

A. Profile of International Markets

International engineering (design) billings in 1992 totaled \$12 billion, while international construction billings neared \$150 billion. The major markets are Europe, Asia, and the United States. The distribution of engineering and construction markets by country is depicted in the following table.

INTERNATIONAL ENGINEERING MARKETS, 1992	
Nation	Size of Market (US\$ Mill.)
Europe	\$2,400
Asia	\$1,500
United States	\$1,200
Middle East	\$1,100
Latin America	\$709
Central and South Africa	\$285
Canada	\$228
North Africa	\$202
Other	\$4,376
Total	\$12,000

Source: U.S. Department of Commerce

Asia, particularly China, Indonesia, Malaysia, Singapore, Taiwan, and Thailand, as well as the Middle East, represent the best prospects for the engineering and construction industries in the coming years. These regions have all the prerequisites for a booming construction market, including rising income levels, substantial foreign exchange reserves, low levels of foreign debt, and extensive infrastructure needs. For example, South Korea has plans to spend \$400 billion on infrastructure, and Taiwan expects to spend \$245 billion. Thailand is in the process of a \$25 billion transport enhancement scheme, while Indonesia reports plans to devote \$50 billion to transport and energy. China is expected to allocate \$92 billion to infrastructure development by the year 2000.

Developing countries' overburdened infrastructure will be further challenged by continuing rural to urban migration. However, construction finance will be problem. Firms seeking finance should consider Japan's official development assistance (ODA) which is increasingly untied (not linked to use of Japanese firms). Japan has announced it will expend \$75 billion on ODA to developing countries in the coming 5 years, much of it for infrastructure projects.

International construction projects are predominantly petroleum projects, followed by transportation, industrial process work, general building, manufacturing construction, and sewerage and waste disposal. Environmental cleanup is likely to be a growth industry for engineering and construction firms in the future.

B. Profile of the Egyptian Industry and Exports

The Egyptian construction and engineering industry consists of both publicly and privately owned contractors. Currently, there are 31 public enterprises and 36,000 private companies. Ten of the public companies and 150 of the private ones are large enough to handle major multi-million dollar projects within Egypt and abroad. The remaining firms are small and medium-sized construction contractors, design engineering, and construction management firms. Overall, the industry employs approximately five percent of the Egyptian workforce.

The dominance of public sector construction firms has been dwindling in recent years, due to increased concerns about the speed and efficiency of public firms. In the last five years, fully 75 percent of the half-million new housing units were constructed by private firms.

The construction industry has been one of the nation's most dynamic sectors, growing by 22 percent annually during the last decade. Growth has been spurred by ambitious and badly needed public investment programs calling for construction of housing, new communities, roads and bridges, irrigation, and potable water and sewerage systems.

Growth is expected to continue. Public funding from the government and donors has been set aside for the following construction projects, among others, in the coming five years:

- \$5.5 billion for 1.2 million new housing units;
- \$3.7 billion for public utilities;
- \$1.3 billion for new communities;
- \$150 million for infrastructure in 14 new cities; and
- \$260 million for tourism infrastructure.

Egyptian Construction Exports

Africa and Gulf nations are the biggest international purchasers of Egyptian construction services. All of the large public sector construction companies and many of the middle-sized and large private firms are very active in these two markets. For example, six Egyptian construction firms are undertaking reconstruction projects in Kuwait. Typical construction projects include roads, bridges, tunnels, and residential and commercial complexes. Of the 2.1 million Egyptians living overseas in 1991/92, 11 percent, or 233,200, work in construction.⁶⁰

Egyptian Engineering Exports

In contrast to the opportunities available to Egyptian construction workers, the vast majority of Egyptian engineers work domestically. Egypt has approximately 200,000 engineers, who are judged to be well-trained technically, but are criticized for low productivity in comparison with their European counterparts. The reputation for low quality in European and Gulf markets has effectively kept out all Egyptian engineering services from these markets. Only in Africa, with less rigorous quality standards due in part to fewer resources, have Egyptian engineers gained a foothold in a foreign market.

One of the largest Egyptian engineering firms reports that, to its knowledge, it is the only Egyptian firm with foreign engineering contracts. While it is not possible to corroborate this claim officially, it is clear that engineering exports (as opposed to construction exports) are limited in scope.

The firm reports that its export market is currently Africa, primarily Ghana, Guinea, Mali, Mauritania, Sierra Leone, and Mauritius. The work is funded by multilateral donors, such as the World Bank, the African Development Bank, the Islamic Bank, the Arab Fund, the Abu Dhabi Fund, and the Kuwait Fund.

⁶⁰ The World Bank, Private Sector Development in Egypt: The Status and Challenges, Volume II: Statistical Annexes and Bibliography, February 1994, Table 24.

The African continent, excluding South Africa, spends an estimated \$2 billion each year on construction and engineering services, primarily for relatively simple projects. The projects are funded from three sources: Bilateral donors, multilateral donors, and local governments (national, regional, and municipal). Bilateral aid is usually "tied aid," meaning that bids are designated for firms from the donor nation. Local government funding is usually in such small quantities that foreign companies, including Egyptians, are unlikely to bid. Egypt's best market for engineering services is therefore the multilateral donors.

The market segments in which Egypt is exporting engineering expertise are characterized as relatively simple, such as:

- Highway design;
- Construction supervision;
- Fishing port design;
- Potable water scheme development;
- Rural electrification design; and
- Agricultural reclamation design.

Egypt's comparative advantages for African construction and engineering projects include:

- Geographic proximity, which facilitates marketing and reduces costs; and
- Price: Egyptian engineering services cost considerably less than those from the U.S. or European firms.

To win construction and engineering contracts in the United States and Europe, Egyptian firms will need to team with firms from those nations. Several Egyptian companies are already developing relationships with foreign partners.

C. Best Export Prospects

Best Construction Export Prospects

The Middle East peace process underway is expected to lead to a significant construction boom. Massive rebuilding efforts are expected in Lebanon, Palestine, and Kuwait. International political events and economic trends are also expected to give rise to significant building booms in South Africa, the Newly Independent States, and Eastern Europe.

Best Engineering Export Prospects

The best prospects for Egyptian engineering services in the short-term will continue to be relatively simple design projects in African countries funded by multilateral donors. These projects may include:

- Road design and construction supervision;
- Simple ports, such as fishing ports; and
- Land reclamation project design.

Increasing Egyptian engineering exports will multiply Egyptian exports by serving to open the door to new markets for Egyptian building materials. Egyptian engineering firms are many times more likely than their foreign counterparts to recommend Egyptian building materials and interior products, including ceramic sanitary accessories, tile, marble, lighting fixtures, glass, floor coverings, and other goods. Thus, Egyptian engineering exports will have a catalytic effect on building materials exports.

Best Consulting Export Prospects

In the context of engineering consulting, it is useful to weigh the prospects for Egyptian consulting exports in general. Consulting prospects vary by niche, in conjunction with the degree of perceived excellence of the Egyptian labor force. Engineering consulting is becoming accepted in Africa, a large potential market. Information technology consulting is viewed very positively throughout the Gulf markets. In general, though, Egyptian management consulting has yet to generate significant exports, for a number of reasons.

Because of the reputation of Egyptian businesses as state-operated, unwieldy, and inefficient, Egyptian management consultants are not in high demand from other nations. In addition, business management consulting as a profession does not exist yet in Egypt, according to sources surveyed. This translates into low local demand for management consultants, which in turn deprives consultants of opportunities to hone their skills for international markets. With several exceptions, such as information technology in the Gulf and engineering in Africa, the Egyptian consulting sector has a relatively poor image in foreign markets.

D. Elements of a Successful Export Development Strategy

■ **Policy Reform**

Governmental policies and regulations were not cited by the industry as major obstacles to growth, either domestically or in export markets. Several years ago, the industry successfully opposed a government proposal to tax income from foreign assignments.

■ **Marketing Assistance**

The growth of Egyptian engineering exports would be boosted by the following activities:

1) **Facilitate relationships with foreign partners.** To win international tenders in Europe, the Far East, and the United States, Egyptian engineering companies must team with partners from these regions. Joint contacts could be fostered by a number of means, including

- Trade missions to major markets by Egyptian engineering firms;
- Engineering exhibitions highlighting Egyptian engineering firms and their accomplishments, to which foreign firms are invited;
- Participation in international trade shows and exhibitions; and
- Market research and marketing by Egyptian embassy offices in foreign countries.

The Egyptian construction industry has already entered into a series of joint contracts and joint ventures with foreign construction management firms. These contacts could prove invaluable in assisting Egyptian firms to obtain contracts abroad. The following foreign firms have been active in Egypt:

Foreign Construction Firms Active in Egypt

United States: Bechtel, Gilbert Associates, Perini International, Morrison-Knudsen, Parsons Brinckerhoff, Ebasco, Harza Engineering, CH2M Hill

France: Societe Generale de Service, Matral Co., Montalev France

United Kingdom: Binnie, Trafalgar House, Sunley Construction, Higgs and Hill, Lilley Construction Ltd., Cementation Construction, Taylor Woodrow, Tarmac

Japan: Penta Ocean, Kajima

Italy: Iaster World, Guerra Co., Ansaldo, Frate Bruno

These international companies already operating in Egypt should be invited to play a key role in the construction export development strategy. Teaming with Egyptian partners for international contracts will help keep the higher-price European and American firms cost-competitive, by incorporating lower-cost Egyptian counterparts into the overall bid price.

- 2) **Enhance opportunities with multilateral donors.** Multilateral donor finance of engineering contracts in Africa represent Egypt's most important engineering export market. Egypt's share of this market could be increased by the following activities:
- Hold a donor conference. Multilateral donors would present their procurement procedures. African government officials would explain their top priority engineering projects and plans. Egyptian engineering companies would have an opportunity to make personal contacts, refine their knowledge of the procurement process, and showcase their engineering successes.
 - Develop and distribute a database of multilateral donor procurement opportunities. Egyptian representatives at each donor agency would develop descriptions of projects under development, to be distributed to potential Egyptian bidders along with complete contact information.

Two projects under discussion by the Council of Arab Housing Ministers are likely to be important catalysts for Egyptian construction exports. The Council, which met in Cairo in mid-November, discussed developing Arab unified codes for designing and constructing new buildings. A unified Arab code would favor member nation firms, including Egyptian firms, at the expense of non-member firms, since member firms could stress their familiarity and experience with the unified code. Second, the Council is discussing the creation of a data network on housing and reconstruction projects in the region. A data network could boost Egyptian exports by alerting Egyptian firms to bidding opportunities.

On-going privatization efforts are also likely to increase Egyptian exports, as newly privatized firms find themselves under increased pressure to boost sales. Approximately 10 of the 13 companies affiliated with the Holding Company for Public Works and Land Reclamation are slated to be privatized through employee buyouts. The first employee buyout, The Engineering, Design and Irrigation Projects Consulting Office (EDIPCO), is in the process of transferring 95 percent of its shares to employees. The five percent remaining in the hands of the holding company will eventually be transferred to top management and other private owners through the capital market. EDIPCO has 47 employees and total sales in 1992/93 of LE 1.4 million LE.

TRANSPORTATION SERVICES

A. Profile of Regional Markets

Egypt's central location linking Europe and the Newly Independent States of the former Soviet Union with Africa, South Asia and the Far East make the nation a natural transshipment site. The opportunities created by the nation's geographic location are enhanced by several ongoing trends, including new transport patterns as the NIS seek new suppliers and export markets, South Africa rejoins international markets, and the "New Middle East" plays an increasingly important role in world trade as its political situation stabilizes.

The move toward "just-in-time" manufacturing also opens opportunities for Egypt as a gateway for multi modal transfers to and from the continents and regions it serves. So-called "responsive manufacturing" is resulting in more, smaller individual shipments facing quick turnaround deadlines. Quick customs clearance and rapid, easy transshipment are becoming critical determinants of routes and shippers. While Egypt's location grants it opportunities, serious issues of delays and nonresponsiveness to customers threaten its ability to take advantage of this asset.

B. Profile of the Egyptian Industry and Exports

The transport, communications, storage, and Suez Canal sectors of the Egyptian economy generated LE 14,818 million in 1992/93, 11.4 percent of the nation's Gross Domestic Income. The sectors employ 650,000 workers, 4.5 percent of the workforce. Fifty-four percent of the workers are in the public sector, with the remaining in the private sector.

In order for the Egyptian economy to grow, and exports to boom, the Egyptian transportation networks must offer competitively priced, high-quality service. High transport charges and shoddy service are some of the most frequent exporter complaints. This profile examines the current transportation network in Egypt and concludes with recommendations for enhancement.

Maritime Transport

Shipping is large industry in Egypt, generating LE 2.5 billion in 1991/92.⁶¹

⁶¹ National Bank of Egypt, *Economic Bulletin*, Vol. XXXXY, No. 1,2, 1993, p. 116.

The Egyptian maritime transport industry, including both vessels and port services, is predominantly government-owned and operated. In general, each seaport is serviced by a single public sector company to handle loading and unloading, a single company for containers, a single company for storage and warehousing, etc. The Alexandria Businessmen's Society estimates that transportation prices are 15 percent higher than they would be with competition.⁶² Privately owned services are extremely limited, and include ferries to Saudi Arabia and Jordan (among others), freight forwarders, shipping agents, and some warehousing.

The public sector Maritime Transport Company is a holding company for 15 transport firms. All together, the company owns approximately 144 vessels, most of which are aging and non-specialized.⁶³ The company reportedly faces an acute shortage of refrigerator ships, container ships, petroleum-carrying vessels, and passenger ships.

Perhaps Maritime Transport Company's largest holding, the Egyptian Company for Maritime Navigation, owns five categories of vessels, including general merchandise, multipurpose, roll-on roll-off, petroleum, and cereals (bulk). The firm transports petroleum from the Gulf, hauls cereals from Europe, and services the Mediterranean, the Adriatic, the U.S. and Canada, the Black Sea, North and West Europe, and U.K. Another holding, the Alexandria Company for Navigation Agents, offers container services, warehousing, and ship provisioning. Two of the holdings offer ship repair and construction.

The ability of the Egyptian firms to supply import and export transport needs varies widely by type of product. The Egyptian firms have extensive bulk capacity, and move approximately 50 to 60 percent of the wheat, corn, and other bulk cargo entering and exiting Egyptian ports. However, the firms are less equipped to handle other types of cargo, and transport only an estimated 7 - 8 percent of miscellaneous cargo. Very little of containerized goods and petroleum is handled by Egyptian-flag carriers. The major international shipping lines serving Egypt include: Adriatica, Farrel Lines, Lykes Lines, Ogden Lines, and Prudential Lines.

The Suez Canal is perhaps one of Egypt's most valuable assets. The Canal brings in needed hard currency, and places Egypt squarely on the map as a hub for international traffic. The following table depicts the enormous economic impact of the Canal.

⁶² Businessmen's Society of Alexandria, "Memorandum on Unnecessary Charges Resulting in Increasing the Cost of Production which Render the Prices of Products Uncompetitive," p. 3.

⁶³ The transport discussion owes much to a personal interview with Mr. Wael Lebeta, Chairman of EGYTRANS, and his article, "Transport Problems: Finding the Right Track, the next port of call for a sound economy," *Business Monthly* (publication of the American Chamber of Commerce of Egypt), June 1992, pp. 4 - 8.

SUEZ CANAL TRAFFIC AND REVENUE, 1966 - 1992			
Item	1966	1987	1992
No. of ships	21,250	17,541	16,629
Merchandise Volume ('000 tons)	274,250	256,935	275,027
Revenue (Million US\$)	\$95	\$850	\$1,869

Source: CAPMAS, *Annual Statistical Yearbook, 1952 - 1992, June 1993.*

Policy and Infrastructure Constraints on Maritime Transport. Private sector capital and know-how is urgently needed to boost Egyptian maritime capacity and provide competitive pressures to lower prices. However, several laws currently restrict private companies from offering maritime transport services. Law 14 of 1964 bans private ship ownership and use. This prohibition was only partially softened by a 1975 law allowing private ownership of vessels of to 40,000 tons. The new law's requirement that ships be at least 15 years old, not mortgaged outside the country, and can't be sold without prior permission effectively continues the prohibition on private vessel ownership.

The lack of competition in the industry has resulted in levels of service which exporters describe as "shoddy and inefficient." Allowing private sector competitive in both transport services and port services is necessary to improve service and lower costs. Customs clearance, undertaken by government-operated firms, provide notoriously slow, indifferent, and inaccurate service. In fact, although more than 60 ships pass through the Suez Canal each day, many refuse to stop at either Port Said or Suez due to poor service and excessive charges.

The current degraded condition of Egyptian ports is reducing export competitiveness by raising costs and resulting in lengthy delays. For example, while Port Said is an ideal multi-purpose port that could serve exporters from the 10th of Ramadan City, its high costs and delays result in low usage. Additional quays should be constructed, and the entrance to the port deepened. International shipping companies are likely to be willing to finance and operate the quays. Arabia Port needs a large quay, storage space, and stations for vehicles, especially those carrying refrigerated goods. Safaga Port needs to be deepened, and a passenger quay opened. Nuweiba Port needs one or more quays. Alexandria Port must be deepened, waiting stations opened for freighters, and freight storage increased. To facilitate the diversion of grain to Damietta, additional silos are needed, along with modern unloading equipment.

Air Transport

Air transport is preferred by exporters when a short travel time is essential, as for example for perishable fruits and vegetables, or inputs and intermediate components for just-in-time manufacturing. Air cargo services are provided by EgyptAir and international carriers, including TWA, Air France, Alitalia, British Airways, Japan Airlines, K.L.M., Lufthansa, and Swissair. EgyptAir has approximately a 70 percent share of the air cargo market.

Exporters in general find air cargo rates competitive, but are frustrated by a shortage of cargo room, as the airlines typically carry cargo in passenger planes rather than dedicated cargo planes. Overall, however, air cargo moved through the Cairo airport has been falling significantly over time, as the following table depicts.

**AIR CARGO THROUGH THE CAIRO INTERNATIONAL AIRPORT
1986 - 1992**

Item	1986/87	1989/90	1991/92
Air Cargo			
Volume (tons)	185,114	102,144	79,505

Source: CAPMAS, Annual Statistical Yearbook, 1952 - 1992, June 1993.

Policy and Infrastructure Constraints on Air Transport. The quality of air transport services, and by implication the competitiveness of Egyptian exports travelling by air, would be enhanced by the removal of several policy constraints. Customs clearance is the most serious obstacle. Worldwide, freight forwarders are increasingly playing this role, and this trend should be followed in Egypt. In addition, the creation of incentives within EgyptAir to take advantage of the market opportunities of the need for cargo space by leasing, purchasing or chartering cargo planes would be very beneficial. Manpower quality at the airport must also be improved, through training and work incentives. Lack of adequate facilities at the airport is an additional obstacle. Storage space for goods is at a premium, as is office space for airline companies and freight forwarders.

Land Transport

The Egyptian trucking industry is in a critical state. The industry is composed of approximately five government-operated public sector firms, and independent truckers. However, lack of responsiveness to consumer needs, due on the part of the government-owned firms to a lack of incentives and on the part of the private truckers to high costs and policy constraints, foreign truckers dominate the Egyptian market. Jordanian, Syrian, and Saudi truckers haul approximately 95 percent of Egyptian truck freight, leaving only five percent of the market in the hands of Egyptian firms.

Policy and Infrastructure Constraints on Land Transport. Two policy constraints limit the competitiveness of Egyptian truckers. First, an 84 percent customs duty is levied on new trucks. This prohibitive duty lowers the supply of trucks and increases trucking prices, increases which are passed on as higher prices for Egyptian exports. Second, trucks leaving Egypt must pay a bank guarantee against the possibility that they will be sold outside the country. This requirement imposes an additional cost on the industry, but more importantly results in delays of up to several days at the border.

C. Best Export Prospects

Egypt's central location, linking Europe, Africa, South Asia and the Far East, is a valuable economic asset that creates massive economic opportunities in international transportation. With the dredging of the Suez Canal to accommodate 250,000 ton vessels, making the canal viable for additional classes of ships, Egypt is poised to earn additional revenue and create additional opportunities for Egyptian exporters.

However, the obstacles facing the sector are also massive. Policy and infrastructure weaknesses have limited the transport sector from playing its rightful role as a generator of foreign exchange as a facilitator of the export of goods and services.

In spite of the obstacles the industry faces, several ongoing policy and infrastructure improvements portend a brighter future. The Customs Authority now allows the transshipment of sealed shipments, allowing Egypt to take maximum advantage of its location as a transport hub. Freight consolidation, the merging of separate shipments to the same location, is also now possible, an important advance in the age of just-in-time manufacturing, which is creating more, smaller shipments. It appears at this time that Egypt's best export prospects include maritime and air transport.

D. Elements of a Successful Export Development Strategy

A strategy to boost the competitiveness of the Egyptian transport sector should include the following elements:

■ Policy Enhancements

Several policy obstacles should be removed. Most significantly, transport should be opened up to full and fair participation of the private sector. Only in this way will sufficient capital and expertise be attracted to the sector in the short term, given the budget shortage facing the Government. Private sector involvement in the transport industry could be expanded in a

variety of ways, including: continued public ownership of transport infrastructure but granting contracts or long-term leases to private businesses for operations; and/or private ownership and management subject to public sector regulations. Incentives in the form of tax credits should be considered for the purchase or lease of cargo planes and shipping vessels. The roles of freight forwarders and customs brokers should be broadened. In addition, the 84 percent duty on new trucks should be drastically reduced, and the bank guarantee that causes substantial delays for trucks leaving the country should be removed.

■ **Infrastructure Enhancements**

The transport sector faces critical and expensive infrastructure needs. An overarching transport infrastructure plan should be developed, and financing obtained. A broad role should be sought for the private sector in the provision and financing of infrastructure, including private port and airport facilities.

FINANCIAL SERVICES

A. Profile of International Markets

Offshore banking is a multi billion dollar industry. The principal reason that international banks, firms, and private investors utilize offshore banking is to take advantage of favorable tax treatment and privacy regarding their transactions and holdings. Worldwide, offshore banking is most developed in Switzerland, the Channel Islands, the Dutch Antilles, and most recently, Luxembourg.

Luxembourg's recent success as an offshore banking center is illustrative for Egypt and other nations considering pursuing this export opportunity. Luxembourg has transformed its economy from one based on steel to one fueled by financial services.⁶⁴ This nation of just 400,000 people boasts 221 banks, including branches from across Europe, the United States and the Far East.

Luxembourg began its offshore banking industry by offering access to the growing Euromarket that was created in the 1960s when the United States imposed an interest equalization tax. Its attractiveness was enhanced when it offered generous write-offs during the Latin

⁶⁴ "German Banks Flood Scene in Luxembourg, Fueling Capital Flight," *The Wall Street Journal Europe*, November 16, pp. 1 and 12.

American debt crisis of the 1980s. Lower minimum reserves and liberal investment options complement the nation's other advantages.

The impetus behind the recent rush of interest in Luxembourg banks is German taxation. In 1989, Germany placed a 10 percent withholding tax on investment income, which increased to 30 percent in 1993. In response, German citizens have moved approximately 120 billion marks (\$80 billion) into Luxembourg, equivalent to 4 percent of Germany's gross domestic product.

The benefits of offshore financial services to the Luxembourg economy are numerous, and include high-quality employment and careers for its citizens, tax revenues, hundreds of millions of dollars in foreign currency earned from fees, and a construction boom as banks build new offices.

B. Profiles of the Egyptian Industry and Exports

Egypt is not currently an offshore banking center. The banking sector is composed principally of public sector commercial and specialized banks, development banks, Law 43 privately owned commercial banks, Islamic banks, foreign joint ventures, and foreign banks.

Egypt boasts four state-owned commercial banks, the National Bank of Egypt, Banque Misr, Banque du Caire, and the Bank of Alexandria, which together control approximately 70 percent of total banking assets. In addition, the public sector owns six specialized banks. Foreign banks, private sector entities, and joint ventures were set up with the liberalization that accompanied the Open Door Policy in 1975. Approximately 22 foreign banks have commercial offices in Egypt, including banks from the United States, Canada, Italy, Switzerland, France, Greece, Pakistan, Sudan, Lebanon, Oman, UAE, and Jordan. An additional 44 banks operate representative offices in Egypt, including banks from the United States, Japan, the United Kingdom, France, Switzerland, Italy, Germany, Luxembourg, Norway, Spain, India, Bahrain, Iran, Lebanon, and UAE.

Liberalization of the financial sector launched in January 1991 was an important first step at improving the efficiency of the banking sector and attracting foreign depositors. Since then, banks have been free to set interest rates on local and foreign currency deposits (so long as the three-month interest rate on Egyptian pounds is at or above 12 percent annually). In response to the liberalization, average interest rates on Egyptian pound deposits rose from 13.6 percent in 1990/91 to 16.7 percent in 1991/92, then fell to 13.5 percent in 1992/93.

A second policy reform, the March 1993 amendment of the Banks and Credit Law (Law 101), allows banks and foreign branches previously dealing only in foreign currency to deal in

local currency. This broadens the range of services open to international banks. The previous year, banks had gained leeway in setting charges for services, within government-set minimums and maximums (Law 37 for 1992).

Banking deposits have risen over the past several years, from LE 70 billion in September 1990 to LE 95 billion in 1991, LE 120 billion in 1992 and LE 130 billion in 1993. The sources of the deposits have remained very stable, with approximately 70 percent from the household sector, and ten percent each from the government, public sector companies, and private businesses. The foreign sector plays a minimum role in deposits in Egypt, contributing only 0.7 percent of local currency deposits (LE 676 mn out of LE 90,357 mn) and 4.4 percent of foreign currency deposits (LE 1,776 mn out of LE 40,096 mn).⁶⁵

C. Best Export Prospects

Egypt has as its goal, over time, to develop into a regional and eventually into an international banking center. Egypt's competitiveness in international banking is likely to be linked with the nation's ability to emerge as a transport and manufacturing hub for the New Middle East, as well as for Europe and the Far East. In addition, communications infrastructure improvements will be required to provide the quantity and quality of services demanded by international banks. It is also important to note that the number of large, offshore banking centers in the world is relatively small, and the existing centers provide intense competition to new entrants.

CINEMATOGRAPHY SERVICES

A. Profile of International Markets

The U.S. motion picture market is the world's largest, with an estimated 1 billion moviegoers generating \$5.25 billion in box office receipts in 1994, up 3 percent from the previous year. Other major markets which import significant quantities of motion pictures include Japan, Germany, France, Canada, U.K./Ireland, Spain, South Korea, Mexico, and Brazil.

Video cassette rentals represents an additional distribution channel for the motion picture industry. The following table depicts the video cassette recorder penetration in major markets.

⁶⁵ Central Bank of Egypt, *Economic Review*, Vol. XXXIV, No. 1, 1993/94, p. 17.

VCR OWNERSHIP BY COUNTRY, 1992

Nation	Percentage of TV Households with a VCR
Japan	81 %
United States	80 %
Australia	72 %
Hong Kong	72 %
United Kingdom	72 %

Source: U.S. Department of Commerce

Feature films dominate the video market. However, fast-growing niches include children's videos and instructional videos (i.e., cooking, exercise, languages, etc.).

Several technological innovations threaten the dynamism and long-term growth potential of the video rental market. Cable, pay-per-view, and video-on-demand television all facilitate in-home viewing but bypass retail rentals.

B. Profiles of the Egyptian Industry and Exports

The Egyptian cinematography industry consists of three studios, two owned and operated by the government, and one owned privately. The public sector studios, Studio Misr and Studio El Ahron, each employ approximately 200 individuals, including directors, technicians, camera operators, and others. Privately held Studio Gallal is smaller than its government counterparts, and employs 50 people.

The cinematography industry is the only Egyptian industry that exports 100 percent of its production. That is, all Egyptian-made movies are distributed both locally and internationally. The domestic industry produces all kinds of films, but action movies and romances predominate. Some of the movies distributed in 35 millimeter for screening in theaters, while others are distributed only on video (PAL).

The following table depicts a dramatic fall in the production of movies in Egypt recently. The downturn is due to rising costs, disruption in major markets due to political instability in the Gulf, and government budget restrictions.

FILM PRODUCTION TRENDS IN EGYPT, 1992 - 1994

	Year		
	1992	1993	1994
No. of Films Produced	69	70	25 ⁶⁶

Source: U.S. Department of Commerce

Because all of the films currently produced in Egypt are in Arabic, the major markets include the Gulf States and North Africa, with some small exports to the United States and Europe. While export statistics are not available, the industry estimates its total foreign sales at approximately \$2-3 million annually, an average of \$30,000 per film. Some films are priced higher: According to actor Adel Imam, his latest movie "Baghit and Adila," was sold to a Lebanese film distributor for \$100,000, reportedly the largest sum paid for an Egyptian movie in five years. Industry executives claim that piracy and other copyright infringements overseas represent a major problem.

Due to low labor costs and relatively low usage of high technology equipment, the costs of producing movies in Egypt are low by international standards. While film production can reach as high as LE 1 million (\$300,000 dollars), movies cost on average LE 400,000 to make (\$118,000 dollars). Egypt's principal competitors for the Arabic-language movie market include Tunisia, Morocco, and Algeria.

C. Best Export Prospects

Egypt's best export prospects will continue to be in Arabic language films and videos for the Gulf and North African markets. Except for films calling specifically for Egyptian settings, European and U.S. film companies are not likely to be interested in co-producing with Egyptian companies. The costs of going on location, even in a relatively low-cost setting such as Egypt, add significantly to a film's budget. To the extent possible, film companies use their own studios and backlots, or nearby, domestic locations.

D. Elements of a Successful Export Growth Strategy

Coproduction with foreign film companies offers Egypt one of the most promising ways to confront its two major constraints: Limited access to new technologies, due to outdated equipment, which are reflected in the quality of the films, and the relatively small size of the

⁶⁶ As of October, 1994. Source: Chamber of Cinema.

Arabic-language market. For example, a film was coproduced with a French company in 1993, and distributed in both French and Arabic. The French company was pleased with the competitive costs of filming in Egypt, and the arrangement opened a new market to the Egyptian counterpart.

Teaming with the tourism industry to attract foreign film companies for co-production or filming in Egypt would also boost the industry's exports and access to technology, markets and contacts. Many tourism promotion units around the world have specialized divisions for attracting film crews and obtaining the necessary permits. Films made in Egypt boost Egyptian exports at least three ways: 1) By boosting the local film industry through hiring technicians and local expertise; 2) By filling hotel rooms and restaurants for the lengthy (often several month) periods of filming, and 3) By depicting the nation's many attractions to potential tourists.

Additional resources for the annual Cairo International Film Festival would be an additional avenue for showcasing Egyptian cinematic accomplishments and attracting foreign buyers and partners. The Festival, held in November and December of 1994, attracts only limited interest from the international film community.

PRINTING AND PUBLISHING

A. Overview of Worldwide Markets

The worldwide printing and publishing industry has annual sales upwards of \$100 billion. The major markets are Europe, the United States, and East Asia. Major product categories include textbooks; technical, scientific, and professional books; adult and juvenile books; mass market paperbacks; financial, legal, and security materials; trade advertising, including catalogs and posters; and other items including decals, labels, playing cards, pictorials, stamps, menus, and coupons.

B. Assessment of Egypt's Export Competitiveness and Prospects

Structure of Egyptian Industry and Exports

Egypt has a large, well-developed printing and publishing industry, consisting of 1,900 print shops. Of those, 500 are large private publishers and 15 are public sector companies; taken together, these two categories of firms employ over 60,000 individuals. Large print shops typically employ between 200 and 300 individuals. Most of the print shops are located in 10th of Ramadan, 6th of October, Borg el Arab, and other new communities.

Egypt's key exporting activity is in Arabic language publications. Egypt is already exporting some relatively small quantities of printed materials, primarily rotogravure and flexogravure, cardboard boxes, advertising, and books, including children's stories. The principal export markets are Arab countries, such as Saudi Arabia, Kuwait, and Syria. However, Egypt also exports to Europe (France, England, Denmark, and the former Yugoslavia); Asia (India, Pakistan, Singapore, Malaysia, and Taiwan); Latin America (Brazil, Argentina, Venezuela, and Colombia); and Africa (Somalia, Kenya, Chad, Sudan, and South Africa).

Egyptian Export Competitiveness

Factors critical to export success in the printing and publishing industry include: Wages, costs of supplies and materials, exchange rate, transport costs, geographic accessibility to markets, and dynamism in export markets (including population growth and economic growth). While Egypt offers publishers and printers several advantages, they also face a number of constraints.

Competitive wages and a central geographic position are the principal competitive advantages Egypt has in the printing industry. However, exporters report that they face numerous constraints, principally high customs duties on inputs, extensive administrative delays in importing inputs and exporting final goods, and unreliable shipping services.

In July 1993, several customs duties were raised which had the combined effect of increasing the cost of printing by 23 percent. The customs duty on paper was raised from 5 percent to 18 percent, in an effort to protect the local industry which can meet only 38 percent of total demand. Customs duties and sales taxes on dyes, print films, and printing sheets were raised to 46 percent, 46 percent, and 35 percent respectively.

Administrative delays affect both importing and exporting. The General Authority for Export and Import Control inspects imported paper, causing lengthy delays and inconveniences. Book exports must be approved. While according to the law only ten percent of a book export shipment should be inspected, in practice the percentage is left to the discretion of the inspector, sometimes resulting in excess damage to the books and their packaging, as well as delays. Even small samples of books sent to potential buyers are subject to prior approval and inspections.

Transportation is an important issue to this industry, and they face numerous constraints, most frequently irregularities in maritime service schedules. A second important issue is intellectual property rights. Egypt does not currently offer sufficient IPR protection to publishers, resulting in losses due to piracy.

C. Elements of a Successful Export Development Strategy

Printing and publishing exports would rise if the following elements of an export drive were implemented. First, the policy and regulatory restraints on the industry must be abolished. Import tariffs on inputs must be lowered, and administrative red-tape and delays reduced. Second, the enforcement of intellectual property rights must be strengthened. Third, marketing assistance is critically needed to guide publishers to appropriate target markets and facilitate market entry.

PACKAGING

The Egyptian packaging industry, while it does export some basic packaging materials such as plastic films to surrounding African and Gulf states, is primarily a supplier of inputs to producers for the domestic and export markets. The industry was selected for inclusion in this export study in part because of its incipient exports but primarily because packaging can diminish or enhance the export prospects of other Egyptian industries. Through packaging's appearance, environmental soundness, quality, protection, and other qualities, packaging can dramatically improve or harm the marketability of Egyptian exports.

Over the last ten years, most developing nations have begun to seize opportunities to export their products and services. The industries that have been successful have been those that have realized and demanded that packaging must first be upgraded and then expanded with new technologies if their goods were to compete against world class standards and be accepted in the marketplace.

In the consumer goods area, most purchases are initially bought on impulse, with subsequent buying based on the quality level and value of the product purchased. One of packaging's main functions is to provide a self advertising and promotion medium that will lead an impulse buyer to purchase a particular product. With this in mind, packaging can be defined as the totality of products, services and systems used to prepare goods for preservation, transport, distribution, storage, retailing and consumption. Thus, it can be seen, the package by itself is only one component in the system. For the system to work requires the provisions for the functions of containment, protection, transport, storage, marketing and display.

Background

In most developing countries, packaging mirrors the level of activity in the economy. If the standard of living increases, so does the level of packaging needs. Consumption of goods necessitates a demand for traditional packaging, even the most basic types of wood, glass and paper. Egypt, with increasing demand in its economy, has seen the packaging industry slowly expand in a first tier level with the largest public firms bringing in new technologies in printing and box and carton making. Private firms, much fewer in number, have also begun to expand their technologies by purchasing state of the art computerized process control converting equipment.

However, if one only sees the most successful firms, the picture is distorted. For every large printer and package converter, there are fifty to several hundred smaller firms with ten to

fifty employees each that do not have the economies of scale nor the ability to upgrade or purchase equipment and technologies to support their specific markets.

Many problems contribute to the constraints which small Egyptian firms face. Raw materials are limited, most being imported. Economies of scale are not realized, hence pricing is higher than sustainable in the economy. Quality of locally produced materials varies greatly, and tariffs of raw and intermediate components are about 30 percent, making procurement of necessary items such as ink, paper, plastic and chemicals difficult. On the other hand, but still a major problem, some intermediates, such as coated pressure sensitive tapes, which carry a 40 percent tariff rate, can be purchased by the larger firms, without much regard for imported costs, again because of the lower quality levels of regionally produced product. One only has to look at the annual imports from Italy, Taiwan, United States, and Finland to determine what materials are in demand and what technology is needed.

Chairmen and executive officers of packaging companies in Egypt have realized the need to meet world class standards in packaging if their exported products are to be accepted. Meeting these standards requires an efficient operation and modern technology - being a quality producer at the lowest reasonable cost. Large firms, let alone the smaller enterprises, do not realize the value of determining the actual cost of a manufactured package material.

A few large public and private firms do acknowledge the importance of packaging, and seek assistance in becoming a low cost quality producer. A few firms undertake basic and applied research. Their activities are significant as they become a nucleus for performing expanded and more complex activities in the future.

Firms surveyed remarked about the difficulty of obtaining information about the packaging industry, whether it be specifications for basic raw materials, information on new technologies or lists and phone numbers of equipment manufacturers. There is little recourse for information on trends, developments, vendors, support services and export oriented market requirements such as bar coding, legislation, environmental "green" packaging, palletization standards etc. What is second nature for the industrialized world is not apparently so for the packaging and converting industry in Egypt.

Many large firms buy equipment from one supplier and then continue purchasing from the same vendor. Although this is acceptable practice, it does limit the ability of the package converter to explore newer and more efficient technology. For the small firms, the lack of an information source is a major constraint to expansion. Many large public and private firms are running at full capacity, the smaller firms generally at 40-70 percent. All indicate that price sensitivity is a major factor.

As quality is an issue for Egyptian packaging converters, most of the raw and intermediate materials imported contain a value added component that is highly sought by the buyers and demanded by their customers, the other industrial sectors. A consideration in the upgrading and expansion of the packaging and converting industry should be the introduction of new technologies that will allow the current firms to improve their offerings and generate the value added portion of the cost within the country.

Some current packaging problems facing the producers of food and consumer items are: 1) No acceptable packaging for wrapping agricultural products when taken from the field, 2) expensive cost of plastic packaging, 3) lack of development throughout the packaging industry, 4) weakness in locally produced shipping cartons for export, and 5) dated technology in raw materials to deliver important performance characteristics.

Through investment and direct purchase, incremental costs to upgrade existing operations are the most inexpensive and quickest means to upgrade quality and technology. Secondly, longer range programs over five to ten years, to analyze and determine the need and capacity for new subsector industries to complement the packaging function, must be sought and executed.

Upgrading specific operations can not be accomplished in a vacuum. Most activities entail specific studies and project definitions that must be created and addressed if the many unique variables are to be satisfied to make a given project a success with tangible results. Training and education, both academic and practical, are critical if the business and technical issues are to be resolved. With the role of packaging expanding at an exponential rate outside any developing country's borders, a solid long-term educational program is necessary.

The National Egyptian Packaging Development Institute could be an important resource for the packaging industry in Egypt. With its well-equipped labs and excellent facilities, the Institute could offer many services to the industry and act as a speaker, in unison, in matters of national policy and an authority on packaging issues. This public complex, now closed, needs to be put on a sustaining profitable basis and be privatized or re-opened by contract with an agreement to privatize in the next five years to meet the demanding needs of the industry. The Center could offer valuable assistance to surrounding Gulf States and other local and foreign entities that need package training for their exported packaged products.

The leaders in the Egyptian packaging industry are today producing packaging at a pace that does not allow expansion. Export information on most of the industry's customers is not attainable, hence any information as to export potential is best reviewed with the other industrial sector analyses.

As most of the world is headed toward plastics, so is Egypt. Firms producing basic packaging materials such as plastic films and commercial printers export up to 30% of their

product. Surrounding African and Gulf States, limited in their basic technologies for raw materials and packaging production, are and will continue to be good customers for the Egyptian packaging and converting manufacturers.

With plastics demand come problems in municipal solid waste disposal and associated environmental problems of plastics. Although plastics are lighter in weight and generally less expensive than other more traditional forms of packaging, their biodegradability is not satisfactory. Where cost of materials is higher, as it is in Egypt, the environmental issues give rise to a profitable recycling/reuse campaign. Even though it is labor intensive, as in most developing countries, a new reuse industry has been created and flourishes.

Elements of a Packaging Industry Export Strategy

Among the packaging trends emerging to dominate the world economy are: 1) High barrier plastics, 2) tamper evident packaging for food and pharmaceuticals, 3) vacuum packaging to increase shelf life of foods, 4) modified atmospheric packaging (MAP) for maintaining the shelf life of fresh vegetables, meat and fish, 5) aseptic packaging for dairy and beverages where refrigeration is not available, 6) microwavable packaging for convenience, 7) retortable plastic pouches for shelf stable products, 8) dual ovenable packaging, 9) multi-packs and single serving packages for consumer convenience and reduced waste, 10) plastic squeeze bottles, 11) improved inks and coatings for higher performance levels, 12) PET bottles and 13) stronger paper for shipping boxes and packaging in general to address alternatives for environmental concerns. These are important markets the Egyptian packaging industry must address if their customers are to deliver marketable world-class products. The use of tin, steel and aluminum, metal cans are on the decline, because of weight and less functionality when compared to other packaging developments.

For packaging to meet technical and environmental standards, upgrading of the chemical industry to make higher quality in-country value added inks, adhesives and coatings is paramount. Introduction of plastics technologies to include regional manufacture of polypropylene (PP), low, medium and high density polyethylene (LDPE, MDPE, HDPE), thermoplastic and crystalline polyester (PET, CPET) resins as well as bleached and stronger brown kraft paper for corrugated cartons would allow converters to manufacture many packaging forms (flexible pouches, thermoformable trays, composite cans, pressure sensitive tapes, bottles and jars etc.) at a cost and quality level necessary for meeting the demands of the export market.

Incentives given to the smaller manufacturers to purchase equipment such as coating lines, both liquid and extrusion plastic, medium capacity printing presses, both flexo and offset, and high speed slitters (usually a bottleneck in any package converting operation), would give a large boost to the rest of the industry and begin to balance the manufacturing capacity. A larger choice of packaging products would permit consumer goods manufacturers to increase markets at low

cost by allowing for product line extensions and the introduction of new goods to enhance the international competitiveness of Egyptian exports. Also, tariff reform in the short term would give both the small and large producers of packaging the needed inputs in less expensive raw materials as new technology becomes available. A commitment to tariff uniformity under a given schedule and a new revised drawback/rebate scheme would make inputs easier to obtain and reduce the tedium of accountability for products exported. A credit on account scheme is preferable to the current program wherein the converter has with the responsibility of paying up-front, bearing all interest charges on the drawback duty for extended periods of time.

As technology must be introduced and balanced to be utilized effectively, introductory knowledge through training and education of the industry must be initiated. This can be accomplished through cooperation with the major training bodies of the world in the developed countries. Programs should address business and operational development, technology, technical and marketing issues. Topics of interest should include information on ISO 9000 certification, constant improvement mechanisms, automation, market research, technical alliances, creation and maintenance of customer/supplier relationships and investment. The concurrent re-organization and re-opening of the National Egyptian Packaging Development Institute through the efforts of the Egyptian Packaging Development Association could provide the foundation for delivery of this information and strengthening and enhancing the infrastructure within the industry.

Understanding and cooperation between the packaging manufacturers and their customers, the industrial producers, will lead to the identification of the factors important for the package manufacturer to develop packaging characteristics targeted for a specific need, optimize the production process and deliver packaging at a competitive price/performance level.

Lastly, a program to export intermediate and value added packaging materials to the Gulf and Western nations should not be overlooked as a means to contribute directly to the export earnings of the country.

V. EXPORT POLICY ANALYSIS

In virtually all successful exporting countries, it was the adoption of appropriate policies -- not subsidies, nor assistance, nor new programs -- that stimulated export growth. Similarly, lack of success in badly performing countries can usually be attributed directly to poor policies. The clear lesson is that if Egypt truly seeks export growth, close attention must be given to export and business policies.

A. Business Policy Overview

Following the achievement of economic and political stability, the single most important action governments can take to stimulate exports is to formulate and implement laws, regulations and policies that collectively provide a nurturing environment for export activities. This section briefly reviews the overall Egyptian policy climate, and then examines in further detail those policy areas that have the greatest impact on current and prospective exporters -- trade, foreign exchange, investment and tax policies.

The fundamental conclusion of this assessment is that business policies based on interventionist approaches and a basic import substitution strategy have historically acted as a major deterrent to export development in Egypt. Major improvements have been made in recent years, and should be applauded. However, additional changes are required to stimulate exports, and there is a need to institutionalize a continuous reform process.

It must be stressed that trade policy reform cannot succeed in isolation, without a wide range of other supporting reforms. Trade in agricultural products, manufactured goods and services naturally involves a range of economic activities as wide as the entire economy itself. Policies aimed at expanding exports cannot be easily narrowed into distinct, limited actions affecting exports in isolation from the rest of the economy. In other words, trade policy reforms can only succeed if taken as an integral part of a wider effort at structural reform.

Trade policies must be supported by economy-wide reforms, yet many of these have lagged behind trade policy reforms. Among those which have begun but which must be continued are public sector restructuring and privatization, financial system adjustments, subsidy reductions, investment deregulation to stimulate both domestic and foreign investment, and in general, policies which foster a positive regulatory environment for market-oriented growth.

Exporters are businesses, and thus engage in a series of activities, ranging from corporate establishment to importing inputs to hiring labor, leading to the production and exportation of goods and services. All of these activities are subject to laws, policies and regulations.

Taking a long historical perspective, Egypt's business policies reflected a relatively "open competition" economic strategy prior to the 1950s. This framework in fact permitted accumulations of wealth among the elite, which in turn contributed to the anti-private sector mentality which followed. During the 1950s and 1960s, the Egyptian Government first adopted a nationalist approach, and then overlaid this with an increasingly socialist orientation and set of policies.

Beginning with the Open Door strategy of President Sadat and accelerating under President Mubarak's reforms of the 1980s and early 1990s, Egypt has gradually reversed the socialist orientation and replaced it with more market-oriented laws and policies. Observers can and often do argue about the pace of change, but the direction of change has been clear.

In Egypt, the major laws affecting exporters are described briefly below according to functional activity. Undoubtedly some laws affecting exporters are not identified below, but may be noted in the more detailed policy analysis sections.

MAJOR BUSINESS LAWS IN EGYPT

Functional Activity

Law Affecting Activity

Establishing a Company **Law 159 of 1981 (Companies Law).** This is the general corporate law that governs the creation and dissolution of joint stock and limited liability companies for both national and foreign investors. Proprietorships and simple partnerships are governed by both the Commercial and Civil Codes.

Law 230 of 1989 (Investment Law). This law governs both inland and free zone investments, and offers certain incentives to new foreign and Egyptian businesses.

Law 203 of 1991 (Public Investment Law). This law organizes the operation of companies previously affiliated with ministries and government agencies. The management of these companies enjoy full autonomy, including their own budgets apart from the government budget.

Importing Machinery **Tariff Code.**

Law 230 of 1989. Companies operating under the Investment Law receive a flat tariff rate of 5.0 percent on imported machinery.

Importing Inputs

Tariff Code.

Temporary Admission Program. This program allows exporters to bring in inputs on a duty-free basis (described below).

Duty Drawback Program. This program allows exporters to receive rebates for duties paid on inputs used for export production (described below).

Law 121 of 1982. This law stipulates the requirement for importers to be registered.

Acquiring Local Labor

Labor Law 137 of 1981. This law governs labor conditions and practices. It is currently being amended in order to grant companies greater freedom to hire and fire employees.

Acquiring Foreign Labor

Labor Law 137 of 1981. Egyptians must comprise at least 90 percent of the workforce, and at least 80 percent of wages must be paid to Egyptian labor. For technical and administrative staff, the Egyptian wage bill must be at least 75 percent of the total.

Obtaining Capital

Law 95 of 1992 (Capital Markets Law). This law regulates the stock exchange and trading in primary and secondary securities.

Law 163 of 1957 (Bank Law). This law governs the activities and functions of the banking system. Certain provisions were amended by Law 37 of 1992 and Law 101 of 1993.

Law 146 of 1988 (Funds Receiving Companies Law). This law concerns the activities of companies receiving funds for investment.

**Obtaining Foreign
Exchange**

Law 38 of 1994 (Foreign Exchange Law). This is an amendment of Law 97 of 1976. It provides continued liberalization of the exchange system, removing the restriction on exporters which required them to submit export receipts.

Acquiring Technology

Law 230 of 1989. This law authorizes Law 230 companies to make payments for royalties.

Obtaining Copyrights	Law 38 of 1992. This law was amended by Law 29 of 1994 (Copyright Law). Egypt is a signatory of the Berne Convention. The 1994 amendment strengthened and broadened protection and enforcement through more stringent civil and criminal penalties.
Obtaining Patents	Law 132 of 1949. Egypt is a signatory of the Paris Convention and the Hague Agreement on Industrial Designs. This law grants a renewable patent protection term of 15 years.
Obtaining Trademarks	Law 59 of 1989. This law provides for protection of trademark owners against counterfeits and imitation.
Repatriating Capital and Profits	Law 230 of 1989. Companies established under this law are guaranteed the right to repatriate capital and profits.
Paying Taxes	Law 187 of 1993 (Unified Tax Law). This law amends Law 157 of 1981 and specifies taxes imposed on personal and corporate income.

One will note that a number of key laws have been re-written in recent years, indicating the ongoing process of reform. In addition, one must keep in mind that critically important policies (e.g., tariff rates, administrative procedures, etc.) are established through decrees, and hence are not captured under general laws. The principle reforms made in recent years have been put into effect through reform-oriented governmental decrees.

The following sections of this chapter address policy issues in key areas affecting exporters. Greater emphasis and detail will be given for the most important policy categories.

B. Trade Policies

1. Trade Policy Overview

Before Egyptian trade policies began to be liberalized in the mid-1980s, the private sector was generally excluded from trading internationally, and virtually prohibited from trading in any of the major, and most lucrative, commodities.¹ The public sector retained control over about

¹ "Private Sector Development in Egypt", World Bank, October 1994.

80 percent of all agricultural exports, mainly cotton and oranges, and about the same share of food imports. Exports by the private sector were prohibited in cotton, rice, oranges, aluminum and oil. Prohibited "private sector" imports included sugar, wheat, flour, corn, edible oil, and a wide range of intermediate products and capital goods.

Exports open to private companies were in a very narrow range, largely agricultural commodities (including potatoes, fresh vegetables, and marginal horticulture exports such as flowers), representing a very small share of total exports. Relatively few private exporters found room to compete under these restrictions, which consequently limited private sector export experience and expertise, market knowledge and international trading contacts. The same was true of private importers, who tended to operate mainly as agents or brokers in a few commodities which they were then obligated to sell only to public sector procurers responsible for distribution. A vestige of these prohibitions remains in the continuing ban on foreign international trading companies in Egypt.

Beginning in the mid-1980s, trade policy liberalizations gradually opened up international trading activities to private sector firms. Bans on private trading were lifted progressively. By 1992, private sector trade was allowed in all areas except purchases of exportable cotton directly from Egyptian producers. In addition, since the mid-1980s, trade policies have been liberalized gradually in three general categories:

- (a) Import tariff dispersion has been reduced to bring most rates (with a few exemptions) down to within a range of 5 percent to 50 percent by the end of 1995.
- (b) Export quotas and import bans have been eliminated except for a few key products.
- (c) Non-tariff barriers, mostly in the form of bureaucratic red-tape, have been streamlined in many areas.

However, many problem areas remain as impediments to export expansion for both the private and public sector. Some trade policies are still being reformed, with more liberalizations scheduled, whereas others are nearing the end of the reform process, but may need to be extended. Still other policies and obstacles need to be addressed where reforms have not yet been considered.

2. Current Trade Policies

Import Policies

Tariff Classification. In February 1994, Egypt adopted the Harmonized Commodity Description and Coding system, replacing the previously used Brussels system of nomenclature.

The implementation of the new system is expected to simplify customs procedures despite the current problems faced by customs officials in applying the new classification. For example, the old system included only 1790 tariff lines while the new system includes almost 7000 lines.

Tariff Rates. In 1986, a sweeping structural change in the tariff structure was initiated. Tariffs were reduced by 50 percent and the tariff rate categories were decreased from 43 to 12. The minimum and maximum tariff rates reached 5.0 percent and 160.0 percent respectively, with some exceptions. Foodstuffs were subject to 1.0 percent duties, while luxury items such as cars were subject to 160.0 percent.

With the adoption of the free exchange rate for the calculation of custom duties, a 30 percent reduction in the tariff rates was introduced to offset the effect of the exchange rate devaluation. In 1991, the minimum and maximum tariff rates were modified from 0.7 percent and 120.0 percent to 1.0 percent and 100.0 percent, with the exception of a few luxury items. Tariff categories were again reduced, from 12 to 10.

In 1992, the tariff range was further narrowed, with the minimum rate raised to 5.0 percent and the maximum rate reduced to 80.0 percent. New tariff rates were set for 106 commodities, with lower rates on food products and inputs, and higher rates on finished products. At the end of 1993, new tariff rates were instituted for 120 commodities, while the minimum and maximum rates remained unchanged. The list of commodities exempted from the maximum tariff level was also unchanged (cars, perfumes, alcoholic beverages, cigarettes, furniture & parts, carpets, and diesel engines up to 125 horsepower).

The maximum tariff rate was again reduced in February 1994 to 70.0 percent, but at the same time service charges on imports were raised from 1.0 percent to 3.0 percent on commodities subject to tariff rates less than 30.0 percent, and to 6.0 percent for commodities subject to a tariff rate of greater than 30.0 percent. Carpets, furniture, and diesel engines were lifted from the list of commodities exempt from the maximum tariff rate. According to the World Bank and IMF requirements, further reductions in the tariff rate are expected until the maximum rate reaches 50 percent by December 1995. Moreover, the service charges have to be reduced.

Local Content. According to Presidential Decree No. 38 of 1994 concerning the implementation of the Harmonized Tariff System, Article 6 states that if the local content of final products reaches 20 percent or more, the imported components shall be eligible for a tariff reduction as shown in the following table with a maximum of 85 percent, or the established import duty shall be collected, whichever is lower, provided that the local content is 40 percent (Decree No. 294 of 1993 had raised the local content requirement from 40 percent to 60 percent, with the exception of cases approved by the Minister of Industry):

TARIFF REDUCTIONS FOR LOCAL CONTENT

Percent of Local Content	Reduction on Tariff Rate of Final Product
20 percent	25 percent
30 percent	30 percent
40 percent	40 percent
50 percent	50 percent
60 percent	60 percent
65 percent	65 percent
65 percent to 75 percent	75 percent
More than 75 percent	85 percent

Tariff Preferences. In 1990, the list of Egyptian tariff preferences included 96 items. The list was reduced to 69 items in 1991 and again to 32 items in 1992. In 1993, all tariff preferences were removed except for baby milk (subject to a 1.0 percent tariff rate), machinery and equipment imported by tourism and hotel establishments which are subject to 50 percent reduction in the tariff rate (the minimum rate to be imposed on such imports is 20 percent according to Presidential Decree No. 38 of 1994), and imported machinery and equipment by the Arab Petroleum Pipeline Company which are subject to a one percent tariff rate.

Import Bans. In 1992, the number of commodities subject to import bans was reduced from 105 to 78 items. In July 1993, the list was confined to only 26 commodities which are composed of three major categories: poultry and textiles/ready made garments. The production coverage of these bans for both the public and private sectors is presented in the following table:

**PRODUCTION COVERAGE OF IMPORT BANS
(PERCENT OF AGRICULTURAL AND MANUFACTURING OUTPUT)**

Production Coverage	1991	1992	1993
Overall	22.7	10.3	4.8
-Public	41.2	15.5	7.2
-Private	10.3	6.1	2.7

Source: World Bank for 1991 data, and USAID for 1992 and 1993.

General Steps to be Followed by Importers

In its overall trading environment, Egypt's policy climate can be considered basically an "import oriented" system. That is, foreign exchange receipts from mostly non-trade activities (e.g., tourism, transportation, remittances, etc.) finance imports. The policy structure is geared toward regulating and controlling imports, and extracting government revenues from imports. This system has in turn created a fairly complex structure of import requirements. The following procedures are typically required for the clearance of imported goods.

1. When the shipment arrives, a representative from the Atomic Energy Authority inspects the cargo aboard the ship, if the imported commodity is foodstuffs. If the result of the test is negative, the cargo is unloaded.
2. The importer goes to the shipping agent at the Customs Authority with the bill of lading to obtain the permit of delivery.
3. The importer then goes to Customs with the bill of lading and the permit to obtain a customs certificate.
4. If imports are financed through a bank, the importer should get Form No. 11.
5. The importer should take all the documents (bill of lading, delivery permit, Form No.11, and the invoice) to obtain a "procedure form" and present it to the specific customs area. Each platform has a specific Customs Control Department. There are 7 control departments: one for imports of wood, one for imports of foodstuffs, one for chemicals, with the remaining four for all other commodities.
6. The importer then goes to the relevant Control Department (each Control Department has a section for the Duty Drawback and Temporary Admission systems). The importer presents the "procedures form" and the other documents and registers the information (name of importer, quantity, price and total value of the consignment, the number of the bill of lading, etc.) in the Register Book no. 46. The Control Department calculates the preliminary custom duties and sales tax based on the presented documents and determines the percentage of the consignment to be inspected based on the data provided and whether or not the documents include a packing list. If the packing list exists and the data is accurate, then only part of the consignment is inspected -- 20 percent if the imported goods are inputs, and 50 percent if they are final products.
7. The importer takes the documents to the specific Customs Control Department and a Customs inspector together with a manager and a pricing specialist inspect the consignment. The inspector reviews the quantity and kind, while the pricing specialist

reviews the type and price. The invoice price is compared with the price list available at the Customs, which includes all commodities and their respective prices in each country and by different producers. If the type of product imported is not in the list, the Customs accepts the invoice price.

8. If the imported product is subject to mandatory quality control, the importer should go to the laboratories of the specific agency that will undertake the quality control (e.g. wood is inspected by the Ministry of Agriculture and the General Organization for Export and Import Control).
9. The Tariff Manager reviews the decision of the pricing specialist. The importer can appeal the decision of the pricing specialist.
10. The custom duties, sales tax, and service charges are then calculated. Again the importer can appeal if he/she disagrees with the calculated amount. If the result of the appeal is not in the importer's favor, he/she can go to arbitration.
11. The importer gets the "release permit" and customs form that shows the duties and taxes paid.
12. The importer pays storage fees depending on the period during which the goods were stored.
13. The importer brings his/her goods to a special gate in the Customs area, where the documented information is again reviewed, comparing the cargo with the details stated in the release permit.
14. The importer clears his/her goods and leaves the Customs area.

Duty Drawback (DD) and Temporary Admission (TA) Systems

Governing Laws and Eligible Users. According to Law No. 66 of 1963 and Decrees No. 56 of 1981 and 58 of 1986, exporters who use imported inputs can benefit from either the duty drawback or temporary admission system, provided they export the finished product within one year of the importation of the inputs. Under the DD system, exporters must pay the custom duties and sales tax for imported inputs, but are entitled to claim them back upon the exportation of the final product. Under the TA system, however, exporters enjoy two privileges: (1) they can import banned commodities for the production of exported goods, and (2) they do not pay the custom duties or sales tax but instead can present a Letter of Guarantee, or an insurance letter, or collateral equivalent to the value of the duties and sales tax.

The DD and TA systems can be used by any exporter, whether or not all output is exported. The systems can also be used when the importer and the exporter are different entities, and hence indirect exporters or suppliers of inputs are included in these systems. To rebate the custom duties in this case, one of the parties should cede the right to receive rebates to the other.

Under both systems, Industrial Control Authority (ICA) approval of the formulas used to account for production materials is required to ensure that all imported materials for which the exporter is receiving custom exemptions have been used in the production of exported goods. The purpose of this requirement is to guard against "leakage" of inputs into the domestic economy. To determine the accepted production formulas, two methods are currently applied:

1. **Direct Reimbursement:** For certain industries such as paper, cigarette packaging, and standard furniture, the ICA has prepared input/output tables showing the required imported input per unit of output, their average prices (over the last six months) and the required custom duties and sales tax per unit. The exporter is reimbursed according to these tables.
2. **Committee Review:** For remaining industries, a committee from the ICA reviews the production process in each plant and determines the production formulas. ICA then provides the exporter with a certificate valid for one year showing the production ratios approved.

Decrees 46/91 and 577/91 explain in detail all the administrative steps for both systems. For importers who wish to use either of the two systems, the follow have to be observed:

When receiving the shipment, exporters should:

- Present Customs Form 22 showing which system to be used (the DD or the TA).
- For the DD system all duties and sales tax should be paid and all import forms should be completed. For the TA system, no duties or sales taxes are paid but the importer should present the Letter of Guarantee or insurance letter.
- Commodities are released and the importer receives the original of the Release Permit which should include detailed information about the consignment.
- A special copy is prepared and sent to the Industrial Surveillance Authority with a copy of the import invoice.

When exporting, producers should:

- Notify the ICA to allow officials to review the production process in the factory and issue the certificate mentioned earlier.
- Fill in Customs Form 13.
- Specify on the export form the number of the import form for the imported inputs used in producing the exports, and present to Customs the export form with all the attached documents.
- According to Decree No. 1 of 1994, a committee composed of representatives from the Customs Authority, the ICA, the Sales Tax Department, and the Federation of Industries determines the custom duties and sales tax to be refunded under the TA and DD systems.
- After exportation under the TA system, the amounts that were exported are subtracted from the release permit and all export data is written on the export permit.

Documents to be presented:

- A request directed to the Head of the DD and TA systems, showing the number of the import and export certificates.
- The original release permit.
- The original payment invoices showing the payment of all custom duties and taxes under the DD system.
- The ICA's approved formulas.
- A detailed list of all imported and exported items.
- A certificate from the company guaranteeing the accuracy of the data presented.
- A photocopy of the export certificate.

One of the main criticisms of these systems regards the amount of paper work involved and the time consumed to present the applications in the acceptable form. In addition, some exporters argue that the ICA does not have technical experts who are sufficiently aware of all production processes and are up to date on technology, and hence are not always capable of verifying production formulas accurately.

Quality Control System

Legal Structure and System. The basic law that stipulates quality control is Law 118 for 1975 and the Executive Regulations issued thereon and their amendments. In theory, quality controls (QCs) are mandatory for a number of imported products, primarily for health and safety reasons, and sometimes to protect Egyptian consumers from low quality products. In practice, however, it has been argued that such controls were sometimes used as non-tariff barriers or as a means to protect local industry. In fact, it is questionable that all the mandatory QC regulations are based on health, safety, and quality grounds. It is surprising, for example, that spare parts for cars are subject to QCs, while imported cars are not. Another strange example is imported playing cards, which are included in the QC list while toys and hand tools, which can be dangerous items, are not.

In 1991, 69 imported commodities were subject to mandatory QCs. In 1992 (Decree No. 431), another 42 commodities were added to the list.² In 1993, the list reached 159 items, with industrial products constituting more than 50 percent of the items.

The authority to issue and enforce health, safety, and QC regulations is shared among 5 ministries -- the Ministries of Agriculture, Health, Economy, Industry, and Supply -- as well as the Atomic Energy Authority. However, little if any coordination exists between these ministries regarding such regulations.

In the area of setting standards, the only agency with legal authority to set standards for domestic and exported food products is the Ministry of Health (MOH). The Egyptian Organization for Standards (EOS), which is part of the Ministry of Industry, is the only entity authorized to set standards for industrial products and services. In the area of enforcement, EOS, MOH, the Ministry of Agriculture, and the General Organization for Export and Import Control (GOEIC), which is part of the Ministry of Economy and Foreign Trade, are all involved.

GOEIC's power regarding quality controls goes beyond those developed by the EOS. For example, GOEIC insists on inspecting imported products bearing the ISO 9000 and other internationally recognized quality marks even though EOS believes that they should not.

² In 1991, 17 items were transferred from the banned list to quality control list, and 1992, only 6 items were transferred.

GOEIC's powers also include maintaining a register of all importers and exporters, issuing certificates of origin, and mandating the methods of shipping and packaging.

Products Subject to Quality Controls. All agricultural products are subject to inspection by the Atomic Energy Organization. When the radiation test is negative, a delegation composed of representatives from MOA, MOH, MOS, and GOEIC should inspect the cargo. Theoretically these inspectors should coordinate their inspections, but this is not always the case and sometimes several samples have to be taken. According to one recent study, for some products such as meat it takes at least two weeks before releases are issued and another ten days to complete the paper work, which constitutes a high cost to the importer.

Turning to manufactures, since 1990 GOEIC has been the main entity responsible for QCs. For imports of pharmaceuticals and medical devices, the MOH is also involved. GOEIC takes a sample from every consignment, even if the product and the manufacturer are the same each time. Some importers have complained that samples are often destroyed during the inspection.

Each agency that undertakes inspection charges a fee, which increase the financial burden on importers despite the low rate of each fee. Examples of the inspection fees by GOEIC are presented in the following table:

INSPECTION FEES BY GOEIC	
Item	Fee
1. Wheat flour	LE 1 per ton of consignment with maximum LE 10,000 per consignment
2. Vegetable Oil:	LE 5 per ton of consignment
-For retail	LE 1 per ton of consignment with maximum of LE 10,000 per consignment
-Not for retail	
3. Cement	LE 1 per ton of consignment to a maximum of LE 10,000
	LE 0.25 per ton
4. Wood	LE 1 per ton
5. Pipes and Fittings	LE 10 per ton with a maximum of LE 10,000
6. Engines and Parts	LE 50 per ton

Source: Decree no. 99 for 1994 stipulating new inspection fees by GOEIC.

The quality control system has two main deficiencies. First is the multiplicity of agencies involved in issuing and enforcing the regulations. This in turn leads to an increase in cost due to multiple inspection fees, the costs associated with delays and product loss in the clearing process, and higher facilitation and overhead costs. Second is the lack of transparency in the system, which has a negative impact on the export and investment climate.

3. Recent Trade Policy Reforms

Since 1991, major accomplishments have been made in trade policy reforms, particularly on reducing import tariffs and lifting import bans, lifting export quotas and opening more activities to the private sector, and easing non-tariff measures, particularly red-tape barriers. Most recently, in 1994, many more actions were taken, mainly in setting up government committees to coordinate various ministerial trade policies and simplify trade procedures. However, recent progress has been mixed. Tariff rates in general have fallen considerably, although many still remain high. Bureaucratic procedures have begun to be simplified for certain raw material and intermediate product exports and imports, although more remains to be done in consumer good imports and in other areas. The following sections summarize the status of trade policy reforms in major areas:³

Import Liberalization

Import Tariffs: As noted above, tariff rates have been liberalized continuously in the 1990s. Maximum tariffs have fallen, and the dispersion of tariffs has been reduced in sequential steps. By end-1994, the maximum tariff rate was to be lowered to 60 percent, tariffs between 30 percent and 60 percent were to be lowered by 10 points, and tariffs below 30 percent were to be unaffected. By mid-1995, the maximum tariff rate is to be lowered to 50 percent, tariffs between 30 percent and 60 percent are to be lowered by 10 points, and rates below 30 percent are unaffected.

Prohibited Imports: Since 1986, the number of individual tariff lines banned has been reduced from 210 to just 26 lines as of late 1994. This has decreased import bans to just two main product groups -- textiles/apparel and poultry (to be removed from the banned list in 1994) -- or about 4 percent of total manufactured and agricultural tradeable goods. However, relatively high tariffs on certain items no longer banned continue to protect domestic production.

Quality Controls on Imports: Reforms made to the quality control system for imports in recent years include ensuring that published, unambiguous information is available on items

³ "Interim Report on Egypt's Trade Policy Reforms," M. J. Lord and M. H. Hosny, prepared for USAID/Ministry of Economy, October 1994. Egypt's trade policy status has been most recently reviewed in this study, providing the basis for summaries in this section of the report.

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subject to controls, and ensuring that inspection fees are consistent for both foreign and domestic importers. However, the control system itself remains cumbersome and time-consuming, particularly for food imports. Moreover, many of the imports removed from the banned list were put on the list of imports subject to quality controls, effectively continuing to place barriers against imports recently permitted.

Export Liberalization

Export Bans: The dismantling of the export ban list was continued with directives in 1993 removing all export products from the list except for hides and skins and metal scrap.

Export Quotas: Prior export quantity approvals and price approvals were abolished in 1993, except for those goods on the banned list.

Export Transport Costs: Decrees in 1994 by the Minister of Transportation, Communication and Civil Aviation reduced transportation costs by amounts ranging from 5 percent to 75 percent on items such as freight costs charged by the public sector Egyptian Navigation Co.; dock storage and piloting charges for containers in transit; handling and security charges for exported goods at seaports; electricity costs for refrigerated containers; and other port charges.

Export Finance Costs: The banking system lowered the cost of financing exports by 1 to 2 percentage points below the average price applied for other customers, and lowered commissions by 25 to 50 percent.

Non-Tariff Measure Liberalization

Duty Drawback and Temporary Admission Systems: Reforms include extending import duty rebates to indirectly imported inputs for exports, i.e., imports obtained through intermediate traders; combining repayment of customs duties and sales taxes under the drawback system; permitting exporters to submit a letter of intent for imported goods under the temporary admission system rather than submit a fee-based letter of guarantee; and establishing a committee including Industry Chamber representatives to set repayment rates for customs duties, sales taxes and service charges based on certificates of exports.

Consolidated Customs Forms: A single customs form is to be used to comply with all export procedures related to customs, quality control and agricultural quarantines.

TS Forms: The 1994 Foreign Exchange Law eliminated TS forms to reduce the procedures requiring LE 10-50 for each shipment of goods from Egypt.

Fee Reductions: Regulations issued in 1994 have eliminated security charges at airports, overtime costs for export procedures at airports and seaports, and charges concerning safety procedures for exporters. In addition, special fees charged to potato exporters have been reduced.

In addition to reform measures listed above, other reforms concerned with domestic investment, production, and trading have been implemented with considerable positive impact, especially in previously restricted sectors like agriculture and agro-industry. These include the lifting of price controls on most products, the replacement of most investment licenses with simpler registration, the provision of tax incentives for investment (especially in the New Lands and New Cities), and the reduction of monopoly positions of certain parastatal agencies such as the PBDAC in production and distribution. These reforms have already stimulated private sector investment and production responses which will help support export expansion.

4. Remaining Impediments

Previous trade policy reforms in Egypt have dealt primarily with comprehensive policies such as import tariffs, export quotas, and other macroeconomic policies. Many remaining areas where reforms are still needed have more to do with simplifying bureaucratic procedures at a lower and often more micro level. Overall, the government appears to be approaching a point where it can either continue to fine-tune existing trade policies and procedures, where results may be minimal, or instead it can return to taking more comprehensive reform measures on a more macro level of bold, but well-considered, eliminations of ineffective policies, bureaucratic organizations and red-tape procedures.

Import Impediments

Import Tariffs: Tariffs are still relatively high. While tariffs generally have been reduced over the past ten years, they have also moved both up and down. For example, average tariff rates⁴ in 1986 were at 18.6 percent; in 1987 at 22.1 percent; 1988 at 13.4 percent; 1990 at 11.4 percent; 1992 at 13.9 percent; and in 1993 at 16.2 percent. Although rates in the early 1980s averaged about 23-24 percent, since the mid-1980s they have only been reduced from about 18.6 percent to 16.0 percent. Average rates also obscure certain tariffs which remain very high. Moreover, different tariff rates are in certain cases applied to public sector and private sector companies. Certain tariffs are also applied differently among industries. These remaining areas require further study.

Import Safeguards: As tariffs are reduced further, safeguards may be needed over the transition period such as anti-dumping mechanisms and countervailing duties. As they should

⁴ Measured as the ratio of total customs revenue to total value of imports. See Lord and Hosny.

only be applied as temporary safeguards, rather than become protectionist measures, they should not be undertaken before considering options now under study.

Multiple Import Clearances: Clearance of imported foodstuffs is still a problem with five agencies involved in authorizing entry -- the Atomic Energy Agency, the Food Control Agency of the Ministry of Health, the Agricultural Quarantine Body, the Animal Quarantine Body and the GOEIC. Imports of the same product in consecutive time periods are subjected to repeated sampling.

Multiple Import Charges: Additional charges are made by Customs for duties over 30 percent (due to have been ended in mid-1994), for computer usage, and for overtime inspections (after 2:00 pm) often requiring "delay" charges and storage charges.

High Handling Costs: According to exporters interviewed, costs remain high for airport and sea port handling despite recent reductions. However, this issue requires further study, since the comparative cost assessment presented previously in this report suggests that handling costs are not excessive.

Local Content Requirements: Imports of inputs required for exports are discouraged by local content laws, which also discourage foreign investment and restrict technology transfer and training.

Quality Control & Standards: Certain imported products removed from the list of banned imports were put on the quality control list, effectively continuing impediments to imports through long delays in approval. Also, despite better information on controlled items and uniform fees, red tape could continue due to plans to ensure that imports by factories do not exceed requirements.

Taxes on Imports: Exporters are burdened by the 10 percent sales tax on imports, applied even on inputs for exported goods, and are burdened by the tax on imported capital goods.

Export Impediments

Non-tariff measures, mainly in the form of bureaucratic red-tape, are the major remaining trade policy obstacles to exports. These include a large number of control procedures, duplication of controls, a large number of charges and stamps from different agencies, and numerous applications and often difficulty in obtaining them.

An illustrative summary of transaction steps for shipments by exporters⁵ in early 1994 using air freight for agricultural products includes the following agencies and steps required for each exporter:

AGENCY	REQUIREMENT
Customs Department:	<ul style="list-style-type: none">- Purchase Customs Form 13C- Apply for inspection of shipment (optional)- Submit forms to Customs for payment- Request shipment number from Customs- Count of number of containers by Customs- Sample inspection of merchandise by Customs- Review of documents obtained previously- Make photocopies of certificates and submit to Customs official for signature (optional)- Submit documents to Temporary Admission or Drawback Office, where applicable- Obtain storage approval given by Customs- Request for reimbursements from Temporary Admission or Drawback Office

⁵ Lord and Hosny, *Ibid.*, based on Federation of Egyptian Industry study for the High Committee on Exports, February 1994.

- G.O.E.I.C.**
- Inspection of goods subject to quality control
 - Additional charges calculated by Coordinating Price Com., or boards for citrus, potato, onions or garlic.
 - Collection & payment of certificate of origin (optional), stamp charges on application form, bill of lading and agricultural certificate and invoice.
- Airline**
- Completion of bill of lading
 - Calculation of service costs for processing, documentation, administration, handling, storage and security
 - Transport shipment to customs area and transport to entry gate
 - Storage of shipment by airline office
 - Submission of export approval to airlines for presentation to exporter
- Bank/Customs**
- Complete 7 copies of Form TS (dropped in 1994)
- Sales Tax Office**
- Request presented to sales tax office for reimbursement of sales tax (where applicable)
-

Other remaining export impediments relate to issues of quality standards, in terms of separating controls on imports from supportive policies for encouraging export products able to meet quality standards in export markets. Harmonization of food products standards is underway throughout the EU on food additives, materials coming into contact with food, food labeling, official inspection, sampling and methods of analysis, product standards, and packaging (Germany's standards are the most strict and influential).

Another key area is the need for comprehensive and widespread education of Egyptian exporters on the ISO 9000 standards required for EU entry and widely being adopted in other markets worldwide. In brief, these standards were adopted in June 1991 by the EU, having originally begun in the UK. They are now the most comprehensive standards for quality assurance, ranging from product design through customer servicing. All industries are covered

except electrical goods and electrical engineering for which several comprehensive standards already exist. They are used in over 50 countries currently as national standards. Their wider use could reduce regulatory burdens and improve market access. Since ISO implementation is not yet mandatory nor fully adopted universally, it is being used by some exporters as an effective international marketing tool.

5. Trade Policy Recommendations

Continue to reduce import tariff rates: The government has planned further tariff reductions lowering the maximum rate to 50 percent by mid-1995, with tariff rates between 30 percent and 50 percent to be lowered by 10 points, and rates below 30 percent to be unaffected. However, it remains uncertain what further reductions might be made after mid-1995. Even with planned reforms, Egypt's tariff structure remains relatively high, is unevenly applied between certain public and private industries, and remains uneven across various industries. These are all issues that should be carefully reviewed. Tariff reductions to be made should be publicized well in advance to provide adequate notice to industry.

Remove remaining non-tariff impediments: Administrative and other bureaucratic processes should continue to be streamlined or abolished to reduce barriers to exporters. Specifically, Egypt should lift the last remaining quotas; lift the last export/import bans; consolidate into a single payment all fees by Customs, GOIEC, and the Agricultural Quarantine Dept, based on LE 1-5 per ton and drop all others; eliminate stamp duty for all export forms; break up the port monopolies; lift service charges and overtime fees; set up "one-stop" customs shops in all air/seaports; simplify the complicated airfreight steps and fees required of exporters; and review and reform other similar non-tariff measures which act as barriers to exports.⁶

Replace the temporary admissions and tax rebate systems with a "fixed drawback" system: Other countries have developed product-by-product input/output coefficients, based on typical transactions, as the basis for rebates, which are more simple, more efficient, and less costly than ad-hoc rebate systems. Egypt's current ad-hoc systems should be replaced for the following reasons:

- (a) they cannot be streamlined sufficiently to remove disincentives to exports;
- (b) their need will decrease automatically as tariff rates are reduced further in line with the reductions;

⁶ "Interim Report of Egypt's Trade Policy Reforms", Boye-Lord International Ltd., prepared for USAID in collaboration with Ministry of Economy and Foreign Trade, October 1994.

- (c) revenue earned by guaranteeing compliance is minimal and will decline along with tariffs in future; and
- (d) their replacement will send a positive signal to exporters of government seriousness in expanding exports.

A possible decline in government revenue collected should be recouped by revenue from corporate income tax growth as exports grow, and revenue generated by the retail level sales tax to start mid-1995.

Adopt export standards/quality assurance under the ISO-9000 production guidelines: Egyptian policy on quality standards of exports and imports should make the distinction between quality control and quality assurance; i.e., the former should specifically apply only to imports and should be restricted to major issues of public health protection, while the latter should be vigorously encouraged to improve export competitiveness. Recommendations regarding the former were made in detail in a recent study.⁷ As for export quality assurance, adoption of the ISO-9000 guidelines should be undertaken as soon as possible to help maintain Egypt's export competitiveness. The government should launch a program for educating Egyptian firms on why and how to adopt them; the donor community is currently considering assistance to the government for training exporters and promoting ISO-9000 guidelines.

Restructure Customs Procedures: Recent efforts to streamline certain aspects of customs procedures, including export support services at key ports, have not succeeded in significantly lowering bureaucratic barriers to exports. One major suggestion for improvement is to automate the customs process as much as possible to minimize or even eliminate face-to-face meetings between customs officers and importers/exports. These meetings and consequent negotiations reduce transparency, encourage fraudulent behavior, and increase delays.

Second, the customs process should shift from emphasis on "pre-clearance" procedures and toward strict enforcement of more automatic procedures. In other words, the burden of accuracy should be shifted toward importers/exporters rather than on customs agents. If importers/exporters engage in illicit behavior (e.g., over/under invoicing), they should be punished.

Third, an effort should be undertaken to improve the quality and compensation of customs agents, while at the same time gradually reducing the overall size of the customs staff (currently estimated at 30,000). In this effort, the government should consider retaining the services of private import/export inspection and surveillance agencies to assist Egyptian Customs to

⁷ "Quality Control to Quality Assurance in Egypt: A Program for Change", J.R. Coyle, et. al, prepared for USAID, Cairo, 1994.

streamline its procedures, reorganize its management, and help retrain its staff. Donor assistance in this area is also likely to be forthcoming.

C. Foreign Exchange Policies

Egypt has undertaken wide-ranging reforms in its foreign exchange policies since the mid-1980s, and particularly since 1991. Until recently, the exchange system -- characterized by stringent controls and complex, multiple rates -- essentially acted as a "binding constraint" on export growth. That is, producers saw little benefit in exporting compared to serving the local market. In recent years, Egypt's foreign exchange system has improved significantly, and with the exception of the exchange rate itself serves as a neutral if not positive factor affecting exports.

1. Exchange Rate Overview

Egypt's Foreign Exchange Law governs foreign currency holdings and transactions for all individuals and entities, and regulates the dealings of financial institutions in foreign exchange. The latest foreign exchange law is Law 38 of 1994.

Law 38 indicates that the following financial institutions are allowed to deal in foreign exchange: The Central Bank, approved banks, and certain non-banking entities. All of these institutions can sell foreign exchange to any firm or person without restrictions. All individuals as well as all institutions are permitted to transfer their exchange holdings abroad through the institutions identified above.

Banks and other financial institutions are required to inform the Central Bank of the volume and prices of their exchange transactions. The Central Bank determines ceilings for operating balances of each bank and surpluses to be sold to the Central Bank. Non-banking institutions are prohibited from transferring foreign exchange abroad on their own, and financing of their operations is restricted to their own resources (capital plus retained earnings).

Exchange holdings owned by foreigners can be transferred abroad using the market exchange rate, but these sales are limited to the value of the original purchase (the foreign exchange that entered the country to purchase the property) plus 5 percent annually after five years from the date of registration of the property, provided that the owner had paid for the property in foreign exchange. Foreign currency up to LE 1,000 can be carried by travelers arriving to or departing from Egypt.

The exchange rate system has evolved markedly over the past decade. At the beginning of the 1980s, the country maintained at least six different exchange rates, which were gradually

phased down into three rates. The three rates for various transactions⁸ effective until February 1991 were:

- **Central Bank rate**, set at LE 2.00:U.S.\$1.00, applied to receipts from cotton sales and petroleum exports; Suez Canal/Sumed Pipeline dues; most foreign aid funds; imports of fertilizer and key foodstuffs; and government debt service.
- **Commercial rate**, or "free rate", which fluctuated between LE 2.16:U.S.\$1.00 in May 1987 and LE 3.30:U.S.\$1.00 in mid-1991; set daily at a meeting of eight public and private banks; applied to worker remittances, tourist expenditures and other export revenues not subject to the Central Bank rate; the customs valuation rate of LE 1.89:U.S.\$1.00 was abolished in July 1989 and the commercial rate was applied.
- **Own rate**, effectively a continuation of the parallel market rate, used mainly by private purchasers of letters of credit.

In February 1991, at the urging of the IMF and World Bank, Egypt permitted private foreign exchange dealers to operate under licenses and ended restrictions on commercial bank rate sales, mainly for letters of credit. The Central Bank rate was permitted to follow the free market rate within a range of not more than 5 percent between the two rates. In October 1991, the two rates were merged into a single exchange rate, nominally floating at free-market rates, which opened at LE 3.31:U.S.\$1.00. Since February 1991 the Egyptian pound has remained within a relatively narrow band, as indicated below:

AVERAGE EXCHANGE RATE OF THE EGYPTIAN POUND (LE)

	1991	1992	1993	1994*
LE:U.S.\$ Average	3.33**	3.33	3.37	3.38

* *Estimate.*

** *Single floating rate, beginning October 1991.*

Compared to past policies of strict exchange controls, the emerging Egyptian foreign exchange policy is increasingly "friendly" toward exporters. Holding foreign exchange is now

⁸ Economist Intelligence Unit (EIU) Country Profile, Egypt, 1992/93, London.

allowed as a general principle under the law, and the requirement for exporters to submit Form TS has been abolished. Previously, every exporter had to fill in the "TS" form as a promise to deliver the full value of his/her export proceeds within a maximum period of one year. Failure to fulfil this promise could lead to imprisonment. Abolishing Form TS will certainly have a positive effect on exports.

The major weakness of the new law is discrimination against foreign investors' right to repatriate capital and capital gains. As noted above, the Law limits the funds to be transferred to the original purchase value plus 5 percent annually beginning 5 years after registration. Moreover, the Law specifies that the foreigner should have purchased the property using foreign exchange. These limitations should no longer be required, as they can have a negative impact on foreign investment.

2. Policy Issues

The Egyptian pound's performance in recent years raises several points involving current and future exchange rate policies, including:

Nominal exchange rate stability. The nominal value of the Egyptian pound has remained highly stable since 1991, fluctuating only slightly between LE 3.33 and LE 3.39 per U.S. dollar. Its nominal value has been supported by current account surpluses and capital inflows. Central Bank foreign exchange reserves have increased from about U.S.\$5.3 billion in 1991 to over U.S.\$13.4 billion in August 1994. This increase in reserves, along with relatively high interest rates which attract pound-denominated deposits and deter capital outflows, has clearly led to a stable nominal exchange rate. The pound was also relatively stable in nominal terms against the value of the Special Drawing Right (SDR), a basket of currencies which includes those of major European and Asian countries.

Real exchange rate (RER). The pound's real rate against the U.S. dollar appreciated by about 30 percent between 1991 and mid-1994, due to Egyptian inflation rates which substantially exceeded those of the United States (and Egypt's other major trading partners) while Egypt's nominal exchange rate remained stable. Egyptian producer prices rose by about 35 percent from 1991 to mid-1994, while similar U.S. prices, for example, rose about 4 percent over the period. Over this period, the Egyptian pound depreciated by only about 1.5 percent against the U.S. dollar (from LE 3.33 to LE 3.36). On the other hand, if one looks at the trend beginning in 1990 (through mid-1994), the pound actually depreciated in real terms by about 16 percent against the dollar, because the nominal rate depreciation of about 65 percent more than offset the positive inflation differential of about 49 percent.

Estimates of the pound's real effective exchange rate, which adjusts for inflation differentials on a trade weighted basis, also show that the pound has appreciated by about 30

percent over the past three years. The important point to consider at this stage is that price competitiveness gains generated by previous devaluation have been eroded continuously.

The real (inflation adjusted) exchange rate affects exports much more than the nominal rate. This is because producers must pay local costs and sell at international prices, which are often very competitive. If local costs (e.g., labor) inflate at rates higher than can be absorbed by higher final prices, then the profit margin of exporters declines. In other words, when the real rate of exchange appreciates, exporters' costs rise more rapidly than prices they can obtain, and incentives to produce for export decrease.

Those opposing depreciation, especially importers, argue that currency depreciation will raise the prices of imported inputs, and will also raise local costs due to domestic inflation. This is undoubtedly true, but barring the effects of domestic inflation, depreciation will improve the competitiveness of exports unless inputs represent literally 100 percent of final output. Any domestic value added is made more competitive (prices reduced) through depreciation.

The experience of all nations is that over-valuation in the currency's exchange rate will stifle if not eliminate exporting as a viable economic activity. Therefore, if exporting is a true national objective, then policymakers need to carefully consider an appropriate exchange rate.

Sustain ability of present interest rate/exchange rate levels. If Egypt's inflation rate continues to rise relative to those of major trading partners, profit margins on exports will continue to decline, and eventually will turn negative. Already many exporters are shifting their focus from exports to serving the domestic market. Eventually, exports sold at internationally competitive prices will dry up completely if the local/foreign price differential keeps expanding.

In addition, rising external interest rates, coupled with falling Egyptian pound interest rates, could result in potentially large and rapid outflows of speculative capital, in the absence of a deliberate exchange rate adjustment policy by Egyptian authorities. External interest rates are currently rising, especially in the United States, and Egyptian interest rates have recently been increasing at a slower pace and are now beginning to drop, narrowing the differential. While it is not possible to calculate the precise level of speculative capital attracted by interest differentials into pound deposits, it is likely to be considerable and could lead to major shocks to the pound's exchange rate through rapid capital flight.

3. Exchange Rate Policy Options

The value of the Egyptian pound has become an excessively politicized issue. Defending the current exchange rate has become a subject of national pride. Arguments opposed to depreciation are presented almost daily in the Egyptian media.

The key recommendation proposed in this report regarding the exchange rate is that the issue itself be "deflated." That is, the subject should be "de-politicized" to the extent possible. The fact is that a nation's exchange rate is simply the price of foreign currency, and is most importantly a policy instrument, not an indicator of national performance. One should view the value of the Egyptian pound not as a goal, but as a means to achieve desired economic outcomes.

For the immediate future, from a political standpoint it would be difficult to implement a devaluation of the pound. What is important is that the exchange rate become a usable policy lever in the future. At this time, four basic exchange rate strategies could be explored.

Continuation of current policy: Indefinite continuation of the present managed float at stable nominal rates risks prolonging recent low levels of private investment, resulting in slow economic growth, low job creation, continuing high unemployment and relatively stagnant export growth with declining price competitiveness. In the event of severe capital flight, the return to strict exchange controls and restrictions on foreign exchange deposits to stem outflows would be a highly regressive step jeopardizing the progress achieved by Egypt's economic reforms of the past few years.

Gradual, managed depreciation: Adopting a policy of intervening in the foreign exchange market to encourage small, regular steps of depreciation while at the same time lowering domestic interest rates, could have the positive effects of (1) allowing an easier transition through the gradual adoption of other price adjustments, and (2) restoring export (price) competitiveness while other export support measures are put in place to ensure that exports genuinely benefit from devaluation. A managed, gradual policy, well-communicated both at home and abroad, could reassure both domestic and external investors, avoiding capital flight and instability, while also maintaining positive relations with the multilateral and bilateral donor community.

Adopting a gradual devaluation policy could help expand exports to at least the same degree as was achieved during the last major devaluation policies of the late-1980s, as described in recent studies of the impact of economic reforms on export performance:⁹

"The most important factor that reversed the stagnating trend of the mid-1970s to the mid-1980s for manufactured exports was the devaluation of the pound of May 1987 by 44%; after that, annual average growth was 25% for manufactured exports; the unification of the two remaining exchange rates in 1990/91 brought about another effective devaluation of about 20%."

⁹ "Prospects for the Development of Export-Oriented Industries in Egypt", Dr. Heba Handoussa, prepared for the Japanese Institute of Middle East Economics, January 1, 1993.

On the negative side, a gradualist approach may prove to be insufficient. Growth in investment and exports could be slow, the risk of capital flight might not be dampened, and a larger single dose of devaluation might later prove necessary.

Major, immediate devaluation: A relatively large, one-time devaluation of, for example, between 20 percent and 40 percent, would have the advantage of quickly improving export competitiveness. Export profits would rise substantially, encouraging existing firms to export more and attracting new investment into the export sector. In many successful exporting countries, devaluation has been the catalyst for a prolonged export boom, if gains achieved are not eroded through inflation. On the negative side, the domestic economy would sustain a severe shock, and there would be no opportunity for other domestic prices to adjust gradually. Nor would there be already in place related policy or institutional reforms for export expansion which would provide a solid base to assure that the benefits of devaluation would be sustainable, rather than a one-shot stimulus, which might again be required within a short period.

Two-tiered exchange rate: In the past, some governments of countries with overvalued exchange rates attempted to stimulate exports by adopting a two-tiered system with separate rates for imports and exports. Dual or multiple exchange rates complicate exchange transactions and introduce major economic biases, and often accomplish little in terms of export stimulation. As a result, the universal trend among nations, including Egypt, has been to eliminate multiple rates. There is little merit to this option.

If one takes a broader view on what steps can be taken to improve the profitability of exporting, several additional options are possible.

Export bounties: A number of countries have implemented programs to provide cash grants or bounties to exporters. Typically the system calls for a percentage bounty for exports. The percentage could be fixed (e.g., five or ten percent) or could be tiered (e.g., ten percent for up to a given amount of exports and five percent above that amount). One problem with such systems is that they represent overt subsidies and will be challenged under GATT. Another drawback is that they represent a financial drain on the government's budget. This drain can be substantial if the subsidies are increased to take into account increasing overvaluation of the exchange rate.

Tax relief: Reducing or eliminating income taxes on export activities will clearly raise the producers' profitability. In fact, a temporary tax relief program is recommended as part of the export growth strategy for Egypt. Unfortunately, tax relief itself is unlikely to counteract the reduction of profit margins resulting from overvaluation.

Reduced/eliminated duties on imported inputs: As with income tax relief, reducing tariffs on inputs will enhance exporters' price competitiveness. Duty drawback and temporary admission programs are already in place in Egypt.

Subsidized transportation or other services: Some countries overtly or covertly subsidize transportation for all or preferred exporters, often parastatal companies. As with export bounties, such subsidies are counter to GATT, and in addition create biases and incur budget expenditures.

Labor training grants or subsidies: Government programs can provide outright grants to firms in order to train new workers, or alternatively provide tax relief to cover training costs. An example of the latter is that a given percentage of a new hire's salary could be deducted as an expense to the firm.

All of these latter options for improving exporter profitability require budgetary resources in the form of either cash outlays or foregone tax revenues. Since most governments face shortages of funds, these initiatives would reduce resources available for other purposes. In addition, such programs would clearly indicate favoritism toward exporters, which could create negative political fallout. Finally, none of these options exerts the power and the speed of impact of exchange rate adjustment. On balance, if currency overvaluation is diagnosed appropriately as the cause of eroding export profitability, then the best course of action would be to deal directly with the exchange rate.

D. Investment Policies

Expanding exports requires new investment, primarily by private sector firms. Private investment has lagged in Egypt, due in part to the domination of state-owned enterprises and in part to the policy climate. Continued improvements are needed in investment policies to attract new ventures, both Egyptian and foreign, in export industries.

1. Investment Policy Overview

Private companies establishing businesses in Egypt are usually organized under Law 159 or Law 230. Public companies are governed by Law 203. Law 159 companies receive little in the way of investment incentives. Therefore, most relatively new exporting firms have chosen to be organized under Law 230, which provides a series of incentives to investors. Historically, however, a major impediment to starting up business under this latter law has been delays in obtaining necessary approvals.

The government's public and private sector investment policies have been set on a new course by recent reforms. These are planned to continue, based on a key goal of Egypt's reform program - to reduce the overall size and share of public sector investment in the economy. As planned privatizations begin, new government investment in state-owned enterprises will be limited, with little new business expansion likely. One area where public sector investment could be productively increased and help complement and support private investment is in infrastructure and social services. Egypt's Third Five-Year Plan (begun in FY 1992) in fact plans a 15 percent real increase over the previous Plan period in public investment in areas including transport, communications, energy, irrigation, education, health and public utilities.

If privatizations proceed as planned, public sector investment is likely to decline by about 25 percent by the end of this decade. Private sector growth is expected to offset this reduction, but the current limited size and relatively slow growth of both domestic and foreign investment suggests the need for significantly more encouragement through ongoing policy and institutional reforms.

From the perspective of increasing Egypt's export performance, progress in commercializing and privatizing public sector firms needs to be accelerated to expand the role of private investment. Simultaneously, efforts now under way to design and implement an improved, unified investment law should be completed as soon as possible.

Investment Regulations and Incentives

Egypt's major recent effort at investment reform was implementation in October 1989 of Law 230, which replaced Law 43 of 1974 and streamlined and unified investment regulations and incentives, especially those covering foreign investment. In principle, Law 230 states that investment regulations in Egypt are not intended to be biased toward either domestic or foreign investment. The new law gives sole responsibility for approval and oversight of investment projects to the General Authority for Investment (GAFI), which operates in theory as a "one-stop" investment approval center.

The role and functions of GAFI are described in detail in the institutional assessment chapter of this report. GAFI decides whether or not to approve all investment applications and in theory tries to announce decisions within twenty days on all new applications. It then obtains all required investment and operating licenses, allocates land sites, obtains work and residence permits for expatriates, registers foreign investment capital and repatriates profits and re-exports invested funds abroad.¹⁰

¹⁰ "Investment Guide, 1994," General Authority for Investment (GAFI), 1994, Cairo, Arab Republic of Egypt.

Law 230 investments are permitted under two systems: "inland projects" and "free zones." Inland projects can be located outside or within new urban communities, industrial zones, or more remote areas, qualifying for various incentives. Free zone projects are considered "out of the country" for customs purposes, exempt from all import-export duties, provided with land, infrastructure and utilities at concessional rates, and located near seaports or airports.

A major difference between the two systems is in tax incentives offered. Inland projects are exempt from corporate tax normally for 5 years, with a 5-year renewed tax holiday for approved expansions. Free zone projects are completely exempt from corporate, succession and stamp duty tax for the life of the project, but must pay a 1 percent charge on the F.O.B. value of goods exiting the free zone, or, if no commodities enter or exit, a 1 percent charge on company revenue.

Incentives and guarantees granted to both inland and free zone projects include:

- Unrestricted ownership of investment capital by any nationality; no discrimination in investment laws between Egyptian and foreign investors; and no imposition of public sector regulations on private projects;
- Right of acquisition of land and real estate necessary for projects;
- Right to operate on behalf of third parties;
- Freedom from price controls or profit ceilings;
- Guarantees against nationalization or confiscation without due process and compensation;
- General operating conditions include the right to retain foreign exchange receipts; the ability to obtain import approvals on an annual basis; the right to re-export invested funds; and the right to repatriate profits.

In addition to the general privileges and incentives initiated under Law 230/1989, a number of other investment policy reforms since 1991 are aimed at easing barriers to private sector entry and operation, including:

- Automatic investment licensing approvals for most industrial and non-industrial companies incorporated under Law 230/1989; no approvals are required for projects with an investment cost up to L.E. 10 million;

- Adoption of a "negative list", of investments requiring approval in sensitive areas such as national security, health and environmental activities, rather than a cumbersome itemization of restricted industries;
- Removal of approval requirements for business expansions, changes in product mix and new products, for industrial and non-industrial firms under Law 230/1989;
- Lifting of the ban on private sector investment in activities involving distribution of products, including cement, pesticides and fertilizers;
- Unification of licensing and approvals by various government authorities in order to streamline overlapping regulatory jurisdictions of local, governorate and central government authorities; and
- Easing of legal restrictions on agricultural land rental contracts.

Additional reforms planned include further liberalizing of energy price controls, easing operations of foreign trading companies, unifying corporate laws, enacting anti-trust legislation, and further streamlining investment approval procedures across government jurisdictions. Yet the scope and speed of many reforms remain uncertain, particularly privatizations, where progress is slow.

Comparative Investment Promotion Policies

Despite Egypt's recent investment policy reforms, there has not yet been a significant response in terms of increased foreign investment. Egypt ranks well behind other comparable developing countries in attracting foreign investment. Indonesia, Mexico and Brazil, for example, recently have attracted about twice as much. Egypt attracts under one percent of global annual FDI flows entering developing countries. In 1991, Mexico attracted 13 percent, Malaysia 10 percent and Turkey 2 percent. Successful developing countries on average finance about 9 percent of their total investment from abroad.¹¹ For Egypt to reach this level would require that Egypt attract about three times the amount it now achieves annually through the rest of the 1990s.¹²

Many developing countries comparable to Egypt have found that the most appropriate foreign investors are less attracted by any single incentive such as a tax holiday than by a

¹¹ "Global Economic Prospects and Developing Countries," World Bank, April 1993, Washington, D.C.

¹² "Private Sector Development in Egypt," World Bank, October 1994.

generally attractive overall operating environment that includes stable, predictable regulatory policies, facilitates business operations and offers reasonable opportunities balanced against risk. While aiming to develop such an overall operating climate over the medium term, most successful countries also seek to generate investment that fits with their competitive advantages by targeting their investment strategies to offer specific incentives for priority investments. For example, the following countries which are generally successful in attracting foreign investment and generating exports have developed investment promotion strategies that include packages of various incentives that Egypt could also consider, depending on its priorities:

- Tunisia:**
- The New Unified Investment Code of 1994 offers incentives for exporters of 100 percent of product including:
 - Ten-year corporate income tax holiday;
 - No customs duties, no VAT on imported equipment;
 - Duty drawback of imported inputs;
 - Firms can employ up to four expatriates; and
 - A flat 20 percent income tax applies.
- Turkey:**
- Encourages export-oriented investment; and
 - Offers generally the same incentives as available to local investors; the main tax concession is the investment incentive allowance; a deduction from taxable income of a percentage of fixed capital investment, e.g., 100 percent, is deductible for medical equipment, agriculture, tourism, education, pharmaceuticals, shipping, electric power, and investment over \$1 million in textiles, shoes, leather, machinery, and electricity.
- Indonesia:**
- Attracts export-oriented joint ventures;
 - Allows up to 80 percent foreign ownership in most industries;
 - Eliminated duties on goods for reexport; and
 - Offers accelerated depreciation.

- Malaysia:** ■ Offers targeted investment incentives for non-traditional products; FDI in target industries receive 5-year tax holidays on 70 percent of their profits, raised to 85 percent for firms in priority areas. Target industries, or "pioneer industries," are selected by the government, and currently include 287 products in 23 categories.
- Thailand:** ■ Developed sectoral promotion using revealed preferences; and
- FDI has historically faced few restrictions, and always played an important role in its development; FDI jumped ten-fold in the late 1980s and averages about \$2 billion annually.

2. Areas for Improvement

To improve the investment climate for the private sector, both domestic and foreign, the government should:

Continue investment deregulation. Phase out the last remaining bans on private investment in key sectors and activities such as textile exports to the US; lift barriers to entry imposed by continuing licensing requirements including E & O licensing (establishment and operation); further streamline investment approval procedures across local, governorate and central government jurisdictions; and continue to streamline GAFI investment approval procedures.

Continue other investment-related reforms. Unify corporate laws, enact anti-trust legislation, further liberalize energy price controls; ease operations of foreign trading companies; and enact new labor laws now under consideration permitting more flexible labor markets.

Abolish the stamp tax on capital. The planned review in 1995 of the stamp tax on capital should consider ending it due to its effect of discouraging investment through increased costs, and thereby reducing Egyptian competitiveness.

Develop broader capital markets and ease private sector access to investment financing. Follow through on reforms to expand investment instruments and markets and allow greater private sector access to investment finance by permitting private firms to bid for funds from reserves and surpluses of the public pension fund and social insurance system.

Redesign tax incentives to attract more domestic and foreign direct investment. Consider a low flat corporate tax rate, or more attractive tax holidays, for new investment in priority sectors, as potential revenue loss could be compensated for by the planned extension of

the sales tax to a full value-added tax by July 1995 which will increase government tax revenue. Consider additional measures to encourage foreign investment including assistance with procedures and costs of land ownership; incentives for training and encouraging technology transfer; and reform of legislation improving legal protection of patents, copyrights, trademarks and intellectual property.

Speed up progress on privatization. Encourage expanded private investment through the privatization program by moving faster to bring more holding company assets to actual sale, through private bids rather than simply through public auction, to achieve wider changes of management.

In general, the Egyptian government should expand and accelerate efforts to adopt economic and financial policies which encourage investment. For example, private sector access to investment financing should be broadened through more developed capital markets, and policies should seek to reduce interest rates gradually, since high rates divert investment funds into nonproductive areas and depress private-sector investment and growth.

E. Tax Policies

1. Tax Policy Overview

As in most countries, Egypt's taxes are considered too high by private businesses and individuals, and too low by authorities seeking to balance government budgets. From an international perspective, Egypt is viewed as a moderate tax location for corporations but as a high tax jurisdiction for individuals. While the tax code itself does contain some disincentives to exporters, the real problem lies in tax administration.

The Egyptian fiscal system imposes taxes and duties on three categories of activities:¹³

1. Tax on Income

- Tax on corporate profits ("corporate tax")
- Personal income tax
- Taxes and duties on real estate (buildings) earnings
- Taxes and duties on agricultural land earnings

¹³ This section draws heavily on information provided in "Egyptian Legal and Judicial Sector Assessment," John Bentley, J.D., February 1994.

2. Tax on Capital

- Capital gains tax
- Inheritance tax

3. Tax on Transactions and Other Activities

- Customs duties
- Sales tax
- Fiscal stamp tax on documents and financial transactions
- Registration and notarization fees
- Social insurance contributions for employees
- Miscellaneous other taxes and duties

The following discussion summarizes major taxes and identifies concerns expressed by exporters and the business community.

Corporate Income Tax

The corporate tax is levied on all forms of companies (e.g., joint stock, partnership or limited liability), including banks but excluding free zone firms. The tax is calculated on the basis of overall net profit, including overseas earnings. The general tax rate is 40 percent, except for industrial and export projects, which pay 32 percent. Oil companies engaged in exploration pay a 40.55 percent rate. Companies also have to pay a 2.0 percent tax (surcharge) on profits exceeding LE 18,000 per annum for the purpose of "The Development of State Financial Resources."

A number of concerns regarding the tax code have been raised by the Egyptian Businessmen's Association¹⁴ and others. Certain problems identified as constraining private sector growth are summarized below.

According to the Corporate Tax Law, companies are entitled to make provisions and take deductions for potential future liabilities or losses. The Law imposes two restrictions on these provisions: First, the actual losses/liabilities must be incurred; second, the maximum level allowed for these provisions is 5 percent of net profits. The first restriction is left to the judgement of the Tax Authority, which can reject provisions. Moreover, firms that realize small

¹⁴ See, for example, "Legal and Judicial Framework," Background Paper #2-A, Egyptian Businessmen's Association, presented to the conference, "Private Sector Development in Egypt: Investing in the Future," October 9-10, 1994.

profits are still obliged to abide by the 5 percent ceiling. The Egyptian Businessmen's Association has proposed provisions for doubtful debt not to exceed 15 percent of the total debt of the company, and a lifting of the ceiling to 10 percent of net profits.

One provision of the Corporate Tax Law (Article 120/4) creates a bias in favor of joint stock companies. The Law permits the deduction from a company's net profit of 90 percent of the dividends received on investments in a joint stock company provided that the latter company has paid its corporate tax. This privilege, which is intended to avoid double taxation, is not granted if dividends are received from investments in non-joint stock companies. In addition, joint stock companies are allowed to deduct an amount equal to interest on paid-up capital from their taxable profits. This privilege is not granted to other types of companies.

The tax code actively discourages diversification. Article 111 of the Corporate Tax Law stipulates that all revenues not related to the "main activities" of the company will be subject to a tax rate of 32 percent. Since the Law does not permit firms to exclude these revenues from their overall taxable earnings, this results in double taxation.

Personal Income Tax

Until recently, taxation of personal income was based on a complex, two-tiered system. The first tier consisted of income from wages and salaries, business profits, professional services and "movable assets," with top tax rates ranging from 22 percent on wages and salaries to 32 percent on other income. The second tier was known as the "General Income Tax" on all income received from the sources taxed under the above mentioned schedules plus some or all other their dividends received from incorporated entities. This tier was subject to progressive rates reaching 65 percent on income over LE 200,000.

Recently the General Assembly passed Law 187 of 1983 (Unified Tax Law), which unifies the four sources of personal income and "general income" into a single, unified personal income tax. The new top rate is 48 percent (at income at/above LE 68,000), except for the top rate of 32 percent on salaries exceeding LE 50,000. As with corporate income, per Law 147 of 1984, individuals are also subject to an additional 2 percent tax on income exceeding LE 18,000.

Capital Gains Tax

Capital gains obtained from the sale of shares and other variable price securities are taxed at 2 percent, pursuant to Law 95 of 1992, the Capital Market Law.

Customs Duties

In accordance with Law 66 of 1963, tariffs are imposed on all imported goods unless specifically exempt (e.g., duty drawback, temporary admission, etc.). Customs duties are described in detail in the section on trade policies. From the standpoint of exporters, tariffs on imported inputs represent one of the major policy barriers to expanded exports.

Sales Tax

Sales Tax Law No. 11 was enacted in 1991 to replace the Consumption Tax. Pursuant to this Law, the General Sales Tax is assessed on sales of all industrial products, whether produced domestically or imported. The tax currently applies to producers, importers and service providers designated as "collecting agents." In the future, the tax will be imposed on sales by wholesalers and retailers. The standard rate of the sales tax is 10 percent of the value of any industrial commodity produced locally or imported, with the following exceptions:

- A rate of 5 percent on some foodstuffs and tourism services
- A rate of 20 percent on durables
- A rate of 30 percent on luxury goods

In 1993, Presidential Decree No. 295 amended Presidential Decree No. 180 of 1991 and unified the 20 percent and 30 percent rates into one single rate -- 25 percent.

Two major complaints are raised by businessmen concerning the sales tax: (1) The sales tax on imports covers capital goods, i.e., machinery and equipment, which increases the cost of production, especially since this tax cannot be deducted from the sales tax collected on the sales of the company; and (2) the sales tax on imports is based on the CIF price plus custom duties. It is common for the Customs Authority to disregard the import price stated in the invoices and apply what inspectors assume to be the "right" price, which is inevitably higher than the invoice price. This causes an increase in both the custom duties and sales tax. In summary, since sales taxes are applied to imported inputs, exporters claim that these taxes raise their costs.

Stamp Tax

Stamp taxes are imposed on most contracts, legal documents or financial transactions, in accordance with Law 111 of 1981. Most importantly for exporters, an annual tax is imposed on shares of incorporated companies equal to 0.8 percent of their "value" for firms registered on the stock exchange, and 1.2 percent for unregistered companies. This amounts to an ongoing tax on capital, regardless of whether firms earn profits. This tax is considered particularly onerous for companies in their start-up years in which they generate little earnings.

In addition, proportionate or per page stamp taxes are charged on letters of credit, promissory notes and contracts. For example, progressive rates rising to 0.8 percent are imposed on loan agreements. Letters of credit payable jointly by banks and their customers are subject to a rate of 1.0 percent on the amount of the credit. Promissory notes are assessed 0.6 percent in stamp taxes. Insurance premiums incur taxes ranging from 4.5 percent to 30 percent, depending on the type of insurance. All other contracts are subject to stamp taxes at a rate of 90 piasters per page.

In 1991/92, the sales tax collection constituted 26 percent of all tax collection, while the stamp taxes represented 7.4 percent.

Registration and Notarization Fees

Fees are charged for registration and notarization services provided by the State Notary, a government agency. Contracts for real estate purchases are subject to fees rising to 12 percent on contracts involving amounts over LE 4,000. Mortgage agreements are charged 1.5 percent on amounts over LE 2,000, and documents canceling mortgages incur fees of 0.75 percent of amounts involved.

Social Insurance Contributions for Employees

Law 79 of 1975 establishes a comprehensive package of social insurance for the benefit of employees to cover retirement, disability, medical care, and termination. This package is financed by employers and employees. Non-contractor employers pay 26 percent of total regular compensation up to LE 3,000 per year, and employees pay 14 percent, adding to a total of 40 percent of compensation. Compensation of up to 150 percent of this basic amount (LE 3,000) or LE 7,500 per year (which ever is less) is subject to contributions of 24 percent by employers and 11 percent by employees, adding to a total of 35 percent.

Contractors are required to pay social insurance contributions based on a percentage of the contract base price (after various deductions) at a rate of 18 percent. The percentage of the contract base price varies, depending on the nature of the operation.

2. Tax Administration

The taxes imposed on individuals and companies in Egypt are with certain exceptions (e.g., the stamp tax on capital) similar to those levied in other countries. Egyptian exporters will certainly benefit from tax reform, particularly the elimination of transaction taxes and a shift toward direct income taxation. However, the real problem facing exporters is not the tax regime itself but rather the system of tax administration.

The fundamental problem lies in the high level of mutual distrust between business executives and the tax authorities. Both parties are accountable for this problem. Tax avoidance and fraud is widespread. Accordingly, tax officials assume that tax payers are not filing their tax returns legitimately. This has created a "vicious circle" in which tax administration is based on negotiation rather than on submitted returns. Tax inspectors view their role as maximizing collections rather than as securing legitimate taxes. Business executives are therefore loathe to submit accurate returns since they anticipate that tax inspectors will increase their taxes.

As a result of this structure, tax returns are negotiated, with thousands of disputes arising between tax payers and the Tax Authority. Returns are routinely amended to disallow deductions or to recalculate profits on the basis of tax inspectors' assumptions rather than on fact. This process promotes discretionary actions, lack of transparency, and the potential for bribery. Resolving disputes absorbs considerable time and effort.

There is no simple solution to this dilemma, which is prevalent in many countries. Over time, tax payers need to be encouraged to file accurate returns through both positive incentives for accuracy and negative sanctions against fraud. At the same time, the Tax Authority needs to take steps that the letter and intent of the law are carried out, that inspectors are properly trained to deal with interpretations of the law, and that fraudulent behavior will not be tolerated.

3. Areas for Improvement

Developing detailed recommendations on Egyptian tax policy will require extensive analysis which takes into consideration revenue requirements, tax generation alternatives, collection capabilities, and other matters. The following suggestions focus on possible reforms that would lead to greater exports, and draw in most cases from the experience of successful exporting countries.

Reduce transaction taxes and fees. Many stamp taxes and fees for specific transactions produce little revenue, but create administrative burdens for exporters. The overall strategy should be to replace a wide range of small taxes with a few taxes administered well.

Eliminate the stamp tax on capital. This tax represents a significant disincentive for investment, and should be removed.

Improve tax administration and enforcement. As noted above, both tax authorities and private businesses need to improve their behavior in this area. Tax administration should be fair but firmly enforced, thereby placing responsibility on both taxpayers and tax authorities.

Provide a time-bound set of tax incentives for exporters. As will be discussed in the strategy section of this report, the export sector needs a special push to become more aggressive.

A special set of tax incentives for exporters -- limited to a specific period of time, perhaps five years -- could motivate firms to move quickly to increase their production and exporting activities. The incentive would not seek to create a privileged "export enclave" for the indefinite future, but rather to stimulate export initiatives to establish at least a "critical mass" in the export sector that does not currently exist.

VI. EXPORT SUPPORT SERVICES AND INSTITUTIONAL ROLES

A. Institutional Structure for Exports

1. Exporter's Needs

The key responsibilities for exporting -- producing goods and services of internationally competitive quality and price, financing transactions, acquiring inputs, marketing, providing after-sales servicing, and so forth -- fall mainly on exporting firms themselves. It is the role of companies to establish ventures, raise capital and take risks in order to earn profits. In theory, if companies and industries were sufficiently well organized and managed, they would require little if any assistance other than that which they purchase from suppliers of machinery, inputs, loans, utilities and transportation.

In the real world, there are companies in every country that need assistance in their efforts to initiate or expand exports. Very few small businesses in any country engage in exporting, and even medium-sized firms in industrial countries require help in the form of marketing or financing.

For this reason, all successful exporting countries possess effective "support systems" for exporters. In some nations, assistance is provided by private entities. For example, Japan's large trading companies offer almost "full service" to their affiliates. The same is true for South Korea's chaebol. Germany's export promotion efforts are carried out by the German Chamber of Commerce, which has an extensive network of overseas offices. The specific export support systems offered by Egypt's competitors were discussed earlier in this report.

Successful export support systems typically include one or more of the following forms of assistance:

- In-Country Trade Information Networks
- In-Country and Overseas Export Promotion and Marketing
- Import Credit Facilities
- Export Credit Facilities
- Credit Guarantee Facilities
- Export Insurance
- Training and Technical Assistance
- Quality and Standards Assistance
- Free Trade Zones

Experience has shown that to the maximum extent possible, business-related inputs should be provided by the private sector. This is because services rendered by the private sector tend to be provided more effectively. However, there are areas such as export promotion in which government agencies legitimately offer valuable assistance that might not be offered privately.

Most countries place such a high priority on exporting that they augment private assistance to exporters with government programs and agencies. Examples of agencies providing marketing assistance include the U.S. Foreign and Commercial Service, Taiwan's Board of Foreign Trade, and even Japan's JETRO (Japan External Trade Organization). Most industrial countries also offer financial assistance to exporters, both loans and credit guarantees, through such agencies as the U.S. Export-Import Bank or France's COFACE.

In nations where exporting has taken root, smart entrepreneurs learn from their competitors who have successfully broken into export markets. Collecting intelligence on the quality and price of competitors' products as well as their market penetration overseas -- the process of copying the moves of industry leaders -- can be an effective strategy for exporters.

2. Egypt's Current Institutional Structure

The problem facing countries such as Egypt is that the existing export sector is very small and there are few export leaders to emulate. For example:

- Until recently, exporting was dominated by a handful of public sector firms in a very few product lines. International cotton and petroleum markets, for example, are specialized and are dominated by well-known buyers, and therefore do not require the development of general marketing skills.
- Many of Egypt's other exporters were selling to Eastern bloc countries in barter arrangements, where competitive pricing and product quality were not major factors.
- Most Egyptian companies, even today, focus most if not all of their attention on supplying the domestic market.
- It has only been in recent years that producers of nontraditional export goods and services have actively sought to break into overseas markets.

For all of these reasons, Egyptian producers need an extra push to enter into exporting, perhaps even more so than their counterparts in other countries. At the same time, export-related services must be provided effectively and efficiently. The following list indicates sources of assistance in Egypt, categorized according to the export services identified above.

- **In-Country Trade Information Networks**
 - ▶ Trade Point
 - ▶ Trade Net
 - ▶ Egyptian Export Promotion Center
 - ▶ Business Associations

- **In-Country and Overseas Export Promotion and Marketing**
 - ▶ Egyptian Export Promotion Center
 - ▶ Trade Development Center
 - ▶ General Authority for Exhibitions and International Fairs
 - ▶ Commercial Representation Offices

- **Import Credit Facilities**
 - ▶ Foreign (e.g., U.S., European, etc.) Export Import Banks and Commodity Import Programs

- **Export Credit Facilities**
 - ▶ Export Development Bank of Egypt
 - ▶ Commercial Banks

- **Credit Guarantee Facilities**
 - ▶ The Export Credit Guarantee Company of Egypt
 - ▶ Commercial Banks

- **Export Insurance**
 - ▶ Insurance Companies

- **Training and Technical Assistance**
 - ▶ Egyptian Export Promotion Center
 - ▶ Trade Development Center

- ▶ Donor-Supported Technical Assistance Programs
- ▶ Department of Productive Efficiency and Vocational Training

- Quality and Standards Assistance
 - ▶ Most standards organization are regulatory rather than assistance oriented

- Free Trade Zones
 - ▶ Public Free Trade Zones
 - ▶ Private Free Trade Zones

3. Gaps in Services and Institutions

There are two primary reasons why Egypt exports so little in comparison to other countries of similar size and resources, and so little in relation to Egypt's true export potential. The first is the policy environment, which is improving but still bears the vestiges of decades of government interventionism and an inward-looking trade strategy. The second is the absence of qualified, "export ready" firms capable of producing goods at international standards of quality and price.

Beyond these principal constraints, the lack of an effective exporter support system stands out as a major cause for the lack of export growth. This assessment is based on views expressed by exporters themselves, among others.

According to current or would-be exporters, gaps in the provision of export assistance are present in virtually all areas identified above. There are, in fact, institutions charged with extending help to exporters in most functional areas. In reality, these organizations are largely ill-equipped to fulfil their roles effectively. In short, the assistance network needs to be improved substantially across the board. Specifically:

- The availability, reliability and accessibility of trade and economic data are very poor.

- The quality and extent of export marketing and promotion need to be enhanced.

- The cost of financial services, as well as the time and effort required to obtain letters of credit and other documents need to be reduced.

- In-country transportation services and facilities should be improved, and port charges and delays are excessive.
- Government agencies tend to have large staff sizes, but lack technically qualified personnel.
- Many government agencies view their role as regulatory rather than as providing assistance.
- While there is nothing wrong with competition, due to jurisdictional histories there are in some cases (e.g., information networks, export promotion) excessive and unnecessary "turf battles" between organizations providing similar services.
- Most government assistance agencies are poorly financed and hence do not possess the equipment and operational funds necessary to carry out their functions.
- Business associations are becoming increasingly involved in export development, but generally lack the qualified staff and equipment needed.

In short, most if not all of Egypt's export support system needs to be strengthened. Each of the institutions described below possesses assets that can be drawn upon and used more effectively, but each also requires improvements in management, staff quality, focus, and efficiency. The Action Plan presented later in this report includes recommendations for restructuring and enhancing these institutional resources.

B. Individual Institutional Assessments

The following government and private sector organizations are assessed below in view of their direct relationship to Egyptian exports. Other institutions do play a role in shaping Egypt's international competitiveness, but are not addressed in this report. Greater detail is provided for those organizations that are major players in Egyptian export development.

EXPORT POLICY INSTITUTIONAL FRAMEWORK

HIGH COMMITTEE ON EXPORT DEVELOPMENT

MINISTRY OF ECONOMY AND FOREIGN TRADE (MOE)

EGYPTIAN EXPORT PROMOTION CENTER

(Ministry of Economy and Foreign Trade)

GENERAL ORGANIZATION FOR INTERNATIONAL EXHIBITIONS AND FAIRS
(Ministry of Economy and Foreign Trade)

TRADE DEVELOPMENT CENTER (TDC)

GENERAL AUTHORITY FOR INVESTMENT (GAFI)
(Ministry of Economy and Foreign Trade)

FREE ZONES IN EGYPT
(General Authority for Investment - MOE)

COMMERCIAL REPRESENTATION OFFICES
(Ministry of Economy and Foreign Trade)

TRADE POINT
(Ministry of Economy and Foreign Trade)

TRADE NET
(Cabinet Information Decision Support Center)

EXPORT DEVELOPMENT BANK OF EGYPT (EDBE)

GENERAL ORGANIZATION FOR INDUSTRIALIZATION (GOFI)
(Ministry of Industry)

DEPARTMENT OF PRODUCTIVE EFFICIENCY AND VOCATIONAL TRAINING
(Ministry of Industry)

EGYPTIAN BUSINESS ORGANIZATIONS

Federation of Egyptian Industries

Federation of Egyptian Chambers of Commerce

Egyptian Businessmen's Association
Alexandria Businessmen's Association

American Chamber of Commerce in Egypt

STANDARDS AND QUALITY CONTROL ORGANIZATIONS

Egyptian Organization for Standards and Quality Control

General Organization for Export and Import Control
(Ministry of Economy and Foreign Trade)

Office of Plant Protection and Quarantine
(Ministry of Agriculture)

Ministry of Health

Atomic Energy Organization

Ministry of Supply

EXPORT POLICY INSTITUTIONAL FRAMEWORK

It is important to precede the assessments of individual institutions that play a role in export development with a description of the overall Egyptian institutional framework for formulating and implementing policies that affect exports. The Executive Branch of government is led by the President and his cabinet, which consists of the Prime Minister, Ministers and Deputy Ministers. Economic policies are formulated by a series of committees:¹

- The Cabinet Policy Committee, headed by the President, sets forth broad economic and social policy strategies. These include policies affecting the industrial, agricultural and financial sectors.
- The High Ministerial Economic Reform Committee oversees Egypt's stabilization and reform initiatives, such as macroeconomic policy changes, price and trade liberalization, privatization and public enterprise reform. This Committee is led by the Prime Minister and includes ministries associated with economic issues -- the Ministers of Economy and Foreign Trade, Finance, Planning, Industry, Agriculture, Supply and Internal Trade, and Transportation.
- The Economic Group of Ministers is composed of the Ministers of Economy and Foreign Trade, Finance, Industry, and Transportation. This Group is responsible for coordinating rules and regulations governing trade and other economic activities.

Increasingly, deliberations on economic policies include direct or indirect consultations with leaderships of business organizations, such as the Federation of Egyptian Industries, the Federation of Egyptian Chambers of Commerce, and the Egyptian Businessmen's Association.

Policy changes are effected either through changes in laws or through Ministerial or Presidential decrees. Law changes are considered and implemented by the People's Assembly, and as elsewhere require considerable time for deliberation, debate and drafting. As a result, less fundamental reforms are often put into effect by decrees, which, depending on their nature and scope, are issued by the President or by individual Ministers.

Responsibilities for policy implementation are delegated to line Ministries similar to other governments. In Egypt, trade policy execution falls to the Ministry of Economy and Foreign Trade. The Finance Ministry administers the Customs Department and other tax collection agencies (as well as budgetary matters). The Central Bank, an autonomous agency, oversees

¹ For further information on institutional roles and responsibilities, see "Trade Policy and Customs Reforms in Egypt," Montague Lord, et. al., 1994.

monetary policies. Sectoral policies are managed by line Ministries (Industry, Agriculture, Transport, Tourism, etc.).

As in other nations, there are in some cases "built-in" differences in views among the various Ministries due to their varying roles and objectives. For example, the Ministries of Economy, Industry and Agriculture naturally seek to accelerate growth in trade or in individual sectors, and one way to achieve this goal is to reduce taxes. A major goal of the Ministry of Finance, on the other hand, is to raise government revenues, thereby pitting this Ministry against others. Resolution of these normal conflicts is sought in inter-ministerial committees.

HIGH COMMITTEE FOR EXPORT DEVELOPMENT

As a direct result of the acknowledged importance of the need to expand Egyptian exports, a High Committee for Export Development was established early in 1994 by Prime Ministerial Decree No. 975. The purpose of the High Committee is to formulate and implement a national export program.

The High Committee is chaired by the Deputy Prime Minister (and Minister of Planning), and includes the Ministers most relevant to export development (e.g., Economy and Foreign Trade, International Cooperation, Finance, Industry, Transportation, Communication, Business Sector, Administrative Development and Environmental Affairs, etc.). The High Committee also includes 11 leading business leaders, some of whom represent Egypt's major business organizations. In addition, a number of outside consultative experts serve the High Committee. The Ministry of Economy and Foreign Trade acts as Secretariat to the High Committee. To carry out this role, the Ministry formed a "Permanent Export Development Committee" to coordinate the export-related activities of various agencies and to provide liaison between these agencies and the High Committee.

The High Committee for Export Development is seeking to expand Egyptian exports by pursuing three major functional areas:

- **Production:** This initiative seeks to (1) achieve high quality production, (2) attain competitive prices for exports, (3) remove obstacles and solve problems which affect production levels, productivity and the use of advanced technology, and (4) set up a database for exports.
- **Marketing:** This activity involves (1) developing export targets for major markets, (2) assessing available markets for Egyptian products, and (3) preparing a study which presents recommendations for reducing taxation, augmenting credit facilities, and improving services provided by governmental agencies in this field.
- **Procedures:** This effort is oriented toward increasing the success of the economic reform program through (1) decreasing the rate of inflation, (2) maintaining exchange rate stability, and (3) offering technical support to non-traditional sectors.

The High Committee has met regularly throughout 1994. Priority attention has been placed on reducing bureaucratic procedures and reducing transaction costs associated with exporting. During Committee deliberations, business leaders have voiced their concerns and complaints regarding specific export impediments, and the High Committee has acted on many suggestions made by the business community. The policy analysis section of this report describes actions taken by the High Committee.

MINISTRY OF ECONOMY AND FOREIGN TRADE (MOE)

The Ministry of Economy and Foreign Trade is responsible for overall economic activities and international commercial relations. Individual line ministries such as the Ministries of Industry, Agriculture, Tourism, etc. are responsible for the Government's activities in specific sectors.

The MOE is organized and regulated under Executive Decree No. 250 of 1990. Under this Decree, the Ministry is divided into six "Sectors" or departments, and a series of independent bodies and authorities.

1. The Sector of the Minister's Office has a staff of about 200 and consists of three central departments:
 - The Central Department of the Minister's Technical Office is in charge of all economic issues related to the MOE's jurisdiction, such as cotton affairs (cotton laws, cotton trade and the Cotton Exchange), the banking system, the capital market, the insurance sector and other matters requiring ministerial decisions.
 - The Public Relations Department deals with the media, receives foreign guests and organized conferences and symposia.
 - The Companies and Authorities Department coordinates the activities of authorities and companies affiliated to the Ministry, and implements Law 159 for investment.
2. The Foreign Exchange Sector, with a staff size of about 120, is comprised of two central departments:
 - The Foreign Exchange Department establishes foreign exchange policies, monitors the exchange rate of the Egyptian pound against other currencies, and conducts research on foreign exchange issues.
 - The Foreign Exchange Budget Department estimates resources and uses of foreign exchange receipts.
3. The Foreign Trade Sector has about 160 personnel in two central departments:
 - The Central Department for Exports and Imports is divided into four Directorates. The General Directorate for Exports includes an Agricultural and Food Products Unit, a Manufacturing Unit, and an Export System and Follow-Up Unit. This

latter unit is responsible for preparing export status reports, monitoring the achievement of export goals, handling inquiries and complaints posed by exporters, and developing proposed solutions to problems identified. The General Directorate for Export Research and Policies conducts research on export policy issues. The General Directorate for Imports is concerned with all matters related to the importation process. The General Directorate for Foreign Trade Legal Cases deals with cases pertaining to violations of the Import and Export Law and its regulations. In addition, the General Directorate for Exports maintains Foreign Trade Offices at the Customs Outlets in Alexandria, the Cairo Airport, Port Said, Damietta and Suez.

- The Central Department for Commodity Trading consists of five Directorates. The General Directorate for Coordination and Planning is responsible for the export and import plan. The other four general directorates cover Capital, Chemicals, Minerals, and Metallurgical and Consumer Goods.
4. The Economic Research and Information Sector has a staff of approximately 180 and is divided into two Central Departments:
- The Central Department for Economic Research conducts studies on financial and monetary policies, the capital market, investment, foreign trade, and international economics.
 - The Central Department for Information and Statistics has two General Directorates. The Statistics General Directorate develops statistics on exports, imports, and national accounts. The Translation and Publishing General Directorate is concerned with translations, the maintenance of a library, documentation and publications.
5. The Central Services Sector has 300 personnel and consists of two Central Departments.
- The Central Department of the General Secretariat is divided into a Financial Affairs General Directorate and an Administrative Affairs General Directorate. These units deal with MOE administrative matters such as staff salaries, revenues, expenditures, procurement and inventory.
 - The Central Department for Administrative Development has two General Directorates. The Personnel Affairs General Directorate and the Organization and Administration General Directorate are concerned with staff recruitment, promotions, leaves, pensions, social insurance, manpower planning and training.

6. The Commercial Representation Sector, with some 102 staff members, is in charge of promoting and coordinating Egypt's economic and trade relations with other countries, as well as managing relationships with regional economic organizations. This Sector is organized into five regional departments – the Central Department for American Countries Affairs, the Central Department for European Countries Affairs, the Central Department for Arab and Afro-Asian Countries Affairs, the Central Department for International and Regional Economic Affairs, and the Central Department for Commercial Corps and Inspection.

In addition to the Sectors and Directorates described above, the following "independent" bodies and authorities are affiliated with the MOE and report to the Minister. Because of their direct relevance to exporting, those identified with an asterisk are described in further detail later in this chapter.

- Central Bank of Egypt and the Banking System
- Supreme Council for Insurance
- The Egyptian Authority for Supervision of Insurance and Insurance Companies
- General Authority for Investment (GAFI)*
- Capital Market Authority
- General Authority for Exhibitions and International Fairs (GOEIF)*
- General Authority for Export and Import Control*
- General Authority for Cotton Arbitration and Testing
- General Authority for the Development of Ginning
- Egyptian Export Promotion Center*
- Egyptian Export Development Bank*
- The Government Commissioner at the Cotton Exporters Association
- The Government Commissioner at the Stock Exchange
- The Technical Secretariat for Insurance
- Trade Point*

EGYPTIAN EXPORT PROMOTION CENTER
(Ministry of Economy and Foreign Trade)

1. Organizational Overview

The Egyptian Export Promotion Center (EPC) is a government agency charged with promoting Egyptian exports. The EPC operates as an independent authority reporting directly to the Minister of Economy and Foreign Trade. The Center was established in 1979 under a United Nations project, funded by Norwegian financing and in cooperation with the International Trade Center of Geneva. Numerous other export promotion agencies were created in developing countries during this time period. External donor funding has continued, with financing currently being received by GTZ of Germany, JETRO of Japan, the European Union, and Finland.

2. Organizational Structure

The EPC is governed by a Board of Directors (20 members), of which about one half are government representatives and one half are private sector executives. The Center is authorized to have a total staff of 140, but since about 40 staff members are on "unpaid leave" (working elsewhere to secure higher incomes), the total effective staff size is about 100. About 45 of the staff are technical personnel. While the Center is located within the Ministry of Economy and Foreign Trade, staff allocations are determined by the Central Organization for Administration, and budgets are determined by the Ministry of Finance.

The organizational structure of the Center is shown on the following page. The main functional departments are organized under three central departments and include the following:

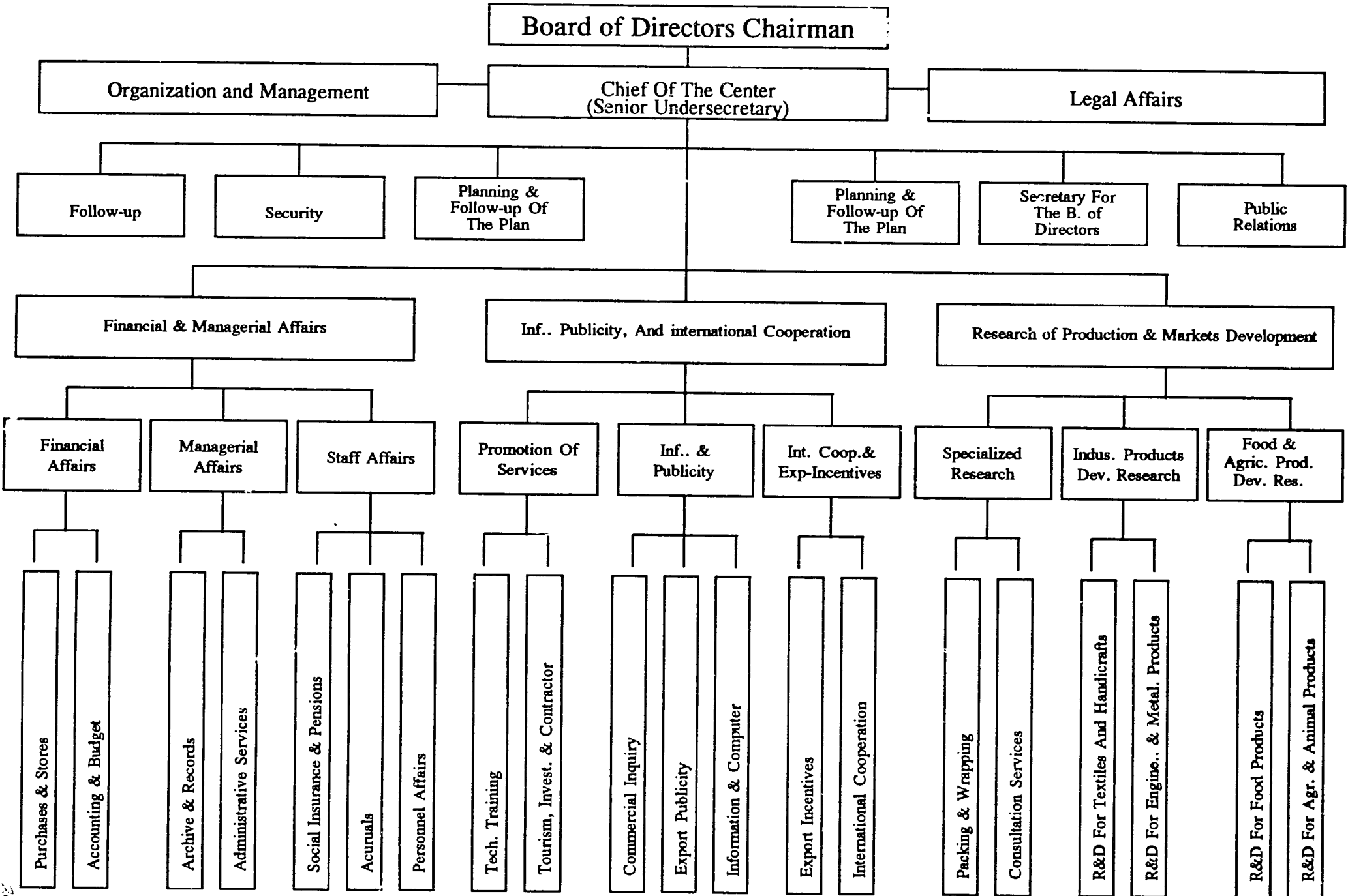
Central Department for Research on Production and Market Development

- Department for Food and Agricultural Products
- Department for Industrial Products
- Department for Specialized Research (packaging and consulting services)

Central Department for Information, Publicity and International Cooperation

- Department for International Cooperation and Export Incentives
- Department for Information and Publicity
- Department for Promotion of Services

EGYPTIAN EXPORT PROMOTION CENTER



Central Department for Financial and Managerial Affairs

- Department of Staff Affairs
- Department of Managerial Affairs
- Department of Financial Affairs

In addition to these functional departments, the following departments report directly to the EPC Chief: Department of Organization and Management; Department of Legal Affairs; Department of Follow-Up; Department of Security; Department of Planning; Department of the Secretary of the Board; Exporter's Service Department; and Public Relations Department.

3. Organizational Activities

The functions of the Center include (1) storing and disseminating trade information; (2) conducting research assessments on export potential; (3) developing technical organizational recommendations on means to increase production and eliminate obstacles to exporting; (4) organizing trade missions and Egyptian participation at overseas trade fairs (5) conducting training programs in Egypt and overseas; (6) collaborating with international and national organizations in efforts to expand exports; and (7) collaborating on export incentive studies. The Center also organizes trade missions, participates in specialized trade fairs, nurtures buyer/seller linkages, and organizes orientation tours for Egyptian exporters and importers. The Center's activities are conducted according to five-year plans. The current plan continues through 1997.

The Department for Industrial Products provides information, training and technical assistance in the following product categories: cotton textile products (garments, household textiles and carpets), leather goods, engineering products (electrical appliances and other engineering goods), pharmaceuticals and chemicals, furniture and handicrafts. Both the agricultural and industrial departments follow the following functional strategies:

- Develop product and company profiles;
- Examine product market requirements and Egyptian capabilities;
- Determine the needs of Egyptian companies (e.g., production quality, marketing, raw material acquisition, etc.);
- Design and administer marketing programs, such as participating at trade fairs and organizing trade missions.

In 1994, the EPC participated in seven trade fairs - two in leather products (Germany), two in shoe and leather products (Germany) and three in a variety of consumer goods (garments,

ceramics, processed foods and handicrafts) in Japan. The Center organized two trade missions in 1994 to several European nations, one in chemicals (fertilizers) and one in processed foods. According to EPC management, about U.S.\$25 million in direct contracts were developed during trade missions.

The Information and Publicity Department is currently being restructured. Its future activities will include the publication of a monthly bulletin and the provision of exporter inquiry services. The Department for International Cooperation and Export Incentives focuses on two activities: managing grant programs and operating bilateral programs, and conducting research and developing recommendations on export incentives (staff from this department participated in an ITC-sponsored study in 1989). This Department administers Protrade, which with assistance from GTZ brings in foreign consultants to offer training and technical assistance. In 1994, eight consultants offered courses in improving shoe and tannery product exports.

The Department for the Promotion of Services covers tourism, investment, and contracting. Within this Department is a Training Section which offers training programs organized around product groups in fields such as export procedures and marketing. Over 2,000 individuals have been trained under this program.

4. Assessment

The key strength of the EPC is a group of experienced industry specialists who are knowledgeable of advantages and disadvantages facing their respective industries, requirements for exporting, and market prospects. The EPC also has a good track record on training and on offering advice and assistance on export and import procedures.

Notwithstanding this institutional asset, the EPC's major problem is an almost complete lack of resources to carry out its assigned activities. Created under donor funding, the EPC receives only enough government funding to pay its staff. Nothing remains for equipment or program work. Accordingly, the Center relies almost totally on small donor grants to finance its limited activities. The EPC's office facilities are very poor, and the staff has very little basic office equipment (e.g., telephones, computers, copiers, etc.) with which to work.

The EPC has suffered from extended organizational instability, which in turn has tarnished the EPC's reputation among exporters. To a large degree the Center was not given authority to carry out its functions, employ qualified staff, develop basic services needed by exporters, and build up a network of overseas marketing relationships.

Compared to other comparable organizations, the EPC is organizationally complex and maintains a large, poorly compensated staff, many of whom are assigned to "administrative" duties. Essentially, one can conclude that the EPC has too many staff members with too few resources to promote exports effectively.

Law 22 of 1992 was enacted to allow EPC to transform itself into a more effective organization. This Law permits the EPC to offer a special wage schedule to attract better staff, and an incentive system to promote productivity. The Law also allows the EPC to charge fees for its services to bring in financial resources. The Board and Management propose an annual fee of LE 2,000 to be paid by exporters to secure access to EPC services, to be put into effect in early 1995. However, the Ministry of Finance now requires that 40 percent of revenues received by EPC be transferred to the public treasury.

According to outside observers, the EPC has recently made strides to improve its organizational management and service focus. In part this is due to the addition of private sector members of the Board of Directors. However, until the Center is placed in an environment that combines additional resources with additional management controls, accountability and program focus, it will be very difficult for this organization to provide significant services to current and prospective exporters.

GENERAL ORGANIZATION FOR INTERNATIONAL EXHIBITIONS AND FAIRS
(Ministry of Economy and Foreign Trade)

1. Organizational Overview

The General Organization for International Exhibitions and Fairs (GOIEF) was established in 1956 for the purpose of organizing Egyptian exhibitions and participation in international fairs. In 1966, a Presidential Decree (No. 301) gave GOIEF the status of a Public Organization. GOIEF operates as an independent agency of the Ministry of Economy and Foreign Trade. According to its management, GOIEF is the sole body authorized to hold exhibitions in Egypt and abroad.

2. Organizational Structure

An organization chart for GOIEF is shown on the following page. GOIEF has a total staff of 533. Of this total, about 75 are "traveling staff" who participate in international activities. About 23 individuals provide security (more are brought in during local fairs), and 30 are guards. The remainder of the staff are in administration and operations; no breakdown is available.

GOIEF is responsible for maintaining and operating the Exhibition Ground in Nasr City. The Ground has 55,000 square meters of indoor exhibition space, and 47,000 square meters of outdoor exhibition space, in addition to open areas. This very large property has numerous permanent and temporary exhibition halls, some of which are dedicated to specific industries, foreign countries or individual firms. They are not typically open except during fairs. The Exhibition Ground is considered a free zone, and includes a duty free store. GOIEF's administrative offices are located at the Exhibition Ground.

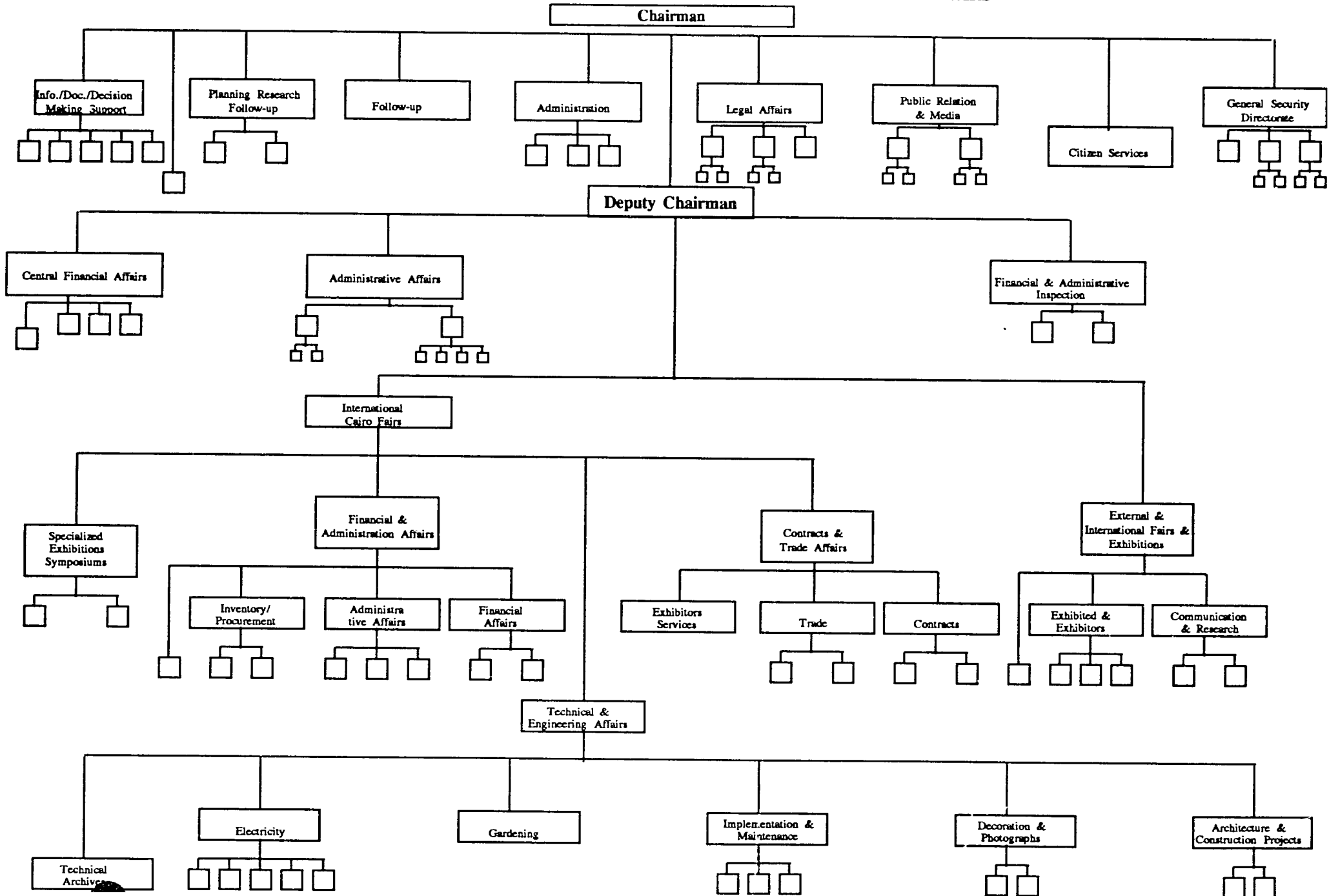
3. Organizational Activities

GOIEF's operations are divided into domestic and international functions:

Domestic Operations

GOIEF plans, organizes and holds exhibitions and domestic and international fairs, both public and private, within Egypt. The Organization prepares and administers information programs and publicity campaigns encouraging participation in the exhibitions and fairs. Finally, GOIEF issues licenses for other organizations seeking to hold fairs and exhibitions in Egypt.

GENERAL ORGANIZATION FOR INTERNATIONAL EXHIBITIONS AND FAIRS



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Each year the Organization holds one large fair (the Cairo International Fair) and an average of two specialized fairs at the Exhibition Ground in Nasr City (Cairo). The plan is to raise the number of specialized fairs to ten per year in the future.

The Cairo International Fair is held annually in March. It is considered one of the largest economic fairs in the Middle East. In 1994, about 1,200 foreign companies participated, either through country exhibitions, directly (as individual firms) or through Egyptian agents. Approximately 1,000 Egyptian firms participated; these fall into three groups -- ministries and public companies, joint ventures and private companies.

Every three years, GOIEF sponsors Expo Export, a fair designed explicitly to promote Egyptian exports. Accordingly, only Egyptian firms can exhibit. In the past, about 300 companies have participated. The last Expo Export was held in 1992, and the next is planned for October 1995.

Specialized fairs focus on industry and product groupings. These exhibitions are typically one week in duration. The following fairs were held in 1994 or are planned for the next few years:

- 1994**
 - ▶ Sixth Cairo International Exhibition for Furniture, Wood Cutting, Shaping and Wood Working Machinery (October).
 - ▶ First Cairo International Fair for Carpets, Household Covers and Handicrafts (October).
- 1995**
 - ▶ Summer, Sea, Sports Accessories, Furniture, Covers, Decoration and Light Accessories Week (June).
 - ▶ Leather Products, Garments, Artificial Jewelry, Toys and Children's Clothes Week (November).
- 1996**
 - ▶ Summer, Sea, Sports Accessories, Furniture, Covers, Decoration and Light Accessories Week (June).
 - ▶ Fifth Cairo International Exhibition for Agriculture, Agro Industries, Foodstuffs and Accessories (October).
 - ▶ Fifth Cairo International Exhibition for Irrigation, Land Reclamation, Gardens and Horticulture Accessories (October).

- ▶ Third Cairo International Exhibition for Packaging and Plastic Accessories (October).
 - ▶ Leather Products, Garments, Artificial Jewelry, Toys and Children's Clothes Week (November).
- 1997**
- ▶ Summer, Sea, Sports Accessories, Furniture, Covers, Decoration and Light Accessories Week (June).
 - ▶ Seventh Cairo International Exhibition for Furniture, Covers, Decoration Accessories, Building and Erection (October).
 - ▶ Leather Products, Garments, Artificial Jewelry, Toys and Children's Clothes Week (November).

GOIEF's regulatory function -- registering local operator of exhibitions and fairs -- is carried out for the purpose of ensuring quality control. Applicants must present financial statements, provide a LE 100,000 bank letter of Guarantee (to settle potential claims by exhibitors) and show references of past experience. Currently, many operators do not follow these procedures, since they could obtain a permit directly from the Office of the Prime Minister or the Ministry of Economy and Foreign Trade. In October, a decree was issued requiring all operators to apply/register through GOIEF.

International Operations

GOIEF plans and organizes Egyptian participation in about 25 overseas exhibitions and fairs per year. GOIEF itself administers large fairs (200-250 Egyptian exhibitors) in Qatar and Abu Dhabi. GOIEF conducts publicity campaigns to advertise Egyptian products abroad. The Organization also issues licenses for Egyptian firms and individuals to organize or participate in overseas exhibitions and fairs. The Organization is considering organizing traveling trade missions abroad to promote Egyptian exports and gain access to new export markets.

In its overseas activities, GOIEF collaborates with Egyptian Commercial Attache offices, which provide information on overseas product needs. GOIEF reviews applications of Egyptian firms in order to assess the quality of goods being promoted and to determine the most competitive companies to participate. The purpose of this screening is to uphold Egypt's good name and reputation in overseas markets. In the past, the screening was conducted by GOIEF staff. Recently, a new committee has been formed to choose companies for participation in overseas fairs; this includes representatives from the FEI, EBA, FECC and GOIEF). Once GOIEF accepts firms, the Organization receives, packs and ships goods to be displayed (for a small fee). GOIEF sends three individuals to overseas fairs -- a Director, an Assistant and an

Engineer (to set up the booth). This staff answers general questions during the fair, but inquiries relating to specific products are the responsibility of firms displaying products. Their representatives often attend, but do not necessarily remain at the Egyptian booth.

4. Assessment

The GOIEF's principal role is limited largely to administering a very limited number of international fairs, and to regulating smaller trade shows held throughout Egypt. The Organization's export promotion role is marginal, in part due to overlaps with the EPC, TDC, Commercial Representation Offices, and other organizations. Due to concerns over "turf," GOIEF's activities lack coordination with those of other trade development organizations. The Organization's reputation among exporters is relatively poor, but efforts are being made to improve the Organization's performance and image, through, for example, the placement of private sector members on the Board of Directors.

Aside from its direct participation in its own trade fairs and those held overseas, the GOIEF's role is primarily regulatory, involving the qualification and registration of trade shows. These activities generate considerable funds from fees paid by participants. The GOIEF therefore has access to financial resources for program purposes. In addition, the GOIEF possesses a valuable property, the Exhibition Ground, that could be utilized for other export-oriented activities.

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TRADE DEVELOPMENT CENTER (TDC)

1. Organizational Overview

The Trade Development Center (TDC) is a private sector organization charged with expanding Egyptian exports. The TDC was established in March 1992. It represented a reorganization and restructuring of the U.S. Investment Promotion Organization (USIPO), which in several years prior to 1992 had gradually shifted away from promoting investment and toward promoting Egyptian exports.

2. Organizational Structure

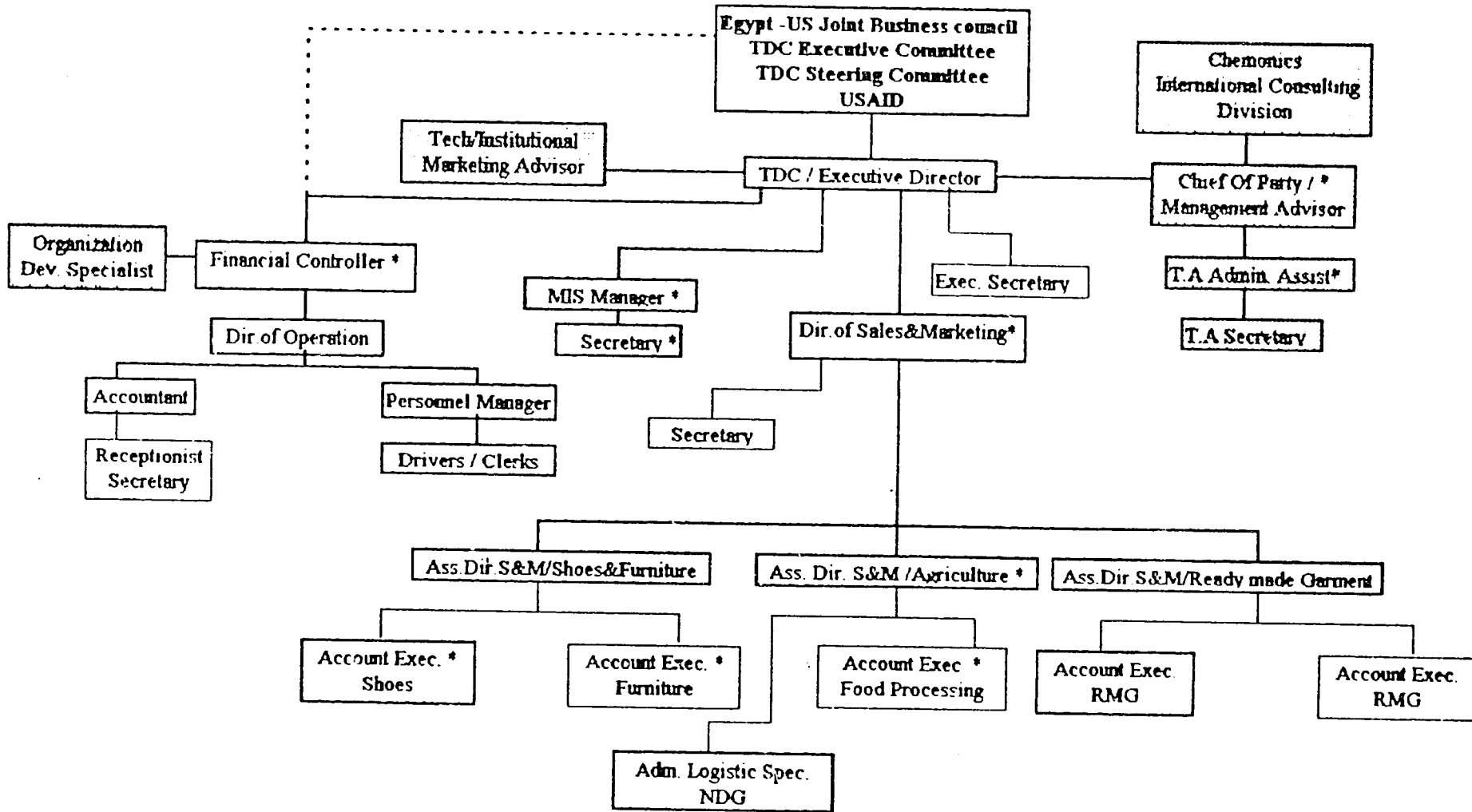
The TDC is formally organized under the auspices of the Egypt-U.S. Joint Business Council. In addition to private sector funding, TDC receives financial support under the Export Enterprise Development (EED) Project of USAID. The five-year EED Project commenced in 1993. Under the EED Project, Chemonics - a U.S.-based consulting organization - is providing technical assistance to TDC. An organization chart of the TDC and the EED Project is shown below. As of November 1994 the TDC had a total staff of 22, but the staff is expected to grow to 30.

3. Organizational Activities

The TDC focuses its export promotion efforts on fresh fruit and vegetables, leather products, ready-made garments, processed foods and furniture. This focus on light manufactures and agricultural products is consistent with Egypt's principal comparative advantages. TDC activities fall into two categories. The first is provision of a package of assistance, consisting of technical assistance, training and direct marketing assistance, to exporters in the areas identified above. The second is the development of commercial linkages (e.g., collaborative marketing, joint ventures, etc.) among groups of Egyptian exporters in the same field.

In its three-year Phase I, the EED Project conducted by TDC is expected to provide professional business and market development support services to at least 80 export enterprises in Egypt, and to achieve at least U.S. \$40 million in export earnings directly attributable to the Project. From March 1992 to March 1993, 21 Egyptian exporters placed orders through TDC activities with 37 foreign buyers for a total of U.S. \$7.9 million. In the following year (through March 1994), TDC-related sales totaled U.S. \$17.6 million. A total of U.S. \$4.7 million in Egyptian exporters was recorded for the second quarter of 1994. If exports continue to rise at this pace, TDC will meet or exceed its Phase I export earnings goal.

TDC/EED ORGANIZATIONAL STRUCTURE



All shaded areas will be deleted at the end of the EED Contract

Shaded Blocks represent TA provided under the EED Contract ODS & TIM report directly to COP

Positions to be filled:

In recent months, the TDC has expanded the scope of its activities, moving beyond its initial heavy concentration on marketing (e.g., trade show participation, identification of buyers, promotion of buyer-supplier relationships) to encompass the delivery of training and technical assistance. The current strategy is to position the TDC as an "export expansion catalyst," assisting firms and associations to develop specific internal programs using technical assistance, and to package and implement market penetration strategies.²

The TDC's assistance packages are targeted for model groups of firms selected for their ability to achieve material gains in exports in the near term. The assistance packages consist of the following:

- Identification of buyers and facilitation of interactions with buyers;
- Retrieval of up-to-date market and pricing information;
- Product sampling with prospective buyers;
- Equipment sourcing;
- Identification of target markets and distribution channels; and
- Direct marketing assistance (e.g., participation at trade shows, direct mail campaigns, etc.).

The TDC is in the process of installing a "Market and Technical Information (MTI) System" to retrieve, store and use information on technologies, markets, products and processes directly relevant to TDC sector client priorities.

4. Assessment

The TDC pursues an aggressive marketing focus in a limited number of product areas. Initial successes in export performance by assisted firms confirm the value of this approach. In addition, the Center is broadening its strategy to include training and technical assistance to supplement marketing activities.

From an organizational standpoint, TDC over the past year has focused a considerable amount of attention on putting into place necessary management and financial systems, thereby experiencing institutional "growing pains" typical of such programs. Full staffing has not been achieved, but active recruitment is now under way.

² TDC "Interim Work Plan: October 1, 1994 - December 31, 1994," October 5, 1994.

Looking to the future, the TDC should be well placed to play an active and growing role in Egyptian export development. Additional product areas can be added to TDC's scope, and additional services can be channeled through the Center to current and prospective exporters. In view of its private sector status and management, the TDC could act as a pivot point between government export agencies and Egyptian business organizations as increasing roles and responsibilities are defined and assigned.

GENERAL AUTHORITY FOR INVESTMENT (GAFI)
(Ministry of Economy and Foreign Trade)

The General Authority for Investment is a public agency operating under the jurisdiction of the Ministry of Economy and Foreign Trade. GAFI is authorized under Law 230 of 1989 to issue approvals for Law 230 companies, and to obtain all licenses required for the establishment, operation and management of projects from relevant government agencies on behalf of Law 230 investors. GAFI is also authorized to allocate land sites required for agricultural, industrial and tourism projects in cooperation with other government agencies.

In addition, GAFI offers other services through offices representing such agencies as the Notarization and Authentication Office to register contracts, the Customs Department, the Home Office to obtain residence permits, and the Labor Office to issue work permits for foreign employees in Law 230 companies. GAFI registers invested capital in foreign currency, and repatriates profits and capital upon request by investors.

GAFI's activities are overseen by a Board of Directors chaired by the Prime Minister. GAFI is managed by an Executive Body headed by the Executive President, who is appointed by decree of the President of the Republic. Members of the Board include Cabinet Ministers, the Executive President of GAFI, and representatives from Egyptian business associations. GAFI's major operational departments are organized by type of project: the Agricultural and Construction Projects Department, the Industrial Projects Department, and the Services and Finance Projects Department.

Inter-agency coordination on investment issues is handled by the Joint Committee of GAFI, which is chaired by GAFI's Executive President and includes representatives from the Ministries of Industry, Agriculture, Military Production, Housing and Reconstruction, Health, Planning and Tourism. Heads of departments within GAFI are also members of the Joint Committee.

Law 230 Investments receive certain special benefits and privileges. Production is free from price controls and profit ceilings. Investors have the right to retain their foreign currency earnings, and are entitled to import and export goods independently or through intermediaries without registering transactions. Approvals for eased importation and exportation rules are granted annually by GAFI. Investors are also entitled to repatriation of profits and capital.

Investments under Law 230 are also eligible for tax exemptions. Projects in new communities, industrial zones and remote areas are exempt from income tax for a period of ten years. Projects in other areas can obtain exemptions for five years. Project expansions may enjoy tax exemptions for five years.

In the past, due to both prevailing laws/regulations and bureaucratic procedures, GAFI was often viewed as a constraint to new investment. However, changes in laws and in orientation are

improving GAFI's current and prospective performance in promoting investment. GAFI should play an active collaborative role in Egypt's export development strategy. Specifically, GAFI can aggressively identify, attract and approve new investments -- both foreign and domestic -- in high potential export industries as well as in industries that provide needed inputs and services to exporters.

FREE ZONES IN EGYPT

(General Authority for Investment - MOE)

Free zones in Egypt are areas deemed to be outside the country for purposes of customs administration. Free zone activities are conducted under Law 230, and are administered by the General Authority for Investment (GAFI). Criteria for approvals of investment projects in free zones are based on the financial capacity of investors, and local and international market potential for free zone products based on surveys of export capabilities.

Free zone projects are completely exempt from corporate taxes for the life of the project. They are also exempt from all import and export customs duties for transactions performed within the boundaries of the free zones. Free zone projects are entitled to acquire goods freely from either domestic or overseas sources, since imports are not subject to import regulations applicable within Egypt. Transactions carried out within and between free zones are also not subject to exchange control laws applicable in Egypt.

Public Free Zones are planned and executed by the Government and are normally located near sea ports and airports. Public free zones are provided with land, infrastructure and utilities at concessional rates. The following public free zones are operating in Egypt:

- Nasr City Public Free Zone
- Alexandria Public Free Zone
- Port Said Public Free Zone
- Suez Public Free Zone
- Ismailia Public Free Zone
- Damietta Public Free Zone
- Safaga Public Free Zone

Additional zones are planned for Al-Areesh and east of El-Tafriaa at Port Said in Sinai.

Public free zones are managed by Boards of Directors charged with implementing the provisions of Law 230. Prospective investors submit applications for preliminary approval to the Free Zone Technical Committee of GAFI, which issues recommendations for approval by the Executive President of GAFI. The Free Zone Technical Committee is chaired by GAFI's Executive President and includes the heads of the Customs Department, the Foreign Trade Sector in MOE, and public free zones. Investors then submit Investment Application Forms for Law 230 status to the free zone Board of Directors. Upon notification of approval, the investors must proceed with site selection and leasing within one month. The Chairmen of the Free Zones issue the required license, which covers the objectives and duration of the project, site boundaries and financial guarantees.

Free zone investments are not subject to Egyptian labor laws, but firms are subject to several labor requirements. Egyptian personnel must be no less than 75 percent of total project staff, and wages paid must be no less than minimum wages prevailing outside zones. Firms state their own terms of hiring and firing employees at the time of the project's establishment.

Free zones generate direct returns to the economy. First, GAFI collects fees from free zone firms for leases, storage and industrial services rendered. For example, free zone revenues generated in fiscal year 1992/93 from approved projects in Alexandria, Nasr City, Port Said and Suez zones totaled LE 17 million. In addition, free zone investments produce gains in the form of value added, including wages, intermediate goods and services purchased from local vendors, and interest paid on loans used to finance projects.

COMMERCIAL REPRESENTATION OFFICES
(Ministry of Economy and Foreign Trade)

Commercial Representation Offices serve as commercial attaches overseas. There is currently a total staff of 102 located in 59 offices in countries with significant political, economic and commercial relations with Egypt. These offices are typically attached to and/or located at Egyptian embassies. The key role of these offices is to strengthen trade and commercial relations with other countries.

The Cairo home office and overseas offices help Egyptian exporters to identify opportunities and potential buyers of Egyptian goods. They provide information on local market conditions, regulations, quality standards, and packaging requirements. The offices help arrange contacts with foreign buyers and assist exporters in business trip arrangements.

The Commercial Representation Offices serve as an overseas network for certain Egyptian export promotion agencies. For example, they assist the Egyptian Export Promotion Center and the General Organization for Exhibitions and International Fairs in their participation in trade fairs held in their respective countries. In addition, they serve as sources of overseas market conditions and trade opportunity leads provided to Trade Point (described below).

The offices receive mixed reviews by their public and private sector "clients" regarding their value in the trade promotion process. Some feel that the offices provide valuable support. Others suggest that the offices serve primarily as "facilitators" rather than as active export promoters. According to those interviewed, the quality of the offices and personnel vary, with about one half serving their clients well and the other half requiring improvement.

Egypt's export development strategy depends heavily on the need for a dramatically enhanced capacity to understand and "work" overseas markets. The Commercial Representation Offices now constitute the only international marketing network for Egypt. Accordingly, if serious efforts are undertaken to improve the quality and capabilities of staff through both training and recruitment, these offices can become a more valuable link in Egypt's integrated export strategy.

TRADE POINT
(Ministry of Economy and Foreign Trade)

The Egyptian Trade Point was established in March 1993 as a pilot program under the UNCTAD-sponsored International Trade Point network. UNCTAD inaugurated the International Trade Point in 1992 with the goal of facilitating and enhancing international trade between industrialized and developing countries, utilizing electronic information and data transfer and advanced communications networks. As of November 1994, 25 Trade Points were in operation worldwide, including Egypt, Tunisia, Thailand, China, major EU countries and the United States. Trade Point is expected to expand to cover 51 countries.

Created by Ministerial Decree No. 87 of 1993, Trade Point is administered by the MOE's Under Secretary for Research, Information and Statistics. Trade Point is currently staffed with 60 technical and administrative personnel, including 10 programmers responsible for installing and maintaining the information network. Trade Point staff also include representatives from organizations which cover different aspects of export transactions, such as financial institutions, transportation companies, shipping companies, insurance companies, and storage and packaging companies. These representatives furnish Trade Point with trade information from their respective industries. The Customs Department is the only participating agency that has not yet provided Trade Point with a representative.

As an information clearinghouse, Trade Point does not produce its own statistics or information. Its primary function is to package existing information on policies, economic and market conditions and trade transactions in a "user-friendly" format to disseminate to the Egyptian export community. Visual presentation techniques such as charts, graphs, and windows are utilized to present these data and information. For example, Trade Point staff generate tables, line graphs and bar charts on exports, using data received from CAPMAS. Further information on the nature of Trade Point information, accessibility of data, and problems identified is provided in the information/statistics section of this report.

TRADE NET

(Cabinet Information Decision Support Center)

Trade Net was created in 1987 as an economic information center by the Cabinet Information Decision Support Center, under the Ministry of Information and Scientific Development. Until 1991, the services of Trade Net were only available to the Cabinet, government institutions and public sector companies. Since 1991, Trade Net's services can be accessed by private sector companies for an annual fee of LE 2,000.

Trade Net uses some data from primary sources. For example, trade statistics are generated through the use of data from the Customs Department. In addition, Trade Net receives information from government ministries (e.g., Transport, Tourism, Telecommunications and Civil Aviation, Electricity and Energy), the Central Bank, embassies, commercial attaches, and other sources. Local company information is collected through periodic company surveys. Trade Net draws the majority of its international data and information from databases such as Data Star, Dialogue and IB Sharp.

Trade Net is primarily an information clearinghouse for existing data and reports on markets, trends, companies and business laws and regulations. It does not conduct market assessments for feasibility studies for businesses.

Trade Net is staffed with eleven officials who are responsible for operations, development, marketing, company liaison, and management and administration. Data collection, research, programming, and information retrieval support is provided by the Economic Research Division under the Cabinet Information Support Center. Additional information on Trade Net's data categories, accessibility, and strengths and weaknesses is provided elsewhere in this report.

EXPORT DEVELOPMENT BANK OF EGYPT (EDBE)

1. Organizational Overview

The Export Development Bank of Egypt (EDBE) is a joint stock company established in 1985 under the provisions of Law 95/1983. The EDBE is also subject to the Banking Law and Law 159/1981 governing joint stock companies and limited liability companies. The Bank's overall objective is to develop and promote Egyptian exports in the areas of agriculture, industry and services.

2. Organizational Structure

The EDBE has authorized capital of LE 100 million and paid-in capital of LE 69 million. The Bank's shares are distributed as follows:

The National Investment Bank	40.0 Percent
The National Bank of Egypt	15.0 Percent
Bank Misr	15.0 Percent
Bank of Cairo	15.0 Percent
Bank of Alexandria	13.2 Percent
Other Shareholders	1.8 Percent

The Bank has a total of approximately 500 officers and employees. The Bank's organizational structure is divided into main "sectors" and central departments. The main sectors are:

- Banking Operations. This sector handles import and export letters of credit, letters of guarantee, remittances and customer relations.
- Finance and Administration Sector.
- Information Sector.
- Financing Sector. This unit includes four departments. The project finance department covers long-term and medium-term project finance, including both lending and equity participation. The credit department manages short-term credits and working capital facilities. A department for follow-up monitors outstanding loans and equity participation, and administers loan disbursements and loan

utilization. The department for credit information provides relevant information on market and industry conditions to bank customers.

The EDBE's central departments cover administrative matters. These departments include the following:

- Internal Audit Department;
- Control Department;
- Research and Planning Department;
- Foreign Relations Department (Correspondent Banking); and
- Legal Department.

In addition to its banking divisions, the EDBE has established the following subsidiaries:

- The Export Credit Guarantee Company of Egypt (ECGE). This company began its activities in September 1993 in order to provide credit guarantees to exporters. The ECGE has authorized and paid-in capital of LE 50 million. EDBE holds 35.32 percent of ECGE's share capital. Other shareholders include the Bank of Alexandria, the National Bank of Egypt, Egypt's three largest insurance companies (Misr, Al Shark and Al Ahlia), and Al Mohandes Insurance Company. The ECGE has signed a cooperation agreement with COFACE of France. A protocol between ECGE and the Egyptian Government setting forth the coverage of risks not generally covered by the market will soon be signed.
- The Egyptian Tourism Development Company. This subsidiary was created in the early 1990s to promote tourism, inasmuch as tourism - like exports - generates foreign exchange for Egypt. The Company has acquired land in Hurghada for the purpose of developing tourism sites and facilities. The Company has established an agreement with Oberoi Holdings for Oberoi to construct and manage a hotel to be constructed on the site.
- The Export Development Trading Company.
- The EDBE Library.

3. Organizational Activities

The EDBE provides standard banking services, such as project financing and short-term credit operations, similar to a commercial bank. The volume of export operations carried out during 1993 amounted to LE 590 million. The Bank also manages a significant quota of exports to nations of the former Soviet Union.

In addition to its banking activities, the EDBE operates an Export Information Center to provide exporters with information regarding export opportunities through a database on importers. The Center's database includes the names of 40,000 foreign buyers throughout the world.

4. Assessment

The EDBE offers the potential for providing valuable financial services to Egyptian exporters. A key constraint in the past has been the limited amount of funding of the Bank. Because of this financial constraint, most exporters - appropriately - turn to commercial banks to meet their needs. The EDBE can act in the future as a provider of more comprehensive financial services to Egyptian exporters, particularly smaller enterprises requiring greater information and assistance.

GENERAL ORGANIZATION FOR INDUSTRIALIZATION (GOFI)
(Ministry of Industry)

The General Organization for Industrialization was created by Republican Decree No. 1097 of 1957 for the purpose of executing the five-year plan for industry. GOFI was charged with suggesting industrialization strategies, preparing the "industrial map" of Egypt, recommending incentives to encourage industrial development, preparing sectoral analyses and project feasibility studies, issuing industrial licenses, and other tasks related to industrial policy formation and implementation.

Reporting to the Ministry of Industry, GOFI has the following departments:

- Central Administration for Research and Economic Studies
- Central Administration for Planning and Technical Research
- Central Administration for Technical Affairs
- Central Administration for Foreign Agreements
- Central Administration for Industrial Construction
- Central Administration for Regional Offices (10 regional offices are maintained)
- Central Administration for Industrial Registration and Industrial Licenses
- Central Administration for Industrial Design and Local Manufacturing
- Central Administration for Financial and Administrative Affairs

GOFI has a staff including about 600 researchers and specialists in industrial matters, particularly engineers, financial analysts, economists, agricultural engineers, chemists, and lawyers.

One of GOFI's major activities is registering industrial firms (by law) and issuing industrial licenses. In recent years GOFI has begun providing services to industrial firms, mostly small businesses, in the following areas:

- Performing comprehensive industrial surveys at the national or regional levels;
- Preparing prefeasibility and feasibility studies, including marketing plans;

- Identifying suitable sites for industrial projects;
- Participating in arbitration of conflicts between contractors and industrial firms;
- Conducting environmental assessments of existing operations and proposed projects;
- Providing energy efficiency assessments;
- Identifying needs for imported capital equipment and the possibility of using local equipment;
- Providing data and information on industrial investment opportunities; and
- Assisting firms in the development of accounting, financial, and quality control systems, as well as in dealing with legal matters associated with project initiation.

Despite this stated trend toward providing technical assistance, GOFI remains largely an organization geared toward regulation and control (industrial registration and licensing). According to those interviewed, GOFI lacks a clear vision of its precise role in the evolving Egyptian economy. One could suggest that a constructive role for GOFI could be built on a technical assistance focus on technological/engineering requirements for exports, cost efficiency, and buyer/supplier relationships between small-scale companies and larger firms.

DEPARTMENT OF PRODUCTIVE EFFICIENCY AND VOCATIONAL TRAINING
(Ministry of Industry)

This Department's role is to organize and provide industrial training both in factories and in special training centers. Prior to the mid-1980s, the Department undertook studies to determine training needs of the industrial sector. Subsequently, the Department took the initiative to improve and modernize existing training centers, establish new centers, and devise training programs to meet the needs of expanding industrial companies. Vocational training is provided in the following areas:

- Metal works
- Automobile repair
- Electricity (general and specialized)
- Electronics and fine machinery
- Mining and quarrying
- Printing and binding
- Yarn and textile production

The Department is also responsible for the development and application of the apprenticeship program in Egypt. By 1991, about 40 training centers operated under this system, enrolling 40,000 apprentices. In addition, the Department provides vocational training for workers and technicians of industrial firms, on demand. At the beginning of the 1991/92 academic year, the Ministry of Industry initiated a program to accept high school graduates into a two-year program of technically specialized studies leading to a diploma. This program is planned to grow to include some 15,000 students each year.

The Management Consultant Institute, a subsidiary of the Department, organizes training programs for top and medium-level management in industrial companies. These programs cover such topics as management decision making, marketing, quality control systems, and planning.

Due to a shortage of financial resources, most of the Department's equipment is obsolete and needs to be replaced to enhance training capacity and effectiveness. There is a need to update, re-focus and reschedule practical training activities, as well as to improve the Department's staffing with specialized and highly qualified personnel.

EGYPTIAN BUSINESS ORGANIZATIONS

Federation of Egyptian Industries

The Federation of Egyptian Industries (FEI) was founded in 1992. Thirteen Chambers representing different industrial activities are currently affiliated to the Federation. The individual Chambers consist of all industrial firms capitalized at LE 5,000 or more, or employing no less than 25 workers. This totals about 17,000 companies, public and private, distributed among the 13 Chambers.

The FEI's role is to (1) safeguard the common interests of Egyptian industries; (2) promote the private sector to play a role in the National Development Plan; (3) serve as the sole organization to represent the industrial sector at the national and international levels; and (4) coordinate public/private sector activities in industrial production.

The activities of the Federation consist of the following:

- Participating in the process of national industrial development, studying and recommending suitable solutions for major problems affecting industry, and suggesting general legislation aimed at enhancing the industrial sector.
- Identifying existing industry conditions and their problems.
- Assessing labor and social policies and their effects on industrial production, and offering advice to government and labor representatives in order to achieve balanced, stable policies.
- Supporting vocational training centers and assisting in placements for trainees.
- Participating in committees formed at the Ministry of Labor for settling disputes between labor and management.
- Participating in efforts to supply factories with raw materials, production techniques and process/product specifications.
- Assisting in initiatives to improve product quality and standards, including implementation methods.
- Rendering services and assistance in the areas of importing, exporting, financing and customs.

- Finding solutions to technical problems and constraints created by the enforcement of financial and social legislation.

In recent months, major efforts have been undertaken to improve the management and operations of the FEI. The Federation is also taking an increasingly active role in export development, including direct participation on the High Committee for Export Development. In addition, FEI representatives sit on the Boards of Directors of the Egyptian Export Promotion Center and the General Authority for International Exhibitions and Fairs.

Federation of Egyptian Chambers of Commerce

Similar to comparable organizations throughout the world, the Federation of Egyptian Chambers of Commerce (FECC) coordinates the joint efforts and services rendered by Chambers of Commerce situated in the capitals of every province in Egypt. There are 25 Chambers of Commerce in Egypt. The Federation was established in 1955 for the purpose of fostering Egypt's economic and trade interests at both the national and international levels.

The FECC's Council consists of the presidents of the 25 Chambers as well as the general secretaries of the Cairo and Alexandria Chambers and six members representing major national economic sectors (the latter being chosen by the Minister of Economy and Foreign Trade). The Managing Board holds meetings at shorter intervals than those of the Council in order to monitor and react to current events. The Federation's Secretary General implements strategies set by the Council and approved by the Managing Board.

The functions of the Federation include the following:

- Carrying out national and international economic studies;
- Conducting research on local trade and distribution channels, and collaborating with public authorities and other concerned organizations on studies to solve related problems;
- Compiling statistics on local and international trade, commenting on economic trends, and publishing reports and books on relevant topics;
- Exchanging views and information with foreign organizations on international trade and economic issues;
- Promoting mutual trade relations between Egypt and the rest of the world;

- Organizing trade missions to survey foreign markets, and hosting incoming missions;
- Participating in regional and international conferences, and representing Egyptian Chambers of Commerce in international bodies related to chambers of commerce; and
- Providing advice and guidance on economic and commercial legislation.

Egyptian Businessmen's Association

The Egyptian Businessmen's Association (EBA) is a non-governmental, non-profit organization that seeks to unify the efforts of private Egyptian interests in contributing to the Egypt's economic and social development. EBA's objectives are:

- To create a healthy economic environment for Egyptian business so that business can play a constructive role in Egypt's economic development process.
- To address economic issues and problems facing the business community through dialogue with government officials and authorities.
- To participate with the government in the policymaking process with the aim of improving the application of laws and regulation to achieve a higher level of economic performance.
- To support free enterprise and private initiative within the framework of the National Economic and Social Plan.
- To develop business opportunities and strengthen investment relations between Egypt and international business communities.

Membership in EBA is nominal rather than representative, in that members represent themselves instead of organizations. The membership list consists of carefully chosen, prominent Egyptian business leaders who occupy a leading and decision-making position in the business sector. Membership covers a wide range of economic activities.

The EBA's activities are carried out by a number of committees. The Action Committees study common problems and macroeconomic issues related to the national economic plan, and make recommendations for solutions to problems identified. These committees also engage in dialogue with government officials in economic and industrial agencies. EBA's Action Committees cover the following functional areas:

Agriculture Construction Environment Exportation Industry Petroleum Services Tourism	Credit and Finance Economic Legislation Customs Importation and Customs Investment Taxation Transport and Telecom
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EBA's Joint Business Councils promote commercial and investment relations between Egypt and foreign countries. Their activities include the provision of assistance to Egyptian and foreign businesses. Under EBA, Joint Business Councils have been organized between Egypt and the following countries: Belgium, Canada, the Czech Republic, Denmark, France, Germany, Holland, Hungary, Italy, Jordan, Poland, Saudi Arabia, Sweden, the United States, Tunisia and the Emirates.

Alexandria Businessmen's Association

The Alexandria Businessmen's Association (ABA) is an active body of business leaders seeking the following objectives:

- Strengthening understanding and good relations between business leaders and governmental authorities.
- Promoting contracts and relationships between business executives.
- Safeguarding business interests.
- Creating a favorable economic climate for developing trade and investment.
- Improving community services in order to achieve social goals through the renovation/development of hospitals, schools and community centers.
- Identifying and evaluating current economic issues at both the macro-economic and micro-economic levels.

The ABA's membership currently exceeds 300 business leaders covering a diversified range of activities, including export and import, industry, tourism, agriculture and the professions. The ABA develops positions of economic policy issues, and holds meetings with Ministers and senior civil servants to highlight and discuss matters dealing with the overall economy or specific difficulties facing the business community.

The ABA sponsors a highly successful Small and Micro Enterprise Development Project. This project provides financing to a segment of the business sector that has no regular access to the banking system. The project focuses on serving small and micro enterprises in the manufacturing area. The project offers the following services:

1. Provision of loans to existing small and micro enterprises to finance working capital.
2. Provision of technical assistance to develop SME capabilities in production methods, quality control, maintenance, product design, choice of raw materials, packing, etc.
3. Provision of management assistance to develop SME capabilities in bookkeeping, cost accounting, tax management, social insurance, etc.
4. Provision of an exhibition center to motivate SMEs to reach acceptable quality standards and assist in the marketing of their products.

This goal of this project is to achieve the following impacts: creation of new job opportunities and upgrading of skills in existing jobs; increase of income earned by small-scale entrepreneurs; improvement of the quality of products in order to increase export opportunities; and improvement in management abilities among entrepreneurs.

American Chamber of Commerce in Egypt

The American Chamber of Commerce in Egypt (AmCham) is an independent, non-profit organization run by and for the Egyptian-American business communities. Most members are either Egyptian companies having connections with the United States or seeking business opportunities there, or American companies with interests in Egypt. Non-profit organizations are represented in the Chamber as well.

AmCham was established in 1982 and is financed through annual membership fees. The Chamber has 530 members from major Egyptian and American companies. The Chamber's President is elected annually and presides over a Board of Governors, which is elected biennially. Day-to-day operations are carried out by the General Manager and AmCham staff. The Chamber has formed a number of committees, identified below, to deal with matters of specific interest to members, and to present views to the Egyptian and U.S. governments:

- Agriculture Committee
- Construction and Engineering Committee
- Customs Committee
- Environmental Awareness Committee

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- Financial Affairs Committee
- Human Resources Committee
- Industry Committee
- Investment Committee
- Marketing Committee
- Petroleum Committee
- Taxation Committee
- Tourism Committee
- Trade Committee

The objectives of AmCham are:

- To provide trade links between Egypt and the United States;
- To provide a forum for Egyptian and American executives to discuss business opportunities; and
- To represent members' interests to the Egyptian and American governments.

The Chamber undertakes a number of activities, including monthly luncheons, round-table discussion, breakfast briefings, business after-hours receptions, conferences, internal doorknocks, meetings with U.S. trade missions, Washington doorknocks, and workshops. AmCham also publishes Business Monthly and position papers on specific issues. The Chamber does not engage in major export development services other than providing a "Business Opportunities" section in Business Monthly. This is a page dedicated to listings by prospective American importers and exporters looking for agents or representative offices in Egypt.

The Chamber has recently been restructured into two divisions: AmCham Membership Services and Operations, and AmCham Business Services. The latter Division is devoted solely to provide business development services to all AmCham members and to firms and individuals seeking to expand trade and investment between Egypt and the United States. It will produce business publications, position papers, market studies, price and commodity indexes, and a variety of other data bases and business services.

STANDARDS AND QUALITY CONTROL ORGANIZATIONS³

Egyptian Organization for Standards and Quality Control

The Egyptian Organization for Standards and Quality Control (EOS) was created in the 1950s to promote quality assurance and control in Egypt. Originally a department within the Ministry of Industry, EOS gained autonomous status under Presidential Decree No. 392 of 1979. EOS is administered through a Council of 23 members who represent a cross-section of public sector companies, ministries and public institutions concerned with quality assurance and standards. The EOS has four main departments:

- Central Department for Quality Assurance and Certification;
- General Department for Technical Relations;
- Quality Control and Testing Center; and
- General Department for Finance and Administration.

EOS has a technical staff of 600, most of whom are engaged in quality assurance and certification. Activities are organized around specific product and sector technical committees. EOS maintains a Quality Control and Testing Center laboratory complex in Amaria.

EOS has based its standards setting strategy on moving rapidly toward the adoption of the evolving International Standards Organization (ISO) 9000 series of standards as the legal quality standards for domestic manufacturing and service industries. Prior to 1990, EOS held responsibility for inspecting both domestic and imported products, but since 1990, inspections of imported products have fallen under the purview of the General Organization for Export and Import Control.

General Organization for Export and Import Control **(Ministry of Economy and Foreign Trade)**

The General Organization for Export and Import Control (GOEIC) was created in 1971 under Presidential Decree No. 1770, and operates as an independent authority within the Ministry of Economy and Foreign Trade. During the 1970s and 1980s, GOEIC was primarily responsible for inspection as a means to control and monitor food imports by state monopolies. Additional functions have included quality control of goods traded through barter arrangements, and trade arrangements with Eastern Europe and the Soviet Union.

³ This section draws heavily on descriptions provided in "Quality Control to Quality Assurance in Egypt: A Program for Change," Nathan Associates, Report Submitted to USAID, January 1994.

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GOEIC currently has over 3,000 employees located in 24 branch offices throughout Egypt. GOEIC maintains a network of laboratories in which mandatory tests are performed on specific imported commodities. The Organization's authority for inspecting export goods was eliminated in 1994.

In addition to inspecting products, GOEIC plays additional trade-related roles: Maintaining a register of all importers and exporters to "verify their reputation"; issuing the EUR Form A, which is recognized as the certificate of origin by the European Union; and mandating shipping, packaging and labeling methods according to Egyptian regulations.

Office of Plant Protection and Quarantine **(Ministry of Agriculture)**

This office operates under the Ministry of Agriculture, and functions to protect Egyptian agriculture from foreign pests and diseases, perform phytosanitary inspections at the request of foreign governments, and enforce standards established by the Egyptian Government.

Some 18 agricultural quarantine sites are located throughout Egypt. The main points are at Alexandria seaport, Port Said seaport, Port Suez seaport, and Cairo airport. About 400 employees, all holding at least undergraduate degrees in agriculture, are involved in agricultural quarantine. Senior inspectors must have a combination of at least 10 years of training and experience. At each quarantine point there are teams of two or three specialists to ensure that decisions are fair and honest.

Ministry of Health

The Ministry of Health is responsible for enforcing health and safety standards ensuring that imported and domestically produced foodstuffs are fit for human consumption. The Ministry's testing, analysis and decisions on quality assurance are final. Testing can be undertaken through chemical analysis performed by either regional laboratories or the Central Laboratory in Cairo, or through biological analysis, a more complicated procedure requiring the full resources of the Central Laboratory. The Central Laboratory performs nearly 17,000 tests on food-related products and 5,000 analytical tests on non-food items each month.

Atomic Energy Organization

The Atomic Energy Organization (AEO) became involved in inspecting imported foodstuffs out of concern over possible radiation contamination following the Chernobyl nuclear reactor catastrophe. Inspectors from the AEO routinely board all incoming vessels to check radiation levels in food cargoes, and only after the products are deemed free from contamination does the inspection process continue. Incidence of radiation contamination has been low.

Ministry of Supply

The Ministry of Supply, previously the nation's largest importer, also plays a role in inspection. In the mid-1980s, the Ministry's imported a wide range of foodstuffs -- wheat, flour, corn, vegetable oil, dairy products, and frozen meat and poultry. Currently, the Ministry's major activity is the importation of wheat, and even this is being privatized. Wheat quality inspections are carried out by the General Authority for Silos and Storage, the government receiver of imported wheat.

VII. TEN POINT ACTION PLAN FOR ACHIEVING EGYPTIAN EXPORT GROWTH

Egypt's export goals must be won through deeds, not words. Expanding export sales requires commitment and hard work on the part of producers. Creating and maintaining an appropriate policy environment and effective support services pose a significant challenge to the government. Breaking through the currently low threshold of exports requires resolve on the part of both the government and the private sector, as well as an unprecedented amount of cooperation between them.

Many successful exporting countries have organized their initiatives around action plans. These plans establish specific tasks and assign responsibilities for carrying out assignments. They are often published in the media and presented to the public by high-level leaders in order to garner public support. Periodic reports are made announcing actions taken and progress achieved in particular areas to sustain momentum.

The 10 Point Action Plan presented in summary form below offers a proposed set of initiatives designed to achieve the export goals set forth for Egypt at the outset of this report.

SUMMARY: TEN POINT ACTION PLAN

Export Strategy Stature

1. ELEVATE EXPORT STRATEGY TO A NATIONAL INITIATIVE

Policy Thrusts

2. LAUNCH AN EXPORT STIMULUS PACKAGE
3. REMOVE REMAINING EXPORT CONSTRAINTS AND REDUCE COSTS
4. ACCELERATE OVERALL ECONOMIC REFORM ACTIVITIES

Export Service Thrusts

5. ATTRACT EXPORT-ORIENTED INVESTMENT
6. BUILD A MAJOR EXPORT INFORMATION NETWORK
7. ESTABLISH EFFECTIVE EXPORTER ASSISTANCE SERVICES
8. UNDERTAKE INDUSTRY-DRIVEN EXPORT MARKETING

Management Plan

9. CREATE A DYNAMIC EXPORT STRATEGY MANAGEMENT STRUCTURE
10. REINVENT GOVERNMENT AGENCIES TO EXPEDITE STRATEGY IMPLEMENTATION

The first point of the Action Plan addresses the need to give high priority to the overall export development strategy. The next three points are related to policy issues and initiatives. The following four points deal with export service recommendations. The final two points focus on strategy management and implementation issues. Combined, the ten points cover both the substance and the processes needed to implement an effective export growth strategy. The following sections describe each proposed point in further detail.

1. ELEVATE EXPORT STRATEGY TO A NATIONAL INITIATIVE

The Egyptian Export Development Strategy will be promulgated by the President and endorsed by the People's Assembly as a national initiative. The strategy will also be adopted as a priority initiative by Egyptian business associations and their leaders.

By proclaiming Egypt's export focus at the level of President and National Assembly, the initiative gains an immediate importance, seriousness and prominence that would not be possible under any other circumstance. While meaningful, a proclamation by a Minister or even by the High Committee on Exports would not carry the weight or significance of a Presidential statement and its endorsement by the People's Assembly.

For example, successful policy changes must proceed at a variety of levels. Certainly, their technical content and implementation can be initiated at middle levels of government. But importantly, their development and progress toward fulfillment must be championed at the highest levels using the rhetoric and metaphors not of dry statistics and technical terms but of leadership, of national dreams and ethos, and of community. The export strategy must benefit from both an excellent technical foundation and a shared vision of the role of exports as the engine of growth and the key to Egypt's rise as the leading regional business center, reaffirming Egypt's political, economic, and cultural role in the New Middle East.

Maintaining momentum for an export drive will require the explicit support of the business community. In the past, economic initiatives such as policy reform have been diluted by the ambivalence of business leaders and organizations. Successful exporting countries have built pro-export coalitions with increasing degrees of unanimity concerning policies and programs.

Equally importantly, the backing of the Egyptian media and academic community is needed to achieve a "critical mass" of solidarity and public support for the initiative. Accordingly, their leaders need to be consulted and informed of the rationale, goals and actions associated with the export strategy. Press briefings, information publications, academic symposia and other public relations activities will be used to gain public understanding and consensus.

2. LAUNCH AN EXPORT STIMULUS PACKAGE

The Egyptian export sector will be designated and treated as the highest priority sector in terms of business policies.

For Egypt to reach its full export potential and play its appropriate role in the economic development of the New Middle East, the government must demonstrate that it stands fully behind exporting. This can only be done by giving high priority to aggressive export sector growth policies. While some governments have stimulated exports primarily by reducing constraints, this generally takes considerable time. Egypt urgently needs to expand exports, and has to overcome a decades-long import substitution mentality domestically and skepticism internationally regarding Egypt's commitment to the private sector and to high quality export products. Egypt therefore must take dramatic, high profile export growth steps and stand behind them throughout their implementation.

Egypt should not seek to create a permanently privileged "export enclave," in which the export sector receives special treatment or advantages at the expense of other sectors. Experience has shown that strategies which provide an "even playing field" among competing sectors are best for maximizing efficiency and economic welfare. Governments should avoid approaches which create permanent distortions. These can lead to misallocations of resources and inefficiencies. Egypt itself has witnessed the effects of the privileged positions enjoyed by public sector enterprises.

Nevertheless, it is unlikely that Egypt will be capable of achieving major strides in export growth unless producers in this sector are given a "jump start." By international standards, Egypt's export sector is negligible in size in most product areas. Notwithstanding the strong efforts of a limited number of export entrepreneurs, few producers are actively interested in pursuing overseas sales opportunities. Most firms are simply too wedded to the domestic market, which is still much safer, less difficult to access, and often more profitable than foreign markets.

To overcome this mentality and compensate for remaining constraints, the proposed recommendation is to offer exporters a time-bound, significant stimulus to inaugurate or expand exporting activities now. The concept is to provide an impetus for immediate action by exporters, leading to the creation of a viable cluster of export industries. The firms would be informed that under no circumstance would the stimulus package be extended beyond a specific date.

The notion of a special stimulus package is contrary to traditional economic theory, and is not condoned by international organizations. In truth, however, in most successful exporting countries, governments did not pursue policies of nonintervention. One need only examine the economic histories of Japan, South Korea, Taiwan, Thailand and others to collect a rich set of examples of intervention.

There are a range of possible candidates to include in a stimulus package. Several options are presented below. Each would have to be examined carefully for fit with Egyptian practices and with international obligations. For example, tax holidays are considered to be subsidies under GATT¹; however, Egypt is eligible for "Special and Differential Treatment for Developing Country Members" under Article 27, which indicates that the subsidy prohibitions cited in Article 3 do not apply to developing countries specified, including Egypt. In any case, the items selected for the stimulus package would have to be consistent with Egyptian and international law.

■ **Grant exporters a five-year corporate income tax holiday to stimulate a boom in export activity.**

Short of cash grants, extending tax free status is perhaps the most powerful incentive one can offer businesses. In reality, Egypt collects very little in corporate income tax from the export community. It is estimated by government sources as being about LE 60 million per year. However, the luxury of focusing on the market rather than on government tax collectors will bring many new entrepreneurs to undertake export activities. A five-year period of tax free status is sufficient to allow start up and several years of growth, particularly in labor-intensive production activities.

The result pursued here is the creation of a marked, immediate export thrust as entrepreneurs work quickly to take advantage of tax exoneration. In the absence of some stimulus of this kind, it is likely that existing producers will take a cautious approach that concentrates on the domestic market, in view of Egypt's trend of declining exports. Tax free status can help overcome that caution. Nevertheless, several aspects of this growth policy merit further discussion.

- ▶ The measure must be available to all exporters, regardless of sector, geographic location, or percent of production exported. Egypt must boost overall exports, not just a small subset of exports.
- ▶ The measure must have a specific time limit, so as not to become an on-going program which could negatively affect tax revenue receipts or exporter competitiveness. The time limit will encourage exporters to depend on the markets for their profitability by rapidly attaining true market competitiveness through cost containment and quality maximization, rather than use the concession to boost profits.

¹ According to Article 1 of the GATT Agreement on Subsidies and Countervailing Duties, if government revenue that is otherwise due is foregone or not collected, this practice is deemed a subsidy (MTN/FA II-13, page 1).

- ▶ The concession must be sufficiently significant to stimulate exports. A 100 percent exoneration from income taxes on income generated by exports is recommended. Many other nations offer a full exoneration, some for periods even longer than 5 years, including perpetuity.

- **Reduce import duties on imported inputs, and exempt them from sales tax.**

A major constraint facing Egyptian exporters remains the high cost of imported inputs, due to duties and sales taxes. Import tariffs have been declining throughout the 1990s, including new tariff reductions announced January 2, 1995. This trend must continue, as tariffs remain high and uneven across industries and between public and private firms. The government should consult with industry associations to develop a list of imported inputs and prepare a timetable for significant reductions in their import tariffs on an accelerated basis, along with exemption from sales tax.

Ultimately, a single tariff rate applied to all imported commodities, ranging from machinery to final consumer goods, is the optimal approach from the standpoint of economic efficiency. During this initial export stimulus period, however, authorities could consider a single rate of perhaps 10-15 percent for imported inputs, and a single rate of some 20-30 percent for all other imports. Although contrary to the approach preferred by international organizations, this simple strategy would be transparent and easy to administer while the same time increasing the competitiveness of exporters.

In addition, remaining non-tariff impediments to imports must be eliminated. Finally, the temporary admissions and tax rebate systems should be replaced by a "fixed drawback" system to reduce the time and paperwork burden on exporters.

- **Adopt and maintain a competitive exchange rate.**

As in many nations, the exchange rate issue in Egypt has become overly politicized. Efforts should be made to portray the rate as a means toward an end, not an end in and of itself. The exchange rate should be considered a policy instrument that Egypt can manage to meet those goals most critical to the nation's future, and export enhancement is clearly a top goal.

In view of overall balance of payments surpluses due to services earnings and transfers, the "appropriate" value of the pound against foreign currencies is not clear. What is apparent is the domination of concern over import costs rather than export prices in deliberations regarding the exchange rate. The interests of the export sector need to be given equal or at best greater influence in these deliberations.

Options for reaching/maintaining a competitive exchange rate include a gradual adjustment through a managed float, or a one-time currency adjustment. Each offers advantages and disadvantages and should be assessed carefully. However, action is necessary in the near term to preclude the continued downward spiral of exports and the possible return of strict exchange controls. The latter would jeopardize both the pace of economic reform in Egypt and the confidence of the worldwide business community in Egypt's commitment to a private sector, outward-looking economic orientation.

- **Open opportunities for the private sector to participate fully in enhancing Egypt's export services, including transportation, so that private business can contribute capital, expertise, worldwide market access, and state-of-the-art operating practices.**

Succeeding in today's competitive markets requires that no weak links exist in the chain of products and processes that begins with raw materials and finishes with final goods, packaged, labeled and delivered to the buyer. Analysis across export industries has revealed real deficiencies in export services, primarily in maritime transport but also in finance, communications and other support services.

No government in even the wealthiest industrialized nation can afford to supply and maintain the entire sophisticated transportation infrastructure necessary to undergird export success. Complete public ownership of transport infrastructure is an anachronism from simpler times. The costs of building and operating the required warehouses, cranes, loading and unloading equipment, ports, quays, cargo handling and storage areas, and ships (including multi-use, container and refrigerated vessels) that Egypt desperately needs to facilitate maritime shipping of exports would run into tens of billions of dollars. By limiting private investment in maritime transport, the government is making exports noncompetitive.

- **Enhance tax incentives to attract more domestic and foreign direct investment.**

Many export industries are undercapitalized. Fresh infusions of domestic and international capital will increase capacity, modernize technology, and link Egyptian production with international markets. Egypt will not succeed in expanding exports in certain industries such as electronics unless new foreign investments and joint ventures are attracted to Egypt. Attracting new capital will require appropriate incentives and a well-run, targeted investment promotion campaign. Among the measures to consider are: Adopt a low flat corporate tax rate or more attractive tax holidays for new investment or expansions in priority sectors; assist investors with costs of land ownership; and offer tax incentives for labor training and technology transfer.

3. REMOVE REMAINING EXPORT CONSTRAINTS AND REDUCE COSTS

Accelerated efforts will be undertaken by the High Committee on Exports and other bodies to remove existing policy and administrative constraints to export growth, focusing special emphasis on implementation of decisions made.

Considerable progress was made in 1994 in removing many of the policy-induced constraints to exporting. Much of this accomplishment was due to the earnest efforts of both government and private sector leaders who are members of the High Committee on Exports. In the High Committee's sessions, open dialogue and policy problems led to positive action. In recent months, however, the early momentum generated by the High Committee has waned, and progress has slowed. It is important for the High Committee to redouble its efforts to eliminate remaining constraints and to focus new initiatives on means to reduce the costs of inputs to the export sector. Considerable efforts need to be concentrated on ensuring that implementing agencies are fully aware of decisions taken, and that the reforms are fully executed.

■ **Restructure customs procedures.**

Customs remains a significant constraint on importing and exporting, and significant improvements are imperative. Automation would reduce or eliminate face-to-face meetings between customs officials and exporters, thereby increasing transparency and timely withdrawal and shipment of goods. Overall, procedures should be shifted from "pre-clearance" to automatic clearance, with strict penalties for false statements and paperwork errors committed by the private sector. In addition, Customs Authority staff training and pay scales must be upgraded to meet the challenges of the new emphasis on exports. To finance these efforts, downsizing should be considered.

■ **Continue investment deregulation.**

Many export sectors need significant private sector investment in order to adopt modern technology and increase capacity. Foreign investment and joint ventures also bring badly needed connections with international markets. However, for domestic and international investment to occur in significant amounts, Egypt's investment procedures must be streamlined further. Investment approval procedures should be simplified within GAFI, and across local, governorate, and central government jurisdictions.

Other investment-related reforms will also continue to build a pro-private investment atmosphere in Egypt. These include the unification of corporate laws; enactment of anti-trust legislation; further liberalization of energy price controls; eased operations of foreign trading

companies; enactment of new labor laws now under consideration permitting more flexible labor markets; and abolishment of the stamp tax on capital.

■ **Develop broader capital markets and ease private sector access to investment financing.**

Efforts are needed to expand investment instruments and markets to offer investors access to a variety of financing mechanisms. For example, private firms should be allowed to bid for funds from reserves and surpluses of the public pension fund and social insurance system.

■ **Speed up progress on privatization.**

Large segments of Egyptian export industries remain in public sector hands. Due to past policies and priorities, public sector ownership has often resulted in oversized work forces, low-quality products, little responsiveness to markets and consumers, and few incentives for aggressive marketing drives, either domestically or abroad. Faster privatization will place greater assets in private sector hands, easing the way for product refinement and enhancement, cost containment, and active promotion at home and overseas, thereby boosting exports and improving Egypt's reputation for high-quality products.

■ **Strengthen enforcement of intellectual property rights protection.**

Several emerging export sectors in which Egypt has competitive advantages depend intensively on intellectual property rights (IPR) protection, among them software development, printing and publishing, and cinematography. Legitimate Egyptian exporters are losing markets worth perhaps tens of millions of dollars to pirated products. Weak IPR enforcement reduces the incentives to innovate and export, two activities which Egypt must support, not weaken.

■ **Reduce transaction taxes and fees.**

Stamp taxes and fees are nuisances for Egyptian exporters. While each tax or fee is nearly insignificant and yields little revenue for the Government, taken together they create administrative burdens for exporters. They should be replaced by a single, easily administered charge.

■ **Improve tax administration and enforcement.**

The current system, with its emphasis on negotiation between businesses and government authorities, creates few incentives for accurate initial tax documents. Clear rules should be mandated and enforced, with stiff penalties for noncompliance by businesses.

4. ACCELERATE OVERALL ECONOMIC REFORM ACTIVITIES

The Export Development Strategy will be most successful if it is implemented within the context of overall economic reform including continued deregulation, liberalization, privatization, and progress toward a market-led economy.

Most of the proposals presented above apply to general liberalization of policies, which will benefit all sectors of the Egyptian economy. However, some are aimed directly at the export sector alone. This is deemed necessary as an extraordinary means to create a viable critical mass of export industries.

The export stimulus package should be temporary, and equally importantly, the long-term approach to develop exports should be incorporated into a national strategy for comprehensive deregulation of all sectors in the economy. It will take time to unravel decades of controls and regulations. Without doubt, however, Egypt's economic prospects are assured to be bright if all sectors become motivated and governed by market forces.

The subject of comprehensive sectoral reform is well beyond the scope of this report. Observing the experience of successful exporters, however, one can conclude that achievements are greatest in those sectors and industries that enjoy the most freedom of action by private sector firms. Accordingly, one could envision Egypt's export stimulus package as a means to introduce market forces to the export sector, the first of many sectors to be provided fundamental reform.

5. ATTRACT EXPORT-ORIENTED INVESTMENT

Concerted efforts will be undertaken to attract new investments in export industries. Legal or administrative restrictions against new investment - foreign or domestic - will be eliminated for investments in export industries.

A number of the pro-export policy recommendations noted above are targeted directly at stimulating new investment. Investment by both Egyptian and foreign firms will be the key to export victory. This same investment will provide employment and income to the domestic economy.

New investment translates into accelerated growth. Most new ventures will be initiated by existing Egyptian entrepreneurs. Both the government and other constituencies need to overcome ambivalence or even opposition to new investment, and instead to embrace investment

as Egypt's ultimate economic salvation. An export-oriented investment attraction program should include the following elements:

Select target investment sectors. Business policies and any stimulus package should be available to all exporters on a nondiscriminatory basis. However, targeting is appropriate for certain program initiatives such as investment attraction, since generalized promotion is less successful and often more costly than targeted activities. Target sectors should be determined on the basis of several factors:

- ▶ Egypt's comparative and competitive advantages;
- ▶ High value-added opportunities in each industry;
- ▶ Job creation capabilities of alternative industries;
- ▶ The installed capacity and technological capabilities of existing industries;
- ▶ Revealed preferences of existing domestic and international firms;
- ▶ Egypt's strategic goals regarding employment, output, exports, and overall economic growth;
- ▶ The health of international markets; and
- ▶ The level of interest and degree of mobility of international firms.

The discussion of high-potential export sectors in this report offers a basis for initial selection, but additional market research is necessary to determine the highest potential markets for new investment. Such research determines the nations or regions most likely to export capital, the sectors in which Egypt can compete, and the firms most likely to be receptive to Egypt's message that Egypt is an attractive export platform. In general, large firms which are already exporting to Europe and/or the Middle East, which have experience in setting up and running either satellite plants or joint ventures overseas, are most likely to demonstrate interest in operating in Egypt as an export platform.

Utilize experienced business staff with extensive sector-specific knowledge and expertise to attract investment. As in export promotion, generic investment promoters are ineffective, and costly in the long run due to lack of results. Investment promotion organizations around the world generate the fastest, best results by hiring experienced business staff. These individuals offer in-depth knowledge of industry trends, markets, terminology, technology, and

very importantly, personal contacts that establish a level of trust and goodwill not available if generalists are utilized. Thus, an electronics investment promotion strategy should be designed and implemented by an Electronics Investment Promotion Counselor with actual, recent experience in the industry, preferably in international marketing, and so on for other sectors.

Design and implement precision marketing campaigns in target markets, defined both by sector and geographic location. While general publicity efforts such as visits by high-level officials and general trade missions play a role in launching an investment promotion effort, their actual value in generating real dollar investments is extremely limited. This is due to the business reality in which interested investors seek very detailed data about their sector, not general information. Accompanying general publicity efforts, and replacing them after a brief initial phase, should be precision marketing campaigns.

Precision marketing campaigns are generally composed of highly targeted means of reaching specific types of companies in given sectors in predetermined locations (i.e., Germany, manufacturing regions in the United States, Japan, etc.). Precision marketing campaigns can generate investments at an average cost of only \$75 to several hundred dollars per job generated, while generalized publicity yields a job only after an average outlay of \$5,000 or more. A third approach often utilized is to define investment projects and then seek potential investors. This method has proven ineffective and often generates jobs only at the high cost of \$15,000 to \$30,000 each; project profiles tend to proliferate but few if any investors show any interest.

Precision marketing tools that have generated the greatest, most cost-effective results for investment promotion organizations around the world include press releases for the business and trade press; display and classified advertising in the business and trade press; participation and attendance at trade fairs in target sectors; firm-level visits; phone and fax contact with potential investors; and to a lesser extent, direct mail campaigns (sending a letter and brochure to an individual not previously contacted).

Utilize an automated database to keep track of contact with potential investors. Because of their often large size and significant impact on firm profits, the decision to make a foreign direct investment or joint venture generally takes a minimum of six months and can take up to five or more years. Because of staff turnover, it is critical to maintain an automated database to keep track of all interactions with potential investors. The automated system facilitates periodic contact with clients and also serves as a tool for measuring Investment Promotion Counselor performance, i.e., number of new contacts generated, number of communications with clients, and number and size of investments attracted.

Enhance the business climate for export-oriented investment. No investment promotion program, however targeted or well-designed and implemented, can attract large sums of investment if the business community is subjected to a problematic business climate. Key policy,

legal and administrative constraints in export have been identified in this document. Specific actions to reduce constraints and enhance exports and export-oriented investment are described above.

6. BUILD A MAJOR EXPORT INFORMATION NETWORK

A major initiative by both Government and business organizations will be the development, preparation and dissemination of statistics, trade opportunities and other relevant information on export development through a public/private network of information systems.

Lack of information is an important hindrance to export development in Egypt. To overcome this problem, a campaign to generate and distribute information relevant to exporting is needed. The issue has a number of dimensions. First is the absolute availability of data. The government needs to generate raw economic information and manipulate the data into usable form not only for its own use, but also distribution to business. Few in Egypt would even expect to receive reliable information on economic activity. This situation must change.

- **Primary sources of data will be charged with responsibility for creating information relevant to exporting on a regular, reliable, up-to-date basis.**

Quantitative information on domestic output, exports, prices, and input costs are vital to prospective exporters. This information should be available to the public through regular publications and through press releases. The primary sources of data, including CAPMAS, the Central Bank, and other agencies should dramatically increase their efforts to generate, produce, and publish information.

- **The government will establish appropriate "wholesale" sources of economic/trade information.**

Sources of raw data need to be protected from outside interests. However, after quantitative information is analyzed, assessed, and corrected for anomalies, it needs to be distributed in relatively pure form to the public. The GOE needs to create one or more mechanisms to present export-related information to the business community on a regular, trustworthy basis. This type of "wholesale" system delivers the information to outside organizations which then assess and repackage data and deliver it on a "retail basis" to ultimate consumers. One recommendation is to utilize a combined Trade Point and Trade Net as an information wholesaler, as explained in the last point of the Action Plan.

- **The business community will create a network of information dissemination services for exporters.**

Egyptian exporters do not have the time needed to collect raw information from government sources and manipulate the data into usable form. Eventually, private for-profit businesses including the media and business press will take on this role. However, in the immediate future existing business organizations represent an potentially effective retail distribution system for this information.

Business associations need to become more active in export promotion. An important service they can provide to their members is trade information. Therefore, it is recommended that business associations take on this role, and develop the capacity to collect, store and disseminate trade data and intelligence.

In view of the state of the information industry, the most appropriate strategy would be to manage the information network electronically through a system of computers. Business associations such as the Federation of Egyptian Industries or the American Chamber of Commerce can access relevant information from government agencies or from external databases. This information can then be entered into a service available to their members. This system would provide valuable information to exporters, create a useful service for associations to provide, and generate direct cooperative linkages between the government and business communities.

7. ESTABLISH EFFECTIVE EXPORTER ASSISTANCE SERVICES

Government and private sector leaders will implement a series of "exporter assistance" activities. Responsibilities will be divided among private and public sector organizations.

In view of the small size of the export sector and limited number of firms operating in it, major efforts should be directed toward assisting new exporters. Ultimately, the firms themselves must be responsible for all of their business transactions. Initially, exporter assistance services will reinforce other export growth activities by facilitating transactions.

- **Assist exporters to conduct market research and identify and capture new target markets.**

Universally, exporters call for assistance placing their products in distant markets. Economies of scale in market research and promotion, as well the myriad benefits (jobs, foreign exchange) exports generate for the nation, support a role for the public sector in export promotion.

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■ **Provide information and facilitation on import/export policies, documentation and regulations.**

Many Egyptian producers simply do not understand or have access to current information on trade rules and procedures. This greatly increases the time and effort they expend in conducting normal transactions. At the same time, most Egyptian Government agencies involved in trade view themselves as regulatory, even though their mission might be promotional.

To change this inverted condition, it is recommended that "export facilitation" offices be set up at relevant locations in relevant organizations. The sole purpose of these offices will be to assist exporters to expedite their transactions through the provision of information, facilitation and trouble shooting. No fees will be charged. No new staff or budgets will be required. The staff and other resources will be drawn from existing operations, which tend to be excessively staffed. Most would be recruited from agencies that will be restructured into an "Export Growth Center" in MOE (described below). Typical locations of these services would be at all customs points and transportation hubs, at agencies requiring documents or approvals, at Egyptian business associations, and at existing promotional organization.

The individuals recruited for these service windows would be among the best staff available in the source agencies. They would be trained well and would be provided attractive compensation packages. Eventually, the role of this "export service corps" will be reduced and transferred to service providers in the private sector (e.g., consultants, banks, freight forwarders, etc.).

■ **Provide training and technical assistance on a range of export issues, such as international marketing, input acquisition, quality control and standards, finance, and technology upgrading.**

With few exceptions, exporting is alien to Egyptian producers. The complexities of export requirements and processes are daunting to firms familiar only with the Egyptian market. Therefore, the design and implementation of hundreds of training courses on many aspects of exporting to hundreds of audiences would fill a wide gap in Egypt's export capabilities.

It will take considerable time and considerable resources to organize a comprehensive training and technical assistance system. In fact, the effort should take the form of numerous initiatives rather than as a single activity.

A number of existing government agencies provide limited training and technical assistance, and these should be enhanced. However, it is recommended that private sector organizations (e.g., Trade Development Center, Federation of Egyptian Industries, Egyptian Businessmen's Association, etc.) serve as the locus and delivery points of new training and

technical assistance activities. This will help organize and energize these groups, and at the same time will provide increasingly valuable services to member firms.

- **Improve vocational education and training, and offer tax incentives for firm-level productivity enhancement activities such as training.**

With proper training and preparation, the Egyptian labor force is internationally competitive, as individual firms have proven in a variety of sectors, including high-technology software development as well as traditional garment construction. Egypt's comparative advantage is labor, and so Egypt's eventual degree of success will hinge on the quality of Egyptian labor.

Increasing productivity and upgrading technologies should be important themes in Egypt's long-term development strategy. A serious effort should be made to improve the basic skills training of the education system to provide better quality entry-level employees to exporters. In addition to reading and mathematical bases, vocational skills should be given higher priority.

Exporters also need help to improve the quality of their labor forces. Because the pay-back for labor training can take time, and is often shared by more than one firm due to labor turnover, businesses need tax incentives for labor training. Similar programs are commonplace in export-oriented economies. Care must be taken to ensure that they in fact are used to upgrade labor skills, rather than just reduce taxes. This system either could be included as part of an initial export stimulus package, or could be envisioned as a long-term program.

- **Actively assist exporters to reach ISO-9000 quality assurance guidelines.**

Egyptian exporters can capture new markets either with Egyptian brands or with international brand-name products through subcontracting or licensing arrangements. The latter is likely to be more successful in the near term. Exporting countries such as Thailand and Taiwan began by producing components or complete units under international brand names.

Marketing new international or Egyptian brands would be greatly eased if manufacturers attain ISO-9000 certification, which states their factories operate in line with quality assurance standards set by the European Community and rapidly being adopted by other nations. Through private organizations such as TDC and through industry associations, exporters should be educated on the importance of ISO-9000, and how to gain certification. An aggressive training program could easily triple or quadruple the number of firms with ISO-9000 certification, and pave the way for worldwide acceptance of and demand for Egyptian products.

- **Expand access to export financing and general financial services, particularly for medium-size firms and first-time exporters.**

Considerable progress has been made in improving Egypt's financial system and services. Existing commercial banks provide adequate export finance services to major exporters. But shortages of capital and limited outreach activities constrain their abilities to meet demand under a serious export push. The amount of funds available for export financing needs to be increased, and banks need to reach new customers.

The Export Development Bank (EDB) plays a useful role, and has most of the ingredients needed to support exporters in place. Nevertheless, the EDB is small in scale and needs to expand its resources and financial services. The EDB can also play a valuable role by providing new exporters with short-term training and technical assistance on financial issues.

Overall banking reform will improve Egypt's financial system and its ability to serve exporters. In the near term, banking services will be enhanced by eliminating the system of universal fee rate setting. Competition among banks on fees and service provision will quickly lead to better services.

8. UNDERTAKE INDUSTRY-DRIVEN EXPORT MARKETING

Based on the experience of successful exporting countries, export marketing and promotion strategies will be organized at the industry or product-group level. The Federation of Egyptian Industries (FEI) will use its individual Industry Chambers as a focal point for organizing industry-specific export growth councils.

Marketing assistance is keenly needed by Egypt's exporters. While a number of large exporters have already implemented sophisticated international marketing efforts, the vast majority of firms are not yet at that point. Egypt's marketing assistance should be viewed as a bridge to assist the private sector until firms are capable of launching and running their own promotional campaigns.

To succeed, export marketing must be targeted, both with regard to products promoted and markets sought. That is, target export sectors must be identified (e.g., electronics, leather footwear, information services, etc.) and developed for international promotion. This report provides a basis for beginning to select target exports. Criteria to apply include:

- ▶ **Export-readiness of firms.** Are some firms already producing goods of reasonable quality, quantity and price so as to be able to take advantage of export orders generated? Is company leadership committed to exporting?
- ▶ **Revealed preferences of the international markets.** Are some buyers already purchasing the goods from Egypt, indicating that the market deems Egypt a reasonable competitor in this niche?
- ▶ **Egypt's competitive advantages.** Does production of the good utilize Egypt's competitive advantages, such as low-cost labor, local inputs, geographic location, etc.?
- ▶ **Dynamism of international markets.** Are international markets for the good growing or shrinking? Egypt will find it easier to capture market share in a growing market.

Target markets must also be identified, both geographically and by industry sector. Target regions should offer significant buying power, openness to imports, geographic advantages (i.e., proximity) and/or price advantages (i.e., duty-free access). Within each industry, Egypt must contact the highest-potential actual buyers. While high-level government missions, which make high visibility government-to-government contacts touting generic "Egyptian Exports," may play an attention-getting role in early phases of an export promotion campaign, they will result in few if any export contracts.

For export promotion to work, high-potential buyers of a given product must be brought into face-to-face contact with Egyptian manufacturers and products. This will happen most cost-effectively via trade shows, niche trade missions, trade journal advertising, press releases to the business press, and phone/fax campaigns to potential buyers.

Export marketing campaigns should be designed and implemented by business people with experience in the export subsector (i.e., international marketing of garments). As in investment promotion, generic export promoters are ineffective, and costly in the long run due to lack of results. And as in investment promotion, specialized export promoters offer in-depth knowledge of industry trends, markets, terminology, technology, and personal contacts that establish a level of trust and goodwill not available if generalists are utilized.

The subsector business community should be intimately involved in designing and implementing the export marketing campaign. Their involvement offers both near-term and long-term benefits. In the near term, the export marketing campaign is improved by the collective experience, wisdom (and mistakes) of the actual manufacturers and exporters. In the long term,

inexperienced firms learn by their participation in the design and implementation of a results-getting marketing campaign, and can successfully graduate from the program.

Thus, the Federation of Egyptian Industries' (FEI) individual Industry Chambers should be active participants in the export marketing efforts. They have thus far focused on developing industry stances on policies, but can usefully expand their role to include export marketing. The members of the Industry Chambers should meet with export marketing organizations, particularly TDC and EPC, to craft an industry marketing strategy.

The Chambers themselves could take on certain marketing responsibilities, such as organizing industry trade mission participation. The real value of their participation in marketing plans in the near term will be the simple process of organizing, evaluating strengths and weaknesses, and identifying opportunities as an industry. If successful, this process can be extended to encompass overall industry liberalization initiatives in the future.

9. CREATE A DYNAMIC EXPORT STRATEGY MANAGEMENT STRUCTURE

The High Committee on Export Development will oversee the strategy, and will advise the President on all decisions deemed necessary to expand exports. Major Egyptian business associations will organize and provide representatives to an Export Council that provides guidance and expertise on export development matters and coordinates public/private sector initiatives.

The Egyptian Government and business community have taken important strides in efforts to organize a major export push. What is needed now is a efficient management structure for formulating and implementing the export development strategy. The following chart indicates a proposed approach. An important feature of this approach is that it utilizes existing organizational entities rather than creating new institutions, thereby saving considerable time and avoiding inevitable political maneuvering and pressures. The structure has a number of elements, as described below.

- **The High Committee will serve as the "Board of Directors" for the export development strategy.**

The High Committee has membership including appropriate government ministers and dynamic business representatives, and is therefore capable of following through on decisions and on reaching out to both constituencies. The High Committee will define overall strategy, set policy and establish task responsibilities and timetables. The High Committee will meet regularly, receive progress reports, and reach decisions on future initiatives.

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- **The private sector will organize its participation through a Business Export Council, consisting of business representatives on the High Committee plus other relevant organizations.**

The private sector in Egypt needs to get organized for many reasons, and focusing on exports is a useful means to that end. Existing organizations should join together in a collective "Business Export Council" that can speak as one voice for business on export issues. The Council will not be a new organization per se, but rather a committee of current organizations such as the FEI, FECC, EBA, ABA, AmCham, and so forth. The Council will draw upon the resources of these institutions to carry out tasks identified by the Council.

- **The Egyptian Government will organize its participation through a GOE Export Council, consisting of government representatives on the High Committee plus other relevant agencies.**

As the business community needs to organize itself on export issues, so should the government. In fact, progress has been slowed most often in the past due to inter-agency conflicts within the government. Most relevant ministries already participate on the High Committee, but additional agency representation may be appropriate. This GOE Export Council would be considered the equivalent to the Business Export Council, in that no new bureaucracy is involved and that members will instruct their respective organizations to implement decisions taken. The Export Council would include representatives from the Executive and Legislative Branches, and would be supported by the State Council.

- **Strategy implementation will be divided among private sector and government organizations, working collaboratively.**

As shown in the following chart, operational and technical responsibilities for export strategy tasks will be divided among public and private sector organizations. The role of the Export Growth Center under the Ministry of Economy is described in the last point in the Action Plan.

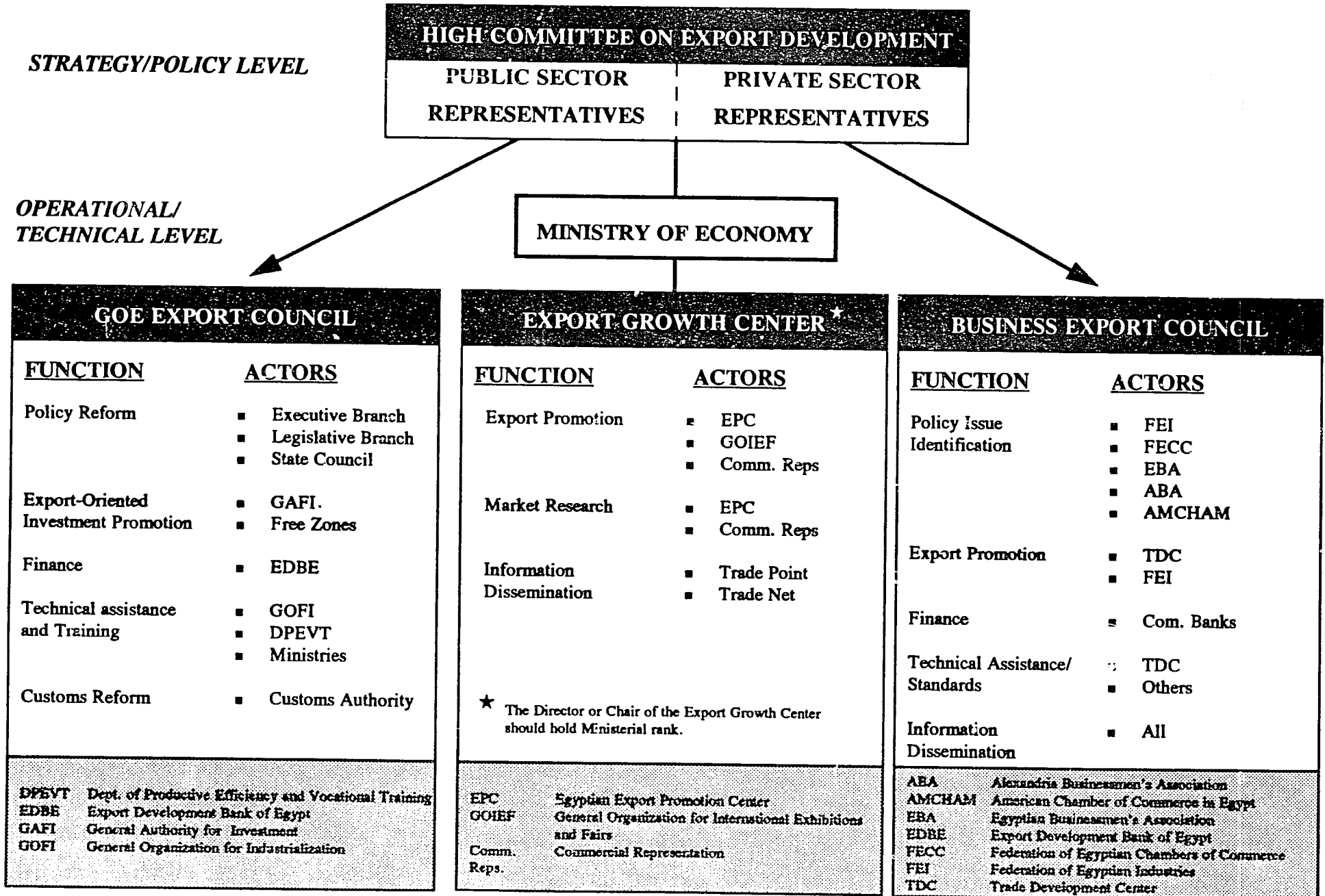
In some functional categories, roles will be shared, because there is sufficient work to be done to permit more than one participant. Both the government and business organizations will share responsibilities for policy issue identification and reform. Similarly, both the government-run EDB and commercial banks as well as private banks will bear responsibility for improving financial services.

At this time, investment promotion will fall mainly on the government (GAFI and free zones), but a more prominent private sector role would be appropriate. There is plenty of room both government and business to provide training and technical assistance. Export promotion

should be shared between the TDC, FEI and other business groups on the one hand, and the government's EPC, GOIEF and Commercial Representatives Offices on the other. As noted above, the information network will be a collaborative effort, with government responsible mainly for data creation and business organizations providing the distribution system for disseminating information.

In short, all pertinent organizations should be provided a positive role and mission, so that they do not feel "left out" but instead are considered important components of Egypt's export strategy. In fact, the High Committee and the GOE and Business Export Councils should make efforts to engage these institutions, perhaps even to the point of encouraging friendly competition among them for producing the most results leading to Egypt's export growth goals.

EXPORT STRATEGY IMPLEMENTATION STRUCTURE



10. REINVENT GOVERNMENT AGENCIES TO EXPEDITE STRATEGY IMPLEMENTATION

Key government export development agencies will be fully incorporated into the Action Plan and will be strengthened by bringing them together under a single unit – the Export Growth Center – within the Ministry of Economy and Foreign Trade.

The Egyptian Government needs to become better organized to carry out the Action Plan effectively. While business organizations become more effective export advocates and service providers, government agencies require serious restructuring and consolidation. These agencies have developed over time due to varying circumstances, most vie for staffing allotments and financial resources, and take claim to overlapping responsibilities.

- **Overlapping roles will be eliminated and a coherent, aggressive operating plan will be adopted by the Export Growth Center.**

The act of bringing all key export agencies under a single roof would set the stage for major "re-invention" of these organizations. As shown in the previous chart, the agencies would include the EPC, GOIEF, Commercial Representation Offices, Trade Point and Trade Net. All but Trade Net currently report to the Minister of Economy and Foreign Trade, but each operates relatively independently. The Director of the Export Growth Center will be responsible for all agencies. The agencies themselves would not remain as individual entities, and instead would become departments of the Center. The Director of the Export Growth Center should hold Ministerial rank to indicate the authority of the Center and ensure the director's ability to secure the collaboration of other government bodies.

- **Efficiency will be enhanced through specialization and adherence to performance targets.**

Under the direction of the Minister of Economy and the Center Director, activities would be consolidated. Ideally, the entire Export Growth Center headquarters would be located at a single site, possibly the current Exhibition Grounds, to promote inter-departmental collaboration.

The Export Growth Center would consist of three departments -- export promotion, market research and information dissemination. Consolidation would likely allow for considerable rationalization of administrative staff as well as some program staff. However, new roles and responsibilities such as the staffing of trade facilitation offices could absorb staff from currently redundant activities. Performance targets would be specified for individual departments, permitting monitoring and evaluation.

■ **Staff capabilities will be improved through training and technical assistance.**

Historically, Egyptian governmental agencies in general have been characterized as large in terms of staff numbers, but limited in staff qualifications and in program resources. A major effort should be given to enhancing staff competencies through training and technical assistance. A standard saying among promotion specialists, for example, is that "one effective promoter with a telephone is more productive than a building full of bureaucrats." The Export Growth Center will raise merit as the key determinant of advancement, and will carry out concerted staff development programs.

■ **Additional institutional resources will be solicited to bolster productivity and performance.**

Few would expect the simple reshuffling of government agencies to result in measurable improvements. Accordingly, the Export Growth Center will need access to new institutional resources in the form of equipment, facilities, external training and technical assistance, and program funding. These resources could come from the Egyptian Government or international donor agencies.

■ **Inter-Agency linkages will be strengthened through Action Plan coordination and sharing of resources and information.**

The Export Strategy and Action Plan requires significant cooperation between the public and private sectors, and within these sectors themselves. The overall management structure described above denotes clear roles for both. Inasmuch as the Ministry of Economy currently serves as secretariat to the High Committee, it is proposed that this role be continued. The Ministry will thus be charged with communicating decisions of the High Committee to all participating organizations. Similarly, the GOE Export Council will manage inter-agency linkages and collaboration.

EXPORT STRATEGY IMPLEMENTATION RESPONSIBILITIES

As noted above, the successful achievement of the Egyptian Export Development Strategy will require serious commitment and action by both the Government and industry. The overall strategy calls for three implementation "thrusts," which represent the distribution of responsibilities to the principal actors charged with bringing the goals and vision into reality. One possible analogy is to liken the thrusts as general campaigns waged by different military corps in a wartime situation. The campaigns are to a certain extent individually undertaken, but overall the campaigns converge to meet given major objectives.

Responsibilities for implementing the 10-Point Action Plan are assigned through the following:

1. **The Egyptian Government will become an aggressive advocate for exports and exporters, in both word and deed.** This means that the Government will put into place a policy and regulatory environment that is highly conducive to exporting, and that concerted efforts will be made by the Government to assist Egyptian exporters. This thrust will be manifested in specific changes in policies and in government institutions.
2. **The private sector of Egypt will bear principal responsibility for expanding exports.** This responsibility will be borne by individual firms, which will improve the competitiveness of their products and services, and by business organizations, which will organize themselves to assist exporters effectively and efficiently. Government companies will continue to export, but international experience shows that private firms will achieve the strongest growth.
3. **The Government and private sector of Egypt -- both organizations and leaderships -- will forge a new relationship of collaboration to meet the goal of expanding Egyptian exports.** The collaboration required will be unprecedented in the historical environment of distrust prevailing over the past four decades. However, it is essential that an effective coalition be built and maintained if Egypt's export goals are to be achieved.

These proposals and the findings underlying them have been presented solely to advance the economic interest of Egypt and Egyptians. The strategy must therefore be carefully examined, refined, and hopefully adopted by Egyptians.

Appendix A

Egyptian Exports, 1991 - 1993 Value (LE '000)				
BTN	Commodity	1991	1992	1993
01	Live Animals	37,635	102,329	109,619
02	Meat & Edible Offals	9,698	56,166	49,211
03	Fish Crustaceans & Molluscs	34,907	27,846	17,463
04	Dairy Products, Bird Eggs, Natural Honey	16,954	17,135	16,278
05	Products of Animal Origin, Others	6,721	7,752	6,173
06	Life Plants & Flowers	3,780	7,010	3,472
07	Edible Vegetable Roots & Tubers	308,637	354,745	333,877
08	Edible Fruits & Nuts	177,743	173,912	122,029
09	Coffee, Tea Mate & Spices	19,298	17,628	22,061
10	Cereals	123,334	197,793	145,235
11	Prod. of Milling Industry, Malt & Starches	760	859	1,555
12	Oil Seeds & Oleaginous Fruit & Fodders	86,989	94,713	98,536
13	Raw Veg. Mtrl. for Drying or Tanning	5,939	8,739	1,819
14	Vegetable Plating & Carving Materials	2,784	2,597	2,867
15	Animal & Vegetable Fats & Oils & Their Products	20,197	20,719	17,831
16	Preps. Of Meat, Fish & Crustaceans	1,097	2,124	965
17	Sugars & Sugar Confectionary	62,013	52,327	61,802
18	Cocoa & Cocoa Preparations	14,008	2,356	1,398
19	Preparations of Cereal, Flour or Starch	34,197	16,610	14,898
20	Preps. of Vegetables, Fruits & Their Parts	27,646	11,283	14,635
21	Miscellaneous Edible Preparations	35,829	24,461	35,429
22	Beverages, Spirits & Vinegar	18,724	12,261	19,925
23	Residues and Waste from the Food	23,344	22,399	37,535
24	Tobacco	1,071	2,484	2,061
25	Salt, Sulphur, Earth's Stone & Cement	17,265	56,370	52,284
26	Metallic Ores, Slag, & Ash	513	107	5,921
27	Mineral Fuels, Mineral Oil, and Products	6,348,551	4,455,138	5,216,491
28	Inorganic Chemicals	60,984	55,185	24,749

Egyptian Exports, 1991 - 1993 (continued)
Value (LE '000)

BTN	Commodity	1991	1992	1993
29	Organic Chemicals	21,335	20,625	9,412
30	Pharmaceutical Products	65,999	95,593	88,908
31	Fertilizers	43,167	146,477	55,309
32	Tanning, Dyeing, Extract & Colors	44,340	26,678	28,315
33	Essential Oils Resinoids & Toilet Preps.	124,365	69,538	58,385
34	Soap. Washing Preps. & Artf Waxes	53,779	25,943	14,512
35	Albuminoidal Substances, Glues	4,364	6,375	4,763
36	Explosives, Pyrotechnic Products & Matches	1,765	4,309	5,618
37	Photographic & Cinematographic Products	1,374	726	2,458
38	Miscellaneous Chemical Products	75,896	58,223	57,478
39	Artificial Resins & Plastic Materials	62,595	60,718	50,166
40	Rubber, Synthetic Rubber & Articles	16,598	11,879	6,425
41	Raw Hides & Skins	5,216	19,898	23,145
42	Articles of Leather & Saddlery	38,578	43,401	33,640
43	Furskins & Artificial Fur Manufactures	0	0	71
44	Wood, Charcoal & products Thereof	15,333	13,906	17,787
45	Cork & Its Products	0	2	117
46	Manufactures of Straw & Basketware	396	685	1,123
47	Paper Making Material	380	3	0
48	Paper & Articles of Paper	21,105	21,073	25,250
49	Printed Books, Newspapers & Pictures	22,682	24,044	23,634
50	Silk & Waste Silk	123	11	124
51	Man-made Fibers (continuous)	684	6,682	16,855
52	Metallized Textiles	39	49	0
53	wool & Other Hair	12,498	1,911	1,557
54	Flax & Ramie	15,131	20,000	20,813
55	Cotton	1,489,056	1,233,403	1,140,536
56	Man-made (discontinuous)	9,314	21,198	12,397

Egyptian Exports, 1991 - 1993 (continued)
Value (LE '000)

BTN	Commodity	1991	1992	1993
57	Other Vegetable Textile Materials	7	30	967
58	Carpets, Mats, Matting Tapestries, Pile	146,091	100,359	116,961
59	Wadding & Felt, Twine Cordage	7,960	9,704	12,489
60	Knitted and Crocheted Goods	198,418	173,305	194,810
61	Garments & Clothing Accessories	338,791	352,231	405,761
62	Other Made-up Textile Articles	123,552	126,602	172,599
63	Old Clothing & Other Textile Articles	5,008	3,902	2,997
64	Footwear & Parts Thereof	69,743	71,928	50,312
65	Headgear & Part Thereof	773	1,663	122
66	Umbrellas, Sunshades, Walking-Sticks & Whips	6	13	10
67	Prepared Feathers Artf. Flowers, Fans	76	1	27
68	Articles of Stone, Cement & Asbestos	1,395	2,228	5,071
69	Ceramic Products	46,137	37,106	49,315
70	Glass & Glassware	43,656	36,368	40,218
71	Pearls, Precious Stone, Imitation Jewelry	877	2,100	2,460
72	Coin	0	0	0
73	Iron & Steel & Articles Thereof	248,715	555,805	542,173
74	Copper & Articles Thereof	27,216	32,684	4,704
75	Nickel & Articles Thereof	52	21	0
76	Aluminum & Articles Thereof	531,227	657,908	503,445
77	Magnesium & Beryllium	1,629	455	357
78	Lead & Articles Thereof, Unwrought Lead	0	0	0
79	Zinc & Articles Thereof, Zinc Spelter	131	627	169
80	Tin & Articles Thereof, Unwrought Tin	0	23	0
81	Other Base Metal Employed in Metallurgy	33	10	66
82	Tools, Implements, Cutlery, Spoons	13,192	24,956	21,904
83	Miscellaneous Articles of Base Metals	14,447	22,197	23,509
84	Boilers, Machinery & Mechanical Applia. & Parts	46,084	43,441	29,559

Egyptian Exports, 1991 - 1993 (continued)**Value (LE '000)**

BTN	Commodity	1991	1992	1993
85	Electrical Machinery Equipment & Parts	75,599	62,276	38,234
86	Railway Tramway, Locomotives & Traffic Signs	0	75	6
87	Vehicles Other Than Railway, Parts Thereof	12,267	10,135	7,579
88	Aircrafts & Parts Thereof	126	11	0
89	Ship Boats and Floating Structures	4,271	821	1,092
90	Optical, Cinematographic & Parts Thereof	13,781	12,714	34,059
91	Clocks, Watches, and Parts Thereof	66	55	198
92	Musical Instruments, Sound Record & Parts	1,026	1,395	1,264
93	Arms, Ammunition, and Parts Thereof	495	5,468	2,563
94	Furnitures Parts Thereof, Bedding	131,125	77,438	64,809
95	Articles & Manufacturing of Carving	380	211	10
96	Brooms, Brushes & Feather Dusters	6,120	2,679	1,779
97	Toys, Games, Sports Requisites & Parts	594	1,746	3,161
98	Miscellaneous Manufactured Articles	4,284	3,620	3,950
99	Works of Art, Collectors Pieces & Antiques	2,532	719	857
	Total	11,764,708	10,171,226	1,046,451

Source: Foreign Trade Data Bank, CAPMAS

Appendix B

Cost Breakdown of Egyptian Export Industries (% of Total Costs) Processed Food		
Cost Category	Percent	
1. Commodity Inputs		63.4
Raw Materials:	-	
Domestic	51.9	
Imported	1.7	
Packing Materials	7.3	
Fuel	1.4	
Electricity	0.5	
Spare Parts & Other Commodity Inputs	0.9	
2. Services Inputs & Depreciation		11.6
Industrial Services Provided by Others	0.1	
Maintenance Expenses	0.5	
Other Service Expenses	7.2	
Depreciation	3.8	
3. Commodity Taxes and Duties (net of subsidies) (The gross ratio is 1.9%)		0.1
4. Labor		8.1
Salaries	7.2	
Fringe Benefits	0.3	
Social Fund Contributions	0.5	
Others (trainees)	-	
5. Land & Building Lease/Rent		0.6
6. Interests		2.8
7. Gross Profits (i.e. before taxes)		13.4
8. Total Costs		100.0
Source: Industrial Survey for the PSC, CAPMAS 1993		

**Cost Breakdown of Egyptian Export Industries
(% of Total Costs)
Household Textiles**

Cost Category	Percent	
1. Commodity Inputs		76.7
Raw Materials:		
Domestic	65.2	
Imported	7.7	
Packing Materials	1.0	
Fuel	0.3	
Electricity	0.9	
Spare Parts & Other Commodity Inputs	1.7	
2. Services Inputs & Depreciation		20.4
Industrial Services Provided by Others	2.3	
Maintenance Expenses	0.4	
Other Service Expenses	14.4	
Depreciation	3.3	
3. Commodity Taxes and Duties (net of subsidies) (The gross ratio is 0.4 %)		0.4
4. Labor		7.6
Salaries	6.5	
Fringe Benefits	0.2	
Social Fund Contributions	0.8	
Others (trainees)	0	
5. Land & Building Lease/Rent		0.2
6. Interests		2.2
7. Gross Profits (i.e. before taxes)		-7.4
8. Total Costs		100.0
Source: Industrial Survey for the PSC, CAPMAS 1993		

**Cost Breakdown of Egyptian Export Industries
(% of Total Costs)
Carpets**

Cost Category	Percent	
1. Commodity Inputs		87.8
Raw Materials:		
Domestic	66.1	
Imported	17.6	
Packing Materials	0.5	
Fuel	0.3	
Electricity	1.4	
Spare Parts & Other Commodity Inputs	1.9	
2. Services Inputs & Depreciation		26.4
Industrial Services Provided by Others	0.1	
Maintenance Expenses	0.3	
Other Service Expenses	23.3	
Depreciation	2.6	
3. Commodity Taxes and Duties (net of subsidies) (The gross ratio is 0.7%)		0.7
4. Labor		8.4
Salaries	7.2	
Fringe Benefits	0.2	
Social Fund Contributions	1.0	
Others (trainees)	-	
5. Land & Building Lease/Rent		0.1
6. Interests		3.6
7. Gross Profits (i.e. before taxes)		-27.0
8. Total Costs		100.0
* Less than 0.1%.		
Source: Industrial Survey for the PSC, CAPMAS 1993		

**Cost Breakdown of Egyptian Export Industries
(% of Total Costs)
Apparel**

Cost Category	Percent	
1. Commodity Inputs		63.5
Raw Materials:		
Domestic	60.1	
Imported	0.1	
Packing Materials	1.5	
Fuel	0.2	
Electricity	0.6	
Spare Parts & Other Commodity Inputs	1.0	
2. Services Inputs & Depreciation		21.0
Industrial Services Provided by Others	2.9	
Maintenance Expenses	0.5	
Other Service Expenses	13.3	
Depreciation	4.3	
3. Commodity Taxes and Duties (net of subsidies) (The gross ratio is 0.2%)		0.2
4. Labor		10.4
Salaries	8.9	
Fringe Benefits	0.3	
Social Fund Contributions	1.2	
Others (trainees)	-	
5. Land & Building Lease/Rent		0.5
6. Interests		0.9
7. Gross Profits (i.e. before taxes)		3.5
8. Total Costs		100.0
* Less than 0.1%.		
Source: Industrial Survey for the PSC, CAPMAS 1993		

Cost Breakdown of Egyptian Export Industries
(% of Total Costs)
Leather Footwear and Other Products

Cost Category	Percent	
1. Commodity Inputs		61.1
Raw Materials:		
Domestic	57.4	
Imported	0.2	
Packing Materials	1.4	
Fuel	0.1	
Electricity	0.5	
Spare Parts & Other Commodity Inputs	1.4	
2. Services Inputs & Depreciation		13.0
Industrial Services Provided by Others	0.1	
Maintenance Expenses	0.4	
Other Service Expenses	9.4	
Depreciation	3.2	
3. Commodity Taxes and Duties (net of subsidies) (The gross ratio is 0.1%)		0.1
4. Labor		10.9
Salaries	9.5	
Fringe Benefits	0.2	
Social Fund Contributions	1.2	
Others (trainees)	-	
5. Land & Building Lease/Rent		0.6
6. Interests		0.2
7. Gross Profits (i.e. before taxes)		14.1
8. Total Costs		100.0
* Less than 0.1%.		
Source: Industrial Survey for the PSC, CAPMAS 1993		

**Cost Breakdown of Egyptian Export Industries
(% of Total Costs)
Non-Metallic Furnitures and Alike**

Cost Category	Percent	
1. Commodity Inputs		58.0
Raw Materials:		
Domestic	54.0	
Imported	0.8	
Packing Materials	0.6	
Fuel	0.2	
Electricity	1.0	
Spare Parts & Other Commodity Inputs	1.3	
2. Services Inputs & Depreciation		21.8
Industrial Services Provided by Others	2.2	
Maintenance Expenses	0.8	
Other Service Expenses	15.0	
Depreciation	3.9	
3. Commodity Taxes and Duties (net of subsidies) (The gross ratio is 0.3%)		0.3
4. Labor		15.7
Salaries	13.9	
Fringe Benefits	0.3	
Social Fund Contributions	1.4	
Others (trainees)	-	
5. Land & Building Lease/Rent		0.8
6. Interests		3.7
7. Gross Profits (i.e. before taxes)		-0.7
8. Total Costs		100.0
* Less than 0.1%.		
Source: Industrial Survey for the PSC, CAPMAS 1993		

**Cost Breakdown of Egyptian Export Industries
(% of Total Costs)
Fertilizers**

Cost Category	Percent	
1. Commodity Inputs		65.8
Raw Materials:		
Domestic	55.4	
Imported	0.8	
Packing Materials	8.6	
Fuel	-	
Electricity	0.2	
Spare Parts & Other Commodity Inputs	0.8	
2. Services Inputs & Depreciation		23.4
Industrial Services Provided by Others	-	
Maintenance Expenses	0.2	
Other Service Expenses	21.7	
Depreciation	1.5	
3. Commodity Taxes and Duties (net of subsidies) (The gross ratio is 0.4%)		0.4
4. Labor		3.9
Salaries	3.2	
Fringe Benefits	0.4	
Social Fund Contributions	0.3	
Others (trainees)	0	
5. Land & Building Lease/Rent		0.1
6. Interests		0.3
7. Gross Profits (i.e. before taxes)		6.1
8. Total Costs		100.0
* Less than 0.1%.		
Source: Industrial Survey for the PSC, CAPMAS 1993		

**Cost Breakdown of Egyptian Export Industries
(% of Total Costs)
Pharmaceuticals**

Cost Category	Percent	
1. Commodity Inputs		60.2
Raw Materials:		
Domestic	33.1	
Imported	17.5	
Packing Materials	7.8	
Fuel	0.2	
Electricity	0.5	
Spare Parts & Other Commodity Inputs	1.1	
2. Services Inputs & Depreciation		18.5
Industrial Services Provided by Others	0	
Maintenance Expenses	0.8	
Other Service Expenses	13.5	
Depreciation	4.3	
3. Commodity Taxes and Duties (net of subsidies) (The gross ratio is 1.1%)		1.1
4. Labor		8.9
Salaries	7.1	
Fringe Benefits	1.0	
Social Fund Contributions	0.8	
Others (trainees)	0	
5. Land & Building Lease/Rent		0.2
6. Interests		4.9
7. Gross Profits (i.e. before taxes)		6.2
8. Total Costs		100.0

Source: Industrial Survey for the PSC, CAPMAS 1993

**Cost Breakdown of Egyptian Export Industries
(% of Total Costs)
Electrical Machinery and Household Appliances**

Cost Category	Percent	
1. Commodity Inputs		49.0
Raw Materials:		
Domestic	48.1	
Imported	0	
Packing Materials	0.3	
Fuel	0.1	
Electricity	0.3	
Spare Parts & Other Commodity Inputs	0.2	
2. Services Inputs & Depreciation		20.3
Industrial Services Provided by Others	*	
Maintenance Expenses	0.2	
Other Service Expenses	14.5	
Depreciation	5.5	
3. Commodity Taxes and Duties (net of subsidies) (The gross ratio is 3.6%)		3.6
4. Labor		6.1
Salaries	4.9	
Fringe Benefits	0.4	
Social Fund Contributions	0.8	
Others (trainees)	*	
5. Land & Building Lease/Rent		4.0
6. Interests		3.2
7. Gross Profits (i.e. before taxes)		13.8
8. Total Costs		100.0
* Less than 0.1%.		
Source: Industrial Survey for the PSC, CAPMAS 1993		