UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

INVESTMENT POLICY REVIEW

EGYPT

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Note

UNCTAD serves as the focal point within the United Nations Secretariat for all matters related to foreign direct investment and transnational corporations. In the past, the Programme on Transnational Corporations was carried out by the United Nations Centre on Transnational Corporations (1975-1992) and the Transnational Corporations and Management Division of the United Nations Department of Economic and Social Development (1992-1993). In 1993, the Programme was transferred to the United Nations Conference on Trade and Development. UNCTAD seeks to further the understanding of the nature of transnational corporations and their contribution to development and to create an enabling environment for international investment and enterprise development. UNCTAD's work is carried out through intergovernmental deliberations, technical assistance activities, seminars, workshops and conferences.

The term "country" as used in this study also refers, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

The following symbols have been used in the tables:

Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row;

A dash (-) indicates that the item is equal to zero or its value is negligible;

A blank in a table indicates that the item is not applicable, unless otherwise indicated.

A slash (/) between dates representing years, e.g., 1994/95, indicates a financial year;

Use of a hyphen (-) between dates representing years, e.g., 1994-1995, signifies the full period involved, including the beginning and end years.

Reference to "dollars" ($) means United States dollars, unless otherwise indicated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals because of rounding.

The material contained in this study may be freely quoted with appropriate acknowledgement.

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INVESTMENT POLICY REVIEW SERIES

1. Egypt
2. Uzbekistan
3. Uganda
4. Peru

CONTENTS

PREFACE

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

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

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

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

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

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

Geneva, June 1999

INTRODUCTION

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

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

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

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

Chapter I summarizes recent FDI trends, situates Egypt in the world economy, and compares its FDI and trade performance with that of other countries. In brief, FDI has flowed into Egypt at a steadily increasing pace in the 1990s and the current level of inflow appears to be more stable than earlier. However, while FDI flows to Egypt are increasing, flows to other developing countries have been increasing more rapidly. Between 1990 and 1997, Egypt no longer ranked among the 20 largest recipients of FDI among developing countries; it should. Perhaps the resurgence is already under way, as preliminary data for FDI flows in1998 totalled US$ 1.8 billions. FDI approvals also suggest a substantial increase in realized flows over the next few years. Egypt currently boasts 26 out of the 100 world's largest TNCs. Domestic firms also benefit from a range of non-equity form arrangements with TNCs, including alliances, leasing technology or brand names, marketing and so on.

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

Table. Indicators of macroeconomics performance, 1990-1998

(*Billions of US dollars and percentages*)

Years	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Real GDP growth, %	3.5	1.9	2.5	3.9	4.7	4.9	5.3	5.9
Inflation (CPI), %	22.0	21.1	15.0	6.0	9.4	7.2	4.8	3.8
Fiscal deficit, % GDP	17.7	5.4	3.5	2.1	1.2	1.3	0.9	1.0
CA balance, % GDP	3.1	9.5	10.4	9.8	0.3	1.5	1.2	0.1
External debt, % GDP	107.7	89.5	69.2	58.0	55.7	45.9	57.5	34.3