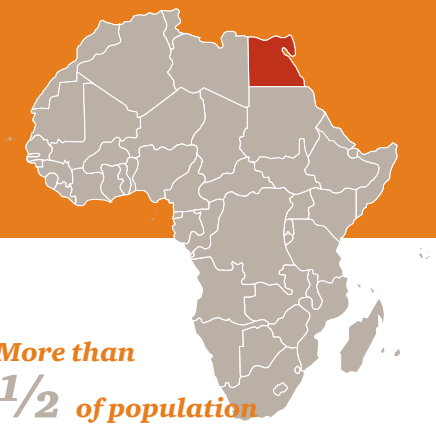
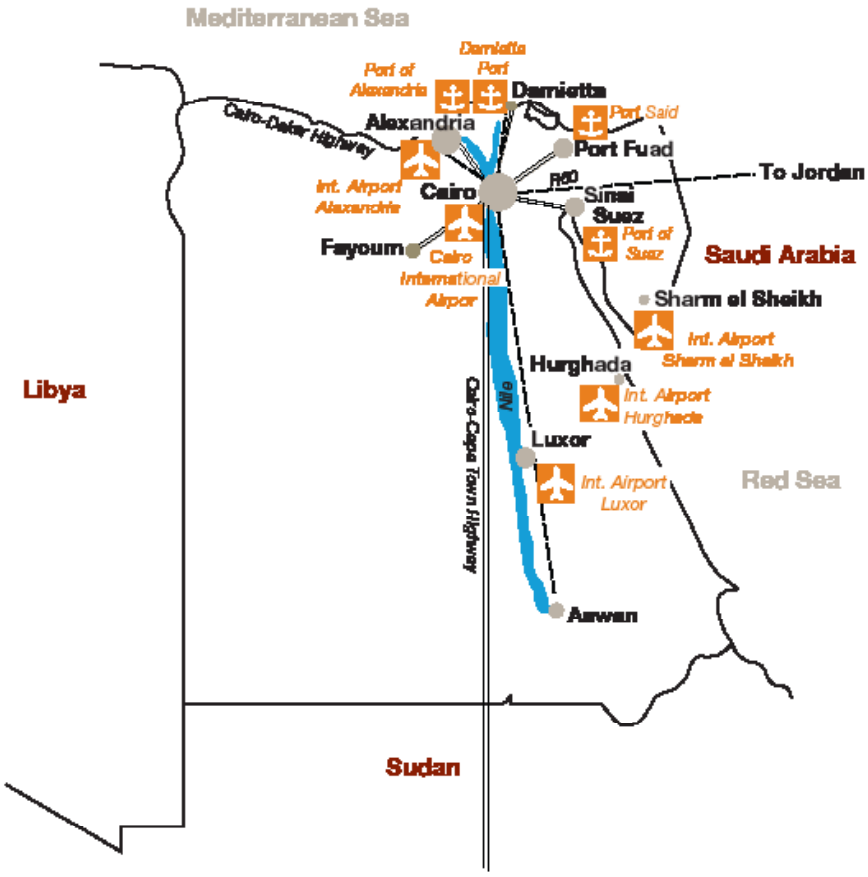
Egypt



Prospects for Egypt were challenging even before the recent unrest and political turmoil. Major obstacles include widespread poverty, rising unemployment, slow economic growth and a lack of investment.

More than 1/2 of population with secondary education



FDI flows into Egypt declined sharply after the popular uprising in 2011 as a result of the increase in political risk and deterioration in macroeconomic stability that followed the overthrow of the Mubarak regime. While these recovered slightly in 2012, the recent uprising in 2013 will once again decrease FDI flows into Egypt.[i]

Despite the challenges, Egypt has a number of key indicators supporting growth. **The Egyptian economy can draw upon a large population, with more than 50 per cent having finished secondary education** – which is far above the average of the African peers analysed in this report. Egypt has the biggest share of stable middle-class population, a widely diversified economy and the Suez Canal, the country's greatest asset.

Egypt is still waiting for a large IMF loan of US$4.8 billion. But even before the removal of Mohamed Morsi and his government, there were many uncertainties as to when the 22-month stand-by arrangement would be finalised.[ii] However, in the

These bubbles represent the cities of Egypt and the size of the bubbles indicates the population size of the city

Airport | Port | Future Airport | Future Port | Future Railway | Future Road | Railway | Road

"COMESA is a fantastic trade agreement. And it comes as an advantage if you are trading between Cairo and East Africa, for example. Every product produced in Cairo – and Cairo has some manufacturing power – if you transport it to East Africa, it goes without duties. On top of that, the chamber of commerce back in Egypt will give you an incentive on the shipping as well: they subsidise the shipping. But the problem that we have, is that these agreements are fairly unknown."

Hussein Hachem, CEO, Aramex

meantime the importance of the loan has diminished due to funds having been acquired from the Gulf Cooperation Council (GCC) and others.

The political situation, increased levels of uncertainty and socio-political tensions make definitive forecasts difficult and also suggest that Egypt will continue to suffer in the aftermath of the uprising.

Trade

Positive measures to improve the trade environment were halted in 2013 with the removal of Morsi.

International trade constitutes a sizeable proportion of domestic GDP, with exports and imports accounting for 21% and 25% of GDP respectively. Petroleum and related products and natural gas constitute the major proportion of exports.

Despite the importance of international trade to economic growth in Egypt, the country's external position has deteriorated rapidly over the past two years. Egypt's overall current account deficit is estimated to have widened slightly in nominal terms during 2012, while its trade deficit has widened sharply.

To help facilitate international trade, Egypt is a member of several trade blocs including the African Economic Community (AEC), Preferential Trade Area for Eastern and Southern Africa (PTA) and Common Market for Eastern and Southern Africa (COMESA).

Egypt also signed an association agreement with the EU and is looking to leverage its strong ties with the US Government. Notably, Egypt has defined qualified industrial zones, allowing products manufactured in these zones zero-rated tariff entry in the US. Companies producing largely for export can set up business in these free zones.

The Government's post-2004 reform drive brought significant changes to Egypt's tariff system, with a cut in the weighted average tariff rate from 14.6% to 14.1% and the slashing of the number of tariff bands.

Further tariff reductions had been planned before the recent political developments. Notably, all export taxes had been eliminated and average import tariffs were reduced from 9% to 7%.

Although economic growth averaged 3.0% between 2010 and 2012, and was projected by the International Monetary Fund to rise to 4.9% between 2012 and 2017 in April 2013, this is now unlikely to be achieved. Growth forecasts for the same period have already been reduced to 3.4% in October 2013. In addition to the general political development, much-needed improvements in economic policy have been delayed.

Egypt's fiscal position has deteriorated further in recent months and public debt is also extremely high. A period of painful fiscal and monetary tightening will be needed, but this appears to be difficult to communicate to the people at this stage. The Government will need to implement austerity measures such as subsidy cuts and tax increases. Still, the US Dollar to Egyptian Pound exchange rate and the balance of payments have both improved lately.

Business environment

Egypt's business environment continues to bear the legacy of years of state domination of the economy. There is evidence of a public backlash against pro-market reforms. Anti-Western sentiment could also make life difficult for investors.

Egypt is rated poorly on the Global Competitiveness Index and fell 26 places between 2011 and 2012. Key factors driving this are the weak institutional environment, lack of innovation and lack of financial development.

The rule of law has been unstable across the country. Property rights are not protected effectively and corruption continues to erode trust in the economic system. Between the time that the political upheaval began in 2011 and May 2013, more than 6 000 corruption investigations and several high-profile scandals have tarnished the image of business.[iii]

Bureaucracy is another major issue for foreign companies, with legal and property transactions often subject to severe delays. Before the removal of Morsi, the unstable socio-political climate in Egypt was being fuelled by the Government's inability to implement structural reforms to improve the efficacy of the institutional framework.

80m
Largest population in Arab world

4GW *shortage of electricity in summer*

As part of the economic reform plan that was sent to the IMF to close the multi-billion-dollar loan, the Egyptian Government included some tax measures. These included an increase in the corporate tax rate and sales tax rate on six products as well as the introduction of a financial transaction tax.

Labour

If the political situation settles, Egypt could benefit from its large, well-educated labour force.

With the largest population in the Arab world – about 80 million – Egypt has a fairly large labour force of nearly 27 million, with up to 700 000 new entrants into the market annually. The growing surplus of labour is increasing strain on the working population on the one hand and creating pressure on wages on the other.

By African standards the labour force is also well educated and has the third-highest rate of secondary education among the ten countries in this study. Only South Africa and Ghana rate higher.

An important structural problem in Egypt is its labour policies, which are frequently cited as an obstacle in doing business since there are significant restrictions on the hiring and firing of workers.

Power

With its huge investments in the energy sector, Egypt is beginning to address rising power demand.

Egypt's mineral and energy resource base is made up for the most part by oil and natural gas, iron ore, phosphates and gold. Notably, crude oil production has been in decline for several years, but oilfields in the Mediterranean seabed have opened up fresh opportunities for reviving the country's oil export business. The Government has also been encouraging the exploration, production and domestic consumption of natural gas.

Rising demand and capacity constraints in electricity supply are in danger of negatively affecting industrial growth in Egypt. This could have a knock-on effect in other areas such as transport and logistics.

A recent statement by the National Electricity Control Center indicates that the **shortage of electricity reached 4GW during the summer.** While the power grid is supposed to generate 26.5GW, available capacity only reached 22.3GW.

Egypt had planned to invest US$110 billion in power infrastructure over the 2010-2027 period. For the 2012-2017 phase, there are ambitious targets, including an additional 12GW to be added to the national grid, along with 1.2 million new connections. These targets would appear to be beyond reach in the current circumstances and it is doubtful that they can be met.

A major problem affecting the sector is a lack of natural gas feedstock for power plants, a challenge that has become more acute in the past year. There are suggestions that some of Egypt's gas export ambitions will have to be limited in order to create sufficient supply for domestic usage.

Key indicators

Population size (million, 2012)	80.7
Population growth (2012-2020, avg p.a.)	1.5%
GDP (US$ billion, 2012)	256.7
GDP growth forecast 2012-2017 (avg, y/y rate)	3.4%
GDP per capita (US$, 2012)	3 112
Global competitiveness index 2012 (global rank/144 (score 1-7))	107 (3.73)
Corp. Income Tax (CIT) rate	25.0%
Top exports	Petroleum oils and oils obtained from bituminous minerals, crude (18.3%); Natural gas, liquefied (9.5%); Light oils and preparations (5.5%)
Logistics Performance Index 2012 (global rank/155 (score 1-5))	57 (2.98)
Global Competitiveness Index 2012 – Infrastructure (global rank/144 (score 1-7))	83 (3.61)

Significant agricultural growth potential

Greater size of middle class augurs positively for retail & consumer sectors

Agriculture

Egypt has significant agricultural growth potential. Warm weather and plentiful water permit several crops per year. The land is worked intensively and crop yields are high.

Agriculture contributes 14% of the country's GDP and employs roughly 40% of the labour force. However, the agricultural sector's contribution to GDP is declining.

Services

The services sector is by far the largest and fastest growing in the Egyptian economy, accounting for approximately 50% of GDP. Tourism, trade, banking and shipping services on the Suez Canal all constitute the main sources of revenue in the sector. The current unrest is therefore likely to have the most negative impact on the services sector.

The greater size of the middle class compared to its regional peers augurs positively for growth in Egypt's retail and consumer goods industry. The middle class constitutes 31.6% of the population with per capita GDP of US$3 112, which is projected to increase to US$4075 by 2017.

Tourism

Tourism suffers profoundly amid ongoing unrest.

Even before the most recent political turmoil, the unstable socio-political environment in Egypt adversely impacted the country's tourism sector, which has historically been a key driver of domestic employment growth.

Following the removal of Morsi, tourism numbers have nosedived, just as they were recovering after the popular uprising in 2011. This is greatly concerning for a sector that makes up more than 10% of Egypt's economy. Although tourists are typically resilient and return to holiday destinations once calm has been restored, a full recovery of the tourism sector will take some time.[iv]

Industry

The industrial sector is the second-largest economic sector in Egypt, accounting for 37% of GDP. Approximately 13% of the total labour force is employed in industrial activity, which is concentrated in Cairo and a burgeoning construction industry.

Logistics

Logistics Performance Index

Source: World Bank

The World Bank's Logistics Performance Index shows Egypt has significantly improved its logistics performance over the past few years, with the country moving from 92nd in 2010 to 57th in 2012 and showing improvement in all indicators.

Increased efficiency in international shipments and infrastructure improvements rate strongly in the country's logistics performance.

While customs procedures also saw significant improvement between 2010 and 2012, they are still relatively inefficient.

Since major investments in the country's infrastructure have been put on hold, Egypt is not likely to advance its logistics performance any further in the near term.

Infrastructure

The good state of current infrastructure will not be sustained as numerous projects have been put on hold.

The sheer scope of projects currently under consideration will require a huge investment drive and will be almost wholly reliant on FDI. But, given the current political uncertainty, international investment is not likely to be forthcoming.

Transport

The transport sector in Egypt faces numerous other problems as well. Recent reports suggest fuel shortages are resulting in long queues of cars, taxis and trucks. Most of Egypt's territory has been affected, but the problems are particularly severe in the south. Even if the Government is able to secure the IMF loan, the Government will then be under pressure from the IMF to phase out US$14.5 billion a year in fuel subsidies as part of its austerity programme.[v] Fuel could therefore become an increasingly serious issue.

Despite the current situation, Egypt's transport infrastructure is in relatively good condition, compared to that of its African peers. Transport

40
seaports

5
international airports

routes in Egypt are mainly focused on Cairo and also follow settlement patterns along the Nile. The road transport network is supplemented by good inland water connections along the Nile as well as a good rail network.

Ports and Suez Canal

Egypt owns the Suez Canal and a broad port infrastructure.

Egypt's geographical location lends an important aspect to the maritime transport sector as it overlooks both the Mediterranean and Red Seas, linked by the Suez Canal. The Suez Canal will remain a huge asset as it is the main trade route between Europe and Asia, accounting for roughly 7.5% of world sea trade. Despite being Egypt's greatest asset, the Suez Canal could also become a huge liability though. Any disruption on the narrow passage could cause major delays and cause a spike in transport costs.

Most importantly, the Suez Canal is one of the world's five 'strategic chokepoints', defined as narrow sea passages or straits, through which the overwhelming majority of the world's oil flows. In light of its strategic importance, the threat of maritime terrorism at the Suez Canal cannot be ruled out.[vi]

Egypt has 40 sea ports, of which 12 are commercial ports; six mining ports; six fishing ports; five marinas; and 10 oil-shipping ports. Among the most important ports are Alexandria, the biggest port in Egypt, and the Port of Dekheila, which is a natural extension to the Port of Alexandria.

Damietta Port has the largest container terminal and the most sophisticated equipment in the Middle East, while Port Said and Port Suez occupy strategic positions at each end of the Suez Canal.

In addition to the sea ports, a network of river transport across the Nile Delta and its tributaries facilitates the transport of goods and commodities.

Air transport

Egypt's airport development plans are driven by long-term tourism opportunities.

Egypt has 73 airports with paved runways, five of which are international airports. The largest and most active airport is in Cairo, being the second-busiest airport in Africa after O R Tambo in Johannesburg. There are non-stop flights from most major African, Asian, North American and European cities.

Despite current setbacks resulting from the political situation, tourism is a long-term growth industry in Egypt, and airports need to be improved to keep up with increased demand. One step in meeting this need is the extension of Hurghada International Airport, where a new airfield is to be built. The airport has also undergone massive renovations to accommodate a dramatic rise in leisure traffic.

The international market is well served by numerous European and Middle Eastern carriers, while about a dozen local airlines compete in the domestic market.[vii] There are frequent flights within the country and improvements to the air infrastructure will increase handling capacity and efficiency, which will benefit the transport and logistics sector.

Rail

Up to 85% of rolling stock is long past its replacement date.[viii]

Egypt has a fairly reliable state-run railway system. The railway connects Cairo and Alexandria with the main towns in the north of the country, all the large towns in the Nile Basin down to Aswan, and Safaga on the Red Sea coast.

The rail network essentially follows the Nile settlement patterns with high network coverage in the north east of the country and following the Nile through the length of the country. Egypt's rail sector can be described as adequate in its ability to handle the country's needs, although its operational capacity is stretched to the limit.

The rail system is not safe and accidents are common. In January 2013, the Ministry of Transportation confirmed that 82% of track relies on outdated mechanical systems and that there are an average of 12 rail crashes per month in Egypt.[ix] Considerable work is required to upgrade the system and improve the safety record.

Roads

Road density follows economic activity at the coast and along the Nile River.

Egypt's roads carry the largest share of freight (53%), which increases the country's dependence on the maintenance of the road infrastructure. Until now, the quality of Egypt's road network has been considered good, with 92% being paved. Roads in Egypt are mainly

Largest share of freight carried by road

focused on Cairo and – just like railway lines and the country's infrastructure in general – follow settlement patterns along the Nile.

The densest network of roads is in the north-east of the country and connects Cairo to the ports as well as to the rest of the Middle East through the Sinai Peninsula. In contrast to the reasonably extensive network in the north-east and along the Nile, connections within the south of the country are sparser and need to be expanded.

Plans to build a 32km bridge connecting Saudi Arabia and Egypt across the Gulf of Aqaba were recently revived following the change of political leadership in Egypt, but now appear to be a long way off. The bridge would be built to handle both rail and road traffic, and would use tolls to recoup the cost of construction, estimated to be in the region of US$3 billion.

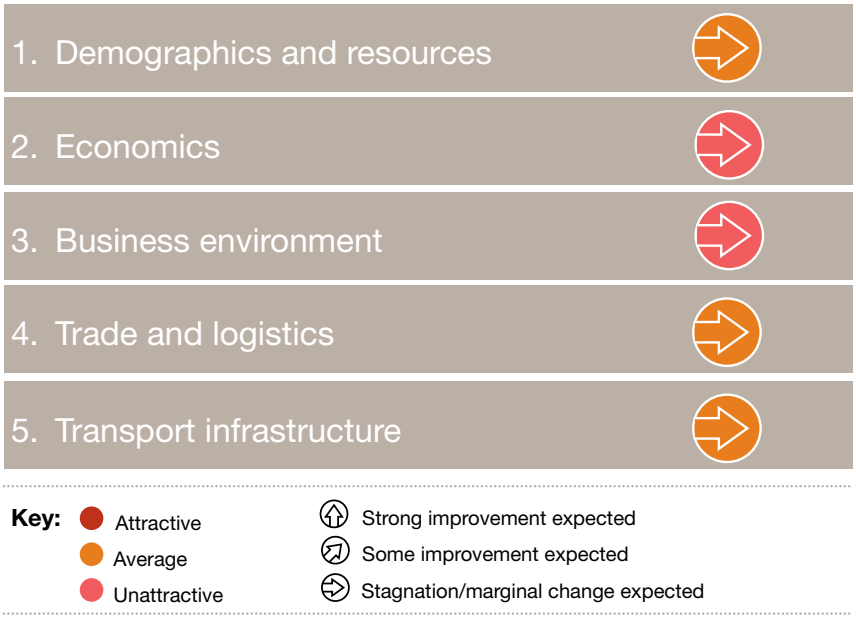
Before President Morsi was ousted, the Government had recognised the importance of the road network to the national economy and outlined US$5.46 billion in investments to improve the road transport system to facilitate the more efficient movement of goods. However, the current circumstances increase the risk of deterioration in road quality and congestion while making development of new road infrastructure more unlikely.

With levels of car ownership having increased substantially, it is clear that the continual expansion of the road network and the creation of freight corridors will be a vital step in helping to ease congestion and drive economic development. At the moment Egypt is the starting point for two major trans-African highway corridors: first, the Cairo-Dakar Highway along the Mediterranean Coast, and second, the Cairo-Cape Town Highway, running north to south.

Conclusion

Based on our analysis, we have assessed the investment potential for Egypt's transportation and logistics sector as shown in the graphic below.

Egypt – Investment potential assessment



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