Gateway to the world

It's long been home to many wonders of the world. Now, Egypt is setting itself up as an export base for companies seeking access to that part of the world and beyond

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Alexandria is Egypt's largest seaport, servicing about 80% of its foreign trade. From there to Cairo, the capital and economic engine of the country, is a 225 km hop. Barely 20 years ago, the road connecting the two most important cities of Egypt looked like an asphalt parting in a sea of sand. Today, Smart Village, an industrial zone built for IT companies along this desert road, houses the glitzy offices of about 100 companies. There are global giants like Microsoft, IBM and Oracle, and relatively smaller Indian firms such as Satyam Computer and Wipro.

For these IT companies in Smart Village, Egypt, the most populous and one of the hottest emerging economies in the Arab world, is more than a market. It's also a gateway to the world—a position it held in ancient times, lost out over the ages and is now moving with vigour to reclaim. All of the Middle-East lies to its left, North Africa to its right, Europe is separated by the Mediterranean Sea and North America is an ocean away.

Through a combination of radical tax cuts in 2004, the creation of an environment that lets companies set up a business within 9-15 days and preferential trade treaties with the four above-mentioned regions, Egypt is positioning itself as a worthy export base for companies targeting these markets.

It is certainly on the radar of Indian companies. With a total investment of around $585 million in 210 projects, India is the 33rd largest investor in Egypt, according to the Egyptian General Authority for Foreign Investment (GAFI), the driver of foreign investment in the country. While companies like Dabur and Ranbaxy have been present in Egypt from the early-nineties, since 2006, more Indian companies are taking their first steps in the country, both through acquisitions and fresh operations.

We got government

FMCG major Marico has three manufacturing units for hair products, including two acquisitions, generating revenues of about $21 million a year. The Sanmar Group, which has interests in chemicals, shipping and engineering, bought Trust Chemical industries, a manufacturer of caustic soda, in Port Said, in March 2007.

support. And a conducive business climate and multilingual workers made the decision easy

—Anand Sankaran, Chief Executive, Wipro Infotech

IT major Satyam Computer has about 225 employees, including 78 catering to other geographies; Wipro set up a centre earlier this year with about 50 employees; TCS is getting ready to enter.

Says Mohammed Embaby, Country Head, Satyam Computer, Egypt: "We can think of Egypt as an African, a Middle-East country or a Mediterranean country. We plan to service all three regions from here."

Trade push

Marico's experience typifies what Egypt has to offer today. Egypt was conceived by Marico as a move into a new market; in time, it became more than that. In 2006, Marico acquired the manufacturing plants and brand rights to two leading domestic hair products—a hair cream (Fiancee) and a hair gel (Hair Code). Marico, which has a 62% share of the hairstyling market in Egypt, earned 3.5% of its total 2007-08 revenues from Egypt. It's now looking to leverage Egypt as a gateway to the world.

Marico recently completed building its third plant in Egypt, to make about 400-500 tonnes of Parachute coconut oil per month. "The new plant will be the sourcing hub for neighbouring countries like Sudan, Syria, Iran, Liberia, and Saudi Arabia," says Brajesh Bajpai, Regional Head, Middle East and North Africa (MENA), Marico.

Arabian Dreams

Some of the Indian companies that have hit the road to Egypt after it opened its economy in 2004

	Year of entry	Operations
M&M	2008	JV with Bavarian Auto Group to assemble Scorpios for Egypt and later for other markets
Marico	2007	Has three hair-product plants; looking at exports to Middle-East and North African countries
Sanmar Group	2006	Paid $275 million to acquire caustic soda producer Trust Chemical Industries
Satyam	2006	Delivery centre with 225 employees, including 78 catering to neighbouring geographies
Wipro	2008	Global development centre in Smart Village, with 50 employees

Source: Companies, industry reports

What's got Bajpai excited is the cut in corporate tax rates from 42% to 20% in Egypt and the minimal or zero customs duties levied on Marico's exports from Egypt because of the trade pacts. "We will now be more competitive," says Bajpai. For Marico, the operative trade pact will be the Greater Arab Free Trade Area (GAFTA), which came into existence on January 1, 2005. GAFTA is to the Arab countries (17 members) what Asean is to Asia. In the last four years, GAFTA has brought down the customs duties levied by member countries by 40%.

GAFTA is one of the many trade pacts that Egypt has signed and, more importantly, is using to drive exports and draw companies to set up base in the country. The country has trade pacts—which essentially translate into lower customs duties for its goods—with virtually every region in its circle of access. *(scroll down for table: **Shaking Hands With Neighbours**).*

The Qualifying Industrial Zones (QIZ) agreement with the US came into effect in 2005 to forge better economic ties between Egypt, Israel and the US, as part of the Middle-East peace process. This deal provides duty-free access to Egyptian companies to the US, provided manufacturing activity equivalent to 35% of the value of the good happens in Egypt and raw materials worth 10.5% of the value of the good are from Israel.

Egypt's oldest and largest industry, textiles and apparels, was the biggest winner from this trade deal. In the first year of the QIZ agreement, Egyptian garment exports to the US rose 41%. QIZs have given a fillip to the food industry as well. Free of the 10-30% customs duty imposed by the US on prepared vegetables, food exports too have soared over the years. Other sectors that have gained are leather products, sports footwear, glassware, chemical products and machinery equipment. Around 720 companies have joined the QIZ till now.

Similarly, Mahindra & Mahindra (M&M) is looking to leverage COMESA and Agadir

(trade pacts with African countries). Earlier this year, M&M set up an assembly unit in Egypt to assemble Scorpio, in partnership with the Bavarian Auto Group, an Egyptian automobile manufacturer and trader. The unit has an annual capacity of 5,000 units. "We assemble 24 Scorpios a day and there is good demand for it in Egypt," says Friedrich Becker, Operations General Manager, Bavarian Auto Group, which also assembles BMWs and Chinese Brilliance for neighbouring markets. Adds Pravin Shah, Executive Vice-President, International Operations, M&M, "Egypt is a strategic market. We are looking at it as an export base since Egypt has trade agreements with other countries in the Middle-East and North Africa. Also, the government there has good relations with countries like Libya and Sudan, which makes it easier for us to enter these markets."

We think of Egypt as an African, a Middle-East or a Mediterranean country. We'll service all three regions from here — Mohammad Embaby, Country Head, Satyam Computer, Egypt

Reforms push

Agreements that facilitate trade have to be complemented with favourable business conditions. Egypt has done much in the last four years towards this end. It simplified and reduced tariffs, eased licensing and registration procedures, and revamped its trade policies. Explaining the thinking behind the reforms, Neveen El Shafei, Vice-Chairman, GAFI, says: "We had to increase the contribution of the private sector to the GDP. Also, we had to create 600,000 jobs every year to sustaining the 7.1% GDP growth. We realised that funds have to come from private and foreign investors."

To woo investors, GAFI was set up as a one-stop investment clearance outfit. Today, it takes just seven days to start a business in Egypt. By comparison, it takes 11 days in neighbouring Tunisia, 12 in Morocco, 15 in Saudi Arabia, 35 in Kuwait. Says Marico's Bajpai: "We were surprised. It took just us one day to get land allotment and seven days for procurement."

Investments have been flowing in. In 2007, Egypt got FDI of $11 billion—five times the 2004 level. In the 2006 version of *Doing Business*, a World Bank project that tracks business regulations and their enforcement across countries, Egypt was ranked 152 out of 175 countries on ease of doing business. In 2008, Egypt had moved up to 114 (India was at 122, China at 61). In starting a business, Egypt was ranked 41, much ahead of India (121) and China (151).

IT push

Egypt has singled out some sectors for greater attention. Chief among them is the information, communications and technology (ICT) sector, which should be of great interest to Indian IT. The Egyptian government's plan is to increase its IT exports from the current $150 million to $1.1 billion by 2010 while doing work across verticals and business lines, and compete globally in providing IT-enabled services in the next five years.

Egypt is offering a five-year tax holiday to all software companies, 10 years to those that set up operations in new industrial zones. It has removed customs and sales tax on software (previously 5% and 10%, respectively). There are subsidies for training also. Says Dr Hazem Abdelazim, CEO of the Information Technology Industry Development Agency, an Egyptian government body: "We gave them (Satyam and Wipro) incentives like rental and training subsidies of 85-100%. Telecom infrastructure and furniture was also subsidised." Further, about 70,000 engineers pass out every year in Egypt.

Shaking Hands With Neighbours

Low or no customs duties under trade pacts are making Egypt an attractive export base

Trade Pacts	Country/region	Year	Benefits to Egyptian exporters
COMESA[1]	19 countries in East and South Africa	1994	Free trade among member countries
QIZ[2]	US	2005	Duty-free acess to US markets
Agadir	Jordan, Tunisia, Egypt, Morocco	2004	Duty-free access to Mediterranean nations
EFTA[3]	Iceland, Liechtenstein, Norway and Switzerland	2007	Duty-free market access for member states
GAFTA[4]	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon. Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, UAE, Yemen	2005	An Arab free trade zone for exports and imports; 40% decrease in customs duty
EU-Egypt Partnership Agreement	EU	2004	Liberalises trade in industrial products and processed agri products

[1] The Common Market for Eastern and Southern Africa; [2] Qualified Investment Zones; [3] European Free Trade Association; [4] Greater Arab Free Trade Area

Source: Industry reports, websites

Satyam was one of the earliest Indian IT companies to enter Egypt, in 2006. Says Embaby, the company's Country Head: "We picked Egypt for its geographical location." Adds Anand Sankaran, Chief Executive, Wipro Infotech: "We got support from the government. And then, a conducive business environment and workers who speak English, Arabic, French, German and Italian made the decision for us."

Both Satyam and Wipro have said they will set up R&D operations in Egypt. The numbers are building up. Says Girish Trivedi, Deputy Director, Telecom Practice, Frost & Sullivan, South Asia & Middle East: "Since 2000, the number of ICT companies has quadrupled to 2,400. Investments in ICT accounted for about 15% of all investments, which is high for a developing country like Egypt."

Pharma is another focus sector. Egypt is offering industrial zones to Indian pharma companies. Dr Reddy's Laboratories, Ranbaxy Laboratories and Neuland Laboratories already have a presence, while some more have initiated talks with an eye on the $2 billion market there. It looks like all roads lead to the desert.

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