



THOMAS WHITE - GLOBAL INVESTING
CAPTURING VALUE WORLDWIDESM



Country Profile: Egypt

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It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in dark ink, reading "James S. White, Jr." in a cursive script.

Egypt: Emerging from the Sands of Time



King Tut, Egypt's boy king, never fails to draw visitors, boosting tourism in the country. Egypt is overhauling its tourism industry in a bid to bring more foreign and domestic investment to the sector. Tourism is an essential part of the economy, employing 13% of the workforce and bringing in 19.3% of the foreign exchange.

Grit from the desert swirls around in blazing winds, as the shadows of the pyramids lengthen on the desert sands. On the other side, a salty breeze mingles with sweat as people walk along the shores of the Mediterranean, and across the shimmering streets the sun sets on this charming potpourri of history and modernity. Egypt snuggles along the beaches of the Mediterranean Sea on the North and the Red Sea on the East, with Sudan and Libya bordering on the South and West. Egypt is almost magical with stories of Pharaohs and treasure still lingering in the air, a past laden with fact and lore. But this mystic trance is snapped in the chaos of reality buzzing in the bazaars, alive with the intermingling of smoke from hookahs, kebabs cooking in spices and women perfumed with attar.

A royal past

The sweep of Egyptian history is enormous, filling more than 5,000 years with astounding architecture, art, literature and invaluable inventions. An Egypt populated by primitive tribes flourished along the banks of the Nile before the dynasties of the Pharaohs. The life giving river was so revered that Egypt was divided into Upper and Lower Egypt on the basis of its direction. But King Menes soon unified the two sides and with him began the rule of the Pharaohs around 3000 B.C.

The Pharaonic Era is divided into the Old Kingdom, the Middle Kingdom and lastly, the Modern Kingdom, a glorious age peppered with icons of history such as Nefertiti, Tutankhamen, Ramses, Akhenaton and others. But in 332 B.C. Alexander took the desert kingdom by storm, ending the rule of the Pharaohs. Alexander's reign was short-lived, with his general Ptolemy taking over in 323 B.C. The Ptolemaic dynasty lasted until 30 B.C. after which the all pervading Romans stepped in with Cleopatra leading the way. It was during the Roman rule that Coptic Christianity

was born in the first century A.D., through the preaching of Saint Mark. Today, Copts are the oldest Christian communities in the Middle East.

Islam was not far behind and between 639 and 642 A.D. Egypt became a possession of the Arabs under 'Amr ibn-al-Asi. Art and architecture flourished with mosques, minarets, domes and palaces decorating the horizon of Egypt. It was continued by the Mamelukes and the Ottomans, Turkish tribes who made Egypt the center of the Muslim world by the 14th century. Islamic rule petered off by the end of the 18th century with Napoleon's cannons booming over the desert sands, shattering the crowns of the Turkish kings. But Napoleon didn't last long and in 1805 Mohammed Ali of the Ottoman Turks came back with force to establish a rule that lasted until the arrival of the British.

Stepping into modern times

Modern Egypt was born in the able administrative hands of Mohammed Ali and *Khedive*¹ Ismail who was responsible for the building of the Suez Canal in 1869.

But if the 19th century rattled with such reforms, the 20th century ushered in a

colonized Egypt totally dependent on the import of British manufactured goods. Egypt gained independence in 1922, but could not completely break free of British influence. The years that followed were characterized by power struggles among three entities – the King, the British and the nationalist *Wafd* party.

Resentment against the British reached its peak after World War II. They were forced to evacuate by 1947 and a Revolutionary Command Council (RCC), with Colonel Gamal Abd Al-Nasser at its lead, took over the reins of the state by abolishing the monarchy and all political



A mosque at Port Suez stands witness to the troubled past of the Suez Canal, which today links Egypt to the world markets. One of the world's busiest waterways, it is also one of Egypt's main sources of revenue. In the fiscal year of 2006-2007, the Canal's revenues tallied up to \$4.17 billion, a 17% year-on-year increase, with Suez Canal cities attracting 70% of investment in the industrial sector.

¹ A governor or viceroy

parties including the *Wafd*. But it was in the 1950s that Egypt truly became a republic. In 1953, the Egyptian Arab Republic was declared and Abd Al-Nasser assumed the presidency in 1956.

Nasser was a charismatic leader who gained astounding popularity with the masses by propagating Arab Nationalism. His rule was a see-saw of glorious heights and the depths of failure. His triumph was the nationalization of the Suez Canal but his greatest defeat was the Israeli occupation of the Gaza Strip, Sinai and the West Bank in Palestine, which were painful losses for the Egyptians, on both political and religion fronts. Anwar Sadat, who followed after Nasser's death in 1970, brought about some progress by signing the Egypt-Israeli peace treaty during the historic Camp David visit with President Jimmy Carter in 1978. But his liberal rule soon ended in 1981 when Islamic extremists assassinated him. Next in line was Hosni Mubarak who has had the distinction of being the longest serving Egyptian President, well loved by the people for his progressive reforms. He was elected consecutively for the next four terms and he remains in his role until today.

Of Coca-Cola and falafel

All that is Egyptian cannot be wrapped up in a few words. Spanning centuries, ancient Egypt is known for its glittering dynasties, charismatic queens and kings, for scientific inventions and



Carpet making is one of the oldest crafts in Egypt, a leading carpet producer. Egypt's textile industry, growing at an average rate of 6.5% annually, is a key component of the Egyptian economy. It employs more than half a million Egyptians and is a crucial foreign exchange earner. Egypt's exports of textiles are estimated at \$1.3 billion per year, accounting for 25% of total Egyptian exports.

supernatural incidents. Egyptians are admired for the invention of paper, ink and eye make-up but also feared for curses engraved on the tombs of their eternally sleeping Pharaohs, with trespassers suffering agonizing deaths. It is a country of contrasts – tourists attired in shorts and sunglasses scour the markets, as housewives bargain animatedly from behind their veils. Skyscrapers teem with nattily dressed executives negotiating super deals with men in traditional

white *galabiyahs*², and farmers navigate busy city junctions with donkeys and camels in tow.

Egyptian cuisine is a merging of the Middle Eastern and Mediterranean palate. Local Egyptians crowd into small snack bars to relish a plate of mashed fava beans, popularly known as the national dish, along with accompanying bread named *eish masri*. Corner stalls on the streets serve up kebabs, *shawarma*³ and *falafel*⁴.

Islamic mosques jostle for space with Coptic churches, while soaring billboards fill the sky. Images of colas and cigarettes are juxtaposed with those of pharaohs and President Hosni Mubarak. These are signs of an open curiosity about westernization and American culture, where 90% of the population practices Islam. But perhaps from a Western point of view, there still are kinks in the society that need to be straightened, namely freedom of the press or rights and opportunities for women. Indicators of a wealthy modern economy are many, with American food, sports, music on one hand, and overpopulation, pollution and a widening gap between the rich and the poor on the other.

Egypt and the World	
Nominal GDP (\$)	\$162.28 billion (2008)
GDP Rank	50/185
Per Capita GNI (\$)	5,470
Per Capita GNI Rank	125/210
Population Rank	16/227
Geographical Area Rank	30/250
Global Competitiveness Rank	74/133
Economic Freedom Index Rank	94/179
Human Development Index Rank	123/182
Major Industries	Oil, natural gas, steel and chemical production, textiles

Making money

Since ancient times, agriculture was always one of the main occupations of the Egyptians. Cotton dominated Egypt's economy from the 1850's to the 1930's, when the country was completely dependent on long-staple cotton exports.

² Flowing robes

³ A popular sandwich of shredded meat or chicken, usually rolled in pita bread with tahini sauce

⁴ A snack made from beans

Cotton cultivation was introduced in the 1820's under the reign of Mohammed Ali who wanted to develop and diversify the economy through industrialization. Although industrialization was embracing other economies, Egypt did not fall under its early wave, due to tariff restrictions imposed by the British.

Until the 1950s, growth was heavily dependent on the cotton industries. Egypt then slowly became a dual economy sporting budding modern industries within the circle of a traditional society. A growing population was fast depleting the limited agricultural resources and one of the major objectives then was to divert private investment from land into industry. It was only between 1952 and 1966 that the first program of industrialization was established, led by the public sector in heavy industries such as iron, steel and chemicals. In 1961, a major policy shift brought all economic activity under the purview of the government.

The period between 1965 and 1974 was racked by internal strife and the economy suffered a setback. But then President Anwar Sadat introduced an "open door" policy that allowed decentralized decision making powers in the public sector. He also attracted foreign private capital by liberalizing financial and trade regulations. The economy began to breathe and gain some color with most public sector industries developing rapidly during the 1973-79 period.

Black gold and more...



Energy will continue to play an important role in Egypt's economy in coming years. Though Egypt's net exports of crude oil and petroleum products have declined in recent years, higher prices on world markets have pushed Egypt's oil revenues upward. Egypt's oil and gas exports were worth \$10.1 billion in 2007.

Egypt is an important producer of oil and energy but is not a member of the OPEC. Huge quantities of oil were first discovered in 1908, but used only for commercial purposes. More was found in the late 1930s along the Gulf of Suez, and the Western and Eastern deserts. This began Egypt's role as an energy producer on the global stage.

Like most other Middle Eastern countries, Egypt was affected by

the oil price rise and thus suffered the subsequent fall. The Suez Canal and the Sumed pipeline from the Gulf of Suez to the Mediterranean Sea are the two main oil routes

from the Persian Gulf, making Egypt a crucial figure in the world energy markets. In the latter half of the 70s and early 80s there was a phenomenal increase in the GDP which grew at an

annual rate of more than 11%, pushed up by oil exports apart from remittances, foreign aid and grants. But the collapse in oil prices by the end of the 80s restrained the GDP, which slowed down to a crawl of 2.9% per annum in the following years.

Egypt revived in the 90s when reform policies were introduced along with incentives for the private sectors. The International Monetary Fund supported stabilization, and structural adjustment programs were also implemented. Apart from this, massive external debt relief resulting from Egypt's participation in the Gulf War coalition helped the country boost its economy. Well thought out fiscal policies, reduced budget deficits and building foreign reserves helped cut down inflation.

By the early 21st century, the state controlled almost all heavy industry, with the exception of the cotton, agriculture and sugar sectors, which boosted the growth of the economy. In 2003, after a series of currency devaluations, Egypt adopted a floating exchange rate mechanism, with the Egyptian pound no longer pegged to the dollar.

Egypt has a varied economy, where sectors like tourism, agriculture and service contribute almost equally to the national production. The country relies heavily on foreign currency inflows from tourism, oil and gas exports, remittances from Egyptians living abroad, and revenues from the Suez Canal. The oil and gas sector accounts for approximately 12% of the GDP. In 2005-06 the GDP grew by 5% and by 7% in 2007.

The growth in Egypt has picked up speed since 2004 making it one of the fastest growing economies in the Middle East. The Egyptian market has opened up considerably, especially since the EU-Egypt Association Agreement came into force in June 2004. Today, the European Union, especially Germany, Italy, and France, are Egypt's main partners for import, apart from China which accounts for 8.3% and the U.S. which accounts for 11.4% of total imports. Egypt mainly exports mineral fuels and oils, cotton, and iron and steel, while it mainly imports consumer electronic and capital goods, nuclear reactors and boilers, cereals, food products, and chemicals.

Sadly, these advances have not quite managed to touch the lives of the average Egyptian. The government has not been able to raise the living standards of the masses, and still provides



Egypt is the world's largest exporter of cotton and the U.S. and the UK are its biggest customers. Its cotton exports are worth \$298 million. Although China, the U.S., India, Pakistan and Brazil are the world leaders in production, Egyptian cotton is considered a premium product.

subsidies for basic necessities, which have now increased due to rising international food and oil prices.

Survival of the fittest

A stable political environment, prudent policies reinforced since 2004, unrelenting domestic demand and limited exposure to world markets formed a sound economic foundation to insulate Egypt from the financial crisis. The government swung into action without much dalliance even as the cold winds of the crisis had just begun to blow. A \$2.6 billion stimulus package was infused into the Egyptian economy in November 2008, followed by a \$1.4 billion second dose in June 2009. Thrown off-balance initially, the Egyptian economy soon gained enough economic



Egypt stepped into the 21st century with economic and social uncertainties and still faces enormous social and economic challenges. Apart from the glaring unemployment and population problems, there are underlying issues like female illiteracy which stands at about 46.9%.

traction to post a growth rate of 4.3% in the first quarter of 2009.

The timeless beauty of the Egyptian pyramids captivated throngs of tourists even during the recession. Tourism forms the backbone of the Egyptian economy, along with exports and foreign direct investment, employing nearly 12.6% of the workforce. The global financial crisis put Egypt through a trial by fire, but tourism managed to steel itself, with its revenue dipping just 2% to \$10.76 billion in 2009, from the previous year.

Egyptian products, though, failed to charm as much as its monuments. As the rest of the world remained monetarily frozen, Egypt's exports suffered a downfall of 14.3% to \$25.2 billion in the 2008/09 fiscal year. As well, financially restrained foreign investors kept away from

Egyptian markets causing foreign direct investment to plummet 39% in 2009. Neighborhoods turned quieter as the velocity of construction shrank along with manufacturing. Overall growth eased off its furious pace, which set in motion beginning in 2004.

Strangely, despite these topples, the Egyptian economy survived the onslaught of the recession and emerged largely unscathed. Resilience, it seems, is an inbuilt Egyptian characteristic. In recent years, the people of Egypt have been resolutely leading their lives in the face of poverty, soaring food inflation and unemployment. Their economy radiates this spirit and aided by timely government and central bank interventions, Egypt has managed to keep itself from going off kilter.

But there have been a few bumps along the way. Egypt was already in the grip of chronic unemployment prior to the recession. About 2.4 million jobs were created between 2004 and 2007 and **during this time** the jobless rate fell from 10.5% to 9%, and a lack of work is still rampant. Rising unemployment has been due to a labor force growing at a faster rate than the demand for labor. Strangely, reports show that unemployment is higher among the literate than the uneducated. Labor strikes have become very common for a couple of years now and everyone from cement workers to university professors have joined the picket lines.

The recession worsened the scene and many Egyptians suddenly found themselves jobless as companies were forced to lay off workers. Unemployment has also been exacerbated by inflation, which has made it difficult for an equally steadily growing population to feed itself. This has been doubly hard in a populous country, where about 45% of the population survives on just \$2 a day. With the recent rise in global food prices, the situation degenerated and with a population of 78 million, the country is bursting at its seams. Early morning finds people scrambling in front of bakeries for subsidized bread.

Such dire conditions have forced the average Egyptian citizen to rise in protests that have increasingly become more frequent. Driven by a lack of basic needs, people turned up on the streets in a series of protests in early 2010, demanding employment and better wages.

Despite these challenges, Egypt's overall outlook has been heartening. With growth continuing, Egypt has ambitious designs chalked out. The country plans to lure 14 million visitors and earn \$11.5 billion from tourism in 2010. Exports are expected to leap as much as 15% in the 2010 fiscal year as primary markets like the U.S. and Europe exhibit healthy expansion. And as global markets tread surely on an incline of growth, the Egyptian government has set itself a target of attracting \$10 billion worth of foreign investments by June 2010.

Conclusion



The Egyptian economy is the fourth largest in the Arab world after Saudi Arabia, drawing its strength from varied resources like tourism, oil exports and textiles. Industry forms 22% of the total national investment.

Going forward, Egypt's overall growth strategy will include developing infrastructure, attracting investment, backing agriculture, healthcare and technology, and encouraging decentralization in the government. Ironically, as more barriers are dissolved between Egypt and the rest of the world, the country has become more vulnerable. For instance, the global recessionary hangover caused food prices to zoom up astronomically in Egypt. Food inflation was 21% in 2009, and with a minimum wage of \$6 per month, Egyptians have become a restless lot. Defusing religious and political tensions too come under the agenda. This land where three religions have converged, suffers from periodic violence in the name of religion, politics and globalization.

But the second largest economy in the Arab world has been as resilient as the centuries old pyramids. Egypt is already considered one of the best performers in the Middle East and Africa region, and if the country's action plans materialize, it appears that Egypt is poised to grow and develop. 🌍

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