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Asia

EGYPT

Forges links with Asian giant

The U.S. is Egypt's single largest trading partner, but China is expected to capture this prime position within less than a decade. *By Michael Knipe*

Egypt and China, two of the world's most ancient and successful civilizations, are extending their investment and trading relationship into the 21st century.

In one significant development, the Cairo and Beijing governments have agreed to set up a manufacturing zone close to the Suez Canal in northern Egypt that will provide Chinese companies with a strategic base for exports to Europe, the Middle East and Africa.

Historically and culturally, Egypt plays an influential role between both Arab and African countries, and it has longstanding trading and social links to the Middle East and westward across the North African Maghreb.

The three-square-mile industrial park at the northern end of the Suez Canal will be the first of this size in the North Africa region to be undertaken by China. This reflects Beijing's recognition of the role Egypt can play in increasing China's economic ties with both the Middle East and Africa.

In a move related to the opening of the industrial zone, COSCO Pacific — the Chinese government-owned China Ocean Shipping Company — has acquired a 20% share in the Suez Canal Container Terminal, located at the northern end of the canal. Work has already begun on increasing the terminal's capacity, involving a total investment of \$730 million.

The vibrant economic policies instituted by Egyptian Prime Minister Ahmed Nazif have enhanced China's and Asia's enthusiasm for Egypt as a major player in boosting their trade and investment links with Africa and the Middle East.

Significant structural reforms have promoted economic growth driven by the private sector. Import tariffs have been sharply reduced, as has the amount of red tape from the tax administration, and the Egyptian economy is growing by 7% a year.

Youssef Boutros Ghali, the minister of finance, says Asian countries have shown great interest in these developments. "Japan, Malaysia and India have all come knocking at our door," he says. "We offer a very attractive and lucrative market, both as a launch pad to Europe and as a launch pad to Africa."

Hassan Abdalla, vice chairman and managing director of the Arab African International Bank, the fastest-growing bank in the Egyptian financial sector, says that Egypt has all the advantages to accommodate the needs of Asia's growing economies, including its central location, manpower and improved investment opportunities. "Setting a foothold in Egypt could open a wide range of investment opportunities, whether in industry, real estate or tourism," he says.

Rachid Mohamed Rachid, Egypt's minister of trade and industry, has been quick to advise Asian governments and businessmen that, in addition to its location, cheap labor and energy costs, Egypt has preferential trade agreements with Europe, the U.S. and other parts of Africa and the Middle East.

At present, the U.S. is Egypt's single largest trading partner with \$6.7 billion in total trade in 2006, but Rachid expects China to take over this position within the next eight years. ♦

Mobile phone mogul seeks Chinese extension

Egypt's ICT exports are expected to reach \$1.5 billion by 2010.

Orascom Telecom, one of the biggest mobile network operators in the Middle East, Africa and Pakistan, has its sights set on entering the Chinese and North Korean telecommunications markets.

The network, which is one of the five largest capitalized companies on the Cairo and Alexandria Stock Exchange, has built up a \$2 billion reserve of funds by divesting itself of Iraqi mobile company Iraqna and its stake in Hutchison Telecommunications, the Hong Kong-based global provider.

Naguib Sawiris, chairman and chief executive of Orascom, has made it clear that Orascom is seeking to enter the Chinese market, and he may have found

a way of doing so. In an interview with CNN in December 2007, he said he was looking for someplace "where I can go and make a difference and create immense value."

Sawiris discounted entering either Cambodia or Vietnam, saying he was not interested in becoming one of a number of players in a country with a relatively small population, but disclosed that he was already in a joint venture with a North Korean company to provide expansion on a fixed line. It was an untapped market, and he had seen some positive signs from the North Koreans.

The Orascom executive's ambition, he says, is to become a major global player and that, when the time is right, he will be looking for a business partner to expand further.

The company has a customer base of more than 70 million, with an additional 20 million through its affiliated companies in Italy and Greece. In its emerging market countries, the total population under license is 460 million with an average penetration of mobile telephony across all markets of 29%.

In Egypt, cell phone penetration rates

by the country's three operators are estimated to be 28 million — about 35% of the population. As the largest market in North Africa and the Middle East, with relatively little penetration, Egypt is classified as a growth area by regional and international information technology and telecom companies.

The country's ICT exports are estimated at more than \$250 million a year and are expected to reach \$1.5 billion by 2010. The IT industry in Egypt employs more than 35,000 engineers and generates about \$4 billion in revenue.

In Egypt, cell phone penetration rates by the country's three operators are estimated to be 28 million — about 35% of the population.

Mohamed Omran, chief executive officer of the Information Technology Industry Development Agency, says Chinese companies are closely monitoring the development of Egypt's ICT sector, and many Asian companies are looking for Egyptian partners. ♦



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Bank reforms trigger global expansion

Privatization, mergers and a cut in red tape is helping Egypt to become a financial gateway.

Successful reforms to the banking system have invigorated Egypt's financial services industry and awakened the interest of Asian investors.

Non-performing loans have been absorbed by the government and several state-owned banks have merged or been transferred to the private sector, reducing the number of banks from more than 60 to fewer than 40. Foreign banks have also entered the sector.

The star performer of Egyptian banking is the Arab African International Bank (AAIB), which is the fastest-growing institution in the sector. The most ambitious merger involves the Housing and Development Bank (HDB) and the Egyptian Arab Land Bank (EALB), which will create the country's biggest funding unit for real estate investment and become one of the three largest Egyptian banks.

The AAIB achieved a compounded average growth of 64% in net profit and 76% in net loans over a four-year period, and last year won the Euromoney Award for Excellence as the country's best bank.

Hassan Abdalla, AAIB's vice chairman and managing director, says the bank's growth strategy began organically with the deepening of its range of products and services and then moved into the merger and acquisition territory. "Our successful merger and acquisition of Misr America International Bank — a subsidiary of Bank of America — was a healthy fit that helped increase our customer base and brought us new delivery channels," he says.

After consolidating its local presence, AAIB was well positioned to pursue regional expansion in the Persian Gulf. "What really counts is the essence of the brand," says Abdalla. The bank's future strategy will be to become the leading financial group in Egypt by offering innova-

tive services, having a strong regional presence and providing the gateway for international business into the region, he says.

Abdalla contends that the significance of the government's economic reforms is not just the new laws but their conceptual underpinning.

"Today, the system is much easier and involves trust-building mechanisms, which, in my opinion, are much more important than the mere slashing of a rate."

Fathy El-Sebai Mansour, who is managing the merger between the HDB and EALB, wears two hats as the chairman of both banks as they negotiate the process. The HDB is an investment and business bank principally operating in the housing and development sector. It finances housing projects to suit different incomes as well as provides personal banking and foreign trade financing.

At present, it has paid-in capital of \$18.4 million. However, a merger with the EALB, a fully state-owned bank that was initially established in 1887, will produce an institution with paid-in capital of \$235.5 million.

"We will be the biggest funding unit for real estate investment and a major player in the mortgage financing market," says Mansour. He hopes to be able to expand into countries such as Syria, Iraq, Sudan and Libya, as well as be better able to fund huge investment projects in Egypt.

Mansour believes China would be a particularly appropriate associate in the Middle Eastern real estate market. "We have a huge demand for small-sized apartments for our youth. I'm sure that China, with its big population, has much experience in this field. This is a great opportunity for the Chinese real estate investors." ♦

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