
The WALL is WRONG
TV
year in review 2003


Khaled Habib

STRINGS ATTACHED

Despite the fact that nothing positive has happened in the year since the pound's managed float, analysts are preaching patience. After all, 2004 brings a new Central Bank governor, a new board of directors and a new banking law

by Rania Oteify

IN 28 DAYS FROM JAN. 1, THE SO-CALLED LIBERAL EXCHANGE RATE REGIME will officially be 1 year old. Inflation rates are soaring, LE 7 equals $1 on the ever-booming black market, and consumers all over the country are feeling the price pinch. Needless to say, the floating pound's birthday party may not be such a happy celebration.

Perhaps it is unfair to place all the blame on the hapless pound, when, in reality, it was never granted the freedom to float as was promised. What the country witnessed in 2003 was just another method of a "managed" float, similar to several previous attempts since late 1999. And the price we paid was a painful one with average costs at the supermarket up by 74 percent, according to one unofficial survey.

While few positive signs have been seen under the new system, analysts are promoting that the system be given a second chance. With a new banking law, a new Central Bank governor, and a new board of directors in place, 2004 could see some real changes.

However, history cannot be rewritten, and nothing will change the fact that the floating pound's first year was neither as smooth nor as transparent as was hoped.

When Prime Minister Atef Ebeid announced that Egypt would have a "totally free currency market" at the *Economist* magazine conference on Jan. 28, 2003, reactions varied from concerns about a huge devaluation to positive expectations of a long-awaited move. However, almost a year later, optimists have learned to be cautious, and the system is best described as "on hold."

The simple definition of a "clean float," or liberalization of the exchange rate, is to let supply and demand powers define the currency's exchange rate. Immediately following Ebeid's announcement, the pound's exchange rate dropped from LE 4.60 to LE 5.30-5.50 to $1. Expectations that the black market would magically disappear were fast aborted by the shortage of foreign currency at the banks. The black market boomed and broke the LE 7 barrier, reaching up to LE 7.70 at times. Meanwhile, the dollar exchange rate at banks ranged between LE 5.80 in March and LE 6.16 toward the end of the year.

By the end of 2003, the black market rate stayed at almost LE 7 while bank prices did not go below LE 6.09-6.12. "The margin [between official rates and black market rates] damaged the government's credibility," says Magdy Sobhi, a leading analyst with Al-Ahram Center for Political and Strategic Studies.

"Whatever prices the banks announced, it was well known that it was not the price people had to deal with. Banks themselves, to my knowledge, resorted to the tricks they used during the 'dirty' or 'managed' float time, by saying the price is LE 6.16 and requesting a commission for getting currency, etc., which ends up — if not at the same level of the black market — at a higher price than the declared rate on the bank panel," he says.

Difficulties in implementing the liberalized system resulted from the lack of adequate preparation for the launch, suggests Sobhi. "It is no surprise. At least the existence of the black market was expected. From the beginning, it was expected that implementing such a decision without supporting tools or policies, there would be a black market," he says.

"To do it correctly, the government [through the Central Bank] should have defined clearly the gap between demand and supply, when it would intervene to cover this gap to reach stability in the foreign exchange market, and at what exchange rate — even if this was not declared [publicly]," Sobhi says.

"The more dangerous situation is when the repercussions started, the government dealt with them in a wrong way that simply led to more confusion. We started the year by speaking about 'free' floating. After a while, it became nothing like free floating. We have had a fixed exchange rate. It is implicitly fixed in the banks [whose rates] nobody deals with," he says.

> History cannot be rewritten, and nothing will change the fact that the floating pound's first year was neither as smooth nor as transparent as was hoped.

Mounir Abdel Nour, a Wafdist MP, agrees that the government should have been better prepared to handle such a decision. "The float of the Egyptian pound required certain preparations. At least two major steps [should have been taken]: the first was to negotiate with international institutions such as the International Monetary Fund (IMF) and the World Bank to create a standby line to be used in defense of the Egyptian pound's exchange rate," he says.

The second step, he added, would have been to establish an interbank market for foreign currencies prior to the float of the pound. "This was not done, and the result as you can see is a very sudden devaluation of the pound. [It has] a direct impact on the cost of living and inflation, and an indirect impact on foreign investment [that should be] attracted to the Egyptian market," Abdel Nour says.

Abdel Nour stresses, however, that the decision itself was — and still is — correct from a theoretical viewpoint. "However, the implementation of the float was poorly executed," he says.

Others believe the optimists were kidding themselves if they thought the float would be a smooth transition.

Wagdi Rabbat, chairman of Misr Exterior Bank, attributes the disappointment mainly to high or unrealistic expectations. "The most important thing is to balance expectations [with reality]. People think that once the pound's exchange rate is liberalized, it will immediately go through its normal course of progression," he says.

"In a country of our size and problems, you cannot expect that when you liberalize the pound, it will all of the sudden find its right position. Before, the pound was overvalued. Today, it is undervalued. It will [eventually] find equilibrium with the help of policies and theories," he says.

Rabbat, however, does not deny these necessary supporting policies were absent in early 2003. What liberalization was lacking, he adds, was a clear picture in people's minds that this is one step among many to come. He also agrees that the government should have sought some coverage or assistance from the World Bank or IMF.

Assistance from the World Bank in March actually helped move the black market — for a short while, at least. When Egypt received the news that the World Bank pledged $1 billion prior to the Iraq war, Ebeid promptly announced that the government would transfer the funds to the Central Bank, which would put the dollars at the disposal of national banks, allowing them to increase the pace at which they open lines of credit for imports and exports alike.

News of the loan temporarily sent the US dollar price on the black market way down. However, the dollar shortage continued, and the black market once again reared its ugly head.

No support detected

Over the year, the government declared on numerous occasions that a package of supporting policies would be introduced. In reality, over the last 11 months, no policies were ever introduced.

No major changes in the fiscal policy were made to accommodate market needs, and the monetary policy on hold, awaiting the ratification of the new banking law and its executive regulations.

One of the most surprising actions the government took in 2003 to clamp down on the black market and ensure foreign currency flow into the banks was decree No. 506, or the 75 percent decree.

Announced in March, the ruling requires all exporters and tourist establishments to turn over 75 percent of their foreign currency to Egyptian banks. MP Abdel Nour says the float was expected to encourage the export sector. "The devaluation of the pound has no doubt had a very positive effect on Egyptian exports. It should increase their competitiveness on the international market. The [export sector] needed to get additional support," he says.

"Instead, the government introduced regulations whereby exporters have to exchange 75 percent of their foreign currency proceeds into Egyptian pounds. This would happen anyway because an exporter has to pay for his raw materials and finance production (from the local market). However, each and every exporter manages cash flow his or her own way. By introducing a very strict rule to change 75 percent of their dollars each and every time they export, is an additional burden on exporters because they have foreign currency expenses. What happens is that they release 75 percent to the banks and then go stand in line to open a letter of credit to finance imports — all of which is counter-productive," Abdel Nour says.

Analysts say that the significant narrowing of the gap between the bank and black market rates was a positive effect of decree 506. But with foreign investors facing difficulties repatriating their foreign currency earning, dollar shortages came back with a fury and speculation was revived.

Throughout 2003, the gap wouldn't go away. A lack of foreign currency and the pound's devaluation pushed prices of commodities and services higher than ever, and in many occasions, a sharp short-

Omar Mohsen

Magdy Sobhi of Al-Ahram Center for Political and Strategic Studies says banks resorted in 2003 to the tricks they used during the "dirty" or "managed" float time.

Meet Your New Central Bank Team

Governor
Farouk El-Okda

Deputy governors
Mahmoud Abdel Aziz, Tarek Amer

Board members
Abdel Hamid Ibrahim, chairman of Capital Markets Authority; **Momtaz Mohammed El-Said**, representative of the Ministry of Finance; **Mu'awad Hassan Hassanein**, representative of the Ministry of Planning; **Hassan El Sayed Abdullah**, representative of the Ministry of Foreign Trade; **Mohammed Abdel Salam Al Anwar**, chairman and managing director of HSBC Egypt; **Mohammed Kamal El Din Barakat**, chairman of Banque Misr; **Hatem Al Qarnashawi**, economic expert; **Mona Salah El Din Zulficar**, legal expert; **Mahmoud Moheiddin**, economic expert; **Hazem Zaki Hassan**, bank-auditing expert; **Mohammed Saleh Younes**, international investments expert ; **Mahmoud Abdel Fadeel Hussein**, economic expert

age of basic staples — including bread flour — led to the government's quick interference.

"With such confusion, no relative control over economic policies, no clear and transparent monetary and fiscal policies — it was normal that everyone tried to blame each other," says analyst Sobhi. "This is what happened between the Central Bank, the prime minister and the government (ministries). It is normal to have victims in such situations, and in this case, one of them was the Central Bank governor Mahmoud Abu El-Oyoun," Sobhi says.

While appointing and replacing a Central Bank governor is decided by presidential decree, rumors were rampant that conflicts between Abu El-Oyoun, the government and the National Democratic Party (NDP) were behind his demise. No official reason was given for the decision. However, it was widely reported that Abu El-Oyoun, appointed in October 2001, had lost his popularity. "Unfortunately, there were differences between various factions of the government, and we went into a standstill," says Rabbat. That standstill meant that the Central Bank board didn't meet in the last eight or nine months of 2003.

"Today, I am very optimistic that we have taken some steps forward. We cannot blame anybody, or say the previous governor did such and such, and that is why he was [replaced]. In my opinion, there are 'horses for courses.' You need certain people to do certain actions. Once this action has been done you bring in another set of people to continue their part," he says.

A new chief for the CBE

The appointment of former chairman of the National Bank of Egypt (NBE) Farouk El-Okda as the new Central Bank governor has been welcomed by industry insiders.

Mainly described as "liberal" due to his long stint working in the US, El-Okda is also praised for his academic background.

El-Okda earned a bachelor of science degree in commerce from Ain Shams University in 1965. He received his master's degree in 1980, and a PhD in 1983 from the Wharton Business School at the University of Pennsylvania.

He worked for the Bank of New York from 1989-2002 as vice president for syndicated loans and then as a consultant for the bank in credit and finance, focusing on the Middle East and Asia. He was an adviser from 1997-2001 to the Central Bank of Egypt governor and participated in developing plans to reform the Central Bank. In January 2003, he was appointed chairman of the National Bank of Egypt where he stayed until he was named CBE governor on Dec. 1, 2003.

State-run news agency MENA quoted him immediately after the appointment as saying: "The monetary policy is fixed and will not change for the interests of the country. It is important to keep a stable situation and financial and monetary policy."

Late last month, El-Okda pledged in a brief comment to Arabic daily *Al-Ahram* that the Central Bank is committed to transparency.

"The governor is very right in that one of his policies is transparency in all monetary policies and all other decisions of the Central Bank that can affect the banking and business sectors," comments Hazem Hassan, bank auditing expert and member of the CBE board of directors.

"El-Okda did very well at NBE even though he was there for only 11 months," says Hassan. "There has been a very remarkable upgrade in the management of NBE, in identifying problems and setting a strategy to address them in a realistic way. They have put a team in place to implement the changes."

Hassan is cautious, however, in predicting how El-Okda will handle his new task. "I had only one meeting with him as a Central Bank governor, and I was impressed. I think he will succeed. I think the board will sincerely support him," says Hassan.

Almost everyone in the industry contacted by *Business Today Egypt* believes that El-Okda is an excellent choice. "Today we have seen a very positive step by appointing El-Okda and a very solid board of directors. More steps are going to come," says Misr Exterior Bank's Rabbat.

"There are some sectors that should be booming. Unfortunately, they are not because they are full of problems such as bureaucracy, customs, and so on."

Mohsen Allam

Wafdist MP Mounir Abdel Nour believes the Central Bank of Egypt failed it its duty to better manage the pound situation.

"Farouk El-Okda is a man for all seasons. He can adapt himself, make himself very clear and convey his thoughts well. He builds good rapport, confidence and friendship with whomever he talks to. You meet him and you cannot help but really like him — on the personal and professional side," Rabbat says.

Wafdist Abdel Nour agrees that El-Okda is well-positioned to make real changes at the Central Bank.

He hopes that finally the Central Bank will be able to draw a smart monetary policy. "Especially in this exercise, the governor of the Central Bank of Egypt should have good relations with the prime minister, minister of finance and other ministers of the economic portfolio. I think Abu El-Oyoun did not enjoy such good relationships. We hope the cooperation between El-Okda and governmental authorities will be such as that he can draw a good monetary policy, and have a good coordination plan for implementation of economic policies in general," Abdel Nour says.

The decree appointing El-Okda also introduced a new deputy governor, Tarek Amer, a former vice chairman of NBE, and a number of new board of directors. (See accompanying box.)

"Today, the presence of a new governor like Farouk El-Okda is a very positive step forward. He has a very good team in the board of directors; they cover a wide spectrum of expertise, which makes me quite optimistic. He also has two very competent deputy governors: Mahmoud Abdel Aziz and Tarek Amer who is a newcomer and a young bright man with a lot of potential," Rabbat says.

However, Rabbat cautiously adds, that this is not enough. "We have to set the monetary policy, and at the same time, we need to change — once and forever — the fiscal policy to cater to the changes and means of the future phase of our economic needs," he says.

Abdel Nour believes that the first step to activate the Central Bank's functions is to get the banking law's executive regulations finalized. "The new banking law No. 88 of 2003 was issued by Parliament in May 2003, and published on June 15. The prime minister, during the discussion of the law, promised to issue its executive regulations within 15 days of its publication. More then seven months have elapsed and the executive regulations are not out yet, which makes the law nothing but ink on paper because it cannot be implemented without the executive regulations," says Abdel Nour.

Board member Hazem Hassan says the new CBE governor is on the right track pledging transparency.

Wessam Omar

"Secondly, as a provision of the law, a [monetary policy] coordinating committee was supposed to be put in place, appointed by the president, to coordinate between the policies of the government and the Central Bank. This committee has not been nominated yet," says Abdel Nour.

"The coordinating committee, according to Hassan, includes the ministers of foreign trade, finance, CBE governor, and maybe the prime minister. They will coordinate the monetary policy with the fiscal policies and other government policies, to achieve harmony. But I believe that the Central Bank will be a driving force in pushing the economy again," he says.

Following the first meeting of the governor with the board of directors, a press release announced that Dec. 30, 2003, was the deadline to finalize the law's executive regulations and have them approved by the board in order to get them sent to the prime minister and the president.

"We must take into consideration that this new board will be helped by the new banking law that specifies very clearly the terms of reference for the Central Bank, for the governor and for the board, and the relationship between the Central Bank and the government, the definition of independence. With all these matters put into perspective, we will have a better chance to operate more effectively, says Hassan.

The CBE press release also declared the board of directors' commitment to have an organized foreign-exchange market with banks and exchange bureaus. It gives priority to supplying foreign currency for basic commodities, imports and production requirements, and to giving pilgrims riyals to travel to Saudi Arabia. It added that it would continue to expect exporters to turn over 75 percent of their foreign currency to banks.

On the long-term agenda of the CBE, says Hassan, are issues of setting monetary policy targets and interest rate directions as well. The CBE should also handle non-performing loans and banking reforms, he says.

Misr-Exterior chairman Rabbat stresses the importance of tackling banking reform. "It has been going on from a cosmetic point of view. You change the chairman and the board of directors. But we did not really bring in expertise for the second and third levels of reform. So far, there is no focus on training and investment in people," he says.

Abdel Nour expects the new Central Bank team to move on two major steps. First, to stimulate an inter-bank market for exchange, and second, to smoothly manage foreign currency cash flow in the country.

Addressing other problems simultaneously will help the whole cycle, he says.

> "The Central Bank has made terrible mistakes, including increasing foreign currency reserves by using the surplus in the balance of payments..."

"I believe that the present exchange rate of the pound at more than LE 6 is sufficient to result in tremendous increase of Egyptian exports. There are some sectors that should be booming. Unfortunately, they are not because they are full of problems such as bureaucracy, customs, and so on. This is what should be addressed. Because if we solve bureaucratic problems, Egyptian exports would substantially increase, which would relieve part of the pressure on the foreign currency," he concludes.

What does 2004 hold for the pound? For sure, it will be a tough task for the new Central Bank team that won't be accomplished without total cooperation with the government. Happy anniversary to non-floating floating pound, we wish you more freedom this year. bt

Historically Speaking

The pound float, while smart in theory, wasn't carried out in the best manner

The decision to liberalize the Egyptian pound has always been viewed as a smart one, even by those who oppose the implementation.

Magdy Sobhi of the Al-Ahram Center for Strategic Studies agrees that the decision does follow Egypt's promise from the early 1990s of sweeping economic liberalization moves. However, he calls Egypt's experience "an injection of economic liberalism without its complementary policies."

In tracing the roots behind the decision, Sobhi recalls that during 1991-94 Egypt adopted the stabilization program in cooperation with the International Monetary Fund (IMF). "The program set the basics for economic liberalism. It included unifying the exchange rate. At that time, the economic policy was dynamic and interest rates went up to 18 percent in order to control inflation at acceptable rates and defend the currency's exchange rate," he says.

According to Sobhi, the early 1990s saw no black market, while the difference between the official price at banks and exchange bureaus' rate was "marginal."

When the program ended with the IMF, the Egyptian economy was expected to move from the stabilization phase to the growth phase. "The Egyptian economy was in a relatively good position. The exchange rate was stable, and there was a huge reserve of $20 billion (which equaled 18 months of imports)," he says.

But the growth phase was short-lived. "The IMF warned in 1994 that the exchange rate might cause a problem with the transition to the growth phase. The Egyptian economy is dependent on imports that were expected to increase in order to raise production. Unless there was a high ability to attract foreign investments, there would be a problem in financing these imports," he says.

The IMF suggested at that time, according to Sobhi, that a devaluation of the pound's exchange rate was necessary to maintain relatively high reserves and enhance the competitiveness of exports. In return, increasing exports could eliminate the deficit in the trade balance.

While the government was reluctant to the idea of devaluing the pound, a number of the external shocks and internal crises badly hit the Egyptian economy. "It started with the Southeast Asian economic crisis in 1997, which had a direct impact on Egypt and everywhere. Currencies of some countries were devalued by 50-60 percent. Imports from these countries were very cheap and limited Egypt's capability for exports. Egypt itself was lured by imports which increased by 30 percent in one year," he says.

Internally, there was the Luxor terrorist attack in 1997, which drastically reduced the tourism sector's income of foreign currency. From 1998-2000, the government intervened by injecting dollars from the reserves in an attempt to defend the pound's exchange rate. These attempts ate up $6 billion from the reserve.

Additionally, the deep recession badly affected all growth; imports, including consumer products increased, badly affecting Egyptian industries.

"When [Prime Minister Atef] Ebeid took over at the end of the 1999, the government introduced a 'managed float.' In this phase, the government was setting the exchange rate allowing a band, or a ceiling of plus or minus 1-3 percent, but this required additional interference from the Central Bank," Sobhi says.

After realizing that $9 billion had been wasted by the end of 2002 to support the pound's exchange rate, a state of panic prevailed with worries that reserves might vanish and cause all sorts of political instability. This is when government utters its now-infamous statement: "Reserves are not to be touched."

This statement, according to Sobhi, opened the door to black market speculation. "When people became aware that regardless of the situation, the Central Bank was not going to intervene to support the exchange rate, the real fever of speculation started. The difference between the official rate and the black market reached 20 percent — a huge margin for any currency," he says.

At that point, the government had no choice except to declare a "clean float" in order to squelch black market. "It was not a coincidence that the rate dropped from LE 4.64 to LE 5.30 on Jan. 29. This was the black market's rate where supply and demand met," Sobhi says.

"Even though the black market existed from 1998-2002, it was 2003 where we saw the main trading of foreign currency happening on the black market," says Sobhi.

The Central Bank of Egypt has definitely received the blunt of the blame for such confusion. "Yes, the Central Bank could have managed the situation better," says Wafdist MP Mounir Abdel Nour. "[The Central Bank] has made terrible mistakes, including increasing foreign currency reserves by using the surplus in the balance of payment, instead of increasing the supply of the foreign currency in the market to reduce pressure on that currency," says Abdel Nour. bt

The Pound's Path

Amidst international news of war and terrorism, the value of the US dollar spent 2003 steadily increasing against the newly floated pound

JAN 1: Talk of pending war in Iraq dominates international headlines

JAN 10: North Korea withdraws from Nuclear Non-Proliferation Treaty

JAN 28: Pound float announcement in Cairo

FEB 1: Columbia space shuttle bursts into flames over Texas, killing all seven astronauts aboard, 16 minutes before it was to land

MAR 2: Authorities in Pakistan capture Khalid Shaikh Mohammed, suspected mastermind of the September 11 terrorist attacks along with money man Mustafa Ahmed Al-Hawsawi

MAR 12: WHO issues a global alert on SARS

MAR 12: Zoran Djindjic, Prime Minister of Serbia, is assassinated

MAR 16: US activist Rachel Corrie killed in Palestine

MAR 20: War starts in Iraq with bombs falling on Baghdad

MAR 30: First-ever Palestinian Prime Minister, Mahmoud Abbas, appointed

APR 3: US forces take control of Saddam International Airport

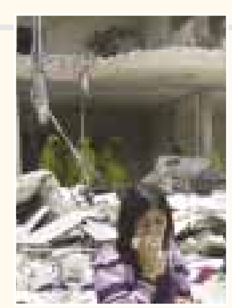
APR 9: Baghdad falls to US forces

APR 16: WHO issues travel advisory against non-essential travel to Hong Kong and Guangdong as SARS spreads

APR 30: Road map to peace in the Middle East unveiled

MAY 1: US President George W. Bush declares major combat operations over in Iraq while onboard aircraft carrier

MAY 12: Suicide bombings of a US expat housing compound in Saudi Arabia kill 29 and injure 160 in four attacks



MAY 16: More than 40 killed by suicide bombers in Morocco

MAY 26: A draft of the proposed European constitution is unveiled

JUNE 10: Israel attempts to assassinate Hamas leader Abdel Aziz Rantisi

JUNE 29: Tentative cease-fire reached between Palestinian Authority and four major Palestinian groups

JULY 5: SARS is declared to be contained by WHO

JULY 17: Dr. David Kelly, the source of a BBC story claiming the British government had "sexed up" a dossier on the threats posed by Iraq, found dead

JULY 22: Saddam Hussein's sons, Udai and Qusay, killed by US troops

JULY 23: Operation Warrior Sweep is the first major military deployment of the Afghan National Army

JULY: Fires in France dampen tourism, kill tens of people

AUG 11: NATO takes over command of the peacekeeping force in Afghanistan, marking its first major operation outside Europe in its 54-year-history

AUG 11: Liberian President Charles Taylor submitted his resignation amidst turmoil in Monrovia

AUG 14: Widespread power outage affects northeast United States and Canada

AUG 19: A truck bomb explosion at the Baghdad Canal Hotel that houses the United Nations' mission kills at least 17. Among the casualties is Sérgio Vieira de Mello, UN special representative in Iraq.

AUG 25: Two explosions, apparently caused by car bombs placed in taxis, kills at least 44 in Mumbai, India

AUG 28: North Korea announces that it is in possession of nuclear weapons, has the means to deliver them

AUG 29: Top Shia cleric killed in Iraq

AUG 30: France reports that up to 11,500 people died in heat wave

SEPT 6: Mahmoud Abbas submits his resignation from the post of Palestinian prime minister

SEPT 10: Swedish foreign minister Anna Lindh murdered while shopping in a Stockholm store

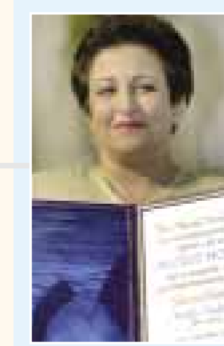
SEPT 10: First Bali bomb suspect sentenced

SEPT 25: World-renowned scholar Edward Said dies

OCT 4: Pound-US dollar exchange rate hits high-water mark, LE 6.2639 : $1

OCT 15: China launches Shenzhou 5, its first crewed space mission

OCT 27: Iranian activist Shirin Ebadi wins Nobel Peace Prize (Oct. 27)



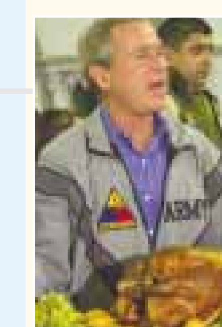
NOV 17: Actor Arnold Schwarzenegger is sworn in as governor of California, fifth-largest economy in the world

NOV 20: Suicide bombers hit two synagogues in Istanbul and then two British targets two weeks later

NOV 23: Beleaguered Georgian president Eduard Shevardnadze resigns following weeks of mass protests over flawed elections

NOV 26: Last ever flight by Concorde

NOV 27: Bush makes stealthy Thanksgiving visit to Baghdad



DEC 14: Saddam Hussein captured by US forces in Iraq

JANUARY FEBRUARY MARCH APRIL MAY JUNE JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER

Jerome Delay/AP

THE PRICE OF PEACE

The capture of Saddam Hussein brings closure to one chapter of the Iraq conflict, but the next, most difficult chapters have yet to be written

by Réhab El-Bakry

An Iraqi woman screams upon arriving with her wounded husband and son at Al-Kindi Hospital in Baghdad on April 8, 2003.

IT'S FITTING THAT 2003 DREW to a close with the capture of Iraqi ex-president Saddam Hussein, bringing an end to a chapter of one of the most divisive international events in recent history. The war on Iraq, lead by the United States and Great Britain, will bring about reverberations for the international community, in general, and the Middle East, in particular, for years to come.

In early 2003, the US began turning its attention to Iraq, pressing the government of Saddam Hussein to allow United Nations' weapons inspectors into the country to search for weapons of mass destruction allegedly manufactured and stockpiled by the Arab country. Although the pressure on the Saddam government was not new, the rhetoric this time around began to change as both members of the US and British governments were alleging links between the Iraqi dictator and international terrorist organization Al-Qaeda, which was responsible for the attacks of Sept. 11, 2001, on Washington, DC, and New York.

As the initial pressure placed on Iraq increased, the rhetoric became stronger, developing into full-fledged warnings of invasion and the forcible removal from power of the Hussein government in Iraq. But as the US pushed harder, the traditionally cohesive bond that had united the US, the European Union and the international community represented in the body of the United Nations began to crumble.

Most notably, France and Germany publicly opposed US and British initiatives to get a UN concession for the invasion of Iraq, threatening to veto any resolution either nation put before the Security Council seeking permission for the declaration of war on the Arab state.

While the debate at the international level became more heated, the debate in the Arab arena got fiery. Regional states were forced to take on the very daunting task of trying to formulate an official stance on the issue of the invasion.

What complicated matters for most Arab states was the resistance of the average Arab man on the street to the idea of a joint US-British war on Iraq to forcibly remove the Hussein government. At the same time, Hussein had often been viewed by several Arab states, particularly by Gulf states, as a threat to their security. However, the alternative for these states was to openly oppose the war, which would have jeopardized their relationship with the US. Ultimately, the majority of Arab states assumed a wait-and-see strategy, which required them to show neither support for the US-led invasion nor strong opposition.

Economically speaking

While the war in Iraq created a political logistical nightmare, it also meant a lot of changes in the financial arena — within and without the Middle East region.

The region braced for a hit in tourism and other hospitality and retail-related industries affected by drops in visitor numbers. And while tourism did take an immediate hit here, the numbers bounced back within months of the war's end, and tourists literally flocked to Egypt in record numbers. (See "Tourists Return," page 75).

The war and its expected quick end created a frenzy for the lucrative reconstruction contracts. As contracts were awarded, it became clear it was going to be a popularity contest; basically, if the US-led coalition liked you, you were in.

After some initial major contracts were awarded to US companies — some with ties to the administration (read: Halliburton) — the process was opened up a bit. By the end of the year, word was that Germany and France were out as major contractors, but OK'd as sub-contractors.

There were other major contracts granted to non-US firms including the three contracts for mobile telephone network providers which were granted to two Kuwaiti companies, Wataniya Telecom for GSM Services and MTC, as well as Egyptian telecommunications giant Orascom Telecom to function in the northern, southern and central regions of Iraq, respectively.

While the mobile contract decision was lauded by Arab companies and countries alike as an indication that they will not be excluded entirely from the reconstruction jackpot, the process by which these contracts were landed is being investigated.

Another pressing question during the immediate confusion following the start of the war was the status of previously signed contracts between the various countries and the Hussein government under the Food For Oil program.

One of the states most affected by the changes in Iraq was none other than Egypt, which had signed a free-trade agreement with Iraq in January 2001. Egyptian businessmen wanted to know the status of the contracts signed as part of this free-trade agreement. The answer to this question was initially unclear, even to the Ministry of Foreign Trade.

"That's the million-dollar question," Said Abd Allah, manager of bilateral trade agreements with the Ministry of Foreign Trade and the person handling the Iraq trade portfolio, told *Business Today Egypt* in mid-2003.

"I don't think there is anyone in Egypt right now who can accurately tell you the status of our free-trade agreement with Iraq or the status of any of the agreements under the previous Iraqi government for that matter." He said the war completely altered the agreement and that the current state of flux within the Iraqi government is complicating things even more. "We, as a ministry, have been working on trying to understand who we should be dealing with right now. But in light of the war, there are no more identifiable ministries or even individuals we can deal with in order to find out the status of agreements."

Even when the interim government, the Coalition Provisional Authority, took over power in Iraq, it became clear that the status of Egypt's free-trade agreement would remain unknown.

As the Iraqi market opened up, there were moves by individual Iraqi businessmen seeking business counterparts in the region. Among them was Amas Al Jabori, who visited Egypt in order to promote and seek business partnerships with local companies to rejuvenate the Iraqi economy, and begin to import and export goods and services.

"Right now, people are suffering from high unemployment. The war damaged many basic services and amenities like water, sewage pipes and electricity. This is why the members of the Iraqi private sector need


Jerome Delay/AP


Itsuo Inouye/AP


Jerome Delay/AP


Laura Rauch/AP

Shocked and Awed

(Photos counter-clockwise): The US-led war on Iraq started with major air raids that rocked Baghdad for days.

US Marines help an Iraqi soldier with water in southern Iraq, in the early months of the war.

Marines advance on the headquarters of the Fedayeen in Baghdad, on April 9, 2003.

In perhaps the most famous image of 2003, Iraqi civilians and US soldiers pull down a statue of Saddam Hussein in downtown Baghdad on April 9, 2003. Controversy raged afterward that the photo was misleading. Some critics of the invasion claimed that the numbers of Iraqis celebrating were low.

to forge new alliances with our counterparts in other countries in order to fix the picture and improve the daily lives of ordinary Iraqis."

During his visit to Egypt, Al Jabori pointed out that establishing joint ventures will help the Iraqi economy to stand on its own, which he believes will be a catalyst to the withdrawal of US and British troops.

To stay or go

Dan Tschirgi, chairman of the political science department at the American University in Cairo, says that while the decision to declare war on Iraq was probably one that avoided a more serious, bloody confrontation in the future, he disagrees with the extended occupation.

"I was a supporter of the war because I was convinced that Saddam Hussein was a destabilizing force in the Middle East. He would have continued to threaten his neighbors with what could have become a deadly confrontation involving weapons of mass destruction and chemical weapons. So in that sense, I was in support of the war, which would remove this regime from power."

However, he says the decision by the US, Britain and the other allies, to commence war without the support of the United Nations will have certain long-term ramifications on the role of the UN and the legitimacy of international law. "I am convinced that the UN and international law in general were unfortunate casualties of this war, but the US and its allies were left with no choice but to carry this out without the support of the UN and the international community, thanks to the rallying opposition led by Germany and France."

While Tschirgi may have agreed with the reason for war, he disagrees with the decision of the US and Britain to occupy Iraq for the official purpose of establishing a democracy in the country.

"That is a complete waste of time because, as a rule, democracy cannot be established through force. This is especially true since the models being used by the coalition for this initiative are more than 50 years old, namely post-Second World War Germany and Japan. The problem is that the coalition is not taking into account the fundamental differences between Iraq and the two other states. To begin with, both Germany and Japan had some form of historic experience with representative governments, which is not necessarily democracy, but it's something to build on. This is not true in the case of Iraq. Another fundamental difference is the fact that Iraq is in the Middle East, which has a complete absence of the fully democratic experience that the US and Britain seek to create." He also points out that neighboring states will be completely resistant to the idea of having a Western-style democracy in a region where the majority of governments only flirt with the idea of public participation.

"Perhaps the final point which renders the efforts of the coalition rather fruitless is the fact that Iraqi society is heavily divided which was not the case in either Germany or Japan following WWII," he explains. "These divisions have traditionally been a source of conflict within the country and it will take more than a simple declaration of democracy to resolve them and allow these groups to function as a cohesive state. In this sense, the coalition is involving itself in a very long and probably unsuccessful undertaking."

While some will argue that attempting to create a democracy was the only option open to the coalition, Tschirgi disagrees, saying that throughout recent history, democratic states have become entangled in the internal conflicts of other states, resulting in the removal of governments and their replacement with less-than-democratic governments.

"The key is to create stability, and if democracy is introduced before a society is ready, it only creates fragmentation, which could seriously lead to civil war," he says. "Perhaps an unpopular option would have been to create a less-than-democratic governing body that will handle the running of the country with the hope of a democracy evolving from this period."

While the situation in Iraq seems to be improving, the continued attacks on military and foreign targets make people nervous about the prospect of stability in the country and, in turn, the entire region.

The capture of Hussein may provide some closure for the Iraqi people; AUC's Tschirgi says it also sends a very important message to other Arab countries. "It says to the countries of the region to take care of their problems in-house because if they don't, there's now precedent set on the international front that someone will step in to do that for them if things get out of hand."

And while the future of Iraq is unclear at the moment, the end of an era has certainly drawn to a close. It is just a matter of time before the long-term effects of the war on the region — both political and economic — play out. While there is no shortage of analysis on the events that unfolded and their implications, the turn of events in the future is certainly anyone's guess. bt

Efrem Lukatsky/AP

Anja Niedringhaus/AP

Jean-Marc Bouju/AP

Murad Sezer/AP

All That Remains

(Photos counter-clockwise): Deposed Iraqi President Saddam Hussein entered and left his underground hiding place near his home town of Tikrit through this small hole in the ground.

An Iraqi man comforts his 4-year-old son at a regroupment center for POWs of the 101st Airborne Division near An Najaf, Iraq.

Villagers dug up the remains of more than 3000 people they suspect were killed during the 1991 Shiite revolt against Saddam Hussein's regime.

An Iraqi woman reacts while passing by the International Red Cross building in Baghdad, destroyed by a bomb, on Oct. 28, 2003.

Telecom Dominates 2003

As predicted, telecom firms dominated the headlines all year with profits, losses, scandals and schemes leaving one player joining the stock exchange and another braving new, untapped markets

Mohsen Allam

In the Top 100 Listed Companies in Egypt issue (February 2003) *Business Today Egypt* predicted that fiscal year 2003-04 would be the year of telecommunications. It appears we were right. Egypt's telecom sector has repeatedly dominated headline news as key players maintained — and in some cases enhanced — their competitive edge in a nascent market that still has vast potential for growth.

The year opened with Naguib Sawiris scrambling to save his debt-ridden Orascom Telecom (OT), which in the third quarter of 2002 had liabilities that exceeded assets by more than LE 3.11 billion. Some analysts believed that the demise of OT was a *fait accompli* — but they were quickly proven wrong.

It didn't take long for a tenacious Sawiris, who had admittedly over-extended his empire amidst a global economic downturn, to recoup. By May 2003, OT was on solid ground once again, reporting an LE 1.05 billion profit on revenues of LE 4.06 billion for the year 2002. With holdings in Jordan (Fastlink), Yemen, and six African subsidiaries (Telecel) sold, Sawiris told ***bt*** in June 2003 that by the end of the year, "OT will have more money than [he] knows what to do with." But in actuality, before Sawiris cashed in, he had serious visions of an Iraqi license floating around in his head.

Mohsen Allam

OT's Naguib Sawiris (left) stayed in the spotlight last year as he pulled his firm out of the red and into the black, and then won a coveted license in Baghdad, only to have it temporarily put on hold after charges of cronyism tainted the bidding process. On a bright note, Vodafone announced late in the year that Telecom Egypt will soon be a 25-percent owner in the mobile giant.

As the year drew to a close, those visions became a reality. In October 2003, OT was one of three mobile operators to be awarded the much-coveted right to build Iraq's mobile network. The other two winning operators were AsiaCell and AtheerTel (joint ventures between Kuwaiti and Iraqi investors).

The three companies will divide Iraq up amongst themselves each getting a one-year exclusivity period in the region allotted them. It was OT and its partners US-based Motorola and France-based Alcatel, however, that appeared to have gotten the lion's share of the deal, being awarded the central Iraq region where the country's largest city, Baghdad, lies.

As soon as the news hit the wires the price of OT's stock rose a whopping 25 percent on the Cairo and Alexandria Stock Exchange (CASE) from LE 7.26 per share on Oct. 8 to LE 57.48, the following day. Concord International Investments declared that as of October 2003, OT's stock had experienced an unparalleled growth rate of 692 percent over a year's time. Not bad for a company that was on the verge of bankruptcy around the same time a year ago.

But rumors of foul play have temporarily halted work on "Iraqna" (the name given to OT's mobile operator in Iraq). As the magazine went to press, contracts had not yet been signed and an investigation was taking place in the wake of accusations made by Turkish mobile operator Turkcell and others that cronyism was involved in the US-led Coalition Provisional Authority's decision.

Back on the local scene, MobiNil and Vodafone continued to enjoy a duopoly over the market. The long-awaited launch of Telecom Egypt's (TE) Wataneya, Egypt's would-be third mobile operator expected in 2003 never saw the light of day.

Until the third quarter of 2003, the public was led to believe that despite the absence of a sufficient foreign partner, the launch of Wataneya was still imminent. In April 2003, however, word got out that MobiNil and Vodafone were in negotiations with TE over the possibility of delaying Wataneya's debut until November 2007 in return for LE 2 billion to be paid in equal shares by the two GSM operators.

A lengthy debate ensued in Parliament over the merits of establishing a third operator at an estimated cost of $220 million. Most were in agreement that to push forth with the project for the time being would be a miscalculated risk. Given market conditions, it would be extremely difficult for TE to recover the cost of its investment anytime in the near future. By June 2003, talk had shifted towards the feasibility of TE buying a stake in one of the two existing GSM operators. The likely candidate appeared to be Vodafone.

In October 2003, two major announcements were made. First, Vodafone announced that it had begun negotiations with TE over the possibility of TE acquiring shares in company, which is 72 percent owned by the British Vodafone Group. Hot on the heels of that announcement came news that Vodafone had begun procedures to list its stock on the Cairo and Alexandria Stock Exchange. By Dec. 21, Vodafone opened up its ownership list to let in TE, the new soon-to-be 25-percent owner of the telecom. bt

Hadia Mostafa

Gotta Get Smart

MCIT's long-envisioned Smart Village opened its doors in 2003

The year 2003 was also a good year for the Ministry of Communications and Information Technology (MCIT). In September, President Hosni Mubarak officially launched Smart Village, MCIT's 300-acre information technology business park near the entrance to the Cairo-Alexandria Desert Road.

The LE 2 billion project – 80 percent private sector and 20 percent government owned – is eventually expected to house 50 futuristic office buildings, including MCIT and its affiliated agencies. Pioneering tenants thus far include Microsoft and Xceed, Telecom Egypt's new world-class call center.

In an ambitious international marketing effort for the Smart Village and the communications and information technology sector in Egypt as a whole, MCIT Minister Ahmad Nazif and co. traveled twice to Geneva where Egypt was a first-time participant in both the International Telecommunication Union (ITU) Telecom World Conference (October 2003) and the ITU World Summit on the Information Society (December 2003). The latter was even attended by Mubarak who continues to prioritize Egypt's CIT sector. bt

Mohsen Allam

Nazif

Hadia Mostafa

quotes of the year

Starting tomorrow there will be a free market for foreign exchange. The bank will play an active role in buying and selling.

– Atef Ebeid while announcing that the pound would be floated at the *Economist* conference, January 2003

I think this was not an optional decision for us, but a necessary one. No telecommunications operator as big as TE can survive in the long term without (owning a) mobile operator because this is the future — all trends are in mobile operations.

– Akil Beshir, TE Chairman on the decision to go through with the of launching of Wataneya, January 2003

New Laws On The Books

Major government decisions passed in 2003 affect everyone from employees and employers to house hunters and hotel builders. And while many cheered the sentiments behind the new laws, most in the business community adopted a wait-and-see attitude

PARLIAMENT WAS BUSY IN 2003. NOT MANY of the new laws it passed have gone into the implementation stage yet, but many significant changes have been made on paper at least.

After five long years of planning and debate, the new labor law No. 12 for 2003 was passed by Parliament.

In essence, the Consolidated Labor Law of July 2003, is the first comprehensive law to regulate the relationship between workers and employers in a free market economy. The law was intended as a move away from outmoded socialist ideals, giving employers more leeway in running their businesses in terms of human resources.

Among the highlights of the law is that employers are now given the legal right to lay off employees. Workers are also given rights to increase annual bonuses and holidays. (See '*Deconstructing The Labor Law,*' November 2003)

Hand it over

MUCH TO THE DISMAY OF THE BUSINESS community, the Ebeid government quickly followed its decision to float the pound with a decree forcing companies to hand over 75 percent of their foreign-currency receipts.

Failure to do so can result in measures as drastic as revoking a business license. The two main sectors affected by the decree have been the tourism and export sectors, which are now forced to transfer their foreign currency income directly into the public sector banks.

(See *'Step Away From The Dollars, Sir,'* May 2003)

A good starting point

THE CENTRAL BANK OF EGYPT (CBE) FINALLY has something concrete to work with. A new banking law was approved by Parliament and went into effect in May 2003, which will allow the CBE to have greater freedom in drawing up monetary policy.

The first chapter of the law deals with the new internal structure of the CBE and how it is to act as a true supervisory body over the banking sector. Other chapters deal with issues such as the administration of public-sector banks, the confidentiality of bank accounts, the mortgage of banking assets, the handling of foreign exchange, and, last but not least, penalties for banking offenses, an issue that caught more than one businessman offguard in 2003.

An important article in the law also stipulates that businessmen must notify their bank if they are to change the nature of the business that they originally took out a loan for. The bank must grant approval before funds can be transferred to a new project. Many members of Parliament felt that the current loan default crisis was due to the fact that businessmen were misappropriating funds from one business to another. (See *'At Last,'* May 2003)

Foreign-exchange (forex) bureaus are dismayed by the law because it stipulates that they must have LE 10 million in capital in order to operate. Many felt that the figure was unrealistic and thus resulted in the closure of most forex businesses. The previous 1991 law that legalized forex bureaus required them to have a capital of only LE 1 million. (See *'See You In Court,'* September 2003)

Pulling the plug

IN JULY 2003, THE MINISTRY OF TOURISM AND the Red Sea governorate decided to stop issuing licenses for new hotels and tourist villages in Hurghada and Sharm El-Sheikh.

The decision aimed to put a stop to construction on the already overdeveloped coastal towns where the supply of hotel rooms greatly outweighs the demand. It was also intended to halt the ongoing price wars, which brought room rates down to rock-bottom levels. (See *'Hotels Halted,'* August 2003)

Citizenship for all

ALTHOUGH THE AMENDMENTS TO THE CITIZENship law No. 26 for 1975 proposed by President Hosni Mubarak in the NDP's annual conference in September 2003 have not yet been ratified by Parliament, Interior Minister Habib El-Adly was ordered to accept citizenship applications from the children of Egyptian mothers and foreign fathers.

The new law stipulates that citizenship applicants must be over the age of 21 and cannot be handicapped.

While the law is a monumental step forward, some analysts say it is still unjust since children will not be eligible for citizenship at birth and handicapped children who are in most need of state services will remain without access to them.

Analysts also fear that only a small percentage of applicants will actually be granted citizenship rights. (See *'Laying In Wait,'* December 2003) bt

Hadia Mostafa

Youths Unite

NDP attempts a youth-inspired makeover in 2003, but will it stick?

Under the banner, "The Rights of Citizens First," the ruling National Democratic Party (NDP) attempted to reinvent itself during its annual conference in September 2003.

An unmistakable air of youth has apparently infiltrated the party's inner circle as younger, more liberal members continue to ascend to positions of prominence previously reserved for the party's old guard. The new trend is epitomized by highly visible NDP leaders like policy secretariat chief Gamal Mubarak and economic committee chair Mahmoud Mohie El-Din. Both are intelligent, articulate, charismatic – and significantly younger than their predecessors. Whether or not this change in and of itself will usher any real reform from within the party – which is still dominated by the old heavyweights – remains to be seen.

What has already become clear, however, is that the NDP has been able to attract scores of young, high-profile members over the course of the past year.

Amr Nabil/AP

G. Mubarak

After 25 years of operating under a populist platform, which automatically shut out would-be supporters from the professional and business sectors, the NDP is mending its ways. Under the tutelage of Mubarak Jr., the party has now changed its tone a bit with calls for a more pragmatic approach towards solving the country's economic crisis.

Hadia Mostafa

Tourists Return

Doing the opposite of what was predicted, tourists found their way to Egypt in record numbers

As regional tensions escalated, the tourism sector braced itself for a dismal 2003. But the economy – and the tourism industry in particular – weathered the Iraq War much better than expected. By April 2003, Tourism Minister Mamdouh El-Beltagui happily announced that his original estimate of a $2 billion loss for the Egyptian tourism sector was a miscalculation.

During the war, and the months directly preceding and following it, numbers unavoidably dropped. March saw a 22 percent drop in the number of visitors, April, a 15 percent drop and May, a 10 percent decrease. But the sector, which has by now become accustomed to the blows dealt to it due to political conditions, recovered in record time. As early as June 2003, Egypt witnessed a 5 percent increase in the number of tourists compared to the same month in 2002.

By September 2003, exhibitors at the fourth Mediterranean Travel Fair (MTF) in Cairo were actually optimistic about the future. Coming off of a summer high that had Arab, Italian, German, French, Russian, Turk, Greek, and Cypriot tourists flocking to Egypt in record numbers, tour operators were ecstatic.

Statistics from the Ministry of Interior's passport department indicated that the number of incoming tourists in July (623,000) had increased 26 percent from the previous year. The number of tourist nights also increased by 79 percent reaching 4.9 million.

August was even better; 743,000 visitors with 9.3 million tourist nights a whopping increase of 121 percent compared to August 2002. According to El-Beltagui, the total number of tourists from January to August 2003 had reached 3.6 million, a figure that he was more than relieved to have achieved.

Although the final numbers were not yet available at press time, it was expected that the tourism sector, with the already heavily booked Christmas and New Year season still ahead of them, might surpass the 5 million mark, despite earlier, ugly predictions to the contrary.

Several factors came into play in the tourism sector's speedy recovery. First and foremost among them is that Egypt has become an increasingly affordable destination for European and Arab visitors. The devaluation of the Egyptian pound vis-à-vis other currencies – especially the euro – translated into rock-bottom prices on everything from hotel accommodations to food, beverages and entertainment. On the down side, the bargain phenomenon has led to a lower-caliber tourist (both European and Arab) who spends significantly less than travelers who previously came to tour the country.

Industry insiders claim that this type of tourism is bad for Egypt's image with the A-class tourists.

Some analysts, however, believe that cheap deals weren't the only draw. El-Beltagui's ministry has poured an enormous amount of money into road shows and promotional campaigns that have been airing regularly on CNN and BBC.

New mega-tourism projects have also been developed in Taba Heights in south Sinai and Marsa Alam, south of Hurghada. The new Marsa Alam International Airport alone has seen 250,000 visitors since it opened in November 2002.

Despite the relatively good year, the Egyptian tourism industry still has a long way to go if it is to remain competitive with other destinations in the region like Lebanon and Dubai that are quickly moving forward to attract tourists from around the world. bt

Hadia Mostafa

Omar Mohsen

A look at Egypt's current economic landscape gives one the impression of being transported in a time warp. Beneath the veneer of liberal economic pronouncements by senior government officials lies a bureaucracy steeped in long discredited philosophies of central economic management.

– Dr. Farid Saad, Chairman of Abu Soma Development Company, August 2003

The idea that unemployment will be solved via government decrees declaring that we will employ 170,000 people is not a solution. I think these are simply band-aid solutions, not cures.

– Mahmoud Abu El-Layl, Governor of Giza, January 2003

Comings And Goings

Abdullah Tayel got tagged, BMW bounced back and EgyptAir re-shuffled its executive deck in a year of corporate turbulence that also saw tragedy in the death of Edward Said and the mysterious disappearance of *Al-Ahram* journalist Reda Hilal

THE YEAR 2003 WASN'T ANY KINDER TO scandalized businessman **Hossam Aboul Fotouh** than the previous year when his financial troubles and escapades with belly dancer **Dina** shocked the country.

Aboul Fotouh

Early in the year, Aboul Fotouh's agency for BMW was suspended after he was charged with customs evasion, bribery and defaulting on loans worth LE 964 million from Banque Du Caire. The sole import, sales and assembly rights to BMW in Egypt were awarded to **Bavarian Auto Trading Company** in March 2003. It wasn't until November 2003, however, when BMW Group's Senior Vice President Lueder Paysen announced that the German auto manufacturer would once again be rolling out cars from a newly purchased factory in the Sixth of October City.

The facility was actually a half-finished factory originally intended for the manufacturing of SEAT automobiles. With a new increased production capacity of 4000 units per year, BMW expects to have the first cars ready for the local market by March 2004. Whether or not the market will be able to absorb that amount remains to be seen. BMWs are now selling for LE 100,000 more than they did two years ago.

Speaking of corruption and bad debts, **Abdullah Tayel**, the former head of the People's Assembly economic committee and former chairman of Misr Exterior Bank, was sentenced to 10 years in prison last September on charges of bank fraud on a sum of LE 262 million.

The year was characterized by an ambitious attempt on the part of the government to clean up the banking scene. One of the most anticipated appointments on that front came as the year drew to a close. Former National Bank of Egypt Chairman **Farouk El-Okda** was named as the new governor of the Central Bank of Egypt (CBE). With 12 years of banking experience in the United States with the Bank of New York, El-Okda is expected to breathe fresh air into the troubled institution. El-Okda is supposedly on good terms with Prime Minister **Atef Ebeid** who was at constant loggerheads with former CBE governor **Mahmoud Abul-Oyoun**.

Abul-Oyoun

Another troubled Egyptian institution, **EgyptAir**, went through its own re-shuffling in 2003 as it apparently aborted its short-lived plans to revamp itself into a modern carrier. Only one year into his tenure, forward-thinking EgyptAir chairman, veteran pilot **Ahmad Al-Nadi**, was replaced by his deputy, pilot **Sherif Galal**, in July 2003.

Al-Nadi

Rumors surrounding Al-Nadi's sudden departure generally revolved around Civil Aviation Minister **Ahmad Shafik**'s insistence on running the show, rendering both Al-Nadi and Egypt Air Holding Company Chairman **Abdel Fatah Kato** powerless. After only seven months on the job, Kato submitted his resignation in February 2003 and was replaced by the former head of the EgyptAir maintenance company, **Atef Abdel Hamid**.

USAID saw two new program directors for Egypt in 2003. The first, **Toni Christiansen-Wagner** came to Cairo in March and abruptly left six months later to be replaced by **Kenneth Ellis**.

Christiansen-Wagner

Ellis

In September, President **Hosni Mubarak** appointed a new mufti, **Sheikh Ali Gomaa**, who has already managed to turn more than a few heads with his liberal *fatwas*.

On a sadder note, *Al-Ahram* journalist and deputy managing editor for the newspaper, **Reda Hilal**, was reported missing in August 2003; his whereabouts are still a mystery. He was last seen by his driver who drove him home to his apartment on Kasr El-Aini street. The investigation is ongoing.

Another *Al-Ahram* journalist and former editor-in-chief, the legendary **Mohamed Hassanein Heikal**, decided to end his monumental 60-year career in October 2003 as he announced his plans for retirement on his 80th birthday. Considered the Arab world's most knowledgeable political analyst by many, Heikal is believed to be in possession of a priceless Nasser-era archive. He has yet to reveal the fate of the coveted manuscripts.

Said

Thousands of intellectuals in the region mourned the death of leading literary figure and No. 1 advocate of the Palestinian cause in the US and perhaps worldwide, **Edward Said**, who died in September 2003 at the age of 67 after fighting a long battle with leukemia. In the post 9/11 world, Said was a beacon for better understanding and dialogue between East and West. bt

Hadia Mostafa

Khaled Habib

Mergers And Acquisitions

Food-sector companies do most of the company gobbling in 2003

IN A YEAR WHEN THE MARKET WAS SHOCKED and awed into stagnation as it came to grips with a free float of the pound, which had more than a few strings attached to it, the food sector fared rather well.

The first management buy-out in Egyptian business history took place in January 2003 when Rashidi El-Mizan, a 113-year-old family business that leads the market in the production of *halawa* and *tahina* products, bought itself back from multinational food giant Unilever for LE 92 million. The move was ironic since Rashidi El-Mizan had sold out to Bestfoods, a United States-based multinational only two years earlier. Rashidi El-Mizan CEO Mohammed El-Rashidi, however, stayed on with the company maintaining the title of Bestfoods country manager in Egypt. A couple of months after the deal was signed Bestfoods was acquired by Unilever.

It quickly became apparent to Rashidi management that Unilever intended to divest a large number of companies that were under its umbrella. Rashidi executives immediately began orchestrating the company's re-acquisition. Less than three months later, five members of the Rashidi El-Mizan management team, the Rashidi family and CDC Capital Partners (a leading emerging markets private equity investment firm) successfully bought back the company for roughly half the price for which it was originally sold.

Immediately following the pound float, Mustafa Abdel-Wadood, (newly named managing director of EFG-Hermes' investment banking arm) told ***bt*** that economic downturns have no substantial effect on the food sector. When hit with hard times, the last thing people will stop buying is food, he said. As he saw it, a population of 70 million made the local market very attractive to foreign investors especially when you are talking about mass market products like halawa, cakes, biscuits and the like. "Unlike most products where the addressable market is 12-15 million we can address the entire 70 million here," he added. According to industry insiders, turnover in the market for mass-produced cakes, biscuits, chocolates and candies topped LE 500 million in 2003.

So it's not difficult to see why newcomer Kraft Foods was interested in the Egyptian market. In April 2003, US-based Kraft acquired Family Nutrition, the company that manufactures Borio, the No. 1-selling biscuit on the market as well as Nity snack cakes and the ketchup, mayonnaise and mustard brand Gobar, for $80 million.

According to Kraft's group vice president, Maurizio Calenti, the acquisition (which some analysts felt was overvalued) was in sync with the company's strategy to grow in core categories by investing in high-growth developing markets.

Another example of the consolidation trend in the foods sector this year was the Edita for Food Industries (manufacturers of Molto and Bake Rolls) buy-out of International Foods Company (Hostess Egypt) for LE 33 million in May 2003. The deal was a golden opportunity for Berzi Group, owners of Edita, to capitalize on Hostess' market share (the No. 1 snack cake on the market) and distribution channels. Analysts expect to see more consolidations of this nature with both foreign and Egyptian companies take place in the near future. bt

Hadia Mostafa

> Debtors and creditors in a market economy require a law that appreciates the economic environment they function in, not a law that is based on outdated notions which hinder economic activity.
>
> – Bahaa Hillal, commercial law professor on the country's lack of proper bankruptcy legislation, March 2003

> I think the government will need to take action of one form or another to balance the situation. The most important thing is to make foreign currency available to finance imports. The government claims the foreign currency is available but the system is still not working."
>
> – Hussam El-Mestekawy, CFO Olympic Group, April 2003

The Best And Worst Of 2003

For the second year, *Business Today Egypt* gets to dish on the good, bad and ugly of the previous year. As is always the case in the business community, there were deals, successes, scandals, inactivity, and this year, tragedy. Here are *bt*'s picks of the most interesting people and events of 2003:

BUSINESSMAN OF THE YEAR: Naguib Sawiris for his sound management tactics that got Orascom Telecom out of the red and for the vision and foresight that has helped him land two new lucrative contracts this year in Pakistan and of course Iraq (see *"Year In Review: Telecom Dominates,"* page 72).

BEST AND WORST GOVERNMENT DECISION OF THE YEAR: Floating the pound. On Jan. 28, 2003, the long-awaited announcement that the government would at last free float the pound was met with both optimism and apprehension.

While no one questioned the soundness of the decision, the timing (weeks before the Iraq war) and the implementation of the float were an enigma to all.

Quicker than you could say: "I want to buy some dollars," the liberal move was immediately juxtaposed with a series of economic control measures which indicated that the Ebeid government was anything but ready to let go and allow free market forces run their course. The result: panic, chaos and an economic crisis that still has the country reeling. (See *"Strings Attached,"* page 58)

BIGGEST SCANDAL OF THE YEAR: Zikra and Ayman El-Sweidi. It had all the makings of a Hollywood blockbuster: A lusty starlet's liaison with a high-powered business tycoon ends in bloodshed, only the crime didn't take place in tinsel town it happened right in our own backyard, Zamalek.

In the early hours of Nov. 28, 2003, life came to an abrupt and tragic end for Tunisian singing sensation Zikra, 42, and her common-law husband of three months, businessman Ayman El-Sweidi, 40. After a tumultuous evening out on the town with El-Sweidi's business manager, Amr El-Kholy and his wife, the couple engaged in an all-night shouting match, during which an insanely jealous El-Sweidi accused his wife of infidelity and ordered her to abandon her singing career.

Zikra refused to budge, insisting that El-Sweidi married her knowing that she had no intention of retiring. The row ended with El-Sweidi showering his wife, his business manager and the manager's wife with a torrent of bullets from two pistols and a machine gun that he retrieved from his personal arsenal.

El-Sweidi then pointed one of the pistols in his mouth and pulled the trigger, ending his own life as well as those of his three companions. Zikra's body was grotesquely ravaged by a total of 25 bullets.

The business community was stunned as the details of the case began to unfurl on the pages of the local press. Investigators on the scene found a letter addressed to El-Sweidi's brother Mohammad, which confirmed that the murder/suicide was at least partially premeditated.

In the letter, El-Sweidi said that he was planning on committing suicide because "he had major debts and was fed up with life in general."

El-Sweidi, whose family owns a prominent electrical cable business based in Tenth of Ramadan City, had allegedly amassed over LE 140 million in debt to several different banks and was banned from leaving Egypt until he put his finances back in order.

The scandal brought to light a number of controversial issues including gun control, the decadence of yet another prominent business figure and the country's haphazard banking and investment laws which have over the past few years turned some of Egypt's elite businessmen into fugitives, thieves, convicts — and now murderers.

SILLIEST INTERNATIONAL DEBATE OF THE YEAR: Bust of Nefertiti. Diplomatic ties between Egypt and Germany were put to the test last summer as a war of words raged between Supreme Council of Antiquities head Zahi Hawass and curators at the Berlin Gallery over the bust of Nefertiti.

Hawass — with the full backing of Minister of Culture Farouk Hosni — was fuming about an avant-garde display contrived by two Hungarian artists who decided to perch the limestone bust atop a bronze statue of a naked woman. The display was temporary but the matter was not taken lightly. At every chance he got, Hawass ranted and raved that the incident was a slap in the face for Egypt and its cultural heritage. He threatened to forbid German archaeologists from excavating in Egypt and alleged that the bust went to Germany years ago under "questionable circumstances."

BEST NEW VENTURE OF 2003: Nile FM and Nougoom FM. Music lovers of all ages rejoiced last summer as the first two private radio stations, the English Nile FM and Arabic Nougoom FM, hit the airwaves.

Breaking the state's monopoly on radio, however, wasn't easy. According to Nile Radio Production (NRP), the company that owns both stations, it took three years of negotiating with the ministries of interior and information to get the job done. Bizarrely enough, the identity of the mastermind behind the pioneering top 40s stations remains a secret. NRP reps claim that their shareholders' agreement with the state is confidential.


AP

Rumor has it however that primary shareholders include music mogul Mohsen Gaber and the brothers Adib (Amr and Emadeddine of *Al-Alam Al-Youm* and Orbit fame). Regardless of who's running the show, the six-month-old experiment in private radio is a huge success. They have already amassed a substantial following of listeners mainly among the 15-30-age bracket.

Big advertisers like Pepsi, Coke, MobiNil and Vodafone have also eagerly jumped on board with this relatively inexpensive new advertising medium with each of the companies currently sponsoring regular shows and time slots on the new stations.

WORST PLANNING/TRAFFIC NIGHTMARE OF THE YEAR: The bridges and tunnels of Heliopolis. For a good part of 2003, Heliopolis could be mistaken for a war zone. The Ministry of Housing, Utilities and Urban Communities suddenly decided to solve the district's traffic woes (which weren't that bad to begin with) by constructing two major overpasses and two tunnels all within a 1000-meter radius.

What's even worse is that they decided to complete the ambitious LE 250 million project in eight months, never mind that traffic in Heliopolis had to come to a virtual standstill in the process.

Angry residents were at a complete loss for words as they witnessed their once-quiet neighborhood being torn apart by 24-hour construction crews who drilled, hammered and bulldozed their way through the neighborhood.

BIGGEST SLAP IN THE FACE OF THE YEAR: Vodafone ad congratulating MobiNil for the launch of its Life service. The day after MobiNil's elaborate launch party for "MobiNil Life" the company's new GPRS service, a full-page color ad was placed in *Al-Ahram* newspaper announcing one year of free GPRS service for their customers.

What the mobile operator didn't realize however was that arch rival Vodafone had one up on them. Vodafone took out its own full-page color ad congratulating MobiNil on the launch of "Life" and thanking Vodafone customers for having made the first six months "Vodafone Live" (their own GPRS service) a huge success. They kindly added that in the near future they hope to have MMS services functional between the two operators.

To make matters even worse, the Vodafone ad ran a couple of pages ahead of MobiNil's. Rumor has it MobiNil execs who had been hard at work for months orchestrating the launch were in tears.

HOMESICK BUSINESSMAN OF THE YEAR: Mostafa El-Beleidy. It appears that some businessmen just can't stay away from home for very long, no matter how bad the economic situation is.

Following in the footsteps of disgraced businessman Ramy Lakah, down-and-out cosmetics tycoon El-Beleidy, who was faced with over LE 200 million in outstanding debt, fled the country in 1997 only to return in 2003 after Prime Minister Atef Ebeid made a public plea for debtors in hiding to return and work out settlement agreements with their creditors.


El-Beleidy

Ignoring the 40-year prison sentence that was issued against him in absentia back in 2000, El-Beleidy, in a move that stunned the business community, packed his bags and headed for home. Upon arrival at Cairo International Airport last spring, he was greeted by authorities and promptly arrested, without a chance to negotiate or settle. El-Beleidy remains in custody.

ARAB LEADER OF THE YEAR: Sheikh Mohamed bin Rashid Al-Maktoum. It's been nearly a decade since this Arab visionary was appointed the United Arab Emirates' Minister of Defense and Crown Prince of Dubai, but the fruits of his labor have now catapulted Sheikh Al-Maktoum into international stardom.

Thanks to Al-Maktoum's foresight and business acumen, Dubai, once a small desert oasis, has truly transformed into "the crossroads of the New World Economy."

His long list of achievements include "Destination Dubai," an aggressive tourism initiative that began with the creation of the Dubai Shopping Festival in 1995 and grew to include the development of monumental projects like Burj El-Arab and Palm Island.

Dubai's government was also the first in the world to go fully online in 2001.

With Dubai Media City and the Dubai International Financial Center also to his credit it's no wonder that Al-Maktoum is now looked upon as the marketeer of the decade. And his ambitions don't stop there. He has recently vowed to make Dubai twice as prosperous within the next three years. bt

When you hear Bush saying 'I will not put the American people at the mercy of Saddam Hussein and his weapons of mass destruction,' it's hilarious. The guy has a couple of drones with a range of 120km that could not even threaten the American Embassy in Damascus, let alone the US.

– Mansour Al-Tarzi, corporate financial adviser, April 2003

They are nowhere near the airport … they are lost in the desert … they cannot read a compass … they are retarded.

– Iraqi Minister of Information, Saeed Al-Sahaf, April 2003