Machinery in motion

Cairo's technocrats are attempting to kick-start the economy by boosting exports from local industry. One automotive scheme is providing the blueprint for Egypt's wider industrial modernisation

Digby Lidstone reports

FINISHING TOUCHES: Automotive suppliers will be

"Cairo is gossip," says one long-time resident of the city. "So I know you won't believe me, but it really is the first time that people have been openly talking about politics in public. The elections have changed everything."

Cairenes will continue to debate how fairly or squarely President Mubarak won the 7 September vote for months to come. But they all agree on one thing. The 77-year-old leader owes much of his victory to the performance of the economy in the last year, and in particular to the small band of technocrats, economists and businessmen, led by Prime Minister Ahmed Nazif, who have been nursing it back to health.

Shortly before the presidential election, the premier gave Mubarak a brief snapshot of the progress made since his government was installed last July (see Special Report, pages 32-33). Gross domestic product (GDP) growth picked up to 5 per cent in 2004/05, up from 4.2 per cent in the previous fiscal year. Over the same period, inflation dropped to 4.7 per cent from 12.7 per cent, foreign currency earnings leapt by 25 per cent to $34,000 million and a half percentile was shaved off the official unemployment rate, which now stands at 9.5 per cent. As Nazif noted with typical understatement: "The economy has started heading towards stability and will see real progress in the next stage."

A close look at the balance of payments reveals why. Exports soared by 27 per cent last year to $10,453 million, with non-oil exports showing a marked 30 per cent increase. The import bill has admittedly kept pace – the overall trade balance widened slightly to $7,833 million in 2004/05 – but after accounting for high fuel import costs, it is notable that strong increases were seen for imports of investment equipment, machinery and raw materials. The Egyptian economy is waking up, and it is showing a healthy appetite.

Cairo has had its fair share of false dawns, but this time local businesses say the sense of optimism is better founded. "Local industry is really picking up again," says Helmy Abou Eleish, head of the local Industrial Modernisation Centre (IMC). "And most importantly, this is the first time that we actually have an industrial strategy."

New strategy

The IMC is central to this new strategy. Jointly funded by the EU and the Egyptian government, the development agency was set up three years ago with a Eur 400 million ($491 million) budget and the task of promoting the competitiveness of local industry. It has not been an easy task. Accounting for about 18 per cent of GDP, the Egyptian manufacturing sector consists of an estimated 200,000 production units, employs about 1 million workers and accounts for about $2,000 million of annual investment. And according to the Foreign Trade & Industry Ministry, as much as 40-50 per cent of that production capacity is standing idle.

Over-reliance on a depressed local market has left manufacturers operating well below their potential, says Abou Eleish. "But now there is a specific objective: to target the export market, ensuring companies are linked into the global supply chain and continuing, in the meantime, to improve their efficiency and technical standards." This may sound like wishful thinking. But in the national suppliers development programme (NSDP), launched in July, the IMC and its partners in the Foreign Trade & Industry Ministry now have a concrete way of making it happen.

The seed of the programme was sown by the US' General Motors (GM). "Basically, they approached us about five months ago asking how to improve the quality of their local suppliers," says Mohammed Fathy, the ministry's director of projects. "Three weeks later, we signed the memorandum of understanding [MoU]."

INTERVIEW

A shared commitment

Foreign Trade & Industry Minister Rachid Mohammed Rachid outlines the main aims of Egypt's industrial modernisation programme

"In Egypt today, our vision for economic reform centres on a basic aspiration to create jobs and growth in Egypt – not by protecting and subsidising local entities – but by creating a modern and competitive industrial base that is capable of supporting a vibrant export sector. For us, economic reform is all about integrating the country into the global economy by

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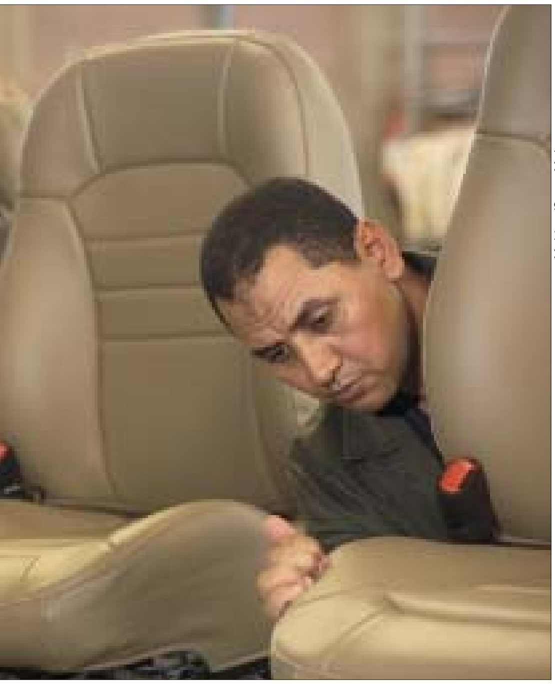


Mobica/Omar Mohsen

first to benefit from the PPP programme

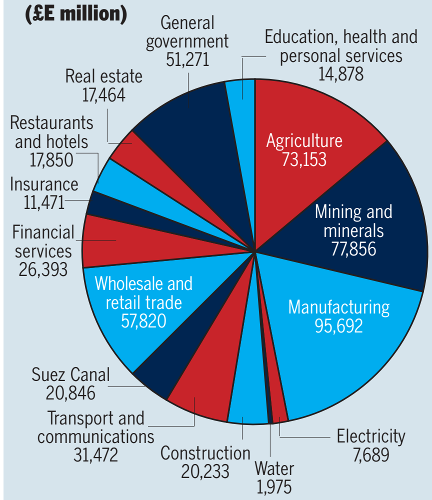
"Now there is a specific objective: to target the export market"

Helmy Abou Eleish, IMC

Under the terms of the MoU, a team of local and foreign consultants have been hired to conduct gap analysis of 20 of GM's main Egyptian automotive suppliers, assessing which areas – from IT development to quality control – require investment to bring them up to international standards. Once the report is submitted, in early October, individual companies will be offered technical assistance by the IMC, with the agency providing 85 per cent of the costs of the upgrade – estimated at £E 1 million ($170,000) on average for each supplier. In return, General Motors guarantees to put those companies on its list of approved global suppliers, enabling them to compete for future supply deals in Brazil or Turkey on an equal footing with local subcontractors.

GDP AT FACTOR COST BY ECONOMIC ACTIVITY

(£E million)



Exchange rate: $1=£E 5.77 Source: Central Bank of Egypt

"The IMC was looking for ways of not just throwing money at problems, but also establishing some criteria so that money had a multiplying effect," says GM regional director Don Butler. "We have been through the gap analysis process in Brazil with great success, so the only question was how to make it work in Egypt, for Egypt. The benefit for us is obvious – we get better companies, in terms of quality and delivery, and in return we have committed to ensuring everyone makes it through the gap closure process and joins our global supplier chain."

So smitten is the ministry with the public-private partnership (PPP) model, that the GM project has become the pilot for an unprecedented national modernisation programme.

The biggest 100 companies in Egypt – about half of them local, half international – have been targeted for the same treatment. They cover five key sectors with export potential: the automotive industry; furniture; food and retail; white goods; and pharmaceuticals. "We are asking them to draw up a list of their suppliers, and we promise to upgrade five-20 of them to international standards, with about £E 150,000 [$26,000] set aside for each supplier," says Fathy. "So far, we are in active negotiations with 43 of the main parent companies."

The export potential is enormous. For the furniture industry alone, the government has set a target of boosting annual exports to $1,000 million over the next three years, from about $200 million at present. Key backers, including the US Agency for International Development (USAID) and the Japanese International Co-operation Agency (Jaica), have been brought on board to support particular areas of the NSDP. Jaica is providing human resources and technical assistance to suppliers, for example. A European representative office is also planned, supported by the EU. And the Foreign Trade & Industry Ministry plans to smooth the way with new legislation which will ensure local furniture companies are guaranteed a customs rebate on imported raw materials, which itself follows a reform of the tariff structure in September last year.

"A billion dollars might sound like a lot, but when you realise that Europe's furniture imports are $50,000 million a year, you realise it's not that ambitious," says Fathy. "It is also a matter of setting your priorities – California alone is a bigger market than the whole of the Gulf. China exports $1,800 million worth of furniture to the US. If we can attract 1 per cent of that traffic, we would double the size of the local industry overnight."

Benefit

The same incentives apply to all industries targeted by the programme, as Ahmed Fikkry, chairman of local automotive company Traxx, points out: "You are talking about an $800,000 million market globally for automotive supplies. Whatever tiny percentage of that you can get, you're going to benefit."

While there are obvious benefits to Egypt from a boost in exports, the real proof of the programme will be in its long-term effect on the competitiveness of Egyptian industries in the international marketplace. "Being put on what General Motors call their 'global radar' means we can not only compete for their work, but we can use it as a term of reference to approach any other big vehicle manufacturer in the world," says Fikkry. "For example, Traxx now does work with Lockheed but it took us several years to get that deal. It was very hard work. But once we had got it, we could then go to Honeywell and other big companies – you just need to get that first break."

And that, he believes, is what nearly 2,000 of Egypt's finest small companies are about to get. "I have been in this industry for 15 years, and I can't remember a time when we didn't have to approach the ministry to complain about competition, taxes or trade tariffs, and get them to do something about it. For the first time in all those years, they are taking the initiative." ■

raising the quality and competitiveness of our local players and supporting them to enter the global marketplace.

"Government today is the instigator and facilitator of reform, working with key stakeholders from the private sector and civil society to deliver actual reform measures. As the project illustrates, this public-private partnership [PPP] approach to reform is sustainable because it is based on a win-win formula – in this particular example, everyone (the government, Egypt's largest corporations and the suppliers themselves) gets something out of supporting the initiative to modernise and upgrade Egypt's local supplier network.

"In fact, what is important about the PPP model of reform is the extent to which it requires a shared commitment to change by all parties: it is about government, business and civil society working together closely – and engaging equally – in bringing about the reforms that will deliver growth and welfare gains for everyone.

"By joining the national suppliers development programme, General Motors – and the many other parent companies that have now signed up with us – demonstrate their willingness to take up that challenge and make a critical contribution to reform."