



Eye On Egypt

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This Digest...

is a monthly publication of Egypt’s International Economic Forum, offering a review of international analyses and opinions covering Egypt’s economy, society and polity. The views expressed herein are those of the authors and do not necessarily reflect the views of the Forum.

“Egypt: An Economy Haunted By Inflation, Tax Shortfalls, Unemployment, Poverty And Corruption”

The Los Angeles Times
 December 18, 2010

Author: Lahcen Achy is an economist and resident scholar at the Carnegie Middle East Center in Beirut

Achy identifies the top five challenges to the Egyptian economy and proposes measures that the government could take to address these issues. One of the greatest economic threats to Egypt is inflation, with International Monetary Fund estimates for 2011 at 9.5%. Another significant issue is Egypt’s chronically low tax-revenue-to-GDP ratio, which at 15% lags behind other countries in the region. The widespread tax evasion that this low ratio indicates poses a serious problem for the government’s finances.

Egypt’s economy is also threatened by the large, youthful population, which places significant pressure on the labor market. Poverty is another chronic problem, with 40% of Egyptians living on less than US \$2 per day—double the regional average. Achy also points to corruption as an obstacle to economic growth and successful businesses.

To combat these problems, Achy recommends that the Egyptian government pursue reform of the public finance system (i.e. tax evasion, fuel subsidies, public services, etc.) and create a development strategy based on domestic resources. Furthermore, creating an incentive system for investment could spur economic growth and development. Above all, Achy underscores the importance of legitimate governance to achieve meaningful reform.

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“US Memos: Mubarak’s Son As President Tough Sell”

The Washington Post
 December 14, 2010

Author: Maggie Michael writes for the Associated Press

Leaked memos on WikiLeaks from the U.S. Embassy chronicle doubt that President Hosni Mubarak can persuade military leaders to recognize his son as Egypt’s next president. The memos suggest that the likelihood is greater if President Mubarak passes over power before dying. Without this condition, there is no guarantee Gamal Mubarak will have necessary military support. Content of the leaked memos match Egyptian analysts’ commentary that the ruling National Democratic Party’s

opinion remains undecided on the question of next year's election.

Leaks also suggest some in the American embassy believe Mubarak is weakening the military by seeking to strengthen the economic elite affiliated with Gamal, and simultaneously co-opting the military. Some memos described Egypt's military as in decline, citing Defense Minister Mohammed Hussein Tantawi as its main obstacle.

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“North Africa: A Region Abounding With Potential”

The Financial Times
December 13, 2010

Author: Robin Wigglesworth writes for The Financial Times

Wigglesworth reports on the underdeveloped status of Islamic banking in Egypt, predicting its growth in the coming years. The article notes that Bahrain-based Saudi-backed Al Baraka Banking Group and Abu Dhabi Islamic Bank both plan to expand their operations in Egypt. Additionally, Egyptian-based Faisal Islamic Bank reported a net profit increase of 45 percent last year. Meanwhile, the Egyptian stock exchange is cooperating with the Egyptian Financial Supervisory Authority to produce regulations that will allow for the sale of sukuk, or Islamic bonds.

The article explains the reasons why Islamic banking is underdeveloped in Egypt. For example, Wigglesworth recounts the collapse of numerous small Islamic banking institutions during the 1980s, an event that caused many Egyptians to lose their savings. It notes that the event damaged consumer confidence in Islamic banking and led Sheikh Mohammed Sayed Tantawi, then-Grand Imam of al Azhar, to issue a fatwa

approving simple bank interest. According to the article, the fatwa contributed to a banking culture in Egypt distinct from that of the Gulf, for example, where Islamic banking is more widespread. Wigglesworth also argues that politics have limited Islamic banking's growth in Egypt, claiming that the Egyptian government has not supported the development of Islamic banking because of its opposition to the Muslim Brotherhood. Lastly, Wigglesworth notes that the banking sector as a whole is generally underdeveloped, with only 10 percent of Egyptians having banking accounts.

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“New Contender Emerges In Egypt”

The Wall Street Journal
December 10, 2010

Author: Charles Levinson writes for The Wall Street Journal

A possible new contender for the Egyptian presidency has emerged, according to senior members of the NDP, Western diplomats, political analysts in Cairo, and reporter Charles Levinson. These sources point to Ahmad Shafiq, Minister of Civil Aviation, former commander of Egypt's air force, and the guiding force behind EgyptAir's turnaround, which began in 2002. Diplomats in particular cited a column in the state-run *Mussawar* magazine by its editor in chief lauding Mr. Shafiq's qualifications as one sign of Mr. Shafiq's potential candidacy.

Levinson notes obstacles facing the two other potential candidates, Gamal Mubarak and Omar Suleiman. Gamal Mubarak and his allies compete with the old guard for power. Meanwhile, head of Egyptian intelligence Omar Suleiman's public profile has diminished—what Levinson believes could be a sign that Mr. Suleiman will not run for president.

Moreover, Mr. Suleiman's age, 74, could complicate his candidacy.

Meanwhile, Shafiq is able to navigate between the old and new guard in the NDP. He comes from a small circle of influential retired generals currently with civilian roles. Levinson argues that Shafiq has proven his managerial skills in updating Egypt's commercial air sector and Cairo International Airport. He concludes by noting that he is a trusted Mubarak family confidant.

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“Analysis: US Wary Of Pushing Egypt On Flawed Vote”

The Washington Post
December 8, 2010

Author: Tarek El-Tablawy is the Mideast business editor for the Associated Press

Amidst sweeping international condemnation of Egypt's parliamentary elections, El-Tablawy credits the United States' anemic response to long-term foreign policy goals, particularly in anticipation of the presidential election in 2011. By keeping public criticism to a minimum, the U.S. avoids angering Egypt in the run-up to potential presidential transition. In addition to being a major regional ally, Egypt serves a number of U.S. strategic ambitions including access to the Suez Canal, military fly-overs, intelligence cooperation, and perhaps most importantly, invaluable assistance in the Israel-Palestine peace process. At best, weak U.S. statements about the election fraud can be seen as politically cautious; at worst, insincere.

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“Egypt Bonds Analysis”

Reuters Africa
December 8, 2010

Author: Patrick Werr writes for Reuters Africa.

The article analyzes Egypt's treasury bond market and its potential reforms. Werr explains that although the government is committed to developing the debt markets, the current rules for bond trading are a significant obstacle to increasing economic growth. With a six-fold increase in foreign treasury bills holdings between September 2009-2010, Egypt has established itself as an attractive market, particularly given its stable annual growth rate of 6% and T-bill yields of 9-10%. However, only 15 banks are currently licensed to directly purchase treasury bills and bonds from the Egyptian government, and the secondary market remains seriously underdeveloped, thereby impeding investors' ability to resell securities before maturity. As such, the Egyptian government is forced to pay an “illiquidity premium” on debt, which in turn saps money that could otherwise be used on domestic spending to boost the economy.

Analysts urge the Egyptian Central Bank to pursue reforms that would help the Egyptian economy capitalize on foreign demand. Creating a more vital secondary market, forcing the licensed banks to act as “market makers,” and encouraging the issuance of corporate bonds could all greatly contribute to lowering borrowing costs and increasing economic growth. However, the article notes that the Central Bank is actually the main obstacle to the much-needed reforms by continuing to insist on a conservative, retail banking-focused system.

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“Egypt Against Sudan Referendum Over Nile Fears”

Daily Nation
December 5, 2010

Author: Walter Menya reports for Daily Nation

A leaked U.S. embassy cable, exposed by Wikileaks, reveals that the Egyptian government lobbied the U.S. government to help postpone the referendum in Sudan on southern independence by four to six years. The Nation reports that Egypt aimed to use the extra time to deal with “sticky issues of water security” in the Nile Co-operative Framework Agreement, which Egypt and Sudan have both opposed until now. The cable revealed the Egyptian government's concern that a new Southern Sudan could compromise Egyptian access to the Nile. Egypt's lobbying efforts contradict the position of the Intergovernmental Authority on Development (Igad), which, on behalf of the African Union, has pressed parties in Sudan to hold a referendum, in accordance with the Comprehensive Peace Agreement.

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“Shark Kills German Tourist In Latest Attack At Popular Egyptian Red Sea Resort”

The Star Tribune
December 5, 2010

Author: Ashraf Sweilam writes for the Associated Press

Sweilam reports on environmental and economic implications of the recent shark attacks in Sharm el-Sheikh that injured three Russians and a Ukrainian and killed a German national. Following the attacks, the government shut down the resort beaches, caught the two suspected white tip sharks, and implemented security measures monitoring the area for more sharks. The Chamber of Diving and

Water Sports and the Environment Ministry as well as independent environmentalists have called the attacks a likely result of the Red Sea's declining ecosystem. Overfishing may be causing sharks to search for food closer to shore.

Sharm el-Sheikh attracts hundreds of thousands of foreign visitors annually, and beach tourism contributes approximately 66 percent of the country's total income from tourism. Tourism Minister Zohair Garanh had announced that tourism is expected to reach USD 12.3 billion by the end of the current fiscal year. Prime Minister Ahmed Nazif had predicted that GDP could grow by six percent this fiscal year given strong first quarter results in tourism. The shark attacks and their negative effect on the tourism industry do not bode well for these predictions.

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“Arab Democracy: A Commodity Still In Short Supply”

The Economist
December 2, 2010

In the aftermath of “democratic” elections in Bahrain, Egypt, and Jordan, The Economist discusses the lack of authentic democracy in Arab League countries and the various theories to explain this phenomenon—including Islam, Arab culture, colonial history, geopolitics, and oil. While one or a combination of these variables may be important, the article suggests that the Arab world's democratic deficit may stem from a different fundamental understanding of democracy than its Western counterparts.

The article laments the “flawed” Egyptian elections, reprinting the criticism of a Lebanese columnist who wrote that the only progress seen in the Egyptian elections this year was the increase in the cost of buying a vote.

This harsh critique of Arab attempts at democracy is further bolstered by table of rankings of Arab League countries in terms of democracy—Egypt ranks 138th of 167 countries.

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“Exports Key To MENA’s Future Success”

The National
December 2, 2010

Author: Mahmood Ahmed is the Director of the Middle East and Central Asia Department at the IMF; Sherif el Diwany is the Senior Director of the Middle East and North Africa region for the World Economic Forum

The article analyzes the economic shortcomings of the MENA region and identifies critical problem areas which, if addressed, would facilitate greater trade competitiveness, a more favorable business environment, sustained economic growth, and much-needed job creation. Ahmed and el Diwany assert that the MENA region is falling behind due to a number of factors—notably unfavorable export patterns and shortcomings in technology and education. In the age of growing economic giants like Brazil, Russia, India, and China, MENA countries continue to export 60% of goods to European countries, which are experiencing anemic growth. By failing to diversify trade patterns, MENA countries are unable to realize their full trade potential, which in turn stymies economic growth and impedes their ability to create the 18 million jobs needed to accommodate the growing labor force by 2020.

Ahmed and el Diwany also insist that MENA countries must address the characteristically poor quality of education and other barriers to a robust private sector. Inflated government wages discourage graduates from pursuing a career in the private sector, and low skill requirements in the public

sector only serve to effectively disqualify employees from transitioning to private companies.

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“Clear Gold: Water As A Strategic Resource In The Middle East”

Center for Strategic & International Studies Middle East Program
December 2010

Author: Jon B. Alterman is director and senior fellow of the Middle East Program; Michael Dziuban is a program coordinator and research assistant of the Middle East Program

The report addresses the issue of water scarcity in the Middle East and lays out steps that governments in the region must take to address the problem. Contrary to earlier literature about water scarcity, which focused on potential international conflict over shared rivers and water sources, this report focuses on the issue of depleting groundwater resources within national boundaries and associated domestic consequences.

The policies of governments in the region in past decades have directly led to the conditions contributing to groundwater depletion. Middle Eastern governments routinely dispense natural resources like water and energy at heavily subsidized prices in exchange for political support, creating the illusion that water is an inexpensive, unlimited resource. Furthermore, developments in irrigation have caused governments to channel large portions of available water resources toward agriculture—65-90% of national water consumption in the region.

Developing the technology to desalinate and transport processed water is an important but expensive step for governments in the region. However, if governments do not also address the supply side of water availability through

changes in pricing, water tariff systems, better water metering, and significant adjustments in agricultural practices, there will be significant political and social consequences and conflict.

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“Democracy Index 2010: Democracy In Retreat”

The Economist Intelligence Unit
December 2010

The Economist’s Intelligence Unit’s annual report on the state of democracy in the world ranked Egypt 138th out of 167 countries. While the low ranking is on par with other regimes deemed “authoritarian” in the Middle East and North Africa Region—which the report cites as “the most repressive region in the world”—Egypt’s ranking fell from 119th in 2008. The report found that democracy around the world experienced a “recession” of sorts, accentuated in some ways by the trauma of the global financial crisis.

Rankings were based on five main categories: electoral process/pluralism; civil liberties; functioning of government; political participation; and political culture.

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“Corruption Perceptions Index 2010”

Transparency International
December 2010

Transparency International (TI)’s annual Corruption Perceptions Index (CPI) ranked Egypt 98th out of 178 countries—an improvement on Egypt’s rank of 111th in 2009. TI defines corruption as the “abuse of entrusted power for private gain,” and bases its CPI rankings on survey responses and other perception-

based data, as corruption is a hidden activity and thus difficult to quantify. Survey questions dealt primarily with bribery, kickbacks, embezzlement, and the relative effectiveness/ineffectiveness of anti-corruption programs.

The report urges governments to incorporate anti-corruption measures into their various programs, including government responses to the global financial crisis, climate change, and poverty reduction.

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“Analysis: Egypt Has Brief Economic Reform Slot Between Votes”

Forexpros
November 25, 2010

Author: Patrick Werr writes for Reuters Africa

Werr's article addresses the opportunity for economic reform provided in the interim of the 2010 and 2011 elections. Although expected to be wildly unpopular, the reforms would help the government reduce the deficit and reach the 7% pre-crisis annual growth rate desired to combat growing unemployment. By pushing through the reforms—which include the introduction of a real estate tax, a value-added tax, and reduction in energy subsidies—after the 2010 parliamentary elections, but well in advance of the 2011 presidential elections, the government hopes to minimize public uproar.

The energy subsidies slated to be reduced are reported to account for nearly a quarter of the federal budget, and are blamed for the lack of funding in sectors like the education and infrastructure and the increases in the national deficit, which hit 8.1% GDP in year-to-end-June. Werr stresses the importance of domestic deficit-cutting measures, particularly in the face of the potential for increased,

election-related volatility and significant foreign holding of Egyptian debt.

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“The State of African Cities: 2010”

United Nations Habitat
November 2010

The report analyzes the conditions of cities and urban development in Africa, and highlights critical areas that need to be addressed. As the largest African city in 2010 with just over 11 million residents, Cairo is a key focus of this report. However, Lagos and Kinshasa are both expected to eclipse Cairo's population by 2020. Regardless of its ranking, Cairo's population is expected to grow substantially—with totals to reach 12.5 million and 13.5 million in 2020 and 2025, respectively. In addition to general crowding and problems with traffic congestion and infrastructure, Cairo also is characterized by very high concentrations of slum-dwellers—70% of which are concentrated there. Furthermore, 60% of the urban population is organized in informal settlements.

The result of these issues is the outpouring of affluent Cairenes to the New Cairo developments like 6th of October and the Helwan Governate. However, the public-private partnerships facilitating the development of the new settlements have failed to provide a viable alternative for poor residents looking to relocate. The lack of transportation infrastructure means that the commute into the city is not financially viable for these families.

Above all, the report underscores the importance of potable water in the development and growth of Cairo. As it stands, the annual water supply per person for Egyptians averages around 860 m³, relative to the 1000 m³ mark defined as “water scarcity” by the

international community. As the population of Egypt grows from the current 80 million to the predicted 120 million by 2050, a lack of safe or sufficient water will become a primary concern. The report urges the government and developers to anticipate this dilemma when contemplating continuing urban development and population growth. ■

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Egypt's International Economic Forum strives to promote comprehensive, sustainable and consistent Egyptian reform policies as well as the complete integration of the Egyptian economy into the world economy. We promote a favorable economic and business environment that allows Egyptian businesses to prosper while also contributing to the progress and well-being of Egyptian society at large. In recognition of the interconnectedness of reform issues, the Forum addresses not only economic but also political, social and cultural change as well as Egypt's ever-expanding web of foreign relations.

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