EGYPT

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Government Regulations Hinder Exports

By Khaled Fouad Sherif
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CAIRO — Egypt in 1989 witnessed yet again an unfavorable balance of trade. Imports increased substantially while exports dropped and many are blaming government bureaucracy and the current system.

Exports in 1988-89 decreased by $729 million — a 22 percent drop from 1987-88. To exacerbate the problem, imports rose by $238 million in 1988-89, an increase of 2.5 percent from the previous year.

Businessmen argue that regulations such as the '75/25 rule' on foreign exchange do not provide incentives for exporters. The regulation specifies that upon the completion of an export transaction exporters must deposit 100 percent of their foreign exchange earnings in certified local banks within 20 days. Failure to comply can invoke penalties of total confiscation of the income or a one-year jail sentence.

Exporters are entitled to use 75 percent of their foreign exchange earnings for capital investment or to import any commodity not on Egypt's banned list. If they do not wish to do either, they must convert 75 percent of their foreign exchange at the going bank rate into Egyptian pounds.

The balance, 25 percent, may be used for traveling abroad on business, bringing in technical assistance, imports or participating in trade fairs abroad. Export foreign exchange remittances cannot be used for personal needs, i.e., tourism abroad or sending a child to study abroad.

This rule forces traders to transfer almost all their foreign exchange earnings to the state. Furthermore, they must convert their currency at the highest commercial bank rate available, usually about 11 piasters per pound lower than the free market, or black market, rate. To avoid these regulations some exporters incorrectly report earnings to minimize their hard currency transfers to Egypt.

Another major complaint is directed at the export rebate system. The system is designed to refund customs duties exporters paid on imported intermediates: for example, a furniture exporter would be reimbursed for customs duty he paid on imported wood when his items are exported.

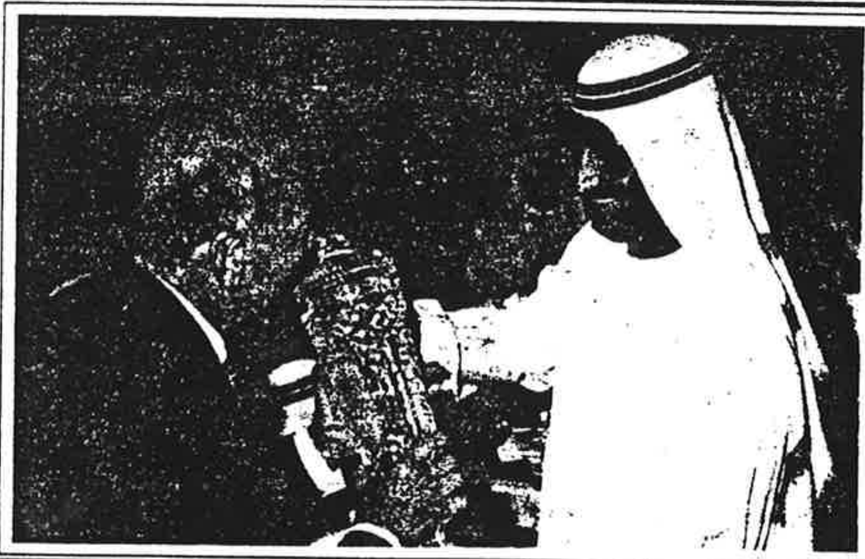
But the rebate system is slow and bureaucratic. And when the importer of intermediates is not the exporter, problems arise. Take the example of a wood importer who sells to a furniture exporter. The importer has paid customs charges and will charge the exporter a premium to offset his import fees.

The exporter will find that the price of his wares is relatively higher on the world market because he has had to absorb the additional customs fee. The exporter then asks the importer to apply for a rebate on the imported wood so that the former will receive a discount on the original sales price. However, the importer finds the system too bureaucratic and is discouraged from applying.

Exporters also face a wide range of export bans and quotas. Most of these are on agriculture produce that the state feels is scarce — seed oil and raw rice, for example — or where there is a government export monopoly operating, such as in cotton.

Private exporters are banned from exporting 10 major agricultural commodities, among them potatoes, onions, raw cotton and fresh garlic. Only state export companies are authorized to export these commodities, seriously infringing on the private sector's ability to get into high-return agricultural exports.

It is no wonder that the latest export figures are down. One hopes that the decrease in exports will lead the state to reconsider its export incentives and disincentives.



EXECUTIVE OF THE YEAR: Nemir Kirdar, president and chief executive officer of Bahrain-based Investcorp, was named Gulf Chief Executive of the Year at a gala presentation dinner in Dubai, where he received his award from Sheikh Ahmed Bin Saeed Al Maktoum, chairman of Emirates Airlines and president of Dubai's Department of Civil Aviation.

The ceremony, attended by 450 top dignitaries and businessmen from the Gulf region, was the climax of the Gulf Business Awards, cosponsored by DHL Worldwide Express to honor the achievements of individuals and companies in the region.

Kirdar established Investcorp in 1982, and since then it has arranged more than 30 major acquisitions, including such companies as Tiffany's, Gucci and Chaumet and properties in New York, Los Angeles, London and Madrid.

The Gulf Business Awards, now set to become an annual feature of the region's business scene, covered the United Arab Emirates, Bahrain, Qatar and Oman.