

SAMPLE PRESENTATION



Written by Lori Williams
©2002 LW AND ASSOCIATES

ALGERIA, EGYPT and LIBYA



Emerging Markets of North Africa

A group of people, likely in a market or public square, are shown in traditional attire. The scene is slightly blurred, suggesting a candid or documentary-style photograph. The text is overlaid in the center of the image.

**The global
marketplace
offers opportunities
for business
expansion.**

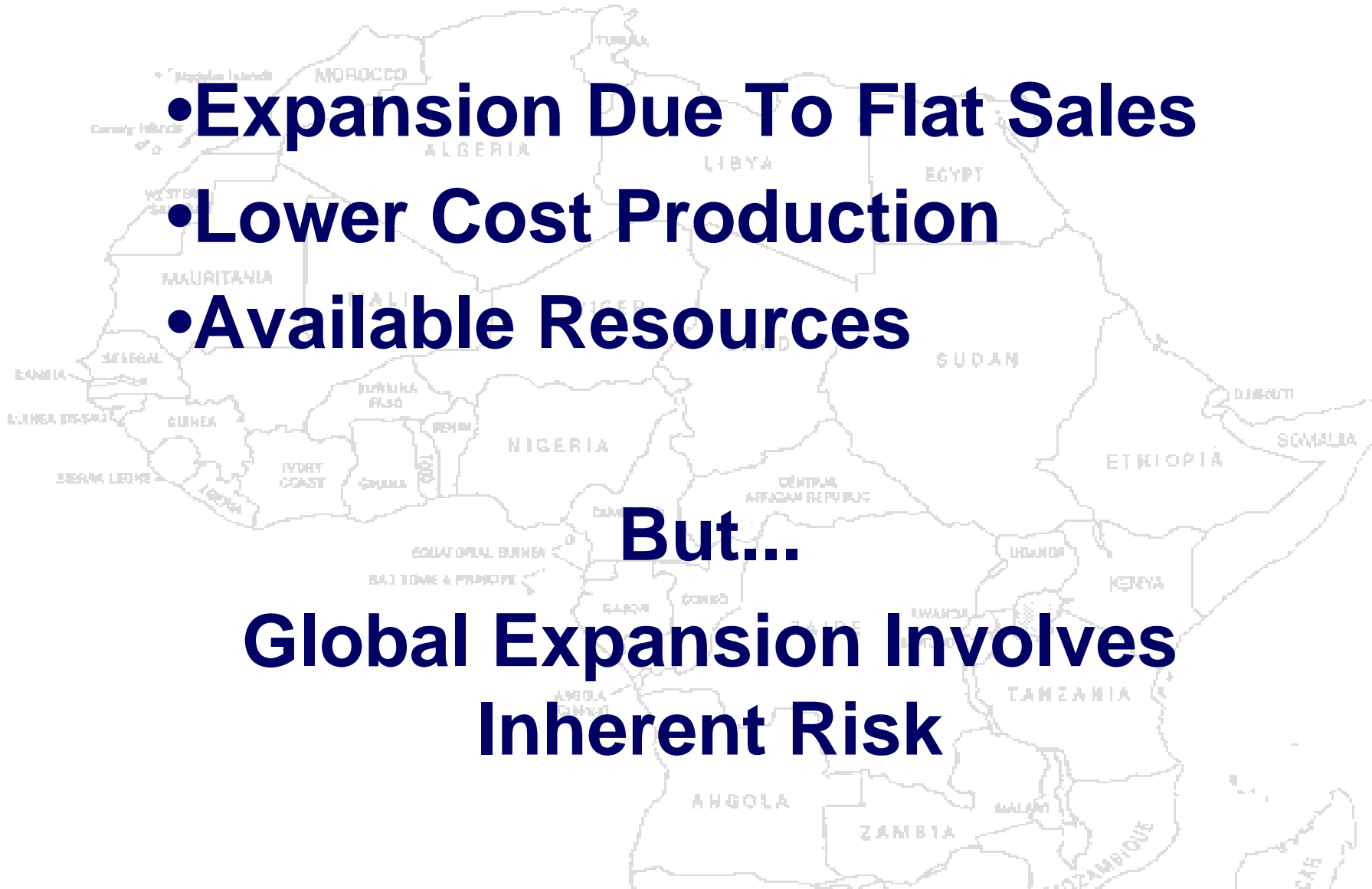
Africa

REASONS FOR GLOBAL EXPANSION

- Expansion Due To Flat Sales
- Lower Cost Production
- Available Resources

But...

**Global Expansion Involves
Inherent Risk**



ALGERIA - SOCIAL

Population	33 million – 50% under age of 15
Avg. Life Exp.	70
Education	Compulsory to age 16
Literacy Rate	62%
Language	French
Workforce	9.1 million – majority in government jobs



ALGERIA - POLITICAL

LEGAL SYSTEM

**ISLAMIC LAW
NAPOLEONIC CODES**

RISK

- Remote areas - terrorism
- Political upheaval during 1990s

OPPORTUNITY

- Government claim-
create democracy / free market



ALGERIA - ECONOMIC

GDP	171 billion (167 bill PPP)
PER CAP	\$5,500
GROWTH RATE	Approximately 4%
CURRENCY	Algerian dinar

PRODUCTION /TRADE

INTERNAL PRODUCTION/CONSUMPTION

Grains, fruits, cattle, sheep

IMPORTS

Other foods and consumer goods

EXPORTS

Petroleum products, some manufactured goods



ALGERIA

Economic Risk Factors

- **ECONOMY LACKS DIVERSITY**
- **DEPENDENT ON EXPORT OF HYDROCARBONS**
- **30% UNEMPLOYMENT RATE**

ALGERIA – Economic Opportunities

GOVERNMENT PLEDGES:


- Reduce bureaucracy
- Improve investment environment
- Implement tight fiscal policy
- Privatize state-owned business
- Increase trade agreements
- Attract foreign investors to diversity economy



...and

**PURSUE MEMBERSHIP IN
THE WORLD TRADE
ORGANIZATION.**

EGYPT - SOCIAL



Population	70 million – 34% under age of 15
Avg. Life Exp.	64
Literacy rate	51.4%
Education	Compulsory to age 14
Language	Arabic
Workforce	20.6 million – majority in service industry

EGYPT - POLITICAL



Legal System

English Common Law

Islamic Law

Napoleonic Codes

Risk

- **Ongoing dispute with Sudan over land**
- **Drug trafficking corridor from Asia/Africa**

Opportunity

- **Trade unions & professional assoc. allowed**
- **Ongoing dialogue with world community**

EGYPT - ECONOMIC

GDP	\$258b PPP
PER CAP	\$3,700
GROWTH RATE	Approximately 2.5%
CURRENCY	Egyptian pound

PRODUCTION / TRADE

INTERNAL PRODUCTION/CONSUMPTION

**Textiles, food processing, tourism,
construction, cement**

IMPORTS

**Machinery, foodstuffs, wood products,
fuels**

EXPORTS

**Crude oil, petroleum products, cotton,
textiles, metal products, chemicals**

EGYPT - Economic Risk Factors

- **40% and Higher Tariffs, Surcharges, Other Fees on Imported Goods**
- **Government Suppressing Demand for Foreign Exchange**
- **Since 2001, Decline in Tourism...**

...EGYPT - Economic RISK Factors

- **Preferential treatment of domestic producers of foodstuffs, textiles, motion pictures.**
- **Restrictions on non-national ownership of land and on employment of non-nations.**
- **12% unemployment rate**

EGYPT – Economic Opportunities

- **Rise in oil prices will stimulate economy.**
- **Private firms can now build/operate airports, engage in telecommunications services, operate stockbrokerages.**
- **New-to-market investors enjoy expedited entry and, in certain areas of country, 20-year tax breaks...**

...EGYPT - Economic Opportunities

- Foreign ownership of **private insurance firms** now allowed
- Foreign nationals allowed to operate in **stockbrokerages**
- Businesses moving into industrial zones built in areas outside of major cities granted 20-year **tax breaks...**
- **Telecommunications** services open to private firms

...EGYPT - Economic Opportunities

Government actions that would create opportunity:

- **Lift bans** on import of textiles, used autos, certain foodstuffs
- Follow through with 1998 promise to **privatize state-owned banks**
- **Ease restrictions** to allow easier entry of foreign construction firms...



...and
**AGGRESSIVELY
FULFILL 1995
COMMITMENT TO
THE WORLD
TRADE
ORGANIZATION
TO REFORM
TRADE POLICIES.**

LIBYA - SOCIAL

Population	5 Million – 45% Under Age Of 15
Avg Life Exp.	73
Education	Compulsory To Age 9
Literacy Rate	72%
Official Language	Arabic, English, Italian
Workforce	1.5 Million – Majority In Government Jobs

Libya-Political



Legal System

**Military Dictatorship
Socialist, Islamic Law
Rejects Parliamentary
Democracy, Political Parties**

Risk

- **State-owned - business & investment**
- **Shortage of skilled workers**
- **Must prove Libyan cannot do the work**

...LIBYA - POLITICAL

Risk, continued

- **Government holding assets of Occidental, the Oasis Group (Conoco, Amerada Hess and Marathon)**

Opportunity

- **US companies restricted from doing business (1988 Pan Am bombing over Lockerbie, Scotland)**

LIBYA - ECONOMIC

GDP	\$45.4 billion (41 bill PPP)
PER CAP	\$8,900
GROWTH RATE	Approximately 3%
CURRENCY	Libyan dinar

PRODUCTION / TRADE

INTERNAL PRODUCTION/CONSUMPTION

25% - food consumption

IMPORTS

75% - food consumption & manufactured goods, machinery, transportation equip.

EXPORTS

Crude oil, refined petroleum products

**** US investment currently prohibited ****

Libya - Economic Risk Factors

- **Socialist, dominating, corrupt government**

- **Investment in weapons and outside countries in order to spread political influence has resulted in low standard of living**

LIBYA – Economic Opportunities

**If Current Economic And Political
Conditions Persist,**

**The Future Outlook For Libya
Is Not Promising.**

ENTRY STRATEGIES

Algeria and Egypt

- Associated risk and opportunities
- Entry strategy recommendation

Libya

Not included due to government trade restrictions

LICENSING

Advantages

- Licensee/Franchisee assumes risk
- Substantial cost savings from no capital investment in overseas operations

Disadvantages

- Loss of trade secrets
- Loss of control over manufacturing/
marketing

LICENSING?



Algeria - No

- Trade secret protection uncertain

Egypt - No

- Past problems in patent protection and copyright enforcement

TURNKEY CONTRACT

Advantages

- Reduced cost of establishing operations
- Less risky than long-term investment

Disadvantages

- Loss of assets: production know-how, trade secrets, long-term interest

TURNKEY CONTRACT?

Algeria - No

- Trade secret protection uncertain, loss of competitive advantage

Egypt - No

- Long-term stability of recent government concessions toward business unknown

JOINT VENTURES

Advantages

- Mutual interests result in tighter control
- Access to knowledge of local culture and contacts, and distribution channels

Disadvantages

- Loss of trade secrets and experience curve, possible conflicts of interest over strategy and goals

JOINT VENTURE?

Algeria - No

- High risk due to political instability
- Potential lack of qualified management due to low education
- Potential conflict with home base due to host country management style

JOINT VENTURE?

Egypt - No

- Restrictions on employment of non-nationals to maximum 10% of personnel
- Restrictions on land acquired for commercial purposes
- Restrictions on foreign equity in services such as transportation would limit distribution choices

EXPORTING

Advantages

- Greatly reduces risk
- Realize location and scale economies

Disadvantages

- Lower profits due to higher home base production costs and added transportation costs

EXPORTING

Disadvantages, continued

- Tariff barriers
- Marketing by foreign agents may create divided loyalties



EXPORTING?



Algeria - Yes

- Reduces risk by not establishing local presence
- First mover advantage - favorable age demographics
- Future potential for an additional mode of entry strategy (if conditions improve)

EXPORTING?



Algeria - Points to Consider

- Lack local responsiveness
- Long distribution channel length required - fragmented retail facilities
- Resulting price point could render product unmarketable in unfavorable economic climate

EXPORTING?

Egypt - Yes

- Larger cities with larger and more diverse population = larger demand
- Avoid costs associated with building manufacturing plant
- Less risk in adjusting to fluid market - expand or decrease export quantities as demand changes

EXPORTING?

Egypt - Points to Consider

- High tariffs (typically 40% and above) raise consumer price
- Transportation costs add to markup



WHOLLY OWNED SUBSIDIARY

Advantages

- Reduces risk of losing competitive competence
- Tight control over operations
- Realize location and experience curve economies by coordinating global production of product components

WHOLLY OWNED SUBSIDIARY

Disadvantages

- High risk
- High costs



WHOLLY OWNED SUBSIDIARY ?

Algeria - No

- Unfavorable political and social conditions
- Potential threat of government confiscation of property
- Inability to recruit expatriates and/or hire capable local management personnel

WHOLLY OWNED SUBSIDIARY ?

Egypt - **No**

- High cost of investment
- Restrictions on employment of non-nationals to maximum 10% of personnel





CONCLUSION

QUESTIONS ?

