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EGYPT'S DEVELOPMENT AND MUBARAK'S INHERITANCE

by

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It is almost five years since president Anwar Sadat was killed by Muslim extremists and Husni Mubarak assumed leadership over Egypt, the Arab world's most populous country. With Sadat disappeared one of the last members of those who had actively participated in the coup that brought Gamal Abdul Nasser to power in 1952. Except for a few select holdovers from this "1952 Generation" their place in Egyptian politics is now being occupied by the "October Generation", the new men who fought the war against Israel in 1973.

Demographics play an important part in understanding today's Egypt, in more ways than one. Half of all Egyptians now alive were born after 1952. For them the revolution which once galvanized Egyptians and the Arab world alike, no longer invokes the imagery and legitimacy it once held for Nasser's and Sadat's generation. Although Nasser remains a symbol, he is often referred to here much in the same way as Americans talk about George Washington. Upon closer questioning few of Egypt's youngest generation know little about Nasser or what he stood for in the Arab world.

Husni Mubarak, both personally and symbolically, marks a break with Egypt's most recent past. For Gamal Abdul Nasser and Anwar Sadat politics had been a lifelong passion. Mubarak has always been a professional soldier first, a reluctant politician second. Throughout the political tumult of the early World War II post-war years, he quietly pursued his studies at the Egyptian War College, became the commander of Cairo West air base and, after the dismissal of his own senior officers in the wake of the 1967 war, assumed the position of chief of staff of the air force. He seemed destined for a distinguished military career until, to his own and others' surprise, Anwar Sadat appointed him vice president in 1975.

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Mubarak was forty-seven years old when his political career began. A plodding workaholic determined to leave his mark on Egyptian political life once he became part of it, he quickly consolidated his own power base within the government. By the time Sadat was killed, Mubarak had become thoroughly familiar with the political system and the day-to-day running of the country. He controlled the National Democratic Party and, as important in a country in which police control remains an important ingredient of power, the Supreme National Security Council.

He promised to be what John Waterbury once called a bon qérant, someone who would manage Egypt's problems in a competent, albeit perhaps unimaginative, style. But it was seemingly that kind of leadership Egypt was in dire need of in the 1980s. Mubarak's aim since coming to power has not been, as it was for Nasser and Sadat, to refashion Egypt's economic character, but rather to cope with the formidable strains it must now labor under.

Many of these bottlenecks result from his predecessors' experiments, and I shall have quite a bit more to say about these lingering, structural problems in my reports. The economic legacy of both former presidents casts a large shadow. In less than three decades Egypt has experimented successively with a socialist form of development in cooperation with the East and then, after Nasser's death in 1970, modified this approach in favor of development with the aid of Western capital and know-how. The modification was formally announced in 1974. It is usually referred to as infatah, translated either as liberalization or, perhaps less accurate since Egypt never completely cut itself off from foreign investment, as the "Open Door" policy. Whatever the translation, infatah was meant to attract private and western investment to the country, and was an attempt to move away from the centralized economic decision making that existed under Nasser.

Needless to say, this rapid change of approaches extracted an economic toll about which the Egyptian press, academics, and policy makers still keep up heated debates. Only nominal economists contend that economic decisions can be neutral or value-free, and one suspects they have never been to any developing country - or at least not to Egypt. The ruler ultimately includes in his choice a number of issues that include concerns far beyond economic inclinations. Both Nasser's socialism and Sadat's infatah were in effect strong ideological expressions which in turn created circles of support and opposition, and refashioned (or were shaped by) the political arena.

What is often referred to as the "cruel dilemmas of development" hint at these issues beyond economics. Ultimately the choice of economic policy in Egypt, as well as the choice of superpower to support this choice, touches upon internal social relations, the lives and fates of the Egyptian population involved (or as the case might be, not involved). Nasser and Sadat chose conscientiously for what they perceived to be in the ultimate interest of Egypt, and their speeches invariably reflect the view that their economic policies - no matter how radically different they turned out to be - would lead to social justice and equity. One shouldn't belittle these efforts, nor always accept them at face value. As I hope to show, the story of development in Egypt - as elsewhere - includes a number of economic gaffes, political intrigues, outright corruption and venality, and a generous dose of political propaganda.

By sheer size, geographical position, population, and cultural hegemony, Egypt has played an important (although initially isolated) role in the Arab world since the West intruded upon the Middle East in the 19th century. Its cultural predominance, literary and liberal ambitions, and an economy relatively sophisticated for the area and time period, had produced a feeling of preeminence among Egyptian elites. Egypt rejected Arab nationalism initially in favor of a more Egyptian nationalism, in part because its leaders felt that the Arab nationalism that engulfed the Middle East at the time was parochial and often subservient to the West.¹

Not until 1945 and the creation of the Arab League did Egyptian nationalism blend with a more regional Arab nationalism. It was a movement Egypt was bound to lead, and whose presence shaped its direction and content in crucial ways. From then on the concern over Egypt's position in any New Arab Order has remained of great concern to Egypt and the other Arab countries alike. If observers disagree on the creation, endurance, and demise of these elusive New Arab Orders, there seems to be little disagreement that in any such creation Egypt's role will be crucial.

The creation of the Arab League in 1945, the Egyptian revolution of 1952, the Bandung conference of 1955, the political experiments of the 1960s within the Middle East, the Ramadan war of 1973 and, above all, the OPEC period during the 1970s - all were interpreted to mark a turning point for the Arab world and for its role internationally. The 1970s in particular, with their abundant wealth and the accumulation of billions of petrodollars, produced a euphoria that the Middle East now truly had the means to transform itself into a new Camelot. Sadat's infitah policies were in part an effort to profit from this new reality. He hoped that a combination of Arab capital, Western technology, and Egyptian manpower would propel his country once more into becoming a powerhouse for the region.

What Sadat hoped for in essence was the creation of another New Arab Order in which his country would once again play a leading role. But in the 1970s the initiative seemingly slipped into the hands of the oil states as Egypt became the pauperized, patronized - and after the Camp David agreements, ostracized - poorer cousin of the region.²

¹ The early part of this story has been recounted by George Antonius, one of ICWA's earlier fellows. His book, The Arab Awakening (London: Hamilton, 1938 - various reprints) remains important for the early history of the Arab national movement. It was dedicated to Charles Crane.

² Not surprisingly, one of the better books that appeared in the early 1980s on Egypt and its potential new role in the Middle East, carried as its subtitle "Egypt and the New Arab Order." And not surprisingly either, only four years after its publication, many of the options, prescriptions, and analyses offered by some of its contributors to confirm the beginning of this new order have already been negated by the rapid change of events in the region.

Malcolm H. Kerr and El Sayed Yassin, Rich and Poor States in the Middle East. Egypt and the New Arab Order (Cairo: University of Cairo Press, 1982).

But by the early 1980s this self-proclaimed New Arab Order had proven as elusive as its precursors, wracked by internal disagreements and international economic pressures. The global recession after 1980, and a number of assorted ills indicated how fragile it had been. Most of the oil-exporting countries, with perhaps Libya remaining as the last great spender of petrodollars, started to retrench. Private sectors, who until then had been neglected, were given a new lease on life. Reserves dropped precipitously. The unity of OPEC, fragile at the best of times, now unravelled slowly as Saudi Arabia was no longer willing (and able) to guide the organization, and defection seemed to offer the greatest potential for reaping diminishing benefits. The world moved inexorably toward a post-OPEC world in which the organization will perhaps never again achieve the relative stranglehold it once possessed. And paradoxically, it was Egypt, the poor relative, who had years earlier already adopted the economic way many of the better-off countries were to follow.

Egypt's resilience was seemingly stronger than many had predicted. It was all things to all men, but throughout these decades it cut a path that remained ultimately uniquely Egyptian and frustrated all those who attempted to mold it into a compliant ally. To the Soviets under Nasser it represented a way to gain a foothold in the area. To the rejectionist states, particularly Colonel Qaddafi's Libya, it was an example to be emulated - even after Egypt's new leaders had long abandoned the pretensions of earlier years. To the most recent of arrivals, the United States, it means a seemingly faithful ally in a distressingly turbulent region.

Where is Egypt heading under Mubarak? What are likely to be the major internal restraints and opportunities to Egypt's role in the Middle East in the years ahead? I intend my reports from this country to give some very tentative answers to these questions. But I can't tell you much about where I think the country is heading, about its opportunities and liabilities, without delving a bit more into the Nasser and Sadat periods, giving you a thumbnail sketch of Egypt's economy and its politics under both men. For as I also hope to show, the decisions both leaders made still constrain, in certain fundamental ways, Mubarak's room for manoeuvre.

Perhaps no one believed more in Egypt's centrality to the Arab world than Gamal Abdul Nasser himself. For almost two decades his combination of charisma, consummate political skills, and strong-arm tactics proved so powerful that Tawfiq al-Hakim - Egypt's literary éminence grise - wrote after Nasser had died that it was as if during his reign "thought had been dissolved." There was an enthusiasm and power to Nasser and his ideas of pan-Arabism that suspended critical thinking or relegated it to the backpages of carefully controlled opposition publications. Egypt, Nasser asserted incessantly, represented the only relevant future for the Arab world in its struggle with development, the West, and Israel.

Until 1967 Nasser exploited this myth of Egypt's indispensability, and a great number of issues were categorically declared settled: Egypt's predominance in the Arab world, the ability to develop in cooperation with the Soviet Union, and the ability to create a New Arab Order with Egypt as its guiding force. For the first fifteen years of his rule Egypt firmly

led the radical faction of the Arab world, with seemingly enough manpower and financial reserves left to wage what Malcolm Kerr called an Arab Cold War against others striving for ideological hegemony in the region, and for fighting the royalists in Yemen.

The 1952 land reforms undoubtedly aided his appeal to the masses. But it was the 1956 Suez debacle that captured Egypt's (and Nasser's own) imagination. His speech at Alexandria announcing the nationalization of the canal was vintage Nasser. Before a huge crowd the Egyptian leader harangued the West, making fun of American negotiators who were attempting to somehow resolve the crisis. The appeal was emotional, full of references to Egyptian pride and self-determination, punctured by almost exaggerated gestures as Nasser swayed back and forth in front of the microphones.

Then, almost at the end of his speech, he stepped back for an instant. With the shouts of the crowd dying out he bent over again and announced in an almost flat tone of voice, a voice of seeming indifference, "Today I nationalize the Canal, in the name of the people." The crowd exploded with enthusiasm and Nasser, as a statesman and a symbol, had come of age together with his revolution. With rhetorical flourish he had claimed the withdrawal of Britain, France, and Israel as a victory for Egypt. But to several contemporary observers it was clear that this victory had only been made possible through the intervention of the superpowers.

Taking over the canal led to a number of further nationalizations of "enemy property." British and French insurance companies and commercial banks were appropriated in 1957, and it marked the beginning of the state's involvement in a rapidly growing public sector. As a harbinger of things to come over the next decade, almost immediately differences surfaced among those surrounding Nasser concerning the role and the extent of this public sector and of the private sector. But until Sadat's infitah in 1974 the issue was largely resolved in favor of those who advocated an expansion of the public sector. The man most closely associated with it was 'Aziz Sidqi, a US-educated technocrat who at the head of the Ministry of Industry would for more than a decade staunchly defend his viewpoints and interests.³

Sidqi's initial plans called for a high level of private sector involvement, but several measures were taken that limited the possible extent of participation. This contradictory policy continued into 1961, a year after the 1960-1965 first Five-Year Plan had been announced. It represented in many ways a recognition that the private sector was still needed, particularly for investments. The situation altered radically after the July 1961 laws which obliterated most of the private sector in the name of Arab socialism. Although some private wholesale trading, small manufacturing and, in particular, farming remained, the state through the control of profits and credits was able to exert pressure on producers.

Egyptian policy makers now found themselves saddled with an enormously enlarged public sector. Nasser's strategy had been one geared toward heavy

³ Judging from a speech Sidqi gave in mid-May at the Nile Hilton in Cairo, his views on the role of the public sector have changed very little. He strongly defended the Nasserist approach, attributing its shortcomings to a lack of commitment to the public sector after Nasser's death.

industrialization that would eventually, via some intermediary stages, trickle down into the production of consumer durables. The Helwan Iron and Steel Complex and the new Aswan dam were two crucial initial elements in this plan. The savings and investment necessary would come from the public sector, household savings, and - despite the actions taken against it - the remainder of the private sector, corporate profits, outright loans, and by squeezing agriculture in so-called "produce cheap locally, sell expensive abroad" schemes.

Judging from the growth of the Egyptian economy between 1960 and 1965, Sidqi's public sector performed remarkably well. But the economic success was short-lived, and by the time the 1967 war came along - which signed the death warrant for many of the original proposals - the initial success had already been jeopardized. Some of this had little to do with economics: a bad cotton harvest in 1961, the curtailment of US wheat shipments to Egypt (in 1965 the country spent more on procuring wheat and flour than its total export bill amounted to), and the expenses for the Yemeni war.

But there were also a number of more basic, structural problems. The plan had been over-ambitious and over-optimistic, attempting to meet simultaneously the needs of industrial expansion and a growing public sector, and a system that promised education opportunities to all and burgeoning subsidies of basic foodstuffs. All of this took place amidst poor coordination, marked by infighting among different ministries and bureaucracies. These bureaucracies and the civil service were allowed to grow at rapidly expanding rates that were out of proportion to the needs of the country. The public sector itself by 1970 employed almost ten percent of Egypt's total workforce, perhaps one fourth above its actual needs, and was almost exempt from parliamentary scrutiny. A particularly ominous sign was that agriculture showed no signs of becoming a savings component and that the total import bill had increased by one fourth.

The gap between what was needed and what was available (what economists call the resource gap) widened steadily. Egypt experienced its first payments crisis in 1962, and then another in 1965. Thus, shortly before the 1967 war and at the time when new economic measures should have extended the results of the 1960-65 plan, Nasser's Egypt faced a serious shortage of money to continue with another plan. In fact, the country would not have another multi-year economic plan until 1982.

The 1967 war made matters even worse. The loss of Sinai and the closure of the Suez canal after 1967 meant an annual loss in excess of 200 million pounds. Some type of adjustment was needed. But Nasser, undoubtedly in part for ideological reasons, retained a very strong resentment against tinkering with the economy through stabilization or devaluation measures - something the International Monetary Fund had asked for. Neither the West nor the East were particularly helpful. So Nasser decided to attempt and outgrow the economic problems, even if Egypt did not have the resources to do so.

Nasser nevertheless must have realized in 1967 that the luxury of rhetoric and of relative inattention to economic matters was drawing to a close. The revolutionary moment had vanished even though, as with many social phenomena, there was a brief outburst of energy before its final

collapse. This last hurrah was initiated by Nasser's offer to resign in the wake of the 1967 defeat. Massive popular demonstrations in Egypt and the Arab world - some spontaneous, some orchestrated - recalled him to his duties.

It was, despite the economic difficulties looming ever larger, a brief moment of political triumph for Nasser. The conservative monarchies of Jordan and Saudi Arabia and the Syrian Baathists vying for ideological leadership of the Arab world, were temporarily disarmed when faced with the adulation of the masses for Nasser. But as Tawfiq al-Hakim acknowledged, there was now a new, previously unknown quality of despair to Nasser's rule despite the outward signs of bravado.

For Nasser was extremely astute at judging the political mood of the region, even if his willingness to come to terms with economic realities was less impressive. He perfectly understood what Egypt was up against after 1967. The psychological shock of defeat in a country that had come to believe in its irreplacibility would eventually take its toll, as it did shortly. Radicalism within the region threatened to outpace Egypt's previously "radical" position. Nasser's revolution had become defensive and the Arab Cold War a thing of the past. Economic reality was hedging in, and no longer afforded the luxury to act at random upon political convictions.

Egypt was on the verge of becoming an even poorer cousin in the region. The realization of what Fouad Ajami described as "social downward mobility" clashed sharply with the image of cultural and political preeminence Nasser and his predecessors had fostered. A widening disjunction had appeared between what Egypt believed it stood for and how the rest of the Arab world perceived it. Not only its role as the purveyor of ideas was questioned but, if the Libyan take-overs of oil companies in 1970 were a harbinger of things to come, a new group of rich Arab states was on the rise.

Egypt's political compromise came at the Khartoum conference of August 1967 when Nasser and Faysal, the revolutionary and the conservative, agreed to end the Yemen war. Compensation was offered to Egypt for its fight against Israel, and was gratefully accepted. Egypt had come, once more, at a crossroads. By this time Nasser was in poor health, suffering from diabetes and heart trouble. He had grown old alongside the revolution, and both the leader and his creation were now showing signs of decrepitude.

Thus in 1967, after insisting for fifteen years that it represented the future of the Arab world, Egypt faltered. The young men of 1952 were now up against a new generation for whom the slogans that sustained the system (they increasingly called them lies in their own publications) had little value. A whole generation had been brought up on heightened economic expectations - for Nasser had made abundantly clear in 1952 (and repeated it in the National Charter of 1962) that the current generation would not be asked to make sacrifices for the sake of future generations.

As a result, Egypt's economic compromise never took place as long as Nasser lived. What the generation after 1952 had gotten was instant gratification through the implementation - within the limits of the possible - of a welfare state. And it was a legacy Nasser and his

successors have been loath to take on. Its implementation had important economic and political repercussions for Egypt's economy, and I would like to single out a couple which will receive more attention in subsequent reports.

Under the socialist rhetoric everyone was entitled to a university education. Between 1952 and 1970 the number of university graduates tripled. It has continued to grow at more than 20% annually since then. At the same time the government guaranteed jobs to those graduates. University diplomas thus became sine qua nons for a relatively well-paid job in the public sector or the bureaucracy. The result was an explosion of Egypt's bureaucracy and a job for everyone - if extremely unrewarding and, as time went on, at increasingly low salaries. During the Sadat years the government for a while abandoned this commitment to education and reverted to its previous "market-oriented" character.⁴

The system of subsidies started during World War II but expanded considerably under the socialist policies of Nasser and astronomically under Sadat. Initially meant to relieve the economic needs of the most needy, it quickly consumed millions of pounds (and increasingly hard currency) and assumed a life of its own, rife with corruption. One small example: A bottle of butagas now costs 75 piasters (about 50 cents). In order to keep the cost this low the government is spending close to 100 million pounds per year. This figure is small when compared to what food and other subsidies require. From a total of slightly over 9 million pounds in 1960, subsidies in 1985 required almost 2,000 million pounds.

Subsidies furthermore are politically very sensitive. They are part of a government's "legitimacy" and are seen as ways to maintain a minimum threshold of political support. In the mind of lower-class Egyptians they function as tripwires, as indications of where the government's economic

⁴ There is an interesting footnote to Egypt's educational policies. As infatih took hold an education that increased one's chances for employment with foreign firms became eagerly sought after, primarily since salaries here were up to fifteen times those of the public sector. Thus the American University in Cairo, previously an educational backwater that attracted only those students who could not get into Cairo and Ain Shams university during the socialist period, under Sadat became (and remains) for all practical purposes the equivalent of some of our better-known professional schools in the United States - producing in this case a substantial part of the workforce needed by multinationals. An oasis of tranquility amidst the bustle and din of Cairo, AUC's high tuition and its dressing code remind a visitor of American Ivy League schools. Unfortunately, it does not have the same high academic standards.

The policy of providing university graduates with jobs meanwhile has become a nightmare for the government. Sadat was forced in May 1980 to reinstate a program that guaranteed government jobs to university students. Only a couple of months ago has the government been able to provide enough jobs for those who graduated in 1982. The backlog is thus four years. This situation will only become worse as large numbers of Egyptians continue to return from the Gulf States. I will write a report dealing specifically with the problem of returning expatriate labor and Egypt's brain drain.

policies are heading. To back away from them is almost always politically unwise as Sadat found out in 1977 when slight increases in the price of bread led to heavy rioting. It also helps to explain why Egypt has resisted IMF standards which invariably ask for abolishing the subsidies.

The combination of subsidies and the inability to make agriculture pay for part of the industrialization effort partly explains why national savings and capital accumulation in Egypt never reached those levels judged necessary in the initial plan for the country's development strategy. But the socio-political implications were even worse. The Egyptian state after 1967 no longer had the resources to promote the professional or social aspirations of large segments of its population as it had attempted before. The economy had simply not grown fast enough to accommodate a rapidly expanding population.⁵ The government was forced to make cuts or adjustments as it became clear, once Nasser had died, that the "outgrow" strategy failed to work.

After fifteen years of experimenting, a period of transition between the Nasserist experiment and Sadat's inauguration of infitah - the biblical seven lean years between 1967 and 1974 - had arrived. They demonstrated more than ever the ambivalence of the Egyptian leadership. On the one hand some kind of economic retrenchment was unavoidable. On the other hand this retrenchment was almost completely subordinated to the struggle against Israel and for the maintenance of subsidies, both of which required heavy outlays.

Very little capital went into any kind of productive investment; whatever investment took place was largely obtained through borrowing from the international market and/or through internal deficit financing. If shortages of money did occur the government often responded by printing money, starting inflationary circles, or by issuing treasury bills or development bonds. After 1970 inflation would run in excess of 20% annually.

Another remnant of the 1967-74 period, whose effects became much clearer after infitah was already in place, was that the public sector had borrowed heavily from the easily available money. In the process it had become progressively indebted to the Egyptian banks, and very inefficient. At the same time the effort to maintain the welfare system continued. Imports of consumer goods, including increasing amounts of food, increased sharply. Public and private consumption thus increased substantially. In all of this the armed forces also absorbed hundreds of millions of pounds. Although this expenditure was subsidized by other Arab countries, it absorbed badly needed local capital.

⁵ According to many Egyptian development specialists, population pressure is perhaps the worst problem of all in this country. With a population approaching 50 million and a growth rate of approximately 2.5%, Egypt has to find room, food, and basic provisions for an additional one million people every 9-10 months!! After having just lived here for a little while and seen how many people already live at the margin, I find this truly mindboggling. One of my reports will focus in on this problem.

Politically the lean years were marked by student unrest internally and loss of prestige within the region. The light sentencing of the top military responsible for the 1967 defeat provided the catalyst for the student revolts of 1968. But it was clear that there was, by now, serious discontent with the economic situation and, beyond that, with a whole array of issues that had been kept silent. Once unleashed, the pent-up frustrations quickly spread to criticisms of the role of the Arab Socialist Union (Egypt's only political party), the perquisites and the role of the army in Egypt, the power of the intelligence organizations and the police, among others. Revolts would take place intermittently between 1968 and 1973.

The 1967 military defeat furthermore diminished Egypt's standing within the region. It is interesting to note the recurring reference after 1967 to the bifurcation between myth and reality in the writings of some of the most articulate writers on Egypt. In Fuad Ajami's The Arab Predicament the Egyptian writer Muhammad Jalal Kishk declares the 1967 defeat to be the end of the Egyptian myth in Arab life. Although perhaps a trifle exaggerated, there is little doubt that Egypt's position within the Arab world changed after 1967. The often violent admonition by the Palestinians, and the rejectionist states to "stay the course" was in many ways something larger than purely Egypt's inability to fight the region's battles.

It was in many ways a recognition that the leader of the Arab world was in considerable trouble, and the fear that this realization of impotence brought among the lesser players in the debacle. For no question, perhaps not even the Palestinian issue, was as important ultimately as the struggle of Egypt trying to come to terms with itself, to assimilate the military defeat of 1967, to make a choice once again among superpowers with their own interests, and the creeping pauperization of the country.

In many ways there was a strong psychological element in the Arab world's reaction to the 1967 defeat, one that became clearer as the 1970s unfolded. The perceived failure of Egypt was in many ways seen as a failure of the region at large. If the most powerful state could not settle the lingering problem with Israel or worse, if it might disengage from that struggle, what hope was there for the rest of the Arab world? If Egypt was on the verge of becoming a poorer cousin of the system and, as would happen under Sadat, turned to the West, what did this say about the New Arab Order in general? Thus there was a strong element of recognition of the other countries' inability to do something in the failure of what Egypt went through.*

* The same reaction once again surfaced after the Camp David agreements. There was a recognition that Egypt's decision in some ways could be attributed to the failure of the other Arab states to come up with a viable alternative to the stalemate in the area. However, not even the promise of \$5.3 billion in aid "to save Egypt from itself" could persuade Sadat to once again throw in his country's lot with the remainder of the Arab countries.

Nasser tried to cope, as well he could, with the internal and external dimensions of what was perhaps the most severe crisis of his time in office. But he died in 1970 and Anwar Sadat had to decide what to do with the economic and political legacy of the hero of the revolution.

An often-told joke about Sadat's first day in office pictures him on his way to the presidential palace, with Nasser's driver still behind the wheel. When they reach an intersection the driver asks what direction to take. Sadat in return wants to know what direction Nasser used to take. When told that Nasser always turned left, Sadat responds: "Signal to the left and go to the right!" (The joke is particularly effective since both the word 'direction' and Nasser's inclination to always 'turn left' have rich symbolic connotations for most educated Egyptians.)

The joke also captures perhaps as well as anything else Sadat's initial political strategy, at least until the 1973 Ramadan war with Israel. Sadat had to consolidate his regime as well as to decide on a number of vexing political and economic matters. The outcome of these deliberations was a radically new economic policy (infitah) and the replacement of the Soviet Union as superpower patron by the United States.

Much ink has been spilled in attempting to explain infitah. A prominent leftist economist I interviewed last week persisted that it could all be explained from a neo-colonialist point of view: Egypt, as in the nineteenth century, found itself desperately needing capital to further promote its development plans, overextended itself financially (with the help of domestic capitalists), and sold its soul to the West.⁷ His viewpoints have some value in view of Sadat's wish to combine Western financing and technology, Arab capital, and Egyptian labor, but it seems to me that the sequence and the underlying causes are mixed up and that a number of non-economic issues also were crucial.

In all, the road toward infitah seems to have been a combination of many interlocking variables. There were first of all a number of objective facts. By practically all standard economic indicators, Egypt's plight had become alarming. 'Abd al-'Aziz Higazi, minister of finance at the time, estimated that fully one third of Egypt's national income was spent on military purchases in the struggle against Israel. Debt was spiralling upward and exports were geared toward the Soviet Union under conditions that brought neither hard currency nor imposition of standards that would allow competition either within the rest of the Arab world or on the international market. Added to this was the dismal performance of the public sector which, with the notable exception of a few undertakings such

⁷ As this report shows, I don't fully agree with this explanation of the sequence of events that led to infitah. But I find it interesting that an economist I talked to, who repeatedly prided himself on his scientific objectivity, several times referred to Egypt having "lost its soul to the West." Even defenders of infitah, however, are often appalled by what is sometimes referred to as the "Cocacola-ization" of Egypt. One of my reports, called appropriately "In Search of Egypt's Soul", will focus on the cultural and social effects of the economic liberalization policies.

as the Aswan Dam and the Suez Canal authority, was a quagmire of inefficiency, red tape, and outright corruption.

Amidst all of this, Nasser's previous admonition of steadfastness against Israel seemed a luxury Egypt could no longer afford. Sadat termed it not only a luxury but, as would become clear after the 1973 war, had few illusions about Egypt's ability to defeat Israel. His analysis of the situation was strengthened by the May 1972 Nixon-Brezhnev meeting which promised to inaugurate a period of detente. He stressed that the superpowers would not allow a new war to take place in the region while detente was active. It was better therefore to grab the initiative, a policy encouraged by Muhammad Haykal, Nasser's long-time confidant, at the time. Peace with Israel and Western capital could help to create prosperity at home.

It seemed clear to Sadat that in this new initiative there would be little room for the Soviet Union. Infitah could only be successful if relative stability existed in the area and he judged (half right, half wrong as it turned out) that only the United States was able to help settle the issues between the warring sides. Also by 1972 there was an enormous amount of unhappiness with the economic policies advocated by the USSR, with Soviet behavior, and with their deliveries of weapons.

Egypt was in a desperate position, confronted with political and economic deadlocks. The October war of 1973 was in many ways an attempt by Sadat to break these deadlocks, and a means to increase his own power base within Egypt. Some writers have argued that it was simultaneously a way to prepare the way for the economic infitah. Sadat's "October Paper" of March 1974 seems to confirm this analysis. From now on he would be his own man, choosing a new economic direction and leaving the Nasser legacy behind. Overwhelmingly approved by means of a popular referendum, the stage was thus set for reforms. A few months later, in June 1974, the Egyptian parliament passed Law 43 on Arab and Foreign Investment, which formed the basis of infitah. In an effort to attract petrodollars Arab investors were given special privileges.

All of these interacting political and economic considerations in part explain the coming of infitah and in this regard my own thoughts closely coincide with analysts like John Waterbury who have given relatively short shrift to the notion that infitah was forced upon the country by individual or joint action of Western capital and domestic capitalist lobbies.^o

The attack on Nasser's public sector was intense and now, slightly over a decade later, it is relatively easy to observe at least part of what has happened. Although I shall write in more detail about the impact and future of the liberalization, some general remarks at this point are in order.

The economic, political, and social impact of infitah has perhaps been much more profound than even its most articulate proponents had predicted. The government in certain important ways has lost the initiative to determine which investment opportunities it wants to attract or encourage.

^o John Waterbury, The Egypt of Nasser and Sadat: The Political Economy of Two Regimes (Princeton: Princeton University Press, 1983).

Within a few years most of the public sector, even those areas originally excluded or protected, had felt the onslaught of foreign investment. Most visible perhaps has been the rapid formation of an upper middle class (called the "infatih class" by Egyptians) that has profited enormously from the liberalization. Those who belong to it seem intent on enjoying these rewards amidst increasing hardship for the lower classes. Ironically, Egypt now has as many millionaires as it did prior to the 1952 revolution.

This loss of control has many reasons. The first is the reappearance of this strong private entrepreneurial class that has preferred to work with foreign investment rather than with the inefficient public sector. Second, managers within the public sector have often been eager to start up joint ventures or, individually, have simply left the public sector for better paid jobs outside it. In this regard Egypt's experience is not noticeably different from other developing countries where the public sector has acted as the training ground for a generation of private entrepreneurs. Not surprisingly some of the most adamant pro-infatih Egyptians I have interviewed so far fell exactly in this category.

Also, foreign firms are often eager to respond to deals with the public sector since those managers often hold the keys to bringing ventures to a successful end. The pressure from investors and institutions like the World Bank has been toward these joint ventures, in the name of efficiency and greater control over the process.

Finally a note about the areas of investment. They have tended to cluster around tourism, banking, and investment companies. The criticism of infatih opponents is that these contribute little to direct production, and are of little value for the country - even though they may temporarily be helpful for balance of payments problems.

By the time of Sadat's death the Soviets had been expelled (1972) and their economic presence largely eliminated by 1976. Substantial Arab funds had been attracted, and the West - particularly after 1977 - had responded to the call for investments, even if in projects and on terms that did not always suit Egyptian policymakers and over which they had less control than anticipated. Diplomatic relations with Washington had been resumed in 1974 and the latest superpower ally proved a generous friend. Between 1975 and 1980 more than \$5 billion in civilian assistance flowed into Egypt, in addition to periodic increases such as \$750 million from USAID after the Egyptian troop disengagements from Sinai in 1975.

In his autobiography Sadat draws a picture of himself as the enlightened ruler of a new Egypt and, although less explicit, of a new Arab world.⁹ No doubt it took an uncommon man to attempt his trip to Jerusalem

⁹ Fuad Ajami in The Arab Predicament quotes a fraction of a conversation between Sadat and Kissinger, in which the American Secretary of State asks the Egyptian president what to expect of his upcoming visit with King Faysal of Saudi Arabia. Sadat's answer is "Well, Dr. Henry, he'll probably preach to you about communism and the Jews." The small fragment conveys, as Ajami perceptively notes, a "cultural pretension (and reality)" that marked Sadat and his look-out on the Arab world and beyond.

and the Camp David agreements, a gesture sure to jeopardize even further Egypt's standing in the area and the Arab funds necessary for the success of his infatah. Autobiographies, however, are as important for what is not revealed as for what the author actually conveys. In Search of Identity waxed grandiloquently over the president's attachment to Egypt's villages and its people. The profits of the book, as well as the Nobel prize money, were turned over for the improvement of Mit Abu al-Qum, his native village. Invariably, Friday evening television broadcasts showed Sadat praying in the local mosque, often dressed in galabiyaa.

Ironically it was this "man of the land" who in the end was utterly divorced from them, and who increasingly became, in the words of his religious opponents, a new pharaoh. In contrast to Nasser's funeral when over one million people thronged Cairo's streets, no common Egyptians were allowed to attend Sadat's funeral. In life as well as in death he was kept separate from them.

This difference between Sadat's personal pretension and reality revealed his dilemma. Infatah had only been part of a larger strategy that included some sort of controlled democracy for the country. But it was at best a superficial experiment, subject at any point to curtailment if the regime felt threatened. Sadat's reaction to opposition was increasingly one of consolidating power in his own hands. In May 1980 he had assumed the premiership and appointed six deputy prime ministers who rubberstamped his policies. He was the head of the National Democratic Party, which he had created in 1978 and which held the monopoly on representation in the country. A constitutional amendment in 1980 abolished the requirement that presidents could only serve two six-year terms.

Judging from his autobiography, it is debatable whether Sadat ever understood the strong socio-economic basis on which dissent took place from about 1974 on. For many of the new generation the future was compromised by a state that did not have enough money to guarantee its futures, but in which there was seemingly enough money for a luxurious life for a tiny minority at the top. This included the Sadat family whose two daughters were married to sons of families that profited enormously under infatah. Under Sadat the frustrations of this generation were in part offset by the possibility of social advancement through employment abroad - and it is a way an estimated two million Egyptians chose to take.

For those of the middle classes who remained at home, however, there was increased marginalization. For them - who did not fit into the new elite class under infatah nor profited from migration but are often well educated - Muslim fundamentalism has proven one way to catch their hearts and minds. It is therefore not surprising to find that many of them are bright, young, middle class, and often blame the West (but as well the Soviet Union) for their predicament. When the religious fundamentalists overwhelmingly won student elections in student unions at Egyptian universities between 1975 and 1979 Sadat, promptly dissolved them.

It seems as if those who took over in 1970, fully intent on correcting what they perceived as the faults of the Nasser regime, by 1980 faced the same dilemmas and disappointments he had had to live up to. By the Spring of 1981 the situation had become even more desperate. The highly efficient secret police was unable to contain islamic militants, and to many Egyptians their actions brought back the nightmares of the Nasser period. The peace talks for which so much had been jeopardized remained stalled, Carter was no longer in the White House and Israel bombed Iraq's nuclear reactor only two days after Sadat had met with Begin and made him look foolish - if not worse.

Within Egypt, the disparity between those who were profiting from infitah and those who were not, was there for all to see. Ironically much of the foreign aid during the period contributed to the problem - much of it had gone to the army and to capital-intensive projects in construction and industry that barely touched the lives of ordinary Egyptians. It in turn reinforced their feelings that infitah had been primarily to and for the benefit of the West, a feeling repeatedly expressed in both leftist and religious publications.

When trouble flared up again in September 1981 Sadat responded by throwing into jail a large number of all shades of opposition. It was ultimately the militant fundamentalists, in the person of Khalid al-Islambouli, who struck back and killed Sadat.

All of this in a nutshell is what Mubarak inherited and on which he has to build a future for Egypt. Beside the lingering problems from the Sadat and Nasser era, however, he also faces new problems. High oil prices allowed Egypt to profit substantially from the marketing of its own oil in the 1970s. But in the 1980s prices have been falling as OPEC lost the solidarity that had made it such an effective economic force in the 1970s, and Egypt's production has stagnated. Earnings from Egyptians working in the Persian Gulf and the rest of the Middle East, once estimated at between \$2-3 billion per year, are now jeopardized as countries send home their foreign workers. The impact on Egypt is bound to be enormous, and I will spend a report estimating its consequences, both economically and politically.

At home infitah, subsidies, the role of the public sector, and political liberalization remain subject to heated debate, and I shall also have quite a bit more to say about each in future reports. And beyond the economic realities, there remain other problems at home and in the region. Sadat's peace initiatives in some ways hurt Egypt's traditional eminence, although Saudi Arabia - the other heavyweight in the region - has been careful not to cut its ties completely or irrevocably.

Mubarak's advantage, which he has skillfully exploited, was that he had been an outsider to Sadat's Camp David accords and to the economic moves of the late president. One of his early statements on infitah called for an end to a consumerist development strategy of "soft drinks and luxury goods." But an enormous amount of obstacles remain in the way of this well-intentioned policy. After five years of leading the country there are few, if any, indicators that actual changes have taken place.

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It is too much, however, to expect substantial changes in only five years. The economic legacy of the past continues to constrain options for Egypt's decision makers; bureaucratic, population and urbanization pressures slow down the execution of whatever options are considered; and Egypt has suffered considerably from the effects of the international economic down-turn during the early 1980s. Despite all this, Mubarak seems indeed to have performed well as a bon gérant until now. But the next step, from manager to actual planner, will be the acid test of his years in office. Much will depend on whether he can deal effectively with some of the issues I'll be covering in my upcoming reports.

All the best,

David Wake

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