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UNITED STATES ECONOMIC ASSISTANCE TO EGYPT

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Dear Peter,

I have just returned from an extended trip to Minya and the surrounding area. Minya is a medium-sized town of 100,000 people, 180 miles south of Cairo. The reason for my visit was to take a closer look at some rural development projects in the area. The trip down the Nile was uneventful, at least according to Egyptian standards. The only road that runs along the river was chocked with an unbelievable variety of vehicles: donkey carts, pick-up trucks transformed into small busses, taxis, service taxis (known here as "flying coffins"), trucks and tourist busses.

Along the way I picked up some fellahin (farmers) who were heading in the same direction. Many of them had traveled to Cairo to take care of some bureaucratic paper work and were now returning to Beni Suef and a number of little villages strung out along the river. Soon the car was filled with acrid smoke. At 45 piasters (about 30 cents), most Egyptians can still afford a pack of low quality, locally made Cleopatra cigarettes.

Smoking is a communal enterprise in Egypt. It's customary to present cigarettes to all other fellow travellers before lighting up. Unfortunately most of those fellow travellers happily oblige. Every time one of the fellahin reached under his galabeyya, some kind of ancient ritual would be repeated. The pack of Cleopatra's was handed around, each passenger in turn thanking the owner and - yes!! - wishing him a long life. Then a lighter was passed around, the conversation would stop, and all sat back to enjoy the harsh tobacco.

The sign on the dashboard - "Forbidden to smoke" in both arabic and english - was of course blithely ignored. First of all, as I pointed out in one of my previous reports the word mamnu' (forbidden) has lost most of its meaning in Egypt. Secondly, the very thought that someone would forbid one to smoke is almost inconceivable. Not to smoke is almost asocial. I

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have long since resigned myself to all of this. Luckily these fallahin - as most other Egyptians - don't mind my not smoking. As a khawaga (foreigner) I'm perhaps a curiosity for not doing so, but there is no social pressure that can be exerted upon me.

The visit to Minya gave me my first prolonged look at village life in Egypt. It was a fascinating encounter in a world where, as the cliché has it, time has really stood still. For several days we dropped in and out of villages that were often miles of dirt roads away from the river. Accompanied by the local director of an international aid agency I was greeted enthusiastically. Foreign visitors are extremely rare in these remote villages. Wherever I went local village councils would await my arrival. Countless hours were spent drinking tea and coffee. When the caffeine level got to high there was always organe Miranda, a sickeningly sweet local soft drink I was forced to drink in copious quantities.

I returned to Cairo with a touch of fever. One of the Institute's "bullet" letters was waiting for me, warning that I had once again missed a report deadline. Undaunted I took to bed for the next several days, shivering under two wool blankets and despite 80 degree weather. Perhaps it was the food? I still get a little sick when I think back at all the things I ate those few days.

I intend to write down my experiences in greater detail later. To ward off another "bullet" however, I'm enclosing a report I've been working on for a little while. It focuses on United States economic aid to Egypt. Although more of an academic piece, I thought my readers might be interested. It's a slightly modified version - minus footnotes and other academic accoutrements - of a chapter that will appear in a book published as a Festschrift dedicated to my academic mentor at Columbia University, Professor J.C. Hurewitz.

TEN YEARS OF UNITED STATES ECONOMIC ASSISTANCE TO EGYPT

"I can see the possibility that ten years from now our ties to you in the economic, military, and political spheres will be just as strong as the ties we now have with Israel."

With those words President Jimmy Carter attempted to entice President Anwar Sadat to normalize relations with Israel in April 1977. The promise or withholding of aid has been part of United States-Egyptian relations since the 1952 revolution brought Abdul Nasser to power. Between 1952 and 1967 when political relations between the two countries were cool, the US extended a mere \$1.3 billion. It was only in 1974, after the expulsion of the Soviet Union and in the wake of the 1973 October war, that US aid increased substantially. After years of faltering peace initiatives at the hands of the State Department, it was Secretary of State Kissinger who pointed out the chances for renewed ties with Egypt. As he acknowledged in his memoirs, the 1973 October war had created diplomatic opportunities the

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United States could not forego. Diplomatic relations were restored shortly after his November 1973 meeting with the Egyptian president.

President Carter's implied promise in his 1977 statement was only the latest in a long row that had been made by Soviet and US top policy makers for over a quarter of a century. This time, however, President Carter found a ready Egyptian partner in President Sadat. The Egyptian leader's disillusionment with the slow economic transformation during the Nasser years and the political stalemate after 1973, had sparked his interest in alternative ways of improving the Egyptian economy. Sadat's concern with economic liberalization preceeded the October war. In April 1973 the deputy prime minister for the economy, 'Abd al'Aziz Higazi, had introduced the term infitah (liberalization or Open Door policy) in a parliamentary meeting.

From an initial \$85 million in 1974 to help clean up the Suez canal, US aid to Egypt quickly increased to almost one billion dollars in Fiscal Years 1976 and 1977. The US helped Egypt to weather a serious balance of payments crisis, and started to rebuild some of Egypt's rapidly deteriorating infrastructure. These initial efforts already carried a strong political imprint. Neither the Nixon nor the Ford administrations, however, developed comprehensive strategies to put aid to efficient use in Egypt. The United States Agency for International Development (USAID) was hard pressed to put the allocated money to work: two-thirds of the \$2.3 billion allocated between 1975 and 1977 remained undisbursed at the end of the period.

By 1977 infitah had also proven less attractive than originally envisioned. A number of severe charges were levelled against the liberalization experiment. A recurrent complaint stated that a small number of Egyptian had profited extraordinarily, at the expense of the poor and the lower-middle class. The January 1977 bread riots made it clear to Sadat that the poor were not willing to relinquish the welfare benefits they had gained under the Nasser regime. It is these direct subsidies, as well as a number of indirect ones, that had been part of Nasser's "social contract" with the Egyptian people. They would be among a number of formidable stumbling blocks in correcting Egypt's economy in the late 1970s and beyond.

What Carter hinted at in his April 1977 talks with Sadat was an intensification of American efforts to turn Egypt's economy around, a sort of "peace dividend." Almost ten years and more than \$10 billion in non-military commitments later, both countries express significant reservations about the outcome of the US' economic diplomacy. It is perhaps useful at the outset to delineate what each party wanted.

For Egypt the combination of western technology and aid, Egyptian labor, and Arab capital seemed to promise greater economic self-reliance. The United States was interested in molding Egypt into a strong regional, autonomous ally that could help bring stability to the region; a country furthermore that espoused a liberal economic policy. But in the 1980s, Egypt's self-reliance seems increasingly elusive, and its cause is traced in part to what many Egyptian officials perceive as misplaced American aid. Within the US there now exist doubts that Egypt is willing to undertake the necessary measures to turn its economy around. Washington also questions

Cairo's ability and willingness to act as a political heavyweight in the Middle East.

Much of this confusion flows from the contradictory aims both countries had at the outset of the renewed relationship. President Sadat looked primarily for a way to shore up infitah. The United States in essence looked for a political goal. Its desire to turn Egypt into a politically stable ally, however, could only be achieved if Egypt rose from the economic morass in which it had sunk. But the far-reaching changes this would entail necessitated rapid reforms that were politically unpalatable or almost impossible. Direct and indirect subsidies, for example, had for essentially internal political and historical reasons become part of Egypt's social contract, the country's sacred cow (see DJV-1 and DJV-2). The US-Egyptian aid relationship thus developed in an atmosphere I would call a "diplomacy of opposite ends and means." It is in the end a self-defeating diplomacy.

To understand some of the dynamics of the constraints Egyptian policymakers labor under requires a quick look at the relations between the government and the Egyptian people since Nasser's revolution. Thirty-five years after that revolution, Egypt very much remains what Gunnar Myrdal and others have called a "soft state.", i.e. regimes that do not force savings from their populations that can be reinvested, or delay consumption for the sake of future generations. In the end both Nasser and Sadat may well have jeopardized Egypt's ability for more autonomous development; the former by his unwillingness to impose the economic adjustments that Egypt's savings crisis in the 1950s and 1960s demanded, the latter by filling the gap through barely restrained international borrowing. The high dependence on the international economy results in part from the very nature of each man's political and economic strategies. It also determined to a large extent the type of economic development currently feasible for the country.

Sadat's change toward infitah was not meant to change the basic nature of the economic system Nasser had implemented. Infitah did not tinker with many of the important guidelines developed in the 1950s and 1960s. As one of Egypt's leading leftist economic thinkers once acknowledged, infitah was "a change within the system - not a change to a new economic system."

Egyptian dependency deepened after 1975 when Egypt steadily turned into a state where industrial productivity received little attention. Tourism revenues, Suez Canal receipts, oil exports and worker remittances provided the bulk of Egypt's foreign exchange from 1976 on. Very little of these earnings found their way into productive investments. They ended up, much as the investments of infitah, in public and private consumption. The World Bank estimated that by 1983 45% of all Egypt's resources were still in the form of rents. Their rapid rise and relative size, as well as US aid, allowed Egypt once again the luxury of postponing worries about productivity.

Not surprising, there was evidence that the low level of national savings during the 1960s diminished even further during the 1970s. Egypt's resource gap remained considerable despite the large sums of money that entered the country. External debt rose dramatically from slightly less than \$3 billion at the start of infitah to \$38.1 billion by July 1986. In

the absence of meaningful reforms Egypt remained saddled with some of the other legacies of the socialist experiment: a burgeoning bureaucracy, an inefficient public sector, and a continued commitment to Egypt's public welfare system.

Some critics of infitah have decried the liberalization as helping the government along in liquidating the public sector through joint ventures, aborting sectoral planning, and a whole other array of wide-ranging illnesses. But the important point is that whatever distortions appeared were originally to a large extent politically motivated. Egypt's welfare system in particular was an outgrowth of the social contract Nasser had created for Egypt: direct subsidies of goods and services to keep the middle and lower classes politically contained. By 1980 they surpassed one billion pounds, by 1985 twice that figure. And for all of Sadat's professed interest in a more efficient economy that would eliminate all possible distortions from the Egyptian economy in the 1970s, the amount spent on welfare programs - and consequently on consumption - actually increased dramatically during his term in office. Even education that had been neglected during the 1967-73 period was resuscitated. The social contract became especially salient to those poor and lower middle class citizens who had not profited from the absolute growth of the economy or from infitah.

Shortly before his death Sadat conceded that the economic take-off he had forecast would have to be postponed. The difficulties, as he often repeated, were not of a purely economic nature. In a candid evaluation of the effect of previous economic policies on Egypt's society at the beginning of the 1978-82 Five Year Plan, its authors remarked that Egypt could be characterized as "lacking discipline or supervision, [having] distribution without production, promises without obligation, freedom without responsibility."

There is little to suggest nonetheless that American aid officials paid systematic attention to these visible and underlying difficulties until the end of the 1970s. There is furthermore little proof that American policy-makers were seriously concerned about the viability of their programs. Appropriated money needed to be spent, often at the expense of any careful review of Egypt's needs or absorptive capacity.

For almost a decade now the US has provided Egypt with more than half of all the economic assistance it receives. Adding military aid skews this balance even more toward the US. Most of the roughly \$1 billion yearly support is on a grant basis. It finances development projects in practically all of Egypt's economic sectors and supplies manufactured goods and raw materials. Its most visible component is a yearly concessional loan for American wheat that in Fiscal Year 1985 amounted to \$240 million.

For the first half of that decade this aid, in addition to the high rent income, made Egypt a country of relative economic and political stability. Sharp increases in foreign exchange staved off a potential financial crisis. American policy makers were confident that the large amounts of aid expended on Egypt would only be a temporary expedient. By 1983, however, it was clear that Egypt would need more aid than ever

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before. Earnings from Egyptians workers abroad - close to \$3 billion according to official estimates - were in jeopardy. Oil production was leveling off. Suez canal receipts, and tourism stagnated or declined, as did exports of cotton and oil. There seemed little relief ahead for the country. After a drop in fertility rates in the 1960s, they picked up again in the 1970s. Egypt's population of 50 million will increase to at least 70 million by the end of the century. Every ten months an additional million make demands on a country that has only three percent cultivable land, and loses several thousand acres more to an almost unmanageable urbanization. Self sufficient in food production until the mid-1960s, Egypt now imports almost half of its needs.

Even more worrisome to American aid experts was the reluctance of the Egyptian government to implement any of the structural reforms the United States and the International Monetary Fund (IMF) had advocated. Direct and indirect subsidies continued to distort the economy. By 1985 food subsidies alone consumed 13.5% of that year's budget. Market distortions and a lack of incentives for production remained highly visible in the economy. And while Washington remained alarmed at the slow pace of reforms in the Egyptian economy, the Egyptian leadership increasingly demanded greater control over how American aid should be put to use within the country. Under Sadat these demands for greater control had never been put forward very forcefully. During President Mubarak's first visit to Washington in February 1982 the demand was made that American aid be used according to what Egypt considered its legitimate social and economic priorities. When pressed, however, the delegation that accompanied Mubarak had few concrete guidelines for putting the aid to better use.

The mood among Egyptian policy makers reflected a more widespread disenchantment with US policies in the Middle East and an attempt to reassert Egypt's traditional position in the area that had slipped since the ascendancy of the more conservative oil states after 1973. Many of the charges have been described in greater detail elsewhere, but are worth repeating here briefly. Inevitably the Egyptian leadership unfavorably compared aid extended to Israel under virtually no restrictions to the conditions under which aid to Egypt is supplied. In the fall of 1982 a series of articles appeared in the opposition publications and in Al-Ahram, sceptical of USAID. The general feeling among most contributors to the debate could be summarized as follows:

- (1) a general disillusionment that American aid had not solved the problems of Egypt's economy
- (2) an inability to distinguish between aid and the results of "American-inspired" infitah.

In the worst case USAID was depicted as a neocolonialist institution, trying to foist upon Egypt a pattern of development that would leave the country permanently dependent. In the best case the agency was accused of promoting the expansion of the private sector at the cost of Egypt's poor. In some ways the two criticisms were linked. Much of the research and consulting USAID engaged in was seen as preliminary to fostering the kind of inequities infitah had produced. The aid program thus became linked to

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the economic and social dislocations caused by infitah. It is a perception that remains operative, not only among many of Egypt's poor and salaried middle class whose wages failed to keep pace with those of urban workers and private sector employees in the 1970s, but among higher level technicians and bureaucrats as well.

Further charges were that the US, through USAID, had become too involved in Egypt's internal affairs and was setting the agenda for Egypt's development policies and strategies. These strategies furthermore were more often than not inappropriate to what its critics considered Egypt's real needs. A final charge was much of the money that was brought into the country through USAID ended up paying for American consultants, research, and products.

A number of the criticisms carried little weight. American aid could hardly be faulted for all that ailed Egypt or its economy after 25 years of socialism, and about which its leaders were still unwilling (or politically unable) to do much. USAID has made valuable contributions both in terms of food and infrastructural programs. But the perception was in some ways easy to understand and USAID officials did not bother to point out the differences. Sadat had created dramatically inflated expectations of what American aid would accomplish for Egypt, in part to shore up his own image or his chances at political survival, in part as a campaign to "up the ante" for the Americans.

No aid program, not even the replication of the "Marshall Plan for Egypt" Sadat described in his November 1978 interviews with Al-Ahram, could deliver what the Egyptian president had promised. The Marshall Plan idea has since been taken up with gusto by Butros Butros-Ghali, Minister of State for Foreign Affairs, and Esmat Abdel-Meguid, Egypt's Foreign Minister. But the reference to a Marshall Plan was at best problematic: In Egypt the task was not one of repairing a damaged infrastructure but of creating one almost ex nihilo. The upshot was that if the economic progress so incautiously promised by Sadat did not materialize, both he and the US would be blamed for the failure. This at least partly explains why American aid has paid fewer dividends than both the Egyptian and the American leadership expected. It also helps to explain why Hosni Mubarak carefully but noticeably distanced himself very early on from some aspects of the aid program his predecessor had so eagerly embraced, arguing instead for a different type of aid program. The US was partly to blame for what happened. Under Sadat it never seriously attempted to link economic assistance to meaningful reform of Egypt's economy, not wanting to jeopardize Sadat's pro-American political stand.

There were also a number of additional criticisms that could be levelled against the American aid program. The implementation time of USAID projects was often staggering. Although some of the blame undoubtedly falls on Egyptian bureaucratic procedures, the agency's own system of feasibility studies and red tape must carry much of the burden. At the end of 1980 nearly half of the \$5 billion in economic assistance appropriated by Congress remained unspent. The slowness of their implementation furthermore jeopardized the "peace dividend" Sadat had promised to his people.

Furthermore, if aid was the diplomatic instrument to reach the hearts and minds of Egyptians in the US political scenario, American policymakers initially did little to harness USAID to promote these political aims. Until the end of 1983 American officials deliberately adopted a low profile strategy, preferring the Egyptian government to take credit for its achievements. They hoped this would deflect charges of neocolonialism, as well as soften criticism of Sadat. At the same time many of the infrastructural projects - such as improvement of the Cairo sewer system on which the US has already spent \$1.2 billion - received relatively little attention. This policy changed somewhat under the directorship of Michael Stone who came to Cairo in September 1983. Public relations, concentration on more visible infrastructural projects, and contraction of literally thousands of small subprojects into larger principal ones were the order of the day. But Stone's style of leadership and the turn toward popular programs were equally subjected to criticism. Since the end of 1984, under the directorship of Frank Kimball, the agency has reverted to a less visible presence.

Independent of American policies and ways to pursue its diplomatic objectives through aid, however, the basic incompatibility between both countries' goals remained. Only a drastic change in Egypt's economy - possible in conjunction with a retooled USAID program - could turn Egypt around and dilute the bad perceptions of infitah and American aid.

This was the challenge faced in 1981 after Mubarak took office. Egypt threatened to become more dependent on American assistance than at any time since the 1952 revolution. With decreasing receipts from tourism, expatriate workers, oil, a leveling off of Suez canal receipts, and the increase in population, the situation resembled the exact opposite as the one envisioned when the relationship between the US and Egypt was renewed.

It is in light of this deteriorating situation that President Mubarak's plea for greater flexibility and autonomy over American economic aid must be seen. As mentioned already, it also marked the agenda of his first visit to Washington in February 1982. Initially the Egyptian demands under the new Egyptian administration focused on measures to unclog the backlog of unspent money. More recently, however, they have argued for sectoral grants or direct cash transfers. USAID has not been totally unresponsive. Several interviews with key policy makers indicate that they are sympathetic - or can at least understand - Egyptian demands for a more limited sectoral approach that would give Egypt a larger share of responsibility to design, implement, and evaluate some of the programs.

The overall feeling in Washington as well as at USAID in Egypt nevertheless remains one of scepticism as to radically changing the mode of funding in Egypt: "They question the ability of the Egyptian bureaucracy to reach agreements on development programs, to be able to implement programs any more quickly, or to reach objective assessments based on cost-efficiency criteria." While this may seem paternalistic, there is also a more prosaic reason for their objections. One USAID official referred to aid to Egypt as being "constituency aid," i.e. aid that will only be acceptable as long as there is internal pressure within Congress to sustain it. Any attempt to remove restrictions on how and where aid to Egypt can be spent may jeopardize political support for the program in Congress. In

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the long run, they feel, this endangers funding for Egypt. Above all, these AID officials and many Administration officials fear that outright cash grants will be put to use where they will have no potential to bring about real change: to prop up an inefficient public sector or toward subsidies. Despite these misgivings the Reagan administration has provided \$800 million in support of balance of payments problems in Fiscal Years 1984-1986.

Invariably aid becomes a bone of contention between donor and recipient, each jockeying for positions in a give-and-take situation. In Egypt, where it became associated with infitah and ultimately led to suspicions of the regime that closely supported it, it became a political liability. Until now US aid has substantially fulfilled American expectations. Mubarak's regime has been stable and has shown a high degree of continuity in its foreign policy. The assessment from an Egyptian urban middle class and urban poor perspective, cannot be so positive. In several areas - but particularly food - the country is more than ever dependent on the West, particularly the US. Many of the country's industries failed to achieve a measure of domestic or external competitiveness. Seen by many as supportive of infitah, aid has seemingly contributed to the growing inequalities in Egyptian society. Worse, it has done little to reverse the structural inequities that continue to impoverish segments of the population.

It is against this background that the future of US-Egyptian aid relationship must be considered. But a few new parameters seem very likely to impinge upon it. Egypt will finally have to pay the price for the economic experiments of the last quarter century. That at least is the unrelenting message of the most recent IMF missions and European delegations that have come to Cairo. Judging from Vice President Bush's most recent visit to Cairo, it is clear that the US is supporting their demands. After having faltered since 1981, the IMF and Egypt are seemingly ready to agree on a standby agreement for one billion dollars. The conditions for the agreement will undoubtedly include at least part of what the IMF has clamored for since the negotiations began: a removal of massive subsidies on commodities, raising of the commercial bank interest rate, and a unified rate of exchange that will lead to a free-market exchange rate.

These may seem like draconian measures. But economic figures for Fiscal Year 1986 alone hint at the magnitude of Egypt's current problems. Its current account deficit is projected at \$3 billion. This year's financing gap has been estimated between a conservative \$2 billion and an alarmist \$4.5 billion. According the IMF statistics, total debt stands at \$38.5 billion in the first quarter of this year. Debt servicing will require \$2.6 billion.

No matter what policies the Egyptian government ultimately adopts, the need for economic aid will increase in the years ahead. Most economists agree that the unification of exchange rates alone will bring about a considerably higher level of inflation, at least for a few years. It means that Egypt, strapped for money and struggling to meet its obligations to international lenders, will need substantially more economic aid - preferably cash grants - to keep part of a (modified) social contract

intact. While even greater outlays may be repugnant to US aid officials, they may have little choice but to comply, in order to keep a friendly regime intact. The challenge for the US will undoubtedly be to put extremely large amounts of money to purposes it considers both politically and economically sound. In all of this it may well lose some of the influence it previously enjoyed. It may have to find an alternative to either outright cash grants or the type of program commitments it now prefers. It may also have to partially dispense with its inhibitions against supporting public enterprises.

A certain loss over the "means" of its aid policy to accomplish increasingly problematic "ends" is not unique to the current US entanglement with Egypt. Aid donors often only make serious evaluations when a crucial turning point has been reached. Incrementalism, more often than not, is the standard operating procedure. The United States in many ways overestimated the political utility of economic aid in Egypt. Egypt's economic situation and US involvement is now at a point where sanctions - such as the suspension of food aid shipments in 1965 or a restricted PL480 arrangement in 1966 - can no longer have much impact. Leverage will perhaps increasingly lie in marshalling other Western institutions - such as the IMF and the European creditors - into coordinating its policies with US intentions. The communiqués of Egyptian economic delegations to Washington in the summer and fall of 1986 seem to bear out this analysis.

After 12 years of infitah and 10 years of massive US aid, not much has changed in the structural composition of the Egyptian economy. Neither the inefficiencies and bottlenecks that exist within it have been seriously addressed. An inefficient public sector remains Egypt's dominant economic force. Only very recently has the government started to chisel away at the enormous subsidies its social contract entailed. Even those efforts are incremental and slow in view of the political realities the government faces. Even under Mubarak's commitment to change, he has been careful to pay off the different local constituencies he faces.

Egypt can no longer muddle through, as in the 1960s and 1970s, waiting until something better materialized. From the Egyptian viewpoint there are several options if the soft state cannot be kept. First, to impose upon the country some form of political configuration that could make accumulation possible under some sort of "iron fist." It is a policy both Nasser and Sadat avoided at all cost, and there is no indication that Mubarak is inclined to go against this almost ingrained rule. A measure of autarky, perhaps tied to some renewed Arab economic aid, also seems unlikely - even if the Arab states would be willing to provide the amount of money Egypt needs. At any rate, Cairo would be certain to balk at some of the restrictions that would be demanded - and which in any case would make Arab aid not much more palatable than Western aid.

Second, a closer realignment with the Soviet Union and Eastern Europe. Although discounted by most US analysts, it is worth noting that Egypt resumed diplomatic relations with the Soviet Union in 1984, and has allowed some advisors to enter the country. It also warrants attention that many of the country's planning institutes are still run along lines introduced by the Soviets prior to 1972. Personal interviews with several of their officials indicated no particular hostility to the Soviet Union, or at

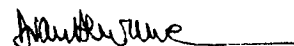
least no hostility substantially greater than that exhibited toward Americans now. The claim that Egypt has a natural abhorrence of Soviet-style socialism is as spurious now as it was in the 1950s. At any rate, such a dramatic reversal on Egypt's part would undoubtedly be triggered by an event serious enough to forego all ideological pretensions.

Third, the imposition of economic policies that detract substantially from the social contract, but do away with many of the distortions now present. This, in conjunction with the fourth possible scenario - a closer realignment and greater reliance on the US and the West - seems most likely for the immediate future. Despite Mubarak's promises to combine the best of infitaḥ and of Nasser's socialist economic policies, his predilection seems to be the continuation of his immediate predecessor's philosophy. It is hard to fathom, however, if this stems from conviction or because of lack of alternative at this time. At least for now, breaking the US connection seems economically too costly to entertain.

None of these are easy options for Egypt. But unless Egypt's government seriously attempts to produce far-reaching economic corrective measures, it has no choice but to make a decision that will in the end be infinitely more painful. Although cosmetic changes are taking place in the social contract, it seems unlikely that Egypt will ever move far enough to counter their debilitating effect.

If the option taken is a closer realignment to the West, it will entail political and economic costs for both sides. The visit of the Minister of International Cooperation, Kamal Al Ganzouri, and Field Marshall Abdel Halim Abu Ghazala to Washington in the fall of 1986 hinted at the costs Egypt may have to pay. Although still unsubstantiated, some political insiders speculate that the US attempted to bargain for increased access to Egyptian military facilities in return for larger grants to Egypt. How this meets Washington's original goal seems hard to fathom, and shows some confusion over ends and means. Greater visibility in this regard can only increase antipathy to the US and is ultimately counterproductive to what the US wants to achieve through its diplomacy: a friendly and strong ally in the region. In one of my recent interview Tahsin Bashir, one of Egypt's leading intellectuals, remarked on the need for a new social contract in Egypt. "There is no doubt that we need profound and far-reaching changes in our economy," he conceded, "but no superpower should pursue its ends beyond reasonable limits... There's a penalty to be paid that may not be worth those pursuits."

All the best,



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