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**THE POLITICAL
UNDERSTANDING OF
AL-'INFITĀH
*AL-'IQTISĀDĪ***

**A CASE STUDY
OF ECONOMIC LIBERALIZATION
IN EGYPT**

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Preface

In Egypt, so-called "infatih" policy which was initiated by the leadership of Anwar Sadat is still now being promoted by Husni Mubarak, the successor of Sadat. Infatih is an economic policy which aims at the revivification of economic activities in Egypt. Due to this infatih policy, Egyptian economy recovered to some degree from long economic stagnation which is regarded as the result of the controlled economic policy in the period of Nasser. However, peace with Israel was believed by Sadat to be a sine qua non condition for the promotion of this policy. Consequently, Egypt concluded a peace treaty with Israel separately from the other Arab countries. But this separate peace with Israel resulted in political isolation of Egypt in the Arab world because the

other Arab countries regarded Egypt as a betrayer against the just cause of the Arabs. Therefore, infitah policy gave rise to political isolation of Egypt in spite of its literal meaning in Arabic, i.e. the open door policy.

On the other hand, this infitah policy increased differentials in Egyptian society. This policy enabled introduction of foreign capitals into Egypt. Those who can benefit by the foreign capitals become rich, but lots of people remained poor without getting any profit from this policy. We can say that strengths and weaknesses of the infitah policy are evenly balanced. The future of this policy may be regarded to be quite uncertain. However, a close investigation of the realities of the infitah policy is very much required in order to foresee the future Egypt.

Mr. Nakashima makes an attempt at careful evaluation of the infitah policy in the historical course of modern Egypt in this volume. He succeeded in making clear the real state of socio-economic affairs in the present Egypt under the infitah policy. Readers of this volume surely be able to have exact information about modern Egypt and its infitah policy.

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Akiro Matsumoto
General Editor

Introduction

This study seeks to characterize 'infitāh al-igtisād, or literally in Arabic the economic "open door" policy, which was carried out in Egypt under the former Egyptian president Anwar As-Sādāt (1970-1981), (who will be henceforth referred as Sadat). It will be argued that the operation of the Egyptian economy under Sadat was entirely the opposite to that of his predecessor, Gamal Abdul An-Nāsir (henceforth Nasser). Usually, 'infitāh is thought of as being just the economic policy followed by Sadat; however, the orientation of 'infitāh brought far-reaching effects not only on the economy of Egypt, but also on the entire outlook of the country in the 1970s. In this thesis, the difference between the economy under 'infitāh from the economy under Nasserism will be discussed. Nasserism was the basic principle of

Nasser, the second Egyptian president (1954-1970), which determined the political economy of Egypt after the revolution of 1952. Arab Socialism is shown as the ideology which evolved out of Nasserism in 1962. Arab Socialism lasted as the ideology of Egypt until the inception of 'infitāh.

The transformation of socialist economies to more liberal models has been recognized as a common phenomenon over the last few decades, and has been observed in many developing and socialist countries. The change of the Egyptian economy under Nasser and Sadat also fits this schema. This study is a case study of the Egyptian economic transformation from centralized Arab Socialism to liberal capitalistic 'infitāh.

My approach to the understanding of this change over thirty years is not to isolate the analysis of the economic sphere from its political and external dimensions, but to assume the perceived economic phenomenon as highly influenced by political undertakings and regulating political changes. In short, my analysis of 'infitāh under Sadat and the preceding approach under Nasser is that of political economy, which views political and economic phenomena as intricately related to each other. The effective-

ness of this approach is clear when trying to understand, for instance, the economic significance of Egypt's conclusion of the Camp David Treaty in 1979, which originally aimed at bringing to Egypt the suspension of hostilities and tension with Israel, and a closer relationship with Western countries. Also, this approach makes clear the implications of the evolution of 'infitāh with regard to Sadat's attempts to replace the one-party system with a multi-party one. Moreover, this approach is indicative of the effect of 'infitāh on Egyptian society when we think about the causes of Sadat's assassination in 1981. The assassination, as M. Heikal states, did not arouse a feeling of grief among Egyptians, but a feeling of relief.(1)

Chapter I concerns the historical background of 'infitāh and focuses on the description of the principles of the Nasser regime. The principles of Nasser will be demonstrated to be those of political independence. The economy and internal political structure was derived from this principle. However, the nationalistic posture of Nasser burdened the economy with a large amount of military expenditure and also resulted in economic sanctions from the West. Consequently, the economy stagnated.

Chapter II presents the argument that the principle of 'infitāh put priority on economic growth at the sacrifice of state autonomy. This principle brought alterations both in external relations and internal institutions so as to ensure sustained steady economic growth. The change which occurred in external relations was the movement away from liberating Palestinian land occupied by Israel, towards the seeking of some sort of a peaceful coexistence with Israel and a closer relationship with the West, especially the US. The internal aspect was the employment of the multi-party system and the abandonment of the one-party system of the ASU. What was intended was the encouragement of foreign investment in Egypt by means of the removal of oil power centers and the establishment of a politically stable multi-party system of European origin. The focus of the military apparatus turned away from the liberation of Arab land from neo-colonialism to keeping internal security and watching for communist infiltration into the Arab world.

Chapter III shows how the principle of 'infitāh can be evaluated in the light of the Egyptian context, and tries to answer why Sadat was assassinated. It is argued that 'infitāh was a failure from the point of

view of the independent economy, though the sought-after economic growth was realized to some extent. First, 'infitāh' as an economic approach deteriorated Egypt's external balance of payments further and did not contribute to the development of production. Altered external relations, on the one hand, brought a large amount of US economic and military aid to Egypt, and, on the other hand, estranged the oil exporting Gulf states from aiding Egypt by the conclusion of a peace treaty with Israel. The internal attempt to install a multi-party system turned out to be a further destabilizing agent in society. First, as a result of the influx of money which did not lead to an improvement in the living standard of the masses. Second, the process of Sadat's attempt to install a multi-party system was followed by the oppression of leftists. The subsequent "Islamization" of society also increasingly destabilized the established order.

This study consequently aims at giving sufficient knowledge of the background to understand the polity and economy of the incumbent Egyptian president Husni Mubārak.

Note

1. Mohammed Heikal, Autumn of Fury, (London: Andre Deutsch 1983), p. 217.

Chapter I.

Nasserism: Strategy for Political Independence

Nasserism was an approach oriented towards national independence within the framework of Arab Nationalism. This approach originated from the historical experiences of Egypt, that is, the West's subjugation of the Arab land and the perceived internal social injustice. The establishment of the Jewish state, or Israel, and the West's intention of perpetuating Arab subjection aroused a patriotic reaction in the form of Nasserism. At the same time, large land holdings were considered detrimental to mass mobilization and the utilization of domestic resources for industrialization. In sum, Nasserism was the ideology which evolved out of aims of the revolution of 1952.

Significantly, the approach determined the order of the internal political economy. The principle of

national independence, however, aroused the antagonism of Western countries against Nasser. In the face of the West's economic sanctions and the national bourgeoisie's intransigence vis-à-vis the government's measures, Nasser found it necessary to nationalize a major proportion of productive units and to take them under state control. His action was intended to utilize any available resource for industrialization in the domestic sphere. The one-party system under Nasserism tried to mobilize a large number of people with the aim of national integration, which was considered of utmost importance in the face of external aggression and pressures.

The political economy of Nasser, called Arab Socialism, emerged as the ideology of the regime. A centralized economy replaced a free capitalist economy. This system can be best described as state capitalism. The one-party system of the Arab Socialist Union (ASU) was intended for mass mobilization on a broader basis. The effect of mass-mobilization in increasing the level of production by putting the productive units under the party control is a political aspect which cannot be ignored.

Eventually, the economy of Arab Socialism stagnated. External factors paralyzed the national

economy which was burdened with heavy military expenditure and the suspension of US food aid (PL480) to Egypt. Important internal factors were the lack of financial resources and the structural contradictions of the ASU. However, my stance maintains that the external difficulties cost the Egyptian economy more than the internal ones. The disastrous failure in the June War of 1967 against Israel marked the starting point for Egypt's review of Arab Socialism.

I-1. The Background of Nasserism

I-1-1. Political independence

Under Ottoman rule, the first attempt at Egyptian independence was marked by Muhammad 'Ali, an Albanian governor of Egypt representing the Ottoman Turks, his dynasty began in 1805. The aim was to obtain autonomous status approved by the Turks within the sphere of the Ottoman Empire. Stress was put on the establishment of a "modern state", which included a strong military apparatus and a self-sufficient economy. This process of modernization was, in short, the Westernization of Egypt and ultimately determined the course of Egypt thereafter by putting Egypt under

the formidable influence of the West.

Insolvency for the Egyptian economy and a British protectorate were the outcomes of this attempt at Westernization in spite of efforts for independence. The ironies are, first, that the sort of independence M. 'Ali and his descendants had sought was limited, Egypt was to be a local power recognized by the Western powers and, second, that the modernization thought necessary for independence paved the way to an overwhelming Western influence over finance and expertise in the process of modernization. Therefore, it is no wonder that the evolution of Egypt as a power consequently evoked British alertness and, later, invited hostility to Egypt's rise, for Britain feared a strong independent Egypt would be detrimental to its imperial interests in the Near East. The attempt at modernization relying on Westernization led to the bankruptcy of the state in 1879, and thus paved the way for British and French supervision of the Egyptian economy and British protectorate.

The difficulties involved in the gaining of independence can also be explained by external factors. Two factors were decisive: British imperial interests and the world-wide cotton boom. From the British point of view, Egypt's strategic position in

the Near East, located on the way to her Eastern colonies, China and the Far East, was of utmost importance. The appearance of any local power was considered as a potential threat to imperial communication with the East. Also, from imperial considerations, the evolution of Egyptian cotton production caused problems since London wished to directly control the production of raw cotton for the British textile industry. The cotton boom in the latter half of the eighteenth and the beginning of the nineteenth century accelerated this trend and strengthened the British desire to hold on to Egypt.

The increasing erosion of Egypt's sovereignty by foreign powers, on the other hand, provoked patriotic feelings amongst Egyptians. The 'Urābī' revolution of 1882 with nation-wide backing and the independence struggle after World War One can be cited as examples of this. The latter developed into an armed struggle with the British and, thereafter, Egypt's independence under the leadership of the Wafd (the Delegate Party) was achieved in 1922.

Nevertheless, the newly acquired independence under Wafd was still felt to be limited by the presence of the British in Egypt. The British tried to perpetuate and justify their presence for imperial

considerations: namely, the Suez Canal and the supply of raw cotton. For the Egyptians, the British betrayed their promise of withdrawal. The Anglo-Egyptian Treaty of Friendship and Alliance of 1936 concealed its true nature of bounding Egypt within "a military alliance" and hence justified the British presence in Egypt.(1) More infuriating for the Egyptians was the substantial control the British held over domestic affairs. The political framework was dominated by them, they held a strong grip on both the Wafd and the Palace exploiting the rivalry between them in accordance with British interests.(2)

A independent economy was also felt necessary as political independence came into being. The economy was a mono-culture of cotton production, with almost all the invested capital in Egypt foreign. Against this background, industrialization was considered necessary for an independent national economy. This was also encouraged as the cotton boom brought a lot of profits into the hands of the national bourgeoisie during World War One. Inevitably, the nationalist industrial bourgeoisie, who were also Wafdists were expected to play a major role in establishing an independent economy. At that time, the Misr Group founded by Tala'at Harb was the biggest national

business group. However, industrialization could not be achieved. This was caused by national bourgeoisie's action of turning over their financial resources to the use of external capitalists. These developments brought to the forefront the issues of equal distribution of land and government intervention in investment and production process. The impact of the Great Depression in the 1930's enabled the national bourgeoisie to start replacing foreign advisers; however, the capital was still owned by them. This was partly because of the war and the price hike of raw cotton.

I-1-2. Arab Nationalism (Al-Qawmīyyah al-'Arabīyyah)

Against the stagnated movement for complete independence of Egypt in the face of the British, Arab Nationalism (al-Qawmīyyah al-'Arabīyyah) was the ideology intended to generate the momentum for the liberation struggle. In order to understand Nasser's beliefs, it is first necessary to understand what made the earlier development of Arab Nationalism possible in Egypt.

First of all, the identification of the Egyptians with Arabness underlied the development of Arab

Nationalism in Egypt. The state of Egypt had been an entity for a period extending across three civilizations, a time span of some 7,000 years.(3) However, as Anour Abdel Al-Malek asserts, the Egyptian culture is characterized as 'Urūbah and its overwhelming ideology as Islām.(4) 'Urūbah can be defined as "the Arab ethos", while Islām is "causative in creating the distinguishing monistic value system in Arab-Islamic culture".(5) Therefore, the nation system gives the Arab world the character of a country consisting of many prefectural states, e.g. Egypt and Syria, just as Japan consists of many prefectures. It is in this unique context of Egyptian Arab-Islamic culture that the ideology of Arab Nationalism took shape.

The political ideology of Arab Nationalism became very popular in Egypt after independence. Behind this, the process of decolonization and the Western subjugation of Arabia continued. The struggle was most vehement over Palestine under the British Mandate. In the land of Palestine, the Arab majority encountered large scale Jewish immigration. The latter was encouraged by both Zionism and the anti-Semitism of Europe. The Balfour Declaration of 1917 was intended for the establishment of a Jewish puppet state which

favored British commonwealth interests.(6) After that, the British Mandate over Palestine allowed an influx of Jews from Europe, which led eventually to the establishment of the Jewish state in 1947, and forced the native Arabs out of their own Palestinian land. The official commitment of the Egyptian government in 1948 to the Palestine War against the Jewish state turned out to have disastrous consequences for the Arab states. In a sense, the establishment of Israel gradually displayed the increasing prominence of Western then, infiltration in the Arab World. The Palestine War can be described as a patriotic response.

Against the West's subjugation of the Arab world, the approach of Arab Nationalism was a secularist and liberal one, opposed to utilizing Islamic patriotism. The formation of the Muslim Brotherhood (al-'Ikhwān al-Muslimūn) was an influential response to the overwhelming penetration of the West, and aimed at restoring the status of the Islamic community. The approach of Arab Nationalism led to Egypt's joining the Leagues of Arab States in 1945 and aroused the awareness of Egyptians about the growth of Zionism in Palestine.

I-2. The Political Economy of Nasserism

Based on the above historical background, Nasserism is discussed as aiming at realizing and maintaining political independence and, hence, determining its internal formation of the political economy in such manners as planning national production through central government controls, and mobilizing the masses for raising the level of production through a one-party apparatus. In contrast to the legislation of 'infitāh discussed in the next chapter, the Social Decrees of 1962 is presented as representing Nasserism's approach to domestic economy and serves as a reference for understanding the changes that occurred between the Nasser and Sadat periods.

I-2-1. The External Posture of Nasserism: Independence and Arab Nationalism

The July revolution of 1952 by the Free Officers, among whom Nasser was one of the most influential officers, set the goals of the newly established regime which became known as the Six Principles of the Revolution. They are summarized as follows:

1. The termination of the British presence and the elimination of the agents of imperialism

2. The eradication of feudalism
3. The liquidation of monopolies and of capitalist control over the government
4. The achievement of social justice
5. The creation of a strong army
6. The establishment of a sound democracy (7)

If we bear in mind the history of the West's subjugation of Egypt, it is not surprising that the issue of political independence was seen as of vital importance at the time of the revolution. This awareness of the importance of the issue was crucial both for the realization and maintenance of political independence. Also considered was the close link between external independence and the aspirations of internal economy and democracy. Importantly, this perception as revealed in the Six Principles formulated later "guidelines for action and the seeds of a comprehensive ideological system", this had constituted Nasserism. The establishment of Nasserism in its external formation is described below.

The termination of the British presence was their foremost task. As discussed, Britain stationed troops in Egypt to perpetuate "the security of imperial communications". Increasing patriotism in Egypt made the British concede state autonomy after World War One;

however, it was so limited that the British could continue to station forces in Egypt and as a result exert influence over domestic politics. Their stationing was justified by the conclusion of a military treaty with Egypt in 1936. After the revolution in 1952, Nasser refused to join military pacts initiated by the West, or Middle East Defence Organization or the Baghdad Pact, which were for collective security in the form of multi-national alliances between the Western powers and countries in the Middle East. The given purpose of this collective measure was to prevent "communist infiltration" into the area. However, it was considered by Nasser as mere camouflage condoning the hidden intention of perpetuating Western influence in the the region. It was feared that the socalled "collective measures", could make the existence of Israel into a fait accompli by diverting Arab eyes from Israel to the "communist threat".(8)

Second, Nasser's pursuit of independence originated from fear that Egypt's economy would become subjected to the West. This is evident from Nasser's attitude towards Western countries in negotiating the extention of a loan for the project of the Aswan High Dam. One of the reasons Nasser gave for rejection of

the loan was that "the Bank is bound to review, while the loan lasts, the economic and financial conditions in the borrowing country", and that this, "stipulated surveillance conditions for the loan". All this reminded Nasser of "Egypt's nineteenth century experience" when "financial obligations led to foreign economic control, and this in turn brought the British occupation".(9) The loan problem forced Nasser to come to the conclusion that Egypt must utilize domestic resources and seek external suppliers, especially for arms and industry. The most drastic step was the nationalization of the Suez Canal which had been the key symbol of imperialism in modern Egypt. This action was very insulting to the West; on the other hand, this brought Nasser broad legitimacy among the masses.

Third, the aspect of arms shipments also revealed Nasser's attitude in terms of external dimensions. Establishing a strong army---as shown in one of the Six Principles---was a matter of urgency after the disastrous events of the Palestinian War of 1948 and was considered of fundamental importance in Nasser's orientation of political independence. First, after the revolution, Nasser sought arms from the US; however, he found the US reluctant, fearing that an arms lift to Egypt would destroy the military balance

in favor of Israel in the region. Nasser eventually sought arms supplies from the communist block, action which ultimately so infuriated the US that it terminated a loan supplied for the Aswan High Dam in 1955. Thus, Nasser's diplomatic approval for communist China was understood as deriving from the fact that Nasser had to look for any possible supplier after US armaments became unavailable. It was Nasser's steps towards political independence that so enraged the Western powers; therefore, the West tried to eradicate Nasser's, as a potential danger, to their vested interests in the Arab world. The tripartite invasion by the UK, France, and Israel into the Suez area in 1956, revealed Western antagonism against Nasser and proved that Nasser's posture vis-à-vis the Arab was regarded as a dangerous for the existing interests of the Western powers and Israel. A series of economic sanctions in 1957 and 1958, following the war in 1956, caused further problems for Nasser's Egypt.(10)

Lastly, Nasser's attitude in relation to the USSR reflected his inclination towards political independence. Western antagonism against Nasser accordingly resulted in reliance on the Soviets for arms and economic assistance and led to Soviet pressure on Nasser. The Soviets pressurized Nasser in an

attempt to mitigate Nasser's objections to the growth of communism in the Arab world. The reason for Nasser's rejection of communist influence over the Arabs was that the prevalence of communism in the Arab world would be detrimental to the realization of national unity and Arab Unity.(11)

Thus, political independence was the paramount condition for Nasser. However, Nasser's progressive posture caused Western hostility. This development in the external formation of Nasserism turned its attention to the Arab world. Here we recognize a progressive aspect of Nasserism: Arab Nationalism (al-Qawmīyyah al-'Arabīyyah), which pursued the liberation of the Arab world from the dominance of the West, Israel, and the reactionary Arab monarchies.

If we analyze Nasserism in terms of Arab Nationalism, it can be described as being based on the determining force in Egyptian culture: the Arab-Islamic tradition. This identification aspires to the unification of the Arab world as evident in the establishment of the League of Arab States in 1945, and several schema for economic and political integration and cooperation among states in the 1950s and 60s. However, besides the general affinity of Egyptians for al-Qawm al-'Arabī (the Arab world), Nasser's aim of

accelerating this trend lay in consolidating the foundations of independent Egypt at a time of considerable external enmity. It is in this context that we look at the economic significance of Arab Nationalism and the polity of "positive neutrality". For instance, the merge with Syria resulted in enlargening Egyptian exports to Syria.(12) It can be said that Nasser's steps towards the merger were from commercial considerations rather than an ideological commitment. Also, agreements over economic integration in the early 1960s were fully supported by Nasser's regime, for it was believed that such agreements would bring considerable profits to Egyptian industries. However, the political effects Nasserism brought to the Arab world were also enormous. These countries--- Syria, Lebanon, Jordan, Libya, and Iraq---put an end to the links with the West.

For the West, the potential danger in the posture of Nasserism was not its allowing the USSR to establish a foothold in the Middle East, but its being a movement of the unification of the Arab world by overthrowing the pro-Western regimes and Israel. The Eisenhower Doctrine of 1957 revealed the US alertness as a protector of the Western interests in the Middle East against the rise of Arab Nationalism. Arms

shipments to Israel by the West in the 1960s also endorsed the atmosphere of crisis. Henceforth, the West---especially the US---aimed at keeping Arab states busy in their rival conflicts with each other, i.e. conflict between Egypt and Saudi Arabia, and, in this framework, distracting their attentions from Israel and deterring Soviet advancement.(13) Therefore, Nasserism was the very cause of their annoyance and a target for eradication by the West. As discussed later, the intervention into the Yemen Civil War finally turned out to cost Egypt dearly and proceeded to a situation the West wanted to see; the hiving off of Egyptian resources for the war. To deteriorate the situation further, the US sent weapons to Saudi Arabia and Israel to support those pro-West governments and further damaged the troubled economy of Egypt.

I-2-2. Formation of the Political Economy of Nasserism

The above-mentioned evolution of Nasserism in its external imposition, importantly, determined the formation of the internal political economy. In other words, the economic pressures imposed by the West raised the issue of an independent economy; therefore,

industrialization to establish strong foundations was pursued with the rationalization of resource distribution through planning, and the mobilization of the labor force for national production. In this section, the centrally planned economy, though it was said to be socialist, is described as state capitalism; while, the one-party system of the ASU (Arab Socialist Union), a political formation, is also understood as closely connected to the projection of increasing national production.

Arab Socialism became the official ideology of the United Arab Republic (Egypt) in the National Charter of 1962. This charter also stipulated the establishment of the Arab Socialist Union (ASU). However, the polity was not a socialist one in the orthodox sense, since it emphasized social harmonization instead of class struggle endangering social coherence. What should be asked, then, is why there was any necessity for Nasser to apply socialism to the polity of Egypt at this particular time. One reason for this movement was the justification of the post-1952 development of Egyptian society under the leadership of Arab Socialism. Another was to demonstrate a further emphasis of political positive commitment the Arab world and have a closer relationship with the USSR as far as the economy

was concerned.

The evolution of the political economy of Nasserism since the the July Revolution can be understood as a transition from a liberal economy to a state controlled one. Though the basic approach of the political one-party system---from the Liberation Rally to the formation of the ASU had not seemingly changed, the importance of the one-party system was increasingly felt in the area of mass-mobilization. In other words, the function of the one-party system for mobilizing the masses had become important with the establishment of the ASU in 1962 under the leadership of Arab Socialism. This transformation was accompanied with the evolution of the polity from the phase of demonstrating the significance of the revolution, to the phase of economic expansion through mass mobilization. After the revolution, the new regime sought to distinguish its polity from that of the pre-revolution era by characterizing its polity as mass-based. A particular undertaking was the land reform of 1952, which had been an outstanding issue which the Wafd had failed to put into effect. The land reform of 1952 was, therefore, designed to gain popularity among the poorer people and envisaged creating a desirable environment for industrialization.(14)

On the other hand, the evolution of the economy--- from a liberal to a state controlled one, can be explained by unexpected events during the decade (1952-1962). Without any doubt, Nasser's original aim was the industrialization of the Egyptian economy while keeping on "good terms" with foreign countries. This intention was embodied in the successive legislation after the revolution---importantly, which was concessionary vis-à-vis foreign investors. The establishment of the Permanent Council for the Development of the National Production (PCDNP) in 1953 set about the task of drawing up a comprehensive industrialization plan. Thus, these actions disclosed the assumption that foreign investors should act according to the framework of industrializing the Egyptian economy. Despite those efforts, the process was unexpectedly disturbed by two factors: Western enmity and the intransigence of the bourgeoisie against industrialization.

Facing crisis, Nasser undertook the nationalization of foreign property, and at the same time searched for any supplier of resources as an alternative to the West. Around the time of the Suez War and the ensuing economic sanctions by the West in the latter half of the 1950s, Egypt was meeting an important phase in its economic development. The first Five Year Plan for

industry (which commenced in 1957) was in full swing requiring resources and extra skills and, hence, in the phase of the economy requiring resources for its industrialization. At the same time, the national bourgeoisie was found to be uncooperative with the industrial investment plan set by the government, although they made the biggest profits out of business. In facing these difficulties, Nasser nationalized the Suez Canal, the property of foreign companies, and forced private business to make their facilities available to the needy economy through state control. This movement was followed by the quick enactment of the new Five Year Economic Plan (1960/61-64/65), which symbolically showed the linkage between Nasser's confiscation policies and the requirement of industrialization for an independent economy.

Another reason for the introduction of Arab Socialism in the National Charter of 1962 concerned the projection of the regime rather than its justification of past developments. Another significant aspect of the Charter was to make Egypt commit itself more positively and politically to the other Arab states, and, at the same time, to have a closer relationship with the USSR. These two aims can be explained by recognizing that Nasser thought that by exerting an

influence over the Arab world progress in the Egyptian economy would follow, hence, the reasoning that the Egyptian economy would badly need a country like the USSR for assisting the Egyptian build-up of industry.(15) The significance of Arab Nationalism for the Egyptian economy should be emphasized here rather than its ideological significance. There is no doubt that the secession from the merge with Egypt Syria in 1961 was a big-set back for Nasser, the chief proponent of Arab Nationalism, projecting the liberation of the Arab land by putting an end to the internal division. Despite the projection, a gloomy outlook for Arab Nationalism after the debacle was prevalent. Against this mood among the masses, the National Charter promulgated in May, 1962 outlined a more positive commitment to the Arab world. The succeeding intervention into the Yemen Civil War in the same year and merger scheme with Syria and Iraq in 1963 were a boon to revive the momentum of Arab Nationalism.(16) At the same time, they were the responses of the Arab masses to Nasser's signal. The Free Officers in Yemen with allegiance to aspirations for Arab Nationalism replaced the Imamate with the Arab Yemen Republic, which marked the beginning of the Yemen Civil War with the involvement of Egypt and Saudi Arabia and the super powers.

However, insofar as Nasserism had been striving for industrialization, it should be noted that the Yemen War had a very detrimental effect. External developments following the severe economic sanctions by the West in the late 1950s included, on the one hand, a Western rapprochement to Egypt through economic assistance and, on the other, a deterioration in Egypt's relations with the Soviet Union over the threat of growing Communism. The economy was, at that time, dependent on the USSR for industrial resources, armaments, and the construction of the Aswan High Dam; while dependent on the US for food through US food assistance (PL480).(17)

Against this background, Nasser's halt of his anti-communism propagation in 1960 and the promulgation of Arab Socialism in 1962 was politically derived from Nasser's willingness to divert attention away from communism, which brought social division throughout the Arab world, to the issue of Arab unification. The latter movement was believed by Nasser to pave the way for exploitation of the scale of economy possible in the Arab world under the banner of Arab Nationalism; the movement should have brought to Egyptian industry handsome profits, which was to some extent achieved. This change, therefore, assured the importance of the

economic relations with the Soviet Union as far as the Egyptian economy was concerned.

Then, what was the system of the political economy of Nasserism with its aims for the industrialization of the economy, the orientation towards the Arab world and reliance on the Soviet Union? The system for the direction of resources under Nasserism is analyzed as a state capitalist system. The conceptual framework of the system is articulated in the following analogy by J. Waterbury:

...the president of the board of directors of a capitalist corporation seeks to maximize earnings for its share holders, so too the state capitalist managers seek to maximize returns for the state, and that for the worker on the assembly line there may be no difference in his effective relation to the means of production and to his employers.(18)

This concept of state capitalism can help to explain the phenomena of the expanding role of the state organization in the developing countries in the post-war period.(19) However, a specific situation arising from this system was, as mentioned above, from the external pressure awakened by the imposition of Nasserism for political independence and orientation to the Arab world for the prospect of exploitation of the size of economy under the pretext of Arab Nationalism.

The political economy of Nasserism sought any means of maximization of profits for an independent economy as revealed in the idea of state capitalism.

The state capitalism of the Egyptian economy was mostly determined by the July Decrees of 1961. The following points were provided for in the new legislation:

1. Centralizing the economy under the state control

a) Establishing the supervisory bodies for the public sector: Misr and Nasr Organizations and the General Organizations under each ministerial control empowered for supervising their own sectors;

b) Nationalization of large and basic industries and commercial representation;

c) Control of foreign currency dealings: cotton export; bringing all import trade under government control; and, the nationalization of the whole banking system and insurance business;

d) Limit the share holding by individual

e) Strengthening the function of cooperatives in the agricultural sector, and;

2. Income redistribution

a) Revision of general income tax and the introduction of "highly progressive rate" taxation;

b) Rent control;

- c) Regulating the daily minimum wage and the maximum wage;
- d) Seven hour work a day, labor representation in the company's board of directors;
- e) Second Land Reform limiting the land holding to less than 100 feddan (one feddan=0.42 ha.) for each, and;
- f) Sequestration of properties held by the wealthiest.(20)

These measures were intended, at first, to give government control over economic activity through planning and, then, income redistribution in favor of the less well-off. Both aspects were imperative for Nasserism's approach.

As to the government control of economic activity, what is of importance is the rationalization of "institutions and companies responsible for foreign trade and financial operations".(21) This was because the function of the financial institutions was considered as instrumental in providing funds for trade and purchasing bonds issued by the government. In this respect, state control under Nasserism shows a clear contrast with the imposition of 'infitāh' as discussed in the next chapter, though both were assumed to be aimed at realizing industrialization in Egypt.

Under this formation of the economy, the first comprehensive Five Year Economic(FYE) plan from 1960/61

to 1964/65 replacing the Industrial Planning aimed for more production under the enlarged economic base created by the unification with Syria. The targets of the plan were on the one hand, to realize economic growth: a forty percent rise in national income in five years, the doubling of national income within ten years, and an increase in domestic saving and, at the same time, the achievement of social equality: a 16-17 percent rise in employment accompanied by 34 percent rise in wages and raising the level of the aggregate consumption to 40 percent of national income.(22)

Another aspect of the reform for income redistribution was aimed at mass-mobilization. This aspect is closely related to the political formation of the ASU, and the social reforms as discussed later. The ASU was characterized as a mass mobilization party, called "the vanguard party" composed of a membership of peasants, workers, soldiers, and intellectuals.(23) The ASU excluded from the membership those who would be detrimental to its "aim of dissolving class differences." (24) As for significance in the economy, it mobilized the masses, especially the workers and the peasants. In the apparatus, Nasser was ranked as the national representative of the ASU, highest in the political decision making process. Of utmost

importance concerned with the function of the ASU was its policy of putting down roots into every sphere of society. In this way, it could contribute to the economic activities to a greater extent.

The organization of the ASU was a hierarchical order: from the Supreme Executive Committee, a national representative body of the ASU to the basic units in the village, the city districts, the workshop, factory, and the university. The 1964 Constitution on the basis of the National Charter stipulated "the economic basis of the state is founded on sufficiency and social justice" and "the people control all the functions of production and direct the surplus in accordance with a state development plan to increase wealth and effect a continuous rise in the living standard". Also, the president had the right to appoint the managers of the public companies. The "Committee to End Feudalism" created in 1966, was set up to purge "corrupt" state managers and large land owners at the time of economic slump.(25)

In addition, the mass mobilization under Nasserism went hand in hand with other related social "revolutionary" reforms, such as the abolition of the Shari'ah (the Islamic Law) and the Communal courts, the introduction of family planning, and women's equal

status to men, and the improvement of workers' status. Most important of all was the reform of the education system, which effected political mass mobilization and raised the quality of workers. The character of the reform was summed up as nationalization, Arabization, secularization and popularization. This included the secularization of the University al-Azhār and the extension of the primary and secondary education. The number of non-Egyptian students in Egyptian universities increased considerably during this period.

The formation of the internal order of the political order of Nasserism was, in sum, the outcome of the inclination towards political independence and the embodiment within of Arab Nationalism which evolved out of specific historical circumstances. It may be said that Arab Socialism, the official ideology of the political economy, was considered as "a pragmatic means" of minimizing conflicts by way of rational planning and constituted "the strategy for achieving national power".(26) The promulgation of Arab Socialism was designed to explain the post-1952 developments, and give a projection of future Arab unification based on the centralization of the economy and political mass mobilization. The implications of Arab Nationalism for the Egyptian economy were significant;

its influence spread over the Arab world and promised good prospects for Egyptian industry.

I-3. The Cause of Transformation of Nasserism

The June War of 1967 was so disastrous a defeat at the hands of Israel that Nasser determined his resignation from the presidency the day following the loss. However, the masses responded to Nasser's resignation speech quickly and begged him to stay.(27) The March 30 Program of 1968 pointed the way towards Nasser's "new" orientation for the post-war Egypt. The program was Nasser's response to the disappointment felt by the masses in the regime, as revealed in the revolt in February.(28) The aim of the program, therefore, was to restore the government's credibility among the masses. In the program, the causes for Egypt's weakness and failure were examined, and steps for liquidating "the consequence of the June War" and finalizing "the building of the socialist society", were proposed.(29) The tasks Nasser had to tackle were: 1) the establishment of the political system based on the "principles of specialization and decentralization" so the "working people's forces" could "exercise democratic control" over the whole domestic

politics through the reorganized ASU, and 2) "extensive development in industry and agriculture" for "increased production and full employment", laying emphasis on "economic and scientific management of projects in the public sector".(30) Significantly, these problems had not appeared only after the June War; on the contrary, they had been outstanding since the middle of the 1960s. The economic problem was no more than the lack of financial resources. Political problems were the representation of workers and peasants in the ASU as promulgated in the Constitution of 1964.

I-3-1. Economic Stagnation

First, the level of productivity in industry and agriculture had to be raised so as to reduce the reliance on external sources. Though the targets of the Five-Year-Economic plan were more or less fulfilled, the lack of financial resources was conspicuous. The balance of payments deficit was 1.3 percent of Gross Domestic Product (GDP) in 1960/61; however, in 1965, it was 3.8 percent.(31) External debt had accumulated to LE 247 million in 1965, equivalent to 22 percent of exports.(32)

Against this background, public expenditure

increased at "an unprecedented pace from LE 500 million in 1960 to LE 1.2 billion in 1966. Contributing factors to the increase included the doubling of the number of civil servants, and the accompanying reduction of working hours and wage increases.(33) The expansion in public expenditure led to a five-fold public deficit increase from LE 70 million in 1960 to LE 350 million in 1966.(34) Also, the ratio of military expenditure in GNP (though no definite data are available) was estimated as having risen to 12.5 percent in 1968 from 8.6 percent in 1963/4.(35) The balance of payments in 1962 were in a serious condition.(36) The drop in cotton export revenue by 40 percent in 1961 (from LE 121 million to LE 75 million) led to a balance of payments crisis. The revenue from cotton exports declined from 78 percent of the total export income in 1961 to 56 percent in 1965. The slump in cotton exports eventually reduced the growth of agricultural production. To sum up, the expansion of the size of the economy produced a gap in available resources, especially financial ones, which led to economic stagnation.

Second, external pressures cannot be ignored as they contributed to the stagnation of the economy. Economic sanctions imposed by the West, especially the

suspension of US food assistance (PL-480) posed serious problems. In 1965 when the Egyptian birth rate was reported to be the highest in the world, and when criticism for Egypt's intervention to Yemen at its peak, the US suspended its shipments of food.(37) At that time, the shipments constituted 99 percent of Egypt's wheat imports and 53 percent of its net supply of wheat and flour.(38) The suspension of food aid was, thus, damaging to the Egyptian economy, an economy which had to support a mounting military budget. In the latter half of the 1960s, the economy reached an impasse with serious consequences, for example, the Second Five Year Plan which was meant to start in 1965 was not implemented.

I-3-2. The Centers of Power

Despite the ASU being expected to be a mass mobilization party, the political system of Arab Socialism had a contradiction in its structure. While the elections to the ASU National Assembly and Central Committee had been delayed, the power of the ASU had been dominated by the small number of members. In short, a contradiction lay between the promise of democracy to the masses and the reality which did not

allow for any smooth transformation of power. The provision on the representation of the masses and the peasants in the 1964 Constitution was not put into effect until the election of 1968.(39) This delay was partly due to the difficulties Nasser had been facing in those years: the Muslim Brotherhood's plot for toppling the regime; the US suspension of food aid; the costly Yemen War, and economic stagnation. Under such a circumstances, the role of the ASU was at best maintaining national unity but not holding the promised elections.

Another aspect of the political structure of Arab Socialism was the "centers of power". The main abuse of the "mandate system" was that "enormous responsibilities" assigned to individuals nourished the "attitude of loyalty to persons by subordinates rather than to principles".(40) Under the system, corruption and inefficiency had permeated to such a extent that transformation under Arab Socialism was impossible.(41) Opposing such abuses, Nasser exploited mass mobilization to correct these conventions so as to accelerate socio-economic developments. The placement of 'Ali Sabry at the head of the ASU in 1965 and the establishment of the Committee to End Feudalism in 1966 formed part of Nasser's attempts at correcting the

existing system. The former move was to reform the ASU for further centralization so as to make the theory of socialism prevalent among the masses.(42) The latter was to purge the reactionary state bourgeois in the public organizations and large landowners, and made the gesture of siding with the interests of the masses against corruption.(43)

I-4. Conclusion

Nasserism can be characterized as an ideology aimed at political independence and affiliation with the Arab world (Arab Nationalism). The evolution of Nasserism was also determined by external pressures. The progressive posture of Nasserism was considered as detrimental to the Western powers' vested interests in the Arab world. The official ideology of Arab Socialism made in public in the National Charter of 1962, used socialist theory to explain the past movement under Nasser. It also projected the future course of Egypt, justifying moves toward national identification with the Arab world, whilst at the same time advocating closer economic ties with the Soviet Union. The political economy of Arab Socialism was state capitalism, where the economy and the polity were

closely connected for the maximization of national production. The stalemate of the system was the result of internal and external factors; the most serious internal factor was a gap between the available and the demanded resources, a problem which originated in the reorganization of the internal structure. The situation was eventually aggravated by external factors: military confrontation and the US suspension of food assistance to Egypt. The March 30 Program was issued to reorganize the structure of Arab Socialism after the disastrous defeat by Israel in the June War of 1967. However, the reforms were not implemented because of the internal disarray of post war Egypt.

Notes

1. Panayiotis J. Vatikiotis, The History of Egypt (London: Weidenenfeld and Nicolson, 3rd. ed., 1985), pp. 289-90.

2. Charles D. Smith, Islam and the Search for Social Order in Modern Egypt: A Bibliography of Muhammad Husayn Heykal (Albany: the State University of New York Press, 1983), p. 71, p. 160.

3. Anour Abdel-Malek, "Rīh ash-Sharqī", pp. 238-246, in Rīh ash-Sharqī, (Cairo: Dār al-mustaqbal al-'arabī, 1983), p. 239.

4. *ibid.*, pp. 239-40. "The state culture, of the state language, and so and so the universal framework of civilization is characterized as 'Urūbah with regards to culture and 'Islām with the main description of the overwhelming ideology for the Egyptian inhabitants. The intertwining of 'Islām and 'Urūbah in Egypt had got to the point that the small number of the Coptic Egyptians naturally transformed into Arabic speaking and Arab culture, or to the extent that 'a Coptic in birthplace and a Muslim in civilization' had become clear."

5. Tsutomu Shirakawa, A New Trend in the Realm of Arab Thought (Niigata: The Institute of Middle Eastern Studies of International University of Japan, 1985), Working Paper Series No. 4, p. 42.

6. Nejla M. Abu Izzeddin, Nasser of the Arabs: An

Arab Assessment (London: the Third World Centre for Research and Publishing Ltd., 1981), p. 155.

7. *ibid.*, pp. 6-7.

8. *ibid.*, pp. 146-7.

9. Gounda Abdel-Khalek, "Looking Outside of Turning Northwest? On the Meaning and External Dimension of Egypt's Infitah 1971-1980", in Social Problems, Vol. 28, No. 4, April 1981, p. 402.

10. Izzeddin, p. 223-4.

11. Mohammed Heykal, Nasser: Rebels and Statesmen (London: Daily Telegraph 1971) Trans. by the department of foreign news service of the Asahi Shimbun. Tokyo: Asahi Shimbun. 1972, p. 196.

12. Galal Ahmad Amin, "External Factors in the Reorientation of Egypt's Economic Policy", pp. 285-315, in M. H. Kerr and E. S. Yassin, eds. Rich and Poor State in the Middle East (Boulder: Westview Press, 1982), p. 296.

13. Anouar Abdel-Malek, La Dialectique Sociale (Paris: Editions du Seuil 1972), trans. Toru Kumada (Tokyo: Iwanami-shoten: Minzoku-to-Kakumei), p. 190.

14. Mahmoud Hussein, La Lutte de Classes en Egypte de 1945 à 1968 (Paris: Francois Maspero 1969), trans. M and S. Chirman, A. Ehrenfeld and K Brown., New York: Monthly Review Press 1973: Class Conflict in Egypt 1945-1970 2nd., p. 163.

15. M. Hussein analyzes Nasser's policy to the Arab world as offering to the local bourgeois leaders effective assistance against their countries' ruling class and essential material and ideological support against local popular movements. He asserts this policy as deriving from his intention for expanding market and getting petroleum in the Arab region. (*ibid.*, pp, 154-58)

16. Izzeddin, p. 348.

17. PL-480 is the US Food Assistance (Food for Peace) to the food-deficit third world, whose precise title is the Public Law 480 of 1954. This law was

originally designed to deal with the expanding surplus of food production in the United States in the 1950s. Thus, the law proposes the distribution of the food surplus to the food deficit countries on friendly terms with the US on concessionary conditions. However, it had gradually become to be realized as a important instrument for the US foreign policy. See pp. 114-18 of William J. Burns, Economic Aid and American Policy toward Egypt, 1955-1981 (New York: State University of New York, 1985).

18. John Waterbury, The Egypt of Nasser and Sadat: The Political Economy of Two Regimes (New Jersey: Princeton Univ. Press 1983), p. 18.

19. Mark Cooper, The Transformation of Egypt (London: Croom Helm 1982), see chapter two.

20. Izzaddin, pp. 25-8. Despite dominating state control, a fairly wide scope of private ownership and enterprise was permitted for land holding, construction, light industry, and internal trade. O'Brien also notes that unlike the public companies private concerns could "attract skilled labor by offering higher remuneration"... and "exploit the unskilled by paying less". Private firms were usually composed of ten workers or less. In 1962/63, for example, the contribution of the private sector to the National Income numbered 65.6 percent. As opposed to this; Nasser nationalized "all the major concerns" including construction to gain control.

21. Patric O'Brien, The Revolution in Egypt's Economic System: From Private Enterprise to Socialism 1952-1965 (London: Oxford Univ. Press 1966), p. 133.

22. Izzeddin, p. 24.

23. ibid., p. 128.

24. ibid, p.127. The perspective of Arab Socialism on the multi-party system is described by Izzeddin as "the Multi-party system was discarded as hindrance to the formation of a broad political consensus" and "political parties were one more factor of divisiveness in a society in need of coherence".

25. Hussein, p. 236.

26. Manabu Yamane, Gendai-Egypt-no-Hatten-Kouzou: Nasser-no-Jidai (Kyōto: Kōyō-shobou), p. 240.

27. Izzaddin, pp. 131-2.

28. The significance of the February Revolt lay in the fact "that the masses challenged the regimes authority and expressed this challenge in a totally illegal way" in Hussein, p. 299. Hussein asserts this paved the way to the March 30 Program.

29. "The March 30 Program", in Middle East Record Vol. 4 1968, ed. by Daniel Dishon. (Jerusalem: Israel Univ. Press), p. 805.

30. ibid.

31. Samir Radwan, Capital Formation in Egyptian Industry & Agriculture 1882-1967 (London: Ithaca Press 1974), p. 46.

32. Waterbury, p. 30.

33. Hussein, p. 222.

34. ibid.

35. Waterbury, p. 95.

36. ibid., p. 94.

37. Abdel-Malek, p. 190.

38. William J. Burns, Economic Aid and American Policy Toward Egypt 1955-1981 (New York: State University of New York, 1985), p. 126. These figures are in 1962. But in 1965 the representation of the US wheat was surely bigger.

39. Izzeddin, p. 132.

40. R. W. Baker, Egypt's Uncertain Revolution Under Nasser and Sadat (Cambridge Mass.: Harvard University Press 1978), p. 80

41. ibid., pp. 80-1.

42. Yamane, p. 250.

43. This address was also followed by Nasser's address to the public sector's managers on management, wages and the role of the ASU for production. According to Waterbury, Nasser's address was as follows: 1) "Management is a science and its rule doesn't change under socialism or capitalism"; 2) "Wages must be linked to productivity", and 3) "In no way is the ASU to interfere in the production process itself". See Waterbury, p. 99.

Chapter II.

Al-'Infitāh al-'Iqtisādī: Strategy for Economic Independence

The October War of 1973 brought credit and legitimacy to the Sadat administration since it was the first war to successfully challenge the supremacy of Israel. As a result, the government published the October Working Paper, a blueprint for the post-war Sadat regime, issued at the beginning of 1974, the paper denoted an air of confidence in the post-war situation. The October Paper stressed a coming time of peace and prosperity and plotted the course Egypt should take towards the reconstruction of the national economy and society. Al-'Infitāh al-'Iqtisādī, or generally understood as the Economic Open Door Policy, has become the main feature of Egyptian economic policy since the war.

The aim of the Open Door Policy under Sadat was to achieve economic independence through economic growth,

something Nasser could not realize by the measures of Arab Socialism as analyzed in the previous chapter. The stagnation of the Egyptian economy was evident since the wars exchanged with Israel cost ten billion Egyptian Pounds (LE) and were a burden on the economy as the October Paper pointed out.(1) What is more, economic independence was impossible to maintain because Egypt had to rely on the industrial and military backing of the Soviets and Eastern Europe.

'Infitāh emerged in the face of this situation, coming not only from the directives of the Law 43, (or the Investment of the Arab and Foreign Capital) (Analysis 1 Level), but also through a thoroughgoing economic liberalisation process (Analysis 2 Level), which was itself profoundly affected by internal and external political processes.(Analysis 3 Level) As is clear, 'infitāh was certainly "an orientation or a guiding principle", under which the regime aimed for economic independence.(2)

Section one of this chapter is entitled Analysis 1. In this section, Law 43 of 1974, or the Law of 'Infitāh is examined. The second section, Analysis 2, focuses on the domestic liberalization of the economy. In the last section, Analysis 3; both the external and the internal implications of 'infitāh are studied.

II-1. The Economic Opening ---Analysis 1 ---

With the necessity of economic growth to reduce dependence on external countries, Law 43 of 1974, or the Investment of Arab and Foreign Capital law, which became known as the Law of 'Infitāh' was radical in the following aspects: 1) the introduction of foreign and Arab capital and 2) the replacement of the public sector as advocated by the economic system of Arab Socialism with the private sector of the liberal economy.

The stated purpose of capital investment was to realize "the objective of economic and social development within the framework of the State's general policy and national plan".(article 3)(3) Law 43 put special priority on investment in fields "which are designed to generate exports, encourage tourism, or reduce the need to import basic commodities, as well as on projects which required advanced expertise or which make use of patents or trade marks of world wide reputation".(article 3)

The proposed introduction of Arab capital was closely connected with the evolution of the economies of the oil exporting countries in the Gulf. At that time, the increased oil price enabled those countries

to accumulate oil income. The pace of accumulation accelerated after the oil embargo of 1974.

The initial inflow of oil money into Egypt was established at the Arab Summit of 1967 held in Khartoum, which succeeded in terminating the hostile relationship between Nasser's Egypt and the oil monarchies in the Gulf. Also important were Egyptian efforts, which included legislation, for attracting private capital from Arab countries in the beginning of the 1970s. In this light, Law 65 of 1971, or the original of Law 43 of 1974, can be seen as the first enactment designed for the introduction of Arab capital.

Law 43 gave Arab investors the exclusive privilege of investing in the profitable area of housing.(article 4) Law 43 also defined an Arab investor as one having Arab nationality---or in other words, somebody defined as an Arab in a judicial sense. The law also specified that a majority of the capital should be owned by such persons. The Arab privilege, then, specified that housing projects could only be constructed through Arab capital, and that foreign capital could not be used to undertake housing projects.

On the other hand, the encouragement of direct investment of foreign capital embodied in Law 43

assumed that direct investment would bring with it advanced technology difficult to obtain through normal governmental transfer of technology arrangements.(4) The October Paper envisioned the role of foreign direct investment as bringing "an internationally high standard of specialization in modern development".(5)

In order to promote Arab and foreign investment, the free zone areas scheme which referred to both public and private free zone areas, and the joint ventures scheme, which anticipated ties between the Egyptian public sector and foreign capital, were advocated in Law 43 of 1974. The former was expected to bring foreign exchange to Egypt by exploiting the geographical location and the exemption from Egyptian taxation and customs duty, the latter was to enable the public sector to be exposed to new technology and management know-how.

Most importantly, Law 43 endeavored to replace the public sector with private enterprise. Law 43 categorized any project that introduced the participation of either the public or private sector as falling within the realm of the private sector.(article 4 & 9) Law 43 allowed foreign banks and real estate companies to operate in Egyptian local currency as long as Egyptian capital composed 51 percent of the

investment.(clause 6, article 3)

However, the operating conditions for foreign banks permitted by Law 43 might have been contradictory with the original objective: the introduction of advanced technology with capital. The contradiction lay in the abandonment of the principle of economic independence since at the time of nationalization of Egyptian financial institutions, it was considered that the independence of banks from foreign control was essential for the independence of the Egyptian economy, which to a great extent relied on foreign trade.(6)

Private sector investors in approved projects were allowed to enjoy the following privileges: the prevention of nationalization and confiscation (article 7); exemption from the national labor law (article 9); freedom not to enforce a maximum wage(article 11), and; exemption from taxation for five years, with external loans being exempt from taxation.(article 16) Arab capital invested in housing projects was given freedom of transfer, in other words all of the net revenue in foreign currency. The repatriation in the Egyptian Pounds was authorized to be some eight percent of invested capital.(article 4)

These privileges could be utilized in broad

sectors of the economy. The areas open to investment were: industrialization, mining, energy, tourism, transportation, land, cultivation, projects for housing and urban development, investment companies, banks, and construction (after an amendment in 1977).(article 3)

Furthermore, Law 32 of 1977 allowed all Egyptian firms the same incentives and exemptions from taxation as in Law 43. In other words, no Egyptian company in tender for projects specified under Law 43 was longer obliged to establish a joint venture with either Arab or Foreign capital. Though the qualification of the private sector was left totally to the judgement of the authority of investment, any Egyptian concern approved under Law 43 could enjoy the privileges.(7)

II-2. The Domestic Economic Liberalization

--- Analysis 2 ---

Law 43 of 1974, or the Investment of Arab and Foreign Capital, stipulated for Egyptian private and public concerns setting up joint ventures with invested foreign capital. The Joint venture did not need to abide by the regulations which normally governed Arab Socialism. The law was designed to pave the way to the domestic liberalization of the economy. At the same time, other legislation was introduced in a concerted

effort to preempt the current economic system of Arab Socialism. In this section, 'Infitāh is described as transferring the domestic economy.

The "Own Exchange Import" system introduced at the time of issuing Law 43 was designed to facilitate the import of raw materials and other production commodities by the Egyptian local private sector.(8) This system allowed any Egyptian who holds foreign currency to be free to import without going through public banks; individuals could import commodities of less than LE 5,000 value and industrial goods of LE 10,000 annually.(9)

Furthermore, Law 118 of 1975 envisaged the abandonment of the monopoly of the state in import-exports. By so doing, the law was designed for the importation of basic items for investment programs and development plans by the private sector. On the other hand, bilateral trade agreements with the centrally planned economies, which had been vital for the development of Egyptian industry in Nasser's period, were phased out as the liberal process progressed.

Along with these regulations liberalizing import restrictions, the restriction on foreign currency dealings was lifted with the enactment of Law 97 of 1976. The latter legislation, or the liberalization of

limitation of the private sector for acquisition and transactions of foreign currency, encouraged the private sector to import more and allowed private banks to gain easier access to the remittances of Egyptian workers abroad.(10)

Lastly, Law 111 of 1975 was for the restructuring of the centralized economic planning body, which was decentralized so as to concentrate power in each company's management board. This law was thought necessary to help reactivate the public sector.

Thus, the trend to emphasize the activities of the private sector, and the attempts to reactivate the public sector by selling half of the state capital to the private sector were strengthened after the publication of Law 43. At the same time, the process of economic liberalism of 'infitāh thus embodied was accelerated by external factors: the increase of remittances from Egyptian migrant workers in the Gulf oil-producing countries and the existence of external pressures.

The amount of remittance in cash in 1975 amounted to LE 134.7 million in 1975; the increase was five-fold in 1979, reaching LE 688.5 million(11); the percentage of all the proceeds of invisible transactions in 1975 was about 32 percent while in 1979 it recorded 24

percent of the total.(12) With this inflow of foreign currency, liberalizing measures were expected to transfer foreign currency into the hands of individuals and the private sector by encouraging them to invest in various projects.

Another factor to contribute to the promotion of liberalization was the increasing pressure from outside. The following items were what the Egyptian delegate had to accept in response to the Consultative Group, or the Council of the creditors to Egypt:

- 1) the amendment of Law 43 with more incentives to the private sector;
- 2) approval for many private sector projects in free zones;
- 3) the termination of public sectors monopoly over the bilateral trade agreement;
- 4) decreasing the administrative predicaments investors being faced with;
- 5) reactivation of the stock exchange;
- 6) the termination of price support and making price force into function, and;
- 7) the raising interest rates, and the exemption, of interest income from taxation for saving.(13)

The Egyptian pledge to accede to the Councils requests was finalized and mostly entered into with the amendment of Law 43: Law 32 of 1977, which changed the

character of 'infitāh from the "open-door" vis-à-vis Arab and Foreign capital to "open-door" vis-à-vis Egyptian local capital.

In sum, 'infitāh of Analysis 1 level was aimed at economic growth by utilizing the external resources of Western advanced technology and Arab oil money along with reactivating the economic potential of Egypt with redundant labor. However, in the process 'infitāh opened the domestic economy to external economic factors and dependence on them. This is the logic Law 43 was representing. 'Infitāh of Analysis 2 level aimed at the liberalization of the domestic economy by emphasizing the vigor of the private sector and free trade, and dismantling the centrally controlled economic system and bilateral trade agreements with the centrally planned economies. The external factors behind these movements were the effect of the increase in remittance on Egyptian society in the midst of the oil boom and the external pressure put on the Egyptian economy to become a liberal economy with functioning "market mechanism". Most importantly, compared with Nasser's Arab Socialism, aspects of national independence and equitable income redistribution were lacking.(14) Sadat's conversion of the Egyptian economy to 'infitāh was a decisive step and the

external and internal political implications of this change will be discussed below.

II-3-1. The Political Implications of 'Infitāh (External Dimension)--- Analysis 3 ---

'Infitāh was, in the first instance, an attempt to introduce Western technology and Arab oil money into Egypt, then, to use those resources to liberalize the domestic economy. External relations under 'infitāh, therefore, were designed so as to be able to meet the requirements for its success. The success of 'infitāh in this sense hinged upon how peaceful an environment in relation to Israel, Egypt could create.

Egypt had engaged in four major wars with Israel, wars which were thought necessary both for opposing Israel expansionism, and maintaining Egyptian independence. Since the establishment of Israel was considered a grave injustice not only to the Palestinian people, but the whole Arab world, war was considered not only to be in the interests of the Palestinians, but the whole Arab people. In contrast to this, Sadat sought peace by putting an end to the state of war with Israel and embarking on national reconstruction for progress. This external dimension of 'infitāh should not be treated lightly.

By creating peace with Israel, guaranteed by US backing, prosperity had to be brought into the Egyptian economy. Also, peace had to be designed as ensure the support of Saudi Arabia in order to deter the US support for Israel from going too. In a worst case scenario, Egypt could rely on the Saudi oil weapon. weapon.

II-3-1-1. War under Nasser

The cause of the conflict Egypt had been fighting since the foundation of Israel in 1948 was really considered to be the negligence of neo-colonialism in the treatment of the destiny of the Palestine Arabs. The establishment of the state of Israel in the land of Palestine in 1948 has been viewed as an injustice suffered by the Palestine Arabs. This view was shared not only by the Palestinians but, importantly, with the rest of the Egyptian people as well as the people in the Arab world. The land of Palestine had been and still is very important for the Arabs.

The identification of the fate of the people in the Arab world with their common community: Qawm---the Arab world, as well as their own states: Watan---Egypt, for instance, explains why the Palestinian issue was

and is such an important one. Also the identification of the people with the former is usually stronger than with that of the latter in a country where the people consider borders as a creation imposed by colonialists (it is not so much in Egypt, though). However, the wars Nasser fought against Zionist aggression were not only legitimized for protecting their national independence but also fighting against neo-colonialism. Wars against the Zionist country had been considered as inevitable and a just action while the recognition of the Arabs for the existence of Zionist country as "capitulation" to neo-colonialism and treachery to the Arab cause.

II-3-1-2. Peace under Sadat

The external orientation under 'infitāh was characterized as Watanīyyah, meaning putting priority on the fate of their fatherland, or the idea representing "Egypt for the Egyptian". The idea was derived in the middle of the 1960's from the conviction among the Egyptians that all efforts should be towards improvement of the Egyptian standard of living.(15)

In order to understand why Sadat took the path towards peace, it is necessary to examine the issues of

war and peace which intermingled with each other after Egypt's defeat by Israel in the June War of 1967.

Egypt's defeat by Israel in the June War led to Nasser tendering his resignation from the presidency. His resignation was, nevertheless, rejected by the masses, who demanded that he stay. In the post June War situation, Nasser found himself in a very delicate situation. On the one hand, according to the UN Resolution 242, he wanted to regain the Sinai by all means. Israel rejected the resolution. The Khartoum Arab Summit of 1967 in which Nasser rapproached the oil producing monarchies, supported this line by mobilizing Arab oil wealth to press Western countries to persuade Israel to accept the UN Resolution.(16) On the other hand, for those seeking the Palestinian revolution, a "peaceful agreement with Israel about the withdrawal of the troops from the Sinai was considered as action dissociating Palestine's liberation struggle from the Egyptian effort to liberate the Sinai".(17) Because of mounting pressure from supporters of the Palestinians Nasser found himself forced once again to fight Israel in 1969, or the so called "war of attrition". However, the war was so damaging for Egypt that Nasser asked the USSR for assistance with personnel and armor. Because the situation became worse for the US strategy, the US

Secretary of State William Rogers proposed a temporary cease-fire on the basis of the UN resolution. Nasser accepted the offer for taking a respite but could hardly believe that there was a real possibility that the UN Resolution would be realized. Therefore, at the time of his death in 1970, he was preparing for another round of fighting. Thus, Nasser had no option but to continue fighting unless there was a chance of Israel accepting the UN Security Resolution 242, a proposal which Nasser could accept.

Despite the opposite mood among the people and the members of the ASU, Sadat, as the successor of Nasser, renewed the cease-fire on March 1971. However, what was crucial was that this renewal was considered as transgressing the past line set by Nasser. "No war no peace" was the phrase used to articulate the situation in the years ahead, and it accurately reflected this dilemma.(18)

The October War of 1973, according to Sadat, opened a new period for national progress and construction. 'Infitāh postulated, first, that a peaceful environment had to be ensured, and, second, that a close relationships between Egypt and the West and the Arab oil states had to be established to gain their governmental support for 'infitāh. These are

also external dimensions of 'infitāh.

External relations implied in Sadat's orientation for 'infitāh can be described as the reformation of policy towards peace in the Arab-Israel dimension, and moves towards the Western powers so as to encourage them to invest in Egypt. Both aspects were two sides of the same coin.

Watanīyyah---or, the motto of "Egypt first", was the outcome of the spreading feeling that Egyptians had fought wars with Israel under the pretext of the Palestinian cause for too long, and that they should now concentrate their efforts on national reconstruction and progress.(19) Against this background, there was recognition that economic resources had been used for war instead of for economic development. Certainly, Egypt's military expenditure took up a large amount of her GNP in the early 1970s, as shown in the following table(Table II-A). The rise of Watanīyyah was described as replacing Arab Nationalism in the October Paper of 1974, "(T)he old illusion... that the Arabs were bound to go under in any conflict and confrontation is a thing of the past".(20) Despite the rise of Watanīyyah, the bond of Arabness never changed. The cultural identification with the Arab world is deep-rooted for the Egyptians.

Table. II-A. Egypt's Military Expenditure and GNP
(billion US \$)

	1970	1971	1972	1973	1974
Military Expenditure	1.3	1.5	1.5	2.8	4.1
GNP	6.7	7.1	7.6	8.9	9.5
Percentage of GNP	18.9	21.1	19.9	31.0	42.8

Source. Paul Jabber, "Oil Arms and Regional Diplomacy: Strategic Dimensions of the Saudi-Egyptian Relationship", in Rich and Poor State in the Middle East: Egypt and New Order (eds.) M. H. Kerr and El-Sayed Yassin (Boulder: Westview Press 1982), p. 418.

Note. Jabber's estimation.

Therefore, its external orientation looks like "a complex combination of factors--- its ambition to lead the Arab world, prestige, regional security, a strong national conscience, its intention to project itself externally".(21)

In the given conditions, the blueprint of peace envisioned by Sadat was some sort of agreement with Israel backed by the US, which could be justified in the light of the Arab Cause.(22) The first form of the agreements was Nasser's acceptance of the Security Council Resolution 242 of 1967, ruling the return of the conquered lands by Israel in the June War for the Arab countries with the Arab "de facto recognition of Israeli irreversible status".(23) The resolution was rejected by Israel. The second was the Nasser's assent for the Roger's Plan of 1970, which proposed a cease-fire for three months as "a condition for the opening of negotiation for a total cease-fire."(24) Sadat's unilateral actions in 1971 were attempts at reopening the Canal and for the partial withdrawal of the Israeli troops from the Sinai and the following renewal of the cease-fire with Israel in March 1971.(25)

Sadat's scheme for US involvement in the peace negotiations with Israel can be attributed to his perception of detente between the US and the USSR. He

believed that the support of the latter could never bring the victory over Israel backed by the US, since given detente both countries felt uneasy about confrontation. "No war no peace" was coined to articulate the then situation of Egypt under the influence of the two super powers in the Middle East. Sadat's conclusion then, was to embrace US support, the only country which could exert pressure on Israel.(26) The expulsion of twenty thousand Soviet experts by Sadat in 1972 was evident of his intention to gain US backing. The October War of 1973 was intended to break the stalemate of "no war no peace". The impact of the October War was enormous not only on Sadat's Egypt but also on the Arab world as a whole.

First, it broke the psychological barrier, the "fear complex" among the Arabs vis-à-vis Israel. Naturally, Sadat as an initiator came to be praised as the "Hero of the Crossing", (27) an honor of which brought him unshakable legitimacy.

Second, the oil embargo by the Organization of Arab Petroleum Exporting Countries (OAPEC) on the pro-Israel countries enabled the latter countries to realize the emergence of Arab autonomy and power in world affairs.(28) The "oil weapon" was used to prompt the Israeli withdrawal from all the occupied

territories and the restoration of the rights of the Palestines. Oil money from the price hike of oil, equivalent to a four-fold rise, was brought into "front line " states such as Egypt and Syria.

Third, the issue of self-determination for the Palestinians became internationally recognized. The UN Security Resolution 338 urged the swift implementation of Resolution 242 to conclude peace among the conflicting parties.

Thus, the upsurge of the Arab oil powers on the international scene brought a sense of unity in the Arab world on the platform of the Palestinian cause. The Rabat Arab Summit of 1975 was convened to establish a consensus among the Arab states: 1) the total liberation of all Arab territories since the June War and the rejection of all concessions; 2) liberation of Arab Jerusalem; 3) admitting the Palestine Liberation Organization (PLO) as the sole representative body of the Palestinians, and; 4) the Palestine cause being the cause of all Arabs.(29) Consequently, the Palestine issue reached a peak in the UN when Yasser Arafat made a speech there in 1977, which was followed by the Soviet recognition of "the legitimate rights of the Palestinian people" and the US President's reference to a "home" for the Palestinians.(30)

On the contrary to these movements, Sadat, who also gained popular support for his government after the war, tried to resolve a peaceful agreement with Israel on a bilateral basis arranged by the US. The first Sinai Disengagement Agreement on the withdrawal of the Israeli army determined Sadat's "go-it-alone diplomacy".(31)

The reasons for Sadat's hastiness in concluding a peace agreement with Israel lay in, first, the domestic demand, that 'infitāh was requiring for putting an immediate end to the war economy and, second, the acquisition of economic and military assistance for the war-torn economy and the Egyptian army.

Domestically, they found it urgent to reach to a peaceful agreement to be able to attract investment to Egypt. In June 1974, the then US president Richard Nixon came to visit Sadat in Cairo and reached with Sadat a determining declaration, which said:

A just peace" would mean the "application of the Resolution 242 of the Security Council", and intensifying bilateral cooperation and financial support from the US for the Egyptian economy.(32)

In the hope for a closer relationship with the US, Law 43 was about to be launched.

Muhammad Hussein Heykal, a confidant of Nasser and an advisor to Sadat, disclosed that Sadat at the time of the first Sinai Agreement of 1974 sought to replace the USSR for the US as the major arms supplier though arms shipments to Egypt did not reach a large scale until the signing of the Camp David Accord of 1978.(33) However, by so doing Sadat placed Egypt in "a new military alliance" with the US and Iran.(34) The greater the need for arms had become, the more Sadat became compromised via-à-vis its supplier.

Moreover, US economic aid of the Public Law 480 was resumed in 1975. The PL 480 was as highly strategic a measure for the US as fatally important in terms of food assistance for the Egyptian economy.(35) This enactment was clearly one of Sadat's priorities if Egypt was to rely on the US.

Decisive in Sadat's bilateral agreement on peace with Israel was the signing of the Second Sinai Disengagement Agreement in September 1975. By signing the Agreement, Egypt in fact abandoned the war option.(36) It stipulated the prohibition of the two parties from resorting to arms, and Egypt and Israel became bound to settle the disputes by "peaceful means". Also, importantly, it said that none of the contracting parties was entitled to abrogate the

Agreement unilaterally.(37) From this engagement, Sadat won back the Suez Canal, the Sinai Oil Fields and a significant withdrawal of the Israeli army, all of which had a favorable effect on 'infitāh' by bringing foreign currency into the Egyptian economy.(38)

The Camp David Accord of 1978 was the conclusion of Sadat's peace efforts. After all, it was a separate peace concluded by Egypt with Israel apart from the rest of the Arab states. Though Sadat continued to feel for the necessity for the realization of self-determination of the Palestinian Arabs by establishing a independent Palestinian state, the final result was to exchange peace with Israel for Palestine self-determination, or the Arab cause.(39) The Baghdad Arab Summit of 1978 reached the conclusion that Egypt would be deprived of its membership of the League of Arab states with "sanctions" and "the suspension of the membership in the Arab League", "the transfer of the League head quarter from Cairo" and "a boycott of Egyptian firms dealing with Israel".(40) Instead, what Sadat gained were the Sinai oil field and the Canal, and US and Western military and economic assistance.

Behind Sadat's taking a step towards a separate peace with Israel by abandoning the Arab cause, there was a feeling among the Egyptians. Ali Dessouki

explains as follows:

... the feeling among Egyptians, encouraged by the government was that rich Arab states were not giving a sufficient amount of aid to their country. Sadat... argued that every drop of blood spit into Sinai had been translated into an increase in oil prices and that the rich Arab states should therefore come to Egypt's economic aid not only because of a moral obligation to the collective Arab fight against Israel but also to compensate Egypt for its losses.(41)

Also, the alternation of Egypt's external relations to a pro-America or pro-West stance under Sadat had an impact on relations with the USSR and caused the Arab world to exclude Egypt from its circles. The Soviet Union had been the major country supplying the weapons and the commodities for Egypt's industrialization and trade. In March 1976, Sadat abandoned the Friendship Treaty with the USSR and, in the following year, stopped cotton sales to the USSR and Eastern Europe.(42)

In sum, the nature of external relations under 'infitāh were that they presupposed peace and the improvement of its external relations with the West, especially, the US. Egypt had been seeking peace with Israel with the mediation of the US. However, the outcome of this approach to peace was a separate peace with Israel, not a comprehensive one as Sadat had

originally sought. Meanwhile, the international recognition of Palestine self-determination was another development in the Arab world as its oil power became highly visible. Despite Egypt's commitment to the Arab cause during the Nasser period, 'infitāh' under Sadat was an approach which stressed Egypt first and foremost or Watan (the fatherland). The orientation: Watanīyyah was the opposite of Nasser's Qawmīyyah, or Arab Nationalism. Though Egyptians were prompted by the government, the background behind the change in Egypt's emphasis to Watan was US economic and military assistance, for Egyptians were disappointed by the lack of Arab economic aid for the rebuilding of their economy.

II-3-2. The Political Implications of 'Infitāh (Internal Dimension) --- Analysis 3 ---

The issue of democracy in Egypt, was an important one, and it centered on the removal of the "enforced absence" of the Egyptian from the political process of his own country and aspired to the attainment of independence and social progress. The role of the military apparatus was also important in preventing external influence on society. Against the background of democracy, the issue of Nasserism was summed up as the realization of the mass mobilization in the post-

June War situation faced with Israeli occupation of the Sinai and economic development. In 'infitāh, the institutions for democracy, party politics and the military, were transformed with the reorientation of Egyptian society.

II-3-2-1. Party Politics under 'Infitāh

The approach of Nasserism for national development was externally for the achievement of national independence, and internally Arab Socialism. The mass mobilization of the latter aimed at national independence and unification through the ASU for national independence and for solidifying the national power base.

Unlike Arab Socialism, 'infitāh required the "political stability" of Egyptian society. Stability under 'infitāh was sought by way of a political multi-party system permitting a considerable degree of political freedom. In the multi-party system, mass mobilization was abandoned; Sadat found his power base in the interests of the rightists: the entrepreneur class. The transformation under 'infitāh was an attempt to institutionalize the policy required by 'infitāh, which would be described in the "rule of

laws", "government by institutions", and "political freedoms", all convincing the investors of some sort of stability in Egypt.

Sadat's party politics under 'infītāh were conditioned by the following factors: 1) the orientation of political liberalization through political freedom; 2) the emphasis of institutions and laws, and; 3) Westernization through liberal parliamentarianism. The first was derived from the failure of Arab Socialism in terms of popular mobilization. The second was also based on the reflection of arbitrary practices such as sequestration and imprisonment under Arab Socialism, and was required to enable foreign capitalists to invest easily Egypt. The third was an inevitable result vis-à-vis foreign direct investment and aid for raising the credibility of the Egyptian market.

First of all, Sadat had to remove the power of the ASU to consolidate his presidential power. For Sadat, who sought peaceful relations with Israel, it was inevitable to face the objections of the cadre of the ASU, which could consequently lead to putting the ASU under the presidential control. "The Corrective Revolution" later named by Sadat in the October Paper was designated for the dismissal of the people dominating "centers of power". The Nasserist students

in universities and secondary schools were also prevented from expressing their opposition to Sadat's approach: defeatism vis-à-vis Israel and the dismantlement of Revolutionary achievements. On the one hand, the friction of Sadat with 'Ali Sabry derived from Sadat's unilateral action for the cease-fire had led to the removal of the Nasserite cadre. Also, despite his declaration of the year of 1971 as "decisive" against Israel, he dared not start war. On the other hand, after the Corrective Revolution, Sadat desequestered the property which once belonged to individuals and which for some political reasons had been sequestered by the state.

What Sadat did against the rise of dissatisfaction among the Nasserists, especially, the students and journalists, was to use oppressive measures, take strict censorship. Instead, Sadat found his power base in the rightists, or the entrepreneurial class, who were put in a disadvantageous position during Nasser's period.

It was by the principle of "the rule of law" that Sadat took steps towards eliminating the Nasserists. A "Legal Revolution", as described by Cooper, occurred in the latter half of 1971 and 72. Law 34 of 1972 concerning the protection of national unity stipulated that the ASU would be the only political organization

expressing the unity of the popular working force.(43) The law was aimed at the prevalent religious strife of the time.(44) However, with this law, the opposing students were imprisoned. Sympathetic journalists were obliged to stop writing under the latter's membership of the ASU.

As is evident, the transformation from Arab Socialism to 'infitāh was so drastic that Sadat had had to exercise strong leadership. Cooper has defined the semi-legal-revolution as one which can be defined as "a change of regime by legal procedures against the spirit of the laws".(45) The change of laws preceded that of legitimacy. It was not until the "victory" of the October War that Sadat obtained real legitimacy for his presidency. Importantly, under the pretext of "the rule of laws", Sadat oppressed opposition movements among the students in 1972 and journalists' activities which were in conflict with the government. Also, the principle of the rule of laws, was applied to the desequestration of property confiscated during Nasser's period and the release of those detained in prison.

The acquisition of Sadat's legitimacy for ruling Egypt after the October War led to the emergence of a multi-party system. The October Paper, or the guide line of Sadat's administration after the victory, did

not clarify whether the one-party system should be maintained or a multi-party system established; however, it simply asserted that all forces would be allowed to voice "their legitimate interests".(46)

However, Sadat revealed his idea about a multi-party system in the fall of 1974.(47) Moreover, the ASU determined to set up manābir (political platforms) within the party and, in the following years, the formation of three manābir to "represent right, center, and left" was recommended by the ASU.(48) The manābir consequently transformed into the three parties of the system in 1976.

The system was contingent with the process of political liberalization and the permission to undertake political activities. The former was obvious in the parliamentary debate over the economic opening policy (Law 43) in 1974 and 1975 and the party system.(49) It turned out that "urban middle-class elements" demanded "expanded political liberties" and "a restoration of party competition".(50) However, the call for liberalization was overwhelming from the "voices of farmers, workers, women, and students".(51) Another movement in the liberalization period was to allow the Muslim Brotherhoods to engage in political activities.(52) The "Islamic Association" (Jama'ah al-

'Islāmīyyah) was born to overwhelm the leftist student union in the universities and secondary schools.(53)

Though the transformation into the multi-party system was cautious, political liberalization was allowed as long as it was within Sadat's leadership. It was evident that the liberalization was limited when the new-Wafd (the Wafd meant the delegation in Arabic), or the former ruling party in the pre-revolutionary period was set up and started criticizing Sadat's policy.(54) The rise of the party might also have identified the polity under Sadat with the pre-revolutionary regime. Therefore, Sadat's legislating harassment of the Wafd eventually led themselves to dissolve the party in May 1978.(55)

Sadat's leadership towards a separate peace with Israel in 1978 brought another party system to replace the existing one. In 1979 after signing the treaty, Sadat founded the National Democratic Party (NDP) and the Socialist Labor Party led by Ibrahim Shukri, the party which was expected to play the role of opposition party.(56) The leftists, the Nasserists, and the Muslim Brotherhood were excluded from the political forum.

In sum, party politics under 'infitāh were to seek political stability by way of a multi-party

system. The aim of the polity lay in "rule of laws", "government by institutions", and "political freedoms". However, the contradiction was that the political transformation did not necessarily bring legitimacy with it. In other words, the strong leadership taken by Sadat, at first, paved the way for the legality of the transformation and the legitimacy of Sadat's actions was expected to follow suit as a matter of course.

II-3-2-2. The Military Role Under 'Infitāh'

Though military expenditure cost Egypt dearly in the late period of Nasserism, the role of the military apparatus in Egyptian society has had great historical significance. The significance, according to Abdel Malek, derives from the geographical location of the country, where the army protected the fertile land from external aggression.(57) In other words, the historical significance of the army lay in protecting the state from external invasion than from internal turmoil. The 'Urābī revolution in 1882 and the military coup of 1952 can be explained in this vein.(58)

The military organization during the Nasser period was crucial because the regime was the outcome

of a military coup against British control over Egypt and the corrupt monarchy. It was also significant because the orientation of Nasserism, that is, political independence and Arab Nationalism, enhanced the role of the army in the formation of external relations. Therefore, the defeat of the army by Israel in the June War was humiliating. Hence, the character of the military under Sadat's 'infitāh changed.

It was vital for the Egyptian army to cross the Canal and shoot down Israeli fighters and, most importantly, to mend the humiliated pride the Egyptians had suffered in the June War. However, the Peace Treaty with Israel altered the identity of the Egyptian army significantly. First, the Treaty with Israel did not permit recourse to arms for the settling issues between the two countries, which meant that there would be no war as long as the treaty was effective. Second, the treaty made the Egyptian army abide by the US strategic mission in the Middle East. The mission of the Egyptian army was to become a "policeman for observing Soviet and Cuban expansion in the Red Sea and the Horn of Africa and for Libya and Ethiopia".(59) Third, the maintenance of internal security became necessary as mass demonstrations increased resulting from economic and political frustration (as is evident,

in the January Riot of 1977 mass demonstration) and the religious conflicts between the Copts and the Muslims increased under Sadat's 'infitāh'. In such an atmosphere, the Military Technical College, which used to be the "goal of ambitious youth" declined in popularity year by year.(60)

The change can be attributed to the involvement of Egypt in the peace process with Israel which was guaranteed by the US. The change---no war, no Arabism, and more internal security---meant a total transformation of the Egyptian military identity.

II-4. Conclusion

'Infitāh, or the Sadat approach, aimed at economic growth by introducing Western technology and Arab oil money into Egypt, and by liberalizing the domestic economy so as to encourage foreign investment. The difference of 'infitāh from Arab Socialism was that the former put priority on economic growth rather than the maintenance of national economic autonomy. The political implication of 'infitāh in the external dimension was seeking for peace with Israel by way of a separate agreement backed by the US. Though Egypt gained economic and military assistance from the West,

especially the US, the approach was to lead to the disqualification of Egypt from Arab membership at the Baghdad Arab Summit. The internal dimension of 'infitāh led to the abandonment of the ASU, or the one party system, and to change in the identity of the national military apparatus. Both were crucial for democracy during Nasser's period. However, under 'infitāh, the multi-party system was employed and the army made to bear part of the US strategic mission in the the Middle East.

Notes

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3. These referred articles of the Investment of Arab Foreign Capital (Law 43 of 1974) are from APPENDIX A in Kate Gilleppe, The Tripartite Relationship--- Government, Foreign Investors and Local Investors During Egypt's Economic Opening (New York: Praeger, 1984)

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5. The October Working Paper (English), p. 487.

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9. Dessouki '82, p. 87fn.

10. Gounda Abdel-Khalek, "The Open Door Economic Policy in Egypt: its contribution to Investment and its Equity Implications", in Rich and Poor States in the Middle East, eds. M.H.Kerr and E.S.Yassin, (Boulder: Westview Press 1982), pp. 268-9.

11. Al-Ahrām Al-Iqtisādi, No.905 May 1986 p. 20, see Table III-F in the Chapter III.

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13. Abdel-Khalek, "Foreign Economic Aid and Income Distribution in Egypt, in 1952-77", pp. 435-68, in Abdel-Khalek and Tignor, pp. 448-9.

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19. October Working Paper, p. 484.

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23. Hussein, p. 304.

24. ibid., p. 311.

25. Hirst and Beeson, p. 108.

26. Gilmour, p. 270.

27. Hirst and Beeson, p. 17.

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31. Hirst and Beeson, p. 183.

32. Shukrī, p. 160.

33. Mohammed Heikal, Autumn of Fury, (London: Andre Deutsch 1983), p. 70.

34. As for PL480, see chapter I.

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43. Shukrī, pp. 361-3.

44. *ibid.*

45. Cooper, p. 132.

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49. Parliamentary debate between the left and the right over the introduction of 'infitāh, see Cooper chapter seven, pp. 91-106.

50. Baker, p. 164.

51. *ibid.*

52. Waterbury'83, p. 361.

53. *ibid.*, p. 362.

54. *ibid.*, p. 368.

55. *ibid.*, p. 369.

56. *ibid.*, pp. 371-2.

57. Abdel-Malek, p. 157.

58. *ibid.*, p. 158.

59. Waterbury'83, p. 376.

60. Shukrī, p. 398.

Chapter III.

The Evaluation of *'Infitāh*

Sadat was assassinated in public on October 6, 1981. An undeniable irony was that the assassination marked the end of a president who constantly pushed for the rule of "law and order". Why was he killed? On the other hand, what benefits did Sadat's 'infitāh bring to Egyptian society? In this chapter, it will be argued that although the economy under 'infitāh recorded a considerably high growth rate, the external balance of payments worsened and hence resulted in a threat to the autonomy of the nation. In a word, the strategy of 'infitāh, was unsuccessful in creating an environment for economic growth. The external political formation under 'infitāh is shown to have caused the loss of political independence and ties with other Arab states, whose aid had proved to be significant as a result of the oil boom. The internal

political dimension of 'infitāh, that is, the multi-party system, resulted in the deterioration of the internal social order, though limited political freedom was permitted. Any evaluation of 'infitāh must be studied from the Egyptian social context: the economy to satisfy the necessities of the Egyptian masses.

III-1-1. The Economic Growth of Egypt Under 'Infitāh

According to the World Bank, the annual growth rate of Gross Domestic Production (GDP) in Egypt was 3.8 percent between 1965 and 1973; and rose to 8.5 percent between 1973 and 1984.(1) This increase in GDP was significant; except for the developed and oil exporting countries, Egypt was one of the few countries which recorded a higher increase in GDP during the latter period. Among sectors, the annual growth rate of the production of the industrial sector, including petroleum production, tripled: from 3.8 percent to 10.3 percent; the service sector also recorded an increase in production from 4.7 percent to 10.6 percent. These increases were remarkable in as much as other economies had been hit by the stagnation suffered by the world economy.

Of specific importance was the evolution of the

"Big Four" in the Egyptian economy in the period of 'infitāh. Egypt received foreign currency from the following sources: 1) the traffic of the Suez Canal 2) oil exports 3) remittance from migrant workers, and 4) tourism.(2) The following table (Table. III-A) shows how significant the contribution of the Big Four was to the Egyptian acquisition of foreign currency, and which had a great impact on 'infitāh.

However, as the "Big Four" are described as "exogenous resources", they are resources which are not related to the economic strength of Egyptian industry and agriculture. Also, as Waterbury notes, the utilization of these resources had begun during the Nasser's era, so they were nothing special to Sadat's era.(3) However, the foreign currency brought into Egypt in the form of the "Big Four" was a boon, and helped the improvement of the Egyptian economy and its balance of payments. Therefore, the issue at stake was the utilization of these resources so as to strengthen the national economy and independence.(4)

III-1-2. The Worsened Economic Dependence of Egypt

Despite the increasing amount of resources accrued from the "Big Four", the Egyptian economy during the

Table. III-A. The Evolution of the "Big Four"
(million US Dollars)

	Remittance	Oil Ex.	Suez Canal	Tourism	Total(A)	Current Reciepts(B)	(A)/(B) %
1974	189	104	0	265	558	2125	26.3
1975	336	164	85	352	947	2349	40.3
1976	755	268	311	464	1798	3139	57.3
1977	894	600	428	730	2652	4044	65.6
1978	1761	734	514	702	3711	4961	74.8
1979	1950	1350	600	650	4550	5930	76.7
1980	2696	2550	663	773	6632	9193	72.1
1981	2181	2820	888	626	6515	9096	71.6

Source. B. Hansen and S. Radwan, Employment Opportunities and equity in Egypt (ILO; Guneva, 1982), p. 34, and Economic and Commecial Sections, Cairo American Embassy, Economic Trend Report, April 20, 1983, p. 1.

Notes 1) The Suez Canal opened on June 5, 1975.

2) From 1979, the unified exchange rate was introduced, which depreciated the value of Egyptian pound(LE) by 79 % against that of the US dollar.(from 1\$ = 0.39 LE to 1\$ = 0.70LE)

period of 'infitāh did not change its outstanding feature of economic dependence on external resources. In fact, the dependency of the Egyptian economy accelerated under 'infitāh in direct contrast to initial aims. The dependency of the Egyptian economy was reflected in the deterioration of its external balance of payments. The latter situation invited external influence over the domestic economy through economic assistance. This fact is crucial, for despite favorable conditions for the economy, the situation of its external dependence became further aggravated than before.

The deterioration in terms of balance of payments can be attributed to an influx of imported goods (Table. III-B) and a slump in exports, if petroleum exports are deducted.(Table. III-C) The former can be attributed to the outcome of the liberalization under 'infitāh; while the latter except for petroleum, to the unsatisfactory performance of exports.

Among items of dependence, food imports and food aid were the symbols of Egyptian dependency. According to the World Bank, the level of Egyptian dependency on imported food can be seen in terms of the volume of imported wheat; in 1984, Egypt was the third largest importer of wheat in the world following Japan and

Table. III-B. Total Imports 1970-1981
(Million LE)

	1974	1975	1976	1977	1978	1979	1980	1981
Fuel	23.5	104.2	54.6	32.9	28.7	14.6	23.4	138.4
Raw Material	294.5	289.5	240.9	252.2	306.5	328.7	473.6	890.1
(wheat)	232.8	213.0	153.6	128.6	196.6	174.3	308.9	531.2
Intermediate	315.8	618.7	446.8	618.4	812.2	894.0	1267.7	1959.1
Capital	124.0	260.2	404.8	567.3	858.8	823.3	832.9	1558.2
Consumer	161.8	266.7	342.8	413.5	626.0	625.6	795.4	1611.6
(durable)	38.5	49.3	86.2	127.1	173.4	169.4	166.7	311.6
<hr/>								
Total	920.1	1539.3	1489.9	1884.3	2632.2	2686.2	3402.0	6187.4
Balance	-326.7	-990.7	-894.5	-1215.9	-1952.4	-1398.4	-1269.8	-3924.5

Source. As for data between 1975 and 1981, Central Agency for Public Mobilization and Statistics, quoted from National Bank of Egypt, Economic Bulletin (Cairo) Vol. XXXVIII. No. 3. 1985, pp. 301,5,8.
As for data of 1974, Mark Cooper, The Transformation of Egypt (Croom Helm Ltd.: London 1982), p. 116
As for the balance of payment of 1974, Cooper, p. 121.

Note. Fuel: crude oil and oil products
Raw Material: wheat, maize, wool, and tobacco
Intermediate Goods: fats and vegetable oils, wood, cement, fertilizer, ironbars, and chemical and condensation products.
Capital: vehicles, pumps, parts, and machinery
Consumer Goods: cars, TV, refined sugar, tea, medicine, dairy products, and wheat flour

Table. III-C. Petroleum in Total Exports Between 1975-81

(million LE)

	1975	1976	1977	1978	1979*	1980	1981
Total Export	548.6	595.4	668.4	679.8	1287.8	2132.2	2262.9
Petroleum Export	51.8	149.1	161.8	188.6	535.4	1370.6	1457.3
Percentage of Petroleum (%)	9.4	25.0	24.2	27.7	41.6	64.3	64.4
Growth of Export (%) Except for Petroleum	---	-11.2	13.5	-3.0	53.2	1.2	5.8

Source. Economic Bulletin, No. 3 1985, pp. 301-2.

Note: *) The depreciation of the Egyptian currency against the US dollar by 79 %.

China.(5) In terms of the amount of food aid it received, Egypt was the largest recipient in the world, followed by Bangladesh.(6) The Public Law 480, or the US food assistance, covered 29.0 percent of domestic consumption in 1977.(7) The trend of Egyptian reliance on imports can be thought to be deepening further; per capita food production between 1982-84 declined from the level between 1974-76 by nine percent.(8)

The reliance on external loans extended the intervention by the external institutions to the domestic economy. The external debt increased from LE 10.5 billion in 1976 to nearly LE 17 billion in 1981.(9) Accordingly, deficit servicing had already become a vital issue by 1977 and 1978. In this situation, the International Monetary Fund (IMF) and the Consultative Group, an association of aid donors, exerted pressure on the Egyptian economy for further liberalization.

A stabilization program for the Egyptian economy was put forward by the IMF in 1978 and the conditions put forward for its financial support of Egypt, were as follows:

- 1) The reduction of the budget deficit;

- 2) The adoption of a deflationary money and credit policy;
- 3) The elimination of a multiple-exchange rates;
- 4) The removal of exchange controls and;
- 5) The phasing out of bilateral trade agreements.(10)

As Abdel-Khalek points out, the essence of structural reform demanded by the IMF was:

to redefine national priorities and to entrust to market measures the function of allocating resources and the distribution of social products.(11)

Another is the third Consultative Group meeting in Paris in 1979, when Egypt sought Western financial sources to substitute the Arab donors Egypt had lost after the peace treaty with Israel.(12) Egypt found its way to reorder priorities and the pattern of investments set up for the overall five year plan started in 1978.(13) The reordering was done in favor of the foreign investors in such a fashion that the investment in infrastructure would be given priority to the detriment of industrial investment.(14)

The resultant dependence of the economy was painfully felt by the Egyptian economist, Ramzī Zakī, as follows:

Egypt's increasing reliance on the external world for its food importation and borrowing will result in the painful consequence of foreigners elevating their share of profits from our domestic production, or chaining our effort for production and our capacity to raising the social standard of living with forceful shackles. This may lead to exposing its economic independence to serious dangers.(15)

Thus, It can be said that one of the features of the Egyptian economy under 'Infitāh was that it found itself more and more under the influence of the rising volume of financial resources represented by the evolution of the "Big Four". On the other hand, the economy experienced greater dependence on external resources such as food and finance. How can these two phenomena be explained? How had the strategy of 'infitāh been related to these phenomena?

III-2. The Evaluation of Al-'Infitāh al-'iqtisādī

The main aim of 'infitāh was national economic independence through 1) the introduction of advanced Western technology and Arab oil money (both were pursued in Law 43 of 1974 and Law 32 of 1977 and 2) economic liberalization through the reform of the domestic market of the centralized economic system of Arab Socialism. Bearing these factors in mind, the

following sections evaluate to what extent the economic orientation of 'infitāh under Sadat contributed to national economic independence.

III-2-1. The Outcome of Law 43 and 32

--- Level of Analysis 1 of 'Infitāh

The following data are on the number of invested projects in the free zone areas, and joint ventures as of December 31 1981.(Table. III-D)

First, though free zones legislation was a highlight of Law 43, the amount of capital subsequently invested in the free zone areas was disappointing.(16) As for the joint venture scheme, however, the table shows the projects approved by the authorities, but does not accurately represent those projects which had already started production as of December 31, 1981. According to the Table. III-E, the rate of projects which actually started production among the approved projects was 32.0 percent. The rate of realization was approximately one-third of the approved. However, an observer admits the rate of implementation is on increase, which will mean an increase in projects starting production in the future.(17)

Second, the invested capital which was under production as of the end of December 1981 was

Table. III-D. Investment Projects in Free Zones and Joint Venture
(million LE)

Year	Public	Free Zone	Private	Free Zone	Joint	Venture
	No.	Capital	No.	Capital	No.	Capital
1974/75	2	2.1	5	19.0	78	361.9
1975/76	53	39.0	10	102.0	80	394.2
1976/77	35	42.3	8	11.6	98	605.2
1977/78	50	31.5	4	7.0	124	421.1
1978/79	20	20.6	2	0.9	118	319.8
1979/80	23	19.7	3	1.1	110	456.4
1980/81	45	35.1	5	42.2	201	861.0
Total	218	190.3	37	183.8	809	3419.6

Source. General Authority for Investment & Free Zones,
quoted from National Bank of Egypt, Economic Review,
Vol. XXXVIII. No.1 1985, pp. 115-6.

**Table. III-E. Distribution of the Joint Venture Projects Under Production
by Nationalities upto Dec. 31, 1981 (million LE)**

	total capital		% by nationalities of investors				
	Value	%	Egyptian	Arab	Euro.	USA	others
Investment	337.9	30.9	64.5	27.0	3.1	0.3	5.1
Banks	281.1	25.7	75.0	3.9	8.6	4.6	7.9
Transport & Communication	32.6	3.0	53.2	18.0	18.1	--	10.7
(Distributing Sector 59.6 %)							
Tourism	54.5	5.0	62.2	20.8	13.6	0.1	3.3
Housing	14.9	1.4	68.7	31.3	--	--	--
Technology	7.4	0.7	63.4	2.8	17.0	7.8	9.0
Consultant							
Services	14.4	1.3	80.8	1.6	10.5	5.8	1.8
Health	2.5	0.2	88.8	11.2	--	--	--
(Service Sector 8.6 %)							
Agriculture	77.4	7.1	78.1	10.3	6.0	--	5.6
Spinning & Weaving	28.4	2.6	53.6	25.0	3.6	13.3	4.4
Food	43.7	4.0	74.4	11.1	13.3	--	1.2
Chemical & Perfume	59.8	5.5	65.2	22.9	5.5	6.2	0.2
Wood	9.1	0.8	60.4	27.1	11.9	0.6	--
Engineer	20.3	1.9	50.2	19.6	30.0	0.2	--
Construct	22.8	2.1	63.3	30.5	6.2	--	--
Contracts	42.8	3.9	66.4	10.5	18.6	0.3	4.2
Metal	27.2	2.5	49.0	38.4	9.9	0.8	2.5
Petroluem & Minig	15.6	1.4	14.6	--	85.4	--	--
(Commodity Sector 31.8 %)							
Total	1,092.4	100.0	66.7	17.0	8.9	2.4	5.0

Source. Central Agency For Public Mobilization and Statistics, quoted from eds. Roberto Aliboni et al, Egypt's Economic Potential (Croom Helm: London 1984), p. 149.

approximately LE 1 billion, comprising 6.3 percent of GDP (at market price) in 1981, or LE 17.320 billion. The amount does not seem to be significant for the size of the economy. However, what should not be forgotten is the existence of the value of the projects under execution and those just approved by the authorities. It is safe to assume that those projects will come into being in the near future.

The third important factor among invested projects starting production was that financial and service sectors, which are not directly related to the development of the industrial and agricultural production represented more than two-thirds, that is, 65.2 percent of all.

In light of the envisaged aims of 'infitāh, the major categories of the projects invested by Western investors were petroleum, engineering, food, contract, and tourism; while, Arab investors put their resources into investment companies, construction, housing, and metal.

Consequently, the absolute amount of capital invested in projects can be concluded as insufficient; moreover, within the limited amount, one-third of it was put into commodity production. The dominance of the financial sector under the inland joint venture

scheme can be attributed mainly to the emergence of a substantial amount of foreign currency brought into Egypt by Egyptian migrant workers. It is understood that a number of sizable projects such as banking, investment, and some industrial projects were initiated by Egyptian workers working in the Gulf.(18)

Lastly, and most importantly, the representation of Egyptian capital in the projects was overwhelming; it comprised nearly two-thirds of the total amount of investment projects. Surely, Law 43 originally required foreign investors to find Egyptian capital as their partner in order to establish the joint ventures approved under Law 43. However, Law 32, the amendment of Law 43 paved the way for the Egyptian to be allowed to undertake a project by enjoying many privileges without having to arrange a joint venture with foreign investors.

Under the legislation, it was acknowledged that Egyptian public enterprises were partners in about one-fifth of the non-banking projects approved.(19) Therefore, it may be right to say that Law 43 and Law 32 had little effect on foreign investment but mainly had the effect of encouraging both domestic private investment and the privatization of public companies.(20) Thus, Law 43 and Law 32, the law of

'Infitāh was intended to promote domestic economic liberalization, which was different from the original stress of Law 43, which envisaged the invitation of foreign and Arab capital into Egypt.

III-2-2. Outcome of Domestic Economic Liberalization --- Level of Analysis 2 of 'infitāh

The domestic sphere of 'infitāh in the Analysis level 2 as discussed in the previous chapter can be summed up as creating favorable conditions for the private sector and preempting the economic control of the government.

As to the liberalization of imports, the "Own-Exchange Import" did harm to economic independence in terms of balance of payments and productivity. As is obvious in Table III-F, the more the remittances increased, the more the percent of the "Own Exchange Import" grew. The "Own Exchange Imports" was originally aimed at the encouragement of private sector exports by arranging easy access to importation of material and machinery; however, its outcome resulted in the encouragement of the importation of "more luxury goods than of necessities." (21) Rising "Own Exchange Import", instead of ordinary remittance, meant a deterioration in the balance of payments. The imports

Table. III-F. The Growth of Remittance and "Own Exchange Imports"
(million LE)

	1975	1976	1977	1978	1979/80*	1980/81
Total Remittance	134.7	220.1	342.9	688.5	2039.8	2105.2
The Value of Own Exchange Import	29	87	149.4	328.2	1247.2	1250.8
Percentage of Own Exchange Import (%)	21.5	39.5	43.6	47.7	61.6	59.4

Source. Ahrām Al-'Iqtisādī, p. 31.

Note. *) The unified exchange rate was introduced to effect the existing official rate for depreciating the value of Egyptian pound against the US dollar by 79 %.

derived from the "Own Exchange Imports" consisted of approximately 20 percent of the total imports in 1981.(22) Also, the "Own Exchange Import" encouraged commercialism by importing luxuries and selling them in the domestic market.(23)

The abandonment of the bilateral trade agreements with the centrally planned economies was detrimental to national production. The system of trade was linked to Egyptian industrialization, and the equipping of the Egyptian army so that the overpriced exports on an annual basis to the USSR had covered large portion of the debt to the latter.(24) Also, importantly, the loss of markets in the socialist countries was detrimental to the local industry sector.(25) The share of Egyptian exports to the Socialist countries declined from 68 percent of all the Egyptian exports in 1975 to 26 percent in 1979.(26) Egyptian exports except for petroleum, were not as vigorous as imports in the latter half of the 1970s.

Lastly, the abandonment of the public sector was detrimental to national production. Ayubi observes that the reason for poor productivity in the public sector derived from the lack of resources, not from the inefficiency of the sector.(27) He points out that in that 'infitāh created unfavorable conditions for

raising productivity; the paramount cause was a personnel shift from the public to the private and joint ventures sector, caused by the attraction of higher salaries.(28)

Thus, the attempt for economic liberalization of the domestic economy was more or less harmful to the realization of national independence.

III-3. Loss of Political Independence under 'infitāh --- Analysis Level 3 of external Dimension of 'infitāh

The achievement of peace in the conflict with Israel was a pre-condition to the economic prosperity envisaged by 'infitāh.(29) However, peace for Egypt under the Camp David Accord did not necessarily mean peace for the Arab world, especially for the Palestinians. A separate peace brought with the signing of the Accord led to Israeli aggression against the PLO and Lebanon. The US acquiesced in Israeli aggression.

III-3-1. Failure of the Separate Peace Treaty with Israel

The contradiction of the Camp David Accord was that the accord distinguished the issue of peace between Egypt and Israel, from that of "autonomy" on

the West Bank and the Gaza necessary for the realization of self-determination for the Palestinian Arabs.(30) The separate peace treaty and the establishment of Egypt's diplomatic relations with Israel undoubtedly breached the maximum permissible for Arabs over the UN Security Resolution 242.(31) Therefore, criticism was concentrated on the flaws of the treaty Egypt signed with Israel in 1979, and on the Knesset's decision to make Jerusalem the Israeli capital at the deadline of the autonomy talks, a substantial action that justified the abrogation of the talks.(32)

Also, the accord eventually allowed the Israeli invasions into Lebanon in 1978 and 1982, and the raid on the Iraqi nuclear power station in 1981.(33) It was the neutrality of the Egyptian army over the dispute in the accord that enabled Israel to expand her assault on the northern border. The Israeli aim was to occupy some part of the Lebanese territory and eradicate the Palestine Liberation Organization (PLO) from Lebanon so as to weaken the force of the PLO and eventually make its occupation of the West Bank a fait accompli.(34)

The role of the US, in the light of Israeli aggression, was to give tacit approval for the action. Against this background, US military assistance to

Israel after the Camp David increased.(35) Meanwhile, the amount of arms lifted to Egypt before concluding the treaty was small though the agreement of the Camp David enabled the latter to equip with US arms: in terms of dollars the value of US supplies increased from \$ 1.7 million in 1977 to \$ 937.3 and \$ 623.1 million in 1978 and 1979 respectively.(36)

By being included into the US strategic mission, the Egyptian military was expected to watch for Soviet penetration in the Middle East, and the movements of Libya and Ethiopia. Also, Egypt was to supply strategic facilities for the US especially after the Iranian Revolution occurred in the Gulf; another point that must be remembered is that security concerns over the Gulf heightened after the Soviet intervention in Afghanistan.(37)

In short, the abandonment of the Arab cause by Sadat embodied in the Camp David Accord was a strategic triumph for the US and Israel. The toll the Arabs had to pay for this was the lives of the Palestinians and the Lebaneses killed in the Israeli invasions. Also, the fissure in the Arab world between the pro-American states and the anti-American states became a breach. Thus, the separate peace treaty with Israel was detrimental to Sadat's vision of bringing peace into

the Arab world. Despite the fact that the PLO had become internationally recognized in the 1970s, the separate treaty paved the way for Israel to eliminate the Palestine movement by force. The latter aimed at denying any form of autonomy for the Palestinians in West Bank and Gaza.

III-3-2. Military and Economic Aid

Meanwhile, the major benefit the peace treaty brought to Egypt was a closer economic and military relationship with the US. Economically, US economic aid replaced Arab assistance. The amount of the US aid to Egypt is shown in the following table.(Table.III-G) It can be said that after the Camp David agreement in 1978 US aid to Egypt increased considerably. The total amount in 1981 amounted to nearly \$ 2.5 billion.

Originally, the peaceful environment created under the peace treaty with Israel was expected to bring prosperity to the Egyptian economy. However, the loss of Arab assistance had a serious impact on national independence, since the amount of the grant aid to Egypt after the October War in 1973 was significant(Table. III-H). In reality, Arab military aid to Egypt was vital. An observer estimates the

Table. III-G. The US Assistance to Egypt, 1975-1981
(million US dollar)

	1975	1976	1977	1978	1979	1980	1981
FMS	--	68.4	1.7	937.3	623.1	1500.0	1300.8
Economic Aid	371.9	986.6	891.5	933.8	1061.1	1205.0	1135.0
Food of Total Aid (%)	29.8	19.4	21.6	19.6	21.3	28.2	27.0
Loan of Total Aid (%)	78.6	77.5	87.6	85.0	43.5	50.2	30.4

Source. As for FMS (the US Foreign Military Sales), from Paul Jabber's "Oil, Arms, and Regional Diplomacy: Strategic Dimensions of the Saudi-Egyptian Relationship" in Rich and Poor States in the Middle East, (eds.) Malcolm H. Kerr and El Sayed Yassin (Westview Press: Boulder, Colorado 1982), p. 441. For the value of 1980, Jabber's estimate, *ibid.*, p. 429., for that of 1981, Middle East, May 1982, p. 20.
As for the US economic aid, from William J. Burns, Economic Aid and American Policy Toward Egypt 1955-1981 (State University of New York Press, Albany, 1985), pp. 215-220.

Table. III-H. The Arab Economic Grant Aid* to Egypt, 1973-1976
(million US \$)

	1973	1974	1975	1976
Grant total	725	1264	988	625
Grant Share of Saudi Arabia	202	572	373	377
Percentage of Saudi's	27.3	45.3	37.8	60.3

Source. Paul Jabber, "Oil, Arms and Regional Diplomacy: Strategic Dimensions of the Saudi-Egyptian Relationship", pp. 415-448, in Rich and Poor States in the Middle East, eds. M. H. Kerr and E. S. Yassin (Boulder: Westview Press 1982), p. 361.

Note *) Military aid is not included.

amount of the Arab military assistance at one billion US dollars annually.(38) Saudi assistance to Egypt was mostly "military related assistance", some of which was provided as "a multi-Arab effort to share the confrontation with Israel among the oil rich states and the frontline combatants."(39) Importantly, the amount would have increased in the second oil shock in the following years if Egypt had maintained good relations with the Arab states. Obviously, the peace treaty disqualified Egypt as a recipient.

Against Arab aid, the terms of the alternate US assistance were all long term loans, though they had 10 year period of grace.(40) However, since the interest rate of the US Foreign Military Sales was at commercial terms, the debt increased so much that servicing on the FMS debt would become "a major expense" for Egypt.(41)

The issue of war or peace was summed up as the choice for independence or dependence; Sadat chose peace at the sacrifice of the national autonomy over the military. Nasser, however, though external pressures had led Egypt to depend the USSR, but at the same time had attempted to maintain a balance in Egypt's relations with the West and East.(42)

However, what should not be missed when discussing peace under 'infitaḥ is the close attachment among

Egyptians to Arabness and their identification with Arab-Islamic culture. Also, the fact that the Camp David line turned out to be detrimental to Arab unity and resulted in further atrocities by the Israelis against the Palestinian Arabs in Lebanon detracted from Sadat's moves towards peace.

Moreover, the economic and military assistance accruing out of Egypt's closer relations with US, though the volume of assistance and food aid was essential to a destitute economy like Egypt, and had a far-reaching effects on national economic and political independence by perpetuating the indebtedness of the latter.

III-4-1. Social Instability caused by 'infitāh --- Analysis Level 3 of External Dimension of 'infitāh

The assassination of Sadat by a youth from the Jihād Group and the fact that the assassination of Sadat was acknowledged as "about time" among Egyptians, implies an unfilled gap between Sadat's governance and the level of acceptance of the masses for Sadat's rule over them. The gap can be said as that between legitimacy and the orientation of 'infitāh which required a strong political leadership under the Sadat regime.

The contradiction lay in the fact that, on the one hand, the implementation of the strategical transformation under 'infitāh necessitated vigorous leadership; on the other hand, the polity was vulnerable to change. The polity of 'infitāh in fact caused social instability: this stemmed from mass disappointment by the inability of 'infitāh to fulfill its aims. In this section, by referring to the observations on Egyptian society during the time of 'infitāh by Ghālī Shukrī, a Egyptian intellectual, it will be shown that there existed an undeniable gap between the legitimacy of Sadat among the masses and the orientation of 'infitāh.

Shukrī detects social instability under Sadat by pointing out the following symptoms that were apparent in society:

1. many riots and mass demonstrations except for a year between 1973 and 74, among which the January riot in 1977 was the most serious;
2. religious strife between the Muslim and the Copt;
3. increase in the crime rate;
4. the kidnapping of children;
5. the detainment of political prisoners, and;
6. the increase in the number of weapons in society(43)

There was a time of prosperity after the October War of 1973. The October War of 1973 enabled the oil exporting countries in the Gulf to increase their oil income by 400 %. Those countries started putting part of their income into Egypt for the reconstruction of the economy and the reestablishment of the army. International organizations such as the World Bank and the IMF also helped to finance reconstruction programs. The Westerners "on whose doors we had knocked in vain" now came to Egypt to "knock on our doors".(44) In the given situation, the Sadat's projections were for prosperity and peace; economic prosperity brought under 'infitāh was contingent upon the achievement of peace with Israel.

Nevertheless, the accomplished prosperity could not be enjoyed by the majority of Egyptians. Hence, a feeling of alienation spread widely as the effects of 'infitāh came to be questioned. Originally, the purpose of 'infitāh was to reactivate the economy by the introduction of Western and Arab capital and the liberalization of state control over the economy. This movement was feared by the masses because it was seen as dismantling the fruits of the July Revolution of 1952. Moreover, it was not only the fear of disadvantage to their lives but also the real threat to

their daily living brought about by 'infitāh that underscored the feeling of alienation among the general population.

In practice, mass impoverishment proceeded further. The importation of luxury goods caused shortages of foreign exchange available for necessities for the Egyptian poor. The influx of dollars by way of remittances and direct investment under 'infitāh helped create the market for unnecessary goods and banking for deficit financing. Inflationary pressure in the domestic market eroded the purchasing power of the destitute. Foreign capital under 'infitāh laws beared little fruit for the economy since a great percentage of the investments went to the financial and service sectors.(45)

Conversely, the small number of bourgeoisie enjoyed exclusive access to wealth brought in the post October War period. Munfatīfun, or those entrepreneurial groups emerging under 'infitāh, engaged in "importing and acting as middlemen between foreign firms and the government" and had "direct links to public sector officials and the political elite".(46) A personnel shift occurred from the public to the private and joint venture sectors for bigger gains in the latter. The penetration of foreign firms into the

Egyptian economy was so deep-rooted that government officials found their way to positions in foreign firms.

This polarization of society between the rich and the poor was exacerbated in the wake of foreign pressure: Egypt's acceptance of the IMF's conditions. The logic of the reduction of government subsidies was to exchange vital sources of living for the poor with international credibility.

The January Riot of 1977 was the outcome of the unfavorable effects of 'infitāh on the impoverished. Opposing the mass rioting, Sadat responded by imprisoning students, workers, and intellectuals, who were leftists or communists, and also by criticizing them for having destabilized social harmony. Sadat emphasized the rule of law, or legality, instead of taking an interest in the anguish of the majority of the society, in effect he negated neglected his hard won legitimacy.

The religious strife between the Muslims and the Copts also marked the disintegration of society. Copts are Egyptian Christians. The Egyptian Christians have been deeply-rooted in Egyptian society since the beginning of Christianity. The Copts, therefore, found their identity more in key with the land of Egypt than

with the Christian world of the West. Though in the pre-revolutionary years the "divide and rule" strategy by the British brought religious strife into the spotlight, Nasser's desire for national and Arab unity had managed to push the issue of religious strife into the background.

However, the religious question revived under the Sadat's "Islamization". In the beginning, the Islamization policy was a tactical move to balance the strength of support for Sadat off the ASU's Nasserists, when Sadat preempted the ASU and solidified his power base as president. Islamization also had the tactical aim of drawing the attention of Saudi Arabia. The existence of the latter was threatened with widespread Nasserism in the 1960s.

The release of the Muslim Brotherhood surely led to the counterbalance against the political force of the leftists. The force of the "Islamic Association" overwhelmed the student Nasserist movement in the universities.

However, Islamization started threatening the existing citizenship of the Copts under the pretext of national unity. More importantly, it threatened Sadat. The irony was that those fundamentalist Muslims belonged to the alienated majority under 'infitāh and

felt economic disparity unbearable. Against this movement, Sadat again repressed the Islamization movement, when he found it had become overwhelmingly opposed to his political orientation. The outcome was the assassination of Sadat in 1981 by a Muslim youth of Jihād group.(47)

III-4-2. The Identity of "the Men-in-the-Street"

What Sadat could not understand was the nature of the "men-in-the-street". According to Shukrī, this nature can be described as follows:

The main bloc of the Egyptian people has always maintained its distance from the idea of organizing itself politically, this calls for far-reaching reflection.... This phenomenon largely explains the Wafdism of the street at one moment and Nasserism at another. In reality, this is a symbolic adherence. The great majority of the population has never been organically linked to one or the other of these trends, but attached to the general aims and personalities, even if these aims were merely dreams and promises, or measures effectively taken; even if these personalities were at the summit of their power or had been swallowed up by history.(48)

The "general aims and personalities" are concerned with national independence and democracy.(49) The people were always attached to the projection for national realization, rather than "the progressive measures and

personality of Nasser".(50) This explains the lack of objection among Egyptians for changes in political direction, as long as they can fulfill their aspirations for national progress; thus, the apparent contradiction of support for the Wafd at one time and at another, the mass mobilization movement of Nasserism, the National Union and Arab Socialist Union.

In this regard, Shukrī criticizes Sadat as "absurd" for attributing the cause of mass uprisings to a plot by an "intruding minority". Sadat's misapprehension derived from his lack of understanding of the man-in-the-street.(51) Under Sadat's 'infitāh, the subjectivity of the man-in-the-street was most closely linked with the students, workers, intellectuals, peasants, and soldiers. They were all eager to protect Nasser's achievements: the public sector, the rights of workers, national independence, the Arab liberation movement and the Palestinian cause. Against this background, the riots were protests against Sadat's "counter-revolution", since his orientation was perceived as abrogating the fruits of the July Revolution.

Against the identity of man-in-the-street, Sadat's repressive measures consequently led to his assassination in 1981. The majority of the Egyptians felt

"relief" rather than "grief" when Sadat was buried.(52) The response of the masses to Sadat's death contrasted sharply with that of Mustaphā An-Nahhās, the last Wafd leader in the pre-revolutionary period, and Nasser; the funerals of the both drew popular "inconsolable sorrow".(53)

In sum, the internal political liberalization, that is, the multi-party system replacing the one party system of the ASU, caused internal disorder. Though the system assured political freedoms for some time after the October War of 1973, there was a gap between the legality and the legitimacy of the Sadat's regime, which can be characterized as the difference Sadat's orientation for Egypt, and the needs and desires of the "man-in-the-street".

III-5. Conclusion.

In this chapter, an evaluation of 'infitāh has been presented. First, economic growth was high, unlike most of the other developed and developing countries hit by stagnation after the oil shock. But this can only be attributed to the increase in income from exogenous resources. Second, the open door policy could not realize a sufficient amount of investment

and sufficient quality of investment. Besides, the internal liberalization policy worsened Egypt's economic dependency, which invited the play of external pressures.

Behind this development, peace with Israel could not produce the desired result of economic prosperity. The result was the loss of political independence and further dependence on US military and economic assistance. The multi-party system was aimed at creating political stability; however, it only deteriorated the social order. The deterioration can be attributed to the gap between the political aims aspired to by Sadat and the aspirations of the masses, whose lives had a stake in the protection of the results of the July Revolution.

Notes

1. World Bank, World Development Report 1986, pp. 182-3.

2. Ramzī Zakī, 'Azmah Misri al-'iqtisādīyyah, Cairo: Madbūlī 1983), pp. 273-4.

3. John Waterbury, The Egypt of Nasser and Sadat: The Political Economy of Two Regimes (New Jersey: Princeton Univ.Press 1983), pp. 198-9.

4. Nazīh N.M. Ayubi, "Implementation Capability and Political Feasibility of the Open Door Policy in Egypt", in eds. M.H. Kerr and E.S. Yassin, Rich and Poor States in the Middle East (Boulder: Westview 1982),p. 359.

5. World Bank, pp. 190-1.

6. ibid.

7. Gounda Abdel Khalek, "Foreign Economic Aid and Income Distribution in Egypt, 1952-77", pp. 435-468, in eds. Abdel Khalek and Tignor, The Political Economy of Income Distribution in Egypt (London: Holmes & Meier Publishers,Inc. 1982),p. 458.

8. World Bank, pp. 190-1.

9. Waterbury, p. 411. The speed of the Egyptian indebtedness was of such a magnitude that the debt had increase from LE 4.6 billion in 1976, LE 12.8 billion

in 1978, to LE 15.4 billion in 1979.

10. Gounda Abdel Khalek, "Looking Outside, or Turning Northwest? On the Meaning and External Dimension of Egypt's 'Infitāh 1971-1980, pp. 394-409, in Social Problems, Vol. 28, No. 4, April '81, p. 403.

11. ibid., p. 404

12. ibid., p. 405.

13. ibid.

14. ibid., pp. 405-6. The plan allotted 52.3 % of total investment to the building of infrastructure; while, "only" 12.5 % of it was invested in industry.

15. Zakī, pp. 280-1.

16. It can be imagined that Law 32 of 1977 enabled the Egyptian investors to find their ways to invest in the inland joint ventures.

17. Giacomo Luciani, "The Structure of the Egyptian Economy" in eds. Roberto Aliboni et al. ,Egypt's Economic Potential (London: Croom Helm 1984), p. 164.

18. Saad Eddin Ibrahim, "Oil, Migration and the New Arab Social Order", pp. 17-70, in M. H. Kerr and E. S. Yassin, p. 40.

19. Luciani, p. 164.

20. ibid.

21. Gounda Abdel Khalek, "The Open Door Economic Policy in Egypt: Its Contribution to Industrial and its Equity Implications", pp. 259-284, in Kerr and Yassin, p. 267.

22. The calculation is based on the value of imports in 1981, LE 6187.4 million and the value of "own-import" in 1980/81, LE 1242.1 million.

23. Mohammed Heikal, Autumn of Fury (London: Andre Deutsch 1983), p. 211.

24. Waterbury, pp. 395-396.

25. Fouad Ajami, "The Open Door Economy: Its Roots and Welfare Consequences", pp. 469-516, in Abdel-Khalek and Tignor, pp. 502-5.

26. National Bank of Egypt, Economic Review, Vol. XXXVIII. No. 4, 1985, from Table "Exports and Imports by Economic Groups", the Egyptian exports to the centralized planned economies declined from LE 405 million out of LE 548.6 million in 1975 to 337 out of 1287.8 in 1979.

27. Ayubi, pp. 349-414, in Kerr and Yassin, pp. 387-9.

28. ibid., pp. 352-355.

29. Marvin G. Weinbaum, Egypt and the Politics of US Economic Aid (Boulder: Westview Press 1986), p. 211.

30. (ed.) Robert O. Freedman, The Middle East Since Camp David (Boulder: Westview 1984), p. 175.

31. The standard Arab interpretation of the UN Resolution 242 is that it authorized "the withdrawal of the Israeli from the Arab territory occupied in the June War of 1967" and "the confirmation of the rights of the Palestinian people," the Syrian president Assad quoted as saying. (p. 136, in Freedman).

32. Freedman, p. 161.

33. Ghālī Shukrī, Egypt: Portrait of a President 1971-1981 (London: Zed Press 1981), p. 458.

34. David Gilmour, Dispossessed: the Ordeal of the Palestinians (London: Patrick Seale & Associates Ltd., 1982), trans. Fumio Kitamura, Tokyo: Shinhyouron: Palestina-jin-no-Rekishī 1985, p. 354

35. Amin Hemedi, Militarization and Security and Its Impact on Development and Democracy in the Middle East, UNU Document. In 1979 if it includes payment waived, the amount of the US military assistance to Israel numbered \$ 3.3 billion. (from the table in p. 8)

36. Paul Jabber, "Oil, Arms and Regional Diplomacy: Strategic Dimensions of the Saudi-Egyptian Relationship" in Kerr and Yassin, p. 441

37. *ibid.*, p. 442.

38. *ibid.*, p. 429., quoting the article of the Jerusalem Post.

39. *ibid.*, p. 431.

40. The US Embassy in Egypt, Economic Trends Report, April 1984, p. 20.

41. *ibid.*

42. Neja Abu Izzeddin, Nasser of the Arabs: An Arab Assessment (London: the Third World Centre for Research and Publishing Ltd. 1981), p. 240. An example to show Nasser's passionate attachment to independence was to try to seek for Western assistance to the High Dam after the arms deal with the USSR. However, the Western intention for intervention into domestic affairs was obvious for Nasser; he then sought domestic resources for financing the project, as well as for the assistance of the Communist bloc. Another example was in the beginning of the 1960s. Egypt received food aid from the US and the military and industrial assistance from the USSR.

43. Shukrī, pp. 457-8.

44. The October Working Paper (English), p. 482.

45. see Table III-E.

46. Waterbury, pp. 171-81. According to Waterbury, "Many are, were, or have direct links to, public sector officials and the political elite....were sired in the period of state-monopolized foreign trade and unmet to consumer demand".(*ibid.*, p. 175).

47. Al-Jihād, or the Holy Struggle, representing the "most radical wing of a much broader religious trend normally referred to as the Islamic resurgence" by Dessouki, in Roberto Aliboni, p. 207.

48. Shukrī, pp. 233-4.

49. *ibid.*, p. 233.

50. *ibid.*, p. 234.

51. *ibid.*
52. Heikal, p. 271.
53. Shukrī, p. 234.

Conclusion

The year 1974 was crucial in many ways. It was the year of the Special Session of the UNCTAD during which the Resolution on the New International Economic Order (NIEO) was adopted. It was the year of the Arab oil embargo---and Western paralysis. In terms of the rise of the third world against Western dominance then, 1974 was significantly for the developed world found itself in a position where it was forced to make concessions to the developing countries. Law 43, the 'infitāh law, was issued in the same year in Egypt. The purport of the law was to abandon some of the state autonomy over foreign investment so as to invite foreign investment in the domestic market. Both Western technology and Arab capital were intended to contribute to national production. The transformation looked as if it was opposed to the rising tide of international

opinion in favor of the developing countries, since it was sort of concessionary movement vis-à-vis the hegemonial Western powers; while, the oil exporting countries in the Gulf nationalized their oil resources by claiming the rights on exploiting their own natural resources within their territory. Thus, the Egyptian adoption of infitāh in the 1970s requires more of a specific analysis of the Egyptian context which enabled such a society to experience liberalization.

As the discussions in the previous chapters have clearly shown, 'infitāh was a different approach from that of Nasserism in many respects. The former was for economic growth at the sacrifice of national economic autonomy; the latter pressed for national independence.

Nasserism, was derived from the "Six Principles", or the "cause of the revolution". The Free Officers eventually meant to use the Six Principles as an ideology of emancipation from foreign rule and domination. Nasserism identified the destiny of Egypt with that of the Arabs. Internally, by seeking freedom from external subjugation, the economic system was transformed from a liberal capitalist one to a centralized controlled economy. The Five Year Economic Plans and the July Decrees embodied the nature of Nasser's approach. The economic system can be

described as state capitalism. State capitalism under Nasser was significant for it aimed at production through planning and equitable income distribution. Arab Socialism in the National Charter of 1962 aimed at putting the historical evolution of the planned economy and the one party system under Nasser, into the theory of socialism. However, it was not socialist in a Marxist sense since the theory of class struggle was denied under Arab Nationalism. Arab Socialism was an ideology to legitimize the course of revolutionary Egypt and present the vision of a future course. The Arab Socialist Union(ASU) was not only a political party for mass mobilization but also a central organization of the state economy. The organization could grip productive sectors and had the authority of mandate. However, the lack of financial resources and the external pressures on the economy led to economic slump in the latter half of the 1960s. Power concentrated in the ASU was detrimental to the mobilization of the masses and the peasants in raising the productivity level. Nasserism, thus, suffered from economic stagnation.

In opposition to the policies of Nasserism, 'infitāh under Sadat had a different outlook. The final aim of 'infitāh lay in the achievement of the kind of

economic independence Nasser could not realize. However, by opening the domestic market to foreign investors, the Egyptian economy was assumed to rely on external resources: Western technology and Arab capital. Infitāh also entailed the liberalization of the internal economy so as to reactivate the economy. The evaluation of the introduction shows that the amount of capital was not enough and that within that limited amount, the majority was invested in the financial and the service sectors, which was in fact detrimental to the development of national commodity production. One positive aspect under 'infitāh was the economic growth rate. However, the increase in the rate can be more or less attributed to the evolution of the incomes from the "Big Four", or the exogenous resources: the Suez traffic, oil exports, tourism, and remittance from workers overseas. The negative aspect was the further deterioration and the increase in the foreign dependency of the Egyptian economy further. The balance of payments did not improve; instead, the reliance on external resources became greater.

Externally, since the June War of 1967 the regaining of the Sinai had been an outstanding issue. The adoption of 'infitāh postulated peace with Israel. Sadat took the road to a separate peace with Israel.

Study of the gains of the treaty: US economic and military aid replacing grant aid from the Arab countries, shows the indebtedness of Egypt. This led to the loss of political independence, for Egypt became included in the US strategic mission in the Middle East. The biggest failure was that the "autonomy" talks over the West Bank and Gaza which were abrogated by Israel.

Internally, political liberalization was contingent upon economic liberalization. Sadat introduced the multi-party system to replace the ASU, the one party system. By so doing, Sadat pursued social stability, and a favorable environment for economic development. The contradiction of Sadat's move towards liberalization lay in the gap between the legality and legitimacy of his move. Though some political freedoms were permitted at the beginning of the liberalization, the gap became wider later in his rule. The study of political liberalization under 'infitāh shows that it was detrimental to the social order. The January riot of 1977 demonstrated this social instability.

In sum, Nasserism for independence suffered from economic stagnation; 'infitāh for economic growth from social instability and external dependency. Political independence under Nasser was a significant achievement

though Sadat tried to attain economic independence and failed in doing it and by doing so abandoned political independence. In the Arab sphere, the separate peace paved the way for the Israeli invasion of Lebanon.

Heykal puts the decisive mistake of Sadat as "sacrificing long-term strategic assets for short-term tactical manoeuvres", though the October War of 1973 gave him a "greater opportunity than had fallen to any ruler of Egypt".(1) The assassination of Sadat in 1981 was a stark lesson to those who followed him, to be careful of "undoing what he could of his predecessor's work".(2)

The legacies bequeathed to Husni Mubārak, the successor of Sadat were the following. In the economic sphere, the imbalance in payments to the external world caused and still causes a severe strain on the Egyptian economy. This imbalance can be attributed to the inflow of basic commodities and unnecessary luxurious imports such as those through the "Own Exchange Import" system, and the slump of exports. The chronic imbalance has resulted in a heavy burden of debts to the Western financial institutions.

Though the lack of financial resources is conspicuous, the need for basic commodities among Egyptians increased to a critical level. This level is

reflected in the amount of US food aid required by Egypt.

Social instability was obvious even before the assassination of President Sadat on October 6, 1981 as we have seen Egypt's social instability resulted from the gap between Sadat's political leadership and the needs of the man-in-the-street. The multi-party system under Sadat changed into a repressive regime.

Instability was furthered by existing inequality, that is, mass impoverishment, on the one hand, and prosperity enjoyed only among a small number of the people on the other. Besides, the trend was exacerbated with Sadat's conclusion of the Peace Treaty with Israel, which in effect turned Israeli aggression against Lebanon. In the face of such instability, today, Muslim revivalism has become prevalent in the society. As Dessouki points out, "the Islamic revivalism is basically a search for cultural identity and social dignity promoted ... by the frustration experienced in trying to compete with outside world".(3)

As to the external relations, today Egypt finds herself isolated from the Arab world and is totally dependent on the US for arms and food. Though the reliance on the US has partly relieved the economy, the

reliance has consequently helped perpetuate Egyptian economic and military subjugation to the US, and the US allies.

What is outlined above is the historical background and circumstances faced by the present leader Mubarak. What Mubārak should now ask is "where does Egypt go from here?". As discussed in the previous chapters, the evolution of modern Egyptian society has been drastic and traumatic. What Mubarak must bear in mind is that Egyptians have experienced two different systems, namely, Nasserism and 'infitāh. within less than 30 years of the July Revolution in 1952, and that wherever Egypt goes the path is going to be a long and difficult one.

Notes

1. Mohammed Heikal, Autumn of Fury, (London: Andre Deutsch 1983), p. 217.

2. *ibid.*

3. Roberto Aliboni, "Foreign Policy" in eds. Roberto Aliboni et al. Egypt's Economic Potential (London: Croom Helm 1984), p. 220.

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