

Historical Contexts of Economic Reform in Egypt

Eiji NAGASAWA

(Translated by Yuko IDO)

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Introduction

Quite a number of serious challenges are currently facing Egyptian economy. And they have profound historical roots. Each of previous leaders in Egyptian politics and economy has faced these challenges and attempted various measures according to their situations. What we need to note here is the fact that each of these measures were taken to overcome their historical negative inheritance. In order to envisage a future direction that Egyptian economy might take, we ought to understand the historical contexts, in which a pile of challenges in its economic reform could be found. This essay intends to contextualize these economic reform issues in a setting of the modern history of Egypt.

Before entering further into each argument of this study, the readers will be provided with a historical overall image of the reform agendas in the country. For this purpose, therefore, an origin of the reform issues in Egyptian economy needs to be shown. This study sets its starting point of the issues in the so-called inter-war period, an era prior to the Revolution of 1952. The biggest reform agenda facing then Egypt was a structural crisis of their cotton monoculture economy. This structural crisis per se was the very origin of the problems in the Egyptian economic reforms, which have continued to exist yet.

The cotton monoculture economy we are talking about here is an economic system in Modern Egypt that originated from Muhammad 'Ali's era and completed during the British occupation period after 1882. The Egyptian economic reforms have started through their endeavors for overcoming the crisis, in which this dependent economic system had fallen. Since then, a considerable number of trials in its reforms have been conducted. Consolidating its history could bring us to find a layer of the contexts within which every attempt in every

period has tackled with the same fundamental challenges as the origin the Egyptian reform had started with, and that they always ended up with failing to show any of drastic solutions.

The aforementioned fundamental challenges in the Egyptian economic reforms refer to the following four challenges, which have developed with mutual-influences among them.

The first one among these challenges was a matter of diversification of the Egyptian economy, i.e. a challenge for industrialization with an eventual aim at promoting an internationally competitive industry. The second challenge was institutionalizing ‘a strong state’ capable of functioning the main actor of development; in other words, it was a matter of formulating the development regime. These were followed by the third one, a matter of pursuit of its economic nationalism, and the fourth one, a matter of selection in the social policies, including measures taken for the income distribution.

The following sections will discuss the history of measures taken for these four challenges in each era. First of all, however, we need to mention each era’s categorization or their characteristics beforehand. A useful reference on this could be obtained from Prof. Galal Amin, one of the most influential economists in Egypt. In his essay of 1995 reviewing the development of economics in Egypt, Prof. Amin divides the seventy-five years from 1920 up to 1995 into the three periods, and describes ‘burdens’ in each era as below (Amin, 1995).

First, the era of inter-war period (1920~45) is characterized by ‘burden of dependence’, which could be traced to the dependent economic system. The second is a period of 1945~70, an era of ‘burden of despotism’ he calls. In other words, this was the time when a series of experiment in the name of the Arab Socialism were conducted by the authoritarian regime of Gamal ‘Abd an-Nasser. The third period is an era of ‘burden of soft state’ from 1970 up to 1995, which roughly covers a period after the introduction of Open Door Policy by Sadat. In the following sections, we will discuss more details about these ‘burdens’ characterizing each time, and start with the first ‘burden of dependence’ prior to the Revolution when the origin of their reform problems was formulated.

I. The Crisis of Cotton Economy and Initial Measures Taken

1. The Starting Point: Dealing with the Crisis of Cotton Economy

Currently the cotton production and export account for quite a small proportion in Egyptian national economy. For example, the share of cotton in the total amount of commodity export in recent years is less than just 5%. The Egyptian economy in early 20 century, however, was a typical monoculture economy in which more than 90% of the export was raw cotton and cottonseed and this ‘white gold’ was the main source of its national wealth. Economic reform issues in Modern Egypt occurred from a moment when this dependent economic system faced a structural crisis.

The first phase of its structural crisis was a negative aspect in the modern irrigation system that had supported the development of cotton economy, namely, apparent deterioration of

ecological conditions, such as degradation of the land productivity due to endemic incidence of soil salination and damage by disease or insect pests. The second phase was a loss of balance between the land and population. Behind this, the expansion of the cultivated area (in more accurate sense, the crop area) due to the expansion of this irrigation system could not catch up with a rapid increase of population. Under the large landowner system, small farmers and landless farmers remained behind in the rural areas, leaving the poverty more deteriorated. The third phase of the crisis was added by an international economic aspect, a decline in cotton prices (furthermore, a continuous disadvantage in terms of trade) especially after the Great Depression. This phase was shared among the monoculture economy of primary products.

It was economic elites and political leaders, the core of who were mainly landowners, to launch the first step in the structural reform of cotton economy. Their motivation was not supported by only just their economic interests, but also their exalted nationalism. In this sense, the 1919 Revolution, seeking for their independence from Britain after the World War I, was an important prerequisite for economic reform issues, along with these phases of the crisis in their cotton economy proceeding in the same period.

The first measure that the landowners pursued to deal with the crisis of the cotton economy was an establishment of institutional supporting system for the agricultural production. It referred to various dimensions in more details, such as institutionalization of agricultural administration dealing with the technology promotion, expansion of agricultural cooperatives and agricultural finance institutions, and Egyptization of the cotton market which had been dominated by the foreign companies. A series of the reform movement by the landowners, however, ended with the governmental intervention in agriculture by the post-revolutionary Arab Socialist system. For example, the Khedivial Agricultural Society, established by the landowners, prepared the establishment of the Ministry of Agriculture which became a central agency for state control of agricultural production after the Revolution. Likewise, the agricultural cooperatives were expanded as its sub-organization (Nagasawa, 2001).

The second, and more drastic, measure taken for the crisis facing their cotton economy was to overcome their economic nature of cotton monoculture through a trial of diversifying the economic activities, namely, a full-dress industrialization. The central organization for this trial was Misr Bank established in 1920, next year of the 1919 Revolution. Behind the establishment of the bank, there was economic nationalism among landowners who had aspired for getting rid of the dominance of foreign companies in cotton transaction, in addition to its nature of German-type investment bank, which collected the fund from landowners and actively invested in the industrial sector. This bank functioned as the center of Misr Group incorporating 27 companies, covering wide-ranged fields from the manufacturing sector such as Misr Spinning to airline company and film industry, and became the engine for the industrialization by Egyptian national capitals during the inter-war period (Davis, 1982).

Although we mentioned 'Egyptian national capitals' here, we need to note again that, in addition to landowners, foreigners living in Egypt, '*mutamaşşirîn*' (Egyptized foreigners)

and minority people, most of whom were business elites from East Mediterranean, such as Lebanese and Syrians, Italians, Greeks and Jewish people, played considerable roles in the economic development those days. They were ‘domestic’ (or ‘local’) bourgeoisie formulated based on local interests against then metropolitan financial interests such as Britain (Tignor, 1984; Deeb, 1979). The alliance of these two actors of development, landowners and foreign business elites living in the country, however, was unstable as shown below. However, we would like to confirm here that the issues of roles played by foreign capitals in development and economic nationalism which have been closed up again in recent years, started from the relation of the two actors at this period.

The landowners and foreign business elites had gradually become clear about their nature as interest groups, through establishing the Egyptian Chamber of Commerce (1913) and the Egyptian Federation of Industry (1922) respectively. In due course, an attempt was done to seek for a development regime which would enable the two groups to ally with each other. And it was Isma‘il Sidqi Administration to represent this alliance. Sidqi Government has been described as a reactionary government with bad reputation in the Modern Egyptian historiography. It was because too much emphasis has been put on their negative aspects, such as their suppression on the Wafd Party which was a legitimate line of Egyptian nationalism and the popular movement, especially the labor movement which supported the Party. However, another perspective of formulating development regime of a so-called ‘development autocracy’ style could shed a light on its significance in the history of Egyptian economic reform issues.

2. Groping for Development Regime

There were some important historical backgrounds for the reform attempt by Sidqi Government: the recovery of their custom autonomy (1930) and the incidence of the Great Depression (1929). By recovering their custom autonomy, the government implemented the custom reform which protected the interests of landowners and industrial capitalists at the same time. For example, the tariff rates on fundamental foods such as wheat and industrial products such as textile commodities were raised. This custom reform provided the aforementioned classes with a benefit, but at the sacrifice of urban laborers and the central capital outside the country. When the cotton price slumped due to the Great Depression, the government purchased the cotton at the expense of national reserve. Likewise, it financed to support the domestic sugar manufacturers that were under the pressure of the imports, realizing quasi-monopoly in the domestic market. The government reacted to the international pressure asking for revising the labor law, by enacting a conservative labor law. In order to implement these policies, Sidqi Government halted 1923 Constitution and issued a new constitution to strengthen the authority of the monarch upon the strong state power.

The initial attempts of the development autocracy by this Sidqi Government, however, ended shortly with popular resistance and the Wafd Party’s comeback. After this, the alliance between the landowners and foreign-origin business elites, especially merchants and

industrialists, became unstable and gradually conflicted with each other. Especially in 1940s, the two parties opposed to each other on the tax reform. It was because, during the period of declining the cotton economy, while the former insisted decreasing the land tax ratio in the public finance and increasing the tax upon the special demand due to the World War II, the latter resisted these suggestions (Tignor, 1984).

A far much bigger influence than the interest conflicts between the two classes, however, was a transformation of economic nationalism, namely an issue of radicalization of Egyptizing economic activities in legal dimensions. For instance, the Company Law in 1947 stipulated the Egyptization of the capital as well as employees and laborers.

Behind this legal revision, a demand for Egyptizing economic activities did not only come from the economic elites, but lower-middle classes, including white-collar urban intelligentsias and laborers. It meant that the popularization of economic nationalism had been already proceeding at this moment. We need to note here that this movement was associated with the radicalization of political nationalism which was spreading across the Arab regions including Egypt. Behind this scene, needless to say, there were generally considerable changes in the regional political environment, occurred by devastated Palestine problem (Palestinian Arab Revolt during 1936~39, in particular). The radicalization of the political nationalism in the region were a to rising radical political movements and popular political phenomenon, such as Islamic movement, Pan Arab movement, Communist movement, etc, which were by no means satisfied with the parliament politics dominated by landowners and urban notables (*a'yān*) classes.

In Egypt, radical claims from political powers outside the parliament, such as the Muslim Brotherhood, the Young Egypt, and the Communist movements, who were not content with the independence as a matter of form under its alliance treaty with Britain, had gradually begun to collect the popular support. The important point here is that these movements were brought about with a background of deteriorating social problems those days. Meanwhile, the political and economic leaders during the inter-war period failed to take their initiatives in taking sufficient measurements for social problems, especially the rural poverty and the income disparity, which were proceeding basically due to the crisis of the cotton economy. A representative case was that drafts of land reform bill were several times rejected in the parliament (Ikeda, 2002).

Popularization of the economic nationalism and the failures of political elites in solving the social problems gradually formulated a basis for a drastic structural reform of the cotton economy, through establishing a nationalistic state system, namely Nasser's Revolution and Arab Socialist System.

Let us review here the economic reform issues during the inter-war period, the overview of which we introduced so far, focusing on the aforementioned four reform agendas. As a reaction to the crisis in the cotton economy, the following fundamental issues came to the fore: (i) development strategy focusing on the industrialization, (ii) 'strong state' system or

development regime tackling with the (i) issue, (iii) economic nationalism as a strategy to support and legitimize this type of regime, and (iv) measures to deal with social problems which were important aspects brought about by the crisis of the cotton economy. The mutual-relations among these four issues could be explained as below.

The crisis consisted of the two aspects, that is to say, the issues in the development strategy to cope with the crisis in sustainable growth (as aforementioned in (i)) and the social problems, represented as poverty issues (as in (iv)). For the former issues, formulating the development regime (as in (ii)) was required, which was neglected due to the actual occupation by the Britain. In order to establish an initial stage of this development regime, the class alliance between the landowners and foreign business residents who were economic elites in the country was attempted as the establishment of Sidqi Government. The two parties, however, had subtle differences in interpreting the economic nationalism (as in (iii)) which was supporting their development regime. Furthermore, some of these old economic elites had no motivation or capability to sacrifice their benefit to solve the social problems (as in (iv)), especially to undertake the land reform. As a result, what had become to be sought were a strong state (as in (ii)) as well as a new economic nationalism to support this, enabling them to concurrently achieve a dynamic evolution of the development strategy (as in (i)) and a drastic solution of social problems. In other words, an aspiration for a drastic reform in the cotton economic system urged old economic elites to hand over the place to new leaders.

II. The Arab Socialism: A Structural Reform of the Cotton Economy and its Bottleneck

1. Formulating the Arab Socialist System

It was Nasser's Revolution that executed a boldness structural reform in order to show drastic measures to deal with the cotton economy's crisis. The Arab Socialism which appeared in early 1960s was a model proposed against the crisis. This development model, accompanied by the Nasser's authoritarian political system, significantly influenced on the neighboring Arab countries, such as Syria, Iraq, Algeria, Sudan and so forth. This economic system, however, was not born as an application of some other models presented previously, including the Soviet-East European type of Socialism. On the contrary, it was a sort of their own realization through the processes in which the revolutionary regime pursued measurements to tackle with the crisis of the cotton economy within their limits of domestic and international political conditions those days. In this sense, this model was a result of quite unique historical contexts they were in.

The three wars significantly influenced on the formulation of the Arab Socialism in this sense, namely the World War II and the two Middle East Wars: the 1st Middle East War (the Palestine War) in 1948 and the 2nd Middle East War (the Suez War) in 1956. In terms of the direct influence on the formulation of the Nasser regime, the latter two wars occurred in the

Middle East had decisive meanings (Furthermore, the 3rd Middle East War of 1967 pulled a trigger of the decline of the Arab Socialistic system.)

First of all, the Arab defeat in the Palestinian War of 1948 ruined, to a fatal extent, political legitimacies in each ancient regime of the region. It caused in 1952 of Egypt the military coup d'état by the Free Officers, leading to the collapse of the constitutional monarchy and therefore, a drastic innovation of the political order. As for the Suez War of 1956, it became a historical epoch to boost the formulation of Arab Socialist system in which a basis of the public sector was formed and the economic nationalism was exalted through the nationalization, that is, Egyptization (*tamsīr*) of assets of their 'enemies' (British, French and Jewish capitals) in the War.

On the other hand, the World War II had an actual influence on the formation of nationalistic economic system in 1960s, especially in a sense that characteristics of the control economic system formulated during the war were inherited to the post-war system. In addition to the Middle East Supply Center in Cairo established by the Allies for the wartime controlled economy in the Middle East, a number of policies, including price control, marketing control, food rationing and subsidy system, minimum salary system, rent control, etc, continued even after the War to be reincorporated into the Arab Socialism. In other words, the Arab Socialism as a system had a root in the wartime economic system.

What we need to note here, however, is that there was a possibility of a different regime from the Arab Socialism to be established at the time of Revolution in Egypt. For example, during a so-called 'Free-Enterprise Phase' (1952~56) immediately after the Revolution, the revolutionary regime expected the participation of private capitals, especially of foreign capitals, into the economic development, modifying the excessive Egyptization of economy that had been conducted through the amendment of the company law as well as giving preference to the foreign capitals. Furthermore, it was noticeable that cooperation with the private sector was also stated in the 1st Five Years Development Plan (1959/60~64/65) which showed a clear transition to the Arab Socialism. In other words, there was a considerable possibility of formulating the development regime backed by the alliance between the military elite and business elite at the time of Revolution. The autocratic revolutionary government under the fluid international political environment in the initial period of the Cold War suppressed the Communist movements and the Muslim Brotherhood in order to avoid destabilizing the domestic political system, which prepared a political environment suitable for the economic development.

The formulation of this sort of development regime, however, was interrupted by some factors. One of the factors was the land reform, which was conducted by the revolutionary regime with an aim to remove the old political power, especially the landowners. And this agitated an alert among the private capitalists. Presumably, the military officers' attitude to promise to ensure the free business activities while politically suppressing the landowners was not understandable for business elites who had been accustomed to the *laissez fair* system.

The attitude of the military regime towards the private capitalists was ambivalent to limit their political involvement on one hand, and to request their cooperation in the economic field. The distrust appeared between the two parties deterred the formulation of the authoritarian development regime which was seen in the East and Southeast Asian regions of 1980s.

Further more considerable constraints could be found in the international political relations in the region those days. There was enough possibility for the revolutionary government to accept the Western aid and take the pro-American foreign policy to promote the foreign investment. Yet, this scenario was blocked because of the acceptance of the military aid from the East that the Nasser government chose with the background of the military tension against Israel. Behind this policy decision with the military preference, there was a domestic condition in the country.

The regime was strengthening its political base inside the country, through insisting its hegemony in the Arab World as a leader of the Arab Nationalism. The political alliance that Nasser tied with the labor union which had the power of mobilizing people determined this government's inclination in its economic policy towards the populism. Amid the excitement of the workers for Nasser's decision to nationalize the Suez Canal, "populism was not only a matter of rhetoric but also of concrete program" (Posusney, 1997: 54). In this sense, the Arab Socialism was a peak point for the popularization of economic nationalism. The 'socialistic system' appeared during the period of 1960~62, according to the interpretation of "National Charter (1962)", was 'a response to mass demands for an efficient economy and for rapid growth combined with social justice' (O'Brien, 1966: 203). During this period, the implementers of the development policies that the military elites chose instead of the private entrepreneurs were the technocrats. Like factory workers, these technocrats, called as 'a new class (*al-ṭabaqa al-jadīda*)', received their share of the benefit from the popularized economic nationalism within the Arab Socialist system.

2. Nasser Regime and Its Approach to the Four Fundamental Challenges

Let us examine the reaction by Nasser regime to each of the aforementioned four challenges, namely (i) industrialization, (ii) development regime, (iii) economic nationalism, and (iv) social problems.

- (1) Industrialization: The military elite backed by the cooperation of the technocrats aimed at escaping from the impasse of the cotton monoculture economy, through putting the industrialization initiated by the pre-revolutionary economic elites on the track. The characteristics of this industrialization included the expansion of the public sector and the orientation of import substitution industrialization. During this period, in addition to the textile industry under the former Misr Group which was nationalized, the state-owned heavy industry represented as Helwan Iron Foundry was initiated to diversify the economic activities based on the industrial development. The problem here was that the industrialization under the Arab Socialism aimed at satisfying the consumption of the

population with populist tendency.

In terms of the state-initiated import substitution industrialization, as well known, Egypt has been considered a representative country like India. Therefore, the problems accompanying this development strategy appeared in a typical form. That is, the picture of their conditions could be understood by a textbook explanation of development economics, such as their overestimation of the exchange rate, the suffocation of expanding export by weakened international competitiveness due to the regulation and protection, deterioration of the balance of payment because of the increase in the imports of the intermediate goods, and for the final stage, reaching a deadlock of exhaustion of development financing. What we need to note for the Egyptian case is its characteristic of the import substitution industrialization: a matter of 'inner-oriented' nature of their policies. Herein lay a background for their difficulties in changing the industrialization strategy continued up to the present.

After the Revolution, the protective trade policy was strengthened by the complication of the custom system and the restoration of the wartime import licensing system. In addition to them, there were various non-tariff barriers set and some systems discouraging the export during this period of time. These 'inner-oriented' policies in Egypt, however, if an extreme expression permitted, appear to have set their objective in satisfying the consumption of the population rather than in protecting the domestic industry. Likewise, the price control and distribution regulation of the commodities and raw materials for the industrial production intended to fulfill the government's promise with its population to meet their consumption, although their official purposes were in controlling the production process through the socialistic planned economy. The main function for these populist policies was played by the Ministry of Supply and Internal Trade. Inherited from the wartime controlled economy, a mechanism of providing the population with necessities such as foods at low prices through the price control and subsidy system was formulated during this period of time. This populist way of state intervention caused the confusion of the price system to disturb the industrial development. Likewise, the state intervention which will be mentioned in the following brought about the similar results.

- (2) Establishing 'a strong state' as a development actor: The framework within which the aforementioned industrialization was carried out was the Arab Socialist system, a state-initiated economic system. Researchers have often considered the state as a center of this system to be 'Nasserite State (*al-dawla al-nāṣirīya*)'. The characteristics of this Nasserite State and its evaluation have been controversial themes. For instance, the Nasserite State might be evaluated as 'a strong state' with a top-down leadership in executing the reform, as shown in that it decided to construct the Aswan High Dam immediately after the Revolution in order to solve the irrigation development issue which had been a long outstanding problem. On the other hand, however, the analysis of the real situations on the land reform, decisively carried out by the same state, led to unfavorable evaluation that it

was as a matter of fact 'a weak state' with less capability of penetrating its policies through the society (Migdal, 1988). In terms of the land reform, however, 'a weak society' that could not bring up the peasant movement as a systematic social movement, rather than 'a weak state', should be taken into account.

Nevertheless, it is inevitable that a view of the present-day would lead to a negative evaluation of whether the Arab Socialism that legitimized the Nasserite State was functioning effectively as a development regime or not. This evaluation would remain after a thoughtful consideration on some constraints that this system had to face those days. Among them was a contemporary fact that the import substitution industrialization the Nasserite State chose was a dominant development strategy permitted for most of the developing countries those days. In addition to this, the military tension against Israel the regime found itself was its unique constraint caused by then international politics. After all these constraints facing the regime, there was an issue mentioned earlier regarding the industrialization, namely an issue on the development ideology (the Arab Socialism) as well as the class alliance (those who receive benefit from the reform).

- (3) Pursuing the economic nationalism: The economic system of Nasser was a peak of the completion of Egyptizing the economy, which was initiated by the landowners and further proceeded after 1940s. As above-mentioned, a turning point for this was the Suez War in 1956 and the rapid popularization of the economic nationalism (nationalization as *ta'mīm*; it means not only a transition to state ownership, but to nation (*'umma*) ownership). The economic nationalism, used to be led by the landowners before the Revolution, now that became an ideology to underpin the state-initiated economic system supported by the lower classes. This system based on the Arab Socialism was the etatist system as a populist economic nationalism (Nagasawa, 2001). It was a system where the military elites dominating the Nasserite State and its relative technocrats were assigned to manage the development regime, being tied with the moral economy for the workers supported by the nationalism we will examine in the following.
- (4) Reacting to the social problems: The objective of the experiments by Nasser, through exercising its bold development strategy, was to drastically solve the social problems that the pre-revolutionary old elites, mainly the landowners, were not able to achieve. What was established as a result was 'a welfare state' in the Arab Socialist sense. The classes receiving the benefit from the social policies of this system were urban workers in the public sector, '*muwazzafīn*' who were white-collar civil servants, and rural small farmers who benefited from the land reform. Therefore, the most affected classes in a negative way by the structural adjustment policies introduced after 1990s were the urban industrial workers in the public sector as well as tenants among the small farmers.

The land reforms over the three times that the revolutionary regime executed for the small farmers influenced considerably on improving the imbalance of the income distribution in the rural areas, through the land distribution as well as the protection of the

tenant farmers rights by the tenancy law (Abdel-Fadil, 1975). Likewise, in the labor policy, as aforementioned, the Nasserite State controlled and took advantage of the labor union for stabilizing their system on one hand, and extended merciful social policies on the other hand. These policies included raising minimum wages, shortening the working hours, and guaranteeing the employment. While the regime, for the civil servants and public sector workers, expanded the social security system such as employment pension, it also implemented the subsidy policy on the fundamental commodities, especially foods, as well as the employment policy guaranteeing the government and public sector employment for the university graduates. In other words, the employment policy was adopted there as a means of income distribution. Yet, this policy ended with a negative influence on the economic development as a whole, such as the excessive employment in the public sector as well as the decline in the working morals, bringing about the imbalance in the educational investment among the middle class and later on, a negative legacy for the next era (Abdel-Fadil, 1980).

3. The Nasserite State and the Social Compact

This economic structural reform by Nasser had a clear distinction between those who benefited and those who did not by the reform. The beneficiaries of the reform were the military and security elites, the technocrats who had close relationships with them, and bureaucrat bourgeoisies.

According to the official ideology of this system, the biggest beneficiaries were small farmers and public sector workers representing 'the people'. However, the higher positions they were the more benefit they received in the public distribution system of the profit. And in the agricultural sector, it was wealthier farmers who deviated from the crop regulation the government indicated every year and planted the crops such as fruits and vegetables that were out of the price control. As such under the Arab Socialist system, where the ritual egalitarianism was proudly declared with coercion and enforcement, the beneficiaries as a matter of fact were the closer classes to the authority, the government (*ḥukūma*). This fiction of the socialistic egalitarianism was associated with a superficial egalitarianism, and its imaginariness, of the concept of 'people (*sha'b*)', which was represented in their assertion that more than 50% of the seats in the election of the People's Assembly should be ensured for the people (workers and farmers).

In the meantime, the disadvantaged people by the reform of the revolutionary regime were in fact not regarded as even 'people' under the Arab Socialism. Especially, the foreign residents, Egyptized people, and minority entrepreneurs were gradually excluded from the development actors in a rapid process of economic Egyptization after 1956.

On the other hand, there were people excluded from the benefit of the reform even though they were affiliated to 'the people' as a matter of form. They referred to several classes lower than public sector workers and small farmers, namely, informal sector workers (especially

the urban slum residents) and the poorest people such as agricultural laborers (*tarāhīl*: rural migrant laborers, in particular). Paradoxically, it was after 1970s, rather than after the introduction of the Open Door Policy (*al-infitāh*), that the benefit of the social policy reached these people. It was this period as well that various projects were undertaken to provide the slum areas, the devastated living environment of which deteriorated to the serious extent as social problems, with the utility infrastructure including water, electricity and sewage system.

These attempts of reforming the economic system after the Revolution were accompanied by restructuring the conventional relationship between the state and the society; in more precisely, the relationship between the state and the social classes. Some have argued that a newly tied relationship between the state and the society (social classes) at this time was ‘a social contract (or social compact)’ (Harders, 2003). The word of ‘social contract’ per se seems to have been used in actual development plans (Weiss and Ulrich, 1998). It meant here that the provision of the material benefit or services such as subsidies aimed at depoliticizing the population; in other word, the society’s relationship established vis-à-vis the state was a reciprocal one where it receives the economic benefit at the exchange of their political freedom (Hansen, 1991). The attention should be paid to this concept since ‘a new social contract’ has recently become a sort of trendy words in Egypt. For instance, the new social contract has been raised as one of the policy agendas by Nazif Government started since 2004, and also as one of the keywords in “Egypt Human Development Plan” published by the United Nations Development Program (UNDP). Here, we can see their realization that it is the time to start all over again with the social contract concluded during the era of Nasser.

This argument, however, has a counterargument, which considers the relationship between the state and public sector workers to be a sort of moral economic relation rather than of ‘social contract’ (Posusney, 1997). This is underpinned by a ‘sense that they were “with” state’ that workers were realizing within the mobilization system of the Nasserite nationalism. Therefore, a neo-liberalistic criticism, described in that ‘they pretend to pay us, and we pretend to work’, may in fact have prevailed among the white-collar civil service, but not among the blue-collar workers exerting effort even though their efficiency was below international standards (*ibid*, 16-17)

One possible viewpoint, taken from these conflicting arguments on the state-society relationship in Egypt asking whether it was a social contract or a moral economic one, would be the following one. The patron-client relationship between the state and the population established during the Nasserite era appeared differently according to the social classes. In other word, the contents of and the ways of receiving the benefit varied depending on the classes, including the white-collar civil servants, public factory workers, the urban poor, several classes among the farmers. Their relationships vis-à-vis the state were not the same. What we could generalize, however, is that the biggest beneficiaries of the welfare policies were consistently specific wealthier classes who had ‘louder voices’ to the state. Furthermore, we need to notice that the dependent relationship the society had vis-à-vis the state described

in the social contract discourse was rather strengthened in 1970s when they attempted to shift from the Arab Socialism. It was because the flowing oil money at the same period strengthened the characteristics of Egypt as a so-called ‘semi-rentier state’.

As a conclusion of this section, we would like to show the overall picture of the reforms done during the period of Arab Socialism. The biggest characteristic of the Nasserite reforms was to establish a newly tied-up framework of aforementioned four challenges: (i) industrialization, (ii) development regime, (iii) economic nationalism, and (iv) social problems. In other word, they structuralized the economic system combined together with those challenges. More importantly, it was accompanied by the reconstitution of the state-society relationship, shown in the aforementioned argument of ‘social contract’. Nasser and his military elites pursued to achieve the two goals, namely (i) development and (iv) (solving) social problems that had not been done by the former political elites, and created the establishment, which ended up with a deadlock to become a negative legacy for the next era. Their reaction to the two challenges, development strategy and social problems, could be rephrased in the two issues –‘developmentism’ and ‘welfarism’– in the etatism of the Arab Socialism. When it comes to the aforementioned issue of ‘social contract’ between the workers and the state, some had a positive view of the moral economy established between the economic nationalism of the workers and the state (Posusney, 1997), while other showed a negative evaluation that the socialism for the workers was just a mere a set of high income and shorter working hours (Amin, 1974).

The Revolution by the military elites, though there were possibilities at its initial stage, failed to establish a development autocracy; on the contrary, caused a situation of ‘autocracy unaccompanied with development’. This was an issue of ‘burden of despotism’ indicated by Prof. Amin. Establishing the authoritarian system, characterized by the abolishment of the former political parties, a mobilization-type political system, individual dominance and political intervention of the military elites, was not accompanied by the establishment of development regime mobilizing the capital and technology for industrialization. On the contrary, it started with the deprivation of the state power by the military elites and formulated the cooperation between the military and security elites and the technocrat elites (bureaucrat bourgeoisies), which reorganized the state-society relationship through establishing the national integration: the nation state based on the conceptual fiction of ‘the people’. The negative legacy it left behind for the next era was tremendously considerable.

III. The State and Society during the Period of the Open Door Policy

1. Evaluating the Period of Open Door Policy: Too Long Transitory Period

The Open Door Policy in economy has been regarded as a policy that Sadat, a successor of Nasser, intended to depart from the Arab Socialism. However, today, more than 30 years passed since 1974, what kind of change has occurred to the political economic system in

Egypt?

What could be observed among the left and even Islamist researchers during the period from late in 1970s to early in 1980s, immediately after the introduction of the Open Door Policy, was an opinion that this policy transformed the Egyptian society from the socialistic system to capitalistic one [Mursī, 1980; Ḥusayn, 1982]. When we review this period, however, the Open Door Policy was not a systematic programme to bring about the comprehensive transition from the Arab Socialism. Therefore, the state-society relationship formulated during the Nasserite period has not basically changed, nor the reorganization of the state power per se has occurred.

In terms of the Egyptian political economic system after the Open Door Policy, Prof. Sa'īd al-Naggar, a prominent liberal thinker and economist, said at the end of 1990s with his feeling of irritation, "Our economic system has basically no changes in its core" (al-Najjār, 1997:15). He indicated that, though the official ideology changed indeed from 'the Arab Socialism' of Nasser to 'Democratic Socialism' of Sadat, the system has remained basically the same: 'the people' dominate all means of production and the national economy is organized according to the comprehensive development plans, while they distinguish 'exploitative capitals' from 'unexploitative capitals' and Socialist inspectors are responsible for conserving the socialistic benefit as well as socialistic disciplines. He sharply criticized that the remains of totalitarian characters in the current system have been obstacles for the economic reform processes.

This long period reigned by the two presidents, Sadat and Mubarak, which could be called the post-Nasserite period, had indeed several turning points, but they were not 'epochs' leading to a new era. For instance, during the period, there were the 4th Middle East War of 1973 and the first Oil Crisis, 1977's uprising due to the price increase and Sadat's visit to Jerusalem immediately after this, the Camp David Accords to Peace Treaty with Israel, Sadat's assassination of 1981, the Gulf War in 1991, and the September 11 in 2001. During this post-Nasserite era, the economic reform proceeded step-by-step, or in more precisely, even intermittently. In the sense that the system has not transformed completely, this period might be expressed as a 'too long transitory period'. Some problems specific to the transitory economy that we discuss later, therefore, took place during this period.

In October 1975, "the October Paper", announced by the Sadat Government in an anniversary of the Victory of the 4th Middle East War, was a declaration of initiating the Open Door Policy. Based on this paper, the foreign investment law was issued in the same year, followed by the revised foreign investment law in 1977, embracing the active attraction of the foreign investment. The import restriction was loosened as well, leaving the new wealthier classes to take new economic opportunities such as importation business. The biggest impacts on the ordinary national economy came from the liberalized emigration to the oil producing countries. The reform of exchange rate system, a pillar of the external economic reform, was interrupted several times. Though the reform of the public sector had already been one of the long outstanding agendas since late 1960s, it was until the law 48 of 1978 that the

'development (*taṭwīr*)' of this sector was finally proposed, but the process of the reform was so slow throughout 1980s. In the end of 1980s, many imported products were charged with more than 100% tariff rates with a lot of quota restrictions, and the issue of double exchange rates system was not yet solved. Unnecessary subsidy expenditures were observed and the distorted structure was found in the price system including consumer prices as well as producer prices (Weiss and Ulrich, 1998:30).

One of the fundamental reasons for this delayed reform, as pointed out by Prof. al-Naggār, should be attributed to the nature of state-society relationship formulated during the Nasserite period. The state established by Nasser was 'a weak state' that immediately cancelled a reform bill of subsidization when a large-scale popular uprising occurred against the subsidy cut for the breads in 1977 which was executed following the IMF advice. It was a weak state against the social pressure congested with dissatisfaction due to the distortion specific to the transitory economy caused by the Open Door Policy.

External factors had considerable impacts on the process of economic reform during this period, as they were in the formulation period of the Arab Socialism. In the first place, the introduction of the Open Door Policy itself had a close relation with the 4th Middle East War. For instance, a naming of memorial 'Victory' for newly built industrial cities ('6th of October City' and '10th of Ramadan City') had a political intention of legitimating this policy that aimed at drifting apart from the bondage of the Nasserite Arab Nationalism and expecting the Western economic aid to flow in. Likewise, in order to overcome the crisis for the political regime due to the 1977 January uprising, the President Sadat visited Jerusalem in November in the same year and realized the peace treaty with Israel because he expected the increase in the Western aid. This, however, resulted in his assassination in 1981 and invited a political instability in the country, which never contributed to the progress in the economic reform. On the contrary, the economic crisis advanced behind the recession due to the decline in oil prices across the Middle Eastern region, throughout 1980s after the shift of its foreign policy, leaving an excuse for the government to postpone the reform (sabotage of then structural adjustment).

A significant change for this stagnated reform in Egypt was provided by the Gulf War in 1991. Egypt joined the anti-Saddam alliance in this war and obtained the huge amount of economic aid as its reward. A standby credit agreement was tied between Egypt and the IMF after the war, and the World Bank promised 3 hundred million of the structural adjustment loan. Furthermore, Paris Club rewarded Egypt with a payment exemption of its external debt by 50%. Following these, the government of Egypt decided to unify the exchange rates that was a long outstanding issue, and promised to advance the privatization of the public sector corporations through implementing the privatization law (business sector law). The tenancy law and labor law were also revised and the transition from the economic system since 1960s appeared to make a rapid progress.

2. People's Economic Life under 'the Soft State'

Despite this movement towards the reform in the aftermath of the Gulf War, however, according to the aforementioned points raised by Prof. al-Naggar, there has no drastic change in the state-society relationship at least until the end of 1990s. Nevertheless, there were some significant changes during this 'too long transitory period'. Some subtle changes were seen in the nature of the Nasserite state, while the society's side, especially the people's economic life has witnessed stormy waves of changes.

As introduced earlier in this article, Prof. Amin described this post-Nasserite period as an era of 'burden of the soft state'. According to his argument, a turning point for this Egyptian state to get 'soften' was its defeat in the 3rd Middle East War of 1967. The system of the Arab Nationalism and the Arab Socialism, utilizing the national liberalization and socialism as their ideology integrating the nation, lost its political legitimacy. Since then, the era has begun for the state to become irresponsible and weaker (Amin, 1995). Under the political circumstances of de-ideologization, the state was able to keep the national confidence only through providing them with the economic opportunity (especially, the liberalization of the emigration) in the name of Open Door Policy as well as material services such as subsidized commodities. As for the former provision, however, as Ahmad Baha Ad-din a prominent journalist and thinker criticized, it was the 'Open Door without any discipline or law' coming from an irresponsible nonintervention state policy (Amīn, 1993:9). The latter provision could be understood as an expanded populist aspect of the Nasserite state, but after 1990, the process of de-populism advanced concurrently. This process was represented in the revision of the labor law after the privatization and the new tenancy law which completely reversed the land reform system (the law 967 of 1975, the law 96 of 1992).

On the other hand, during this 'too long transitory period' in which any drastic political economic reforms have not been executed, stormy waves of socio-economic changes attacked the people's life. According to Prof. Mahmoud Abdel-Fadil, a representative left economist, it was a situation that could be expressed as a crack of the national economy. In his essay "Egyptian Economy: One Economy or Two Economies?", he described the economic changes in the 1970s as a segmentation into the two sectors, the domestic sector and the open door sector ('Abd al-Faḍīl, 1983). The situations deteriorated later on, and in his essay of 1990s, "Egyptian Economy: One Economy or Plural Economies?", he expressed his concern about the real conditions of the national economy which was divided into informal sector, black economy, and furthermore gray economy, vis-à-vis formal sector ('Abd al-Faḍīl, 1995). The economic activities constituted of this 'gray economy', different from criminal activities such as drug dealing and smuggling (the black economy), were yet within legal framework but immoral and 'inappropriate' activities such as side business of civil servants, especially private lessons (*durūs khusūṣīya*) by the teachers for their own students. Behind this, there was a distortion in the labor market due to the policy intervention since the Nasserite period; namely, the excessive employment in the public sector as an income distribution policy,

and accordingly the low salary as its result. This crack or the segmentization of the national economy could be understood as a characteristic of the transitory economy in the era of globalization.

Conclusion:

As a concluding remark, I would like to note here the development, including the future outlook, and its characteristics of the post-Nasserite period, in reference to the four fundamental challenges in the Egyptian reforms: (i) industrialization, (ii) development regime, (iii) economic nationalism, and (iv) social problems. As repeatedly pointed out in this essay, however, the structural changes on the fundamental challenges were quite vague.

(1) Industrialization: Since the introduction of the Open Door Policy, a slogan was repeated to emphasize the strategy change from the state-initiated import substitution industrialization to the export-oriented industrialization through privatization. The extent of that achievement yet remains very low. The foreign investment, introduced through preference treatments such as the revised foreign investment law, headed for the financial and real estate sectors, rather than the manufacturing sectors. Partially, there were some industries rapidly developed, but most of them, such as *ceramic* (dressing tiles) manufacturing, were corresponding to the domestic demand because of the housing building boom. I already pointed out that this import substitution orientation of Egyptian industrialization might have been originated from the populism, one of the characteristics of the Nasserite State.

In an extreme argument, this inner-oriented industrial policy, presumably, aimed at satisfying the domestic consumption rather than protecting the domestic industry, but in fact it was not a real consumer protection. If the populist state were a weak state, then the society, content with the provision of cheap and low quality commodities provided by their weak state, would also have been 'a weak society'. While there has been a criticism of Egyptian agribusiness which remains a tendency to make too much of its domestic market (Sfkianakis, 2002), we hear nowadays there are corporations that introduce the organic agricultural technology to aim at exploring the oversea markets. The changes in the industrial strategy require both the efforts of corporations in utilizing positive sides of the globalized economy and changes in the market sides including changes of the consumer awareness.

(2) Development regime: The change of industrialization strategy does not need only expecting the spontaneous changes in the corporations as well as the market, but also establishing a new development regime that lays the state implementing it in the center. What is essential in this new system would be the review of the roles played by the state corresponding to the waves of globalization, and the participation of the new entrepreneurs independent from the state. The local private sectors have continued to have deep-rooted distrust against the current state system involving privileged classes that relate to the authority

with various interests and resist to the reform. What are needed now will be a formulation of the trust circle in the state-business relationship as well as a draft of the industrial policy based on such a circle indicating a possible demarcation among the state-initiated public corporations, local private capitals and foreign capitals. In this sense, we need to carefully watch the attempts of the current Nazif Government initiated by reformist bureaucrats, to confirm whether they could stand on a broader social base involving private entrepreneurs who hope to abolish the old regulations and enter new industrial fields, or they end up with halfway results of the reform under the pressure of the collusion of the old privileged elites and their surrounding (crony) capitalists.

- (3) Economic nationalism: As aforementioned, what is needed for Egypt now is a new type of development ideology parted away from the Arab Socialist economic nationalism with strong color of populism. It is a prerequisite condition for a new framework of the national agreement among the economic classes to be arranged, in order to overcome the populist politics and replace the Egyptian version of etatism. Therein lies a background for the ongoing discussion on 'a new social contract'. For this direction, the aforementioned reorganization of the state-business relationship as well as the renovation in other social classes' relationships vis-à-vis the state should also be done.

In the meantime, what should be asked, in considering how to overcome the Arab Socialism in a real sense, are concrete contents by which the de-populism means. First, as mentioned in the following parts of (iv) social problems, it refers to problems of the social policy reform, especially the problems of structural reform in the distorted labor market, originated from the Arab Socialism. This issue of policy stabilization of the labor and management relations is another pillar of (ii) the development regime along with the state-business relationship. A new establishment among the state, labor, and management relationship is required.

The second aspect of de-populism is to overcome the exclusive factor of the economic nationalism behind the (i) inner-oriented industrialization. In the first place, for Egypt and Syria, located in the pivots of the east and west trade routes since ancient times and with the commercial culture deeply-rooted in their societies, the past half century when the closed and exclusive economic policies have been adopted under the ideology of Arab Socialism was in a way 'abnormal' and, in the near future, it might be regarded as a historical intermission. Yet, what is requested from the state at this moment is to show their capability to explain to its national classes about impacts of their active reaction to the waves of globalization.

- (4) Coping with the social problems: The four fundamental challenges of the reform issues are closely and mutually related to each other. As aforementioned, the issue of de-populism has significant meanings in all factors of changes in the industrial strategy, establishing a development regime as its implementer, and formulating a development ideology legitimating the strategy change. This has a close relation to the fourth challenges as well,

namely the social policy reform that was a reaction by the Nasserite state towards the social problems.

The economic reform that advanced intermittingly after the Open Door Policy had a tendency of de-populism. However, the measurements taken were of imbalance and often, of injustice. These reforms targeted in order the social groups with 'lower voices'. The first sacrificed were the beneficiaries of the Arab Socialism, the two economic classes; i.e. small farmers and public sector workers (the law 967 of 1975, the new tenancy law, the law 96 of 1992, the privatization law and the labor law of 1991). On the other hand, reforming the subsidy policy as a pillar of the de-populism reform, as shown in the current government's declaration to save the civil servants as the working poor, witnessed no drastic changes. The preference social policy, such as a policy providing real estate and housing, for the social classes closer to the '*ḥukūma* (government)' continued to be implemented.

The reform in the labor system itself is a most significant area in the social policy as a reaction to the distortion in the labor market caused by the Arab Socialism and 'the soft state'. The distortion of the labor market reached its peak, as seen in various forms such as excessive employment in the public sector which was conducted as income distribution policy, dysfunction of the labor policy such as insufficient minimum wage system for the low wages under the inflation, prevalence of side jobs in the 'gray sector', and deteriorated working morals. The popular education policy started during the Nasserite period was supposed to have a significance of the social policy to increase fluidity among the social classes, but resulted in considerable challenges for the reform, such as stagnated literacy rates and the increased highly educated graduates facing unsuitable competition in the labor market.

What have been drawing attention recently are some projects implemented by the Social Development Fund, experimentally introduced at the time of financing by the World Bank in 1991. We need to wait empirical studies to be done on how much functions could be expected from NGOs and micro credit enterprises within a new social policy framework. However, whether the future reform will be successful or not, in fact, depends on appropriate combinations between the development strategy and the social policy, as well as whether they could achieve the social consensus, namely 'a new social contract', or not. As Prof. al-Naggar suggests, they should be executed in conjunction with the political reforms as a whole, which will take place in the process of political transformation for a post-Mubarak issue is expected to arise in the near future.

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