

INFITAH POLICY UNDER SADAT: ITS IMPLICATIONS

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CERTIFICATE

This is to certify that the dissertation entitled "*INFITAH POLICY UNDER SADAT: ITS IMPLICATIONS*" submitted by **LAXMAN KUMAR BEHERA** in partial fulfillments of the requirement for the award of the degree of **MASTER OF PHILOSOPHY (M.Phil)** is his original work and has not been submitted for the award of any other degree of this University or any other University.

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To
All members of my family

Preface

Infitah is the paradigm shift in the Egyptian economic policy undertaken by Sadat in 1974. The formal adoption of this policy was neither forced upon by domestic capitalist lobbies nor by western creditors. Rather, both the forces played their own role in shaping the new economic policy. On domestic front, the state bourgeoisie, the rivalry among political circles along with economic crises prior to early 1970s supported the cause of open door economic policy. On the international front, the oil boom in 1970s and the US-USSR détente played important roles in liberalizing the economic.

Though *infitah* was economic in nature, yet it did affect the political infrastructure and Islamic Militant groups in Egypt. To support the cause of *infitah* policy, Sadat divided different ideology-based groups in the Arab Socialist Union (ASU) into political parties. By this, he intended to play his opponents off against each other. However, there were some developments in other fields, especially in judiciary and press. Judiciary, in the *infitah* period attained its independence in protecting and expanding the civil rights of people.

The major opponents of the *infitah* policy were leftists and Nasserites. To purge these groups Sadat used religion as weapon, which gave prominence to these groups. But as the bad consequences of *infitah* policy started to trickle down the society, these groups raised their voices against the very policy measures. They protested against the growing inequality among the rich and

poor; the high inflation that swept over to ^{hit} hard, ^{the Poor} and the cultural deterioration due to the penetration of westernism, and so on.

The first chapter is an introductory one which deals with the definition, historical background, legal framework and objectives of *infitah* policy.

The second chapter consists of impact of *infitah* on Egyptian economy during Sadat period. Here an attempt is made to see both the positive and negative consequences of *infitah* policy.

The third chapter deals with the impact of *infitah* on the political infrastructure in Egypt. It examines how economic liberalization policy leads to political liberalization in the perspective of (a) changes in the party system, (b) government, parliament and elections, (c) role of press, and (d) role of judiciary.

The fourth chapter consists of impact of economic open door policy on the growth of Islamic militancy during Sadat's time.

The fifth chapter summarizes the whole discussion in the form of certain definitive arguments.

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Errors if any are solely mine.

Laxman Kumar Behera

CONTENTS

Acknowledgement

Preface i-ii

Chapter I 1-17

Introduction: Definition, Background, Legal Framework
and Objectives of *Infitah*

Chapter II 18-51

Impact of *Infitah* on Egyptian Economy

Chapter III 52-74

Implications of *Infitah* on Political Liberalization

Chapter IV 75-89

Infitah and Growth of Islamic Militancy

Chapter V 90-96

Conclusion

Bibliography 97-106

CHAPTER I

Chapter-I

Introduction:

Definition, Background and legal Framework of *infitah*.

The process of economic liberalization has two components: (1) Relaxation or removal of government-imposed restrictions on the operations of various markets and on the domestic and international economic transactions so as to create a free operation of the market forces. (2) Creation of a stable macro economic policy environment conducive to the market forces. While the first component is expected to contribute toward structural adjustment, the second one deals with what is described as stabilization. Relaxation or removal of restrictions on economic transactions involves: “(1) procedural change such as changing the procedures of licensing of imports, foreign and domestic investments. (2) Legislative changes such as repeal of outdated legislation for bringing into existence various regulating authorities”.¹

In the post-World War-II Period, the experience of some countries (Indonesia, Taiwan, South Korea, Thailand and Malaysia) had shown that a freer and more competitive domestic market with freer multilateral trading arrangements offered a favourable environment for rapid growth. More importantly, despite the global trading environment growing more volatile

¹ S. D.Tendulkar, *Economic Liberalization: Challenges, Opportunities and Pitfalls* (Delhi, 2001), p.22

over the time, several low –income countries achieved and maintained rapid growth by successfully participating in the global trade.²

Infitah i.e., the Open-Door Economic Policy (ODEP), is the paradigm shift in the Egyptian economic Policy undertaken by Sadat in 1974. The new policy measures, enshrined in a document known as October Working Paper, was laid by Sadat before the People’s Assembly on 4 April 1974.³ The term *Infitah* means “the shift in the state economic policy towards increased emphasis on private sector, reform of public sector, opening to international market and greater reliance on market forces.”⁴ While presenting the October working paper Sadat declared that the new economic policy would “achieve economic development at the rates that exceed all we have achieved up till now”.⁵ Further he added, “whatever the state of resources that we can mobilize locally, we are still in the most urgent need of the external resources. The circumstances of the world today render it possible that we obtain these resources in a manner that strengthens our economy and hastens our growth. On this basis we have called for an economic opening (*infitah*), and it is a call founded upon the calculation of our economic needs on the one hand and available external funding on the other.”⁶ The economic reform was so vigorously discussed at that time that before the launch of *Infitah* the New

² Ibid.

³ David Hirst and Irene Beeson. *Sadat*. Faber and Faber Limited (London. 1981). p. 204.

⁴ Alan Richards and John Waterbury, *A Political Economy of the Middle-East: State, Class, and Economic Development* (Boulder, Colorado, 1990),p.238.

⁵ Hirst and Beeson. n. 3. p. 204.

⁶ John Waterbury. *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes* (New Jersey, 1983). p. 123.

York Times on February 8, 1974 reported, "...that Egypt has come to realize that socialism and extreme Arab nationalism.... have not helped the lot of the 37 million people they have in Egypt and if its president Sadat wants to help them, he has got to look to Private enterprise and assistance"⁷

Historical Background

The formal adoption of the economic liberalization policy was neither forced upon Egypt by domestic capitalist lobbies nor by the western creditors. Rather both the forces tended to confirm the course upon which the country had set itself in. The course of action was both internal and external to Egypt.

Internal Dynamics:-

The internal dynamics of *infitah* can be visualized in the context of social, political and economic events that surfaced in the late 1960s. By the 1970s, the bureaucratic elite was divided into three influential groups. The main trend of the first group was to favour the public sector that provided them with rewarding and distinguishing positions. The second group preferred a full return to the capitalist system of economy. The middle group desired the best of both worlds, tending to think of their public sector posts as stepping-stones to private business. By utilizing capital accumulated from their relatively high incomes, and by benefiting from contracts developed in both the public and private sectors, they hoped to set up their own business at

⁷ David Rockefeller, *New York Times*, February 8, 1974

sometime around their retirement. But as the oil boom took place in 1970s, the choice between socialism and capitalism clearly tilted towards the latter. With the oil boom, the prospects of investment by oil-rich Arab States in Egypt increased. Hence the majority of the bureaucrats- especially the technocrats- were tempted to depart from their previous support of a wide-ranging public sector towards a capitalist system. The opportunity before them was that they could opt for an increasingly capitalist system which would bring them greater gains either as salaried managers or as investing businessmen. Thus there emerged an entrepreneurial class from within the bureaucracy which acted as a pressure group for the birth of *infitah*.⁸

Apart from the social dynamics, the political constraints of the early part of Sadat's Presidency also contributed for the launch of *infitah*. Sadat, who was something of a liability,⁹ came a long way to become the president of Egypt after the death of Nasser. He rose to power on the plank of pursuing Nasser's legacy. But subsequently, he was proved to be far from being Nasser who was known as "Revolutionary Giant", "Destroyer of Imperialism", "Builder of Dam", and "Hero of Heroes". Sadat lacked Nasser's charisma. In the mean time, he had to fight a long battle to remain in the power. Most of his opponents were left-wingers. In order to overcome the Nasser syndrome and to create an image quite acceptable to the masses he portrayed himself as

⁸ See. N. N. M. Ayubi, "Implementation Capability and Political Feasibility of the Open Door Policy in Egypt". in M. H. Kerr and El Sayed Yassin. ed., *Rich and Poor States in the Middle East: Egypt and the New Arab Order*. (Boulder, Colorado, 1982), pp.352-53

⁹ A. Mc Dermot, *Egypt From Nasser to Mubarrak: A Flawed Revolution* (London, 1988), p-41.

“*rabb al-aila al misiria*” (head of the Egyptian family), “*al-ra'is al-mu'min*” (the pious president). This he did by giving importance to religion and other ‘pious aspects’ of human life. He also tried to find out a constituency which would lend him strong and consistent support and accept him as able leader. So Sadat looked at the bourgeoisie which was the most strategic social force in Egypt. To please this section of society Sadat took a number of measures. Among the measures he allowed limited economic liberalization to encourage investment of Arab Capital in Egypt.¹⁰ Besides this, he allowed private import of foreign goods. Thus Sadat’s political ambitions and legitimacy constraints necessitated to build a section of society which was pro-capitalist. In order to satisfy this group Sadat, to some extent, was pressurized to open the economy.

Besides the socio-political dynamics of *infitah*, the economic situation prior to Sadat’s ascendancy to power also played a pivotal role in the birth of *infitah*. Sadat’s economic policies contrasted to the policies adopted by Nasser. The fundamental change that Sadat brought about in the economy can be discussed in the light of economic plight in the 1960s and early 1970s.

From the late 1950s Egypt under Nasser took a major step towards heavy industrialization. In the first Five Year Plan (1960-65) the goal was fixed to strike a balance between the requirements of production and domestic consumption. Expansion of consumer goods was set to go beyond the simple

¹⁰ See. Hinnebusch. n.18, p.50.

perishable consumer goods to the vast range of modern durable ones. With this the textile sector was on the top list for the thorough overhaul and expansion. Again two more objectives were added which required (1), to promote industries with export potential (2), to achieve an equitable regional distribution of industry in Egypt. Thus, the planners wanted to advance on all fronts. They wanted heavy industry without sacrificing consumer interests, import-substituting projects but not to the neglect of the export-oriented projects. Labour absorption and efficiency were also given priority. However, the progress towards these goals was very slow and the plan couldn't be fully materialized. The reasons for this can be attributed to the following factors. The first factor was that much of the progress depended upon the ability, in other words, maturity of the economy. Egyptian economy at that time was not mature enough and new heavy industries needed at least 4-5 years to come to full capacity and levels of efficiency. Another factor was that some projects remained hostage to the completion of Aswan High Dam. Thus Egypt was caught in the mid stream at the end of its plan.¹¹

Second, the first industrial plan 1957-60 had to face many constraints. To meet the investment requirements of this plan private sector was assigned to cover a part. But the private sector, for whatsoever reason, failed to meet the target. That became one rationale for the state takeovers of some private enterprises in 1961. Whatever funds the government accumulated, the rest was covered by either foreign capital or by deteriorating the terms of trade

¹¹ See. Waterbury, n.6, pp. 83-85

between agriculture and industry by favouring the latter. As the agriculture was the centre of gravity of Egyptian economy, the adverse treatment of agriculture did not yield much to the economy.¹²

Third, the co-ordination and surveillance among the various ministries concerning economy was very poor and the growth rate was kept high only to please Nasser to remain on his side. As Bent Hansen rightly noted-

“The initial macro-frame worked out at the center exercised only slight influence upon the sectoral plan drawn up by different ministries. Egypt’s first Five Year Plan was really an amalgam of investment projects loosely co-ordinated into a single document.”¹³

The growth rate that the Egyptian economy achieved during the first Plan period was much caused by inflated civil service and public sector pay rolls than by the production gains. Throughout 1960s though industry attracted between 25-28% of all investment, its return to GDP was not well matched. Though it rose from 16% in 1956 to 24% in 1964, it again fell to 23% in 1970. Interestingly, at the end of the plan period, despite industrial expansion, product composition was found more biased towards consumer goods than at the beginning. Similarly, in this plan period, the value of imports increased from 15% of GDP to the 20% of GDP at the end of the plan

¹² Ibid.

¹³ Bent Hansen. “Economic Development of Egypt”, in Cooper and Alexander, ed., *Economic Development and Population Growth in the Middle East* (New York, 1972), p.50.

period. Though the volume of exports increased in the plan period, yet it came at a time which witnessed a major devaluation of the Egyptian pound.¹⁴

The 1961 social laws, which made employment for all graduates, saw a huge surge of labour force. Throughout plan period, the workforce grew by nearly 22%. But the per-capita productivity could not match its growth rate. Total final consumption as a proportion of GNP failed to drop in this period. Total final consumption remained at a level between 85- 87% of GNP and about 2/3 of public consumption consisted of wages and salaries that helped finance demand for consumer goods. As the gross domestic savings remained stagnated, the cumulative investment gap widened to 417 million US dollar over the period 1960-65, which had to be financed by external borrowings. As the Egypt's export performance was disappointing, it lost its credit-worthiness and ability to service its debt. So it faced a payment crisis in 1962 followed by 1965, which adversely affected all further planning efforts.¹⁵

The cotton crop failure in 1961, the cost of involvement in Yemeni Civil war (estimated to be more than one billion Egyptian dollar), the suspension of US food-for-peace shipments after 1965, the defence outlays because of the conflict with Israel added economic difficulties to the already crisis-ridden Egyptian economy. When the crisis of the first plan period was still high the second Five-Year plan was being worked out. To finance this

¹⁴ See. Waterbury. n.6. pp.85-99.

¹⁵ Ibid.

plan, what Egypt required was: (1) an assured access to large amount of foreign exchange (2), to keep off from further transfer of assets to public ownership. But the only option that was available was in terms of foreign assistance. But as John Waterbury remarks, “ In Egypt’s moment of need, neither power came forward to Egypt’s rescue.”¹⁶

Though some changes were made in the policies yet they were not implemented on the ground because of the differences in the leadership. At that time the then USSR started looking at Egypt in a skeptical way on its socialist credibility. On the eve of 1967 military debacle at the hands of Israel, Egypt was in a serious economic crisis. The monthly income repayment to IMF worth \$13.5m was missed, and stretched –out loans with France, Britain and Italy were negotiated to avoid default. Stringent economic actions were taken. Investment budget was kept either at same as or below the previous level. As a result, the economic growth came to a halt, and there were absolute declines in per capita income. With this, Nasser had no respite from the domestic politics. He had to wage political war on the religious right and upon the ‘feudal’ remnants in the countryside. He also came under the intense pressure of Arab Socialist union (ASU) lobby. The legislation was prepared in 1966 and 1967 to nationalize most of the remaining sector. This by no means justified the already depleted public resources. In other words, the nationalization policy came at a time when most of the public enterprises

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¹⁶ Ibid.

were in crisis. The June war of 1967 was still taking its toll, as building national army was utmost importance regardless of its financial cost while the situation demanded economic austerity and retrenchment, Nasser fell on the trap of expansionist policies without solving the inherent crisis.¹⁷

External Dynamics of *Infitah*:-

The external dynamics of *infitah* can be divided into two parts: (a) Regional, and (b), International. Regionally, the post-war boom in oil prices produced a massive transfer of global wealth to the Arab oil producing countries. A policy of “Socialist austerity amidst such capitalist riches must have seemed foolish ...Egyptian elites perceived a unique opportunity to spark a new economic take off combining western technology, Arab Capital and Egyptian man power.”¹⁸ In other words, the oil boom that took place in many neighbouring countries stimulated a growing perception that Egypt might be able to benefit from some of this sudden wealth as a means of solving chronic economic problems. Arab aid and growing remittances from Egyptians working in the oil-exporting countries was apparently too strong a temptation for the capital-hungry Egypt to brush aside. And logically, making use of such vast resources required important policy changes on the part of the Egypt. So considering the above opportunities Sadat wasted no time to go for an economic overhaul.

¹⁷ Ibid.

¹⁸ R.A.Hinnebusch Jr., *Egyptian Politics Under Sadat: The Post-Populist Development of an Authoritarian-Modernizing State* (London, 1985), p-58.

The international factor that remodeled Egypt's economic policies can be analyzed as follows. The most significant development that happened during 1960s onwards was that of US - USSR détente. The détente between the two super powers came in this form: "that each of the super powers could continue to seek greater influence in the countries of the third world, the other party should refrain from the use of force against such attempts. Each of them could indeed seek new clients, but each should warn its clients not rely on unlimited support from their pattern in their confrontation with clients of the other Super power."¹⁹

This détente meant a lot in the third world perspective. It meant for the poor countries that nothing less than complete allegiance to one of the two superpowers was possible. Slogans of non-alignment and neutrality became things of the past. The countries of the third world were suddenly deprived of their ability to take a neutral stand vis-a-vis the two superpowers. It also became difficult for them to remain at an equal (or almost equal) distance from both powers or to neutralize the pressure exercised by falling back on the other's support or to compensate for a decline in one power's economic aid by getting more from the other.

The changed international scenario came at a time when Middle-Eastern oil had become much more vital to the west and when a renewed strategic

¹⁹ Galal Ahmad Amin, "External Factors in the Reorientation of Egypt's Economic Policy". in M. H. Kerr and El Sayed Yassin, ed., *Rich and Poor States in the Middle East: Egypt and the New Arab Order*. (Boulder, Colorado, 1982), pp.285-319.

interest in the Middle East had therefore been taking place. This also came at a time when there was a growing belief among the Egyptian leadership that the United States held 99% of the cards of the game of the Middle –East problem. At the same time the Egyptian leadership thought that the USSR had gained from the state of ‘no war, no peace’ by strengthening its position in Egypt by establishing new military bases in Egypt. This was used as a bargaining card for the USSR in its negotiations with the USA on various political and economic transactions. The leadership’s doubt about the USSR was confirmed when Moscow Summit between Nixon and Brezhnev in 1972 yielded this “.... The Russians finally confirmed that they regarded their growing détente, with the US as more important to them than their military and political commitments to the Arabs and to Egypt in particular”.²⁰ Egypt’s frustration over the Soviets grew when the latter declined to increase its aid to the former to compensate American aid which was expired and not renewed after 1967.²¹

Legal Framework and Objectives of *Infitah*:-

The period since 1971- or precisely 1974- has witnessed a number of institutional changes. Numerous measures were taken to restructure the country’s economic relations. Many changes were made in the internal workings of the Egyptian economy. The followings were some of the

²⁰ R. Stephens. “The great Powers and the Middle East”, *Journal of Palestine Studies* (Washington). Summer 1973, p.5

²¹ Ibid.

important changes that were brought about due to *Infitah* undertaken by Sadat regime

(A) Law No. 43 for 1974 and its amendment through law No 32 for 1977:-

Law No 43 of 1974 followed Law No. 65 of 1971 which was known as the Law for Arab Capital and Free Zones. It is no exaggeration to say that Law No. 43 for 1973 and its amendment through Law No 32 for 1977, was the most important step on the road to *infitah*. The main objectives of this law were:

“(1) Provision for opening the Egyptian economy to foreign and Arab direct investment in almost every field: industrialization, mining, energy, tourism, transportation, reclamation and cultivation of desert and barren lands, housing and urban development, investment companies, banking and insurance, reconstruction, contracting, and consultancy firms (Article-3). This list of areas open for foreign investment exhausted virtually all conceivable fields, and left no sanctuary for genuine national investment.

(2) Provision against nationalization and confiscation (Article 7)

(3) Tax exemptions that lasts for five years, and which may extend to eight years, if warranted by public interest; and a 10 year tax exemption, which may extend to 15 years, for reconstruction projects (Article 16)

(4) Companies established under the above law are considered private companies, regardless of the legal nature of local share capital. Such companies are not subject to legislation and regulation governing public sector enterprises of their employees (Article 9)²²

It is clear that Law No 43 of 1974 was the successor of Law No 65 of 1971 and the predecessor of Law No 32 for 1977. The first two Laws had life span of three years each after being replaced by a new one. From this we can say that successive laws were meant to provide more and more incentives to attract more private and foreign capital.

(B)The New Import-Export Law of 1975:-

Another step on the road to *infatih* was the promulgation of law No. 118, 1975 for imports and exports. The law allowed the importation of certain goods by the private sector. It also made provisions that allowed individuals to import directly for private use. The new Law of 1975 abolished the import and export Laws of 1959 (Law No 9 and Law No 203) and Law No. 95 of 1963 for the regulation of importation, thus dismantling state monopoly and control of foreign trade. Decree No. 1058, issued by the Minister of Trade and Commerce in October 1975, entitled individuals both Egyptian and foreign, to import everything except for eighteen commodities. These eighteen commodities were reserved to be imported by public sector companies. These

²² Gouda Abdel- Khalek, "The Open Door Economic Policy in Egypt: Its Contribution to Investment and its Equity Implications", in M. H. Kerr and El Sayed Yassin, ed., *Rich and Poor States in the Middle East: Egypt and the New Arab Order*. (Boulder, Colorado, 1982), p.265.

included wheat and flour, maize, beans, sesame, tea, sugar, edible oil, animal and vegetable fats, tobacco, cotton and cotton yarn, jute, coal, petroleum and petroleum products, chemical fertilizers, insecticides, and military production requirements and arms.

With the exception of these basic food items, power and energy items, agricultural production requirements and strategic items, everything else may be imported by the private sector. In particular, machinery and equipment and raw materials- the basic items for any serious investment programs, or development plan- are now imported by the private sector. Not only that, but there is also the possibility of foreign control over the importation of intermediate and capital goods. These measures really complement the basic laws of *infatih* (Law No. 43 and Law No.32). Since these laws stipulated that any project established under their prerogatives shall be a private enterprise even if the public sector is a major partner. So the primary aim of Law 118 of 1975 was to create room for the private sector.²³

²³ Ibid, p.266.

(C) Foreign Exchange Law No 97 of 1976:-

This Law was intended to liberalize foreign exchange transactions outside Egypt. It guaranteed the freedom of every legal entity – except for government bodies, public authorities and public enterprises - to keep the foreign exchange acquired from any source whatever (except from merchandise exports and tourism). They were also allowed to make transactions in foreign exchange through private banks. So it ensured a competition between private and public banks with regard to holding foreign currency. As the deposits with private banks increased, it was recycled to the world financial centers, and sometime back to Egyptian borrowers. So the objective here was to give more flexibility to private sector in handling of foreign currency.²⁴

(D)The Own – Import System:-

Another policy measure of the *infitah* undertaken in 1974 was the own-import system. According to this system, anybody who had foreign exchange resources can use them to import directly without going through the banking system. The declared objective was to expedite the import of raw materials and other production imports for the private sector. This system allowed the importer to acquire foreign exchange, however he could, without any obligation to convert it through an Egyptian Bank.²⁵

²⁴ Ibid. pp.267-69.

²⁵ See. Waterbury. n.6. pp. 95-97

(E) Phasing out of bilateral Trade agreements:-

Another supporting measure for the policy of *infitah* was the phasing out of the existing bilateral trade agreements with the then USSR and Eastern Block. Here the objective was to conduct foreign trade on the basis at market forces by integrating Egyptian economy with world capitalist market. It is worth mentioning that the prior trade with 'agreement' countries was based on the agreement rather than values of exports. It had little to do with the world market prices and even less with quality. The result was that the private sector and public sector were treated alike²⁶.

²⁶ Ibid



CHAPTER II

Chapter-II

Impact of *Infitah* on Egyptian Economy

Since the introduction of Open-Door Economic Policy in 1974, The Egyptian Economy has grown rapidly. Between 1974 and 1982 GDP has grown on an average 9.1% per annum.¹ Prof. Ibrahim M. Oweis gives even a better picture about the growth in this time period. He says that the Egyptian Economy as the result of open-door policy grew by 9.4% annually in the period 1974-81.² The estimation of Central Bank of Egypt shows that GDP grew by 8.1% and 8.2% in the period 1973-79 and 1978-79 respectively. The following table shows the GDP in various years.

Table-1

	1974	1975	1976	1977	1978	1979	Average annual growth rate. (in %)	
							1973-79	1978-79
GDP at current prices at factor cost.	4,154	5,064	6,164	7,400	9,008	11,936	22.0	32.5
GDP at constant (1975) prices at factor cost.	4,548	5,061	5,521	5,907	6,532	7,065	8.1	8.2

Source: Central Bank of Egypt (R. Alibony and others, ed., Egypt's economic Potential (London, 1984), p.32.)

¹ John Waterbury, "The Soft State and the Open Door: Egypt's Experience with Economic Liberalization, 1974-1989," *comparative politics* (New York), vol. 18, no. 1, 1985, p.73.
² Ibrahim M. Oweis, "Egypt's Open-Door Policy: An Economic Assessment" *Columbia Journal of World Business* (New York), vol.23, no.1 1988, p.74

More importantly, the national savings increased in the same period. It increased from 8.5% of GDP in 1974 to 19.5% of GDP in 1980/81.³ If we look at the some of the macro-economic aggregates during 1974-79/80 period, we can see that exports, investments and gross foreign capital inflow have increased over these years. These are given in the following table.

Table-2

Impact of ODEP (percentage shares of GDP)

	(1972/73)	(1979/80)
Exports (goods and services)	14.6	43.8
Gross Foreign capital inflow (Including direct investment)	10.4	17.6
Investment	22.3	30.4
Pvt. Investment	5.2	9.4

Source: (Robert Alibony and others, ed., Egypt's economic Potential (London, 1984), p.29.)

The above table shows that there was remarkable increase in exports in the period following *infitah*. It increased from 14.6% of GDP in 1972/73 to 43.8% of GDP in 1979/80. Similarly, Gross Foreign Capital inflow and investment have shown some degree of growth in that time.

³ John Waterbury. n.1,p.74

Undoubtedly, there were several factors, which had contributed to the high rates of growth of 1974-81. The rise in prices of oil and remittances of labours working abroad, mainly in other Gulf countries, rise in Suez canal revenues and burst in tourism sector, are examples of such factors among other.

The following table gives the pattern of earnings of some factors, which contributed to the high growth rate of GDP.

Table-3
Earnings (on settlement basis, in current account)

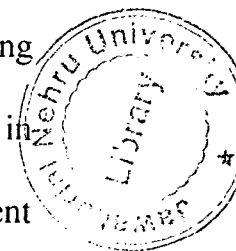
(Million US dollars)

	1974	1975	1976	1977	1978	1979	1980	1981
Suez canal	----	85	311	428	514	589	660	888
Workers remittances	189	365	755	896	1761	2214	2700	2200
Tourism	265	332	464	728	702	601	780	590
Oil	104	164	268	600	688	1347	2500	2820

Source: (Robert Alibony and others, ed., Egypt's Economic Potential (London, 1984), p. 73)

The Suez Canal earnings have increased to 888 million US dollar in 1981 from mere 85 million US dollar in 1975. Similar is the case with others, which witnessed remarkable growth in the *infatih* time period. Revenues from petroleum exports, Suez Canal revenue, workers' remittances and Tourism totaled 600 million US dollar in 1974, rising to 7.5 billion US dollar by 1983.⁴ The annual rates of growth in the industrial sector increased from 3.8% in 1974 to 11.9% in 1975 and to approximately 14% in 1977. The gross fixed investment in physical infrastructures such as electricity; construction of roads, harbors and others; transport; communication; housing and public utilities had increased by more than ten-fold in 1974/81 in comparison to the 1961-73 period.⁵ From 1975 to 1979 gross investment (including inventory accumulation) averaged 30% of GDP. In large part, private investment, both Egyptian and foreign, was responsible for this increase. This increment in the rate of accumulation is all the more surprising if we consider that between 1967 and 1973 gross investment was just barely enough to cover capital depreciation.⁶ Much of this investment it should be noted, concerned the accumulation of stocks, which decreased considerably during the interwar period. Moreover, in 1974, the closure of the traditional export market of Eastern Europe meant that stocks were increased by unsold products.

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⁴ Ibid.

⁵ Khalid Ikram, *Egypt's Economic Management in a Period of Transition* (Baltimore, 1980), p.37.

⁶ Oweiss, n.2, p.74.

We will now turn to the fact that a number of projects, local and foreign, have come to play in the Egyptian Economy. The following table gives a picture of that.

Table-4
Projects in operation (31/12/1982)
(Million Egyptian Pounds)

A-land	No. Of Projects	Local Capital	Foreign Capital	Total Capital	Total Investment
Investment/finance	71	202.0	220	422	463b
Banking	63	208	240	448	448
Tourism	36	37	78	115	226
Housing	15	4	15	19	108
Transportation	11	5	29	34	81
Hospitals/med. Centers	10	13	13	26	43
Agriculture	29	65	43	108	222
Contracting	54	21	29	50	89
Consulting	20	3	5	8	9
Services	23	29	14	43	128
Textiles/ clothing	37	26	32	58	122
Food/ Beverages	37	28	30	58	142
Chemicals	62	24	53	77	132
Wood and Furniture	8	1	5	9	17
Engineering	25	10	18	28	40
Building material	20	14	17	31	64
Metallurgical	21	12	16	28	44
Pharmaceuticals	3	.4	3.6	4	5
Mining/ petroleum	7	2.6	13.4	16	33
Total	552	708	874	1582	2416
B-general Free Zones:					
Cairo	29	.5	26	26.5	33
Alexandria	73	.4	40.8	41	68
Suez	23	.3	7.6	7.9	10
Port Said	82	1.8	81.6	83.4	97
Total	207	3	156	159	208
C-Private Free Zones					
Cairo	18	1.6	24.9	26.5	33
Alexandria	18	.4	171.8	172.2	68
Suez	3	--	26.5	26.5	10
Port Said	4	--	1.5	1.5	97
Total	43	2	224.7	226.7	208
Grand Total	802	713	1254.7	1967.7	2922

Source: (Ministry of Economy, Investment and Free Zones Authority, Facts & Figures, X, December, 1982)

The above table shows that a number of projects have been in operation in Egypt. Both foreign and domestic capital are employed in almost all sectors.

Following *infitah* and good relationship with the West, foreign aid did come to Egypt. The following Tables summaries it in precise manner.

Table-5

Egypt's Major Aid Sources, 1978 (Million US dollar)

Source	Allocated Aid
United States	970
World Bank	270
IMF	240
Japan	184
Arab States	166
West Germany	163

Source: - Middle East Economic Digest, 5 January 1979, p.5 and 23 February 1979, p.24.

In addition to the above things, the western economic assistance in terms of medium and long-term loans also reached to Egypt. It is given in the following table.

Table-6**Medium and long-term loans (1973-76) (million US dollar)**

Countries/ Institution	1973	1974	1975	1976
World Bank	----	85.0	77.0	157.0
IDA	74.9	55.0	55.0	40.0
Denmark	---	9	---	6.6
France	----	40.0	81.4	113.0
West Germany	59.1	83.1	99.8	91.4
Japan	11.3	22.7	178.6	39.2
UK	24.5	----	-----	-----
USA	----	----	401.0	694.0

Source: (World Bank, Arab Republic of Egypt: Economic Management in a period of Transition (Report No. 1815-EGT), Vol. IV, 1978.)

The Aid and loans received by Egypt were used in different developmental project such as re-opening of the Suez- Canal, the development of a number of plants for fertilizers, cement, natural gas. and so on, as well as the improvement of the water, electricity and sewage system.

In any case, with the progressive introduction of open door economic policy, the rate of Egyptian economic expansion was extraordinary. In fact, a

number of studies suggest that the growth was even greater than it was indicated in the official figures.⁷

The unemployment rate was reduced during the period following *infatih*. Khalid Ikram in his World Bank publication book, *Egypt's Economic Management in a Period of Transition*, mentions that, "... Egypt's unemployment rate was drastically reduced during 1974-81 in comparison to the earlier period 1961-73."⁸ Moreover, since the end of the first Five –Year Plan (1960-65), Private industrial employment has grown. In the middle 1960s the Private share of total employment were about 46% but rose to 55% by the mid-1970s. The following table shows the share of industry in total employment.

Table-7

Year	Total employment (thousands)	Industrial employment (thousands)	Industrial Employment as % of total employment.
1970-71	8,506	1,053	12.3
1975	9,433	1,175	12.5
1980	10,694	1,347	12.6

Source: John Waterbury, The Egypt of Nasser and Sadat: The Political Economy of Two Regimes (New Jersey, 1983), p.195.

The above table shows that the industrial employment has grown from 1,053,000 from 1970-71 to 1,347,000 in 1980. The percentage of industrial

⁷ Ibid.

⁸ Khalid Ikram, n.5. p.37.

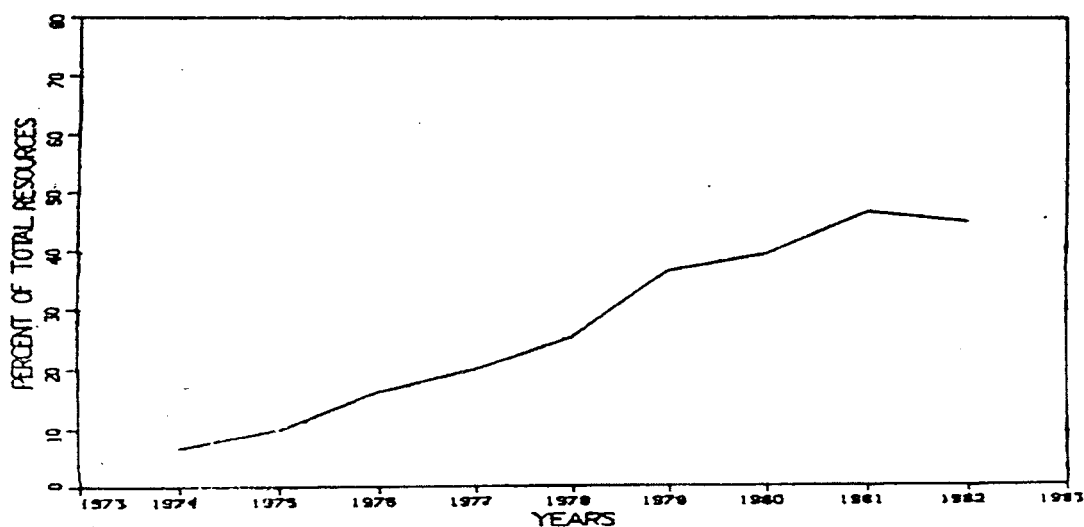
employment out of total employment has grown, though marginally, from 12.3 % in 1970-71 to 12.6 % in 1980.

Shortcomings of *infitah*:-

It is frequently argued that the open-door policy has pushed Egypt toward the status of a rentier state. There is little doubt that this has happened as oil exports, worker's remittances, and Suez Canal and tourism revenues came to overshadow, by the late 1970s, all other sources of foreign exchange.

These exogenous resources constituted no more than 6% of all resources available to the state prior to 1974. By 1981 the proportion had risen to close 45%. It is shown in the following figure.

Figure
Share of Exogeneous Resources in Total Resources in Egypt, 1974-82



Source: IBRD, Arab Republic of Egypt: Issues of Trade Strategy and Investment Planning (Washington D.C.) January 1983, p.5.

The problem with these exogenous resources is that they have little to do with the productivity of Egypt's domestic labour force that is overwhelmingly employed in agriculture, industry and services. Thus, Egypt's economic dependency has led to the neglect of productivity issues.⁹

The liberalization policy felicitated the Arabs to rush into financial activities, tourism and luxury construction. Egyptians shifted their activities into the Free Zones to escape the socialist laws and into commercial activities to service the expanding international trade. On the side of consumption, there was a rapid expansion covering all commodities – especially consumer goods – in both the public and private sectors. Consumer goods inundated the market. Since the output of goods and services in Egypt was not adequate to meet the increasing demand, the whole process had to be financed through deficits. The extent of debt was astounding. By 1975/77, trade deficits were running at about 20% of GDP.¹⁰ The following table shows the trade deficits in various years.

⁹ IBRD, *Arab Republic of Egypt: Issues of Trade strategy and Investment* (Washington, D.C.) January 1983, p.5.

¹⁰ See. Mark N. Cooper, *The Transformation of Egypt* (London, 1982), p.107.

Table-8**Trade deficits (million Egyptian Pound)****(In current prices)**

	1974	1975	1976	1977	14978	1979
GDP	4339	5218	6727	8283	9671	12409
Import	1616	2154	2287	2770	3626	5804
Export	890	1053	1498	1876	2130	3905
Deficit	726	1101	789	894	1496	1999
%Of deficit	16.73	21.10	11.72	10.79	15.46	16.10

Source: Taken from World Bank, World Development Report, Oxford University press, various years, New York.

Investment and production:-

It is abundantly clear that focus of industrial activity conducted under liberalization policy was anything but industrial activity. The reasons were that much of the investment was centered around the housing, financial and petroleum activities. It had little to with the labour (or capital) productivity. From the following table we can see clearly how the investment were biased towards financial and construction sector.

Table-9**Investment in Egypt under the Law for Arab and Foreign Investment****In million Egyptian pound**

Type of Activity	Inland	Free Zone	Total investment	%
Housing Tourism and building material	176	80	256	23
Finance projects	84	1	85	7
Transport and storage	9	71	84	7
Petroleum	0	540	540	48
Textiles	13	106	119	10
Engineering and Metals	15	138	153	13
Chemicals	25	10	35	3
Mining	1	0	1	0
Food and animal	9	5	14	1
Service and contractors	2	45	47	4
Total	284	850	1134	100

Source: National Bank of Egypt, Economic Bulletin, 1976 and 1977.

The above table shows both inland and free-zone investment, about 23% of the total investment was in housing, tourism and construction sectors. Financial undertakings accounted for another 7% of the total investments. Transportation and storage projects that were primary of servicing international trade accounted for another 7%. Although investment in these activities might provide some additional hard currency, it was certainly not going to provide a real solution to Egypt's economic problems. Even investment in petroleum activities (48% of the total), which would be a big plus in earning foreign currency, could at best provide an indirect assistance to development. Investment in industrial projects like Chemicals, Engineering Mining etc, that really affect the economy was paltry. Chemicals, engineering, etc., accounted for 16% of the total. Textiles accounted for 10% of the total. And investment in food projects accounted for merely 1% of the total. Similarly, if we look at the preferences of foreign capital, we can see clearly that the capital movement is more towards non-industrial sectors. It is shown in the following table.

Table-10

Ranking of Foreign Investment activity Approved until 31 Dec 1978

Rank	Sector/Activity	% Capital to Total investment
1	Tourism	22%
2	Housing	13%
3	Investment companies	11%
4	Education, Training Services	8%
5	Banking	8%
6	Agriculture and Husbandry	6%
7	Weaving and Textiles	9%
8	Engineering and industries	5%
9	Building Materials (cement, bricks, tiles, etc)	5%
10	Chemical industries	5%
11	Health and Hospitals	2%
12	Contracting and Consultation	2%
13	Transport and communication	2%
14	Metallic industries	2%
15	Food Industries	2%
16	Medical industries	1%

Source:- GAI FZ. Report on Investment Projects up to 31 December 1978. Cairo, 1979. pp.8-15.

Thus it is clear that bulk of the foreign investments were centered on the financial activity rather than productive activity. Tourism and Housing sector attracted bulk of the investments.

Production:-

Similarly, if we focus on the value of industrial production we will see that contribution from the petroleum sector constitutes bulk of the total production. This is evident from the following table.

Table-11

Sector	1975	%	1977	%	1979	%	1980/81	%
Petroleum	385.7	15.14	696.0	20.39	2465.0	39.71	3899.0	42.41
Mining	22.4	.87	27.0	.79	32.0	.51	49.0	.53
Chemicals and pharmaceuticals	269.0	10.56	345.0	10.11	476.0	7.66	698.0	7.59
Food	694.0	27.24	871.0	25.52	1158.0	18.65	1692.0	18.90
Engineering and electrical	393.0	15.42	554.0	16.23	821.0	13.22	1204.0	13.09
Building material	94.0	3.69	82.0	2.40	84.0	1.35	83.0	.90
Spinning and weaving	689.0	27.05	837.0	24.53	1166.0	18.28	1568.0	17.05
Total	2547.1		3412		6206		9193	

Source: National Bank of Egypt: Economic Bulletin, 1985, p.96.

From the above table it is evident the petroleum sector constitutes the bulk of the total production. Its share has increased from 15.14% of total

production in 1975 to 42.41% in 1980/81. Chemicals and pharmaceuticals as a percentage of total production have reduced over the years. Similar is the case with mining, food, engineering and electrical, Building material spinning and weaving.

Consumption and imports:-

Though there had been significant real increases in output, yet they looked insignificant against much more rapid rate of expanding consumption. It is reflected from the following table.

Table-12

Million Egyptian pound	1974	1975	1976	1977	1978	1979
GDP at market prices	4339	5218	6727	8283	9671	12409
Consumption	4090	4578	5606	6743	8085	10496
Consumption as a % of GDP	94.39	87.73	83.33	81.40	83.60	84.58

Source: World Bank, World Development Report, Oxford University Press, Various Years, New York.

Thus, the consumption as a percent of GDP remains very high. Though it kept on falling up to 1977, again it rose to a new a high of 84.58% in 1979. Here we can say that private consumption as a percentage of GDP remained high in the wake of liberalization. With the production increasing only

modestly, and consumption expanding rapidly, bulk of the consumer goods had to be imported. The following table shows consumer goods as a percentage of total imports.

Table-13

	1975	1976	1977	1978	1979	1980	1981
Total Imports	1539.3	1489.9	1884.0	2632.2	2686.0	3402.0	6187.4
Consumer Goods	266.7	341.0	413.5	626.0	625.0	795.0	1611.6
% of imports	17.32	22.88	21.94	23.78	23.26	23.38	26.03

Source:- Central Agency for Public Mobilization and Statistics. National Bank of Egypt: Economic bulletin, 1985, p-96.

Between 1973 and 1975 imports grew almost four-fold. They rose from about 10% of the GDP to over 30%.¹¹ Food imports led the way, but all other categories rose sharply as well. It is safe to say that rising cost of food was one primary cause of the increase. When the price of wheat moderated in 1976, food imports declined. Still total imports did not drop.

¹¹ Ibid. p.108.

A major debate immediately arose over how this rate of importation of consumer goods had been achieved. Some critics pointed to the transfer of currency (own-exchange imports)

Table-14

Own-Exchange Imports 1975-79 (million Egyptian pounds, current prices)

	1975	1976	1977	1978	1979
Fuels	-	-	.1	.3	.8
Raw materials	-	-	-	-	2.2
Intermediate goods	-	38.9	68.5	188.3	389.8
Consumer goods	-	68.4	97.3	184.6	250.2
Total	107.7	176.4	265.1	587.4	973.8

Source:- IMF data for 1975-78; and Egypt Newsletter, June 9-22, 1980 for 1979 (goods brought under special provisions, mainly for personal use are not included).

The parallel market did become a major factor on financing imports. In 1976, almost 400 million Egyptian Pounds was financed through this market. This is about 20% of the total imports. Parallel market seemed to have devoted to the importation of consumer goods in about the same proportion as own-exchange imports. Roughly 40% of the goods were directed towards consumption rather than production.¹²

¹² John Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes* (New Jersey, 1983), p.118

Between own-exchange imports and parallel market transactions, both of which were private in nature, we can account for about 33% of the total imports. We can also account for about two-thirds of the imports of consumer goods, including all non-grain items. It seems that they played a major part in increasing consumption level.¹³

Inflation, Finance, Foreign Debt and Fiscal crisis: -

Relatively slow production growth and expanding consumption set of condition for a roaring inflation and massive deficit. The following table shows how the price index between 1976 and 1981 increased. The consumer price index showed a rise in respect of rural areas of 12.2%.

Table-15

Consumer Price Index, Urban Population (June 1965=100)

	June 1976	Variation %	June 1978	Variation %	June 1980	Variation %
General index	167.0	13.5	207.8	11.9	274.4	24.5
Food & beverage	202.0	19.7	249.6	9.3	337.8	32.7
Housing	109.0	1.8	110.2	0.8	116.8	4.4
Clothing	144.7	7.0	226.8	40.8	292.6	18.3
Transport & communication	135.1	9.7	145.1	.4	193.9	4.5

Source: - Central Agency for Public Mobilization and Statistics, National Bank of Egypt: Economic Bulletin, 1982, p-92.

¹³ Cooper, n. 10, p.177.

The above table shows the extent of inflation during *infatih* time period. Food and beverages clothing are the worst hit during this period. Food and beverages and clothing are the worst hit during this period. The steep rise in prices of popular commodities is one of the consequences of the IMF-imposed cuts in government subsidies. As a result, it caused widespread protest among those who are at the bottom of the society. The protest became so severe that it resulted in 'food riots' in 1977. The dimension and violence of this protest were unprecedented since the 1952 revolution.¹⁴ The prices of food and beverages increased almost 33% in the year 1980. Similarly the prices of clothes increased by almost 41% in 1978. If we look at the reasons behind high inflation, then, expansion of money supply and credit can be blamed for this to some extent. The following table deals with the expansion of liquidity in the period 1974-79.

Table-16

Expansion of Liquidity, 1974-79

	1974	1975	1976	1977	1978	1979	Average 1973-79	Average 1978-79
Money supply (M) (currency + time deposits)	1503	1863	2239	2942	3547	4324	23.7	21.9
Quasi Money	498	567	822	1160	1658	2454	39.6	48.0
Total liquidity	2001	2430	3061	4102	5105	6718	28.6	30.2

Source: Central Bank of Egypt: Economic Bulletin, 1982, p.78.

¹⁴ See. R. A. Hinnebusch Jr., *The Egyptian Politics Under Sadat: The Post-Populist development of an Authoritarian-Modernization state* (London, 1985), p.71.

Total money supply grew 21% in 1974/75 and 25.3% in 1975/76. These are probably good estimates of the rate of inflation. The growth was concentrated in current money, led by private sector current deposits and quasi money (cheques, etc.).¹⁵ According to the estimation of Central Bank of Egypt, the money supply grew by 23.7% in 1973-79 and 21.9% in 1978/79.

The growth of money supply means that there had been a failure to stimulate savings that is necessary for the investment. The gross domestic savings as a percentage of GDP seem to have declined from 4.7% in 1970 to 0.5% in 1974 and then risen to only 4% in 1976. Most alarming in the money supply picture was the growth of government borrowing. This type of expansionary finance, essentially operating to sustain consumption is dangerous to the economy as it fuels to inflation.¹⁶

Similarly in this period, the large-scale use of deficit-financing led to heavy external borrowing which was increased by year by year. A brief sketch is given next page.

¹⁵ Cooper, n.10,p.108.

¹⁶ Ibid, p.118.

Table-17

(In million Egyptian pound)

Year	Total Deficit	Net External Borrowing
1974	560	119
1975	1388	210
1976	1265	488
1977	1532	464
1978	2149	705
1979	3195	690

Source: Annual Egyptian Budget outlines and IMF statistics (John Waterbury, The Egypt of Nasser and Sadat: The Political Economy of Two Regimes (New Jersey), p. 114.)

The above table shows that despite economic reforms undertaken by Sadat, the deficit has widened over the years. It has increased from 560 million Egyptian pound in 1974 to 3195 million Egyptian pound in 1979. Similar is the case with external borrowing. It has increased from 119 million Egyptian pound in 1974 to 690 million Egyptian pound in 1979.

INFITAH AND PUBLIC ENTERPRISES.

Since its inception, the record of the public sector has been mixed. Because the big decisions on investment levels, prices and employment were centralized in government hands and public firms were required to channel the great bulk of their earnings to the treasury in the form of taxes or dividends, managers could not pursue policies rational or innovative from the point of view of the concerned firm. As the government lacked a sophisticated

planning mechanism and often allowed socio-political considerations (keeping prices low or employment high) to influence its policies, economic rationality at the macro level was also weak. Overstaffing, foreign exchange scarcities, poor supply planning and investment in projects in which Egypt lacked a comparative advantage, kept productivity low in 1960s and early 1970s¹⁷.

However *infitah* could not improve the situation of public sector, rather worsened it. The ready availability of foreign exchange in *infitah* years eased the problem of idle capacity and opened the door to some new expansion. However, Sadat regime did not divest itself of control over industrial revenues and decisions that prevented reforms of economic decision-making of the enterprises. On political grounds, it continued to keep prices low, failed to improve labour discipline and still expected managers to maximize employment. Burdened with high taxes, tariffs, manpower costs, increases in costs of imports due to devaluation, and constrained by set prices, many firms still laboured under revenue constraints. Moreover, an unreformed public sector was put at increasing risk in the climate of *infitah*. Skilled managers were lured away by higher-paying foreign and private firms. Many firms could not compete with foreign competition. Tariff rates on materials they had with them were frequently higher than on manufactured foreign imports competing with them. New foreign investment in Egypt enjoyed lower costs made possible by tariff and tax breaks, and exemption from employed

¹⁷ Hinnebusch, n.14, p.269.

policies. To escape political controls and capital constraints, many public firms sought to enter joint ventures with foreign companies. Though this boosted production and efficiency, yet it had high costs and risks. Frequently, the most profitable parts of the public enterprises were separated from the parent firms to form such ventures. As the public sector was often a minority participant in the new joint venture, foreign interests were literally acquiring control over the best-performing parts of the public sector. Ultimately, this resulted in the outflow of profits, narrowing the locally produced economic surplus and exacerbating foreign depending. Thus, rather than reforming its national public industry, the regime seemed prepared to let foreigners do the job, but at the possible price of its national character¹⁸.

***Infatih* and Public Services**

Infatih had its adverse impact on public services in the fields of providing housing, medical and transport facilities to the public at large. Under Nasser, government intervention in these fields, in the form of measures such as rent control and efforts in public housing and medical care, had favoured lower-income group. But the situation was, somewhat, different under the Sadat's time period. This can be explained as below:

Since Nasser's period, Private investment in housing was discouraged through the rent controls. In the wake of rapid urbanization with the absence

¹⁸ Ibid, p.270.

of a strong public construction housing scarcity became a crisis. The proportion of the population without proper housing grew from 21.7% in 1970 to 31.9% in 1977. For this worsening condition, *infitah* had significant contribution. The influx of foreigners and workers returning from abroad with money raised demand. It set off a luxury building boom driving up the costs of real estate and materials. As a result, this sparked a surge in the rents and prices of all housing which made fortunes for a few and put housing beyond the reach of many. Evasion of rent control became the norm: landlords charged large fees for the right to rent, kept flats off the market waiting for rich Arabs or foreigners or took to selling them at exorbitant prices, and conspired to oust tenants from controlled buildings, so they could sell the land at big profits. As Khalid Ikram mentions, "... the rent of a four-room apartment increased six times between 1960 and 1979."¹⁹

With the exception of a project to reconstruct the Canal cities which relieved some pressure on the main cities, the Sadat regime lacked the will or resources to cope with the housing crisis. It was unprepared to launch a major popular housing drive; indeed its most public-housing program did not even target the poor, for after 1973, 60 % of new units were reserved for the army, public employees and persons returning from abroad, regardless of income.²⁰ By the end of the 1970s, the Minister of Housing was proposing, in the name of *laissez-faire*, that rent controls be abolished to stimulate new private

¹⁹ Ikram.n.5,pp.149-50

²⁰ Ibid.

investment and that the housing problem be left to the private sector. But the private sector was unprepared to construct low-cost popular housing. For the poor, for whom the housing crisis translated into life in mushrooming shantytowns, and for the middle class for whom it meant postponed marriages and endless frustration, this policy offered no likely relief.²¹

The effects and biases of regime policies could also be seen in the field of transportation. In the seventies, public transport-prominent under Nasser regime – was neglected in favour of private cars. The earlier bus industry was allowed to deteriorate for lack of foreign exchanges. While the number of passengers increased by 15% yearly, the growth of the bus fleet peaked at 1800 units and, by the end of 1970s, 25% of it was out of service. As skilled labour departed for higher-paying jobs abroad or in the private sector, maintenance could no longer be kept up. Meanwhile, large quantities of foreign exchange was made available for a massive import of private cars and millions of pounds were funneled into construction of new highway, bridges and overpasses to accommodate them. As the streets of Cairo were progressively paralyzed by the excess of private cars, the ensnared public buses were grounded to halt. Thus, to service the desires of the 5% of the population that could afford a private car, public policy under *infisah* sacrificed the welfare of the vast majority dependent on private services²².

²¹ Ibid.

²² Hinnebusch, n.14, pp. 271-272.

A similar story was apparent in the field of medical care. The Nasser regime had made a major effort to extend health services to the poor, including those in the rural areas. By the 1970s, these services were contracting. Public hospitals fell into abysmal squarlor, standards of sanitation were appalling, quality nursing almost absent, and equipment old and deteriorating. In Abbassiyya region, a handful of government doctors and nurses were responsible for 5000 patients. As Hinnebusch points out, Egypt, by Third World stands, lacked trained medical personnel, and their level of performance and motivation was low. Unable to reform or upgrade the public medical service, the strategy of the Sadat regime was to neglect it and encourage the development of a quality private sector. Thus, new private clinics were opened with expensive imported equipment and new projects were put forward. from time to time, to build major private hospitals.²³

So the Sadat regime neglected to provide housing and other public services to poor. It failed to bring regulation on which the poor depended while permitting the private sector to develop quality facilities for thus who could pay. So the deliberate return to market forces that translated into quality heath care, private cars, schools for the wealthy, and less public services for the have-nots had all the ingredients to create a dualistic society.

²³ Ibid.

***Infitah* and Income Distribution**

Apart from the aggregate growth achieved under *infitah* policy it is important to mention the extent of economic development that was brought about by the new economic policy. As it is proved below, we can say clearly that the Philosophy behind *infitah* was the lower priority on distribution under Sadat's economic policy.

As Hinnebusch points out that the reactivation of market forces resulted in the accumulation of wealth in the hands of few. The 'haves' were best situated to exploit the market, and that this was often at the expenses of the 'have-nots'. Once the economy was liberalized, the bourgeoisie retained rather accumulated more substantial wealth-producing assets.²⁴ Those who benefited from *infitah* were mostly constituted of those of upper classes or who made fortunes in the Arabian Gulf in 1950s and 1960s.²⁵ It was westernized, more-educated upper strata which were best prepared to take advantage of opportunities under *infitah* to enrich them-selves as agents of foreign firms, middlemen or importers. Big money was made in foreign trade where merchants increased the prices by 100%.²⁶ The liberalization of foreign trade also encouraged certain profitable abuses at the expenses of the public. Giving an example, Hinnebusch says that publicly subsidized goods were

²⁴ Ibid.p.280.

²⁵ Fouad Ajami. "The Open Door Economy: Its Roots and Welfare Consequences". in Khalek and Tignor, p-495-96. ed., *The Political Economy of Income Distribution in Egypt* (New York, 1982), pp.495-96

²⁶ Ibid.

smuggled abroad for hard currency to import luxury goods to sell at big profits to the rich people. Fortunes were also made in relatively monopolistic internal wholesale trade. For example, twenty large merchants controlled the meat trade, three the seed trade, eleven in pipes, 10 in soft drinks and four in automobile parts. As a result, the price paid by the consumer for locally made goods was more than twice that was paid by merchants to the producers of the goods.²⁷ Building contractors flourished on the *infitah* boom in construction, which diverted publicly subsidized building materials into luxury housing for the rich and foreigners. The liberalization of the foreign exchange market produced a dozen or so 'foreign exchange kings' making fabulous fortunes.²⁸

The government had to raise the salaries of experienced top administrators and managers to prevent their moving to the higher-paying private and foreign sectors. On the other hand, the large majority of the lower-middle and lower classes indisputably suffered a decline in their living standards under pressure of rapid inflation caused by *infitah*. Dr K. Mustafa, in a report to the 4th annual symposium of Egyptian Economists, Cairo, May 1979, showed that 66.8% of Egyptian families spend less than 1 Egyptian pounds per day, at a time when a kilo of beans cost 35 piasters and a pack of cigarettes, 30 piasters (1 Egyptian Pounds = 100 Piasters).²⁹

²⁷ See Ibrahim Hasan Issawy, 'Interconnections Between Income Distribution and Economic Growth in the Context of Egypt's Development', in Khalek and Tignor, ed., *The Political Economy of Income Distribution in Egypt* (New York, 1982), pp. 88-131.

²⁸ For details See *Egyptian Gazette*, 23 September, 1979.

²⁹ Hinnebush, n.14, p.281.

Thus the Public policy intervention under Sadat regime failed to bring an egalitarian system in the Egyptian Economy. As Saad Eddin Ibrahim points out that contrary to the goals of public policy intervention, the policy measures indeed favoured 'haves' rather than favouring 'have-nots'.³⁰ The return of sequestered property to the rich increased inequality in controlling assets. The conflicts between peasants and owners trying to reassert control over 53,000 *feddans* of formerly sequestered property indicated that the policy was at the direct expense of the 'have-nots'.³¹

The incentives to capital benefited the wealthy at the expense of the poor peasants and salaried middle groups which bore the burden of taxation. The neglect or de-nationalization of the public sector threatened to curtail its role as a source of superior benefits and income to those available to workers on the private labour market. Even as the regime raised salaries for top bureaucrats, it depressed those for new graduates in an effort to discourage them from flocking to government employment.³² The government's bias towards the rural areas increased under Sadat. Implicit taxation of the peasant through compulsory marketing (less subsidies on inputs), modest before 1967, was very heavy until 1978. At the same time the proportion of state intervention in agriculture plummeted.³³ Inside the rural sector itself, state

³⁰ See S.E. Ibrahim, "Social mobility and income distribution in Egypt", in Khalek and Tignor, ed., *The Political Economy of Income Distribution in Egypt* (New York, 1982), pp.375-434.

³¹ Ibid.

³² Samir Radwan, *Trends in Income Distribution and Poverty*. Paper presented to Conference on Law and Social Structure in the Middle East (Rabat, 1981), p.133.

³³ Karima Korayem, "The Urban Rural Income Gap in Egypt and Biased Agricultural Pricing Policy, *Social problems* (New York), vol. 28, 1981, p-417-429.

regulations and operations increasingly favoured the rural rich over the poor. The state of reclaimed land at auction effectively excluded landless peasants from access to it. The crop rotation system put the heaviest burden of producing the low-priced compulsorily delivered crop on the poor peasant's, while leaving bigger landowners free to dominate the lucrative free market in vegetables, fruits and meat; often prevented by the rotation from growing enough food to feed themselves, poor peasants were reduced to buying it from richer neighbours or merchants at high prices. Access to subsidized inputs favoured the well-off farmers. Fertilizer was made available in proportion to the size of land holding and, in the early 1970s, access to subsidized fodder was limited to larger owners in the lucrative cattle-raising sector.³⁴

The proportion of landless families increased during the *infatih* time period. Unviable micro-holdings also increased considerably, while larger land-holding increased their share of land at the expenses of smaller ones, gaining 1,35,000 *feddan* from 1975 to 1978. The Gini Index of landholding inequality which had fallen from 0.64 in 1960 to 0.46 in 1974 was up again to .54 in 1979. Rural income inequality also increased from 0.35 in 1974 to 0.46 in 1978-78, most likely the result of land concentration, rent increases and inequitable effects of crop rotation system. Household expenditure surveys showed a similar increase in inequality.

³⁴ Hinnebusch, n.14, p.282.

Similarly as Korayem's evidence suggested, the rural urban income gap worsened in the late 1970s. While the ratio of rural-urban increased in the 1960s through the early 1970s from 42% to 59.1%, by 1978 it was back to 44.5%.³⁵

This new pattern of income distribution caused the share of poor to fall and that of rich increase. This can be substantiated in the following table.

Table-18

Egyptian Income Distribution, 1974/75-1981/82 (percentage)

	1974/75	1981/82
Urban Household Income		
Bottom 10	2.3	2.3
Bottom 50	24.0	23.1
Top 10	32.1	37.2
Top 5	21.7	28.7
Rural Household Income group		
Bottom 10	2.2	3.3
Bottom 50	24.6	25.0
Top 10	31.4	33.6
Top 5	21.8	24.9

Source: Al-Ahram al-Iqtisadi, # 871, Sep. 23, 1985, pp.34-35 (A. Richards and John Waterbury, A political Economy of the Middle East, (Colorado, 1990), p.282.

³⁵ Korayem. n.33. p. 418.

The above table shows intra disparity in Rural –Urban income distribution. Following *infitah*, the share of bottom 50% of urban population fell to almost 23% of income in 1981/82 from almost 24% in 1974/75. The share of top 5 urban households increased from 21.7% in 1974/75 to 28.7% in 1981/82. Similar is the case with urban household income.

The share of bottom 50% of rural household has increased from 24.6% in 1974/75 to 25.0% in 1981/82. It is insignificant in comparison to increment from 21.8% to 24.9% for the top 5% of rural households. So from this we can conclude that disparity had widened in the period following *infitah*.³⁶

The distributive effects of the economic liberalization were instrumental in promoting class divisions and tensions. The gap between Egypt's rich and poor apparently widened. While the lowest 20% of the population held 7.0% of national income in 1965, they dropped to 5.1% by the late 1970s. By comparison, the income of the highest 5% increased from 17.5% in 1965 to 22% after several years of Sadat's policies.³⁷

So in short we can say that the impact at *infitah* on Egyptians was very uneven. Higher income groups benefited substantially from the liberation of the market and the bias of public policy. The old upper classes recovered and expanded their control over wealth-producing assets and their ability to use them. The state bourgeoisie enriched itself on commissions and corruption. A

³⁶ A. Richards and John Waterbury, *A political Economy of the Middle East*. (Colorado.. 1990), p.282.

³⁷ Korayem, n.33,p.418.

multitude of middlemen, controlling the links to the western market, was in a position to take their share on every transaction. But the publicly employed middle-class, disfavoured by both the market and public policy, were the worst victim of the *infatih* policy. The position of small-holding peasants seemed to be eroded. And high inflation, the decline of public services, the neglect of rural areas, and limited opportunities, translated into a worsening standard of living for many near the bottom.

CHAPTER III

Chapter- III

Implications of *Infitah* on Political Liberalization

Economic reforms necessitate changes in the state-society relationship. Markets are as much political and cultural institutions as they are economic. It not only allocates resources and distributes income but also shape culture foster or thwart desirable form of human development and support well defined structure of power.¹ In the Egyptian context, the liberalization of the economy has accompanied by an analogous development in the polity. There have been some transformations in the political situation though debates continue as to their extent and significance. In the following an attempt has been made to find out how economic liberalization leads to political liberalization.

Some changes have been witnessed in Egypt since Sadat came to power in October 1970. As soon as he found himself firmly saddled in power after eliminating his rival groups, he started a new set of policies which would suit him and lend him legitimacy. He discreetly stopped mentioning Nasser and Nasserite path. He expelled Soviet expert in order to work on a new set of foreign policy. On the domestic sector a favourable approach was undertaken towards private sector. In other words, policy of economic liberalization was

¹ Girjesh Pant, ed., *The Political Economy of West Asia: Demography, Democracy & Economic Reforms* (Delhi, 1994), pp.27-49.

followed. As noted earlier, Sadat brought *infitah* to an economy which was the ground of 'Socialism' for almost two decades. There were vociferous protests especially from Sadat's opposition quarters. But Sadat, to bolster his economic policy, tried to sideline his opponents. At the same time, he tried to create his own constituency which would give him constant support. So Sadat looked at the Arab Socialist Union (ASU) which had been a union of different groups. A major group consisted of Nasisites and leftists were totally opposed to any form of economic liberalization. A small faction on the extreme right, in alliance with private sector interests advocated full-blown *laissez-faire* capitalism. Sadat tried to cash in on this situation. Sadat thought he could balance the left wingers by permitting forces on the right. By this, he hoped, the great freedom that would be granted to these forces would allow him to play them off against each other.²

With the October war Sadat finally decided that a liberalization of the party system would serve to differentiate his regime from Nasser's, satisfy participatory pressures, win support from liberal elements of the bourgeoisie, please the Americans on whom his diplomatic initiative depended and encourage the economic liberalization he was launching. So we can say that there was a strong opposition to the *infitah* policy of Sadat. To push forward his policies Sadat exploited the divided nature of the then single party ASU. By dividing it into different groups and allowing them some power Sadat tried

² See N. Chouri and R.S. Eckaus, "Interconnections of Economic and Political Change: The Egyptian Cast", *World Development* (Amsterdam), vol.7, no.8, pp.783-97.

to sail through his policies. By doing this he satisfied the liberal elements of the bourgeoisie which was his support base.³

Controlled Political Liberalization:-

The political infrastructure has changed a lot in Egypt after Sadat came to power. Unlike Nasser, Sadat felt comfortable with the idea and the reality of some political diversity, and eventually with controlled multipartyism. He had the confidence to act as referee of the different competing interest. He sacrificed some of the control in order to see more clearly the forces that warranted control. Putting it another way, Sadat continued the corporatist formula and allowed open politics in the interests of corporate edifice. These open politics, however, were restricted to the religious right; links between these segments and mass constituencies were carefully monitored and constrained. At the end Sadat imposed such severe restrictions on all forms of political activities that he seemed to have reverted to the Nasserist style he normally abhorred.⁴ The changes brought about in the political structures can be discussed under the following heads:

- (A) Changes in the party system
- (B) Government parliament and elections
- (C) Role of press
- (D) Judiciary, Civil Rights and the Rule of Law.

³ See R.A. Hinnebusch Jr. *Egypt's Politics Under Sadat: The Post-Populist Development of an Authoritarian-Modernization State* (London, 1985), p.159.

⁴ See. John Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of two Regimes* (New Jersey, 1983). p.355.

(A) Changes in the Party System:-

Once the legitimacy problem of Sadat vanished after the October war, Sadat wanted to unfold his own set of policies. As far as flexibility of party system is concerned, Sadat made all efforts so that it facilitates his economic policies. As Hinnebusch Jr. rightly points out, "Once Sadat consolidated his legitimacy in the October war, he evidently decided that the liberalization of the party system would serve ... to encourage the economic liberalization he was launching."⁵ Thus it is clear that the logic behind the political liberalization was to create a situation which would facilitate his economic policies.

In the October Paper Sadat had raised the issue of permitting greater diversity of viewpoints inside the Arab Socialist Union (ASU). But following the urges of his liberal confidants he allowed a parliamentary hearing over the debate on the proper party system for Egypt in future. To take the matter further a committee on the future of political life was constituted and was chaired by Sayyid Marei. The findings of the committee revealed different viewpoint. On the basis of the report of the Commission it was decided that the Arab socialist union (ASU) would be permitted to have three different groupings or 'Platforms'- a liberal right wing, a government centre and a Marxist left. It ruled out any early return to a multi-party system adding that

⁵ Hinnebusch, n.3. p.159

there were no “solid foundations at present for the formation of parties”.⁶ The 1953 ban on political parties remained, though, within the ASU, three permanent platforms representing the ‘right’, ‘the center’ and, ‘the left’ were permitted. Each platform was allowed to lobby for its ideas, disseminate its views through the media, and prepare a programme and a list of candidates for the election. All platforms were to work under the legitimizing formula of the ASU; none was to impose its opinion upon others. The ASU was thus to provide a framework “to safeguard national unity, the inevitability of the socialist solutions and social peace”.⁷ These platforms were the actual political organizations to carry out all their political activities and programmes in full freedom. They could submit candidates who, if they reached the People’s Assembly, were to exercise free constitutional rights. The president himself denied to belong to any platform stating that he would be an arbitrator among all authorities, unbiased and a safety valve protecting the masses. Through these legitimizing platforms Sadat hoped to deflect the pressure for a multi-party system to encourage the people’s Assembly to function as a representative body capable of constructive criticism and useful legislative initiative and oversight.

The three platforms that were created represented different sectors of the Egyptian government spectrum. The left group was called the National

⁶ *Ceylon Daily News*, 16.03.1976.

⁷ *Kessing’s Contemporary Archives*, London, vol.22, 1976, pp.27810.

Progressive Unionist Rally. Led by Khaled Moheiddin, it was for closer ties with the Soviet Union, stress on public sector investment and reliance on class struggle. The centre platform was the Egyptian Arab Socialist organization and included the Prime Minister, Cabinet members, key civil servants and heads of the 26 governorates. It was for the continuance of the government policy—a theme of gradualism and guided democracy, a mixed economy with a healthy dose of private sector investments and closer ties with the West. The third platform was named the Socialist Liberals. It was for a return to capitalism, greater enterprise and a heavy reliance on market forces to solve Egypt's Economic problems.⁸

Being impressed by the results of the elections to the People's Assembly in November 1976 (Liberal Socialists- 12, Egyptian Arab Socialist Organisation -280, Natural Progressive Union-2, Independents-48), Sadat announced that the above three platforms were to be called political parties. However, the Arab Socialist Union (ASU) was allowed to continue supervisory and financial controls over the parties. Though at this time three parties were allowed to surface, yet it did appear that the state was set for a multi-party system in the near future. But hopes were soon belied when on 29 June 1977 the Egyptian parliament adopted a new law on political parties subject to certain conditions. These conditions were important as it was due to these conditions that the members of the opposition Right and the Left

⁸ See. Pradeep Sen. "Party System Under Sadat: Change or Continuity?" *India Quarterly*. (New Delhi). vol.37. no.3. July-September, 1981. pp.417-27.

boycotted the vote on the new law. The conditions meant that the ASU would continue to maintain control over the formation and life of parties. They were;

- (1) Any new party must have the authorization of the ASU.
- (2) It must include at least 20 members of the Egyptian parliament.
- (3) It should not have in existence at the time of the monarchy, i.e., parties which had been dissolved in 1953 could not be revived in their former form.
- (4) Any new Party must support national unity and acknowledge that Egypt's problems could only be solved by 'Socialist' means.
- (5) The aim and principles of any new party must be different from those of the groups affiliated to the ASU.⁹

The third condition had the clear implication that the Egyptian communist party, the Wafd and the Muslim Brotherhood could not be legally reconstituted. It was from these three organizations that opposition to Sadat could come.

The opposition from Muslim Brotherhood was not much of a challenge to Sadat. Sadat had, by that time, done a lot of things to placate this group. Most importantly, when the platforms in the ASU were formed, the Muslim Brotherhood with a following of about 50,000 was reported to have decided to reconstitute itself not as a political party but as a religious organization. It was the Left that was perceived as a real threat. This was reflected from Sadat's attitude towards the Left when he attacked The National Progressive

⁹ See. Waterbury, n.4, p.367

Union Rally. He called them “traitors” and ‘agents’ and emphasized that he wanted a left wing that “was Egyptian and not Soviet”.¹⁰

Ever since it was banned in 1953, the Wafd remained “no more than the throbbing of the city’s inner life, the great elusive murmur which serves as a barometer if not a guide to the ups and downs of the public opinion.”¹¹ All through it remained the strongest electoral force in Egypt and a potential threat to the regime. This was proved when the New Wafd was officially registered as a party on 4 February 1978. The New Wafd came up as the first freely created political party since 1953. Having 24 members in the Assembly, it was the second largest party in the Egyptian parliament. It was an instant success. For the student, no less than for the peasants, Serageddin’s party represented an “alternative to the government and a chance for genuine political expression.”¹²

The popularity of the New Wafd, the open criticism by the Left aroused concern in the ruling circles. The government felt that they were becoming serious opposition groups which would affect their hold on the system. Thus to prevent the opposition from giving out of hand, a referendum was ordered on 15 May 1978 regarding the following thing:

(1) Whether to allow communists to hold key parts in the government.

¹⁰ See Sen, n.5, pp.420-423.

¹¹ Ibid.

¹² Ibid.

(2) Whether to allow those who served the system of the pre-1952 era to participate in the political life.

(3) Whether all former political parties be allowed to return to political life.

The referendum was opposed by many. But the government was able to handle it successfully. It did not allow the opposition to voice their opinion in the public. The last edition of the weekly, *al-Ahali*, which called on the people to vote 'No' was seized before it could go to the streets. The result was that 98.29% of people voted 'Yes'.¹³ The 'yes' vote affected two parties—the New Wafd and the Unionist. In accordance with the referendum, the three top New Wafd leaders—Chairman Serageddin, Secretary-General, Ibrahim Farag and Deputy Chairman Abdel Fattah Hussain—were asked to quit. The latter two had held posts in governments of the old Wafd before 1952. The result was that on 2 June 1978, the New Wafd dissolved itself rather than submit to the political restrictions imposed by the Sadat regime. Three days later, the Unionist Party announced that it was suspending all political activity to protest against the new law. A week later it, however, postponed its decision to dissolve itself for another two months and decided to contest the constitutionality of the law in the court. The Unionist Party held that the new law violated article 40 of the 1971 constitution prohibiting discrimination on the basis of sex, religion, origin or language.¹⁴

¹³ *West Asia Diary*, vol.3, no.32,1978, p.1176.

¹⁴ *West Asia Diary*, Vol.13, No.29, 1978, p.1147.

The economic and international challenges facing Sadat at this time were formidable. He was seeking an accord with Israel that was sure to meet with an as-yet-unknown level of internal and regional hostility. Second, his government was trying to reach an accord with the IMF for a three- year extended facility that would unavoidably require a reduction in subsidies and government spending. To move on both fronts while permitting significant political freedom internally looked difficult for him. In other words, the Israeli factor, the IMF- imposed restrictions, with growing criticism post-May 1976 referendum pushed Sadat to a situation where he could not go much towards political liberalization. At this time a more liberalized political infrastructure meant giving more powers to opposition parties which could threaten his own position. All these factors necessitated Sadat to carefully maneuver the political experiments so as to pacify the growing dissidence among the political forces

At the end of July 1978 Sadat announced his intention, of founding a new 'National Democratic Party' after a lot of hesitation and thought. This step was aimed at countering criticism about the repressive measures after the referendum. The new party, modeled on lines of social-democratic parties on Western Europe and named the National Democratic Party (NDP) was formed in August 1978. The party headed by Sadat set prosperity for Egyptian citizens as its chief goal. A 10, 000-word policy document released in August stressed the need to build a modern state on science and faith in which every

citizen could realize his legitimate ambition, free from fear and hunger. To strike a balance between the interests of the individual and the community, the programme provided for the adoption of democratic socialism based on Islamic and Christian values and principles of the 1952 Revolution and the Corrective Revolution of May 1971. Referring to the absence of the word 'Socialist' from the party's name, Firkry Mahram Ebeid, the Secretary-General of the party, said that this was not a deviation from socialism as the constitution mentioned the word many times and there was no need for repetition. Obviously, the NDP was to be more positive than the former ruling party towards private enterprise.¹⁵

The new thing about the NDP was that Sadat himself became its leader. This gave the party a weight that the Egyptian Arab Socialist Party did not have. Secondly, the party tried to take the popular ideologies of the two suppressed parties—the New Wafd and the Unionist Party. In order to preserve the democratic image of the regime and facilitate the formation of an “honest” opposition, Sadat called on some of People's Assemblies members to form a new “honest” opposition. Accordingly, two the parties were formed—the Socialist labour party and the National Front.

In the above changed situation, the opposition parties, to some extent, remained loyal to the government party. In the words of Hinnebusch Jr “.... the parties remained more loyal than an opposition; they could mobilize no

¹⁵ *Cairo Bulletin*. Press Bureau of the Egyptian Embassy in India, Delhi, 23 August, 1978.

significant constituency, since those satisfied with the regime had a natural home in the government party, especially as long as the opposition had no realistic chance of gaining power.”¹⁶ To an extent, the parties sought to mobilize a constituency among the disaffected. They had to stress their opposition to the regime and thereby risk the wrath of elite whose tolerance for this was very limited. Moreover, mobilization of an opposition constituency was discouraged by the widespread belief that no opposition party would ever be allowed to translate popular support into power. Thus, opposition parties seemed relegated to the status of small ‘parties of pressure’ toying to sway but never able to displace the ruling ‘dominant’ party. In this ‘dominant party system’ opposition parties played a role in helping to define the terms of political debate and in raising the big issues of public policy. But influencing the policy was different. They could rely on good connections with the government or on the mobilization of public support. It might have played some role in checking the government’s right wing drive but Sadat’s 1981 crackdown showed the government could always opt for repression instead at concession.¹⁷

Thus the party system under Sadat was moddled and remodddled at various times to keep opposition at bay. When the single party system under ASU became unbearable for him, he dismantled it into various

¹⁶ Hinnebusch, n.3. p.170.

¹⁷ Ibid.

groups/platform under a divide-and -rule policy. Seeing that the platforms were not creating any trouble for him, he granted them political status as political parties. But as the opposition from some quarters increased, he took firm measures to restrict them under referendum or by arresting them. So from time to time the party system has been used to make a semblance of popular liberalization while the basic logic behind this policy was to play the opposition off against each other so as not to create any trouble for the regime.

(B) Parliament, Government and Election :-

Parliament, under Sadat, was intended to function as a representative link between government and society. But in practice, it represented only a part of society, chiefly bourgeois social base of the regime; and it remained subordinate to the government and lacked the power to hold it accountable.¹⁸ Constitutional practice put at a great disadvantage in relation to the executive. The president was above parliamentary authority. The cabinet was responsible to and removable by a majority in parliament, yet in practice, governments were appointed by the president without any concern for whether ministers enjoyed parliamentary support. They were changed exclusively at the president's will. The executive was independent of parliament. It could pass any Decree when the parliament was not in session. Similarly it could pass any laws through Plebiscites which were given overwhelming public

¹⁸ Ibid., pp.158-160.

approval. For example, the Law of Personal Status was issued by Republican Decree. The 1978 repression of the opposition and the law of *Aib* were first submitted to plebiscites¹⁹.

However, Parliament played an important role in the political system. Sadat being dependent on the bourgeoisie for support allowed parliament to become a more effective vehicle of the interest of his constituencies. At least two important changes in the position and operations of Parliament took place under Sadat which revitalized it: government controls over it were significantly relaxed, permitting the deputies more freedom of expression, and opposition parties were permitted to crystallize within it²⁰.

The most important function of Parliament under Sadat was to serve the interest of the private sector and to reconcile the conflicts of its various segments. For example, the education committee made a proposal for a private university; the planning and budget committee came with demands that the private sector get a fair share of foreign exchange and bank credit. Similarly, it made proposals to sell shares of public sector companies to private investors, opposed periodic increases in worker salaries on the grounds that they raised consumption and inflation, etc.²¹

The second function performed by parliament under Sadat was governmental oversight. In this capacity it often spoke for a wider

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

constituency than the bourgeoisie. Oversight took the form of criticism from the floor, interpolation of ministers and committee investigations and reports. Ministers sometimes failed to appear as scheduled before parliament and the government was far more on the defensive before parliament under Sadat than it ever was under Nasser. The emergence of opposition parties added a new dimension to parliamentary oversight; indicative of this was Prime Minister Mandun Salim's complaint that the opposition was paralyzing the government with 'hundreds of interpolations.'²²

Thus, the above thing substantiates that the government and parliament under Sadat served the interests of a particular section of the society – the bourgeoisie.

Under Sadat, the electoral system has been liberalized if we compare it to the situation of the 1960s. Still the outcomes of the elections continued to be determined by government intervention and personal resources of the candidates. Government intervention under Sadat took forms such as the government monopolization of the media, intimidation of the opposition candidates, the mobilization of the local *umad* on the government's side and the stuffing the ballot boxes. Most subtle of all forms was the government's reliance on the tendency of many votes, out of hope for advantage or deference to the authority, to support candidates known to have government approval and to avoid those in disfavour. In the case of little governmental

²² Ibid.

intervention, outcomes were influenced by the resources of candidates. Family and local connections also played a vital role in the elections. Alliances with 'Umad' or their urban equivalents remained important as a lot of people continued to respect or wanted to stay on the right side of such notables to allow them to act as vote-brokers. Personal prestige was also important: to be professional to come from a family with good name all helped candidates win acceptance as a favourite son. In some places, especially in Upper Egypt, the use of armed gangs to impress or intimidate voters remained a factor. What counted least in elections were the issues and ideology. In sum, the electoral process in Egypt was essentially "run on a controlled patron- client basis; the mass of the voters lacking political and economic resources elected 'notables' who, because they possessed resources and government connections could promise to protect them or do them favours. In the rural areas the notables was normally a professional living in Cairo but with land and family connections in the village; in the city he might be a prominent professional or government official, or, notably in the 'baladi' quarters a wealthy merchant speaking the language of conservative Islam."²³

Despite the above facts, there was some relative openness in the electoral system since 1969. In 1969 elections which produced the first parliament inherited by Sadat, government controls were relatively strong. But there was some competition: two candidates were officially endorsed in

²³ Leonard Binder. *In a Moment of Enthusiasm: Political Power and the Second Stratum in Egypt* (Chicago, 1978). p.368.

each contest and independents were permitted to run, though only 7% of victorious candidates were independents.²⁴

The 1972 elections were, in contrast, relatively open: no official candidates were endorsed and hundreds of conservatives deprived of their political rights under Nasser were permitted to compete. The elections seemed to have faithfully reflected the local social structure, producing the conservative parliament and urged Sadat to go along the road of de-Nasserization, *infitah* and the break with the then USSR.

The 1976 represented a further step along the road to a more competitive and open electoral process. Not only were they relatively free of government intervention but proto-parties and a score of independents were permitted to contest them on an issue basis and the regime largely refrained from taking sides between multiple candidates running on the pro-governmental label. However, regime's favouritism toward the government party was in operation. It kept a near monopoly of the mass media, and sporadic police intervention and the mobilization of *Umad* on the government. Moreover, while the government party simply inherited the ASU's local network, the opposition parties had little chance to organize or proselytize voters. Most voters were therefore little conscious of being offered alternative programs and to the habitual politics of patronage and deference to the government –endorsed candidates biased the contest in favour of the

²⁴ Ibid.

government party. It won an overwhelming majority of 280 out of 350 seats. Nevertheless, in some urban working class districts leftwing candidates were able to turn the election into an issue contest in which class-consciousness played a decisive role. The four NPUP deputies and many of the 48 independents elected made the 1976 parliament the most independent and issue-minded since 1952.²⁵

The 1979 elections showed a retreat from the liberalization of the electoral process started by Sadat. The opposition parties and candidates were denied the right to hold public rallies or raise the basic issues, notably the peace treaty. A lot of intimidating measures were undertaken to thwart the potential opposition. In some places workers were threatened with dismissal if they voted left. Some leaders were arrested on the charges of spying for the Soviets. In some cases ballot boxes were stuffed. In many districts NDP toughs and police prevented all but NDP supporters from going to the polls. Even the loyal opposition groups complained of widespread irregularities. Finally, in a classic bit of patronage politics, Sadat announced a ten-day bonus for government employees and pensioners on the eve of the election. The result was that almost every prominent critic, including many believed to have strong support in their constituencies, lost their seats.²⁶

²⁵ Hinnebusch, no.3. pp.172-173.

²⁶ Ibid.

Thus, in spite of limited liberalization, the electoral process had not developed into a mechanism either at accountability or for the registration of policy preferences by citizens. When there was any challenge for the government, it intervened in the electoral process. When government intervention was restrained and the election relatively competitive, it gave client constituents some leverage over patron-candidates. Even in this situation, it produced an unrepresentative parliament due to the scarcity of funds and the dominance of upper classes. Thus, the electoral process under Sadat had seen both the ends. When the opposition was high, government intervention was high or otherwise, it was less.

(C) Role of the press:-

In his effort to foster a press that was compatible with the limited liberalization of political system, Sadat experimented with different strategies. The scope of permissible criticism of the government was widened. The penalties for transgression of these limits were also lightened. It is worth mentioning that under Nasser offending journalists were sometimes jailed, under Sadat they simply lost their jobs. In 1977, the Ministry of Information, a press Watchdog, was abolished, supposedly heralding a new era of press freedom Sadat also experimented with an opposition party press. But this was accompanied by an attempt to reorient the press toward the Rightists. The scope of opportunity for leftwing journalists was steadily narrowed.²⁷

²⁷ Ibid., pp.180-181.

After the economic opening (*Infitah*), the criticism from the left increased. So Sadat made an attempt to purge leftwing journalists. At the same time, the fall of the centrist Muhammed Hassanein Haykel at *al-Ahram* for allegedly trying to turn the paper into a 'center of power' showed the regime was unprepared to tolerate a major journalistic voice that challenges Sadat basic policy. The installation of Amin brothers, at *al-Ahram* and *al-Akhbar* had signaled the new ideological direction the regime wished to give the press. These brothers along with other conservative journalists were responsible for the de-Nasserization campaign of the mid-seventies. But as soon as these groups started attacking the governments, they were immediately shown the door. In the aftermath of 1977 riots, the government took all steps to drive out the remaining bastions of the 'left', *al-Talia*' and *Ruz al-Yusuf*. The new 'left' and 'right' opposition parties were allowed to publish independent organs, *al-Ahali* and *Al-Ahrar*, respectively. *Al-Ahali* that exposed scandals in the president's entourage and waged a relentless campaign against *infitah* was soon closed down. *Al-Ahrar*, by contrast, published a series of articles exposing the Pyramid Plateau scandal, but was tolerated. Again a new set of journalists were encouraged who launched waves of anti-soviet and pro-America propaganda. By this time, *Al-Sha'b*, organ of the Socialist Labour Party (SLP) had taken the place of *al-Ahali* with left-of-center readers. It exposed the flaws of *infitah* and criticized growing western penetration of Egypt. So finally, in 1981, it was closed.²⁸

²⁸ Ibid., pp.181-182.

Thus, we can say that Sadat failed to develop a press that was both 'free' and 'responsible'. No doubt, he tried to permit the press, if only sporadically, a greater autonomy. In this regard he abolished the Ministry of Information, a press watchdog in 1977. But imposed 'code of ethics' on journalist in 1981. But essentially, as his policies drifted towards 'right' the discourse at the press changed accordingly. So Sadat regarded the press as an instrument for shaping public opinion in the government's opinion. He appointed trusted editors who were expected to self-censor their product and when they did not, were removed. He repeatedly rejected suggestions that government divest itself of control over the press in favour of private ownership on the grounds that this would allow special interests to dominate public opinion.

(D) The Judiciary, Civil Rights and the rule of law:-

Sadat was often seen as saying that Egypt has passed, after the May Corrective Revolution, from the 'rule men' to the 'rule of law', from revolutionary to constitutional legitimacy. In the following, we will examine the liberty that the judiciary and civil society enjoyed under the political liberalization of Sadat.

The judiciary under Sadat achieved a very substantial measure of autonomy from the executive. Judges played a driving force in defending and expanding the legal rights of citizens against the government. Though sometimes, Sadat was annoyed by the rulings of judges yet he refrained from

purging those independent-minded judges. His proposal to create exceptional courts for political offences, staffed by political appointees, was far away from the influence of judiciary. And majority of appointees was the trained judges.

Similarly, non-political personal and property rights, much restricted under Nasir, were effectively restored under Sadat. He abolished the restrictions on the right to travel. Again private property rights were restored. Courts were very much leaned over granting private rights, often at the expense of the state. In an important court decision a 1975 court order dismissed charges against 50 persons for violating foreign exchange laws on the grounds. These people were accused of violating foreign exchange laws on the grounds that the illegal operations had subsequently been made legal.²⁹

In comparison to Nasser's Era, political rights were relatively secure under Sadat. The fear of 'Political Police' and 'running detention camps' was put to end in Sadat's time. Private criticism of the regime was no longer guarded and was quite openly expressed. However, right of public assembly and expression were curtailed after 1977 riots. Draconian laws against even peaceful protests such as demonstrations, strikes and sit ins were passed after the 1977 riots. Sadat retained the 'Socialist Prosecutor General', a political watchdog during Nasser's era and used it when courts dismissed charges

²⁹ John Waterbury, "Corruption, Political Stability and Development: Comparative Evidence from Egypt and Morocco". *Government Opposition*, II, pp.426-45.

against political offenders. By retaining this he was able to take the political cases to military or exceptional courts.³⁰

In short, we say that there have been some changes in Egypt with regards to judiciary, civil rights and the rule of law. The judiciary enjoyed a substantial autonomy in this time period. They became a driving force in defending and expanding the legal rights of the citizens. Similarly, non-political personal and property rights were effectively restored under Sadat.

³⁰ Hinnebusch, n.3. p.185.

CHAPTER IV

Chapter-IV

Infitah and Growth of Islamic Militancy

The issue of social justice is at the very root of militant Muslim movements. In the wake of economic liberalization policies (*infitah*) implemented by the Sadat regime, militant Islamic groups intensified their denunciation of social injustice. They also attacked an excessive enrichment and corruption among the privileged class. Rapid urbanization and shrinking credible employment opportunities led to economic dislocation and even revolt.¹

The most important problem facing the Sadat regime was the country's demographic explosion. As a result of mass migration to the cities, especially in the 1970s urban centres grew rapidly, the population of Cairo rose from four million in 1960 to more than eight million in 1979. This doubling of population led to grave economic, social and political consequences. The influx of cheap labour from countryside depressed employment and lowered living standards among the unskilled masses. The new additional labour force felt a sense of lostness in this scenario. They sensed exclusion from the nation, being drawn in and then blocked by the society. The large number of migrants made assimilation to the cities more difficult and the result was the

¹ Ibrahim, Ibrahim. "Religion and Politics under Nasser and Sadat", in Barbara Freyer Stowasser, ed., *The Islamic Impulse* (Washington, 1987). p.126.

ruralization of Cairo and other big cities where Islam was the main unifying force. Such Islamic militant movements are the by-products of the socio-economic crises. University graduates, if employed at all, would work in small private business, subject to inflation and low wages and they naturally became hostile to those controlling the economic order, whose lifestyles were extremely luxurious and western. Egypt, in the late 1970s became a nation of two nations: one comprised of depressed masses, the other of the middle and managerial classes. It is unfortunate to observe that Sadat and his ruling elite could not understand the seriousness of excluding the periphery from the considerations of the elites at the centre.²

***Infitah* and Militancy:-**

The Nasser regime had taken a lot of measures to separate religion from the decision-making processes on all-important matters. The measures included the systematic smashing of *Ikhwan*, confiscation of *waqf* lands, secularization of schools, and courts and finally in matters of subsidization of public services and appointment of the personnel of Mosques. On the other hand Sadat's regime took a U-turn from that of his predecessor's regime. He tried to Islamize the political system in an effort to encourage his political as well as economic goals. In his mission, Sadat pursued a wide range of policies which led to the growth of various Islamic militant groups.³

² Ibid,p.129.

³ Ibid.

At the beginning, Islamic militant phenomena was very much the by product of Sadat's policy of de-nasserization. Another dimension of the growth of Islamic militant groups, as given by some scholars, was the factor of 'petro-dollar' of conservative oil states like Saudi Arabia, Kuwait and Libya. The 1967 Arab defeat had already discredited the Nasserite regime. It was a huge blow that led to humiliation in the Egyptian population at large and triggered soul searching for a new-ideology that would take Egypt from the depths of this defeat. The Islamists said, following the defeat, that the defeat was an indication of the total corruption of regimes that deserted God and so were let down by God.' To Islamists, the 1967 defeat was proof of the corruption and inefficiency of the entire social, economic and political system which are inter connected with each other.⁴ Their claims of the militant groups were indicated following the economic hardship due to the war.

Thus, factors like financial dependency on a Gulf oil-majors, reopening of the Suez canal, return of the Sinai oil fields, disenchantment with the limited supply of arms by Soviets, growing conviction of USA as a peace broker, need for the creation of a new social base and a 'separate' identity to enhance his personal legitimacy etc., were some of the factors that led Sadat to embark on a new political, economic and foreign policy. It is important to note here that the political, economic and foreign policy adopted by Sadat were interlinked with one another. As indicated in the previous chapter, the economic necessity caused Sadat to go for the pluralization of the

⁴ See Nazih Ayubi, *Political Islam: Religion and Politics in the Arab World* (London, 1991); p.77.

political system. Intention of liberalization of political system was to purge 'leftist' and 'Nasserites' from the government so as to achieve his economic goals under *infitah*.

In doing so Sadat released members of militant groups like Muslim Brothers, *Jamat al-Muslmin*, from prisons, closed detention camps, ceased the activities of the socialist vanguard, removed Muhammad Hassanein Haykel (the influential editor of *Al-Ahram* by rightwing journalist Ali-Amin and abolished the primary membership of Arab Socialist Union (ASU). This kind of political set up – absent during Nasser's period –gave different militant groups some sort of leverages to do their activities uninterruptedly. The freedom that the militant groups enjoyed during Sadat's time can best be seen in Sadat's use of members of Muslim Brotherhood to purge 'Nasserites' and 'leftist' from the University campuses. In another measures, Sadat legalized periodical *al Daw'a* (1973)- the mouth piece of *Ikhwan*, encouraged Islamic groups (*Jama'at*) in the university campuses.⁵

Thus, the release of members of militant groups, relaxation of police controls and use of religion in political and economic areas helped revive militant organisations during Sadat time.

During Sadat's presidency a host of Islamic groups surfaced in Egyptian Political System. These included, Muslim Brotherhood, *Munzzamat-*

⁵ Ibid.

el-Tahir al-Islam (Islamic Liberation organization) founded by Dr. Salih Sarriya, *Al-Takfir wal-Hijra* (Repetance and Holy Flight) group- founded by Sukri Mustafa and responsible for the assassination of the Minister of Endowment in July 1977, *Shahab Muhammad, Hizb-al-Tahir al Islam* (Islamic Liberation party), *al-Jihad* (Holy war) – the group responsible for the assassination of Sadat—and *Jund al-Allah* (God’s Soldier) and so on.⁶

In the early period of Sadat’s regime, Sadat took the help of Islam and Islamic militant groups to defeat his adversaries and to win legitimacy for his economic goals. By this way he was largely responsible for the revival of various Islamic groups. But it was his economic policy that led to the growth of militant activities against his own policies and regime. This is illustrated as below.

Though the criticism against Sadat’s regime ranged from left to right, yet it was the religious groups which came to provide the main oppositional forces and posed direct threat to Sadat’s authority. The westernization and inequality spurred by *infitah* were perceived as a threat to Islamic society. Alliance with United States and peace with Israel was seen as a capitulation to ‘infidel’ powers. It was against this background that one has to see the action of the Islamic militant group *Al-Jihad* that killed Sadat in 1981.⁷

⁶ Saad Eddin Ibrahim, “Egypt’s Islamic Activism in the 1980s”, *Third World Quarterly* (London), vol. 10, no.-2, 1988, p.639.

⁷ Ibid.

In the wake of economic liberalization, the income inequality, and unemployment rate went up. At the same time it 'adversely' affected the 'cultural consciousness' of the Egyptian society. With this, the peace treaty with Israel caused widespread protest especially among the Islamic groups. It is against these backgrounds, various militant groups raised their voices against the regime.

During *infatih* period, the importation of consumer goods, frequently luxurious items went up. It largely ate up big chunks of Egypt's potential savings. The prices of basic goods (like food, clothing, etc) increased day by day thereby affecting the common men. The policy of *Infatih* served the interest of 'haves' and created a wide gulf of economic inequality. As Fouad Ajami pointed out, the investors under *Infatih* were either pre- 1952 upper classes or thus who made fortunes in the Arabia Gulf in the 1950s and 1960s.⁸ It was the westernized, more educated upper strata, which profited most by the policy of *infatih* as agents of foreign firms, middleman and importers.⁹

The income inequality among the various stratas grew rapidly in the wake of this economic policy. While in two years between 1974 and 1976, the income of some 200 families grew from 35, 000 Egyptian pound to 40,000 Egyptian pound. vast majority of the lower middle class and lower classes suffered a decline in their standard of living due to the heavy inflations

⁸ See Fouad Ajami. *The Arab Predicament: Arab Political Thought and Practice Since 1967* (Cambridge, 1981), p.495-96.

⁹ R. A. Hinnebusch Jr., *Egyptian Politics Under Sadat: The Post-Populist Development of an Authoritarian-Modernizing State* (Cambridge, 1985), p.278.

unleashed by *Infitah*. Dr. K. Mustafa, in a report to the 4th Annual Symposium of Egyptian Economist, Cairo, May, 1979, showed that 66.8% of Egyptian families spend less than 1 Egyptian pound per day, at a time when a kilo of beans costs 35 piasters and a pack of cigarettes, 30 piasters (1 Egyptian pound = 100 piasters)¹⁰. Overall rural income inequality also increased from 0.35 in 1974 to 0.46 in 1977-78 most likely the result of concentration, rent increases and the inequitable effects of the crop rotation system.¹¹ The employment absorbing capacity of state declined from 80% before 1967 to 50% by 1974. This distressing situation due to the disturbed interest of the market economy created distressing social and cultural conditions in the country. Sadat was known “for his excessive fondness of the West, which manifested in Egypt’s natural and economic dependency, and played its part in deepening of its cultural and economic crisis and providing widespread public discontent.”¹²

What differentiated Sadat from Nasser was Nasser’s stress on identification with national culture throughout society and spread of a sense of pride in Egyptianess. “Raise your head, brother”, he exhorted his countrymen in his maiden speech after July 1952.¹³ The psychological appeal of such exhortation apart, it had cultural and economic implications as well. In the economic context, Egypt took all the efforts to do and make everything itself “from the needle to the aircraft”. Galal Amin says that the economic

¹⁰ Ibid.

¹¹ Ibid.

¹² Ajami, n.8, p.110.

¹³ A. Abdel Malik. “The Occupation of Egypt”, *Arab Studies quarterly* (Washington), vol., Summer 1979, pp. 177-79.

growth of the 1956-66 period was a product of a “remarkable psychological change” in which a “feeling of national pride” replaced the earlier “feeling of inferiority to the foreigners”. Under *Infitah*, by contrast, there was an unmistakable reversion to the ‘colonized consciousness’ led by a resurgence of cosmopolitanisms among the elite.¹⁴

That indigenous culture was again de-valued and that of the colonizer admired and imitated in elite circles was apparent from Sadat’s plea that Egypt be accepted in the west as a civilized outpost in the ‘barbarous Middle-East’. There was an economic dimension to this, too. The view “that everything western was superior, everything *baladi* inferior returned-an attitude beautifully captured by the cartoonist Salah Jaheen who depicts two Egyptian marvelling over the Great Pyramid: ‘Fantastic it must be imported!’¹⁵ The concept of Western money and technology could do everything for Egypt returned to Egypt. Again the concept of providing western solution to Egyptian problem came to the forefront.¹⁶ His liberalization policy represented a policy that was speculative, mercantile rather than being production oriented. The major beneficiaries of his policy were those who imported foreign goods and acted as middlemen between foreign firms and government. Those who had direct links to the public officials and political elite profited from “feeding the seemingly insatiable

¹⁴ Galal Amin, “Some Economic and Cultural Aspects of Economic Liberalization in Egypt”, *Social problems* (New York), 1981, p.440.

¹⁵ Hinnebusch, n. 9. p. 286.

¹⁶ *Ibid.*

middle and lower middle class demand for imported consumer goods.¹⁷ This policy not only damaged many indigenous industries but also fomented public anger.

The country was flooded with cheap Chinese and Korean imports. At the same time, the corruption and wheeler-dealer mentality encouraged by *infitah* eroded honesty and the work ethics among the mass public. At this point of time, it became questionable whether second national development could take place in such a cultural climate. Once faith in national regeneration was lost, privatism preoccupation with short-term particularistic gain became the norm. To be sure, “entrepreneurship of a kind can flourish in such an environment, but rather than the productive variety Egypt claims to want, it was likely to be of the *comprador* or parasitic kind that seek its fortune in the middlemen operations, importation and black marketeering, and consumes its profits in high living or exports them to safe foreign banks.”¹⁸

Galal Amin sees this as the chief danger of *infitah*. He says, “foreign capital may one day be nationalized, taxes made more progressive, and land redistributed what can never be corrected however, if it is allowed to proceed too long, is cultural disintegration.”¹⁹

The cultural consequences of these measures caused immediate alarm to a larger section of the politically active and culturally conscious public. As

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Amin, n.14, p.440.

Hinnebusch points out, modernization is a function not just of capital and technology, but of motivation, which appears rooted in a sense of self-worth and confidence inseparable from strong religious, ideological and national identity.²⁰ *Infītah* appeared to have challenged this sense of self-worth among a considerable section of Egyptians, because of its dependency and consumerism, over looking long-term dependency and consumerism, overlooking long-term national economic interest. Egyptian Islamists resented that advancement by the West of its economic interest went in hand with promotion of its liberal values in the nation of the Muslim East.

The Muslim Brotherhood described Sadat's policy of *Infītah* as a policy of consumerism and opposed it specifically on moral and religious grounds. It pointed out that in order to popularize their produce, foreign companies were trying to change public thinking and their culture, which sometimes contrasted with the teachings of their religion. It further said that the efforts of opening an American a television station in Egypt and the establishment of a film company were aimed at achieving the same objective. Some Islamicists suggested that while economic openness in itself was not wrong, it developed problems from the outset because Islamic values were ignored in its implementation.²¹

²⁰ Hinnebusch, n.9. p.285.

²¹ Zohurual Bari. *Re-Emergence of Muslim Brothers in Egypt* (New Delhi, 1995), p.95.

Infitah, in the course of time, became connected in the common Egyptian perception with Sadat's peace policy towards Israel. The president himself set people thinking that peace with Israel would bring unprecedented economic prosperity once Egypt achieved the two objectives of peace with Israel and entry into the market economy. As hopes of prosperity turned sour for many they held Sadat responsible for their frustration. Similarly, peace with Israel led Egypt into isolation from Arab-Islamic world rather than prosperity, and as its separate character became manifested, Sadat became vulnerable to charges that he had betrayed the national honour and the trust of an Islamic ruler.²²

Some Islamists were convinced that the West flooded Egypt with loans and economic assistance only to prepare Sadat for peace with Israel. In print and private, they elaborated various humiliations inflicted upon Egypt by Menachem Begin's one-sided interpretation of Camp-David peace process. Coupled with this were the protests against creeping Westernism, loose morals among women, and high level of corruption. These themes which had been the main factors for the *Shi'ite* opposition to the Shah, and they found a ready audience in Egypt. The most active and politically dangerous elements among the fundamentalists were secondary and university students organized in the 'Islamic Associations.' Although representing a minority among students they gained control of student organizations in virtually all-Egyptian universities. These associations served as umbrellas for Muslim activists of

²² Hinnebusch, n. 9, pp.226-27

widely differing philosophies and what joined them was the enmity towards the regime and the desire to bring it down.²³

As Anthony Mc. Dermott mentions, "By 1978, the strength of the Islamic Associations in the unions of Alexandria University was reflected by the following results: in the faculties of medicine and engineering, 60 seats out of 60; in agriculture, 47 out of 48; law, 44 out of 48; pharmacy, 42 out of 48; and science, 43 out of 60."²⁴ Thus the widespread support to the militant *Jam'at* group shows the extent of their popularity among the students.

The individual leaders of the various factions of *Ikhwan* denounced corruption, immorality and the growing gap between rich and poor. The important leaders among them were blind *Shaikh Imam* of Cairo, Shaikh Abd al-Hamid Kishk, Mahalawi in Alexandria and Hafit Salamah in Suez whose sermons in mosques or cassette tape attracted wide popular support among the traditional urban quarters. The Islamic militants were frequently in contact with them.²⁵ At the radical end of the Islamic movements were many clandestine small militant organizations. Among them three prominent organisations – *Shabad Muhammed*, *Al-Jihad* and *Al-Takfir wa al-Hijra* were well known. They were supposed to be the breakaway groups from the main body of *Ikhwan* in the early 1970s and had been alleged of enjoying the

²³ See, Nazih Ayubi, "The Political Revival of Islam: The Case of Egypt". *International Journal of Middle-Eastern Studies* (London), vol.12, no.4, 1980, pp-481-99.

²⁴ Anthony Mc Dermott, *Egypt From Nasser to Mubarrak: A Flawed Revolution* (London,1981),p.188.

²⁵ See. Israel Altman. "Islamic Movement in Egypt", *The Jerusalem Quarterly* (Jerusalem), no. 10, Winter 1979, pp. 97-99.

external support, especially of Qadhafi's Libya. The first two were anti-regime and the third was anti-establishment in nature.²⁶

Sadat's regime and Militant groups enjoyed voluntary co-operation till 1976-77. After that, especially after Camp David accords of September 1978, it started to deteriorate. Infact, Islamic groups were allowed to preach and organize so long as they eschewed opposition politics, violence and secret cells. But as western penetration, the American alliance and Sadat's accommodation with Israel became more overt, regime's relation with the Islamic movement soured. The peace treaty with Israel (which Sadat said to bring economic prosperity) and the subsequent break with Saudi Arabia marked a watershed in the development of antagonist relationship between the regime and militant groups.²⁷

The signs of divergence between the regime and that of the militant groups started during 1977 food riots. This crisis was sparked by the steep rise in prices of basic commodities due to the IMF – imposed cuts in the government subsidies. This cut in subsidies was the result of economy reform propounded by Sadat. The food riots caused the death of several people besides wounding hundreds of other. Islamic elements protesting western culture penetration and imported immorality, set fire nightclubs and attacked luxury clubs.²⁸ The Brethern denounced Sadat's *infitah* policy. which they

²⁶ Ibid

²⁷ Ibid.

²⁸ Hinnebush, n. 9. p.71.

said, resulted in the concentration of wealth among the top 5% elite and poor standard of living among the wider section of the population at the bottom. They also claimed that only Islamic based economic system could increase productivity and turn labour from a chore into a religious activity.²⁹ In the summer of 1977, another major challenge to the regime came from a militant Islamic organization, *al-Takfir wal-Hijra* that enjoyed the support of estimated 3000-5000 active members with cells in upper Egyptian villages, mosques, campuses and in the desert.³⁰

Influenced by Qutub's notion of '*Jahaliyya*', the group led by Shukri Mustafa denied legitimacy not only to the regime but to the whole social order including the religious establishment. So alienated was this group that it sought the complete withdrawal from the '*Jahaliyya*' society and even attempted to create the "model communities" in which all modern innovations were rejected in favour of return to natural Islamic simplicity.

Sensing the potential Islamic opposition against his regime, Sadat denied *Ikhwan's* request to form an Islamic political party. In November 1979, the regime proposed the formation of 'Supreme Muslim Council' to supervise and integrate Muslim associations and institutions and was given a charge to overcome the growing opposition to Sadat which had begun to raise

²⁹ E. Sivan, "How Fares Islam", *The Jerusalem Quarterly*, no-13, 1979, pp-39-40.

³⁰ John G. Meriam. "Egypt under Mubarrak" *Current History* (Philadelphia), vol-82, no. 480, January 1983, p-6.

its head among the Muslim Brethern and other extremists religious groups.³¹ In 1980, Sadat suspended all Islamic associations in the universities, accusing them of promoting religious fanaticism, extremism and communal unrest.³² However, encouraged by the Iranian revolution, the Islamic groups continued their activities. The *Ikhwan* and other militant Islamic groups vehemently criticized the refuge offered by Sadat to the Shah of Iran. But it was *al-Jihad*, a more militant and ideologically committed organization, posed the gravest threat to the regime's survival. The group derived its strength from its leader Mohammed Abdul Salam Faraj. This group was by far the bloodiest and most deadly in its confrontation with the state. Despite the preventive arrest of hundreds of its members by the state in September 1981, it succeeded in assassinating Sadat on 6 October 1981.

Thus the economic problems that caused widespread inequality, unemployment, social injustice, cultural deterioration with the peace treaty with Israel gave militant groups a platform to revolt against Sadat's regime.

³¹ Gabriel R. Warburg, *Egypt and the Sudan: Studies on History and Politics* (London), 1985, p-204.

³² See, S. E. Ibrahim, "The Ana'tomy of Egypt's Militant Groups", *International Journal of Middle East studies* (NewYork), vol.12,no.4. December 1980,pp.437-40

CHAPTER V

Chapter-V

Conclusion

The *infitah* policy adopted by Sadat was a response both to internal economic problems and to shifts in the international economic and political environment. By the time Sadat became President of Egypt, the economy was in serious problems: the productivity of the industrial sector had come to a stand-still position; agricultural growth was lagging behind; food imports were growing day by day; there was a serious imbalance of trade and the resource gap was very high.

In such an economic crisis, the international conjuncture offered a chance to address the problem. The oil boom that took place in the 1970s offered Egypt the prospect of enhanced capital inflows from major oil-exporting countries in the neighbourhood, from workers remittances, and ultimately, from direct oil-sales. But such opportunities did not come without any conditions. The opportunities required institutional changes in the economic environment. It required reforms so that conservative Gulf investors could be persuaded to invest in the Egyptian economy; Egyptian workers working abroad be enticed to repatriate their savings. Moreover the country had to ensure its food security from the advanced industrial countries of the west.

Under Nasser, the Egyptian economy was engaged in barter trade with Eastern European countries and Soviet block. The main transaction was the export of agricultural products and other raw materials for the industrial goods.

The result was that, this barter system did not yield to any convertible currency, which was required to buy western equipment and foodstuffs. So a restructuring of trade was necessary.

Under the *infitah* policy, the goals were set to attract capital from the major Gulf Oil States, to lure western investment and technology through joint ventures with Egyptian public and Private enterprises, to promote exports and the private sector, and to improve the productivity and competitiveness of the public sector. To move towards this direction, it required the creation of different legislative laws. Law 43 of 1974 and its amendment by Law 32 of 1977 gave many opportunities to the joint ventures. Again Law 159 of 1981 extended the benefits to the above two laws to purely Egyptian companies. Among other technicalities of the *infitah* policy were the liberalization and partial liberalization of foreign trade, the 'own-exchange' system to finance private-sector imports, repeated exchange-rate devaluations leading to the unification of the exchange rate, re structuring of the banking system and a host of changes in publicly administered prices.

The result of the *infitah* policy adopted by Sadat had mixed results. It had dramatic impact on the economic growth in Egypt. The Gross Domestic

Product (GDP) grew by 8-9% per annum. The national saving rose from 8.5% of GDP in 1974 to 16% in the early 1980s. The investment ratio soared from 18% to 25% in the same period. Similarly, a significant amount of Gross National Product (GNP) was invested which created an expanded productive base. New investment sparked a new expansionary phase in the economy, enabling the country to break out of stagnation of the 1967-73 period. However, a close look at the sectoral growth rate shows that service sector grew more than others. In 1973-77 period, transportation and communication, a leading growth sector grew at a rate of 19%. Trade and finance grew at a rate of 8%, a symptom of economic liberalization.

However *infatih* did not solve many other economic problems. The balance of trade problem still persisted rather cumulated over the years. At the time of 1974, it was 1.2 billion US dollar and after 10 years it increased to 5.3 billion US dollar. Similar was the case with agricultural trade. Agricultural imports constituted 25% of Egypt's imports in ten years after the launch of *infatih*. Industrial exports also lagged behind. Though workers' remittances grew rapidly over the years, yet it could not prevent a severe balance –of-payment crisis. As a result, foreign exchange gap continued to grow and debt rose from approximately 3 billion-dollar in 1974 to 24 billion-dollars in the span of only 10 years from the launch of *infatih*.

Public Sector, which had retained a dominant position during Nasser's time, suffered a lot under *infatih*. Though ready availability of foreign

exchange in *infitah* years eased the problem of idle capacity and opened the open the door to some new expansion, yet the Sadat regime did not divest itself of control over industrial revenues and decisions which prevented reforms of the economic –decision making of the enterprises. On political grounds, it kept prices low, failed to impose labour discipline and still expected managers to maximize output. Unreformed public sectors were at increasing risk in the climate of *infitah*. Skilled managers were lured away by higher-paying foreign and private firms. Tariff rates on materials they had with them were frequently higher than on manufactured foreign import competing with them. New foreign investment in Egypt enjoyed lower costs made possible by tariff and tax breaks, and exemptions from employment polices. In such a situation it became very difficult for the public enterprises to compete with private sector.

Similarly the distributive and welfare consequences were abysmally low during the *infitah* time period. Government's apathy towards public transportation, health care resulted in a dualistic society. While rich people by virtue of their wealth had access to better hospital or luxury cars, poor people suffered in appealing conditions of government hospitals or in roads, respectively. In the *infitah* period, higher- income group benefited substantially from the liberalization policy. The upper classes recovered and expanded their control over wealth –producing assets. But the condition of poor people worsened during this period. The small holding peasants seemed

to have eroded in this period. Due to high inflation, declining of public services, and neglect of rural areas, the standard of living of vast majority of people worsened in this period. Similarly, this was the time period in which rural –urban income gap widened.

There have been certain changes in the political infrastructure during Sadat period. When Sadat launched his new economic policies under *infitah*, he faced severe criticism from the ‘left’ groups, especially ‘leftists’ and ‘Nasserites.’ So Sadat in his attempt, tried to lure his adversaries into the open, and then isolate them. By this, he tried to play his opponent off against each other. So Sadat first created three ‘Platforms’ inside Arab Socialist Union (ASU)- a liberal ‘right’, a center (in effect the government) and a ‘left’. From time to time Sadat (re) experimented on the formulae of creating a semblance of popular participation while his intention was to suppress his opponents. When he saw potential threat, he did not let his position or regime loose. When the political party New Wafd started to get increasing popularity. Sadat, by a referendum, restricted its powers by purging its top leaders for which it suspended its activity.

However, despite the above facts, Egypt’s party-system under Sadat has evolved gradually a from all-embracing single party, the ASU, to multiparty system. The parliamentary elections have witnessed increase in the number of elected independent members to the parliament. There has been a new acknowledgement of the importance of parliamentary politics with the

implications of greater legitimacy for wider political participation. Implementation of parliamentary procedures in Egypt has begun to replace the essentially administrative political organization so dominant in Nasser's period. Parliament is assuming a position of importance that cannot be ignored. Again public debates are being conducted in open forms, supported by active, though still relatively controlled, media. With some reversions and inconsistencies, for a time political liberalizations have been extended to the press, radio and television coverage.

Parliamentary and other political debates are now given wide publicity. The judiciary during this period has enjoyed a very substantial measure of autonomy from the executives. Judges became a vigorous force defending and expanding the legal rights of citizens against the government.

Infact, the open polity during 1971 to 1977 had created a more liberal atmosphere. However, the events of January 1977 and subsequent developments resulted in greater political control. So one can say that there were conflicting trends one for the encouragement of political participation; the other for constraining that participation within some restrictive bounds.

When Sadat launched *infatih* he faced widespread criticism from the left (the Marxists, Nasserites, and radical students). In order to purge his opponents, Sadat used the 'religious weapon.' He freed the members of militant organizations like Muslim Brotherhood, etc., But it was consequences of his economic policies that led the militant groups to raise their voices

against Sadat. As a result of *infitah*, urbanization grew rapidly. Only in Cairo, population grew by 4 million in 19 years after 1960. Again the influx of cheap labour from country side depressed employment and covered standard of living among the unskilled masses. The poverty rate become rampant in the wake of liberalization policies. Rural-urban inequality grew in this period. Aprart from this, the cultural consequences of *infitah* moved these groups against the regime.

They viewed it as the western penetration into the Egyptian society. Along with creeping westernism, and high level corruption in elite gave a platform to militant groups to mobilize people against the regime. In short, Sadat's use of religion as weapon against his opponents revived different militant groups while his economic policies only bolstered the strength of these groups. By the time Sadat felt the strength of these groups, they had gained their independent life and logic of their own which finally led to the assassination of president Anwar-al-Sadat.

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