A STORY OF **INFITAH**: 
EGYPTIAN LIBERALISATION UNDER STRESS

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Mehmet Duman**
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**ABSTRACT**

This article evaluates the nature and extent of economic liberalisation process in Egypt, with particular reference to the consequences of “Infith” policies. Particularly, the study critically evaluates the hypothesis below: “The gradualist approach to liberalisation taken by both Sadat and Mubarak governments has ensured that the economic liberalisation has been limited, producing no real opening up of the economy”. The article is divided into three parts. The first part provides a brief description of the economic liberalisation which has occurred during the 1970s and 1980s, a period which can be termed as “reluctant liberalisation”. The second part explores the gains and losses of the Egyptian economy and politics from the wholesale liberalisation policy in the period of late Mubarak era. The article ends with a critical evaluation of the Egyptian experience of economic liberalisation.

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INTRODUCTION

“Infith” is a broad term, which has often used to describe economic and political liberalisation throughout the Arab World, was first used in this context in Egypt. In the environment of changed political and economic situation after the October War of 1973 (Momani, 2003;Niblock, 1993), the principles of new strategy were put forth in President Sadat’s “October Working Paper”, the manifesto of Egyptian liberalisation (Springborg, 1993: 145). It was recognised in the Working paper that in order to accelerate economic growth, changes were necessary in the roles of the different sectors, as well as public sector vis-à-vis private sector.

The term “infith” entered Egyptian political and economic policy terminology, initially, to describe and analyse the role of foreign investment in the housing and construction sectors in a government document. Under the rule of Mubarak, the adjective productive (intaji) was added to the term (Tripp and Owen, 1989). However, this change “...was not intended by new Mubarak government to signal a radical departure from the goals of the original liberalisation, but rather to disassociate the process from previous errors and excess and not to amend its methods in order to preserve it’” (Springborg, 1993: 145).

The overall purpose of this article is to critically evaluate the nature and extent of economic liberalisation process in Egypt, with particular reference to the consequences of “Infith” policies. The article will particularly evaluate the hypothesis below: “The gradualist approach to economic liberalisation taken by both Sadat and Mubarak governments has ensured that the economic liberalisation has been limited, producing only partial opening up of the economy”.

The article is divided into four parts. The first part provides a brief description of the economic policy in pre-Infith period of the modern Modern Egyptian history, under Gamal Abdun Nasser and Free Officers. The second part describes the emergence of “Infith” policies during the 1970s and 1980s under Sadat government. The third part explores the fate of economic liberalisation policies during the Hosni Mubarak governments. The fourth part consists of an overall evaluation of the Infith policies and the gains and losses of the Egyptian people from them so far.

1. EGYPTIAN ECONOMIC POLICY IN PRE-INFITH PERIOD

The development of Egypt’s economic policies in pre-Infith period, since the beginning of the 20th century, can be divided into five periods (Abdelazim, 2002: 17-18).

In the first period, the Egyptian economy was heavily reliant upon a single commodity, cotton, as it is the case in many underdeveloped countries (U.S. Library of Congress, 1998). This period had lasted about 80 years, from 1850s to 1929.
In the second period, Egypt’s economic development strategy was import substitution, which was characterised as agricultural exports (not only cotton), public sector industrial facilities which were supported though serious trade restrictions and a moderate-sized private sector (Abdelazim, 2002).

Although the third period, which took place between mid-1950s to 1960, could be classified as a period of transition (Al-Sayyid, 2003: 2; Abdelazim, 2002); the fourth period, between 1960-1965, witnessed many critical changes. In this period, Egyptian economy was characterised by a statist approach, and therefore expanded public sector share in the economy, and a planned economic system (Abdelazim, 2002). These was facilitated by a peaceful political environment both in domestic and international fields. Although the fifth period, between 1965-1973, was still characterised as etatism and increasing the share of public sector in the economy, this was enabled by military-based economic growth (Abdelazim, 2002).

The most common and noticeable feature of these periods is the dominant role of the state (Abdelazim, 2002: 18; CAIM ED, 2002: 6).

According to Richards and Waterbury (1990: 214-215), the relationship between state intervention and capital accumulation was seen in two distinctive modes in Egypt. In the first mode, the state struggles to encourage and strengthen private sector and foreign funds through providing basic infrastructure investments, while the state tries to dominate all aspects of the economy and takes control of all available resources to finance its own expansion, in the second mode.

Egypt adopted the second process of accumulation with the Socialist Decrees of 1961, when the state declared itself as socialist (Richards and Waterbury 1990: 215; Abdelazim, 2002: 19; Amin, 2001).

The Socialist Decrees was characterised as nationalisation of private sector banks and companies, heavy taxation for private sector goods and services, adoption of plan-based economic and social development strategy and a small scale agrarian reform. The Socialist Decrees were quite successful in redesigning economic structure of the county, in that, for instance, the ratio of public to private in the composition of GDP was 58 in 1973, the same ratio was only 15 to 85 in 1953 (U.S. Library of Congress, 1998).

Another interesting dimension of economic policy of Nasser Governments is that there was a close relationship between economic policies and developments in foreign affairs. Perhaps the best example of this fact was the relationship between foreign aid to Egypt and nationalisation of Suez Canal by Nasser.

When Nasser government tried to nationalise Suez Canal, Western governments and international financial organisations stopped their financial aids to Egypt, although the country strongly needed to fund its ambitious industrial and agricultural development projects such as the huge Aswan Dam. The immediate reaction of Nasser Government to this state of
affairs was two-fold. First, Egypt had to look at the Eastern Bloc, particularly the Soviet Union, for financial aid (CAIMED, 2002). Second, because of the serious economic problems stemming largely from etatist economic policies, negative relations with the West and June 1967 War with Israel, the Nasser Government tried to review its etatist economic policies, particularly the unsympathetic government attitude against private sector and foreign funds soon after the 1967 War. However, Nasser never pronounced a radical shift of orientation in economic and social policies in Egypt. Pronouncement of Infitah was done in early 1970s, when Anwar Sadat get the power (U.S. Library of Congress, 1998).

2. A SEA CHANGE: SADAT’S ECONOMIC OPENING POLICY

In addition to his own preferences, social and economic problems as well as political and foreign policy considerations, combined led Sadat to declare a new policy, “al-Infitah al-iqtisadi” (the economic opening) after the October 1973 War with Israel. The October Working Paper redefined Egyptian economic policy to be based upon three basic components: The first component was the need to import technology and attract foreign capital in order to sustain economic development. The second component of the new policy was the problem of attracting finance, particularly from neighbouring oil-rich Arab countries, and the need for providing financial facilities to foreign investors in order to attract them. Some measures taken in this direction were invitation of foreign banks, incentive rates for the conversion of currency, certain tax exemptions and floating the currency (Mitwally, 1999: 22). The third principle in the liberalisation policy was the abundance of Egyptian labour. As Cooper (1982: 97) rightly suggests, “theoretically, this labour was available at relatively low range and, therefore, would attract foreign investors. However, in order for this labour to be an attraction, it had to be freed from certain constrains which the Arab socialist laws of the 1960s had established to protect the labour force... The government proposed to ease the physical movement of labour, both internally and externally, to free the setting of wages and to liberalize the movement of currency and funds from abroad”.

The general framework for that economic liberalisation was drawn by law 43 which was made in 1974, and its revision by Law 32 in 1977. “These laws provided for the opening up of the Egyptian economy to foreign investment, protection of investment against nationalization and confiscation, tax exemption for new investment, covering varying periods depending on the field of activity and the recognition that private companies would not be subject to legislation or regulations covering public sector enterprises and their employees” (Amin, 1981/1982: 397).

In order to understand the extent of the policy of Infitah under Sadat, it would be necessary to discuss the specific economic activities which had occurred during the course
of Infitah. These can be derived from the series of laws legislated during this period.

2.1 Industrial policy and the Public sector

Since the state had undertaken most of the large-scale industrial activities in the 1950s under Nasserist policies, the first challenge for Infitah policies was to determine which fields to open up to foreign investment and Egyptian private sector and what relationship they would have to state-owned enterprises (SoEs). The Sadat government adopted an approach in this issue which was characterised as considering almost every field open to foreigners and making decisions on a case-by-case basis.

The initial intention of the Sadat Government was to permit foreigners to have total ownership of specific projects and to own up to 49 percent of SoEs. In order to stimulate competition in the economy, the government has taken important measures to strengthen private sector and attract foreign capital.

In addition to allowing sale of shares of public sector firms, the muassasat, many public enterprises have been restructured as managerially autonomous firms like holding companies in private sector (Mitwally, 1999: 23). It "...meant distributing voting rights according to ownership, permitting the General Assembly of each company, merge with other units" (Cooper: 1982: 99).

2.2 Agrarian Policy

As a part of liberalisation program, the government invited foreign capital to invest in agriculture sector such as land reclamation, vegetable and export crops. The invitation later extended to Egyptians in order to avoid placing them at a disadvantage, as in all other cases. The government had also taken serious measures to reorganize the agrarian sector and to free the purchase and sale of land.

2.3 Import Policy

The Sadat government was enthusiastic to become a financial and commercial centre in the region. Therefore, the Infitah policies have always included measures to encourage commercial activities, particularly importing advanced technology and stimulating exportation. The government hoped to become a commercial centre of the whole Arab World and the Middle-East and to replace Beirut as the financial center of the region.

A second field in which the Sadat government's approach moved far beyond the importation of advanced technology was in construction and housing policy. The Foreign Investment Law, enacted in early 1970s, aimed at encouraging foreign capital, particularly the ones in the neighbouring oil-rich Arab countries, to invest on, both luxury and social, housing. The main argument here was the assumption that market forces were already operating and they should be allowed to work properly.
On balance, it is abundantly clear that central focus of economic activity directed under the umbrella of liberalisation was industrial activity. In this stage, it would be useful to give the proportions of total investment in order to better analyze its level of productivity. Between 1974-1987, in both inland and free-zone investment; nearly 23 percent of total was in the fields of tourism, construction and housing, financial undertakings accounted for 7 percent of the total, transportation and storage projects accounted for 7 percent, and petroleum activities 48 percent of total investment (Esfahani, 1993: 11-12, 28-29, Tables 9-10-12).

Although investment in these activities might provide some additional hard currency, it was not going to provide a real solution to Egypt's immediate economic problems (Ayubi, 1992). Although the investment in petroleum industry accounted almost half of the total investment (48 percent) in that period, for instance, it was only an enclave with respect to the rest of the Egyptian economy, especially in terms of its share in labour market and its role in being a purchaser of Egyptian manufactured goods (Cooper: 1982: 109).

2.4. The results of the initial implementation of Infitah under Sadat governments

The initial experience of the Open Door Policy was not altogether positive. Socially and therefore politically it posed serious internal problems. Domestic and foreign private investment was not readily forthcoming. “When it came, it sought access to the domestic market and concentrated on relatively short-term "turn around" situations that were highly profitable and avoided risk exposure” (MERI Report: 1985: 74). In spite of initial setbacks, the economic restoration began in 1973 was sustained and a significant rate of vitality returned to the Egyptian Economy. The GDP growth rate which averaged around 4 percent annually between 1967 and 1974 increased to a level of 13 percent between 1975 and 1978 (MERI Report, 1985). A sufficient degree of flexibility to make adjustments in the economy was permitted by the process of liberalisation. Moreover, liberalisation had a significant impact on the Egyptian economy, although it did not improve in the vein which was anticipated. Table 1 indicates the transformation from a relatively stagnant economy, to a more open, trade and external capital flows-dependent economy.
Table 1. Trade and Capital Flow Impact on the Egyptian Economy

<table>
<thead>
<tr>
<th></th>
<th>Percentage of shares in GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports (% of GDP)</td>
<td>14.6</td>
</tr>
<tr>
<td>Imports (% of GDP)</td>
<td>21.0</td>
</tr>
<tr>
<td>Gross Annual Foreign Capital Flow</td>
<td>10.4</td>
</tr>
<tr>
<td>Total External Debt (% of GDP)</td>
<td>38</td>
</tr>
<tr>
<td>Debt Service (% of Exports)</td>
<td>2.4</td>
</tr>
<tr>
<td>Investment (% of GDP)</td>
<td>22.3</td>
</tr>
<tr>
<td>Private Investment (% of GDP)</td>
<td>5.2</td>
</tr>
<tr>
<td>Average Annual GDP Growth</td>
<td>8</td>
</tr>
</tbody>
</table>

Sources: MERI Report (1985), p. 79; Central Bank of Egypt, EIU Views Wire

Nevertheless, expected fundamental reform in the basic economic policies remained evasive, and by 1978 the economy's growth started again to slow. Meanwhile, one of the most controversial issues in the process of economic liberalisation has been its impact on the balance of payments. The consensus on this issue has been its dependent character on political developments. For example, in Cooper's narration (1982: 75), the MERI Report describes: “On the external side, the balance of payments continued to show strength and improvement with a small deficit on current accounts through 1980. Oil exports, worker remittances and Suez Canal revenues remained the big elements in this vastly improved situation. Capital inflows for 1981, mostly from foreign assistance and foreign private investment, exceeded $2 billion. Even so, in the latter part of 1981, events-the assassination of Sadat, a troubled world economy, the ‘oil glut’, and a high and growing level of imports-placed Egypt in severe straits in its foreign exchange balances. Worker remittances and tourism receipts fell sharply and Canal and oil earnings fell far short of expectations. Declining exports and rising imports led to a 30 percent increase in the trade deficit, ballooning to ever $5 billion. The government deficit again rose sharply to cover the rising costs of subsidized goods and growing imports of foodstuffs”.

3. INFITAH UNDER MUBARAK: FROM GRADUALISM TO A MORE COMPREHENSIVE IMPLEMENTATION

3.1. The First Period of Mubarak Era: Maintaining Sadat’s Gradualist Approach

Since the late Sadat period, the amount of criticisms and complaints from the kinds of foreign private investments entering the country had gradually increased. As Weinbaum (1986: 219) puts it, “Criticism increased as evidence mounted of corruption and of fortunes being accumulated by many of Sadat's close relatives”. As an expression of his participation of the criticisms of Infitah, Mubarak assured the country that he would resist investments, domestic of foreign, not directed towards expanding Egypt's productive capacity, while he
did not expand his disagreements to the entire policy of liberalisation (Weinbaum, 1986). Perhaps because of the conditions which the economy was within and of the need for foreign assistance, Mubarak continued in Sadat’s footsteps, by being entrusted to the opening with the West and peace with Israel, although “he wanted to bring Egypt back into the Arab World at a time when the Egyptian political economy was developing in the context of rapidly changing global and political conditions” (Aqude, 1994: 15).

Although Egypt experienced high rates of economic growth after the early 1970s (see Table 1), rapid rates of economic growth was, and indeed still, dependent upon such sectors as housing and workers’ remittances, which were temporary relief. When Mubarak came to power, the economy was in crisis and external debt had started to rise. The Mubarak government responded this situation in the economy with a series of economic reforms which included steps to reduce the budget and external account deficits as well as reducing barriers to domestic and international trade. In short, taking into account these conditions, Mubarak had no choice but to continue Infitah policies.

Although economic liberalisation has always been a priority of Egyptian governments since the 1970s, there is also an international dimension in Egypt’s flight toward economic liberalisation. The guiding and even forcing role of the IMF is particularly of importance in this respect, because of the size of both external and internal debt (Momani, 2003: 1-9).

However, the government had resisted to a significant number of instructions of IMF for political reasons. The Mubarak Government’s rational was that, some reforms proposed by IMF would deteriorate the standard of living of the mass of population and would attract serious opposition from large public. For instance, “the government strongly opposed raising interest rates to the 20-25 percent requested by IMF, and described the proposed energy price rises as excessive. The transition to a free market exchange rate, the government maintained, would take several years” (MEED, 5 April 1986). The government also announced that, there was no intention of privatizing large industrial units because of their strategic importance. Nevertheless, Mubarak did not have the dare, and indeed the power, to stop the process of privatisation, and in general liberalisation of the economy (Tripp and Owen, 1989). Therefore, he followed a gradualist approach whose main characteristics are the reassessing of Infitah, continuing reforms by small steps and maintaining negotiations with IMF, World Bank and the Paris Club in order to get more foreign assistance (Momani, 2003: 3).

The first period of Mubarak era and his gradualist policy had lasted approximately one decade. With the 1990s, a new period which represent a turning point to a fully liberal economic policy.
3.2. The Second Period: Towards a More Comprehensive Implementation

As can be seen thus far, up to the early 1990s, Mubarak followed more or less the same line with Sadat in the path of economic liberalisation: A gradualist approach. In a sense, the gradualist policy gave permission to Mubarak to maintain Sadat’s policy in a period of crisis. This approach has given some fruits, too. Towards the end of the 1980s, private sector was revitalised, the foreign debt had increased and more Egyptian workers were presented in other countries, largely because of Infitah policies. However, most of the Infitah program, remained unimplemented or little implemented: “By the end of 1980s, there were still large price distortions for foodstuffs and energy. The foreign exchange rates were not unified, the Central Bank rate was still administratively controlled. Nominal interest rates were far below the inflation rate... The government budget deficits, largely financed by inflationary increases in the money supply, had remained at around 20 percent of the GDP. The government successfully resisted orthodox reforms by avoiding negotiations with the IMF whenever sufficient foreign exchange was available without an agreement. The agreements reached with the IMF were only part implemented..... Major areas of contention (in negotiations) were Egypt’s budget deficit, interest rates, and foreign exchange system and energy prices” (Lofgren, 1993: 408).

However, in contrast to the 1980s, important policy changes were implemented in 1990 and 1991. Three years of negotiations ended up by an agreement with the IMF (Handy et al., undated; Corbo and Fisher, 1992). The most important reforms were in the fields of foreign exchange, the government budget deficit, pricing policies, interest rates and money supply (Merriam and Anthony, 1992). Moreover, the government have taken important steps in the areas of foreign trade and investment: In 1991, the government presented a shortened ‘negative list of areas in which private investments are banned and guaranteed automatic approval for investments that did not appear in the list. It dropped the anticompetitive notion that, when existing capacity covers domestic needs, new investments should be prevented (Lofgren, 1993: 410; Momani, 2003: 5).

The orthodox reforms have begun to be felt in the fields of privatization and public sector. However, privatization which occurred was limited to small enterprises and a few hotels (Merriam and Anthony, 1992). Nevertheless, more fundamental changes seem to be underway. For instance, the announced purpose of the Business Sector Law of 1991 is to transform nearly 40 public sector companies into autonomous firms run on commercial principles and competing on equal terms with the private sector (Handoussat and Potter, 1991). They will belong to holding companies managing their portfolios (Mitwally, 1999: 21-23). The number of individual SOEs in Egypt, called affiliated companies, was 317 at the time.
of the adoption of Law 203 in 1991 and represented about 70 percent of the entire industrial sector in the country. Egypt sold off 196 state-run companies and facilities from the early 1990s to 2002, according to a report issued by the Ministry of Public Enterprise in mid-2002 (BBC News, 2004).

All these measures together contributed to the recent improvement in the macroeconomic situation stated below (Table 2).

**Table 2. Main Economic Indicators of Egypt (1992-2001)**

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>2001</th>
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</thead>
<tbody>
<tr>
<td>GDP (US$ billions)</td>
<td>41.9</td>
<td>91.1</td>
</tr>
<tr>
<td>Consumer price inf. (pct.)</td>
<td>21.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Total Debt /GDP</td>
<td>74.4</td>
<td>32.1</td>
</tr>
<tr>
<td>Total Debt Serv./Exports</td>
<td>17.8</td>
<td>8.9</td>
</tr>
<tr>
<td>FDI (US$ million)</td>
<td>459</td>
<td>510</td>
</tr>
</tbody>
</table>

**Average Annual Growth 1992-2001**

<table>
<thead>
<tr>
<th></th>
<th>1992-02</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (percentage)</td>
<td>4.7</td>
<td>3.5</td>
</tr>
<tr>
<td>GDP per capita (pct.)</td>
<td>2.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Exports (percentage)</td>
<td>2.1</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: The World Bank Group; This table was prepared by country unit staff; figures may differ from other World Bank published data.

Furthermore, the successful result of the Infitah has contributed to the increase of FDI inflow, and to the rescheduling of foreign debts. Recent statistics for FDI are unavailable, but related documents mostly imply that it is increasing (El-Kame1, 1997). The U.S. government's writing off Egypt's $7.5 billion military debt and approximately an additional $5 billion in government-to-government loans after the Kuwait war led to the improvement of Egypt’s balance of payment conditions (Melvin and Peiers, 1996). The debt forgiveness of both the United States and the Paris Club in the spring of 1991 reduced Egypt's debt from $50 billion to $25 billion (Cook, 2000).

Under heavy pressure from international financial organisations, Egyptian government has started to take some austerity measures such as lifting subsidies from some popularly used goods. One consequence of this set of policies is to drive real wages downward, as the cost of living expenses increases without subsidy, while wages in public sector are generally static (Graham, 2005). Furthermore, privatisation of some state owned enterprises has also contributed to this trend of decline in real wages. On the other hand, popular demand for social service programs still continues, fuelling movements of social unrest (Graham, 2005)

Likewise, it is rather common experience in developing countries that the IMF-sponsored economic reform programmes have had negative impacts on employment especially in the short term (Korayem, 1997). This situation can be especially serious for Egypt's case, since public enterprises had taken up a large portion of employment more than other countries.
4. AN EVALUATION OF ECONOMIC LIBERALISATION IN EGYPT

As a large number of similar reform attempts in the economic and political structure in other developing countries, the endeavour of economic liberalisation in Egypt have attracted a wide range of divergent views on the nature of economic liberalisation experience and have been confronted with serious critiques. The critiques to Egyptian Infitah can be grouped into three main headings. Galal Amin’s (1981: 430-441) claim below represents the first group of critiques: “The open door policy contains both economic and cultural threats to Egypt. The economic threats are those of dependence on foreign decisions and foreign capital”.

The second group of critiques is about the nature and extent of the Infitah policy. According to this line of critiques, Infitah has neither provided a dynamic which forces to open a previously closed economy, nor been a real opening up. Rather, it is limited to a restructuring of economic relations of the country. The ones who criticise Infitah this dimension also disapprove the new direction of the country’s political relations. For instance, a careful student of Egypt’s recent socio-economic and political developments, Nazih Ayubi (1982) claims that Egypt is now not only looking outside but, rather, turning the United States and Europe. Infitah “pleased the capitalist world to see a country like Egypt with great culture and geo-political importance in the region shift to a position of close alliance with the United States of America in particular and with the West in general” (Ayubi, 1982: 350).

The third group of critiques is about the consequences of the Infitah process. The main argument here is that the open door policy has not achieved considerable positive results. “The reform efforts of the seventies and eighties were not real changes in the main pillars of the Egyptian economy; on the contrary, they were formal and superficial. The decision making power remained authoritarian and centralized” (Harik 1997: 27). Moreover, in spite of its emphasis upon privatization and an open door policy, the bureaucratic apparatus continued to expand, offering new jobs for those who could not absorbed elsewhere. Between 1970 and 1978, government employees increased from 15 percent of the labor force (1.2 million workers) to 22 percent (2.1 million workers) (Rivlin 1985: 21). In addition, “the Egyptian state continued to subsidize many necessary goods for its poor people” (Abdelazim, 2002: 36).

Despite the dominant discourse of the infitah, which largely focused upon the importance of the private sector, the public sector continued to play an effective and wide-ranging role in the Egyptian economy until the early 1990s (Abdelazim, 2002). “It remained responsible for 70 percent of investment, 80 percent of foreign trade, 90 percent of banking, 95 percent of insurance, and about 65 percent of value added” (Harik 1997: 20, in Abdelazim, 2002: 37).
In order to evaluate these arguments, one needs to have a careful look at the situation of economic openness in pre-Sadat period and ask such questions as “to what extent Egypt had a closed economic and political system in that period?” and “to what extent the policy of Infitah has changed the country’s economic, as well as social and political, system?”

As hitherto mentioned, the state capitalism of Nasser meant a mixed economy, putting private and public sectors side by side in the economic structure. However, perhaps because of considerable internal and external obstacles and unsuitability of socio-economic conditions for a fully liberal economic structure, Nasser had needed to give priority to public sector and import substitution industrialization strategy. The external (foreign policy) dimension of Nasserist economic policies is also of importance; in that Nasser was able to find funds for its attempts of development from Soviet Union and other socialist countries. If one takes this fact into account, it would be easier to compare that period with Infitah policies of Sadat and Mubarak governments.

The IMF has strongly argued that, Egypt has needed only to use the ‘right’ policies to achieve a real development (Zaki, 2001; Subramanian, 1997). It is clear that the ‘right policy’ for Egypt has meant the change in economic structure, privatization and integration with the World Economy, in short, economic liberalisation. Alleged cases of success in such countries as Korea and Taiwan (Asian tigers), and Argentina and Brazil in South America are often cited by IMF and other international financial institutions as well as other, both domestic and international, advocates of economic reform, as examples of success of similar open door policies.

However, some authors argue (e.g., Gouda Abdel-Khaleq) that the new policies really mean new priorities, and development means integration into the world capitalist system. Here, as the critics use it, the term ‘integration to the world economy’ has not a neutral meaning; in fact it is a way of absorption of the country into the web of world capitalism. This absorption, in turn, has always needed an unrestrained economic structure. In practice, an open economy means opening the country’s resources to international actors, particularly the United States and Europe (Abdel-Khaleq, 1981).

As hitherto mentioned, the October paper defined “infitah” as opening up the Egyptian economy for direct private investment, both Arab and foreign. Here, private Egyptian capital was expected by the Infitah policy makers to come as a junior partner to foreign capital. In short, the overall aim of the initial introduction of Infitah policy was opening up the Egyptian economy in order to attract external finance and new technology into the country (Abdel-Khaleq, 1981).

Yet, Egypt was not in a full state of autarky before 1974, in that the Egyptian economy achieved a comfortable rate of growth during 1960-64, despite the fall in the ratio of foreign trade to national income, as can be seen from Table 3.
Table 3. The Share of developed market economies and eastern block countries in Egypt’s foreign trade (1956-2001)

<table>
<thead>
<tr>
<th>Period</th>
<th>DME (a)</th>
<th>EBC (b)</th>
<th>Both Blocks Total</th>
<th>DME (a)</th>
<th>EBC (b)</th>
<th>Both Blocks Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956-58</td>
<td>28,5</td>
<td>34</td>
<td>62,5</td>
<td>56</td>
<td>22</td>
<td>78</td>
</tr>
<tr>
<td>1960-65</td>
<td>37,6</td>
<td>39,8</td>
<td>77,4</td>
<td>61,5</td>
<td>19,1</td>
<td>80,6</td>
</tr>
<tr>
<td>1966-70</td>
<td>25,7</td>
<td>48,9</td>
<td>74,6</td>
<td>47,6</td>
<td>30,7</td>
<td>78,3</td>
</tr>
<tr>
<td>1972-73</td>
<td>22,3</td>
<td>58,2</td>
<td>80,5</td>
<td>43</td>
<td>31,6</td>
<td>74,6</td>
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<tr>
<td>1974-78</td>
<td>28</td>
<td>55,6</td>
<td>83,6</td>
<td>63,4</td>
<td>17,5</td>
<td>80,9</td>
</tr>
<tr>
<td>1980</td>
<td>68,9</td>
<td>11,2</td>
<td>80,1</td>
<td>74,8</td>
<td>8,3</td>
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<td>1990</td>
<td>58,4</td>
<td>19,7</td>
<td>78,1</td>
<td>69,7</td>
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<td>1995</td>
<td>68,4</td>
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<td>71,2</td>
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<td>2000</td>
<td>64,6</td>
<td>0,9</td>
<td>65,8</td>
<td>62,1</td>
<td>5,5</td>
<td>67,6</td>
</tr>
<tr>
<td>2001</td>
<td>62,6</td>
<td>1,2</td>
<td>63,8</td>
<td>60,1</td>
<td>5,8</td>
<td>65,9</td>
</tr>
</tbody>
</table>

(a) Developed Market Economies (USA, Japan, Western Europe)
(b) Eastern Bloc Countries (USSR, China, Eastern Europe)

On the other hand, when the shares of the developed market economies (DME’s) and of the Eastern Bloc Countries (EBC’s) in Egypt’s exports and imports over the period of 1956-2001 are compared, shown on Table 3, it can be seen that the DME’s share in Egypt’s exports falls until 1971 and rises afterwards, while the EBC’s share in exports rises until that time and falls afterwards. It seems that, Infitah in Egypt means to a large extent having less exchange with the Eastern Bloc Countries and more exchange with the Developed Market Economies (Abdel-Khaleq, 1981).

Further, it is, not only looking outside for trade, but changing direction of economic, and political, relations towards Europe and United States.

Regarding the claim that “economic liberalisation which has occurred so far has been limited and no real opening up has been provided”, so far developments has shown that this is partly true. Although Egypt had taken only small steps on the path of economic liberalisation in its first two decades of Infitah, the country has taken serious attempts to liberalize its economic structure since the early 1990s. Which reasons and developments, then, have directed the Egyptian decision-makers to a fully liberalized economy? Before answering this, it would be useful to explain the reasons of "the Gradualist Approach", which characterised the first period of the Mubarak Era.

Bellin (2004) identifies social, economical and political reasons of the policy of “slow change” in the first phase of Mubarak governments. First, the belief that fast economic reforms will produce economic growth and
stimulate positive changes in society was weak among policy makers. Second, the government aimed at protecting fragile sectors of the economy such as textile industry and agriculture against harsh competition. Third, the fact that state owned enterprises had served as means of state patronage, i.e. jobs for the masses and lucrative posts for the elite, the government was reluctant to lose this vital means.

Of particular importance in this context is the resistance of bureaucracy to the shift away from state-control of economic activities. Indeed, the size and behaviour of the bureaucracy provide a barometer for the progress toward forming a free market system. An interesting note for the first period of Mubarak era is that size of the bureaucracy, in terms of employment and public expenditure, continued to grow (Ates, 1995), despite the claims of privatisation and reducing the role of public sector in the economy by the government. However, salary increases have not paralleled the augmentation in bureaucratic employment (Pratt, 1998). Thus, rent-seeking behaviour remains endemic. “While its most obvious manifestation is the solicitation of bribes from the public, rent-seeking also takes the form of 'straddling', whereby bureaucrats divert the state's resources into private sector activities within which they have an interest.... Straddles constitute a major source of opposition to liberalisation, because they collect rents on behalf of more highly-placed patrons” (Springborg, 1993: 161). Research on the bureaucracy's attitudes (e.g., Pratt, 1998, Ates, 1995) demonstrate that its views are mixed with cautious support for liberalisation balanced by fear of the consequences of competition.

Furthermore, the Egyptian bourgeoisie's capacity to decisively affect economic policy is limited by its fragmentation and ambivalence. The ruling National Democratic Party is a major channel of 'political patronage' and therefore prefers etatist policies to guarantee its own survival. On the other hand, at the front of opposition, the Liberal party is weak and Wafd, a relatively stronger liberal party, does not endorse wholesale liberalisation harmoniously. Some of its leaders believe that, for tactical reasons, some parts of state capitalism must be kept (Al-Ahram, 10 - 16 October 2002).

The Islamic opposition is also not free of such controversy. The Muslim brotherhood, the chief Islamist organization, has a number of Islamic economic enterprises, such as private hospitals, schools, finance institutions, and small or middle sized enterprises. It has members from upper class which might be termed an Islamist bourgeoisie as well as from poor muslim peasants. “While this class fragment is remittently hostile to the state's involvement in the economy, it is simultaneously ill-disposed towards reforms proposed by Western financial agencies” (Springborg, 1993: 161). To sum up, liberalisation policies in Egypt has not gained large popular legitimacy (Lofgren, 1993).

Another important reason why the government was reluctant to go further in liberalisation policies has been the fact that Egyptian national companies has still been...
relatively weak and not able to compete successfully with their foreign counterparts. As political and social results of the case that international companies would replace Egyptian ones (such as extensive job loss) will be quite high, Mubarak governments do not favour fast and uncontrolled liberalisation measures (Bellin, 2004: 7).

As Bellin (2004: 6) rightly suggests, “policies that seem economically irrational are crucial to the political logic of this regime (providing patronage, sustaining coalitions, endowing discretionary power). As a result, a government would not be willing to undertake reform unless pressed by crisis; even then it is likely to hedge its bet and embrace, at best, only partial reform”.

In these conditions, the Egyptian government followed a gradualist strategy which entails reducing political tension through a partial liberalisation. Since the steps of reform has been taken by the state, the middle sectors have been unable to design themselves as champions of an economic and political liberalisation which would benefit the entire society and to gain wider social support by doing so (Niblock, 1993).

In early 1990s, however, the Mubarak Government started to implement a structural adjustment policy package, in part because of increased pressures from international financial organisations. Egyptian structural adjustment reforms can be seen as relatively successful, particularly taking macroeconomic stability into account. This policy change indicates, in a sense, a shift from the policy of gradualism and reluctant liberalisations a full economic liberalisation.

Why did Mubarak and his governments need to radically change its economic policy? A number of economic, political and social developments could be evaluated to be effective in this result.

Firstly, changes in the international arena have created a general ideological atmosphere favouring the economic liberalisation over its alternatives. For example, the failure of state-led development in Eastern Europe had its effects. On the effect of this environment on Egypt, IMF’s Middle East director said: “This is the first time Egypt is carrying out a reform program without backsliding” (Lofgren, 1993: 421).

Secondly, political developments in the Middle East Region, particularly Jordan’s and Palestine’s peace treaties with Israel have also encouraged Egypt for further economic reforms and leaving her previous reluctance to fully embrace IMF’s and other international financial organisations’ advice for the fear of being popularly seen as a pawn of the United States.

Thirdly, the philosophy and techniques of economic liberalisation has continually come to the country through Egyptian students in Western universities and academics who study reforms in the West and other parts of the world, in addition to foreign investors and experts (Lofgren, 1993).

Fourthly, the government has realized that, the economic policy package of the 1980s is unsustainable in the long run. Egyptians add two percent to their population every year and this demographic tide requires that the economy
produce more than 500,000 jobs annually (Cook, 2000). However, the actual and promised foreign investment would enter the country better when further liberalisation and economic reforms occur.

Lastly, pressures from international financial institutions on Egyptian government to take considerable measures in line of having a fully liberal economy have increased. As we enter the new century, Egypt is gaining more rewards from IMF, World Bank and its other creditors for sustained economic reform programs. (Momanı, 2003: 3).

The above factors have pushed Egypt into adopting a more comprehensive liberal program in its economy.

5. CONCLUSION

Egypt has tried to change its ISI development strategy which were pursued during 1960s and 70s towards a more liberal stand characterised by an open economy, lessening state controls over economic actors and increasing the functions and powers of private sector in the economy, since the Presidency of Sadat in late 1970s. The new policy has been called – both academically and popularly – as Infitah (opening or open door policy).

Although Sadat’s Infitah policy had proved some success in stimulating economic growth and particularly in generating inflow of foreign funds into the country (see tables 1 and 2), the it has also been criticised heavily taking its various social and economic dimensions into account. For instance, some authors criticised it as being a process of integrating Egypt to World capitalist system, while others label it a partial and slow change process in public and private sector balance in the economy. In addition, Infitah policy has been criticised for its social consequences in that it has ignored such social problems of poverty, inequality and a huge social conflict among social classes.

Furthermore, Mubarak has preferred to slow down liberal economic reforms of Sadat mainly for domestic economic, political and social considerations. Mubarak governments’ incrementalist approach makes analysts to come into a consensus in defining the ingredients of Infitah-type reforms in Egypt since late 1970s.

However, since the early 1990s, Egypt has witnessed several important transformations in economic and political reform policies. With the aid of World Bank and other international monetary organizations, a structural adjustment policy has been launched since 1991, the second phase of Mubarak Period. Nevertheless, taking the changing both domestic and international political landscape, changing social structure of the country, more demanding masses and growing social unrest, whether Egyptian governments would manage to continue their incremental economic reforms is still open to predictions.
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