Egypt’s *Infatih* and the Politics of US Economic Assistance

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Almost as dramatic and pregnant with consequences as Egypt’s crossing of the Suez Canal in October 1973 and President Anwar Sadat’s surprise journey to Jerusalem in 1977 was his announced intention in October 1974 to restructure and reorient Egypt’s economic relations. In place of the government-managed economy inherited from Gamal Abdul Nasser, Sadat proposed a system that would rely more on private initiatives and investment, domestic and foreign. Egypt would go from an inward-geared economy to one more broadly aimed towards export-oriented industries that would reintegrate the country with the world’s developed market economies. This *Infatih* or, loosely defined, ‘Open Door’ policy, the outcome of both domestic socio-economic forces and foreign pressures, was conceived in order to enable Sadat’s Egypt to realize political objectives, unattainable through military means, and to attract the external assistance needed to cope with an immediate economic crisis. By realigning its regional and global alliances, Egypt eventually estranged itself from most of the Arab world. The liberalized economy also paved the way for a more consumption-oriented society, exploitable by private domestic and foreign interests, and subject to the hazards of international trade and the influence of foreign creditors and aid donors.

Egypt in the early 1980s had become one of the world’s most economically dependent countries. In 1961, only seven per cent of its food supply was imported. The proportion stood at one-fifth a decade later, and until 1974 the country ran a net favorable agricultural trade balance. By 1981, Egypt’s food deficits were staggering. The value of imports exceeded exports by some $3 billion, and Egypt relied on foreign suppliers for about one-half of its total food consumption. Foreign capital accounted for 90 per cent of the financing of all public projects.1 From all sources, the economic aid Egypt now receives totals about eight per cent of GNP, with the US providing nearly half the funds. American economic support runs to $1.1 billion yearly, almost evenly divided between commodities and project aid. An additional $1.3 billion was earmarked in 1983 for sharply increased military sales, $400 million in outright grants. The level of US non-military assistance has, meanwhile, remained largely unchanged since 1976. Over a seven-year period some $7.6 billion of this aid was committed, making Egypt together with Israel the recipient of about half of all American economic assistance. Plainly, much has changed since the Nasser era.

NASSER’S CLOSED DOOR

The Free Officers who seized power in the July 1952 Revolution were intent
on ridding Egypt of foreign domination and reducing the economic power of a wealthy landowning class. They had no economic philosophy other than that contained in a nationalism anxious for economic prosperity and committed to improving social and economic justice for the Egyptian masses. Aside from early agrarian reforms, a cautious and usually pragmatic leadership retained an essentially liberal economic strategy that saw a strong business community as instrumental to economic expansion and the realization of comparative advantages for Egypt’s exports in world markets. With the nationalization of the Suez Canal in 1956, however, British and French property was seized, and overall government intervention in the economy increased, particularly through financial controls. By the beginning of the 1960s, policies ideologically more consistent with Egypt’s now closer ties to the communist bloc economies, together with domestic political motives, led to the virtual elimination of the country’s merchant-capitalist class. All private industry with 25 or more employees was nationalized between 1960 and 1963. A wide array of public sector, ministry-directed companies was created for such activities as mining, utilities, communications, finance, manufacturing and transportation. In the transformation to a quasi-socialist state, the economy became relatively closed through domestic regulations and controls, and policies that sharply constrained Egypt’s relations with the west.

The movement of private capital in and out of the country was severely curtailed, and foreign investment could enter Egypt only under highly restrictive terms. The Central Bank acquired comprehensive control for the state over foreign exchange and import policies, and was able to monopolize foreign trade. Most market features of the economy were replaced by centralized government planning, and all investment capital was allocated through the Ministry of Finance and publicly owned banks. Oriented towards heavy industry, the often-described ‘inward looking’ economy followed, where possible, autarkic import substitution policies. Agriculture alone among the major sectors remained dominated by private interests. However, a far reaching land redistribution began in 1961, and a strengthened co-operative system ensured, among other objectives, the meeting of government production quotas.

Transfers of wealth in the restructured economy brought substantial gains in equity terms. The rural poor increased their share of national income. Social benefits in the form of public education, new health services, and employee rights and benefits improved the well-being of the urban population. Higher wages increased consumption for workers in industry and civil servants, and public sector enterprises provided guaranteed employment to university graduates. Thousands of farmers with new titles to land could avail themselves of subsidized agricultural inputs and government loans. Most important for future budgets, the regime made available to all economic groups generous subsidies for a wide range of basic commodities as a shelter against international inflation and protection against domestic price increases.

Gains in terms of equity were generally costly, however, when judged in terms of efficiency and long-term economic growth. After expenditures on
social programs and economically doubtful land reclamation projects, little was left for improvements for a deteriorating urban and rural infrastructure. Public ownership had the effect of creating over time serious overemployment and stimulating corruption and poor management. Strongly centralized decision-making contributed to the stifling of initiative among public employees and the lowering of incentives in the productive sectors. The artificial, government-controlled prices, and open, indirect, and hidden consumer subsidies frequently precluded rational investment choices. Tariffs and exchange controls to protect domestic production that relieved planners of the need for careful assessment of Egypt's comparative advantages also weakened cost-effectiveness as a significant factor in industrial decisions.

Throughout the 1960s Egypt's industry, sustained by Soviet aid, expanded at an annual rate of 5.4 per cent. The important agricultural sector managed only a 2.9 per cent average growth during the decade, despite the Green Revolution in technology and the relatively high proportion of public investment going to this sector. These sectoral figures reflect the serious stagnation in the economy after 1967, as defense expenditures assumed a large share of the country's resources and attention. Real per capita GNP growth averaged less than one per cent between 1966 and 1973. The government's consumer subsidies bill was increasingly burdensome, and urbanization brought a steady rise in demands for public services and benefits. Even social gains made earlier showed signs of eroding. With a balance of payments crisis building, Egypt's financial and political indebtedness to the Soviet Union increased conspicuously.

Egypt had obviously not been transformed into a self-sustaining economy. Agricultural exports remained the prime source of foreign exchange. Even through the years 1957 to 1964, trade as a proportion of national income ranged between 36 and 43 per cent, and the country had accrued an external debt of over $2 billion. The major change during the Nasser period, paralleling Egypt's foreign policies, was the decrease of Egypt's traditional trade with, and aid from, the west in favor of the planned economies, notably the Soviet Union. Six separate aid agreements with Moscow were signed through 1971. While the Soviets could not hope to replace the US as a supplier of concessionary wheat, cut off by Washington in 1967, they heeded Nasser's appeal, covering a portion of Egypt's immediate deficit by diverting their own imports to the port of Alexandria. Some one-third of all economic assistance from Moscow went for construction of the Aswan High Dam, for which a western consortium led by the US had finally declined finance in July 1956. Of the remainder of Soviet non-military aid, roughly $950 million was focused on building up Egypt's heavy industry and was paid for by exports to the USSR of cotton, rice and the products of small-scale labor-intensive industries. Urban workers, as expected, profited from the jobs created by Soviet-aided industrial projects. Less according to ideology, a broad urban population, including many in the middle class, benefited from the final products of these industries.

Soviet aid programs showed sensitivity to Egypt's nationalist susceptibilities. No explicit political or military attachments were sought, and project
assistance was not tied to changes in Egypt’s broad economic policies. Soviet technicians were numerous on many projects but seldom obtrusive. Following the disastrous June 1967 war with Israel and the subsequent war of attrition, however, Egypt’s security concerns prompted greater reliance on the Soviet Union. With the arrival of new military equipment came thousands of additional Soviet advisers. As Ibrahim observes, ‘The presence of so many Russians in Egypt after 1967 was a reminder of the regime’s failures and proof of its dependence.’ Tensions with the Egyptian bureaucracy and military establishment increased together with the Soviet role in the economy and growing interference in domestic politics. Many Egyptians also became convinced that the Soviets were in Egypt as elsewhere in the Middle East not out of any desire to assist in the struggle against Israel, but rather for the opportunities to establish military bases and form alliances as bargaining chips to be traded away in negotiations with the US on various political and economic issues.8

American economic assistance through the Nasser era had been closely tied to the ups and downs of US–Egyptian relations. Following the post-war reconstruction of western Europe, the Eisenhower Administration focused attention on assisting less developed but militarily allied countries. Egypt’s failure to qualify did not preclude its receiving shipments on concessionary terms of US wheat. However, this aid was promptly suspended in 1956 after Nasser’s nationalization of the Suez Canal. When relations improved during 1959 and 1960, Public Law (PL) 480 food shipments were renewed. In an agreement signed in March 1960, $32.5 million was also provided for economic development. Subsequently, during the Kennedy years, the US began to take a broader look at development issues in the Third World. The policy changes in Washington that created a new aid bureaucracy and macro-economic development strategies were, however, only weakly reflected in Egypt where ideological differences limited the aid to largely stopgap efforts. Aid authorization fell off sharply when relations again cooled in 1965 and 1966. Although Nasser continued to request food shipments and a less sympathetic Johnson administration still hoped to use its aid as a means of moderating Egypt’s foreign policies, the increasingly divergent directions of the two countries were impossible to ignore. To match US policies perceived to be increasingly pro-Israel, Nasser strengthened Egypt’s ties to Moscow. The American government protested against Egypt’s role in the Cyprus and Congo conflicts, and the Egyptian President irritated US officials and congressmen with his handling of anti-US riots in Cairo and criticism of US involvement in Vietnam. Loan grants that had totaled $94.5 million between 1962 and 1965 dropped off to only $1.5 million for financial year (FY) 1966, and to roughly half that amount before ceasing entirely early in 1967.9 By appearing to reject political conditions for American-financed food aid, Nasser received wide popular backing at home. All the same, urban dwellers had become accustomed to, and domestic peace contingent on, abundant low-priced imported wheat and flour. Nasser had no alternative to seeking other sources of supply, often more costly sources which in the early 1970s his successor, Anwar Sadat, was unable to find or finance.
THE WAR AND INFITAH

Whether by design or opportunistic afterthought, President Sadat counted on the restoration of Egypt’s self-respect in the October 1973 war and the switch in foreign alignments to attract the kind of financial assistance from wealthy Arab regimes and western investors needed to restructure the economy. From the outset, US officials appreciated Sadat’s dire economic predicament and his political vulnerability at home. Egypt would require immediate, tangible evidence of US support, enough to enable Sadat to improve domestic economic conditions sufficiently to allow him to accept political risks in the disengagement of Egyptian and Israeli forces and participation in a more comprehensive regional peace.

The evidence came quickly, coinciding with the January 1974 separation of forces accord between Egypt and Israel. The US announced the commitment of $85 million for an initial program to help clear the Suez Canal of war debris and to begin the reconstruction of the canal cities. The Nixon administration on 1 March asked the Congress for a total of $250 million for FY 1975 and programmed an additional $50 million to Egypt as it prepared the 1976 budget. By mid-May 1974, however, Hermann Eilts, US Ambassador in Cairo, reported to Washington that higher levels of aid were needed, especially shipments of commodities and spare parts that could help Egypt immediately to conserve its meager foreign exchange. Ambassador Eilts was concerned, however, that the level of aid not be viewed by the Egyptians as the principal basis on which improved relations would rest, for the amount promised was far lower than the US commitment of economic aid to Israel, not to mention military support.10

In fact, this is essentially what President Sadat had in mind – economic aid which, even if packaged differently, would give Egypt rough parity with Israel. Sadat found opportunity to press his case directly in March 1975 during the Kissinger shuttle diplomacy that led to the second Sinai disengagement agreement. Kissinger had already approved raising assistance to Egypt to $500 million, of which a total of $300 million was to be for commodities. But during the March talks there emerged the figure of $750 million, not by chance an amount close to what Israel was receiving from the US for economic objectives. Primarily a political decision for both parties, the level of funding was not, despite the meetings of joint working groups, based on any careful assessment of Egypt’s budgetary and development needs or, for that matter, on what it could successfully absorb.11 The FY 1976 dollar amount symbolized even-handedness in US economic aid policy between Egypt and Israel. As such it set the essential parameters of US programs in subsequent years, providing a continuing proof of Washington’s commitment to Egypt. Any reduction would be interpreted by the Egyptian government as a softening of American backing for the regime or a changed expectation about Egypt’s role in the region’s peace.

Sadat’s Infitah promised marked changes from the statist economic policies in force. It would revive and expand the private sector, relying far more on market forces to determine investment decisions.12 The economic incentives created were designed to attract private foreign capital in joint
ventures. Loans and tax policies would create a favorable climate as well for domestic entrepreneurs, and allow them re-entrance in foreign trade. The Open Door policies, basically structured in Public Law 43, enacted in June 1974 and amended in 1977, waived for foreign firms the usual tariffs on imported equipment. Those investing in food-producing agricultural projects, among other sectors, gained tax advantages and were promised easy repatriation of profits and protection against nationalization. Having gained the International Monetary Fund’s (IMF) blessing, the new policies ensured Egypt’s credit-worthiness in the world economy.

The economic redirection was naturally a response to Egypt’s immediate predicament. In 1974, the country’s budget deficit stood at £E 530 million, up more than five-fold in just one year, representing 18 per cent of the state budget. At the same time that economic growth was sluggish, inflation had reached nearly 24 per cent, and Egypt’s international credit plummeted along with its widening balance of payments gap. Rapprochement with the west promised, aside from diplomatic and direct aid benefits, the possibility of lowering military expenditures and new investments by making Egypt less risky for foreign private capital. An end to hostilities with Israel was also calculated to enhance the state’s revenue from canal fees, increased tourism and, of course, from the Sinai oil fields after their return. Egypt hoped in addition to obtain preferential treatment in regional and western markets for its exports. Above all, the Sadat government encouraged the idea that peace meant prosperity for the average Egyptian.

Sadat’s economic and political strategies have to be viewed in the context of the newly acquired oil wealth of the Middle East. Egypt of course counted on direct financial assistance from the now more affluent conservative Arab states. The Cairo government had already jailed local communists in 1971 and, in July 1972, 25,000 Soviet military advisers were ordered out of the country. Despite some assistance during the October 1973 war, Sadat further alienated the Russians by accepting US help in saving his trapped army and in keeping alive negotiations with Israel. Egypt’s limited oil reserves denied it a place among Arab oil-exporting giants; yet the country expected to share in the region’s economic growth with its pool of exportable skilled manpower, large market, and central location. In a more economically assertive Arab world, Egypt could play its traditional leadership role, conceivably showing the way for moderate Arab governments to obtain territorial concessions from the Israelis.

A convincing argument is also made that Sadat’s actions leading to *Infatah* were prompted by the course of east-west detente. Realizing that the US was immovable in its support for Israel, and the Soviet Union had chosen to give priority to improving economic and political relations with the west, Sadat concluded that Egypt would have to act more autonomously on the field of battle and elsewhere. The playing-off of the major powers to Egypt’s advantage, as Nasser had done with some success before 1967, offered far less return. Egypt would therefore try to diversify its military purchases, reassert its Arab role, and assume a more prominent position in Third World and non-aligned forums. Sadat’s plans for revitalizing Egypt’s economy envisioned bringing together Arab capital and western technology. Implied
in these policy changes was a strategy opening Egypt to foreign investment and world market-oriented policies. 14

The neoclassic formulas proposed for economic growth were not intended to turn the clock back to pre-1952. No radical break with the past was contemplated in the expected reordering of priorities in the economy. Nasser's socialist legacy, for all its shortcomings for the Egyptian economy, benefited from a popular consensus on maintaining the social achievements of the Revolution. Elites who might prosper in the new economy would presumably make their fortunes through attracting outside capital rather than by grabbing off a larger share of the public domain. 15 There was some anticipation of Sadat's policies in Nasser's waning years. Although Nasser was reluctant to accept the advice of those who counseled reopening the economy to western financing and technology, the government had taken modest steps to reinvigorate the private sector in order to obtain additional hard currencies to cover Egypt's mounting debt. 16 Despite statements in 1974 and later about allowing the market to allocate resources and set prices, the state was never expected to withdraw from regulating and planning the economy. At most the socialized industries would face competition for the first time. A continuing reliance on economic and technical aid from foreign governments, and international agencies also ensured the bureaucracy an active and pre- eminent role in the economy.

AMERICAN PATRONAGE

The stakes were high for the US in the success of President Sadat's economic policies. Popular approval or at least acquiescence in Egypt's political realignment could not be sustained without measurable progress in reversing economic trends and broad gains in employment, income and consumption as dividends of peace. The affinity of Infitah with western economic principles and practices, and the obvious expectations of massive western aid and investment ensured that the US, above all, would be perceived as patron of Egypt's economic liberalization. Whatever the actual influence of the US in setting the direction and pace of Infitah, the acceptance of and the welcome of the Americans would be inextricably bound together.

Assistance to Egypt, beginning so shortly after the US Vietnam experience, naturally carried that war's supposed lessons. American policy makers could not quickly forget how food aid had been deliberately used by the Nixon administration to compensate for other, prohibited forms of assistance to the Saigon government, and the failure of development aid to reach those for whom it was targeted. A change in US foreign aid philosophy had been under way for some time, and with the Foreign Assistance Act of 1974 the new directions explicitly dictated an approach aimed at reaching the poor majorities in the recipient countries. Aid funds were expected to increase the productivity of peasant farmers by giving them better access to available resources and control over decisions affecting them. The approach, replacing the earlier priority given to economic growth through support for the already most productive elements in the society, in effect, exchanged a 'trickle down' strategy for a 'percolate up' one. Despite Egypt's
security-oriented aid classification, Congress insisted that a substantial portion – roughly half of the $750 million – go for projects that could be justified on developmental grounds. The difficulty was that the large sums set aside required a heavy portfolio of projects, most of them small or medium-scale, if the new mandate were to be implemented. The US’s Cairo Agency for International Development (AID) mission was thus strained, with its initially small staff, to figure out ways to spend quickly vast amounts of money. AID lacked the personnel to identify the worthwhile projects, and the data about the Egyptian economy necessary to make good choices. It had much to learn, moreover, about the most effective institutions and individuals in the Egyptian bureaucracy, and the relevant cultural and political constraints. Most important, the mission received little more than a shopping list of possible projects, with no clear development plan or priorities from the Egyptian side. There was little choice but to earmark development funds for large-scale, expensive war reconstruction projects, and eliminate infrastructural bottlenecks in the economy, programs approved by the Egyptian leadership. Government officials, accustomed to massive Soviet turnkey projects, were often less understanding of an American aid strategy that avoided concentration of funds in a few highly visible ‘monuments’, and required participation and co-ordination among the ministries in implementing the project aid.

US officials charged with formulating the aid program were confronted with having to juggle three objectives. Along with the efforts needed to bolster Egypt’s short-term economic stability, they hoped to set in motion programs for long-term economic growth and productivity. Both goals were somehow to be pursued while managing to avoid doing great violence to earlier achievements in social and economic equity. Inevitably, differences over program priorities emerged, even within the official US community, including disagreements between the diplomats sensitive to political issues and the more development-oriented AID professionals. More serious for Egyptian–American relations, however, were the perceived incompatibilities of American development ideas and the many structures and practices carried over from the 1960s. AID officials discreetly but persistently reminded their Egyptian counterparts that the over-centralized state-managed economy, the rigidities of the financial system, and the reluctance in some quarters to expand the private sector would undermine the planned development. Particularly objectionable for AID’s liberal economists (and many similarly-minded Egyptians) was the commingling of welfare and economic policies best expressed in the country’s food and energy subsidies. Unless the Egyptian sheltered price structure was adjusted to world market levels, domestic prices would, it was argued, be unable to guide employment and investment to sectors of Egyptian comparative advantage. This same development model, stressing export-oriented industries, did not, all the same, rule out import substitution or public sector enterprises. The value of transitional policies and appreciation of Egypt’s sizable internal market were duly noted. But American advisers insisted that the proper yardstick for investment decision in the public and private sectors alike should be the classic criteria of efficiency, productivity, and reasonable financial return.
The US aid programs that started up in 1975 evolved in several phases. Until 1977, the top priority was the serious foreign exchange shortage, dealt with mainly through the financing of food, industrial raw materials and spare parts. The commodity programs insured, for example, the availability of tallow so that Egypt's domestic soap industry could return to full capacity. Along with the relatively quick-acting balance of payments support, funds were set aside for the reconstruction of the Suez Canal and its immediate area. Rehabilitation projects for the canal cities required little sophisticated planning or rationalization. Both the budgetary and construction priorities, whatever their economic imperatives, were also plainly political. The US and Egypt sought to have the aid make an early and demonstrable impact on the economy. The canal investments served, additionally, to assure the Israelis that the peace would hold.

Political factors figured prominently in aid to Egypt between 1977 and 1979. To show support for the shaken regime following the food riots, the US acted immediately to shift $190 million in already committed capital development funds to commodities that would enter the economy quickly. Later, as a reward for reaching a peace accord with Israel at Camp David, the US Congress agreed to supplement the aid to Egypt by $300 million over a three-year period, adding such programs as a Peace Fellowship for development-related studies in the US for up to 1,900 Egyptians. Financial assistance from Arab government sources, as noted above, diminished as Sadat persevered in his overtures to Israel. Yet despite the ostracizing of Egypt economically and politically, income-remitting Egyptian workers were not sent home from the oil-exporting countries, and Saudi and Kuwaiti businessmen continued investing in real estate, construction, and other economic activities in Egypt. Although western aid failed to compensate for the decline and later cut-off in Arab financial assistance, Egypt's liquidity crisis had eased by 1977 as oil, Suez Canal, and other revenues rose handsomely.

At the same time, the AID mission extended its concern for infrastructural upgrading, and major contracts were signed to expand power generation across the country, to improve port facilities in Alexandria, to raise grain storage capacity, improve communication systems, and undertake water and sewerage construction in Cairo and Alexandria. Not until 1978, against a backdrop of congressional pressures, did the basic human needs mandate begin to figure in US assistance; sizable programs were agreed with the government for small farmers, health services, and family planning. AID also moved ahead with plans to strengthen industry, both to raise exports and improve productivity, and also to help Egypt to expand employment. Funds provided to the regime were expected to reach the private as well as the public sector. Moreover, the government was encouraged to follow through on its professed goal of decentralizing administration, allowing village councils to participate in development decisions.

Early in 1983, 66 major projects and roughly 2,000 sub-projects were being funded by AID. During the currency of the program almost 20 per cent of allocations have gone for infrastructural projects and roughly 10 per
cent of the grants and loans to transportation, industry, commerce and finance. More than 5 per cent were directed to the food and agricultural sector, a slightly smaller share to social services projects, and about 2 per cent to technical assistance in development research. More than 50 per cent of the total economic assistance to Egypt has been divided between PL480 food credits and the Commodity Import Program (CIP). While the CIP share of financing declined somewhat after the first few years, this program continued to fulfill its balance of payments purpose, especially as most CIP funding was shifted from soft loans to outright grants. By 1980, the US had given more per capita aid to Egypt than it had spent in post-war Europe during the Marshall Plan.

The US was of course not Egypt’s only benefactor. Donor assistance flows from all sources which had stood at $800 million in 1973 moved up sharply but erratically to a peak of nearly $2.9 billion in 1977. The structure of foreign assistance had altered considerably by the late 1970s, however. Arab government and OPEC aid which in the period 1975–77 totaled about 6.3 billion, much of it going for general budgetary support, virtually dried up over the next two years. Meanwhile, aid disbursements from western donors, aside from the US, grew from $540 million in 1976 to $1.1 billion by 1979. The largest financial contributors, mainly in the form of development projects, were the World Bank, West Germany and Japan. Together with the US, the total aid commitments (not actual disbursements) from western donors during the early 1980s averaged about $2.1 billion annually. Additionally, Egypt received by 1979 some $500 million in direct private investment from western sources, at least half of it from foreign oil companies. The flexibility of most bilateral aid was in some contrast to earlier lending by the IMF which had pressured Egypt to accept its recommendations on monetary and fiscal reform, including reduced consumer subsidies. In finally giving in to IMF demands as a concession to international creditors, including Saudi Arabia, Egypt paid a high political price. The economic stabilization agreement worked out with the IMF, raising prices on food and energy, sparked urban riots in January 1977. The Sadat regime very nearly toppled before the increases were rescinded.

GAINS AND LOSSES OF INFITAH

Overall, Infithah is impressive if measured by most gross indices. Average annual GDP growth in constant prices after 1977 rose at more than 8 per cent in comparison to 3 per cent in 1973. The deficit in goods and services fell off steadily to $1.5 billion in 1979 from $2.5 billion in 1975. Also, by 1979, Egypt was showing a small surplus of $700 million in its balance of payments. In 1980, oil exports provided nearly $3 billion, Suez Canal fees upwards of $1 billion, remittances $2.7 billion, and tourism and agriculture exports around $600 million each. Domestic public investment between 1973 and 1980 gained by roughly 26 per cent, and private investment by 78 per cent. New foreign private (non-oil) investment, though still below expectations, climbed to above $400 million yearly by 1980, up from just $100 million three
years earlier. Egypt’s debt servicing was now more manageable with the steep rise in foreign exchange earnings and a continued influx of foreign economic assistance.

Along with the apparent gains from Infitah, Egypt had also become economically more exposed. Integration into the global market meant that changes in world prices for Egypt’s exports and imports registered often sharply on the domestic economy. Indeed, all of Egypt’s principal sources of foreign exchange were closely tied to economic conditions abroad, likely to rise or fall with demand in the major industrial countries, and contingent on the continued high incomes and economic expansion of the major oil-exporting countries in the Middle East. One early manifestation of Egypt’s heavy external interdependence was a spiraling inflation rate. By 1977 consumer prices were by various estimates, rising (even with many key consumer items price-controlled) at an annual rate of over 30 per cent.

The Infitah policies that it was hoped would overhaul prices, management, marketing, employment and investment in Egyptian industry failed to materialize. Public sector enterprises, still accounting for about 75 per cent of all output, were ill-prepared and at a disadvantage in the liberalizing economy. They continued to be burdened by excessive employment levels, deficient investment budgets, price controls and inappropriate wage structures. Industry did not take the lead, as planned, in the country’s economic expansion; much of the rapid growth of GDP came in the banking and service sectors. Private capital, as a rule, shunned long-term investment. Foreign firms, provided tax holidays and other incentives, steered largely clear of the projected joint ventures in labor-intensive basic industries and agribusinesses. Aside from oil exploration, investors’ attention was focused on banking, pharmaceuticals, construction and tourism. In trying to attract foreign capital while still uncertain about the role of the private sector in the economic development, the government often sent out inconsistent and confusing policy signals that made prospective foreign investors question its attitude and commitment. Bureaucratic procrastination, interference and corruption also did its part in scaring off potential investors, and foreign businessmen were turned away by Cairo’s deteriorating services and the country’s poor infrastructure. Caution among American and other private investors reflected as well doubts about Egypt’s long-term economic prospects which in the late 1970s and early 1980s were clouded by continuing Arab economic sanctions and uncertain world economic conditions.

Throughout this period merchandized exports fell even as the overall economy was growing. Egyptian industry proved increasingly uncompetitive in the face of higher quality foreign goods. The country, which had been viewed by western businessmen as a huge market for durable goods, saw its limited foreign exchange earnings severely drained for imports, much of it luxury items. A large share of US-supplied low interest business loans found their way to Egyptian importers, many of whom were unnecessary middlemen, reselling the goods they purchased to the Egyptian government. The Infitah-assisted domestic industries, expected through export earnings to create new sources of foreign exchange, instead catered to the consumption demands of the middle class and did little to create the expected new jobs.
With so much of the government budget focused on the urban-industrial sector, agriculture lost out in medium and longer term investment, a reality reflected in declining productivity in the Nile Delta and steep rises in food imports. To make economic policies more politically palatable by meeting equity concerns, comprehensive consumer food and energy subsidies were permitted to grow rapidly to where, in 1982, the cost to the government treasury ran to over $3.5 billion.

Liberal agricultural policies together with renewed efforts in desert land development were supposed to spearhead increased national food self-sufficiency. Publicly financed low-interest loans were designed to attract private enterprise to such businesses as dairy, poultry and fisheries. But again, the level of private investment was disappointing as higher rates of return were normally found elsewhere. More important in the strategy, a loosening of many of the restrictions on farmers, allowing them to respond better to market signals, was designed to increase the incentives for production. In fact, agriculture through most of the 1970s received a far lower share of the public investment budget than in the previous decade, and the policies pursued were in many cases self-defeating. Overall crop production which had been virtually stagnant between 1970 and 1977, with an increase below 1.5 per cent annually, grew at a better than 3 per cent rate in 1978–80 and fell only slightly through 1982. A decline was recorded, however, in Egypt's principal export crop, cotton. Although the regime raised the procurement price on cotton and other major crops and eliminated farmers' wheat quotas, prices were still depressed relative to the world market. Understandably, the more liberated farmer shifted much of his cultivation to uncontrolled fruits, vegetables and birseem (to feed animals), largely at the expense of cotton. In freeing the farmers from obligations to co-operatives, the government also succeeded in further weakening a major institutional link with the rural masses.

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 per cent of the population held 6.6 per cent of national income in 1960 and had improved their share to 7.0 per cent in 1965, they dropped to 5.1 per cent by the late 1970s. By comparison, the income of the highest 5 per cent dipped slightly to 17.4 per cent from 17.5 per cent between 1960 and 1965 but increased markedly to 22 per cent after several years of Sadat's policies. Between 1978 and 1981, gains were in fact made in the real incomes of workers in the modern private sector and less skilled government employees, and the daily wages of farm laborers also improved. But an entrepreneurial class spawned by Infitah and supported by foreign capital prospered most in the economic expansion. Speculators, middlemen, and merchants, the ottat suman, literally 'fat cats', became highly visible symbols of the wealth accruing to some in the private sector. Particular resentment against Sadat's policies and the new plutocrats came from managerial-level civil servants, intellectuals and the many employed in the traditional economic sectors who shared in very little of the economic expansion and whose real incomes eroded in the accompanying inflation. The better educated opposition, likely to express themselves in
ideological terms, argued that the new economic program had strayed from ideals of equity at home and solidarity with the Arab world.

The US could not easily disassociate itself from the errors and unfulfilled promises of the Infitah policy. Blame for the rising cost of living, laid by many Egyptians on Sadat’s liberalizing policies, unavoidably tainted those perceived to have sponsored him. Washington also stood directly accused by a vocal minority, in time a popular majority, of having induced Egypt to pursue a separate peace with Israel in exchange for territory and vague promises of Palestinian autonomy. In its agreement with the west’s geopolitical views, the Sadat regime was also said to have subordinated its national interests to American military strategy.

The US-financed and -guided development programs were directly subject to criticism on several accounts. High-priced US technical advisers and equipment were seen as soaking up much of the funding. Egyptian officials, while hardly examples of efficiency, were highly critical of the lengthy procedural requirements and delays in getting US funds spent. Indeed, by 1983, about 37 per cent of the total aid allocated by Congress, or $2.8 billion, remained undisbursed. Some ministries complained that the US was, in effect, setting the country’s development priorities, and weakening the state’s commitment to public housing and new lands. Because so few of the major US projects were as yet completed, and those programs in place were often poorly visible, popular cynicism about aid gained sharply in the early 1980s. Curiously, the efforts of American planners to keep the US role in the aid program less obtrusive, lest it detract from the credit going to the Egyptian government, only reinforced the view that the Americans, for all their supposed contribution, offered little or nothing to the ‘common man’.

The few programs generally recognized by the Egyptian public were not necessarily positive for the US. No doubt the best illustration is the financing of 1,800 Ward buses from the US, each conspicuously marked with the clasped-hands AID logo. In a short time, these school-frame buses on truck chassis were labeled the VOA, Voice of America, not for the worldwide radio service but for the noise they created. The often defective buses compared unfavorably with those from Iran (West German design) and from England, both better suited for the overloading and traffic in a highly congested city. It made little difference to the public that their own government had to share blame for the error. Egyptian officials had set the specifications for the buses, including a weak muffler that was supposed to improve gasoline consumption. The Egyptians had also not objected to AID procedures designed to contract for the least expensive bus, in this case some one-third the cost of standard buses. Even while the Ward buses were filling an immediate need in Egypt’s urban transportation system, they remained an object of ridicule.

No assessment of Infitah and its American connection can be complete without weighing its psychological impact. Against the visual evidence of accumulated wealth and luxury consumption by urban elites, and a government appearing to withdraw its paternalistic presence in the economy, there has emerged a feeling by rural and urban masses alike of being ‘left out’, a contractual agreement between the people and government established
during the Nasser era having been broken. Many better-educated Egyptians, observing the intrusion of western values and dependence on foreign consultants and capital, again appear to have lost their self-confidence. This is reflected in the revival of fears that foreign aid activities are intended to divert the country’s energies and resources and that their agents use Egyptians to obtain information that can undermine national security.27 The weakened political and moral influence of Egypt in the Arab world together with the sense of guilt, if also relief, over the American-orchestrated normalization with Israel has reinforced these feelings of inadequacy. For many upwardly mobile young people, denied alternative political outlets, an increasingly familiar means to overcome this weakened self-identity and helplessness has been to find solace and solutions in fundamentalistic Islamic groups.

CONCLUSION

A reassessment of Infitaah as well as the American aid relationship was inevitable under the presidency of Hosni Mubarak. Well before October 1981, the Egyptian leadership had raised complaints about the kinds of foreign private investments entering the economy. Criticism increased as evidence mounted of corruption and of fortunes being accumulated by many of Sadat’s close relatives and associates. As an expression of dissatisfaction with the Open Door policy, Mubarak dropped the economic czar responsible for guiding the liberalization and, without disavowing the principles of Infitaah, acted to curb imports of many foreign luxury goods. He assured the country that he would resist investments, foreign or domestic, not directed towards expanding Egypt’s productive capacity. Mubarak instructed his economic advisers, moreover, to explore ways of reducing the heavy burden on the national budget of consumer subsidies, a move welcomed by Egypt’s western creditors. On aid relations with the US, the Cairo government insisted on speeding the flow of dollars and, if possible, capturing immediately those authorized in the lengthy pipeline of delayed and slowly maturing projects. Officials sought as well greater discretion in shifting funds normally earmarked for particular development undertakings. Eventually Mubarak hoped to receive treatment for Egypt comparable with the Israelis’ largely unfettered use of economic assistance.

The Reagan administration had agreed in principle by early 1982 to give Egypt greater flexibility in the distribution of aid grants, and to try to accelerate the disbursement of funds. In practice, the aid relationship has remained essentially unchanged. The appointment of a new director of the AID mission in Cairo and the restructuring of Egypt’s economic top management altered the style, level, and frequency of contacts between officials but not the bases of agreements. Very few concrete ideas have surfaced on how to redesign the aid program to give the recipients greater control. Notably, the authority to re-allocate funds is still prohibited by US law. In response to Egyptian complaints, AID officials point out the flexibility already allowed by the balance of payments aspects of the commodities and PL 480 programs, and the quick disbursement of funds in the rapidly
expanding, locally identified mini-projects in the decentralization category of grants. At the same time, these officials in Cairo concede a growth of constraints on major project proposals with increased pressures from the Reagan administration that AID programs be in conformity with its views on the promotion of the private sector and the free market. Predictably, then, there is disappointment in Washington with Egypt's timid economic reforms to date. For, despite the early signs, Mubarak has heeded the counsel of his cautious political advisers by avoiding a direct attack on the controversial policy of underpricing domestic consumption. The few reforms adopted have been limited to small, unpublicized adjustments of subsidies and prices.

Egypt does not fit into a classic case of economic exploitation where the donor's interests (e.g., in relation to national resources or surplus labor) are being served at the expense of, or with only minimal benefit to, the recipient country. US programs since 1975 as before 1967 were of course never simply altruism, no more than any country's aid efforts are devoid of political or commercial motives. This aid has been influenced, if not at times dictated, by domestic American politics, and aid activities favoring American corporate involvement has sought to establish Egypt as a long-term market for commodities and technology. Yet Egypt does not follow the pattern of many countries that disregarded nationalist state-sponsored development for a more open economy. For rather than watching Infitah forced upon the country through the penetration of multinational corporations, the national laws adopted after 1973 were calculated to entice substantial foreign investment.²⁸ It was in part the failure of Egypt to attract enough private capital from abroad that forced it to rely so heavily on continuing international credits and, in particular, on the flow of US government aid. Even when Infitah had lost much of its luster and the government of Mubarak imposed a number of deliberating measures affecting imports, the restrictions were not designed to decrease economic penetration through increased self-sufficiency. Rather, the higher duties laid on some key imports were intended to stimulate local production by means of joint ventures with foreign investors.

Adoption of a more independent economy is plainly not on the cards for Egypt any time soon. In the disappointment with Infitah, some romanticization of the values and goals of socialism is heard, including the belief that Nasser was on the right development path, ready to make the necessary corrections, before being thrown off course by his foreign policies distractions and externally imposed constraints. In any case, Egypt after 1973 has committed itself to international market solutions that cannot now be easily discarded. Egypt has already made a heavy political and economic investment in the belief that prosperity within the global economy is predicated on comparative advantage and an acceptance of interdependency.

A middle course between Sadat's liberalizing policies and Nasser's command economy is regularly mentioned in high government circles. Whatever the mix, however, Mubarak remains committed to attracting western capital. Plainly, Egypt has no immediate or practical substitute for American financial assistance, especially commodity aid, more critical now
with Egypt’s looming balance of payments and budgetary problems in a more slowly growing economy. Any serious falling out with the US could also jeopardize other western bilateral and multilateral aid, as well as direct private investment. Even though there is a sincere desire for improved ties with the Arab states, OPEC’s present disarray and intraregional Arab conflict leaves little hope that these sources can supply generous, reliable assistance or guarantee better security against Egypt’s regional enemies. In return for sustained economic and military aid from the US, Mubarak continues his uphill efforts to win over the more moderate Arab states and Palestinian leadership to an American-sponsored peace with Israel.

NOTES


2. A fuller description of these characteristics is given by John Waterbury, ‘The Implications for US–Egyptian Relations of Egypt’s Turn to the West’, a paper delivered at a conference on ‘Politics and Strategies of USAID in Egypt’, at the Middle East Center, University of Pennsylvania, 18–20 January 1978.


7. Ibid., p. 87.


   In all, over the 20 years to 1967, the US supplied about $930 million in assistance to Egypt, 70 per cent of it under the food aid program and the remainder for infrastructural improvements and small-scale projects.

   During the hiatus in US government aid, private development aid to Egypt continued, albeit on a modest scale. The Ford Foundation and Catholic Relief Services maintained their offices in Cairo and made allocations for various projects. Catholic Relief was able to function through private donations and EEC contributions, though its total budget was less than one million per year. In Washington, Catholic Relief lobbied for a restoration of US assistance, at least for emergency relief purposes, a step the Nixon administration was as yet not prepared to undertake.


11. Appropriately, the aid was budgeted by the US Congress in a separate category called
Security Supporting Assistance, now Economic Support Fund. The Foreign Assistance Act recognizes political or security conditions that might justify a higher level of support for a wider range of purposes.


14. See Waterbury, pp. 7–8.


27. Criticism of the US aid activities, as constituting American ‘penetration’ and a ‘shadow government’, was aired sharply in a series of articles appearing in October and November 1982 in Al-Ahram Al-Iktisadi, a weekly magazine. Failures in the AID program were pointed out, though most of the attacks were aimed at the alleged threat to Egypt’s national security of American-sponsored research.