

London School of Economics

**A Political Economy of Egyptian
Foreign Policy: State, Ideology, and
Modernisation since 1970**

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Abstract

This Study aims at exploring the relation between economic liberalisation and Egyptian foreign policy orientation. It argues that the roots of the restructuring of Egyptian foreign policy since 1970 could be traced in the process of transforming the populist statist model of managing the Egyptian political economy.

The study of Egyptian foreign policy has been hitherto dominated by the psychological-perceptual analysis of the Egyptian presidents' belief systems. Implicit in such analyses is the assumption of a docile socio-economic set up and an omnipotent leader capable of making abrupt changes in the basic thrust and orientation of Egyptian foreign policy according to his preferences and perceptions. This study seeks to challenge this assumption. As opposed to the asocial conception of a transcendent leader deciding freely on foreign policy matters, major shifts in Egyptian attitudes and behaviour towards its regional and international environments, it will be argued, were deeply linked to, and largely dependent on, the transformation of the Egyptian political economy, as well as its pace.

To this end, the thesis is divided into four chapters apart from the introduction and the conclusion. The first examines the foreign policy implications of the populist statist model that prevailed during the 1950s and 1960s as well as the origins of the restructuring process. The second, third and fourth discuss the first wave of restructuring during the 1970s, the hesitant decade of slow transformation (the 1980s), and the second wave of restructuring in the aftermath of the Gulf war respectively. The focus of analysis will remain throughout the study on the exploring patterns of interaction between transforming the political economy and reorienting foreign policy.

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Introduction

*“There are no economic problems, there are only problems and they are complex”
Gönnar Myrdal, Noble Prize Laureate in Economics*

*“Historia non facit sabbatum” (History is never discontinuous)
Roman Proverb*

This study aims at exploring the relation between economic liberalisation and foreign policy restructuring in Egypt. Its central argument is that the roots of Egyptian foreign policy restructuring since 1970 could be traced in the process of transforming the populist-statist Egyptian political economy. It seeks to identify the different patterns of interaction of Egyptian political economy and foreign policy throughout this process.

The 1970s witnessed a far-reaching transformation of the Egyptian political economy and foreign policy. In lieu of Nasser’s *étatisme*, in which the state took charge of social and economic transformation and became the centre of gravity in Egyptian society, an open door policy (*infitah*) was introduced, and the populist-statist apparatus of the 1960s was gradually dismantled. Economic liberalisation has proceeded steadily, notwithstanding few and limited setbacks, ever since. Similarly, a radical reorientation of the Egyptian foreign policy took place over the same period. Once a forefront of nationalism, based on anti-colonialism, non-alignment, pan-Arabism and anti-Zionism under the leadership of Gamal Abdel Nasser, the years of Anwar Sadat were associated with accommodation to the west, especially the United States, and eventually to Israel (Korany 1991:197-200). Egypt’s international and regional priorities and policies were, therefore, fundamentally and perhaps irreversibly, altered.

Mainstream analysis of this foreign policy transformation has thus far been dominated by the psychological-perceptual analysis of the Egyptian presidents' belief systems¹. Thus, the development of post-1952 Egyptian foreign policy is normally divided into three phases, corresponding to the reigns of the three Egyptian presidents: Gamal Abdel Nasser, Anwar Sadat and Hosni Mubarak. The typical argument is that whereas Sadat departed radically from Nasser's flamboyant, ultra-nationalist, non-aligned and anti-colonialist policies, opting instead for realignment with the United States and the west, discrediting pan-Arabism, and embarking on an individual peace agreement with Israel; Mubarak sought and, according to some analysts, achieved a balanced foreign policy by reintegrating Egypt into the Arab world whilst strengthening its alliance with the United States and confirming Egypt's commitment to peace with Israel (Kramer 1987:387). Sadat's foreign and economic policies were, accordingly, the antithesis of Nasser's, and Mubarak's formula was an attempt to reach some form of a synthesis between the approaches of his predecessors.

Implicit in these prevailing analyses of Egyptian foreign policy is the assumption of a docile and ineffective socio-economic set up and an omnipotent leader capable of making abrupt changes in the basic thrust and orientation of Egyptian foreign policy according to his private preferences, perceptions, value-system, and strategic choices. The typical rationale given for such assumption is drawn from the prevailing theories of foreign policy making in developing countries² which, it is argued, lack established foreign

¹ The vast majority of studies on the topic have invoked this approach. See: Gum'a (1988); Zahran (1987); Selim (1982); Burrell and Kelidar (1977); Entelis (1974); Nasr (1983).

² For a critical survey of these theories, see: Korany (1983; 1986).

policy bureaucracies and democratic traditions, thereby enabling political leaders to monopolise foreign policy decision making.

This study seeks to challenge this assumption. As opposed to the asocial conception of a transcendent leader deciding freely on foreign policy matters, shifts in Egyptian foreign policy are examined as a function of socio-economic changes that go well beyond the *big brother's* preferences and choices. I take as my starting point Light and Hill's (1985:160) argument that however personal perceptions and bureaucratic inter-rivalries may influence foreign policy, its basic thrust is provided by the deeper structure of society and its ideology. Foreign policy should, therefore, be conceived of as the external activity of the politico-economic system, that is, an integral part of the polity.

As such, the distinction between the "internal" and the "external", which is largely responsible for the intellectual gap between studies on Egyptian foreign policy and political economy, becomes increasingly difficult to maintain (Moon 1985:328). As Holsti (1990:13) observed, all states seem to share four main broad goals: autonomy, welfare, security and regime maintenance. They act simultaneously in their domestic and international environments in pursuit of these goals. It is therefore necessary to analyse state action in a way that crosses the "great divide", to quote the title of Caporaso's (1997) influential article, between the "domestic" and the "international".

Two intellectual gaps in the literature on Egyptian foreign policy, and for that matter, on foreign policies of third world countries by large, are identified and addressed in this

study: a theoretical and an empirical gap. On the theoretical level, this study seeks to contribute to the redressing of both the predominance of structural (systemic) bias of mainstream international political economy (IPE) literature³, and the predominance of the psychological-perceptual foreign policy analysis (FPA) of third world countries. It is argued that an intellectual encounter between these two academic traditions is essential for understanding developing countries' foreign policies. Insights from an IPE perspective are needed on the *political economy of foreign policy*, that is, the study of the political implications for states' foreign policies, not only in the strictly economic issues, but also in the traditional strategic issues of war, peace and alignment, of domestic and international economic environments. As Evangelista (1989:151) noted, the value of domestic approaches to IPE analysis will be enhanced if its explanatory power was able to account for issue-areas beyond economics. This study is an attempt in that direction, seeking to demonstrate the interpretative ability of the political economy approach, and its contribution to accounting for Egypt's foreign policy.

The *raison d'être* of foreign policy analysis is that the interactions that take place in the "black box", that is, inside the state apparatus, are the key to understanding the state's foreign behaviour. In this sense, FPA is essentially an interdisciplinary enterprise (Gerner 1995:17). However, as Korany (1986:51) remarked "*the interdisciplinary analysis of foreign policy was limited to the increased borrowing from psychology at the expense of political economy or sociology*". This study aims at addressing this weakness and

³ There has been a recent resurgence of interest in the domestic approaches to IPE, led by Helen Milner, Robert Keohane and others. However, their work remains largely focused on the study of advanced industrial economies, and seeking mainly to explain their foreign economic policies, rather than the politico-economic determinants of their foreign and security policies.

attempting to present a narrative of Egyptian foreign policy restructuring since the 1970s that integrates political economy and foreign policy analysis.

On the empirical level, this study argues that there is a logical inconsistency between the two analytic traditions that dominate the literature on Egyptian political economy and foreign policy. These are: a) the socially deterministic conceptions of the hydraulic society in Egypt, which are central to much of the analysis of Egyptian political economy; and b) the highly individualistic psychological-perceptual analysis of Egyptian foreign policy. One emphasises the deterministic primacy of the social structures of the Asiatic mode of production in Egypt, and the subsequent capitalist transformation⁴, whereas the other offers an overly “voluntaristic” account emphasising the centrality of the political leader’s perceptions and idiosyncrasies. The *political economy of foreign policy* approach, argued for in this study, seeks to transcend this duality, and present a more holistic account of the patterns of interplay between the internal and external activities of the Egyptian state than those provided by either tradition.

This study falls within the methodological tradition which Hollis and Smith (1990) called “understanding”, as opposed to “explaining”, international relations. As such, it does not aim to present a parsimonious and straightforward causal analysis of the re-structuring of Egyptian foreign policy since 1970. Rather, it agrees with Muller and Risse-Kappen (1993:25-26) that to pose the question of the determinants of foreign policy in an “either-or” formula is to misconceive the problem. Any form of single-causation of such a complex process as the transformation of Egyptian political economy and foreign policy

⁴ The classic example of this line of argument is: Ayubi (1989a).

would necessarily be reductionist. There is a need to present a complex narrative that integrates the different variables and levels of analysis, to account for this complex societal process. Parsimony of the behaviouralist approaches to social sciences, as Hay and Marsh (1999:8) noted, is often bought at a strikingly high price in terms of relevance. Analysing the complex patterns of interaction between states' economic and foreign policy represents one of the many cases in which parsimony must be sacrificed for relevance, since, as Susan Strange (1994:218) argued, "Simpler, more parsimonious theoretical explanations of complexities are fruitless and therefore self-deluding".

Hence, this study will aim at presenting a complex narrative, which subordinates the individual decision makers to some larger social process, and permits a greater appreciation of the origins, evolution, and consequences of the process of transforming populist *étatisme* and restructuring foreign policy.

To this end, this study proposes a four-pillared conceptual framework to analyse the restructuring of the Egyptian foreign policy since 1970, within the context of the transformation of the populist-statist model of political economy. Transforming the populist-statist model of Egyptian political economy, it will be argued, developed through two grand waves; the first was during the 1970s whereas the second took place in the aftermath of the second Gulf War in 1991. In the 1980s, the progress of such transformation was interrupted by several social, political, and economic crises. It was also during this decade that the foreign policy reorientation slowed down significantly, to the extent that led many analysts to argue that the ruling elite is rethinking it. Major shifts

in Egyptian attitudes and behaviour towards Egypt's regional and international environments, it will be argued, were deeply linked to, and largely dependent on, the success or failure of the transformation of Egyptian political economy, as well as its pace.

This study is, therefore, divided into five chapters apart from the introduction and the conclusion. The first engages critically with the available literature with the aim of developing a framework for analysing the political economy of Egyptian foreign policy. The second examines the development and foreign policy implications of the populist-statist model that prevailed during the 1950s and 1960s as well as the origins of the restructuring process. The third, fourth and fifth discuss the first wave of restructuring during the 1970s, the hesitant decade of slow transformation (the 1980s), and the second wave of restructuring in the aftermath of the Gulf war respectively. The focus of analysis will remain throughout the study on the interaction between transforming the political economy and reorienting foreign policy.

Chapter I

The Political Economy of Egyptian Foreign Policy:

A framework of analysis

*"The Great man of the age is the one who can put into words the will of his age. He actualises his age."
Hegel*

*"Human agents and social structures are in a fundamental sense intertwined entities. Hence we cannot account fully for one without invoking the other"
Joe Hagan et.al, Emerging issues in Foreign Policy Restructuring*

1. Foreign Policies of Developing Countries: The Political Economy

Approach

(1.1) International Political Economy and Foreign Policy Analysis: another case of mutual neglect?

In the April 1970 issue of *International Affairs*, Susan Strange published her seminal article "International Relations and International Economics: a case of mutual neglect". It was above all a manifesto of a new trend within the international relations community, expressing what Gill and Mittleman (1997) later called a "healthy disrespect" for the academic conventions that divide social sciences into separate disciplines, and arguing for a more holistic and inter-disciplinary method that bridges the gap between international relations, economics, and political science. Such was the mission statement of International Political Economy (IPE).

A consensus on the nature of IPE, or its methodology, however, never existed. IPE remained merely a "hosting metaphor" (Higgot 1994:157), highlighting the increasing

discontent with the prevailing methods of mainstream economics and international relations and suggesting a focus of attention on phenomena that lie at their crossroads – a signal of an attempted “scientific revolution”, to use Thomas Kuhn’s terminology, within the international relations community.

IPE sought to explain how political power shapes economic outcomes and how economic forces can guide, or constrain, political action both on the structural – systemic – level (i.e. the interplay between the international economic and political systems); as well as the single actor’s level (the interplay between domestic economy and foreign policy on one hand, and between international economic environment and the international behaviour on the other).

These two “logical” aspects of IPE were not, however, equally emphasised in the mainstream research. Studying foreign policy from an IPE perspective remained largely a *terra incognita*. Concerns about globalisation and changes in the international economic architecture tended to focus attention on the structural level of IPE at the expense of the international actor’s (i.e. foreign policy) level. The inevitable result is that the study of foreign policy is left almost exclusively to the “traditional” international relations circles. It is another case of mutual neglect.

As a critical offshoot of international relations, IPE sought to question international relations’ orthodoxies and construct its own alternative *problematique*. Hence state-centric realism was dismissed by many IPE scholars, and the study of globalisation, its

consequences and discontents, became their chief, sometimes even their exclusive, research concern. Indeed, the crux of mainstream IPE research revolves around the fundamental tension between the formal nation-state system and the globalised economy (Tooze 1998). It is essentially a question of global governance – of the mechanisms through which an anarchic state system can keep the global economy functioning. Thus, the editorial of the first issue of *Review of International Political Economy* (1994:12) expressed the need to “go beyond the state/society to the global level of analysis”. Susan Strange (1995:154) explained that the core argument of such pioneers as Keohane, Gilpin and herself was that the focus of work in international relations has devoted too much attention to “high politics” – foreign and defence policies and issues of international order and security – and too little was directed to the “low politics” of the management of international economy. This was the niche that IPE sought to occupy. Consequently, IPE research agenda was defined, according to Murphy and Tooze (1991), in terms of “*economics first, then the political consequences that follow from it*”.

Since its first days, mainstream IPE reflected the primacy of international economic problems. The “P” was more often than not forgotten, and when invoked, it was mainly to explain the domestic political determinants of economic policy and the mechanisms through which domestic political set-ups (e.g. domestic institutions, interest groups, and so forth) can shape outcomes in international political economy (cf.: Milner 1997; Hall 1997), rather than to analyse the “traditional” political issues of security and foreign policy from a political economy perspective. Ironically, the editors’ introduction to a special issue of *New Political Economy*, devoted to “*bringing the “P” back in*”,

amounted to little more than another call to transcend state-centric realism (Hay and Marsh 1999:7). What started as an attempted *scientific revolution* was soon becoming a *normal science*, with the study of globalisation and its consequences at its heart.

Oddly enough, it was only within the discipline of international relations that IPE has achieved the status of a recognised sub-discipline. To mainstream economics, by contrast, little if anything has changed. IPE was considered at best a poor alternative to rigorous economic analysis – an account that lacks technical sophistication. As Hill (1986) noted, IPE has not managed to do more than attract the odd dissidents from mainstream economics. Even when mainstream economists discussed IPE, they have done so on their own terms, and without taking into account the insights and concerns of other disciplines – least of all those of “traditional” international relations (Strange 1995:156).

As a sub-discipline of international relations, however, the mission of IPE should not only be to account for the new phenomena and actors in the world economy, but also to provide a more comprehensive account of the traditional international relations’ questions of war, peace, foreign policy, and so forth. In other words, there is a need to complement IPE research agenda with studies not only on the *retreat of the state* as an international actor, to quote the title of Strange’s (1996) popular text, but also – and by no means less important – on the adaptive strategies of states to changes in their domestic and international environments.

It is not enough to confine IPE analysis on the actor's level to the study of foreign economic policy. Further insights from an IPE perspective are needed on the political economy of foreign policy. That is, the study of the political implications for states' foreign policies, not only regarding the strictly economic issues, but also regarding the traditional strategic issues of war, peace, and alignment, of domestic and international economic environments.

Likewise, foreign policy analysis (FPA) takes little account of the implications of IPE, reducing the political economy to a mere set of economic assets and resources available to foreign policy decision makers (cf.: Wurfel and Burton 1990:6). Much of FPA research either takes the prevailing economic conditions and policies as given, treating them as exogenous to the analysis, or examines them in a crude resources/goals formula, studying how the political leaders match their foreign policy goals with the available means and resources⁵.

The original mission of FPA was twofold: it sought by incorporating domestic factors and opening the so-called "black box" to offer a more persuasive account of states external behaviour on one hand, and to show how domestic environments and processes inside countries are affected by external factors on the other (Halliday 1994:3-14). It was therefore essentially an interdisciplinary enterprise, expected to draw on the work of different social sciences. Mainstream FPA, however, often neglects the impact of the domestic economic structures and policies on foreign policy, and is more often than not

⁵ Korany and Hillal-Dessouki's (1994) introduction to their collection of essays on the foreign policies of the Arab states is a good example of this narrow definition of the political economy approach to FPA.

confined to the study of domestic “political” variables like bureaucratic models, belief systems, and so forth. Even a study like Laura Neack’s (1995), seeking to explore the links between “state types” (with all this term’s possible politico-economic connotations) and their foreign policies, was confined to explicitly political variables, and made no reference to the economic determinants of a “state type” (e.g. its economic organisation, class structure, the prevailing mode of production and economic organisation..etc).

An intellectual encounter between IPE and FPA will, therefore, be mutually enriching. FPA and IPE share several substantial and methodological concerns. Both purport to provide a better approach to the study of international relations by accounting for phenomena that are otherwise neglected by state-centric realism. Both are also supposed to adopt an interdisciplinary method drawing on the achievements of various disciplines and intellectual traditions.

(1.2) Developing Countries’ Foreign Policy Analysis

The need to analyse foreign policy from an IPE perspective is even more pressing when it comes to analysing the foreign policies of third world states. It is especially in these states, many of which were themselves largely the creation of the *international* process of decolonisation (Clapham 1985:113), that the working of foreign policy should be seen as a result of the interaction – and tensions – between their domestic modernisation and developmental policies and the international setting (Ibid: 5). Indeed, the very existence of third world states can be defined not only by their internal characteristics, but also by

referring to their economic vulnerabilities in the stratified international system (Clapham 1977:169-170).

Studying the patterns of interaction of the *national* and the *international* is, according to Halliday (1994:4), *the constitutive concern* of international relations. It is even more important with regards to developing countries, where foreign policy is largely recruited to the state building and nation creation tasks (Holsti 1990:17; Hill 1977:7). With modernisation and development representing their overarching concerns, the study of foreign policies of these countries cannot, and should not, neglect the impact of domestic economic structures, processes, and policies on their international behaviour. Indeed, the very distinction between the *national* and the *international* becomes increasingly difficult to maintain in the case of developing countries, where significant features of their domestic economic, social and political systems are highly shaped by external factors and forces on one hand, and their foreign policies are directed as much towards meeting the domestic challenges of development as towards surviving the international state-system, on the other (Mastanduno et.al. 1989:457-458).

Notwithstanding this, the study of developing countries' foreign policies remains today like it was twenty years ago when Korany (1983:465) dubbed it "*the most underdeveloped study of underdeveloped countries*", and is rarely embedded in the broader context of the prevailing economic structures, and their modernisation and developmental efforts. The reason for that is twofold.

On one hand, FPA of developing countries is generally neglected by the structural accounts – in their realist and *dependencia* versions alike. In the realist tradition, foreign policy is largely reduced to the study of problems deriving from the “security dilemma” in the anarchic world system (Holsti 1990:13). Thus, foreign policy is defined in terms of the activities conducted by states to erect, preserve, or challenge balances of power. According to such analyses, the detailed study of developing countries’ foreign policy makes little sense, since, thanks to their obvious power deficits and structural weaknesses, developing countries are hardly more than helpless bearers of systemic imperatives and features. Their only option is to accommodate to the prevailing power structures. The *dependencia* version, notwithstanding its emphasis on the primacy of the economic rather than the security structures, comes to surprisingly similar conclusions, and often amounts to little more than speculating about the mechanisms through which the foreign policy orientation of developing states comes to reflect the preferences of stronger ones (Hey 1993; Ayoob 1989). As such, the separate study of their foreign policies, which necessarily implies focusing on their domestic structures and processes, margins of manoeuvre, and political choices, is not analytically worthwhile.

On the other hand, “bureaucratic politics” models, popularised after Graham Allison’s classic study of American Foreign policy decision making during the Cuban missile crisis in 1962, were rarely invoked to explain developing countries’ foreign behaviour, for rather obvious reasons. The model was, as Korany (1986:52) argued, explicitly limited to industrialised countries which have established foreign policy bureaucracies, and

democratic traditions that allow for inter-bureaucratic competition and rivalries to surface, and influence foreign policy decision-making processes.

As a result, the relatively limited number of studies on the foreign policies of third world states became dominated by the psychological-perceptual explanations (Korany 1986:39). Following Brecher's (1969) classic framework of analysis, elite images and belief systems were considered the decisive, and in many cases, the exclusive, input in the foreign policy system of developing countries.

Despite the apparent reductionism of the psychological-perceptual analysis, and the criticisms that were made to its *asocial* emphasis on the political leaders, it retained much of its influence in the study of foreign policy of third world states, as it concurs with an important characteristic of many third world polities –the personification of political processes. The typical rationale for the predominance of the psychological-perceptual models was that, whether in the traditional or transitional stages of political development, foreign policy decision-making in third world states remains mainly in the hands of the heads-of-states (Heikal 1978:714). Thence, the key to understanding their foreign behaviour is to examine the perceptual screen of such leaders, and the factors that influence their decision-making. Sayed-Ahmed (1993:89), for example, studying Egyptian-American Relations in the 1950s, explicitly remarked that, “*when we refer to Egyptian [foreign] policy we are referring to the policy of Nasser*”. Other, non-academic studies of Egyptian foreign policy during the same period – political biographies of

Nasser, memoirs of his senior advisers and cabinet ministers, and studies by journalists and political commentators – have often entertained similar views.

The problem with the psychological-perceptual approach, notwithstanding its popularity in the analysis of developing countries' foreign policies, is that even in the most personified polities, foreign policy remains governed, or at least guided, by several domestic and external environmental factors. As Hill and Light (1985:160) postulated, however personal perceptions, or bureaucratic inter-rivalries, might influence foreign policy, its basic thrust is provided by the deeper structure of society and its ideology. Individual decision-makers are, after all, products of the societies in which they live (Jensen 1982:45).

Furthermore, the analytical tool that is often used to study the perceptual screens of decision-makers, namely, content analysis of their speeches, could sometimes yield misleading results. Some of the Egyptian and Syrian leadership statements prior to the October 1973 war and immediately after it, for example, were part of a deception campaign. Content analysis of President Sadat's speeches during this period, taken uncritically and out of their broader historical context, have yielded ridiculously misleading results about his conceptions of enemies and allies⁶, that were completely belied by his subsequent actions. Finally, as Holsti (1982a: 12) observed, in the moments of foreign policy restructuring and far-reaching change, governments may choose not to change their foreign policy rhetoric, yet in the realm of action the restructuring of their foreign policies is quite obvious. In these cases too, the analysis of decision maker's

⁶ See for instance: Zahran (1987).

speeches would not be very helpful in understanding the actual development of his country's foreign policy. This begs for what modern historians call "reading sources and documents against the grain", so as to understand not only what people said, but what also made them say and act the way they did (Arnold 2000:102). The only way to do so is by placing decision-makers' speeches and actions in a broader societal context.

On the other hand, structural analysis, in either its balance-of-power or *dependencia* versions, tends to produce sweepingly generalised accounts of the nature of the international system and the patterns of conduct of international actors. The problem with such accounts is that broad-brush systemic factors lose much of their explanatory power as we move away from generalisations and grand narratives to account for time- and space-specific cases (Smith 1986:346). The behaviour of specific actors in specific contexts and situations cannot be reduced to the status of bearers of systemic features and imperatives. Moreover, even when systemic constraints contribute to, or even force, the selection of certain ends or goals, multiple distinct and equally viable routes to these ends may be available (Skidmore and Hudson 1993:3). In these situations, the choice amongst the alternative means will obviously not be determined by the system itself, but by the individual country's particular circumstances and policy choices.

In all cases, states define their so-called national interest not only in terms of the system's choices and constraints, but also based on the fundamental attributes of their socio-economic set ups and their political culture. Understanding the socio-economic dynamics that underlie the actor's behaviour is, therefore, indispensable.

Opening the *black box* of the state's political economy is instrumental to transcending the overly deterministic structural analysis of realism and dependency theories on the one hand, and an overly voluntaristic cognitive analysis on the other.

(1.3) The Study of Change and Restructuring of Foreign Policy

The *political economy of foreign policy* approach, argued for in this study, is particularly relevant in the moments of restructuring and far-reaching change when the scale and magnitude of change are such that they cannot be reduced to changes in the leader's preferences and choices.

In fact, the worst consequence of the psychological-perceptual analysis is that it reduces societal transformation to the status of mere outcomes of "*the deeds and idiosyncrasies of great men and women*", to use Thomas Carlyle's words. As such, perceptual analysis cannot serve as the basis of any useful generalisation and/or theorising, because cognitive behaviour changes not only between people and institutions, but also between decisions (Light 1994:99). Incorporating politico-economic variables not only offers a more persuasive account of far-reaching changes, but also serves as a better basis for generalisations and comparisons.

However, the study of foreign policy restructuring, defined as "the dramatic, wholesale alteration of a state's pattern of external relations, involving a simultaneous reorientation of the different aspects of the state's orientation towards world affairs", (Holsti 1982: ix;

Hermann 1990:5-6) remains largely an unexplored area of FPA. The reason for that is twofold. The first is the relative novelty of FPA as an academic field of inquiry. The development of any scientific inquiry normally proceeds from analysing order to analysing change. According to this logic, the study of foreign policy is still in the “study of order and pattern recognising” phase (Rosati et.al. 1994:5-7). Second, FPA emerged as one of the outcomes of the rise of behaviouralism in international relations (Halliday 1994:29), which hampered the search for a theory of historical change.

Behaviouralist analysis of foreign policy, particularly in the comparative foreign policy (CFP) tradition, is essentially *ahistorical*. CFP sought to use methods borrowed from natural sciences to develop a general theory of foreign policy behaviour. Underlying this belief were two assumptions: a) that all nations’ foreign policies are comparable; and b) that a general theory that applies to all time- and space-specific cases is both desirable and attainable. By contrast, a historicized approach to FPA, which is instrumental to the study of change and restructuring, has a very different starting point. It adopts a conception of foreign policy as essentially a mechanism through which the nation-state adapts to changes in its international environment (Rosati et.al. 1994:8). Consequently, a general theory of foreign policy that applies to all times and places is neither attainable nor desirable. Instead, the study of change should be at the heart of FPA’s research agenda, and a better historically grounded approach is requisite. This does not only mean emphasising the relevance of historical analysis to FPA, it also involves invoking a very different conception of history itself, than that used in mainstream FPA.

Mainstream FPA, with its predominantly behaviouralist outlook, tended to sacrifice the power of history and historical dialectics in explanation. History was reduced to the status of a “social scientist’s laboratory” – a sheer corpus of value-free data, which could be used to test or validate hypotheses about the unchanging, Newtonian-like laws of society (Carr 1990:9-10; Amin and Palan 1996:211).

In the study of foreign policy restructuring, a different sense of history should be resorted to, as an explanatory tool – that of *historicity*, of the historical conditions that influence the origin and development of a society, idea or policy (Halliday 1994:51). This entails placing historical facts in a wider context or narrative, to establish patterns, and construct meaning from the maelstrom of uncoordinated and indeed chaotic inventories of historical data. As such, historicity does not suggest any determinism or teleology, *à la* realist or Marxist structural accounts of international politics, mainly because it does not accept that structural constraints are sufficient in explaining historical change (Amin and Palan 1996:211). Nor does it accept the voluntaristic argument that, subject to the decision maker’s preferences and perceptions, any sort of change is possible, since it accepts that domestic and external structures are framing conditions of social discourse and interaction (Ibid.). As Hagan et.al. (1994:276) explained: “the interaction of different causal dynamics of foreign policy change puts the agent-structure debate into sharp clarity...Instead of being antagonistic partners in a zero-sum relationship, human agents and social structures are in a fundamental sense intertwined entities. Hence we cannot account fully for one without invoking the other”.

The actual state of the study of foreign policy restructuring is, however, far from the aforementioned ideal. Still in its infantile stages, it is largely confined to constructing typologies of different patterns of change, sources of change, criteria for distinguishing different forms of restructuring and description of stages of the restructuring process (cf.: Hermann 1990; Holsti 1982a). Furthermore, changes in the domestic and international political economy are rarely mentioned as a source of foreign policy restructuring in any of these typologies. Hermann's (1990:11-12) discussion of the domestic sources of foreign policy change, for instance, only covers the political variables such as leader choices, bureaucratic advocacy...etc. An account of the political economic sources of foreign policy restructuring is yet to be seen.

2. The Political Economy of Egyptian Foreign Policy since 1970: An overview

Few countries in the world can demonstrate such links between their development strategies and their foreign policies as Egypt. Frequently cited as a hydraulic society/centralized state *par excellence*, geographers (Hemdan 1995 [1969]), economists (Amin 1979), and political analysts (Baha' al-Din 1996; Ayubi 1989a; Abdel Malek 1982) have often noted the coincidence of a strong developmental state and an active regional foreign policy, especially on the eastern prong of Egyptian foreign policy, Mohamed Ali's and Nasser's experiences being their favourite examples.

Several of the decisive moments in the history of Egypt's post-1952 foreign policy were deeply entrenched in Egypt's bid for populist-statist development. The struggle to build

Aswan's high dam and nationalise the Suez canal, which resulted in the Suez crisis, had a formative influence on Egyptian foreign policy for at least the following decade, and was, in the meantime, the prelude to the advent of the populist-statist model of administering Egypt's political economy.

On the other hand, from the 1970s, Egyptian political economy witnessed a paradigmatic shift that resulted in discrediting populist *étatisme* and launched a slow, albeit far-reaching process of dismantling the populist-statist apparatus. Once more, this coincided with a major restructuring of Egyptian foreign policy both on the regional level (i.e. the Egyptian attitude towards the Arab Israeli conflict as well as the inter-Arab relations) and the international level (i.e. the major realignment and shift towards the United States). On all these occasions, coincidence suggested correlation.

However, as it was once argued, noticing the existence of a relation between playing cards and winning money is not like actually learning how to play poker and win. It is not enough to note the existence of a relation between Egyptian political economy and foreign policy without systematically explaining their patterns of interaction. Unfortunately, apart from sketchy, although sometimes illuminating remarks and footnotes, or at best "concluding chapters" on the relation between the core choices in Egyptian developmental and foreign policies, as well as some accounts with highly ideological overtones attempting at conceptualising such changes in such terms as the shift from "independence" to "dependence" (Hussein 1982b), or "the visionary who

dared” (Finkelstone 1996), a systematic account of the links between developmental and foreign policies in Egypt is still very difficult to find.

Paradoxically, and despite some scattered remarks on such interconnections, the bulk of systematic studies on Egyptian foreign policy remain within the psychological-perceptual paradigm⁷, which necessarily ignores the domestic socio-economic set-up or at best, takes it as given. Korany and Hillal-Dessouki went even further in their classical study of the foreign policies of the Arab states, suggesting that Egypt provides a unique example of a country where foreign policy is conducted in complete separation from the domestic environment (sic.), thereby highlighting what remains largely an accepted assumption, albeit implicitly, of much of the work on Egyptian foreign policy⁸.

(2.1) Mapping the territory: a bird’s eye view on the key literature

Three major schools of thought dominate the analysis of post-1952 Egyptian political economy – Marxist, functionalist and elitist (Hinnebusch 1985:3-7). However, diverse, they seem to converge on one main feature of the Egyptian political economy: the predominance of the state over society, and the central role played by the state in modernisation and development.

Egypt was one of the cases chosen by Karl Wittfogel as exemplar of a *hydraulic society* – his contribution to the development of Marx’s concept of the Asiatic mode of production. His thesis had a formative influence on many students of Egyptian political economy.

⁷ See sources cited in footnote 1 above.

⁸ Korany and Hillal-Dessouki (1994:7). See also Hillal-Dessouki’s introduction to (Zahran 1987).

Many accepted it without reservations, and some even tried to trace it to earlier writings of Egyptian “renaissance” thinkers, notably Rifa’a El-Tahtawy⁹. As early as 1869, El-Tahtawy argued that the existence of a strong, centralised state is necessary for the organisation of irrigation and public works along the Nile, and hence is crucial to the economic prosperity of Egypt¹⁰. Ever since, the arguments about the need for a centralised state to control the artificial irrigation along the Nile and lead the economic development became a conventional wisdom amongst Egyptian thinkers. Intellectuals, liberals and left wing alike, seemed to accept these arguments unquestionably (Ayubi 1989a; Eissa 2000).

Critics of Wittfogel’s thesis fell into two main categories: the first accepted the main premises of the model whilst pointing out to some of its shortcomings. Ayubi (1989a), for example, largely accepted Wittfogel’s arguments about the hydraulic origins of the Egyptian centralised state, but also pointed to their failure to explain links between bureaucracy and oligarchy on one hand, and to account for the possibilities for and patterns of social mobility within the Asiatic mode of production on the other. The second line of analysis refutes the model altogether. Wahba’s (1994) doctoral dissertation is an exemplar of this trend, accusing Wittfogel’s model of being ahistorical and static, and arguing that the development of a centralised state corresponded to particular needs of the dominant classes at certain points in time, rather than being the natural result of the existence of a static Asiatic mode of production and oriental despotism.

⁹ The term “renaissance”, when used in the context of Egypt, refers to the works of thinkers of the nineteenth and sometimes the early decades of the twentieth century in Egypt mainly and to a lesser extent in the Levant. See: Ayubi (1992).

¹⁰ Cited in: Eissa (2000:130-131).

Despite these criticisms of Wittfogel's thesis, few would disagree with the proposition that Egypt has historically witnessed an overdeveloped state apparatus that enjoyed a relative autonomy from the major social formations, and controlled the extraction of surplus from society and the path of its socio-economic development.

Ayubi (1989a:5-9) argued that the course of history of the development of the Egyptian state was the exact opposite of that of the European nation-state. In Egypt, the centralised state predated the development of the bourgeoisie, and it soon became responsible for the introduction of capitalism. All major efforts of modernisation and industrialisation since the nineteenth century were, therefore, led by the state. Nasser's post-1952 endeavour was no exception.

Prior to 1952, the quasi-liberal regime that had governed Egypt since 1922 entered into a severe crisis. The nascent capitalism failed to provide for the basic needs of the majority of the Egyptian population. Political parties, including the *Wafd* party, long considered the bastion of middle class nationalism, were increasingly dominated by landowners and occasionally upper class industrialists, much to the alienation of the middle and lower classes.¹¹ The military defeat in Palestine intensified the polarisation between the king, the *Wafd*, the emerging lower-middle class political movements (Young Egypt, the Muslim Brotherhood, and the Communist organisations), and the military (El-Sayed 1992:243).

¹¹ For an excellent account of the crisis in the *Wafd*, and the rise of the new lower-middle class political parties and movements, see: El-Bishry (2002).

The 1952 revolution represented a classic case of a “revolution from above” (Trimberger 1978), and indeed all social conditions in Egypt by the late 1940s were ripe for a revolutionary intervention by part of the state apparatus. The military bureaucracy was in a particularly autonomous position in the late 1940s. Before 1936, the Egyptian army was under British control, commanded by officers of upper, landed, classes. Thanks to the 1936 Anglo-Egyptian treaty, and the need to increase the size of the Egyptian army to defend Egypt against any possible Italian invasion, especially after the Italian conquest of Ethiopia in 1935, its ranks were opened to cadets with petit bourgeois backgrounds. By the late 1940s most of the lower- and middle-ranked officers were without the traditional links with to the ruling class. As Trimberger noted (1978:152-153), of the hundred families that owned the largest estates in Egypt, 30 were represented in the Parliaments between 1942 and 1952, 18 provided cabinet ministers during the same period, but none provided an army officer. For the first time in the twentieth century, the army officers were not recruited from the dominant landed, commercial, or industrial class.

The military defeat in Palestine in 1948 furnished the necessary conditions for the politicisation of army officers, and unleashed their revolutionary potential. A “revolution from above” was now possible. As Rostow (1962:26-27) noted *“national reaction to political humiliation or a military defeat was the greatest engine of social change in Germany, Russia, Japan and China”*. The Egyptian case was no exception.

The “free officers” were mainly of petit bourgeois, rural origins. They had limited connections with some lower-middle class political movements. Two officers (Khaled

Muhi al-Din and Youssef Sedeek) were members of HADETU, the largest communist movement in pre-1952 Egypt, and three were affiliated with the Muslim Brotherhood (Abdel Mun'im Abdel Ra'uf, Rashad Mehanna, and Abdel Mun'im Amin). The rest, including such key figures as Nasser, Abdel Hakim Amer, Abdel Latif al-Boghdady, Salah and Gamal Salem, and Zakariya Muhi al-Din, had no clear organisational affiliation with any political movement at the time of their coup. Consequently, the "free officers" had no clear ideological program, except within the very broad framework of what Ayubi (1989a:93-106) calls "developmental nationalism". Their twin goals were the same as those of pre-1952 nationalist, lower-middle class political movements: a) to secure independence from any foreign tutelage, and b) to develop the country's economy (Aulas 1988:134). In his *Philosophy of the Revolution* (Abdel Nasser 1960:25-26), Nasser referred to the need to conduct two simultaneous revolutions: a political revolution aiming at political independence, and a social revolution to achieve modernisation. In the *National Charter*, he argued that the 1919 uprising "*failed because its leaders could not realise that they cannot achieve their aims unless they go beyond mere political goals, and tackle the roots of economic and social problems*"¹². Foreign policy objectives were, therefore, from the very first moments of the 1952 revolution interwoven with modernisation goals.

That this broad nationalist agenda was transformed into a corporatist form of *étatisme* was as much the result of international pressures as of domestic needs (Aulas 1988:40). After four years of attempting to encourage private-sector-led capitalist industrialisation, *étatisme*, the vesting of power in the state as the principal agent of social and economic

¹² Cited in: Mansfield (1969:19).

change (Scruton 1988:156), became inevitable. Strategic necessities (US's collusion with Israel, USSR's support for the so-called "non-capitalist path of development" in Egypt, and the Suez crisis and its aftermath) pushed the populist-statist model even further.

The roots of thinking about *étatisme* in Egypt could be traced to the inter-war period, when members of the Egyptian industrial capitalist class expressed on various occasions the need for an active and protectionist state intervention (Wahba 1994; El-Sayed 1989:176). Two key characteristics of post-1952 *étatisme*, however, were: a) the state control of the means of production, particularly after the large-scale nationalisations of 1961, and b) the populist dimension of the statist policies. This was embodied in the famous slogan "efficiency and equity". The state aimed at combining a productive and a distributive function. The stated economic goals in the *National Charter*, for instance, were to raise both consumption and investment simultaneously. The only way to do so was through Nasser's ability, through his active foreign policy, to secure large quantities of foreign aid (Amin 1974:52).

Post-1952 populist *étatisme* entailed combining a corporatist conception of developmental nationalism (Ayubi 1989a:138-139), whereby economic and social interests and groups were integrated into the hierarchical organisation of the state so as to break up and prevent the conscious and well organised class interests, with an activist, multi-dimensional foreign policy aiming at securing national independence, Pan-Arabism, and "positive neutralism" which later developed into non-alignment, as well as generating strategic rent from abroad to finance developmental plans. Before 1952,

Egypt's foreign policy was confined to the questions of evacuation and securing the unity of Egypt and Sudan under the Egyptian crown (Heikal 1978:718). After 1952, Egypt adopted a far more sophisticated notion of independence, as it had to face the Cold War realities, which necessitated dealing with subtler forms of foreign intervention and influence. The west pressured Egypt to join its sponsored regional alliances (METO, MEDO then CENTO) as a means to defend Egypt, and the vulnerable Middle East region, against communist infiltration. Nasser, whilst not a communist himself, rejected the western conception of the Middle East as a vulnerable landmass close to the "soft belly" of the USSR, and hence needing to be protected through a close alliance with the western bloc. He saw that the answer to the threat of communist infiltration did not lie in joining western-sponsored alliances with their imperialist overtones, but rather in promoting internal economic and social development and affirming the spirit of nationalism, independence, and positive neutralism /non-alignment (Ibid.: 720).

The struggle over building the Aswan high dam, nationalising the Suez Canal, and the ensuing crisis meant that positive neutralism and non-alignment were transformed into a *de facto* confrontation with the west. In the meantime, Egypt moved swiftly towards a clearer form of populist *étatisme*, especially with the large-scale 1961 nationalisations, and the adoption of the first quinquennial plan.

Similarly, it was a combination of domestic and international crises that led to the dismantling of populist *étatisme*. Once more, this was combined with a major restructuring of Egyptian foreign policy.

(2.2) End of *Étatisme* and Transforming Foreign Policy

The dramatic restructuring of Egyptian foreign policy since the 1970s was cited by K.J.Holsti (1982) in the introduction of his classic collection of essays on foreign policy restructuring as exemplary of a deep and far-reaching foreign policy change. A more recent volume of collected essays on the subject (Rosati et.al. 1994) also included a chapter on the Egyptian foreign policy restructuring in the 1970s. Most of the writings on Egyptian foreign policy under Sadat attempted to account for the shift in Egyptian foreign policy in his years through examining his personal belief system, which they also held responsible for the simultaneous liberalisation of the Egyptian economy. Literature on Egyptian political economy, on the other hand, more often than not made quick references to the foreign policy changes within the context of discussing the *infitah* of the 1970s and the transformation of Egypt's *étatisme* thereafter (Moursi 1976; Waterbury 1985).

It is possible, however, to identify two major weaknesses in the mainstream literature on the transformation of Egyptian foreign and economic policies since the 1970s. First, with their emphasis on the role of the leader's perceptions, most studies on Egypt's foreign policy restructuring, and even some studies on *infitah*, take as their starting point the rise of Sadat to power in 1970, or his triumphant emergence from the May 1971 power struggle, and fail to trace the roots of the transformation process to the final years of Nasser's reign. Second, many of the studies that address Egypt's foreign and economic policies since 1970s fall short of addressing the continuities between the transformation processes through the 1980s and 1990s, opting instead for the "three-phases' model" ,

corresponding to the reigns of the three Egyptian presidents. In either case, the narrative remains incomplete.

This study seeks to address these weaknesses, tracing, on the one hand, the roots of the transformation of *étatisme* and Egypt's foreign policy to the last years of Nasser's era. The transformation is analysed as a result of the heightening of inherent, and unresolved contradictions and tensions within the Nasserist populist-statist model itself, rather than a mere outcome of the rise of a new president to power. On the other hand, developments in the 1980s and 1990s are conceived of as integral phases of a single transformation process of the Egyptian political economy and foreign policy that took place since the 1970s, not as an attempt by a new president to strike a balance between the policies of his predecessors as is frequently argued.

A central argument in this study is that the roots of the crisis and transformation of *étatisme* could be traced to the last five years of Nasser's era (see: Amin 1981). Like the rise of *étatisme*, its decline was a result of a blend of domestic and external factors. The first quinquennial plan (1959/1960-1964/1965) was quite successful, achieving a 6% annual rate of growth (Al-Alem 1994:375), in spite of various political and economic problems that faced it (a cotton crop crisis in 1961, the war in Yemen..etc). A comparable success was achieved on the distributive level as well (e.g. the July 1961 "socialist" laws and the government's commitment to full employment of university graduates). This dual success was only made possible by Nasser's ability to secure foreign aid from the Eastern and Western blocs. In addition to being a beneficiary of the United States' "Public Law

480” aid program, providing for cheap wheat imports, Egypt managed to receive no less than 20% of the total credit commitments of the Soviet Union to developing countries between 1954 and 1966 (Amin 1974:9). By the end of the first quintennial plan, however, the Egyptian government started to realise that foreign aid was not likely to continue at similar rates. This rendered the Egyptian government unable to publish its second development plan until well after the first had ended in June 1965, or even decide whether it was going to be a seven- or five- or three-year plan. A three-year plan was finally decided on in December 1966 and was called “the accomplishment plan”, meaning that during these years, only the projects which had started already would be completed, a task which Galal Amin (*Ibid.*: 56) accurately noted, should not have required a plan at all.

Egypt was also suffering from rising fiscal deficits and shortages of capital on the one hand, and over-investment on the other. The ambitious industrialisation plans of the first quintennial plan rested on two core assumptions, which were later proved to have been over-optimistic: a) the government’s continued ability to secure foreign aid, and b) the ability to export manufactured goods and generate much needed hard currency. Consequently, factories were built on a scale that could hardly be justified by the size of the home market alone (*op.cit.*: 57-58). When total imports, particularly those of intermediary goods, rose, export performance fell short of the earlier expectations, and aid declined, a major balance-of-payments crisis emerged. The military defeat in 1967 further complicated the situation, resulting in a sharp deterioration of state revenues due to the loss of Suez Canal remittances and the oil revenues of Sinai, as well as a sharp

increase in military expenditure, reaching 19.6% of GDP in 1970 (op.cit.: 43), to rebuild the army. In fact, an economic disaster would have been unavoidable were it not for the immediate Arab cash flows in the aftermath of the Khartoum summit in August 1967. An overwhelmingly technocratic government was formed on June 19th, 1967, and an emergency budget was introduced, raising taxes, reducing allowances, and increasing the price of non-absolute necessities (Mansfield 1969:175). The welfare function of populist *étatisme* was proving increasingly difficult, if not impossible, to sustain.

The impact of the 1967 military defeat could not, however, be reduced to the resulting economic losses, or even the occupation of Egyptian territories. The whole populist-statist model was questioned, and the integrity of the regime and its ideology was doubted. Massive protests in 1968, which forced the government to issue what was called the 30th of March Manifesto, were a further reminder that the support of the masses to Nasser's populist *étatisme* was not anymore unqualified.

Under these conditions, the populist-statist model ran out of steam, and the last three years of Nasser's era witnessed limited measures of economic liberalisation, and a decline in the developmental, and particularly the distributive, functions of the state (Amin 1981; Wahba 1994). Whilst the state retained its central role in the economy and society, the populist dimension was increasingly eroding. A post-populist form of *étatisme* was emerging.

Meanwhile, foreign policy started to show the first signs of reorienting. The influential journalist Mohamed Heikal started writing about the importance of “neutralising” rather than confronting the United States (Mansfield 1969:176). The Khartoum Summit in August 1967 witnessed an emphasis on a less flamboyant formula of Arab nationalism. The classic goal, *Wahdat Al-Hadaf* (unity of goal), which implied ideological similarity or at least homogeneity gave way to *Wahdat Al-Saf* (unity of ranks), implying some form of conciliation with the “reactionary” Arab regimes.

The death of Nasser and the emergence of a victorious Sadat from the inter-elite power struggle of May 1971 added further impetus to the process of dismantling the populist-statist model. As early as 1971, liberalisation laws aiming at encouraging private and foreign investment were introduced. The most significant measure, however, took place after the October 1973 war. An open door policy “*infitah*” was introduced from 1974, with the aim of alleviating the hardships of the people after seven years of war economy and introducing some form of dividends for the victory of 1973. Inherent in this process was an end to both the developmental and distributive functions of the state. Instead, foreign capital and other sources of hard currency were looked upon as the driving force for capital accumulation. Law 43 of 1974 gave generous incentives to foreign investors that were even denied to local industrial capitalism (Soliman 1998). As a result, the share of industry in GDP fell sharply in the 1970s and rent (oil, Suez Canal and tourism revenues, and expatriate workers’ remittances) became the main source of growth and hard currency. State capitalism was giving way to some form of a rentier-consumerist society. A web of relations was emerging amongst the three factions of the bourgeoisie

(the traditional pre-1952 capitalists, the bureaucratic faction consisting of senior bureaucrats who managed to accumulate private capital during the “socialist” years, and the parasitic *infitah* opportunists) on the one hand, and between this rising capitalism and the state on the other (Ayubi 1989a:179-188).

Simultaneously, Egypt rearranged its alliances both in the region, where a Tehran-Riyadh-Cairo axis replaced the previous Cairo-Damascus-PLO, and on the international level where the United States and Western Europe replaced the Soviet Union and third world countries as Egypt’s new allies (Heikal 1978:726). From 1977 onwards, peace with Israel was marketed to the Egyptian population as the road to prosperity and access to foreign capital. The populist-statist model was now evolving into what Hinnebusch (1985) called “post-populist authoritarianism”. The state maintained its coercive role, as well as a central role in the economy as a broker with foreign capital, but gave up its developmental and distributive roles (Helal 1993:31).

In other words, the 1970s witnessed the decomposition of state capitalism and the reduction of the state to a coercive and rent-seeking apparatus (Ibid: 58) – a *de-Nasserisation* of Egypt as it was called at that time. This transformation rested on three ideological pillars: Islamisation, traditional morality, and most importantly, a revival of “Egypticity” in lieu of Pan-Arabism (Ibid: 148) as the guiding framework for statecraft.

The process of dismantling the populist-statist model of political economy was, however, far from frictionless. Increasing mal-distribution of income as well as the unpopularity of

the new foreign policy orientation led to increasing popular opposition and political instability. The bread riots of January 18th and 19th 1977 are the most frequently cited but by no means the only example. They revealed the socio-economic tensions brought about by *infitah*, and currents of political and social unrest that had long been hidden, but had never been absent. The new foreign policy generated similar sentiments. Liberal, Islamist and left wing intellectuals alike argued that the foreign policy restructuring amounted to a “sell out” to Washington, and “betrayal of the Arab cause”, which brought few if any appreciable benefits to Egypt (Burrell and Kelidar 1977:25).

In response to this growing discontent, Sadat promised his population prosperity by the year 1980. He even designated it in his late 1970s speeches as “the year of prosperity”. Ironically, this year witnessed instead mounting socio-economic tensions. By 1981, Egypt entered one of its severest political crises in the twentieth century. On September 5th, 1981 Sadat ordered massive arrests of politicians of all convictions, fundamentalists, and journalists. This signalled, as Ajami (1995:74) argued, the breaking of the moral and social contract between Sadat and his country. It was a desperate throw of the dice by Sadat and it backfired. Sadat was assassinated in October 6th, exactly one month later.

Despite his commitment to dismantling the populist-statist model of political economy, the overarching priority of Mubarak’s government throughout the 1980s was to contain the political and socio-economic crises of the *infitah* political economy. As Soliman (1998) argued, the state signalled its willingness to shift many of its economic policies

towards re-industrialisation, albeit private-sector-led this time. The private sector was responsible for most of the (limited) industrial growth in the 1980s.

Political discourse renewed its emphasis on distributional justice, and the maintenance of food and energy subsidies. "*La Massass*" (Arabic for no jeopardising of the gains of the poor) became the most frequently invoked slogan throughout the 1980s (Ibrahim 2000:258). On the external level, Egyptian foreign policy, whilst firmly committed to preserving close ties with the west and peace with Israel, showed more consideration for internal and external protest against these ties. It therefore sought to re-integrate into the Arab world and restore its relations with the USSR and developing countries whilst maintaining its strong alliance with the United States and without jeopardising its peace commitments to Israel. This meant that Egypt had to perform a continuous tightrope act. And it did. By the end of the 1980s, Egypt had become anew a full member of the Arab League, had restored relations with the USSR and developing countries, whilst surviving several crises in the relations both with Israel (the Israeli invasion of Lebanon, and the Intifada), and the United States (Achille Lauro affair and the interception by American fighter planes of the Egyptian Aircraft carrying Palestinian commandos in October 1985, and the American raids on Libya in 1986).

The most significant characteristic of the 1980s, however, was what appeared to be the hesitance of the Egyptian government, and the conflicting, and in many instances contradicting, signals that it gave, indicating its lack of any ability to declare its strategic choices, defend them, and carry them on (Ibrahim 1982:16-19). Political stability and

containing the heightening hegemonic crisis, in the Gramscian sense of the term, were the overarching concerns – anything else had to wait.

As a result, the progress of the transformation of the populist statist model was hampered by several social, political and economic crises throughout the 1980s. The failure of the 1987 stabilisation agreement with the IMF was another example of the “hesitant” economic policy during this decade (Helal 1993:45-46) as a result of the primacy of hegemony restoration during Mubarak’s first decade in power. The economy stagnated in 1980s while external debt rose by a staggering 150% from \$21 billion to \$50 billion (Reed 1993:95) making Egypt’s debt-to-GDP ratio one of the highest in the world. Likewise, it was also during the 1980s that the foreign policy re-orientation seemed to be slowing down and the political elite sometimes even showed signs of rethinking it.

The Gulf War in 1991 offered the Egyptian government its long-awaited opportunity to resume the process of dismantling the populist-statist apparatus at an accelerated pace. Egypt’s alignment with the US-led coalition during the war reinforced its foreign policy reorientation and facilitated the sealing of a deal at more convenient terms with the IMF in May 1991 – only a few weeks after the coalition’s guns in the Gulf fell silent. A vigorous program of stabilisation and structural adjustment followed. The program achieved significant macroeconomic successes. The infusion of aid after the Gulf War, the debt write-offs, and the stabilisation package reduced foreign debt from \$50 billion in 1990 to \$26 billion in 1994. The budget deficit fell from 20% of GDP in 1990 to less than 1% in 1993, and foreign currency reserves rose from \$2.7 billion to \$20 billion

(Cassandra 1995:11). On the external level, radical Arab nationalism was discredited and Egypt became actively involved in brokering the Arab-Israeli peace process. The process of transformation on both the economic and foreign policy levels was moving anew – and at full speed.

The transformation of the Egyptian political economy, however, came at hardly tolerable social and political costs. According to the World Bank, real per capita GDP fell from \$680 in 1986 to less than \$600 in 1993 (Ibid.), and economic inequality and unemployment rose to alarming levels. As a *Middle East Journal* article, written under the pessimistic pseudonym *Cassandra* (1995:11) put it “*the rising expectations engendered by Nasser’s rhetoric, Oil Boom, American Largesse, and Sadat’s infitah have been followed by bitter disappointment*”. The picture of the real economy too was far from the macro-economic success stories. Investment rates actually declined during the stabilisation years, from 26% of GDP in the mid-1970s to 18% in 1990 (Hirst 1999), primarily because private savings did not make up for the deterioration of the public ones. By the late 1990s the Egyptian economy was showing signs of a renewed crisis, and simultaneously, debates on the orientation of foreign policy gained a new life.

This is best exemplified by the prolonged and heated debate on the “role of Egypt” (Abou Taleb 1996). First popularised by Nasser in his *Philosophy of the Revolution*, this concept comprises various dimensions regarding the nature and direction of domestic political economy and foreign policy. Nasser invoked the concept of Egypt’s role to defend *étatisme* and a Pan-Arab, anti-colonialist, and non-aligned foreign policy, whereas Sadat

resorted to a different conception of the role to facilitate the dismantling of the populist-statist model and re-aligning with the United States and the West. By contrast to his predecessors, Mubarak disdained grandiose visions, often seeking to project the image of a practical man – a problem solver. However, the lack of an articulated doctrine put Mubarak’s regime at a disadvantageous position in the heated ideological debate over the role of Egypt. Throughout the Mubarak years, unsettled debates on the prospects of this role reflected the state of confusion and disorientation that Aulas (1988:133-134) best described as, “*It is as if the body [was] deprived of its soul*”. Thus, the second wave of restructuring developed from a “troubled liberalisation” phase throughout the 1990s to a “comprehensive crisis of governance” from 2000.

The *political economy of Egyptian foreign policy* is an attempt to present a systematic framework of analysis for understanding the reasons for, and the shifts in Egyptian Foreign Policy, within the context of this lengthy and problematic transformation of *étatisme* since 1970.

3. Research Question and Proposed Methodology

(3.1) Key Debates and Critical Issues

All perspectives and theories of international relations include, as Smith (1986:13-14) argued, a certain notion of what the state is and how its policy results. All international relations theories are, therefore, in some sense, theories of foreign policy analysis. As a distinctive approach, however, mainstream FPA tended to focus on the decision-making processes. It developed along two distinct lines of analysis. The first, associated with the

so-called “English School” of international relations, is analytical, often case-oriented, with explicit links to history, political theory, and the study of institutions. The second, more predominantly used in North America, is formal and macro in its approach to generating a grand theory of foreign policy analysis (Light and Hill 1985:161; Smith 1986a:345). Both trends, however, notwithstanding their methodological differences, often take specific decisions as their focal point of analysis.

Although this study necessarily entails examining a number of specific decisions (e.g. Sadat’s *infitah* and peace decisions 1974-1979, and Mubarak’s decisions during the Gulf war 1990-1991 and its aftermath), it does not intend to make the analysis of decision-making its focal point, for a twofold reason. First, this study agrees with Korany’s (1986:39) view that foreign policy is essentially a continuous activity, and that decision making is best analysed as part of this whole. Second, as Light and Hill argued (1985:158) it is not possible anyway to discuss the reason behind a decision without arguments about the underlying values to be served. Such values are always deeply embedded in the state’s socio-economic structure, its relations with society, and the general worldview of its ruling elite. Consequently, decisions will be examined in this study as part of a broader conceptualisation of the transformation of the Egyptian state, an approach that is often neglected in mainstream FPA.

Indeed, mainstream accounts of IPE and FPA often confound their rejection of the realist depiction of the state as a rational, power-driven unitary actor with the importance of the state as a formative unit of the international system as well as a valid unit of analysis.

Rejection of the realist account of state behaviour often translated into a *de facto* underrating of the state as an analytic category.

What in fact should be deservedly questioned is the legal-territorial conception of the state that underlies the realist accounts of foreign policy. This indeed is one of the areas in which FPA may benefit from more openness on sociology. Rather than the unitary and rational representative of the “*national interest*”, modern sociological research has developed a richer and more heuristic conceptualisation of the state¹³. According to which, the state is conceived of as a set of institutions based at the centre of a geographically bound community known as society, responsible for the authoritative allocation of values, and controlling vital monopolies, including, *inter alia*, the monopoly of violence and a virtual monopoly of the right of taxation (Hall and Ikenberry 1989; Linklater and Macmillan 1995:12). These institutions are engaged in socially significant processes – extracting resources from the population to pursue state, class, or group interests (Hollist and Caporaso 1985:31). Finally, the state is a Janus-faced apparatus that looks inward to its national society and outward to other societies with which it must interact and make its way (Hall and Ikenberry 1989:12). Its behaviour in one area can often only be explained by its activities in the other. Foreign policy is therefore best viewed as the external activity, indeed an integral part of the political system. Analytically this implies the need to cross the dividing boundaries of international relations, comparative politics, and economics, and examine foreign policy as the product of a certain pattern of interaction between the *national* and the *international*.

¹³ This distinction between legal-territorial and sociological conceptions of the state, and the discussion that follows are inspired by Halliday’s (1994) discussion of the impasse on state and society in *International Relations*.

(3.2) Proposed Conceptual Framework

Earlier attempts at crossing this intellectual divide of the *national* and the *international* developed along two main lines of analysis: *Internationalisation* and *Politics as Economics*. The first reflects the salience of the *international* as a level of analysis in modern IPE and international relations research agenda. It conceptualises changes in the domestic economy and politics as a function of changes in the international environment, and considers internationalisation, defined as the exogenous reduction in the costs of international economic flows relative to domestic ones, the central explanatory variable (Keohane and Milner 1996:4), arguing that its implications should represent the central research question. Internationalisation, it is argued, tends to generate new domestic coalitions revolving around the differential effects of greater openness of and deeper engagement with the world economy (Ibid: 15). Keohane and Milner's (1996) collection of essays, as well as Gourevitch's (1978) "*second image reversed*" are Kuhnian exemplars of this trend.

The second line of analysis represents an outgrowth of neo-classical economics to account for market failures where rational economic behaviour results in Pareto sub-optimal outcomes on one hand, and non-economic phenomena on the other. Economics here, to use Karl Polany's famous typology, is understood in its formal sense (that is, as a logically distinct way of behaviour aiming at the efficient allocation of resources) rather than substantially (i.e. as the processes by which people secure a livelihood). Institutional economics and public choice theories are but two examples. According to this trend, the political economy approach has been less about the interrelation of politics and

economics, and more about the subordination of the political to the economic – the latter understood as a rigorous and quantifiable method of relating means to ends that could be applied to all spheres of human activity (Caporaso and Levine 1992:21-32).

However diverse, these two traditions share several ontological and methodological assumptions that render them inadequate for the purposes of our analysis. First, both accept the primacy of economics. Changes in the international and occasionally the domestic economy are given priority as the formative pillars of the area of investigation in IPE (ontological primacy), and neoclassical methods are extended to account for non-economic phenomena (methodological primacy).

Second, both tend to perceive eclecticism and interdisciplinary analysis in a linear and simple manner, according to which they amount to nothing more than an outgrowth of a protruding analytic tradition, namely neo-classical economics, given its prominent position within social sciences, and the extension of its methodology to other social sciences.

As such, the linear interdisciplinary approach of these lines of analysis fails to account for various instances in which foreign policy was not a direct result of states' economic policies or their international environments. The situation is further complicated in cases where foreign policy is a source, not an outcome of economic policies (e.g. US president Johnson's emphasis on the great society program to secure support for the Vietnam war,

and the role of Egyptian foreign policy during the second Gulf War in 1991 in facilitating the deal with the IMF).

This creates a need for a more complex interdisciplinary approach that views the relation between domestic (economic and political) and foreign policies as dialectic and mutually fertilising. The state behaviour in one area is examined as an input to its behaviour in the other. Consequently, the study of the state behaviour becomes less about establishing simple “linear” causal relations with clear “independent” and “dependent” variables, and more about constructing a complex narrative that examines the mutual interaction and cross-fertilisation of a multiple set of variables.

One important attempt to develop such a complex interdisciplinary method is represented by Putnam’s (1988) *logic of two level games*, and Evans et.al’s (1993) *double-edged diplomacy*, which aim at analysing the relation between states’ behaviour in international negotiations and their domestic lobbying for ratification of the outcome of these negotiations. Unlike classical state-centric analysis, the *two level games* model recognises as Putnam (1988) explained, the inevitable conflict about what national interest entails and requires. Unlike the *second image reversed* and *internationalisation* analyses the *two-level games* approach recognises that decision makers strive to reconcile domestic and international imperatives simultaneously, and consequently it does not aim at establishing a simple causal hierarchy between the domestic and external determinants of state action, but to examine their patterns of interaction.

However, although this approach recognises the continuous interplay of the domestic and the international, it is heretofore confined to one aspect of foreign policy – international negotiations and the problems of ratification and securing domestic support for their outcome. A broader-gauged approach that examines the interplay between the different sources and tools of foreign policy on one hand, and the domestic economic and political structures and processes on the other is yet to be seen.

Any such account should aim at studying the changes and continuities in foreign policy in the light of changing patterns of interaction between the domestic, psychological and international environments of foreign policy. The crux of such holistic framework of analysing the political economy of foreign policy should revolve around four analytically distinct, albeit continuously interacting pillars: the state, economic structures and policies, ideology, and foreign policy.

a) The State

Defined sociologically rather than territorially, the state structure, its relations with the society, and the inter-elite struggles for the control of the state apparatus should be studied in so far as they influence the structuring or restructuring of foreign policy.

The state here is understood in the Weberian tradition, which considers the state more than the government apparatus. It is the continuous administrative, legal, bureaucratic and coercive systems that attempt not only to structure relationships between civil society and public authority, but also to structure many crucial relations within civil society itself

(Skocpol 1986:7). In doing so, the ruling elite need to build policy coalitions and social/support bases, and make choices that necessarily entail differential gains and losses amongst the different social groups and classes. The state could not, therefore, be considered a neutral arbiter between competing demands of different social groups. To the contrary, a state's authoritative allocation of resources is always for *something*, and for *someone*. There are always winners and losers.

Under certain domestic and international circumstances, the revolutionary potentials of the state apparatus could be unleashed, and the state becomes the primary agent of social change, and may even embark on what Trimberger (1978) calls "a revolution from above", and arbitrarily impose its policies on interest groups and organisations, and force the construction of corporatist structures. Under other circumstances, the revolutionary state apparatus may be dismantled, and the state becomes a bastion of conservatism.

Although the state officialdom may be institutionally distinct from dominant classes, all state action privileges some interests and excludes others, and it supports certain identities and marginalizes others. In moments of large-scale transformation and/or revolutionary change, such processes are intensified. There is a need to examine the power struggles that underlie the state's foreign and economic policy choices, particularly in such revolutionary circumstances and in their aftermath, and to bring the age-old question *Cui bono?* back in.

Governments act simultaneously at home to meet international challenges abroad and to solve domestic problems. Internationally, they need to mobilise resources to foster economic power and development, as well as to achieve what Mustanduno et.al. (1989:464-466) called “international validation”, that is, international recognition and support – moral, political and economic. Domestically, they extract resources from society mainly to implement their developmental but also military and foreign policy goals. On both levels, they are striving to strike a balance between four key goals: autonomy, welfare, security, and regime maintenance (Holsti 1990:15).

The study of the state, for the purposes of this framework of analysis, is, therefore, based on answering a set of interrelated questions regarding: a) the structure of the state, the social disposition of the ruling elite, and its support base; b) the interests and identities privileged or marginalized by state behaviour; c) the evolution of specific patterns of relations between state and society; and d) the domestic and international policy choices that states make under specific historical conditions and their implications.

b) Economic Structures and Policies

However important, economic structures and policies will not be examined in their own right. Rather, the emphasis will be on the mechanisms through which they influence, and are influenced by changes in foreign policy.

Far from reducing foreign policy to a mere outcome of societal changes, this study rests on the assumption that the interplay of foreign and developmental policies in Egypt was a

two-way process. The transformation of Egyptian political economy and foreign policy was a complex process that aroused several tensions within the ruling elite. Each stage of this long and complex process involved a certain pattern of interplay between economic and foreign policy goals.

It is important, however, to define what economic structure and policies mean. This study takes the prevailing mode of production as given, since the Egyptian political economy remained throughout the twentieth century capitalist. The focus of its analysis will be on the patterns of organisation (*étatisme* versus neoliberal models) and the economic policies taken by the Egyptian government to respond to specific challenges in the different stages of the transformation of the populist *étatisme*.

Economic structures refer to the main attributes of the role of the state in the economy at a given period of time. Policies refer to the direct actions of the Egyptian government aiming at changing any aspect of the material basis of life in the Egyptian society – both on the productive as well as the distributive levels.

The analysis of the patterns of interaction between economic structures and policies on one hand, and foreign policy on the other will, therefore, involve examining: a) the general economic conditions and the economic functions performed by (or ascribed to) the state at each stage; b) the inherent tensions and contradictions of the Egyptian political economy at each stage, and the government's actions to resolve them; and c) the foreign policy implications of economic conditions and policies at the different stages.

c) Ideology

Ideology, as Michael Howard (1991:139-141) argued, has two different meanings. The first refers to a particularly rigorous, comprehensive and dogmatic set of interrelated values based on a philosophy, which claims to provide coherent and unchallengeable answers to all problems of mankind. The second indicates a less rigorous form, defined in terms of the prevailing worldview and attitudes characteristic of a group or a community.

This study will invoke the second definition, focusing on the prevailing perceptions of foreign policy priorities and the role the state should play in the international arena, and the ways in which such perceptions are firmly embedded in broader conceptualisations of the ways the national economy and polity should be managed. Ideology is the intermediate variable between the domestic and international environments of foreign policy decision-making. It constitutes the cornerstone of the perceptive screens of the ruling elite as well as an important source of their political legitimacy (Dahl 1997:82).

This analysis of ideology and its role in the process of transforming populist *étatisme* in Egypt is based upon my reading of Gramsci's exposition of the concept of "hegemony". In his revision of the classical Marxist conception of the relation between the superstructure of society and the underlying socio-economic forces, Gramsci argued that political leadership of a dominant class was based on cultural and moral ascendancy as well as on economic predominance. The rule of one class over the others, therefore, did not depend on economic and physical power alone, but rather on persuading the ruled to accept the system of beliefs of the ruling class and to share their social, cultural and

moral values (1971:169-170). To do so, the rulers need to recast their interests in a broader worldview that can appeal to broader segments of society. In the Egyptian case, the concept of the “national role” and the debates thereabout represented a cornerstone of the ideological aspects of the rise and subsequent transformation of the populist-statist model.

The concept of “national role” is an important analytical tool used in explaining the regularities in the relations between governments (Backman 1970:311). Its use is ancient, dating, as Korany (1991:211-212) noted, to the Hindu six-type classification of foreign policy patterns. In its modern usage in international relations theory, however, the concept of national role refers to the policy makers’ own definitions of the general kinds of decisions, and commitments suitable to their states, and the functions their state should perform on a continuing basis in their international or regional environments (Holsti 1970:245-246). National roles serve two functions: a) as a guide to policy action, and b) as a source of mobilisation and political legitimacy – a key component of the ruling elite’s hegemony. Once established by the elites and accepted popularly, national roles become major components of the prevailing political culture, and a source of distinguishing what is legitimate or illegitimate in the eyes of society.

Foreign policies do not always rest on a monolithic conception of a single national role ascribed to their states. As Korany (1991:212) argued, states sometimes have to choose between different and even mutually exclusive roles. In which case, policy makers have to make hard choices as their country is facing a role conflict and a crisis of hegemony.

The transformation of Egyptian political economy and foreign policy since the 1970s represents an excellent case study of role conflict and crisis of hegemony. Mirrit Boutros-Ghali (1978), writing amid the 1970's heated debate about Egypt's role and her relation to the Arab countries, remarked that "*We modern Egyptians are still engrossed in our national identity, torn by contradictory influences and pressures*" before going on to make the conciliatory statement that "*[our] national culture embodies them all in a living synthesis*". However, brushing aside his subsequent value judgement, Boutros-Ghali's earlier statement reflects accurately the ingredients of Egypt's role conflict in the 1970s and thereafter. Due to Egypt's central geo-strategic location and her millennial history, the country was subjected to diverse and sometimes contradictory influences. Much of the debates about Egypt's "national role" is about establishing a certain hierarchy amongst these influences, or challenging a prevailing one. Competing elites invoked different conceptions of the "national role" to justify and/or criticise contradictory policies. The rise and fall of the competing conceptions of Egypt's "national role", and the debates thereabout, will be examined in this study, as the ideological component of the process of the transformation of the populist-statist political economy and restructuring foreign policy since 1970.

d) Foreign Policy

Foreign policy refers to the decisions and actions taken to achieve stated objectives regarding the state's international environment. Such actions aim at striking a delicate balance between the state's objectives on one hand, and the opportunities and constraints given by the external environment on the other.

This study will only examine two core domains of Egyptian foreign policy, namely, Egypt's relations with the prevailing superpowers, and her attitudes towards the regional environment, viz., the Arab world and the conflict with Israel. Other aspects of Egyptian foreign policy (e.g. in international organisations and other multilateral forums, towards Africa, the Non-Aligned Movement or the Islamic world) will not be examined in this study. The focus in particular will be on the interplay between the foreign policy restructuring in these two main domains of Egyptian foreign policy, and the transformation of the populist-statist political economy since 1970.

(3.3) Chapter Structure

Chronologically, this study attempts to show that the dismantling of populist *étatisme*, like any large-scale societal change, was far from being a straightforward process. Several political, social and economic crises slowed down its pace, and at some points even threatened to reverse its direction, albeit temporarily. Developmental policies, foreign policy, and ideological discourse interacted in different ways since the 1970s within the context of dismantling the populist-statist model.

One could indeed argue that transforming the populist *étatisme* developed through two grand waves: the first was during the second half of the 1970s whereas the second took place in the aftermath of the Gulf War. The 1980s represented a hesitant decade, in which conflicting policies were followed and the transformation processes were significantly hampered, or at least slowed down. Major shifts in Egyptian attitudes and behaviour towards its regional and international environments, it will be argued, were deeply linked

to, and largely dependent on, the success or failure of the transformation of Egyptian political economy, as well as its pace.

The following chapter will examine the foreign policy implications of the populist statist model that prevailed during the 1950s and 1960s as well as the origins of the restructuring process. The third, fourth and fifth chapters will discuss the first wave of restructuring during the 1970s, the hesitant decade of slow transformation (the 1980s), and the second wave of restructuring in the aftermath of the Gulf War respectively.

This study aims at combining a chronological and a thematic approach. Consequently, whereas the subsequent chapters correspond to chronological sub-stages of the process of transforming the Egyptian political economy and foreign policy, each chapter will address the questions outlined in the aforementioned four pillars of the proposed analytical framework.

Developments in economic policies as well as in ideological discourse will not be analysed in their own right, but only insofar as they were linked to the dismantling of the populist-statist model and the restructuring of Egyptian foreign policy. A pure and detailed historical account of the Egyptian political economy since the 1970s obviously falls beyond the scope of this study, and has been studied in detail elsewhere¹⁴. This study is only concerned with challenging the psychological-perceptual accounts of the

¹⁴ See for example the excellent studies by Ayubi (1989a; 1991) and Wahba (1994), Waterbury's classical work (1983), and Ibrahim (2000).

restructuring of Egyptian foreign policy since the 1970s by attempting an alternative account from a political economy perspective.

4- Conclusion

Another important aim of this study is to demonstrate the interpretive ability of the political economy approach in explaining international actors' behaviour. Underlying foreign policy analysis is the assumption that the interactions that take place in the "*black box*" influence, contrary to the realist assumption, the state's foreign behaviour. In this sense, FPA, as Light (1994) argued, was meant to be a bridging discipline, linking micro and macro levels of analysis, and drawing on the inputs of various social sciences. Ironically, mainstream FPA, governed as it is by the traditional, intellectually enclosed, international relations analysis, tends to forget this interdisciplinary mission statement, and often neglects the impact of domestic economic structures and policies on foreign policy. This study is therefore, in some sense, an attempt to introduce the political economy analysis to a hitherto neglected area.

Chapter II

The Rise and Crisis of *Étatisme* in Egypt: Political Economy and Foreign Policy

"National reaction to political humiliation or military defeat was the greatest engine of social change"
Walt Rostow, *The Stages of Economic Growth*

"Development cannot progress only through the work of the manager and the engineer. It needs also the vision of the idealist and the determination of the revolutionary"
Nazih Ayubi, *Bureaucracy and Politics in Contemporary Egypt*

This Chapter seeks to account for the foreign policy implications of *étatisme* in post-1952 Egypt, as well as the origins of the restructuring process. The central argument is that the rise of post-1952 *étatisme* was a result of a specific pattern of interplay between the Egyptian political economy and foreign policy. Similarly, the early efforts of restructuring *étatisme* since the mid-1960s were as much a result of domestic crises and inherent contradictions within the populist statist political economy, as they were due to international pressures and foreign policy crises. Seeking to reveal and analyse these patterns of interplay between Egyptian political economy and foreign policy, this chapter will be divided into four sections. The first examines the crisis of the *ancien régime* and the prelude to post-1952 *étatisme*. The second and third discuss, respectively, the rise of *étatisme* and its crisis and the early efforts of restructuring. Finally, a concluding section will aim at abstracting specific patterns of interplay between Egyptian political economy and foreign policy throughout Nasser's years.

1- The Crisis of the "*Ancien Régime*"

Few would disagree that the army's coup in July 1952 came at a time when Egypt was witnessing an unprecedented crisis economically, socially, and politically. On 26/1/1952, less than six months before the officers' coup, Egyptians watched, in apathy and even

half sympathy, the modern “European” quarter of Cairo, with which they could hardly identify, put to flames and robbed by hundreds of young jobless thugs (Abdel Malek 1968: 36). The events of this day, often referred to as Black Saturday, were “*a culmination of 70 years’ impatience*” (Hopwood 1985: 32), indicating that the mounting socio-economic tensions were no longer containable. The following six months witnessed the succession of four governments, demonstrating the inability of the ruling classes to contain the crisis.

In the meantime, Egypt’s struggle for national independence had also reached a stalemate. The only breakthrough that was made since the 1919 revolt and the creation of *Wafd* Party was the 1936 treaty, which effectively amounted to little more than a redeployment of the British troops from Egyptian cities to the Suez Canal zone along with a few nominal gestures of independence. Even these nominal gestures did not last for long. The British were back in the Egyptian heartland with the outbreak of the Second World War three years later, and were directly intervening in Egyptian politics¹⁵. *Wafdist* Premier Mustafa Al-Nahas’ dramatic abrogation of the treaty on October 8, 1951 and call for “*jihad*” did not launch a new phase in Anglo-Egyptian relations. It was indeed, more than anything else, a declaration of the end of the *Wafd’s* national vision for liberating Egypt through constitutional means.

¹⁵ This intervention went as far as to force Mustafa Al-Nahas’ *Wafd* government into power on February 4th, 1942 to help contain the anti-British and pro-Axis sentiments showed not only amongst the Egyptian populace, but also by significant parts of the ruling elite. See: Heikal (2002a).

Never since its creation in 1919 has the *Wafd* been the political wing of an armed national liberation movement. Since its very first days it remained a constitutionally minded national front committed to political means and negotiations as the only route to liberation. By declaring the “negotiations option” futile, it was effectively passing the same judgement on its fundamental strategic choice and on the ability of the inter-war quasi-liberal regime in Egypt to achieve national independence (El-Bishry 2002:383).

This created a revolutionary situation *par excellence*, and led analysts from across the political spectrum to accuse the 1952 coup of sabotaging the revolutionary moment. Leftists argued that the free officers’ coup aborted the potential of a proletarian revolution in Egypt (Hosseinzadeh 1989). Liberals condemned the pre-emption of the constitutional struggle for independence, and the “natural” course of development of Egyptian society (Ibrahim 1982a).

However plausible such arguments might seem, they could be challenged both on historical and methodological grounds. First, they fail to recognise the traditional historical role of the military in Egyptian protest politics. As El-Bishry (1991:77) and Abdel Malek (1968) noted, the military had played a key role in Egyptian revolts since the last quarter of the nineteenth century. Two of the three major Egyptian insurrections in less than 75 years (in 1881-1882, 1919, 1952), were led by the military (El-Bishry, *Ibid*). To ignore the historical precedents of the military’s intervention in Egyptian politics and argue that the military came from nowhere to intervene in, and abort the revolutionary situation in Egypt is at best historically myopic. Second, these arguments

fail to explain the relative ease with which the military seized power and managed to neutralise and eventually destroy the power bases of all key actors in pre-1952 Egypt (e.g. landowners, political parties, workers' organisations) without having to resort to mass violence, nor the profound socio-economic changes that took place after 1952. The scope and radical nature of these changes suggest that the military's movement in 1952 was not just a mere *coup d'état* that changes the rulers but leaves the socio-economic order intact. Rather, it was a military-led "revolution from above". Understanding such transformation requires a careful examination of the crisis of the *ancien regime* and the nature of the social forces that it marginalized, and that the 1952 free officers' movement represented. Third, the methodological assumption on which the arguments that the military "stole the revolutionary moment" are based is highly questionable. Explaining an historical transformation of such magnitude as an historical rupture in which a new comer to the Egyptian political scene manages to seize power and consolidate it without any serious challenge from any of the pre-1952 key actors, is based on an extremist version of the "voluntarist/idealist" view of history, whose various weaknesses were discussed in the previous chapter.

An important attempt at explaining the post-1952 "revolution from above" was Trimberger's (1978) thesis, which aimed at identifying the conditions under which the military bureaucrats successfully led the process of social change in Egypt and elsewhere. Trimberger (Ibid: 41-43) argued that revolutions-from-above are dependent on three conditions: a) that the officer class or a significant segment of it is independent of those classes which control the means of production; b) that the military bureaucrats become

politicised; and c) the existence of contradictions in the international constellation of power that can be exploited to increase national autonomy.

The only problem with Trimberger's study is that it focuses exclusively on conditions related to the agents of change and their international environment. An examination of the domestic environment, and the extent to which it was conducive to a successful revolutionary intervention by the military, is indispensable for a fuller appreciation of the anatomy of the revolutionary situation in pre-1952 Egypt, the nature of the revolution-from-above that took place, and its subsequent development.

The forces which the military represented and their agenda for social change and national liberation were both products of the pre-1952 revolutionary crisis in Egypt. This revolutionary crisis had four major components: a) mounting social, economic and political tensions that created an intolerably severe crisis of governance in Egypt; b) the inability of the ruling classes to contain these tensions and preserve the status quo; c) the inability of the other key social forces in pre-1952 Egypt to intervene and seize power or force fundamental social transformations; and d) the willingness and ability of the military to interfere and force their agenda for modernisation and national liberation. Trimberger's study has convincingly analysed the fourth component. I will therefore try to examine the first three.

(1.1) The Crisis of Governance in Pre-1952 Egypt

In most cases of nationalist “revolutions from above”, military defeats or unfavourable encounters with a foreign hegemonic power played a central role in drawing the revolutionary elites’ attention to the need for rapid modernisation, and convincing them that political independence cannot be sustained under conditions of economic backwardness. As a result, nationalist “revolutions from above” often adopted the twin goals of political independence and economic modernisation. Such, for instance, was the relation between the arrival of the *Kurobune* (black ships) of Commodore Perry to the Japanese coasts and the *Ishin Meiji* (Meiji restoration) that launched Japan’s “revolution from above”. Egypt’s case was no exception. It is widely accepted that Napoleon Bonaparte’s short-lived French invasion (1798-1801) provided the stimulus for overthrowing the quasi-feudalist structures that prevailed in the previous three centuries, and launched Egypt’s quest for modernisation. Since the British occupation of Egypt in 1882, the quest for modernisation became incorporated in the broader context of the struggle for independence, and the twin goals were adopted by the anti-colonial elites.

The earliest attempts at industrialisation and modernisation were led by the state under Mohamed Ali (1805-1840). Similarly, it was the state that created the bourgeoisie, which was, as Zaalouk (1989:1) argued, unlike its European counterpart, largely dependent on education rather than property. Its members included state technocrats, administrators, clerks and army officers. Mohamed Ali and his successors encouraged the rise of this administrative class that became the basis of their power and grew even more under the British occupation (Vatikiotis 1995:15). They represented the foundation of the Egyptian

bourgeoisie. Private ownership of land appeared only in the second half of the nineteenth century, and henceforth formed the production basis of the Egyptian bourgeoisie. From that moment until the 1952 revolution, the Egyptian bourgeoisie remained predominantly agrarian (Zaalouk 1989:23). The industrial wing of the bourgeoisie had to wait for more favourable conditions in the international division of labour to develop. These came during the First World War, which entailed a disruption in Egypt's trade patterns and created a *de facto* protected market allowing nascent industries to develop and accrue handsome profit margins (Wahba 1994:27-28). The war's impact on industrialisation was twofold: a) it demonstrated the need for economic diversification to make up for the sharp decline in imports due to war circumstances; and b) it gave the agrarian bourgeoisie a flavour of the potential profits of manufacturing. It was also during the war years that the first calls for state intervention to protect national markets and create incentives for industrialisation were voiced, particularly with the creation of the "commission on trade and industry" (CTI) in 1917 (Ibid; Abdel Malek 1968:10). As soon as the war ended, however, imports returned to Egypt and a large part of the emerging manufacturing industry was ruined.

The great depression provided further impetus to industrialisation, with the deterioration of Egyptian terms of trade by 31.5%, and the rising imports of cheap Japanese cotton, which threatened Egypt's major cash crop (Owen and Pumuk 1998:34-39). This led to a shift in the interests of the bourgeoisie as they realised the vulnerability of their dependence on cotton, and the need to diversify their investments. The government sought to encourage the nascent industrialisation efforts, hence, housing rents were

stabilised (Zaalouk 1989:9), creating a disincentive for investments in the housing sector (a traditional outlet for the agricultural bourgeoisie's investments), and higher tariffs were introduced (Owen and Pumuk 1998:39). The Second World War witnessed the second boom in Egyptian industrialisation, again thanks to the obligatory protectionism it entailed.

During the Second World War, a consensus emerged amongst all major political parties on the need for industrialisation and modernisation, considering them to be an integral part of the Egyptian struggle for independence. Nationalism and the quest for independence were translated in the economic sphere into the twin goals of industrialisation and Egyptianisation of the Egyptian economy. Efforts to achieve these goals, as Owen and Pumuk (1998:36) accurately pointed out, were more nationally self-conscious than most historians allowed – they were seen as part of the anti-colonial struggle.

Nevertheless, by the early 1950s, the performance of the Egyptian economy in both spheres was far from satisfactory. The development of Egyptian industry followed a clear pattern whereby gains made during the periods of compulsory protectionism during the world wars eroded as soon as the guns fell silent and international trade flourished anew. Thus, the rate of growth in manufacturing slowed down after the end of World War II (Wahba 1994:36), and there was a dramatic drop in new investments in the manufacturing sector (Abdel Malek 1968:39). Even more disturbing was the fact that the growth of industrialisation was never enough to generate a significant rise in the incomes

of Egyptians. This created what some called “development without growth”, as it became clear that the economic diversification through industrial expansion was not sufficient to cater for the needs of the rising population and absorb the work force (Owen and Pumuk 1998:35). Half of the factories in pre-1952 Egypt were too small to employ paid labour (Hassanein 1978:20). It was not possible to count on these mostly family-run workshops to absorb significant proportions of the work force.

This created the need for *étatisme* and state support for industrialisation. And indeed, since the creation of the CTI in 1917 several efforts were made by the successive Egyptian governments to encourage industrialisation, but all fell short of generating a structural transformation of the Egyptian economy. The reason for that is primarily that the predominantly agrarian bourgeoisie resisted all efforts at limiting the profitability of agriculture and creating incentives for industrialisation at its own expense. All proposals presented to the post World War II Egyptian parliaments to introduce land reform, or even restrict the purchasing new land in order to channel the economic surplus into industrialisation, were vigorously resisted, and eventually defeated, by the agricultural bourgeoisie (Wahba 1994:37-39). In 1946, for the first time in Egyptian history, a five-year plan was adopted – thus far the most daring statist effort (Wahba 1994:43-44). Its failure illustrated yet again that the predominance of the agricultural wing of the Egyptian bourgeoisie on one hand, and the limited independence Egyptian governments had in adopting measures to protect their infant industries on the other, were imposing serious limits on any effective state promotion of industrialisation. The importance of this ill-fated plan, however, as far as the development of *étatisme* in Egypt is concerned, is that it

demonstrated both what needed to be done, and why it was not possible under the prevailing power structures in pre-1952 Egypt.

Likewise, all efforts aiming at Egyptianising the economy came to naught. The failure of Talaat Harb's pioneering attempt (Bank Misr) in the 1930s and 1940s to accumulate capital and invest it independently from the European and the *mutamassir* (foreign resident) capital is the obvious example (Ayubi 1995:173). A less famous, but equally significant example was the failure of the Egyptianisation laws 138 and 139 of 1947. These laws sought to reserve 51% of the capital of joint-stock companies for Egyptians. However, as Wahba (1994:45-47) explained, they were easily evaded by foreign capital (as many of the *mutamassir* capitalists applied for Egyptian nationality in the same year, and were all successful).

The economic crisis resulting from the failure of industrialisation and Egyptianisation was exacerbated by rising rural and urban inequalities. Egyptian society resembled a pyramid with an extremely flat base and a very narrow apex. Between 1939 and 1952, notwithstanding the increased profits accrued by the bourgeoisie and large land owners under the favourable conditions of World War II, the real income of the average Egyptian declined by 7 per cent (Abdel Malek 1968:15-16). Rural landlessness was also on the rise, with over half of the families in Upper Egypt and between 36 and 40% in Lower Egypt owned no land at all (Owen and Pamuk 1998:32), and so was urban poverty as a result of the failure of Egyptian industries to absorb the growing proletariat, which

amounted to over 2 million by 1951 (Hassanein 1978:35)¹⁶. On the other hand, Egyptian Industries were becoming increasingly concentrated, with 68 factories accounting for half of the industrial production, and the number of small factories declining from 14850 factories in 1947 to 7360 in 1950 (El-Bishry 2002:402). No successful efforts to redress these inequalities were made since the deprived classes were hardly represented in pre-1952 parliaments. As El-Dessouki (1975:212-213) documented, large landowners provided over 58% of the membership of all parliamentary committees between 1924 and 1952, and were therefore able successfully to resist all efforts at introducing tax reforms or any income-redistributing measures. As a result, strikes and social protests escalated, with 49 workers' strikes in 1950 alone, and peasant revolts rising from 1951 onwards (El-Bishry 2002:428-429).

If the failure of industrialisation and Egyptianisation curbed the prospects of growth in the Egyptian economy and created the need for *étatisme* to foster industrialisation; the rising inequalities added a distributive dimension to the calls for *étatisme*. A distributive (populist) form of *étatisme* was needed, but was unattainable under the prevailing social structures in pre-1952 Egypt.

¹⁶ These workers were previously absorbed in catering for the needs of the allied troops based in Egypt. Work at the "ornous" (Egyptian mispronunciation of "ordinance house", meaning generally work at the camps of the allied troops), was a major source of absorbing the emerging working class during the war years.

(1.2) The Crisis of the Governing classes in Pre-1952 Egypt

The mounting tensions of the late 1940s in Egypt were combined with a sharp decline in the representability of the *Wafd* and other bourgeois parties, and in their ability to achieve their twin goals of political independence and economic modernisation, thereby resulting in the rise of extra-parliamentary populist groups (Ayubi 1995:107).

The *Wafd* was originally a national front based on an alliance of landed bourgeoisie, merchants and the intellectuals (educated and bureaucratic bourgeoisie) (Abdel Malek 1968:10). Traditionally, it was the educated and bureaucratic faction of the bourgeoisie that provided the party's leadership¹⁷. However, the 1940s witnessed the rise of Fouad Sirag al-Din, one of the large landowners, to become the secretary general of the *Wafd* replacing such urban petit bourgeois intellectuals as Makram Ebeid (who deserted the party altogether) and Sabri Abu Alam¹⁸. This signalled a major transformation in the *Wafd's* social disposition, alienating the middle and lower-middle classes, which were the main support base of the party (Ayubi 1989a:58). The influence of these alienated social forces in *Wafd* was confined to its weak left wing, which clustered around its daily newspaper *Sawt Al Umma* (Voice of the Nation), edited by the renowned literary critic Mohamed Mandur, but could not counter-balance the skyrocketing influence of the landed bourgeoisie. This power shift put serious limits on *Wafd's* ability and willingness to support industrialisation. Its members of parliament vigorously resisted and defeated all proposals put forth by the *Sa'adist* party and other minority parties to limit land

¹⁷ Saad Zaghloul was a lawyer and Moustafa El-Nahhas a judge.

¹⁸ Heikal (2002b:50); El-Bishry (2002:386).

purchases and raise land taxes to create more incentives for industrialisation, or redress inequalities in land ownership (Wahba 1994:38). Nevertheless, the *Wafd* retained its leading role in the struggle for political independence. This created a fundamental contradiction between *Wafd's* populist anti-colonial political discourse on one hand, and the conservative socio-economic outlook of its influential landed bourgeoisie on the other. *Wafd's* agenda was increasingly becoming one of political independence without economic modernisation.

On the other hand, other bourgeois parties with more aggressive agenda for industrialisation and *étatisme*, notably the *Sa'adist* Party, which represented the industrial bourgeoisie, did not play an important role in the struggle for political independence¹⁹. Theirs was, therefore, an agenda for economic modernisation without political independence.

Hence, not only were bourgeois parties increasingly alienating the middle and working classes, but also none of them possessed a clear vision of integrating the twin goals of political independence and economic modernisation. There was a need for new political parties representing the alienated classes and re-integrating the twin goals of the Egyptian national movement. This was the role that the rising extra-parliamentary populist groups that flourished in the 1940s in Egypt sought to play.

¹⁹ One of the idiosyncrasies of pre-1952 Egyptian history, as Ayubi (1989a:55) perceptively noted, was that the Egyptian industrial bourgeoisie, contrary to its European counterparts, chose to ally itself with conservative minority parties rather than support the struggle for national independence.

(1.3) The role of the extra-parliamentary groups

During the 1940s and early 1950s several extra-parliamentary political movements exercised significant influence in Egyptian political life. Although none was strong enough to challenge the supremacy of the *Wafd* or other bourgeois parties, let alone to initiate a popular revolution-from-below, they managed to force their own economic, political and foreign policy agenda on the mainstream bourgeois parties. This reflected the rise of the petite bourgeoisie and its attempt to regain the initiative after its retreat in mainstream parties. The predominantly agrarian nature of the bourgeoisie, and the limited political role of its industrial wing on one hand (Hassanein 1978:61), and the underdevelopment of the proletariat due to the limited scope of industrialisation (Springborg 1975:84) on the other, meant that none of the major classes was ready to lead the struggle for political independence and economic modernisation. This created the suitable environment for the petite bourgeoisie to take the lead of the Egyptian national movement.

Of the various petit bourgeois extra-parliamentary groups in pre-1952 Egypt, three were particularly influential, and were the only pre-1952 political movements with which some of the free officers were affiliated: the Muslim Brotherhood, the Communist Movement, and the pseudo-fascist *Misr Al-Fatat* (young Egypt). The Muslim Brotherhood was particularly successful amongst the petite bourgeoisie of rural origins, interpreting their alienation in terms of the increasing westernisation of the Egyptian society and adopting a vague programme based on a populist call to “return to Islam”. Its main political influence on mainstream politics was forcing the question of Palestine on the Egyptian

political agenda. Indeed, as Ayubi (1989a:61-62) noted, its rise as a key political force in pre-1952 Egypt was associated with its support for the Palestinian revolt in 1936. It was also one of the key supporters of Egypt's decision to participate in the 1948 Palestine War.

On the other hand, four communist organisations flourished during the 1940s, reflecting the increasing awareness of the social inequalities in pre-1952 Egypt. Although fragmented and confined in their influence to the lower-middle class intellectuals and, to a much lesser extent, the small urban proletariat, they played a key role in re-integrating the twin goals of the Egyptian national movement and emphasising that they need to be achieved simultaneously (Ibid: 63-64). This was particularly evident in the formation of the "national committee of workers and students" in 1946, which published a charter that emphasised the goals of "total evacuation and liberation from economic subjection" (Abdel Malek 1968:23).

Finally, more than any other petit bourgeois political movement, *Misr Al Fatat* reflected the crisis of the lower-middle class, and its lack of clear vision. Over the span of a little more than a decade, it changed its name (and political agenda) from *Misr Al Fatat* (young Egypt) to the National Islamic Party then to Egypt Socialist Party (better known as the Socialist Party). Through its different phases, however, it stuck to a populist agenda calling for an Egyptian empire that includes Egypt and Sudan and an alliance of the Arab

states, as well as a reformist socio-economic agenda calling for protecting Egyptian industry, Egyptianising foreign enterprises, and free education²⁰.

Together, these movements contributed to emphasising the populist dimension of the economic agenda, as well as broadening the conceptions of independence and emphasising the eastern prong of Egyptian foreign policy. Prior to the 1940s, Egyptian foreign policy was confined to the questions of evacuation and unity of Egypt and Sudan under the Egyptian crown. The 1930s and 1940s witnessed the rise of what Heikal (1996a:142-145) calls “the *Mashriq* school in Egyptian foreign policy”, that is, an increasing number of fringe politicians arguing for a more active role of Egypt in the Levant, and emphasising that such role is intrinsically linked to securing national independence and should therefore be the key objective of Egyptian foreign policy (El-Bishry 2002:311-331). Both the Muslim Brotherhood and *Misr Al Fatat* supported this view without reservations, and so did a significant faction of the communist movement (Al-Dajani 1987:50-52).

This new conception of national independence represented a momentous challenge to the traditional consensus on Egyptian foreign policy that had hitherto dominated all mainstream bourgeois parties. And since foreign policy, and at its heart the struggle for national independence, was the main source of legitimacy of the *Wafd* and even some of its rivals, they had to respond quickly to this challenge. Consequently, the *Wafd* started to adopt a sympathetic discourse towards Arab nationalism. It was noteworthy that Makram Ebeid, the representative of the middle class intellectuals (i.e. of the closest

²⁰ See: Ayubi (1989a:61); Wahba (1994:33); and Abdel Malek (1968:21-23).

background to the social base of the three petit bourgeois movements), was the most outspoken amongst *Wafd* members on this issue. In the same way, other bourgeois parties were forced to make similar adjustments. The way the *Sa'adist* government was forced, under popular pressure led by the three movements, to enter the Palestine war in 1948 is an obvious example.

The most important development, however, as far as the role of the petite bourgeoisie in Egyptian politics is concerned, was its infiltration of the military. After the 1936 treaty, the army ranks were opened to cadets with petit bourgeois backgrounds²¹. It is therefore hardly surprising that six of the fourteen members of post-1952 revolutionary command council (RCC) were graduates of the 1938 cohort, having entered the military academy with the first group of the plebeian cadets after the treaty (Binder 1965:397). By the end of the 1940s, most of the lower- and middle-ranked officers were without the traditional links with the ruling classes. The debacle in Palestine increased the levels of politicisation and discontent amongst the officers, some of whom were already members of populist petit bourgeois movements. The majority were not, but were influenced by the broad elements of their political agenda: the twin goals of political independence and economic modernisation; the necessity of a form of *étatisme* with a distributive dimension to foster economic development and address the growing inequalities; and the broader conception of Egyptian foreign policy which emphasised the indispensability of a leading Egyptian role in the Levant. Thus began the 1952 revolution from above.

²¹ The 1936 treaty sought to shift the burden of defending Egypt and Sudan against any potential Italian invasion to the Egyptian army. Hence, the treaty provided for a significant increase in the size of the Egyptian army, allowing, for the first time the recruitment of petit bourgeois cadets.

2- The Rise of *étatisme*: 1952-1965

The free officers' coup in 1952 launched a qualitatively different phase in the historical trajectory of *étatisme* in Egypt. The identifying characteristics of post-1952 *étatisme*, were fourfold: a) only after 1952 did *étatisme* develop into an official ideology of the regime; b) as opposed to earlier forms of *étatisme*, the state took direct control over a significant proportion of the means of production; c) post-1952 *étatisme* involved a populist dimension, whereby the state took responsibility for both production and distribution; and d) post-1952 *étatisme* was fully aware of its external dimension and was intrinsically linked to the activist foreign policy pursued by Nasser's Egypt.

The development of post-1952 populist *étatisme*, and the specific forms it took, was a result of the interplay of internal and external factors as the petit bourgeois officers sought to operationalise a broad vision of what Nazih Ayubi called "developmental nationalism"²². In the following, I will examine this process along the four pillars of the conceptual framework of this study. Before doing so, however, one methodological note may be in order. This study, as I explained in the introduction, falls within the methodological tradition which Hollis and Smith (1990) called "understanding", as opposed to "explaining", international relations, hence, it does not aim to give a parsimonious account based on single causation. Rather, it aims at presenting a complex narrative that integrates the different explanatory variables and levels of analysis. The order of the four pillars of the framework of analysis adopted in this study does not, therefore, necessarily imply any causal hierarchy, or suggest that developments in one

²² Anouar Abdel Malek (1968) refers to the same phenomenon as "Nationalitarianism" to distinguish it from the "western" conceptions of nationalism and highlight its developmental agenda. I preferred Ayubi's clearer term.

area always predated developments in the others. Indeed, one of the underlying premises of this study is that they were continuously interacting and influencing each other. The main goal is, therefore, to explain their patterns of interaction, rather than assign decisive causal weight to one of them, and assume that the others were simply dependent thereupon.

(2.1) The State

The free officers' group constituted a broad front representing the petite bourgeoisie of mainly agricultural or minor civil service backgrounds (Ayubi 1980:158). Not having an elaborate plan of action, they only clustered around the broad political agenda expressed by the petit bourgeois extra-parliamentary movements before 1952. This petit bourgeois background of the free officers is essential to understanding the form of *étatisme* that developed in Egypt after 1952.

The petite bourgeoisie, being an intermediary class between the bourgeoisie and the proletariat, is often said to be torn between its vulnerability to impoverishment and the risk of proletarianisation on one hand, and its firm belief that it is still bourgeois and its aspiration to the lifestyle of the superior class on the other (Mclean 1996:369). Hence, whereas it can partly identify with the distressed classes and adopt a radical approach to change their lot, it remains essentially reformist and committed to maintaining control over, and emphasising its distinctions from the working classes. In other words, it could adopt a populist agenda, whilst, paradoxically, emphasising its autonomy from the classes which this populist agenda purports to represent – a “populism-from-above”.

In Post-1952 Egypt, the free officers were able to administer this populism-from-above by adopting what could be called a technocratic approach to politics. Coming from the most bureaucratized section of the petite bourgeoisie (the military), and lacking a coherent ideology for national reconstruction and social change, the free officers were in their approach to statecraft more empirical and pragmatic problem solvers than ideologues, envisioning their country in terms of an organisational model, and adopting an administrative logic to solve the problems facing the state as a whole, rather than a political logic that acknowledges that statecraft inevitably involves representing a specific set of interests within the society, not the whole “national” interest of the populace (Heaphey 1966:177).

In so doing, these petit bourgeois officers needed to establish their autonomy from both the proletariat and the ruling class of the *ancien regime* – the landed bourgeoisie. The suppression of industrial strikes in Kafr Al-Dawar in August 1952, less than four weeks after the coup, established the regime’s authority vis-à-vis the workers (Matar 1975:54-57). As for the large land owners, two steps were taken to curb their influence: a) the first law of agrarian reform in September 1952, which deprived them of the material base of their power; and b) the dissolution of political parties in January 1953, which deprived them of their political arm (cf.: Zaalouk 1989:26).

The officers’ action against the landed bourgeoisie was based on a distinction between the landed bourgeoisie, whose influence the officers sought to curtail, and the industrial bourgeoisie, with which the officers were willing to cooperate to foster economic

development. Such cooperation was not regarded as incompatible with the free officers' populist objectives, thanks to their technocratic approach to politics, which was reflected in a corporatist conception of the state, whereby different class interests were not incompatible, and could indeed be disciplined in the "national" interest of the state. It was the same corporatist view that underlay Nasser's firm rejection of the notions of class conflict and multi-party system in favour of a national coalition of social represented by the corporatist single party system (Al Takriti 2000:185). Indeed, the very name used by the free officers to refer to the single party, *Al-Tanzeem Al-Syassy* (literally, the political organisation), was replete with these organisational, corporatist connotations. Its main function was mobilising the masses behind the corporatist goals of the new regime, and its structure was designed to represent the different elements of the "national" coalition (Helal 1987:118).

The officers' populist social agenda was, as Ayubi (1980:161) argued, a function of their nationalistic vision. As such, it was not seen as conflictive with the corporatist conception of society, since the social measures were "meant to ferment national harmony through the removal of striking disequilibria" (Ibid). The drift leftward and the adoption of "socialist" slogans since the mid 1950s were a result of restructuring the regime's alliances in the aftermath of domestic and external confrontations rather than a matter of pure ideological choice.

Thus, it was only after the Suez crisis that the first wave of "Egyptianisation" took place in the form of the military order no. 5 for 1956, confiscating assets owned by British and

French nationals. In the following year, an agreement was reached with the British and French governments, whereby all companies and shares owned by British and French nationals were nationalised, and in exchange, Egypt did not ask for war reparations (Wahba 1994:56). In the same year, the term “socialism” was first used in official Egyptian discourse, when the goals of the newly established political “organisation”, the National Union, included the creation of a “cooperative democratic socialism”. In 1960, the reluctance of Bank Misr group to act in accordance with the government’s ambitious development plans increased the officers’ pessimism regarding the possibility of creating a state-guided capitalism²³. The government was running out of patience and decided to take control over the financial sector, and nationalised Bank Misr in 1960 (Abdel Fadel 1974:13). Similarly, it was no coincidence that the transition from state-guided capitalism to full-fledged *étatisme*, involving direct state control over the means of production, took place during the peak of Nasser’s clash with the Syrian bourgeoisie during the Egyptian-Syrian unity.

In all these cases, domestic and external clashes led to restructuring the national alliance, emphasising the role of certain elements and social classes and excluding others. What remained intact, however, was the regime’s commitment to corporatism. All the political “organisations” created by the officers emphasised this corporatist commitment. The “Liberation Rally” was created in December 1952 as a mass organisation to fill the political vacuum created by the dissolution of pre-1952 political parties. Its basic slogans (“we are all of the Liberation Rally”, and the more famous one, “unity, organisation and action”) were essentially corporatist, appealing to all Egyptians to transcend their

²³ This will be discussed in some detail in the next sub-section.

ideological differences to liberate Egypt from foreign occupation and rebuild the economy. After a new constitution was drafted in 1956, the “National Union” replaced the Liberation Rally, but upheld its corporatist goals (Al-Takriti 2000:180). It was moulded after the national coalition organisations, which were created by populist regimes to secure national unity in Tito’s Yugoslavia (the League of Communists) and Salazar’s Portugal (the National Union) (Beattie 1994:128). Finally, the “Arab Socialist Union” (ASU), created amid the transformation towards “socialism”, also maintained the corporatist formula, albeit with a re-structured membership of the national alliance in the aftermath of the previously mentioned domestic and external confrontations. This was reflected in the union’s slogan “the alliance of the people’s working forces”. The concept of “people’s working forces” was very broadly defined to include workers, peasants, intellectuals, professionals, students, and “national capitalism”, thereby retaining the corporatist formula.

This continued commitment to corporatism was not a matter of ideological preference. It reflected primarily the structure and interests of the new ruling elite, and the rise of new social forces, which, although owing their influence to the transformation towards populist *étatisme*, were keen on maintaining their autonomy from, and unrivalled control over, the same classes which the populist statist apparatus purported to represent. The ruling elite consisted of the army officers on the one hand, and the technocrats and senior bureaucrats on the other. *Étatisme*, for this elite, furnished a convenient opportunity to rise and amass power, and in some instances, private wealth. Thanks to the corporatist formula, the new elite could rule in the name of the “masses”, whilst maintaining its

control over, and distance from, them. Populism, consequently, remained a government-led enterprise – a “populism-from-above”.

One of the RCC’s first decisions was not to allow the officers that participated in the coup to return to the army. The idea was to try to re-establish a professional army in which there is no place for politicised officers. Many officers were therefore offered positions in the state administration and media as “representatives of the revolution” (El Said 2002:169). After Egyptianisation and nationalisation laws, officers quickly permeated the nationalised enterprises. During these years, Egypt was witnessing what Dekmejian (1975:187) called the rise of the “officer-technocrats”, that is, officers who went to receive civilian academic degrees and joined the senior ranks of the bureaucracy and even some ministerial positions²⁴. The cohort (*Dof’a*) became the basis of an Egyptian version of an “old boy network” amongst those officers-turned-bureaucrats. As Springborg (1975:99) noted, belonging to a “*Shilla*” – a term indicating a group of friends, often belonging to the same cohort, working together to achieve individual goals – became a key means to career advancement. Abdel Hakim Amer, who was entrusted with the military’s command, was increasing his influence by the day, and developing extensive patronage network amongst the army officers.

On the other hand, the consolidation of state capitalism in the beginning of the 1960s was accompanied by the rise of what was later referred to as the “new class” of top managers and technocrats, who, thanks to their senior positions in the bureaucratic apparatus

²⁴ Sidki Soliman, Tharwat Okasha, Mahmoud Younis, and Abdel Kader Hatem are the more famous, but by no means the only examples.

entrusted with running state capitalism, effectively controlled the appropriation and allocation of economic surplus, and were often inheriting many of the privileges of the old ruling classes²⁵.

Together, these social forces (the military and the “new class” technocrats) were efficiently able to keep populism in check and resist all attempts to curb their influence, and revolutionise the state apparatus or the political “organisation”. Nasser’s attempts to limit Amer’s patrimonial influence within the army were fruitless. In August 1962, in the aftermath of the Syrian secession from the United Arab Republic, for which Amer’s mismanagement bore the lion’s share of the blame (Heikal 1988:554-566), Nasser proposed a government re-organisation, creating a presidential council, which would include all RCC members and some ministers, and would, *inter alia*, supervise the military. The proposal was fiercely resisted by Amer who threatened to resign, and argued that he alone, with his “special” relations with the officers could guarantee the military’s security and loyalty. Nasser had to give in and Amer kept his undisputed control over the military all the way until 1967 (Beattie 1994:159-163). His patronage networks and *Shilla*-based politics remained intact, and years later, once more, bore the lion’s share of the blame for the 1967 defeat, and even, according to some analysts, for the quick deterioration of the populist statist apparatus itself (cf.: Hussein 1982a).

²⁵ The term “new class” was first used by the Yugoslav dissident Milovan Djilas, to account for the rise of social strata in Tito’s Yugoslavia which, whilst not legally owning the means of production, were able, through their senior positions in the party or state apparatus, had enormous privileges that made them effectively a ruling class in a way that is hardly compatible with any claims to egalitarianism (Robertson 1993:346). The notion was first discussed in Egyptian context during the first conference of the students sent by the Egyptian government to pursue post-graduate studies abroad (*Al-Mab’uthin*) (Ayubi 1980:179-183). Although Nasser rejected the term at the beginning, he used it later during the period of revisionism that followed the 1967 defeat.

On the other hand, the rise of the “new class” technocrats constituted the Achilles’ heel of Nasser’s populism-from-above. Nasser’s “ideological offensive”, which started in 1963, with the creation of two ideological organisations (Socialist Vanguard, and Youth Organisation) within the ASU, and an “Institute for Socialist Studies”, was a desperate attempt to build political cadres and revolutionise the state apparatus. However, the lack of a clear ideology, and the failure to transform the new organisations into grass-root agencies, meant that these new organisations maintained all ASU’s defects. Also, the recruitment mechanisms were not conducive to building cadres as they were entrusted to senior bureaucrats and beneficiaries of the very system that Nasser attempted to revolutionise²⁶.

By the mid-1960s, Nasser’s “populism-from-above” produced an elite whose interests were gradually diverging from the regime’s populist policies. This elite was in full control of the appropriation and allocation of economics surplus, and was managing it in ways that were necessarily at odds with the populist agenda²⁷. This indeed constituted the fundamental contradiction of the Nasserist state – a contradiction that eventually led, as I will seek to demonstrate later, to the dismantling of the populist-statist apparatus altogether.

(2.2) Economic Structures and Policies

Up until 1952, the Egyptian economy was still stuck in the vicious cycle of short periods of growth under conditions of forced protection during world wars, followed by the

²⁶ For a detailed discussion of this “ideological offensive” and the reasons of its failure see: (Al-Takriti 2000:212-224; Beattie 1994:166-180). I will return to this point again in the following section.

²⁷ I will return to this point in the next sub-section.

erosion of most industrialisation gains as soon as the “forced protection” was lifted and the imports returned. The experience of World War II and its aftermath created a consensus on the need for distributive (populist) *étatisme* (Abdalla 1987:203), and demonstrated, in the mean time, how populist *étatisme* was unattainable under the social structures that were prevailing before 1952.

The free officers were children of this post-war period experience. Representative of the frustrated petite bourgeoisie, they viewed large landowners as the major stumbling block to their “developmental nationalist” agenda. It was therefore no surprise that the first law of agrarian reform was issued less than two months after their coup, in September 1952. The aims of this law were threefold: a) a political goal: to destroy the material base of landowners’ power and establish the power and autonomy of the petit bourgeois officers; b) a developmental goal: to liberate “capital from the land”, to quote Nasser’s words²⁸, and diversify the investment outlets of the economic surplus; and (3) a populist goal: to redress the alarming inequalities in the countryside, and establish a support base for the free officers amongst the peasants.

According to this law, land ownership was fixed at a maximum of 200 feddans per person, and a grace period was given to landowners to sell any lands in excess with up to 100 feddans going to dependants (Wahba 1994:50). All confiscated land was redistributed to the landless peasants who had been previously working on them as

²⁸ In a speech on 23/7/1954, on the second anniversary of the revolution, Nasser said “agrarian reform.....rendered a service to Egyptian capital, which was buried underneath the ground”. (cf: Wahba 1994:59).

tenants or labourers in lots of five feddans, and agricultural cooperatives were created to ensure that the fragmentation of the redistributed land did not result in diseconomies of scale.

It is worth noting that the first law of land reform was quite modest compared to the proposals presented by *Misr Al-Fatat* or the communist movement prior to 1952. The reason for this is that the law had to strike a balance between its political and populist goals on one hand, and the developmental goal (i.e. the need to ensure that the bourgeoisie was not scared off) on the other, since the Egyptian government at that time was still committed to free-market policies. Several measures were taken to reassure the local and foreign capitalism and encourage them to participate in the officers' developmental plans. The free officers went even as far as to reverse some of the Egyptianisation laws issued in 1947 in order to attract investments. The decree-law 120/1952 abrogated the 51% provision, changing the minimum participation by Egyptians to 49% (Wahba 1994:54). Several other laws including law 156/1953 for foreign investment, law 430/1953 for tax exemptions; and the companies' law 26/1954, provided unprecedented incentives to local and foreign capital (Al-Maraghy 1983:48).

The Egyptian government remained throughout the 1950s committed to a form of state-guided capitalism without the state taking direct control over the economy (Mabro 1976). The free officers made a distinction between the landed bourgeoisie, which was a main obstacle to be removed, and the industrial bourgeoisie, local and foreign, with which they hoped to cooperate. Thus, the industrial bourgeoisie was entrusted with the

implementation of the industrialisation plans, and laws were issued to encourage it, whereas the landed bourgeoisie was the target of their earliest populist and re-distributive measures. The government even provided advice and technical assistance to the industrial bourgeoisie. Thus, in October 1953, the government created the “permanent council for the development of national production” (PCDNP) to set developmental plans and study specific projects – an advisory body to the would-be entrepreneurs (Abdalla 1987:205)

The PCDNP then started to collaborate with the private sector in joint-ventures. The government, in its attempts to encourage the private sector, went as far as to guarantee minimum profit rates to the shareholders in these joint-ventures (Ibid). After the Suez crisis and the Egyptianisation laws of 1957, the law-decree 20/1957 created the “economic organisation” (*Al-Mouassasa Al-Iqtisadiya*), to manage the government share in the joint-ventures, as well as the government-created companies. The newsletter of the general federation of Egyptian chambers of commerce welcomed the creation of the economic organisation, and accepted the role of the state in such projects with “a high level of risk and low returns” (Abdel Fadil 1974:12). These early steps of *étatisme* did not in any way mean a break from the government’s commitment to free market. The general pattern of the state’s policy towards private capital throughout this period remained not to invest directly where the private sector would, and never to clash with private capital unless it had to (Al-Maraghi 1983:57). Hence, as late as 1959/1960 (the year in which the first quinquennial plan started), only 18% of the GDP originated in the public sector (Mansfield 1969:117).

The experience of the 1950s was, however, far from satisfactory, and the government eventually decided that a transformation to full-fledged *étatisme* was inevitable. The failure of the 1950s guided capitalism was due to domestic and international factors. Domestically, the distinction between the industrial and landed factions of the bourgeoisie, which underlay the officers' economic thinking, proved to be a major misjudgement, as it ignored what Abdel Fadil (1974:10) called the organic links between the two factions of the bourgeoisie. As explained earlier, the industrial bourgeoisie emerged in the first place as a result of the measures taken by some members of the landed bourgeoisie to diversify their investments under domestic and international economic pressures. The landed faction of the bourgeoisie was, therefore, since its earliest days, intrinsically linked to the industrial faction. As a result, the actions taken against the landed bourgeoisie sent the wrong message to the industrial bourgeoisie and generated a process of disinvestment amongst some of Egypt's largest firms. Fixed capital formation rates declined dramatically in the first half of the 1950s (Abdel Fadil 1974:12), and firms opted for higher rates of profit distribution, as the private sector sought to keep as much as possible of the economic surplus away from potential sequestration or nationalisation (Wahba 1994:55). The private sector failed to cooperate with the government's sectoral plans between 1957 and 1961, and the only sector in which bank loans to "industry" increased was building and construction – the very sector in which the government sought to discourage investment. Long and medium-term loans in all other industries decreased (Wahba 1994:71), highlighting the lack of trust between the government and the private sector, and casting much doubt on the reliability of the private sector in implementing the regime's developmental plans. On the other hand, the

foreign policy struggles of Nasser's regime added further tension to the relation between the state and private capital. The Suez crisis, and the Egyptianisation of the French and British assets thereafter, ruined the chances of any cooperation between the state and foreign and *Mutamassir* capitalists, who controlled the lion's share of the Egyptian economy (Ayubi 1989a:95).

By the end of the 1950s, economic performance fell unacceptably short of the government's ambitions. The private sector was not cooperating with the regime's developmental plans; the economy was still dominated by the foreign and *Mutamassir* capitalists; and the main populist effort – the agrarian reform law – had limited effects as it turned out that it only affected 13% of the agricultural land and 9% of the rural population (El-Sayed 1982:73).

In a regime that was committed to developmental nationalism, and that viewed economic development as an integral part of the realisation of national aspirations, such economic mal-performance was not tolerable as it was shaking the regime's sources of legitimacy. The government realised that it had to take direct control over the economy to achieve its developmental and populist goals. This was achieved through three steps: a) mobilising the economic surplus and using it according to the government's plans; b) direct ownership of the means of production; and c) centralised planning through quintennial plans.

The financial sector was amongst the first to be nationalised. The first step came with the Egyptianisation laws in 1957, which brought to government hands seven British and French-owned banks as well as five insurance companies (El-Sayed 1982:61-62). In February 1960, Misr Bank group, which controlled 40% of the total deposits in Egyptian banks and owned 27 trade and industrial companies, was nationalised. Its nationalisation came in the aftermath of a major disagreement between the government and the bank management over the bank's investment policies. The bank insisted on investing primarily in the textile sector, its traditional investment outlet, whilst the government was pushing for more diversification (Abdel Fadel 1974:31). That this disagreement resulted in the nationalisation decision reflected how committed the government was to controlling the mobilisation and investment of the economic surplus.

In July 1961, 44 industrial companies were fully nationalised, and the government controlled 50% of the capital of 86 other companies. In 1963 and 1964, the government fully nationalised all the companies that were nationalised partially in 1961, and government ownership was extended to the pharmaceutical sector. As a result, the share of the public sector in manufacturing rose to 60% in 1963, and it was employing 30% of the labour force (El-Sayed 1982:58-60).

Alongside these statist transformations, the so-called "July 1961 Socialist laws" included an important populist dimension, providing for, *inter alia*, limits on the salaries of managers of the public sector, workers' representation in the boards of directors, a reduction of working hours to a maximum of 42 hours per week, as well as raising the

minimum wages, and granting workers 25% of the net profits (Wahba 1994:85-87). Free education was extended to the secondary and university level, and the government was committed to the employment of all university graduates.

The first quintennial plan (1959/1960–1964/1965) reflected this dual commitment to developmental *étatisme* and populism. The aim of the plan was to increase the national income by 40%, as the first stage of the overall goal stated in the National Charter: doubling the national income in ten years (Owen and Pamuk 1998:132). The plan was reasonably successful in achieving the desired developmental goals. National income increased by the desired 40%, with an annual GDP growth rate of 6% (Al-Alem 1994:375), and even more impressive gains in industry (a 50.2% increase in the industrial output between 1959/1960 and 1964/1965), and in the sectors associated with the Aswan high dam such as electricity (128.6%) and construction (96.6%) (Owen and Pamuk 1998:132). On the populist level, consumption rose by 46%, almost double the planned rise (25%), which put too much pressure on the savings and accentuated the problem of mobilising economic surplus.

Throughout the years of the plan, the main dilemma facing the government was to achieve simultaneously two contradictory goals: to increase investment and foster rapid industrialisation and to increase consumption levels as part of the government's populist commitments. To mobilise the required resources, the government had three options: a) to squeeze the economic surplus from the peasants in the Stalinist fashion; b) to squeeze public spending and curtail the privileges of the rising "new class" through an austerity

program; or c) to rely on external resources. The first option was quickly rejected as it was at odds with the regime's populist commitments. The second option was also forgone, albeit for very different reasons. It was simply impossible to implement given the nature of the ruling elite at that time. Any close examination to the pattern of allocation of the economic surplus during the first quinquennial plan reveals clearly that it reflected the preferences of the rising middle class of technocrats and officers.

The grand wave of nationalisation and the government's populist commitment to full employment of all university graduates was reflected in the rise of the services sector share in the GDP during the years of the plan. Public consumption increased by 77% mainly as a result of this growth of the administrative apparatus. The non-investment expenditure in the services budgets increased threefold between 1959/1960 and 1964/1965 (Abdel Fadil 1974:15-20). The newly founded public sector was placed under the direction of 38 holding companies, each responsible to a particular ministry. The number of high ranking managerial posts created to manage the emerging public sector rose by 61% during the plan years. Their income, however, increased by 230% (Ibid: 31-32), reflecting the influence of the "new class" of managers, technocrats and military officers.

As many observers noticed, the choices of the projects of the plan did not necessarily reflect the needs of the majority of the population. The most frequently cited example is the sums invested in manufacturing such luxury goods as private cars and air conditioners which, given the average per capita income of that time, were beyond the reach of the

majority of Egyptians. The structure of the government's industrialisation plan was biased towards light industries and consumer products catering primarily for the needs of the new middle class (El-Sayed 1982:67-68). A similar trend could be found in the consumption patterns. During the plan years, the increase in the consumption of necessary goods ranged between 29% and 60%, as opposed to an average rise of 119% in the consumption of such durable consumer goods as refrigerators, radios, air conditioners and heaters (Abdel Fadil 1974:20). Naturally, this "new class" which played a key role in economic decision-making was not willing to sacrifice its privileges to provide the resources needed for the regime's developmental and populist plans.

As a result of the government's reluctance to extract resources from the peasantry or to squeeze the surplus from the new class, the balance of payments suffered a chronic and increasing deficit throughout the plan²⁹. To finance this deficit, and maintain the government's ambitious plans, the government relied on external financing, and its ability through a non-aligned, activist foreign policy to secure foreign aid from the east and west. Samir Amin estimated that around 50% of the plan was financed from external resources in the form of grants or concessionary loans (cf.: Wahba 1994:93).

By the end of the first quinquennial plan and notwithstanding its successes, the contradictions of the populist-statist model were becoming all too apparent. Commitment to populist *étatisme* entailed increasing consumption and investment simultaneously.

²⁹ The deficit rose from £E 35.7 million in the first year of the plan, to £E120.3 m., then £E154.3m., £E 170.5m, and £E 135.6m in the second, third, fourth and fifth years, respectively (Abdel Fadil 1974:22-23).

“Populism-from-above” meant that the implementation of the populist-statist plans was left in the hand of the “new class” of technocrats and the military, which controlled the appropriation and allocation of economic surplus, and whose interests were reflected in the investment and consumption patterns, and were necessarily at odds with the populist agenda.

This fundamental contradiction of the populist *étatisme* was kept dormant through the regime’s reliance on its ability to use foreign policy acumen to secure foreign resources to muffle this contradiction. From the mid-1960s, when a series of foreign policy crises and developments relatively closed the “external window” of extracting surplus, contradictions surfaced anew, and the system began to flounder.

(2.3) Ideology

Students of ideology in post-1952 Egypt are often faced with a paradox: on one hand, there is a plethora of evidence suggesting the pragmatic nature of the free officers’ policies, and their lack of a coherent ideology³⁰. On the other hand, the regime was keen on issuing explicit ideological statements and pamphlets (the *Philosophy of the Revolution*, through the *Charter*, and the *Manifesto of March 30th, 1968*). Nasser’s speeches were also replete with ideological references and justifications, and so were the countless articles by regime ideologues, most notably *Al-Ahram*’s legendary editor-in-chief, Mohamed Heikal. Such self-conscious ideological documentation suggests a far more important role for the regime’s ideology than most analysts allowed. What, then, do

³⁰ Even the *Charter for National action*, issued in 1962, explicitly admitted that, “*this revolutionary march started without a complete theory of revolutionary change*” (Abdel Nasser 1967:5)

those analysts refer to when they talk about the regime's lack of a coherent ideology? They were probably referring to a particular meaning of the term ideology – a rigorous and comprehensive set of interrelated values based on a philosophy which claims to provide coherent and unchallengeable answers to all problems of society (Howard 1991:139). Once a less rigorous definition of ideology is adopted, referring to the existence of broad vision and guidelines for policy action (Ibid), the free officers' ideological paradox becomes more apparent than real. Whilst the free officers, like most post-colonial elites in the third world at that time, lacked a detailed program of action, they did possess a broad vision of developmental nationalism, clustering around the general political agenda expressed by the petit bourgeois movements before 1952.

Nasser's *Philosophy of the Revolution*, published in 1954, was the regime's first elaborate ideological statement. It sought to justify the 1952 coup, to explain the officers' commitment to developmental nationalism, arguing for the need to conduct two simultaneous revolutions, a political revolution aiming at political independence, and a social revolution to achieve modernisation (Abdel Nasser 1962:25-26), and to sketch a broad framework for an active foreign policy, based on Nasser's conception of Egypt's "national role". At the heart of this conception, presented by Nasser as the "objective", (i.e. inevitable) consequence of Egypt's history and geopolitics, were three "circles of action" with which Egypt should interact, and around which Egypt's "role" in the modern world should revolve – an Arab, an African, and an Islamic circle (Ibid:60-80).

Further developments in the regime's ideology beyond this sketchy framework came as a result of the interplay of several internal and external factors. The shift towards a "socialist" discourse and explicit statist ideology, for instance, corresponded to the transformation of the political economy and the restructuring of the regime alliances in the aftermath of domestic and foreign policy crises (e.g. the nationalisation of the Suez Canal and the ensuing Suez crisis, the failure of state-guided capitalism and the following wave of massive nationalisations). On the other hand, the elaboration of Egypt's foreign policy role as a bastion of anti-colonialism, non-alignment, and pan-Arabism was at least as much a result of strategic necessities and foreign policy crises, as it was of ideological preference. Developments such as the Czech arms deal in 1955, which followed the Israeli raid on Gaza in 1954, the Bandung conference, the political crisis with Iraq and the Suez crisis "*obliged Nasser to take up the role of an anti-imperialist Saladin*" (Mansfield 1969:95). In Nasser's subsequent speeches throughout the 1950s and early 1960s the concept of Egypt's national role in the Arab world was further developed, to comprise five main dimensions (Abdel Moneim 1982:209-212): a) leadership of the Arab countries; b) contribution to the defence of the Arab states; c) an anti-imperialist role within the Arab world; d) a contribution to a long-term process of Arab unification; and e) a developmental role to realise the economic potential of the Arabs.

The ideological development of Nasser's regime was influenced by two main factors: (i) Nasser's perception of the inherently conflictual nature of the international system; and (ii) the implicit modernisation ideology that underlay the regime's developmental policies. Selim's (1982:180) study of Nasser's belief system revealed that, for Nasser, the

international system was ontologically conflictual, comprising two main conflicts: a) between the two main superpowers over the domination of the rest of the world; and b) between the north and the south over the distribution of global wealth. In such a conflictual environment, building alliances with like-minded forces, domestically and internationally, becomes indispensable for securing national independence. It is important to understand this nationalist, anti-imperialist point of departure of all the political actions of the free officers' regime domestically and internationally. Domestically, the need for a corporatist state apparatus was emphasised to integrate societal forces and prevent internal contradictions from surfacing and increasing the regime's vulnerability³¹. Even when he invoked an explicitly "socialist" discourse, Nasser emphasised his rejection of the notion of class conflict and the need for a national alliance of the "people's working forces" including representatives of "national capitalism" (Al-Hakeem 1971:83-86). Internationally, Egypt sought to forge alliances with other developing states, first through the loose Bandung formula, and later on through the more elaborate Non-Aligned Movement. Within the Arab world, however, the situation was more complicated, as the regime moved back and forth between the two strategies of "*wahdat al-hadaf*" (unity-of-goal, implying alliance with the "progressive" forces in the Arab world), and "*wahdat al-saff*" (unity-of-ranks, implying a minimalist strategy of cooperation with all Arab states).

On the other hand, the officers' vision for developmental nationalism was, as Aulas (1988:141-142) argued, essentially one of Western-style modernisation, based on the necessity of "catching up" with the developed countries. This commitment to

³¹ In a speech on 27/11/1959, Nasser explained that, "the creation of the National Union does not resolve contradictions in our society. It only offers a framework of national unity that allows contradictions to be balanced". (*Al-Ahram*, 28/11/1959).

modernisation remained intact, notwithstanding the regime's "apparent" ideological shifts (from state-led capitalism to populist *étatisme*, and from unity-of-goal to unity-of-ranks). Throughout its ideological development towards a more elaborate form of *étatisme* with "socialist" overtones, national independence and economic modernisation remained the pillars of the officers' ideology. Any ideological formulations or justifications were merely means to achieve these twin goals, and could thus be kept or changed depending on how conducive they were to the realisation of the original "modernisation" vision of developmental nationalism.

The implications of the development of populist *étatisme*, and of the rise of the new elite of military officers and technocrats, for the regime's ideology were twofold. First, the rise of the new elite led to further emphasis on the corporatist model and the "technocratic" nature of the officers' management of political economy. From the "unity, organisation and work" slogan to the "alliance of the people's working classes" formula, the regime remained committed to a corporatist ideology that assumed compatibility of interests amongst the different classes. This corporatist discourse was crucial to defend the regime's "populism-from-above", since the ruling elite could claim that its policies serve the "national" interest of the whole populace, rather than reflect the particular interests of the military/technocratic elite. In the same vein was Nasser's usage of the term "scientific socialism", not in the Marxist sense, but to indicate the technical nature of the regime's choice of socialism as a superior strategy for realising modernisation. Second, as a result of this technocratic approach to politics, little effort was made to develop a sophisticated ideology for the regime beyond the immediate statements issued for justifying or

mobilising purposes. Aulas (1988:139), for instance, notes that the regime's commitment to pan-Arabism did not result in the development of serious intellectual output on Arab nationalism in Egypt. Likewise, the regime's "Arab socialism" was essentially eclectic, borrowing liberally from Marxism, corporatism, and emphasising a nationalist point of departure (Akhavi 1975:191). By the 1960s, the regime was increasingly aware of the ideological holes of its project, hence the "ideological offensive" of 1963, with the creation of the Socialist Vanguard Organisation, and the Youth Organisation within the Arab Socialist Union system, as well as the "institute for socialist studies". This "ideological offensive" came to naught, however, as it was entrusted to the regime's bureaucrats³². Its failure meant that the regime's technocratic elite remained intact. This would later be one of the reasons for the easy dismantling of the populist-statist model itself.

The regime's ideology, in its various formulations, reflected the development of the populist-statist political economy and the contradictions thereof. The latter were reflected in two key dilemmas. First, the regime lacked neither an elaborate ideology to guide political action and curb the influence of the "new class", nor politicised cadres to defend the gains of the populist policies. As a result, when, in the aftermath of the crises that started in 1965, the populist-statist model became unsustainable, the "new class" was able to transform it in a way that maintains its privileges and shifts all the burdens to the popular classes, with minimal resistance from the beneficiaries of the regime's earlier policies who remained unorganised and politically inept.

³² Ironically, one of the leaders of the secret "vanguard organisation" was Sha'rawy Goma'a, the interior minister –the person responsible for the regime's security.

Second, the concept of “national role” was quite problematic. Several key questions remained unresolved, including: a) the nature of the role, and whether it is structural (i.e. based on natural gifts that necessitate Egyptian leadership of the Arab world) or political (i.e. subject to the adoption of a certain set of policies); and b) the extent to which it is possible to cooperate with “reactionary” Arab regimes.

This lack of an elaborate conception of Egypt’s “national role”, and for that matter, of all aspects of the regime’s ideology, reflected the inherent tensions and contradictions of populist *étatisme*. Likewise, the way the standing ideological questions were subsequently resolved, corresponded to the transformation of the regime’s political economy and foreign policy.

(2.4) Foreign Policy

Egypt’s post-1952 foreign policy was planned and conducted within the broad framework of developmental nationalism, developing well beyond the traditional goals of evacuation and unity of Egypt and Sudan under the Egyptian crown to correspond to the new complex realities of the cold war, the rising aspirations to an active role in the Levant, as well as to the twin needs of securing national independence and fostering economic development. However, the regime’s lack of an elaborate ideology meant that its foreign policy was essentially a mix of the free officers’ general commitment to securing national independence, and *realpolitik*. Cooper (1982:22) once noted that it was a series of *ad hoc* responses to pressing political crises that led the free officers to state capitalism. The same could be said about their foreign policy.

From the first days of the coup, Nasser demanded total and unconditional evacuation (Matar 1975:71). To support these demands, he sought help from the emerging superpowers, and his first bet was the US. This was more of a strategic necessity than a purely ideological choice, since Stalinist USSR was still busy consolidating its position in Eastern Europe, and did not show much interest in the Middle East nor, for that matter, in other areas of the developing world that is governed by nationalist petit bourgeois elites. A delegation was sent in November 1952 to the United States with requests for military and political assistance. The visit, however, amounted to little more than a public relations exercise. The delegation had to wait for eight weeks until President Eisenhower had taken office in January, only to find that Eisenhower decided to keep Egypt's application in the "pending file" whilst he explored the possibilities of fitting Egypt in the U.S. cold war strategy (Heikal 1973:37-39). He sent his secretary of state, John Foster Dulles to the Middle East early in May 1953 – the first visit to the region by an American secretary of state. It quickly revealed the major contradictions between the American and Egyptian agendas. The key determinant of U.S. policy towards the Middle East was the Cold War, and the containment strategy (Morsy 1995:308). The U.S. priority was therefore to extend its defence alliances to the Middle East and complete the encirclement of the USSR. During the Egyptian delegation's visit to the United States in 1952, major general G.H. Olmsted, the director of the foreign military assistance program, spoke about the potential for an anti-communist Islamic pact centring around three capitals: Ankara, Karachi, and Cairo (Heikal 1973:38). Such statements echoed the earlier attempts to create a Middle East treaty organisation (METO), then a Middle East defence organisation (MEDO) before 1952. To the free officers', committed as they were to

achieving total independence, joining such pacts was out of question. Dulles failed to convince Nasser to join an anti-communist alliance, since Nasser insisted that the only defence against any alleged communist threat would be through promoting internal economic development and affirming the spirit of nationalism and independence (Heikal 1978:720). After the failure of Dulles's visit to Egypt, the United States shifted its attention to Iraq as the alternative centre of its Middle East anti-communist alliance – the Baghdad Pact. Nasser, aided by the Cairo-based influential radio station “Voice of the Arabs” which was created in 1953, attacked the pact ferociously. His assault stemmed from the same mix of nationalist ideology and *realpolitik*. On one hand Nasser was committed to what was called “positive neutrality”, which did not only mean refraining from taking sides in the Cold War, but also seeking, through multilateral cooperation with like-minded states, to play an active role in international politics (Bakr 1982:141-150). On the other hand, Nasser feared that the Baghdad pact would divide the Arab world and isolate Egypt. After Iraq, he contemplated, Syria, Jordan then the Gulf States would join, and Egypt would be left alone to face any Israeli threat (Heikal 1973:75). The Israeli raid on Gaza on 28/2/1955, which came amid the political duel over the Baghdad Pact, further deepened his suspicions. This raid was an expression, as Heikal (Ibid:27) explained, of Israeli Premier David Ben Gurion's strategy of “forcing peace” on the neighbouring Arab countries.

Nasser at that time was not actively involved in the Arab Israeli conflict. Whilst perceiving Israel as a potential source of threat, he sought to freeze the situation whilst he pursued his development plans and increased Egypt's military capabilities, in order to

avoid the repetition of the Egyptian Army's fiasco in the Palestine war. During Dulles' visit in 1953, Nasser argued that the relation with Israel was not a priority (Baydoon et al. 2002:52-53). However, in response to Dulles' insistence on resolving the conflict in order to focus on the "communist threat", he was willing to embark on peace negotiations on the basis of the U.N. Partition Plan of 1947. Israel was not willing to withdraw to the partition lines. Ben Gurion sought to "force peace" on Egypt via limited military escalation. Thus came the Gaza raid in February 1955, and the notorious "Lavon affair"³³.

To Nasser, the Gaza raid demonstrated how pressing Egypt's need for arms was. Its timing led him to suspect that it took place with Western consent to force him to join the Baghdad Pact. His response was to seek armament from elsewhere. During the Bandung conference of 1955, Chou En-Lai offered to arrange for an arms deal from the Soviet Union. In September 1955, the "Czech" arms deal went through (Woodward 1997:45). Like the earlier attempts with the United States, this turning point in the relations with the Soviet Union was a result of strategic necessity rather than an ideological choice.

In the mean time, Egypt was embarking on its major developmental project, the Aswan High Dam. Financing was sought at first from the west and the World Bank. When it was declined, Nasser responded by nationalising the Suez Canal on 26/7/1956. It was clear that the nationalisation was not just a financial venture, since the resulting income was

³³ Israel sent an army intelligence officer to organise a group of young Egyptian Jews to blow up American and British installations in Egypt, so as to convince the United States and Britain that Nasser is unable to control the country, and delay the British troops' withdrawal from Egypt. The plot failed, and Pinhas Lavon, the Israeli defence minister, had to resign (cf.: Heikal 1973:43-44).

still insufficient to build the dam, and Egypt subsequently received a loan from the Soviet Union to finance the project (Ibid:48). The nationalisation of the Suez Canal, with its obvious links to the twin goals of national independence and economic development, was the clearest manifestation thus far of developmental nationalism. It was also a turning point in Egypt's foreign policy, and indeed in the development of populist *étatisme* in Egypt. Nasser emerged out of the Suez crisis as an "anti-imperialist Saladin" (Mansfield 1969:95). The crisis further reinforced Egyptian-Soviet relations, and, as argued in section 2.2 above, speeded up the development of populist *étatisme*.

The Gaza raid, the Lavon affair, and most importantly the Suez crisis forced the Arab-Israeli conflict on Nasser's priorities. The Suez crisis also had a profound effect on Egypt's Arab policy. Whilst the *Philosophy of the Revolution* recognised the political vacuum in the Levant, and argued that Egypt was naturally suited to play the leading role in the region, Nasser did not argue for creating a united Arab state immediately. He only called for Arab solidarity and coordination. It was during these years that the formula "unity-of-ranks", implying policy coordination, amongst ideologically different Arab countries, was popularised (Youssef-Ahmad 1982:96-97). During the struggle against the Baghdad Pact, Nasser's tactical alliance with Saudi Arabia against the Saudis' old Hashemite rivals in Iraq and Jordan was a successful demonstration of the "unity-of-ranks". However, after Nasser's victorious political struggles against the Baghdad Pact, and during the Suez crisis, Syrian nationalist officers approached him in 1957, insisting on an immediate unity between Syria and Egypt, and arguing that only such unity would

prevent a communist coup in Syria³⁴. The United Arab Republic (UAR), comprising Egypt and Syria, was declared on 22/2/1958. The creation of UAR, however, did not alter Nasser's classical preference for solidarity and emphasis on the unity-of-ranks. He was therefore quick to declare that he had no intention of forcing Lebanon to join the UAR (Woodward 1997:61). However, in the late 1950s and early 1960s Nasser's influence rose rapidly in the Arab world. A sweeping revolutionary trend was threatening, and in some cases as in Hashemite Iraq, overthrowing, conservative Arab monarchies. An "Arab cold war" seemed inevitable as the old rivals the Saudis and the Hashemites in Jordan were willing to join forces to fight for the survival of the conservative regimes. The secession of the UAR in September 1961, the adoption of the more flamboyant formula "unity-of-goal" as the guiding principle of Egyptian foreign policy, and the Egyptian imbroglio in Yemen, were, as I will seek to explain later in this subsection, few examples of this Arab cold war.

On the other hand, the Suez crisis laid the final touches for Egypt's close, albeit sometimes troubled alliance with USSR. Whereas Stalinist USSR was quick to dismiss the officers' coup in 1952 as a petit bourgeois military takeover, the post-Stalin Soviet Union was increasingly intrigued by Nasser's role in the Bandung conference, and particularly by his firm stance against the Baghdad Pact (Heikal 1973:121-122). The "Czech" arms deal was as politically important to the Soviet Union as it was strategically important to Egypt. It offered the Soviet Union a long awaited chance to break out of the potential encirclement threatened by the Baghdad Pact (Woodward 1973:86). The Suez crisis, on the other hand, demonstrated Nasser's strategic importance to the USSR

³⁴ Heikal (1988:235-281); Woodward (1997:65-66)

strategy, as Khrushchev observed Nasser's ascendance to the status of the leader of the Arab world. After the Suez crisis, Khrushchev was willing to have a "working relationship" with, and to offer economic and military assistance to Nasser's Egypt, whilst recognising that Nasser was not a communist (Heikal 1973:141). However, the Soviet Union's commitment to Arab communists, who were vigorously chased and suppressed by Nasser, remained a source of potential tension. Nasser's suppression of communists within the UAR, and his bitter hostility with Iraqi leader Abdel Karim Kassem, who consorted with the influential Iraqi communists, and was therefore a favourite ally of the USSR in the region, increased tensions between Egypt and the USSR. When in December 1958, Egypt and the Soviet Union signed the agreement to build the first stage of the Aswan high dam, articles in *Pravda* and *Izvestia* questioned why the USSR was helping those who were arresting the communists, and in the Twenty-First Congress of the Communist Party in January 1959, Khrushchev went a step further and publicly attacked Nasser and his notions of Arab socialism (Heikal 1973:138-139). Moscow was increasingly seeing the UAR and Arab nationalism as potential rivals for Marxism, and Khrushchev was overtly supportive of Kassem, whom Nasser accused of attempting to establish a "red fertile crescent" (Woodward 1997:88).

Realising the nature of her unsettled alliance with the USSR, Egypt sought to broaden her "manoeuvring space" through forging strong alliances with Arab states and other like-minded developing states, and even attempting a rapprochement with the United States. This was achieved through three simultaneous foreign policy strategies. First, Egypt sought to maintain and strengthen the "unity-of-ranks" formula as the basis for a broad

alliance with as many of the Arab states as possible. Second, Egypt's "positive neutrality" was further reinforced through close coordination with other developing countries, particularly during the fifteenth session of the U.N general assembly in 1960, when Egypt participated actively in the deliberations on creating an African regional organisation and a Non-Aligned Movement. During the sessions, Nasser discussed with Nehru Egypt's troubles with USSR, and India's problems with China. They agreed that the "positively neutral" countries could only be tactically allied with the communist bloc. Hence, there was a need for strengthening cooperation amongst non-aligned nations. This led to the subsequent creation of the Non-Aligned Movement in 1961 (Heikal 1988:461-496; Bakr 1982:150-151). Last but not least, when Nasser and Khrushchev duelled over Arab nationalism, its relation to Marxism, and the role of Arab communists, Nasser attempted to re-activate his relations with the United States to counterbalance the Soviet favouritism for Kassem's Iraq. Thus, Egypt became a beneficiary of Public Law 480, and was receiving wheat shipments from the United States covering more than 50% of its wheat consumption (Woodward 1997:88). In 1961, during the peak of Nasser's tensions with Khrushchev, when Egyptian students in the USSR were subjected to harassment and political pressure, the United States accepted to transfer all 240 students to American universities (Heikal 1973:196). Although these gestures, alongside a series of cordial correspondence between Nasser and Kennedy, were only made possible by the heightening tensions between Egypt and the USSR, it seemed that Egypt and the United States had finally managed to find a *modus vivendi*.

These diplomatic efforts were not only a means of maintaining national independence, but were also crucial to facilitate the regime's development plans. The success of the first quintennial plan was largely dependent on Egypt's ability to use her diplomatic acumen to secure the necessary amounts of foreign aid to finance the ambitious populist and developmental plans, since around 50% of the plan was financed from outside resources. Egypt was, at the same time, a beneficiary of the United States wheat shipments, as well as a recipient of no less than 20% of the total credit commitments of the Soviet Union to developing countries (Amin 1974:9). Thanks to her policy of "positive neutrality" and leading regional role, both superpowers were willing to offer their economic assistance and invest in a working relationship with Egypt. A skilful foreign policy and a large "manoeuvring space" were, therefore, indispensable if Egypt's developmental nationalist plans were to bear the desired fruits.

Notwithstanding Nasser's efforts, Egypt's manoeuvring space shrank steadily in the 1960s, limiting Egypt's ability to use its foreign policy as a mechanism for containing the contradictions of the populist *étatisme*. In September 1961, less than three months after the "July 1961 socialist laws", which were particularly ill received by the influential Syrian bourgeoisie, Syria revoked the union. A combination of political and economic reasons were behind the secession, including the Syrian bourgeoisie's rejection of the "socialist laws", Abdel Hakim Amer's way of running Syria as his fiefdom, and the Saudi financial support for the secession (cf.: Heikal 1988:554-566; Woodward 1997:71). This blend of economic and foreign policy causes, led Nasser to undertake a major shift in his Arab policy. For the first time, he started emphasising that a true unity amongst Arab

states cannot be achieved without a social revolution that “sweeps the reactionary forces within the Arab world” (Youssef-Ahmad 1982:104). He also spoke about the “enemy within”, whose defeat was a pre-requisite to defeating the “enemy without”³⁵.

Thus, “unity-of-ranks” was replaced by the “unity-of-goal”, implying the need of ideological harmony amongst the Arab states. This reflected Nasser’s realisation that an alliance between the local Syrian bourgeoisie and conservative Arab regimes was the decisive factor behind the secession. It also corresponded to the heightening hostility between Nasser and Iraq’s Abdel Karim Kassem and the Syrian post-secession regime, and was further reinforced by Egypt’s active military support and involvement in Yemen from September 1962. The Yemeni Army officers that overthrew the *Imam’s* regime appealed to Nasser for help, and were soon granted what they wanted. The reasons, once more, were a combination of ideology and *realpolitik*. On one hand, Nasser, who was now regarded as the undisputed leader of Arab nationalism found it difficult to ignore the Yemeni officers’ call for help (Woodward 1997:78). On the other hand, Nasser’s support for the Yemeni officers offered him a foothold in the Arabian Peninsula, and a chance to regain the initiative after the secession blow.

Nasser thought that a political victory in Yemen would only take a limited military and technical support for the new regime. However, the situation soon turned into a war of attrition for the Egyptian army. Egypt increased her support to the new regime and her opponents received massive assistance from Saudi Arabia and Jordan. In less than two years, 70,000 troops were in Yemen, over one-third of the Egyptian Army (Ibid). The war

³⁵ On this transformation, see Marilyn Nasr’s (1983) excellent doctoral dissertation.

in Yemen was costing Egypt £E 100 million per annum, more than the cost of Egypt's wheat imports (Heikal 1990:185). Meanwhile, the 1960s also witnessed the fall of many of Nasser's international allies, from Ghana's Nkrumah, to Algeria's Ben Bella, Congo's Lumumba, Indonesia's Sukarno, and Sudan's Abboud. The demise of many of its historic leaders, the Sino-soviet split, and the Indo-China war delivered major blows to the Non-Aligned Movement. Finally, the prospects for a *modus vivendi* with the United States were aborted soon after Kennedy's assassination. Under President Johnson, three major problems soured American-Egyptian relations: the crises of Congo and Yemen; the renewal of the wheat deals (for which Johnson sought to extract a series of political concessions from Egypt in Yemen, Congo, and elsewhere), and increased U.S. support for Israel (Heikal 1973:226). Nasser was increasingly trapped between these crises with the United States and his political duel with Khrushchev. Regaining the regional and international manoeuvring space was essential to sustain the populist statist model that was consolidated with the first quinquennial plan.

Thus, in 1964, Nasser made another turning point in his foreign policy towards both the Arab world and the superpowers. Realising his strategic overstretch and economic drain as a result of the Arab cold war, particularly with the increased Egyptian involvement in Yemen, Nasser decided that the current circumstances demanded his acceptance of the existence of the Arab conservative regimes, and a more conciliatory strategy. He, therefore, attempted to revive the "unity-of-ranks" formula, and called for an Arab summit in Cairo in January 1964 to contain inter-Arab tensions, and face common threats. The Israeli plans to divert the waters of the Jordan River offered Nasser the

justification he needed for such a foreign policy shift. The summit was a successful change of approach by Nasser. This success, however, owes much to the fact that the 1963 coups in Iraq and Syria ridded Nasser of two of his enemies in the Levant, and replaced them with relatively pro-Nasser regimes. A second Arab summit took place in Casablanca in 1965. During it, Nasser attempted to push “unity-of-ranks” forward by seeking to negotiate a settlement of the Yemen war with King Faisal of Saudi Arabia (Heikal 1990:61-62).

However, these attempts came to naught, and the Arab cold war started anew with Faisal’s calls in 1965 for Islamic solidarity in lieu of Arab nationalism, and his call for an Islamic summit. Nasser viewed Faisal’s calls as a renewed form of Western pacts, since it implied allying with the pro-western Turkish, Iranian, and Pakistani regimes, and attacked it vigorously. Thus, Nasser’s attempt to redress the strategic overstretch caused by the Arab cold war and the Yemen war, which resulted in increasing economic and military burdens, failed, and he was forced to return, albeit reluctantly and at a very high economic and political cost, to the “unity-of-goal” formula (Youssef-Ahmad 1982:111-112).

In the meantime, Nasser sought to restore his relations with the Soviet Union, as he was increasingly giving up on having a working relation with Johnson. The fall of Kassem’s regime in 1963, and the rise of pro-Nasser regimes in Syria and Iraq made the USSR equally interested in ending the political duel with Egypt. Khrushchev’s visit to Cairo in May 1964 to celebrate the termination of the first phase of the Aswan High Dam offered

the opportunity for reconciliation, and Khrushchev spoke favourably about the “progressive, non-capitalist path to development” followed by Arab socialist countries (Heikal 1990:64-65). This rapprochement, however, was short-lived, as Khrushchev was removed from power on 13/10/64. Amongst the criticisms that he faced, and were “leaked” to Nasser, was the fact that the non-aligned, anti-communist Egypt received more Soviet aid than some members of the socialist bloc (Heikal 1990:78). Regardless how reliable this “leaked” information was, it had one meaning to Nasser: that he was not likely to get the same generous, unconditional assistance from the Soviet Union in the future. His manoeuvring space shrank substantially.

The short-lived rapprochement with Khrushchev, however, increased the tensions with the US, especially that it coincided with the end of the 3-year agreements of wheat shipments to Egypt signed in 1959 at the height of Nasser’s duel with Khrushchev³⁶. Negotiations to renew them reflected the increasing tensions between Egypt and the US over the rapprochement with Khrushchev as well as the Egyptian role in Yemen and Congo. Johnson’s administration offered to renew the wheat shipments but only for six months at a time (Heikal 1973:230), which Nasser rejected, as it was impossible to make any long-term economic plans when the future of 50% of Egypt’s key food import was so uncertain.

By 1965, therefore, it was becoming clear that Egypt’s ability to use foreign policy to resolve the internal politico-economic contradictions of populist *étatisme* and finance

³⁶ The first agreement of wheat shipments to Egypt according to Public law 480 was signed in 1959 and covered the years 1959, 1960, 1961, and in 1960 a second agreement was signed, covering 1962, 1963, 1964. See: Heikal (1990:180).

development plans was not sustainable. War in Yemen continued to drain Egypt's economic and military resources. The forced return to "unity-of-goal" and the resumption of the Arab cold war made it impossible to obtain economic assistance from conservative Arab regimes, and developments in Egypt's relations with the superpowers put serious constraints on Egypt's ability to mobilise external resources. Without foreign assistance, the populist-statist political economy began to flounder under its own contradictions. Thus began the restructuring process of Egyptian political economy and foreign policy.

3- The crisis of *étatisme* and origins of restructuring: 1965-1970

By 1965, Nasser was increasingly aware of the mounting domestic and international pressures that were threatening the future of his populist *étatisme*. In a speech on 12/2/1965, he openly declared "Year 1965 is going to be the most crucial year in our national struggle" (Matar 1975:166). The government could not decide on a second plan, due to uncertainties regarding its ability to mobilise sufficient resources to finance the developmental and populist goals. The discovery of the Muslim Brotherhood's plans to assassinate Nasser in the same year fuelled the regime's concerns for its domestic security and stability. Meanwhile, a plethora of foreign policy crises curbed Nasser's ability to use diplomatic acumen to contain domestic crises and sustain the populist statist model. Unable to cope with these mounting crises, the development of populist *étatisme* was brought to a halt, and restructuring became imperative.

A key argument in this study is that the seeds of the dramatic economic and foreign policy restructuring that are often attributed to the rise of president Sadat to power in

1970 were rooted in the very structure of the populist statist model itself. The crisis and the subsequent transformation of the economy and foreign policy were products of its inherent contradictions, and had started during the last five years of Nasser's rule. Like the rise of *étatisme* in post-1952 Egypt, its transformation was a result of the interplay of domestic and international factors, which I will seek to analyse in this section.

(3.1) The State

The simultaneous pursuit of developmental and distributive goals strained the limited resources of Nasser's populist *étatisme*. The revolution-from-above created an elite whose lifestyle and patterns of consumption further drained these resources. The ensuing resource crisis necessitated some form of economic retrenchment, and resulted in covert social conflicts over dividing the burdens of restructuring, which was determined, naturally, by the balance of power amongst the key social forces.

After the conclusion of the first quinquennial plan in 1965, the regime was facing a vicious resource dilemma (rising budget and balance-of-payment deficits, and falling foreign economic resources at the regime's disposal). In September 1965, Nasser appointed Zakariya Muhi al-Din, a founding member of the free officers who was allegedly rightist and well viewed in the west, as prime minister, with a mandate to negotiate a background stabilisation plan with the IMF, in lieu of Ali Sabri, who was more associated with the left, and whose appointment in 1964 symbolised the intensification of the "transition to socialism", and as such, was particularly suited to host Khrushchev's visit to Egypt³⁷.

³⁷ Generally speaking, Sabri's political fortunes (and misfortunes) were viewed as a barometer of Egyptian-Soviet relations (Rubenstein 1972:10).

Aziz Sidky, the flamboyant minister of industry, historically associated with the foundation of the ministry of industry and the ambitious industrialisation plans, was replaced by the technocratic and cautious Mustafa Khalil. Waterbury (1983:96) argued that these changes might have prompted Washington to approve in November 1965 an additional £E 20 million in Wheat sales.

The structure of the elite from the mid-1960s onwards, was conducive to this economic shift rightward. Three factors are particularly relevant here: a) the embourgeoisment of the military elite; b) the consolidation of the influence of the “new class” technocrats and senior bureaucrats; and c) the re-rise of the private bourgeoisie to form a latent, albeit influential interest group (Hinnebusch 1985:30).

Abdel Hakim Amer remained in full control of the military, notwithstanding his successive failures during the Suez crisis, in Syria and in Yemen. He was gradually turning the military into a personal fiefdom, and increasingly becoming a key representative of “anti-socialist” interests (Ibid:31). Officers permeated the state apparatus and were progressively emerging as the main beneficiaries of populist *étatisme*. All vice-presidents and prime ministers between 1954 and 1970 came from the military (El-Said 2002:174). The increasing militarisation of the bureaucracy, and diplomatic service led to stretching Amer’s patrimonial spheres of influence beyond the Army (Ibid: 172). The military elite underwent a rapid process of embourgeoisment, changed its lifestyle, increased its income, and married into upper-class families (Hinnebusch

1985:108)³⁸. As a result, they welcomed an economic shift rightward as a response to the economic crisis since the mid-1960s, since the alternative, economic austerity and deepening of the “socialist transformation” would have necessarily robbed them of their newly established lifestyle.

On the other hand, the failure of Nasser’s attempts to foster the “transition to socialism” and revolutionise the “political organisation” since 1963, further consolidated the role of the “new class” in the populist statist apparatus. ASU remained highly bureaucratised, torn between an appointed leadership at the top, and a base that co-opted traditional power structures in the countryside instead of revolutionising them. It had no significant role in recruiting political cadres. Only two of 131 cabinet ministers appointed between 1952 and 1968 came from the ASU ranks, whereas 83 of them held senior ASU positions during or after their cabinet appointment (Dekmejian 1971:269; Entelis 1974:458). Technocracy and bureaucracy, therefore, remained the key routes to political power amongst civilians during the years of the “transition to socialism”. Technocrats and senior bureaucrats were recruited from upper- and middle-class families (Hinnebusch 1985:16), and were, obviously, not willing to give up their privileges regardless of the intensity of the resource crisis. As such, they also backed the shift rightwards.

³⁸ Naguib Mahfouz, Egypt’s most prominent novelist brilliantly depicted this embourgeoisement of the military in his novel *The Mirrors*. Other novels, like *Miramar*, *The thief and the dogs*, and *Chat over the Nile* offered harsh criticism to the new class of technocrats and top bureaucrats.

Finally, an often-overlooked transformation in the post-1965 political economy is the re-emergence of the private bourgeoisie³⁹. The populist statist regime permitted the existence of “national capitalism”. Under the first quinquennial plan, some highly profitable sectors such as construction, agriculture, and trade were left to the private bourgeoisie, which was also able to obtain substantial subcontracts from the public sector (Hinnebusch 1985:29; Abdel Fadil 1974:29). This private bourgeoisie was linked through marriage, kinship, and corruption (through subcontracting) to the military and the bureaucracy, thereby becoming a covert interest group, whose interests were obviously best served by an economic shift rightward.

The aforementioned social disposition of the ruling determined the pattern of dividing the burdens of economic retrenchment during the resource crisis. Thus, seeking to redress the fiscal deficit, the government resorted in 1966 to raising indirect taxes (the burden of which is shouldered primarily by the low-income classes), and the prices of basic consumer goods rose by 2%-17% (Shoukri 1987:39). In the same year, public consumption (reflecting the untouched, or perhaps even rising, consumption levels of the ruling elite) rose by 10.9%, as did private deposits in Egyptian banks (reflecting the wealth amassed by the private and state bourgeoisies) (Ibid). The struggle for dividing the burdens of restructuring was decisively won by the elite trio: the military; the bureaucracy; and the private bourgeoisie.

³⁹ The term “private bourgeoisie” is not tautological, since it used to distinguish the private sector from the so-called “bureaucratic bourgeoisie” that constituted the “new class”.

The humiliating defeat of 1967 only pushed restructuring further, as a result of the accentuation of the resource crisis, and the need to divert much of the economic surplus to rebuild the army. The structure of the elite after the 1967 *naksa* (setback, as the defeat was officially referred to) was even more conducive to the transformation of populist *étatisme*. Apart from Amer and his entourage, who were dismissed or jailed, the role of the military in the populist statist apparatus remained intact, and indeed military expenditures rose sharply to rebuild the army. However, the increasing emphasis within the army on military discipline and professionalism to prepare for a liberation war meant that the steady flow of officers from the army to the top positions in the bureaucracy was brought to a halt. This led to a further rise in the role of the technocrats and bureaucrats, especially since Nasser decided to focus exclusively on rebuilding the army, and left the day-to-day running of the state to the bureaucracy. In the first government after the *Naksa*, senior positions were given to technocrats, and “officer-technocrats”⁴⁰. Likewise, the role of the private bourgeoisie was enhanced, as they benefited from the generous subcontracts for construction works needed to rebuild the army. Not surprisingly, the political economy shifted more towards the right, and populist policies were frozen.

As a result, the regime began to face the first serious challenge to its hegemony Nasser’s rise into power. Massive student and workers protests took place in 1968, initially to protest the light sentences that the military commanders responsible for the defeat received, but also to call for an overhauling of the political system, democratisation, cutting the privileges of the elite, adopting a war economy, and preparing for a “popular liberation war” (Beattie 1994:214-215), all of which were demands very difficult, if not

⁴⁰ Including Sayed Marei, Abdel Moneim Al-Qaisouni, and Mahmoud Younis (Mansfield 1969:195).

impossible, to implement given the social disposition of the elite. Nasser responded to the protest with the *March 30th Manifesto*, which promised ASU democratisation, offered some self-criticism, and emphasised the importance of a “scientific state”, i.e. a more efficiently managed state. In effect, the only change that took place was allowing more public debate in the newspapers. The Manifesto’s emphasis on the “scientific state” was a *de facto* reproduction of the “technocratic discourse”, reflecting the continuing, and indeed rising influence of the “new class”.

Nasser was well aware of the cracks in his regime’s support base as a result of the economic restructuring and the “setback”, and the challenge thereof to his regime’s hegemony. He considered, as many of his proponents argued⁴¹, the economic restructuring of the populist statist political economy and the “revolutionary” foreign policy a mere tactical retreat, and believed that “socialist transformation” could be restored after the liberation war. Meanwhile, besides paying lip service to the importance of the continuation of the “socialist transformation”, he made some “revolutionary gestures” to assure the public that “socialist transformation” was not over. Hence, a third law of agrarian reform was issued in 1969; and Nasser was quick to offer his political support to the “revolutionary” coups in Libya and Sudan (Hussein 1985:173-174). Nevertheless, the social disposition of the regime raised serious doubts about the chances of restoring populist *étatisme*. Nasser’s nomination of the “rightist” *Zakariyya Muhi al-Din* as a possible heir after the *Naksa*, and of “rightist” Sadat as his vice president two

⁴¹ See Hussein’s (1985:173-174) polemical defence of this allegedly “tactical retreat”.

years later, had revealing indications⁴². In any case, Nasser's sudden death in 1970 removed an important constraint on economic and foreign policy restructuring –his charismatic legacy with its populist burdens⁴³. Restructuring could, therefore, continue, this time at full steam.

(3.2) Economic structures and Policies

Notwithstanding its successes, the first quinquennial plan, which terminated in 1965, demonstrated three inter-related weaknesses in populist *étatisme*: a) the dilemma of surplus mobilisation; b) surplus squandering; and c) over-investment and idle capacity. First, the pursuit of simultaneous production and consumption increases, and the regime's reluctance to squeeze the privileges of the "new class" and mobilise resources domestically led to over-reliance on external financing from both superpowers through foreign policy acumen and manoeuvres. By 1965, foreign policy crises accentuated the resource mobilisation dilemma and forced economic restructuring. Second, the rise of subcontracting to the private sector contributed significantly to squandering the limited economic surplus available. The private sector undertook 70% of the construction works of the plan via subcontracts that involved no less than 5% commission and 22% administration fees. The value of these subcontracts was estimated at £E 490 million, and was therefore seriously draining the economic surplus (Abdel Fadil 1974:29). Finally, as Amin (1974:57-58) argued, the plan was based on exaggerated assumptions regarding the

⁴² The "rightist" implications of the choice of *Muhi al-Din* (cf.: Shukrallah 1999; Shoukri 1987) were firmly denied by Mohamed Heikal (Matar 1975:159). Ironically, Heikal (1990:848) himself later argued that *Muhi al-Din* was chosen since he was better suited to deal with the west, particularly the United States. On the "rightist" implications of the choice of Sadat, see: Baydoon et. al. (2002:113).

⁴³ It was this charismatic legacy and its burdens that led Nasser to war in 1967 (see sections 3.2 and 3.4), and his attempt to maintain it was behind the limited populist gestures after the *Naksa*.

ability to export manufactured goods and maintain high levels of foreign assistance. Factories were therefore built at a scale well beyond the size of the home market. When exports fell well below expectations, and imports rose, causing a foreign currency crisis, the government became unable to supply the necessary raw materials and spare parts needed to keep these factories functioning at their full capacity. By the fiscal year 1965/1966, it was estimated that 25% of the productive capacity of nationalised industries was idle.

None of these three weaknesses was a strictly technical “economic” problem. They were rooted in the prevailing social structures within the populist statist regime. The surplus mobilisation problem reflected the embourgeoisment of the military and the rise of the “new class” of bureaucrats and technocrats. Surplus squandering via subcontracting was in part a result of the intimate links developed between the state elite and the private bourgeoisie. Other parts of the economic surplus were wasted due to the conspicuous consumption levels of the elite, referred to in subsection 2.2 above. Idle capacity was as much a result of the technical mistake of overestimating the ideal sizes of projects and overlooking the links between the different projects (Abdel Fadil 1974:29-30), as it was a reflection of the insistence of the new elite on projects that catered for a small market of financially privileged individuals, and were dependent on imported components (e.g. private cars, refrigerators, air conditioners, and so forth).

Likewise, it was the same social structures that determined the distribution of the burdens of the austerity plan of Zakariyya Muhi al-Din’s government. The privileges of the

powerful “new class”, and the rising private bourgeoisie remained intact. It was the populist aspects of *étatisme* that were the key victim of economic restructuring. And the populist alliance began to crack. Muhi al-Din’s government’s call for “economic rationalisation” meant an increase in prices and indirect taxes, together with an attempt to encourage private foreign investment (Cooper 1982:37). Law 51 of 1966 provided for the creation of a “free zone” in Port Said for foreign capital with several guarantees against nationalisation (Abdel Khalek 1983:80). Although this law was never implemented, due to the 1967 war and the closure of the whole Suez Canal zone, it was indicative of the government’s new economic plans.

Meanwhile, the new class continued to grow in size and influence. The civil service, for instance, grew, notwithstanding the “austerity” plans, by a staggering 15% per annum until 1967 (Amin 1974:84). A large black market emerged for the luxury durables to cater for the needs of the “new class” and the rising bourgeoisie, and the government created “dollar shops”, first in the airports, then in the centre of Cairo, which acted as “legalised black markets” (Wahba 1994, p115). As consumption rose steadily after the first plan, domestic savings fell by 13.7% (Shoukri 1987:39), accentuating the resource gap. The private sector continued to flourish. Bank deposits doubled in one year (1966), rising from £E 11.2 million to £E 27.8 million (Ibid). Holders of foreign currency were allowed to invest their money in foreign accounts in the Arab African Bank – which acted like a sort of offshore bank in Egypt (Ibid:116). In the countryside, the influence of middle landowners, who were marginally affected by the land reform, rose steadily. They continued to consume a disproportionately large share of subsidised agricultural inputs

(Hinnebusch 1985:27), whilst shifting their production to the more profitable cash crops. The burden of restructuring, therefore, fell exclusively on lower-middle and working classes. Prices of necessary consumer goods rose significantly in 1966/1967, and their consumption fell between 5.2 and 27% (Shoukri 1987:39), reflecting the declining standards of living of the lower classes.

The heightening of the crisis, and the subsequent waning of the regime's populist coalition, put immense pressures on the regime's legitimacy, which depended, at least in part, on its populist achievements. In such conditions, Nasser was particularly vulnerable to the pressures to support the mounting Syrian-PLO challenge to Israel, since he could hardly afford another blow to the other aspect of his charismatic legitimacy – his leadership of the "Arab cause" (Hinnebusch 1985:35). A foreign policy gamble, meant to relieve the pressures that were building on the legitimacy of the regime, gave the expansionist party in the Israeli government a chance to attack him (Ibid). And the results were catastrophic.

The humiliating defeat dealt a lethal blow to populist *étatisme*. Alongside the physical destruction, the government lost major sources of revenue. The Suez Canal was closed indefinitely, tourism deteriorated, and the Israeli occupation of Sinai deprived Egypt of the oilfields that were responsible for more than half Egypt's oil production (Mansfield 1969:175). The necessary diversion of resources to rebuild the army put momentous pressures on the regime's limited resources, and led to further abandoning of the regime's populist commitments, according to the regime's new slogan "*no voice shall be louder*

than the battle". After the "setback", an emergency budget was introduced, raising taxes, reducing allowances, and further increasing the prices of non-absolute necessities (Ibid).

The impact of the defeat, however, went far beyond the mere accentuation of the regime's economic dilemma. The legitimacy of the populist statist regime was deeply shaken, and calls for reform mounted. Two restructuring alternatives were possible: a) austerity and the adoption of a war economy; or b) economic liberalization and attempting to secure private and foreign economic resources. The February 1968 demonstrations, as was argued earlier, were essentially a call for the first strategy (Beattie 1994:229). On the other hand, the social disposition of the ruling elite, the forced reconciliation with Arab conservative regimes in Khartoum summit and the regime's reliance on their economic assistance, and the ability of the government to extract resources more easily from the public sector and the popular classes than the private sector and the "new class", rendered this option futile. A rightward shift was more likely. Senior rightist economic advisors⁴⁴ urged Nasser to relax restrictions on private and foreign capital, arguing that this is necessary to ease the pressures on the economy and open up alternative investment channels (Beattie 1994:223). A new policy, known as "the economic and financial reform" was launched in May 1968 (Wahba 1994:99-100), offering incentives to the private sector and emphasising the need to manage the public sector more efficiently and make profits. As a result, the role of the private sector continued to rise, benefiting from the liberalisation package, and relying on the generous subcontracts for construction works needed to rebuild the army. The role of the "new class" technocrats, and their standard of living remained intact, and indeed continued to

⁴⁴ Including, Abdel Moneim Al-Qaisouni, Hassan Abbas Zaki, and Moustafa Kamel Mourad.

rise in spite of the alleged austerity and diversion of resources for military efforts. The imports of luxury goods actually rose sharply. As Cooper (1982:57) reported, the imports of cars in 1970 alone were greater than total imports between 1963 and 1967. Similarly, the black market and the “Dollar shops” continued to flourish. Thus, it can be argued that the “setback” further pushed the dismantling of populist *étatisme*, and indeed facilitated the process, since all reductions in the populist allowances could be blamed on the “setback”, and any populist protest could be silenced on the grounds that “*no voice should be louder than the battle*”.

(3.3) Ideology

Given the empirical and pragmatic nature of the populist-statist regime, its ideological statements were more often than not serving the *ex post* function of legitimising the regime’s political and economic choices rather than the *ex ante* function of guiding them. This was particularly true after 1965, when the regime was forced to restructure its populist *étatisme* in response to domestic and external pressures. The ideological discourse sought to contain these mounting pressures and to legitimise the rightward shift through three main steps: a) emphasising the “technocratic” and apolitical nature of the rightward shift; b) co-opting any potential leftist opposition; and c) adopting a more accommodating foreign policy towards Egypt’s regional and international environments.

The regime’s persistent emphasis on the technical nature of its policy choices, which had helped disguise the class interests behind them, was used after 1965 to legitimise the shift rightward as a technical necessity rather than as an outcome of the balance of power

amongst the key social forces. Nasser, addressing the public sector companies' directors at the "Production Congress" in March 1967, spoke about the "science of management", refusing the existence of such a thing as a "socialist or capitalist management" (i.e. emphasising the technocratic approach to administering political economy), and went even further to argue that "wages should be linked to productivity, and that socialism does not mean equal wages but equal opportunities to work" (Waterbury 1983:99; Wahba 1994:99). An equal emphasis was put on the importance of profitability as the key criterion of assessing the performance of the public sector.

A simultaneous effort was made to contain any possible opposition from the left. The regime reached a deal with the communist movement whereby the imprisoned communists were released, and in return, the Egyptian communist party dissolved itself, and its members individually joined ASU. They were allowed to appear in the media, and a Marxist journal "*Al-Tali'a*" was created for them within *Al-Ahram*. They were also invited to join the staff of the "Institute for Socialist Studies", which remained under tight control from the regime's "centrists" (Beattie 1994:220). Thus, the regime managed to prevent any leftist opposition from threatening its already strained social alliance by co-opting the communist movement and making its members part of the domestic political game, abiding by its rules and red lines.

Meanwhile, Heikal wrote a series of articles calling for "neutralising the United States" (Heikal 1982:38) and the need for a more balanced approach to foreign policy in lieu of the prevailing confrontational line. These articles launched a major debate between

Heikal and *Al-Ahram* on one side, and leftist intellectuals writing at *Al-Jumhuriya*, and *Al-Akhbar*, over the foreign policy orientation, and implicitly over the general orientation of the populist statist regime itself⁴⁵. This debate highlighted the emerging “role conflict”, as the regime was trapped between the pressures to follow an accommodating foreign policy to contain the pressures on the regime and maintain its “manoeuvring space” on one hand, and the calls for escalation against Israel from Syria and the PLO on the other. The latter presented a serious challenge to Nasser’s charismatic leadership of the “revolutionary camp” in the Arab world, and eventually led to the series of developments that resulted in the humiliating defeat of June 1967⁴⁶.

The impact of the defeat, however, went far beyond the mere territorial losses, physical damages, and accentuation of the regime’s economic dilemma. It led to a wave of self-doubt, and harsh self-criticism, questioning, not only the military performance, but also the *raison d’être* of the populist-statist regime itself and its nationalist ideology, and investing the “setback” with broader intellectual and political meanings. Syrian scholar Sadeq Al-Azm (1969) wrote a particularly harsh treatise in self-criticism. Poets Nizar Qabbani and Adonis wrote bitterly on the broader meanings of the “setback”⁴⁷. In Egypt, the poet Ahmad Fouad Negm, and populist singer Sheikh Imam launched a new genre of songs hitherto unknown in Egypt – the underground opposition songs, mocking the generals’ corruption and triumphalist rhetoric, and calling for a “popular war” *à la Viet*

⁴⁵ Cooper (1982:41) took note of that debate, but inaccurately mentioned that it started after 1967 defeat rather than from 1965. The debate intensified after 1967, but it started as early as 1965 (see: Heikal 1982).

⁴⁶ More details of these events will be offered in the next subsection.

⁴⁷ Qabbani’s bitter poem “footnotes in the setback’s notebook” was secretly copied and circulated in Cairo, after the censorship refused to publish it, and the renowned Syrian poet was denied entry to Egypt for a few months after the “setback”.

Kong. Ahmed Baha' al-Din (1968) tried to invest the “setback” in broader intellectual contexts, arguing that the Israeli challenge is a “civilisational” challenge, not just a military one, and implying that the defeat was due to failed modernization. Furthermore, students and workers’ demonstrations in February 1968 highlighted the cracks in the “support base” of the regime, and indicated that the popular support for Nasser, when hundreds of thousands poured onto Cairo’s streets on 9 and 10/6/1967 asking him to stay in office, was no longer unqualified.

In response to these pressures, the regime issued its third ideological document – the *March 30th Manifesto*, which stressed three key principles: a) reconstruction of the armed forces; b) economic steadfastness (*sumud*); and c) reconstruction of the domestic front and ASU reforms (Wahba 1994:99). Promises to reform the ASU, however, soon evaporated, and political reforms amounted to little more than some relaxation of the limits on public debates. The real ideological implications of the manifesto for the restructuring of populist *étatisme* were twofold. First, the regime’s declared foreign policy priority was to “remove the traces of aggression”, i.e. to focus on regaining the territories occupied in 1967. All other “revolutionary” ambitions to “liberate Palestine”, or for that matter, to revolutionise the Arab world via the “unity-of-goal” strategy, were postponed indefinitely. This signalled a decisive shift to the milder “unity-of-ranks” formula, especially with the increased dependence on the economic support of conservative Arab regimes after the Khartoum summit in August 1967. Domestically, the adjacent slogan “no voice should be louder than the battle” offered a pretext for the sharp decline in the regime’s populist commitments, on the grounds that all resources

should be diverted to rebuilding the army. Second, in the same vein, the manifesto's emphasis on the importance of a "scientific state" was a *de facto* reproduction of the regime's "technocratic" arguments, which reflected the rising influence of the "new class" after the "setback".

The regime's economic shift rightward after the "setback" was reflected in the increased emphasis on the "profitability" of the public sector, and the explicit calls for economic liberalisation. In his May Day speech in 1968, Nasser declared the new policy of "economic and financial reform", stated the need for managing the public sector in a more profitable way, and argued, "we need the private sector...we want to encourage national capital and not frighten it off" (Wahba 1994:99-100,119). His minister of finance, Abdel Aziz Hegazi, went on to argue that profit-sharing schemes –a key populist achievement of the July 1961 "socialist" laws– should be confined to highly productive workers only. He also launched the first attack on the government commitment to full employment, arguing that the solution to the unemployment problem should be "adopting an open door policy in exporting surplus labour" (Ibid:100-101). For the first time since the crisis of populist *étatisme* surfaced in 1965, the government was explicitly indicating its support for the private sector, and retreating from its commitments to populist *étatisme*. The "setback", and the ensuing emphasis on "*removing the traces of aggression*", provided the pretext needed for speeding up the process of restructuring populist *étatisme* that had already begun right after the end of the first quintennial plan.

This post-setback ideological discourse intensified the “role conflict” that emerged since 1965. The “setback” forced an irreversible shift to “unity-of-ranks” and conciliation with the “reactionary” Arab regimes, and made Nasser an easy prey to the attacks from other “revolutionary” Arabs, particularly, Syria and the PLO. Heikal (1982:65-69) responded with a series of articles in *Al-Ahram* on 5/9/1967, 27/9/1967, 20/10/1967 and 29/12/1967, refusing what he termed “revolutionary auctioneering⁴⁸”, and emphasising the priority of “removing the traces of aggression”

Furthermore, tactical considerations during the war of attrition (1969-1970), particularly Nasser’s acceptance of the U.S. secretary of state William Rogers’ initiative, calling for a six-month ceasefire in 1970 made him the subject of bitter political attacks from the PLO, and forced him to close the Cairo-based “voice of Palestine” radio. Combined together, these pressures led to making Egypt’s claims on her “national role in leading the Arab revolution” all the more problematic. In response, the official discourse on Egypt’s national role highlighted, for the very first time since Nasser popularised the concept of national role in his *Philosophy of the Revolution*, the “structural” nature of Egypt’s leading role in the Arab world. Egypt’s leadership was, therefore, structural (i.e. based on natural gifts that necessitate Egyptian leadership of the Arab world) rather than political (i.e. subject to the adoption of a certain set of policies that appeal to a broader Arab constituency and legitimises Egyptian leadership). On January 22nd, 1968 the Cairo-based “Voice of the Arabs” radio argued “Egypt has a special role in the issue...of joint Arab action. It is up to Egypt to come up with a suitable formula [for achieving Arab unity, and

⁴⁸ The concept of “revolutionary auctioneering” as used by Heikal, was akin to Lenin’s famous accusation of the “infantile disorder” of the adventurist left.

struggling against Israel], since Egypt, perhaps alone, is required to make an accurate assessment. This special role assigned to Egypt, is indeed a special responsibility which Egypt must accept” (cf.: Holsti 1970:261). In a very influential study, geographer Gamal Hemdan (1995 [1969]) argued that Egypt’s role is a result of the dictates of the region’s geography and history – a structural phenomenon, that is. Mohamed Heikal and many others followed suit. This emphasis on the structural nature of Egypt’s role had an important, albeit implicit, corollary – that Egypt can follow whatever policies she chooses without harming her leading role in the region. By the same token, no other Arab regime, however revolutionary, rich, or both, can replace Egypt as the leader of the region.

This emphasis on the structural nature of the role allowed the regime to maintain its claims to Arab leadership, regardless of the transformations of its economy and foreign policy, and was therefore, maintained by Nasser’s successors who found it, as I will argue in the following chapters, a particularly convenient tool to defend the dramatic economic and foreign policy reorientation after 1970.

(3.4) Foreign Policy

By 1965, the short-lived attempt to follow a conciliatory foreign policy and regain the much-needed “manoeuvring space” had already terminated. The Arab cold war was escalating rapidly, with Egypt involved in a bitter war-by-proxy against Saudi Arabia in Yemen, as well as a diplomatic duel over King Faisal’s call for “Islamic solidarity” instead of Arab nationalism. The Egyptian intervention in Yemen was, as Doran (2001:112) argued, a textbook case of strategic overstretch. The Egyptian army was

deployed over the whole of the Yemeni territory, fighting against the Saudi-funded “royalist” tribes, as well as French, Belgian and British mercenary forces (Heikal 1982:57). The increasing involvement in Yemen also worsened Egypt’s already tense relations with Johnson’s administration, and forced Nasser into an uncomfortable reliance on the USSR (Doran 2001:113), particularly when the post-Khrushchev leadership was indicating that their support for the regime was not going to be as generous or unconditional. Nasser’s attempt to reach a peaceful settlement with Saudi Arabia during the Casablanca summit to reinforce the much-needed “unity-of-ranks” formula failed. Nasser was forced to make an ill-timed return to “unity-of-goal” strategy, and the Arab cold war continued to drain his regime. All the regime could do was to limit its military attrition in Yemen via re-deploying its troops in spring 1966 to the three main cities (San’a, Ta’ez, and Hodaida), and leaving the rest of the battlefield to the nascent Yemeni republican army and its supporting tribes (Baydoon et. al:70). However, with more than one third of the Egyptian army in Yemen, and over 1000 soldiers lost in the war of attrition (Woodward 1997:79), the resource drain was far from over.

Meanwhile, other “revolutionary” Arabs dealt the final blow to Nasser’s attempts to contain the Arab cold war. The Syrians were championing a hard-line version of anti-Zionism, and calling for an immediate war to liberate Palestine, thereby embarrassing Cairo and threatening Nasser’s Arab leadership. Jordan, which was another target of Syrian agitating propaganda, defended her unwillingness to fight by pointing out to the weak Egyptian resistance to Israel (Doran 2001:113). Throughout the early 1960s, Egypt

resisted these calls to escalate with Israel, trying to strike a balance between supporting the Palestinians politically, and not being dragged to an untimely war with Israel (Ibid).

However, with domestic problems threatening the populist statist model, Nasser was much more vulnerable to any further challenge to his charismatic leadership. He sought to respond with a calculated escalation. Thus when the Soviets reported to him an alleged Israeli military build up on the Syrian borders, Nasser remilitarised Sinai hoping that his brinkmanship would be enough to deter Israel from attacking Syria, since she would then have to fight simultaneously on two fronts, and in the meantime regaining his political clout in the Levant (Woodward 1997:108-110; Doran 2001:114). Nasser was, however, challenged to ask the UN forces (UNEF) on the Egyptian side of the borders with Israel to withdraw to show his seriousness in going to war if need be. Nasser continued with his political brinkmanship⁴⁹, asking UN secretary-general U Thant for a partial withdrawal of UNEF from Sinai⁵⁰. When U Thant refused to make a partial withdrawal, arguing that UNEF would either stay or withdraw completely from the borders, Nasser had no choice but to ask for a complete withdrawal, and some 80,000 Egyptian troops were hesitantly sent to Sinai on 21/5/1967, closing the Aqaba gulf to Israeli shipping. This offered Israel a *casus belli* that was too good to miss (Woodward 1992:110). On 5/6/1967, war broke out, and Egypt experienced an unprecedentedly humiliating defeat.

⁴⁹ The following summary of the build up to the 1967 war is based on: Heikal (1990); Bregman and El-Tahri (1998); Woodward (1992).

⁵⁰ Egypt's initial request was a UNEF withdrawal from the area between Eilat and Gaza, whilst maintaining UNEF presence in Gaza, and in Sharm El Sheikh, which overlooks the Tiran Straits and controls the Aqaba gulf. Nasser's initial intentions, therefore, were not to close the Aqaba gulf to Israeli shipping – an act that Israel would not have tolerated.

The scale of the defeat forced a major restructuring of Nasser's foreign policy that was compatible with the restructuring of the populist-statist political economy. The key foreign policy objective became to "remove the traces of the aggression". Any ambitious goals to revolutionise and unite the Arab world or liberate Palestine were postponed indefinitely. Rebuilding the army became a priority, and Nasser sought financial support from the oil-rich conservative Arab regimes. At the Khartoum summit in August 1967, Saudi Arabia, Kuwait and Libya agreed to pay Egypt £E135 million annually until the lost land and revenue had been restored. This reliance on conservative Arabs' support marked an irreversible termination of the "unity-of-goal" policy. Khartoum summit also witnessed an Egyptian-Saudi agreement to end the war in Yemen, and Egyptian troops could thus make a hasty withdrawal from Yemen to concentrate on preparing for the liberation war.

On the other hand, however, Egypt was becoming increasingly dependent on the USSR to rebuild the army. Soviet arms shipments resumed from July 1967, and were dramatically increased after Nasser's "secret" visit to Moscow in January 1970 (Heikal 1982:46). Convinced that some form of military escalation was indispensable for achieving a political settlement that forced an Israeli withdrawal, Nasser declared a "war of attrition", based on hit-and-run attacks by Egyptian troops in Sinai, as well as artillery attacks. The main goal of the "war of attrition" was to prevent a *de facto* annexation of the Egyptian occupied land (Woodward 1997:123).

Meanwhile, Nasser remained open to a political settlement that secured a “removal of all traces of aggression”. Thus he accepted the UN resolution 242 on 22/11/1967. When William Rogers proposed his plan⁵¹ in 1969 to secure an Israeli withdrawal from Sinai, end the state of war between Egypt and Israel, and re-open the Suez Canal, both Egypt and Israel rejected the plan. Israel refused the calls for a complete withdrawal from Sinai, whereas Egypt refused a settlement that excluded other territories occupied in 1967 (Heikal 1996b: 146-147). On 19/6/1970 Rogers presented a more modest initiative calling for a 90-days ceasefire, during which UN envoy Gunnar Jarring would seek an implementation of resolution 242. Nasser accepted the initiative on 22/7/1970 for two reasons: a) that it entailed a comprehensive solution based on resolution 242, not a bilateral settlement between Egypt and Israel like Rogers’ earlier plan; and b) that it gave him time to continue the installation of the Soviet missile system Sam-3 (known in Egypt as the missile wall), which was indispensable for defending Egyptian territories against Israeli air raids, as well as any potential troops crossing of the Suez Canal⁵². Nasser’s acceptance of the initiative, however, led to increasing tensions with, and bitter attacks from the Palestinians and other members of the “revolutionary camp”, who accused him of appeasement and backing down from the “war of attrition”. Nasser responded by closing the Cairo-based *Voice of Palestine* radio.

Although the 1967 war and its aftermath pushed Nasser on the defensive, forcing him to abandon any ambitious discourse on Arab unity, revolution and the liberation of

⁵¹ Many writers tend to confuse Rogers’ plan in 1969 with his initiative in 1970, thereby making the inaccurate claim that Nasser accepted Rogers’ plan.

⁵² Three years later, this “missile wall” proved crucial for covering the Egyptian troops that crossed the Suez canal during the October 1973 war.

Palestine, he sought to maintain as much as he could of his charismatic leadership of the Arab world, and perhaps regain some political initiative via some revolutionary gestures such as backing the “revolutionary coups” in Libya and Sudan. In the same vein, he continued his support for the PLO, notwithstanding the latter’s bitter attacks and “revolutionary auctioneering”. Thus, Egypt was quick to contain the Lebanese-Palestinian clashes in 1969, and impose the Cairo accord between the Lebanese government and the PLO. Similarly, following the events of “Black September” of 1970 in Amman, Nasser spent his last hours working out a ceasefire. Less than 24 hours after the ceasefire was agreed in the Cairo Summit, Nasser died on 28/9/1970.

4- Conclusion: The Patterns of Interplay of Egyptian Political Economy and Foreign Policy

Post-1952 Egyptian foreign policy was planned and conducted within the broad framework of developmental nationalism. National independence and economic development were intrinsically linked. After the achievement of Egypt’s formal independence, foreign policy was primarily recruited to the national development tasks. Its development was fundamentally linked to the rise of populist *étatisme*, as well as to its subsequent crisis and restructuring.

Throughout Nasser’s era, foreign policy served two main functions. First, it constituted an essential mechanism for the development of *populist étatisme*, and containing the inherent contradictions thereof. The restructuring of the regime’s domestic alliances in the aftermath of the Suez crisis in 1956 (excluding foreign and *Mutamassir* capitalists),

and the disintegration of the UAR in 1961 (downplaying the role of the private national bourgeoisie), are but two examples of the role of foreign policy in augmenting the populist-statist political economy and furthering its development. On the other hand, it was through diplomatic acumen and ability to secure foreign assistance from both the east and west that Nasser was able to meet the conflicting demands of his populist *étatisme*, and conduct a military/technocratic populism-from-above. Foreign policy was a key mechanism for muffling the regime's inherent contradictions. When a series of foreign policy crises limited his ability to resolve the domestic resource gap through mobilising foreign economic resources, the populist statist political economy crumbled and restructuring was inevitable.

Second, foreign policy was a major source of the regime's hegemony, alongside its developmental and populist policies. When the restructuring of populist *étatisme* forced forfeiting some of the regime's earlier populist achievements, Nasser could not afford any further blows to the reputation he had gained through his foreign policy achievements. He therefore became more vulnerable to the calls to adopt a more aggressive policy towards Israel, hence, his political brinkmanship and major blunder in 1967. The resulting defeat accelerated the dismantling of populist *étatisme*, and indeed facilitated it, since all reductions in the populist allowances could be blamed on the "setback" rather than the social disposition of the ruling elite, and social protest could be silenced on the grounds that "*no voice should be louder than the battle*".

The different shifts in the regime's foreign policy orientation, from seeking cooperation with the west to a troubled alliance with the USSR, as well as the back-and-forth shift between "unity-of-ranks" and "unity-of-goal", corresponded to the development of the populist-statist political economy, and the need to adjust the foreign policy to the conflicting needs of the regime's populism-from-above. Several foreign policy decisions (e.g. the short-lived return to the "unity-of-ranks" formula in 1964, and the decision to restore relations with the conservative Arab regimes after the "setback" and discard popular demands for a war economy and a "popular liberation war") were influenced by the social disposition of the ruling elite, and its resistance to any attempts to curb its privileges, thereby, rendering impossible any demands for a more "radical" shift as an outlet of the resource crisis.

Two main contradictions, however, faced the process of restructuring populist *étatisme* after the 1967 "setback": a) Nasser's charismatic legacy, and his need to preserve his legitimacy, which led him occasionally to make populist gestures, including issuing in 1969 a third "agrarian reform law", slowing down the pace of liberalisation, and putting some limits on its scope; and b) the contradiction between the political-military crisis after the setback which forced a "leftward" shift of foreign policy towards increased reliance on USSR for support to rebuild the army and prepare for a coming liberation war, and the economic shift rightwards. The death of Nasser in 1970 resolved the first contradiction. The second remained for the succeeding regime to deal with and seek to resolve.

Chapter III

The First Wave of Restructuring

*Fearful I am that a day will come
Which they will call "Victory"
To find that we have recaptured Sinai
But relinquished Egypt
Gamal Bekheet⁵³*

This chapter seeks to examine the extensive restructuring process of the Egyptian political economy and foreign policy Anwar Sadat's reign. It does not, however, accept the mainstream argument that these changes were a function of the different policy preferences and value system of the new president. Instead, it argues that changes of such magnitude were reflective of the rise of broader social forces that developed within the earlier populist-statist apparatus under Nasser, particularly after 1965.

The death of Nasser removed one of the two key contradictions that hampered restructuring. His successor faced two urgent tasks: a) to consolidate his authority, restructure the ruling elite to reflect the prevailing social forces, and remove any institutional obstacles facing the restructuring process that had started in the last five years of Nasser's reign; and b) to resolve the regime's central dilemma, namely, the contradiction between the political-military crisis after the "setback" which forced a leftward shift of foreign policy towards increased reliance on USSR in order to rebuild the army, and the economic shift rightwards.

⁵³ From a poem that he read during the student protests in 1972. The same theme, and almost the same wording, was later adopted by a song by Sheikh Imam and Ahmed Fouad Negm, circa 1979.

The October 1973 war represented a major turning point, at which these two tasks were finally accomplished. The war established a new source of legitimacy for Sadat's regime, independent from Nasser's legacy. Consequently, the transformation of Egyptian political economy and foreign policy gained much impetus in its aftermath, particularly during the first three years of *infitah* (1974-1977).

This chapter will be divided into four sections. The first will examine the regime's initial efforts to resolve the inherited contradictions from the populist-statist era and consolidate its rule between 1970 and 1973. The second and third will examine, respectively, restructuring during the *infitah* years (1974-1977), and the mounting crisis of the *infitah* political economy and the new foreign policy, which started with the 1977 bread riots and culminated abruptly with Sadat's assassination in 1981. The fourth will seek to abstract the patterns of interplay between Egyptian political economy and foreign policy during the 1970s.

1- Establishing a new political order: 1970-1973

Sadat's rise to power corresponded to the continued ascendance of the social forces that had favoured the restructuring of the populist *étatisme* since 1965. Consequently, restructuring proceeded in the early 1970s, albeit in a zigzag manner, due to: a) Sadat's lack of an independent source of legitimacy, which forced him to emphasise the continuity with Nasser's policies, thereby limiting the pace and scope of transformation; and b) the fundamental contradiction between the political economy and foreign policy under the conditions of the occupation of Sinai.

The regime's continued shift rightwards, however, gave rise to an increasing wave of protest especially with the regime's failure to make any progress towards recovering Sinai. Between the rising protests and the failure of Sadat's attempts in 1971 and 1972 to recover Sinai peacefully, the regime was left with no options but military escalation. Thus came the October 1973 war.

(1.1) The State

Nasser's death revealed deep inter-elite divisions that had existed for years before his death but were held in check by his charismatic leadership. On one hand, there was a small, but relatively cohesive, "left-wing" faction clustering around Ali Sabri, and consisting mainly of second-tier officers and bureaucrats, who were associated with the turn the populist *étatisme* had taken during the early 1960s, and perceived themselves as the true heirs of "Nasserism". It included cabinet ministers such as Amin Howeidi, Mohamed Fayek, Samy Sharaf, and Saha'rawi Gum'a⁵⁴; in addition to senior ASU leaders such as Dia' al-Din Dawoud, Abd al-Mohsen Abd al-Nour, and Labib Shoukeir (Farahat 1978:21; Beattie 2000:40-41).

On the other hand, vice-president Anwar Sadat, who was known to have had some reservations on the 1960s "socialist" developments, was supported by a larger, albeit less homogenous, conservative faction, including veteran free officers Hussein al-Shafe'i, Abd al-Latif al-Boghdadi, Zakariyya Muhi al-Din and Kamal al-Din Hussein, all of whom were allegedly rightist, and indeed had on occasions voiced reservations on July

⁵⁴ Secretary of state and former chief of intelligence; minister of information; secretary of state for presidential affairs; and minister of interior, respectively.

1961 “socialist laws”. Veteran diplomat Mahmoud Fawzi, influential journalist Mohamed Heikal, as well as conservative “new class” technocrats such as Sayed Marei, al-Qaisouni and Abd al-Aziz Hegazi also supported Sadat (Hinnebusch 1985:41-42; Chalabi 2000:54).

Notwithstanding the first group’s claims, Sadat was Nasser’s obvious successor, being the vice-president since December 1969, hence the constitutional candidate for presidency, as well as one of the two remaining senior free officers in power (alongside Hussein al-Shafe’i). However, to avoid an unwanted confrontation, a compromise was reached, whereby Sabri’s group accepted Sadat’s presidency pending the latter’s acceptance of the creation of a collective leadership that would be consulted on all major issues, and whose decision will made by majority voting. Sadat also agreed not to assume the position of prime minister, and to appoint Sabri as vice-president (Beattie 2000:42-43).

Under this compromise, Sadat was at best *primus inter pares*. His most immediate task, therefore, became to establish his own authority. To do so, Sadat’s strategy was threefold. First, he emphasised continuities with Nasser’s regime and maintained that he was Nasser’s true heir, thereby undermining his opponents. Second, he gradually emphasised his authority, and skilfully outmanoeuvred his opponents in the May 1971 power-struggle, emerging therefrom as Egypt’s unchallenged ruler. Finally, Sadat managed to broaden his support base, appealing to a broader “right-wing” constituency, including

representatives of the pre-1952 private bourgeoisie, the conservative rural middle class, as well as members of the Muslim brotherhood.

In his “nomination” speech, Sadat appealed to the electorate to vote for him in the referendum to continue “along the path of Nasser” (Mohamed 1990:115). After the referendum, his appointment of the 72-year-old veteran diplomat/statesman Mahmoud Fawzi as his first prime minister served the twin purposes of a) confirming continuity with Nasser’s era, especially since Fawzi’s government maintained many of the members of Nasser’s last cabinet; and b) presenting a cautious challenge before Sabri’s faction. Sadat’s success in denying members of Sabri’s faction this position, which they considered part of the “deal”, was the first manifestation of the real balance of power in Egypt.

Throughout the first six months of his presidency, Sadat continued to challenge cautiously Sabri’s faction, demonstrating his authority in decision making, particularly in foreign policy matters, which, under the conditions of Sinai’s occupation, were central to domestic debates. Thus, on February 4th 1971, Sadat presented an initiative for an interim peace agreement with Israel without seeking prior consent from, or even informing, Sabri’s group. Five weeks later, on March 9th, Sadat ignored the other faction’s calls for a start of the military operations in Sinai, and agreed to renew the cease-fire agreement for three months. In both instances, Sadat was firmly backed by Mohamed Heikal, and premier Mahmoud Fawzi (Beattie 2000:57; Heikal 1982:117-130).

Six weeks later, on April 17th, Sadat unilaterally decided to agree on a union with Syria and Libya. This decision served two purposes: a) to enhance Sadat's claims to be Nasser's true heir by agreeing to the latest blueprint for Arab unity; b) to marginalize further the role of Sabri's faction, not only by taking the decision unilaterally, but also by accepting a binding majority as the decision making mechanism in the union⁵⁵. Sabri's group objected, claiming that Egypt was now bound by any decision taken by the Syrian and Libyan presidents, which diminishes her sovereignty. In so doing, however, they were inevitably damaging their image as proponents of Nasserism and Arab unity, which further strengthened Sadat's position.

Sadat retaliated quickly⁵⁶, dismissing Sabri on May 2nd, followed by Gum'a on May 13th. Gum'a's dismissal prompted a series of resignations by five other ministers, to which Sadat responded forcefully, imprisoning all key members of Sabri's faction in the Cabinet and ASU, and accusing them of conspiracy and treachery. Sadat emerged from this power struggle as the unchallenged ruler of Egypt.

The swiftness and relative ease with which Sadat managed to oust his opponents, who were "formally" in control of several government bodies, the Army, and ASU could not be attributed exclusively to his wits⁵⁷. They were reflective of a transformation in the structure of the ruling elite that favoured Sadat and his conservative line. The resulting

⁵⁵ This meant that Egypt was bound by any decision taken by the majority of votes of the three presidents' council, without seeking approval of the cabinet or ASU (Rubinstein 1972:10).

⁵⁶ The following summary of the May 1971 power struggle is based on: Beattie (2000); Hinnebusch (1985); Rubinstein (1972); Heikal (1989), Ismail (1987); and Shoukri (1987).

⁵⁷ Obvious as this might be, it is striking how almost all of the biographers of Sadat, sympathetic or otherwise, as well as many researchers working within the psychological-perceptual tradition, insist on explaining Sadat's success by emphasising his ability to outwit his opponents. Cf.: Finklestone (1996); Heikal (1989); Zahran (1987).

balance of power between the two factions, which was reflected in the earlier mini-duels over the appointment of Fawzi's government, the renewal of the ceasefire, and the union with Syria and Libya, certainly facilitated Sadat's victory.

On one hand, Sadat's several meetings with the top-ranking military officers over the previous months managed to win over the majority of them, since: a) the professional military, objecting to the disunity of political leadership during wartime, were more prepared to support the "legitimate" authority (Heikal 1989:99-102); and b) Sadat's conservative line was, as Hinnebusch (1985:43) argued, more appealing to the class interests of the military elite. On the other hand, the "new class" technocrats and regime's centrists, stood firmly behind Sadat. Finally, Sadat's invoking of the themes of democracy and the struggle with the "centres of power" during the May crisis, carried comforting liberal overtones to the rising private bourgeoisie, whose support was further secured through a series of liberalisation gestures discussed in the following subsection.

After his triumphant emergence from the May 1971 power struggle, Sadat went on to restructure the state apparatus to reflect more explicitly the social disposition of the ruling elite. Hence, in July 1971, when the ASU's central committee's elections were held, only 20 members maintained their positions, all of whom were either rightists or apolitical technocrats (Beattie, 2000:79). New rightists, including Sadat's brother-in-law Mahmoud Abou Wafia and conservative landowners such as Mohamed Uthman Ismail and Hamed Mahmoud, were elected. In September 1971, a new constitution was issued. Two months later, general elections were held. Consequently, on his first speech to the newly elected

people's assembly on 11/11/1971, Sadat was able to number proudly amongst his accomplishments during his first year in office, "reorganising the state apparatus to make it more efficient" (Sadat 1971:13).

What this "reorganising" actually did, however, was to make the state apparatus more reflective of the composition of the conservative faction. It therefore came as no surprise that the year 1971 witnessed a series of economic liberalisation measures, and a slow rapprochement with the United States, with the first visit of an American secretary of state to Egypt in eighteen years, and Sadat's proposed interim agreement on the Suez canal⁵⁸.

This steady shift rightward triggered social protest. The failure to recover Sinai was the banner of the protests, but they also reflected domestic social crisis. Four developments were particularly disturbing to the regime: a) the massive students' demonstrations; b) the mounting workers' strikes; c) the statements issued by professional syndicates, writers and intellectuals in support of the students and workers; and d) the rise of sectarian violence.

Earlier in 1971, Sadat declared that 1971 would be the "year of decision", pledging to recover Sinai peacefully or otherwise. When his February initiative came to naught and no military operations took place, he contended that, the reason for not going to war was a "political fog" caused by the war between India and Pakistan (Hussein 1986:205). The

⁵⁸ See sections 1.2 and 1.4 below.

“fog speech”, as it was mockingly referred to, provoked an escalation of student protests that had already started in October 1971, and was voicing harsh criticism of both the regime’s “appeasing foreign policy”, and criticising the privileges of the elite, and the new rightist policies of the regime⁵⁹. These protests were accompanied by mounting workers’ strikes, which had started in the Cairo’s industrial districts Helwan and Shoubra al-Kheima, as well as in other industrial centres such as Mahala and Kafr al-Dawar (Shoukry 1987:62-64). The workers’ demands were not only political. They also included several populist (distributive) demands, such as fuller participation in factory management, and less working hours (Ibid). Political and economic demands were intrinsically intertwined in the students and workers’ action. Statements from professional syndicates, as well as from several writers and intellectuals, were issued in support of these demands, adding further pressures on the regime⁶⁰.

The regime responded with a mixture of security and political measures. On one hand, massive arrests followed the students and workers’ action, and more than ninety writers who had signed a statement in their support either lost their jobs or were transferred to administrative jobs. On the other hand, the regime sought to diffuse the tension by a tactical retreat. Thus, an “austerity and confrontation” government was appointed in 1972, headed by Aziz Sidky, who was more associated with populist *étatisme*. Sidky’s government promised to raise taxes on luxury goods and prepare seriously for the liberation war. However, student and workers’ protests continued, albeit sporadically, well into 1973 (Hinnebusch, 1985:52).

⁵⁹ See Abdalla (1985); Shoukri (1987).

⁶⁰ See: Baha’ al-Din (1987:19-37); Heikal (1989:114-120); Shoukri (1987:135-143).

In the meantime, the regime sought to consolidate and mobilise a broader conservative coalition to face the mounting protests, which were blamed on the left (Chalabi 2000:56-60). Two significant developments were particularly noteworthy: a) the rising role of the conservative rural bourgeoisie in the confrontation with the left; and b) the reconciliation with the Muslim brotherhood.

The conservative rural bourgeoisie representatives, elected to the ASU's central committee after May 1971, were instrumental in the regime's struggle with the left. In the new ASU central committee, several key postings were given to fundamentalist rightists⁶¹. Mohamed Uthman Ismail was entrusted with two crucial tasks: a) encouraging Islamist groups on university campuses to counterbalance the left (Beattie 2000:103); and b) heading the ASU disciplinary committee that took action against the signatories of the "writers' statement" (Baha' al-Din 1987:29). In the same vein, the regime, amidst its struggle with the left, sought to cooperate with the Muslim Brotherhood. Thus, in August 1971, 138 members of the brotherhood were released from prison. "Political Isolation" was lifted in 1972⁶². The beneficiaries of this measure included members of the Muslim brotherhood and pre-1952 politicians, both of whom were supportive of the regime's measures against the left.

The regime's encouragement of the religious right, however, threatened to backfire. In 1972, fundamentalist university students attacked their leftist colleagues using knives,

⁶¹ Ahmed Abd al-Akhar was undersecretary for Upper Egypt affairs. Mohamed Uthman Ismail was appointed chief whip. Two ex-Muslim brothers, Abd al-Aziz Kamel and Ahmed Kamal Abul Magd, were responsible for indoctrination and Youth organisation, respectively (Shoukri 1987:88-89).

⁶² "Political Isolation" decisions were taken by the post-1952 regime to deny certain politicians the right of membership of the "political organisation" (Beattie 2000:82).

and, when arrested, they announced that “ASU instructed them to fight the atheist communists and Nasserites” (Shoukri 1987:76). Outside the university campuses, there was a rise in sectarian violence and burning of churches and Christian charities (Ibid: 70-75; Heikal 1989:294-295). Sectarian violence was now added to the mounting social protest and the accusation of the regime of failing to fulfil its most pressing task – preparing for a liberation war.

Between these mounting pressures, and Sadat’s failure to recover Sinai peacefully, military action seemed inevitable. Thus came the October 1973 war.

(1.2) Economic Structures and Policies

During Sadat’s first years, particularly after the victorious emergence of his conservative faction from the May 1971 power struggle, the transformation of populist *étatisme* developed along two levels: a) dismantling *étatisme*; and b) relinquishing populism.

A crucial step towards dismantling *étatisme* was to circumscribe gradually the role of central planning. To do so with minimal political cost, the government avoided explicitly annulling earlier statist decisions or liquidating the existing statist organisations, opting instead for issuing new legislations that effectively robbed them of their influence, and created the opportunity for the private sector to gradually take over the economy. Thus, law 64 of 1971 was issued to limit the “general organisations”⁶³ control over state-owned companies, and to grant directors of the public sector more autonomy (Zaalouk 1989:57).

⁶³ These are the holding companies that controlled the public sector enterprises.

Rather than dismantling the general organisations altogether and causing a political confrontation with their management and workers, this law was in effect rendering them ineffectual and obsolete.

This law was followed by Law 65 of 1971, which represented a quantum leap on the road to *infitah* (Abdel Khalek 1983:80). Intended to encourage Arab and foreign investment, this law offered guarantees against sequestration and nationalisation, and granted investors tax exemptions. The most important feature of this law, however, was that it stipulated that all projects based on it would be considered private enterprises, irrespective of the legal nature of the shareholders (Ibid). This meant that, for instance, joint-ventures with the Egyptian public sector would be treated as private enterprises, i.e. as autonomous, profit-seeking entities, free from commitments to contribute to financing populist and/or statist objectives, and, most importantly, free from the ceilings on salaries for their top management.

As such, this law furnished the necessary conditions to transform the relation between the bureaucratic and private bourgeoisies from the latent and shady partnership phase during the late 1960s (based on favouritism in subcontracting) to a legalised partnership through the establishment of joint-ventures, which would be treated as private sector units, and would thus open new opportunities for the bureaucratic bourgeoisie to engage directly in surplus accumulation and reinforce its alliance with the private bourgeoisie. This alliance would later on prove crucial to the development and consolidation of *infitah* policies.

On the other hand, Sadat's first years in office witnessed a series of decisions relinquishing many of the earlier populist measures under Nasser. In his efforts to consolidate his broad conservative coalition, Sadat instructed the parliament speaker in December 1970 to draft a law providing for the return of some of the sequestered properties. Law 34 of 1971 was issued to this effect, and was followed by a series of measures that returned sequestered lands to their owners after evacuating it from the peasants who had rented or purchased it from the state (Chalabi 2000:54-55). 1971 also witnessed another goodwill gesture to foreign capital with the government's decision to pay £E 2 million as financial compensation to European subjects who had suffered from the agrarian reforms and/or sequestration measures (Zaalouk 1989:57).

These measures were intended to serve the twin purposes of consolidating the conservative ruling alliance, and accelerating the transformation of populist *étatisme*. Their impact on the economy's performance was, however, less than satisfactory. Liberalisation laws elicited limited response from local and foreign investors, since the political uncertainty created by the state of "no peace, no war" in the region outweighed any possible goodwill gestures by the regime. Thus, between the limited government resources available for investment in civilian projects and the private capital's hesitance to make up for the decline in public investments, industrial growth fell to an annual average of 1% between 1970 and 1973 (Owen and Pamuk 1998:134).

Meanwhile, imports rose steadily, reflecting the diminishing restrictions on imports, thanks to the liberalisation measures on one hand, and the continued rise of the

bourgeoisie (bureaucratic and private) and its demand for foreign products on the other. As a result, the non-military component of the foreign debt almost quadrupled from \$1.8 billion in 1970 to \$6.3 billion in 1975 (Ibid).

The rise of the bureaucratic and private bourgeoisies created a severe distributional crisis, with the richest 4.7% of Egyptian households receiving 22% of the national income in 1972, whilst the poorest 34% received 11% (Shoukri 1987:82). This fed the social protest. Workers voiced various “populist” demands, including an increase in their minimal wages and the right to paid sick leave, and the students were very critical of the consumption patterns of the ruling elite and the rising bourgeoisie. Populist demands were integrated into the protestors’ demands for a liberation war, and the regime had to respond to these pressures.

Thus, Aziz Sidky’s “austerity and confrontation” government, appointed on 19/1/1972, raised the slogan “everything for the battle” and pledged to prepare seriously for the war, and to curb conspicuous consumption. Given the social disposition of the ruling elite, the latter goal was more difficult to implement. The new government’s populist efforts were confined to pledges to reduce the government’s public relations budgets, refrain from buying new cars for government officials, and decreasing the number of telephone lines in ministries (Ibid: 115). The earlier liberalisation decisions, and the ensuing economic conditions, remained intact. Protests continued, and protestors argued that the new government’s decisions fell short of the desired changes.

The liberalisation measures and the subsequent protests highlighted the regime's central dilemma – the contradiction between its economic and foreign policy objectives. First, the “year of decision” in which the government pledged to recapture Sinai, was the same year that witnessed a series of liberalisation measures, and a surge in imports that were hardly compatible with the government's pledges to prepare the economy for war. A war economy requires central mobilisation of the economic surplus, and limiting consumption of luxury goods. Sadat's critics could therefore argue that his economic policies were not conducive to the forthcoming battle. Such an accusation was, of course, impossible to silence by invoking the slogan “*no voice should be louder than that of the battle*”, and was therefore particularly disturbing to the regime. Second, the political uncertainty created by the “no peace, no war” state, and intensified by the government's repeated pledges to prepare for war offset the liberalisation efforts and attempts to encourage investments. Liberalisation simply could not proceed under the conditions of political instability and preparation for war. Finally, the government's failure to liberate Sinai created a severe crisis of legitimacy for the regime that was further intensified by the anti-populist policies. Reversing these policies was not an option, given the ruling alliance's social disposition. A foreign policy breakthrough was therefore needed to establish Sadat's regime's hegemony and facilitate the transformation of populist *étatisme*.

The first response by the regime to these pressures was to try to resolve this contradiction peacefully. Thus Sadat presented his peace initiative in February 1971, discussed in subsection 1.4 below. Alongside the obvious political goals, the economic goals of this

initiative were threefold: a) to ease the distributive tensions using the revenues of Suez Canal and Suez Gulf's oil fields (both of which would be returned to Egyptian control in the first stage of the initiative); b) to end the political uncertainty that was rendering the economic liberalisation fruitless; and c) to resolve the fundamental contradiction between the regime's economic and foreign policies, and enable the economic transformation to proceed.

The failure of this initiative made military escalation inevitable. Once more, the social disposition of the ruling elite, the regime's resulting commitment to dismantling populist *étatisme*, and the government's reluctance to squeeze surplus from the state or private bourgeoisie to finance prolonged military operations, meant that a long liberation war was not an option. What was needed was a limited military operation that would create enough momentum to make a political settlement possible. Such was the task that the October 1973 war successfully accomplished.

(1.3) Ideology

Sadat delivered, on average, about 90 speeches every year between 1970 and 1977 (Zahran 1987:52). During the first three years of his reign, the government published a key pamphlet, *Programme of National Action*. A draft of a second one, *Guide to Political Action*, was circulated amongst ASU members. This reflected the extent of the regime's need for an ideological justification of the undergoing economic and social transformations. Like his predecessor, Sadat was a pragmatist, not an ideologue. His speeches and pamphlets were, therefore, aimed primarily at meeting the regime's

immediate political concerns – the struggle with Sabri’s faction, establishing the regime’s legitimacy, and justifying the transformation of populist *étatisme*.

Between October 1970 and May 1971, Sadat’s main task was to establish his authority vis-à-vis Sabri’s faction, and undermine the latter’s claims to Nasserism. Thus, his speeches emphasised continuities with Nasser. Sadat even mimicked Nasser’s rhetoric. Between 28/9/1970 and 15/5/1971, he delivered 24 speeches, all but three of which starting with Nasser’s classical “fellow citizens”. His May 14th, 1971 speech, justifying his dismissal of Sabri’s clique, was the first to diverge from Nasser’s opening and start with what was later to become Sadat’s trademark “In the name of Allah, Sons and Daughters” (Mohamed 1990:113-134). The emphasis on continuity with Nasser’s regime was explicitly expressed in the regime’s first pamphlet, *Programme of National Action*, issued on 23/7/1971, and replete with praise of Nasser’s reign, and commitments to socialist transformation (Shoukri 1987:58-60).

Likewise, the regime’s foreign policy discourse emphasised the continued commitment to Egypt’s role as a bastion of Arab nationalism, non-alignment and anti-imperialism. In his first year in office, Sadat signed two blueprints for unity with Sudan and Libya in November 1970, then with Syria and Libya in April 1971 (Rubinstein 1972:10). These gestures sought to enhance the regime’s popularity by demonstrating its commitment to unity and cooperation with the “progressive” Arab regimes – another continuation with Nasser’s policies.

However, the regime's new policies, particularly after May 1971, required new justification. Whereas the "technocratic arguments" and corporatism were perfectly suited to justify the regime's "populism-from-above", and the rule of the military and the "new class", a new formula was needed to defend the new economic policies, and the rise of the conservative elite.

In the beginning, the classical slogan "*no voice shall be louder than the battle*" was repeatedly invoked to silence any criticism of the undergoing changes. Nevertheless, the profoundness of the changes, and the scale of protest rendered this slogan inadequate. Consequently, the regime resorted to a conception of a revised version of corporatism to suit its needs – an "organic corporatism".

Organic corporatism, whilst maintaining Nasser's corporatist notion of the compatibility of the interests of the different classes, diverged from it in two important respects: a) It invoked an organic conception of the state, which likened society to an extended family with the president being the patriarch who is best suited to determine the interest of the family, and should therefore be obeyed; and b) It appealed to a particular interpretation of Islam, whereby several spiritual notions and concepts were recast in secular terms to justify social harmony and condemn any claims of contradictions or conflicts of interests amongst the different classes.

"I wish to talk to you as the head of the family", Sadat often addressed his populace (Israeli 1981:52). In lieu of Nasser's addressing of the Egyptians as "*brothers*", Sadat

regularly spoke of them as “*my children*” (Mohamed 1990:217). His conception of authority was essentially patriarchal, and he spoke about “love” as the basis of society, and condemned what he called “class envy”⁶⁴.

Insofar as the social transformations in Egypt were concerned, organic corporatism had important consequences. Whereas the populist-statist regime in the 1960s acknowledged the possibility of the existence of social tensions and contradictions and merely aimed at resolving them peacefully and subduing them to an overarching “national interest”, Sadat’s notions of a familial/patriarchal society considered harmony an intrinsic feature of society. As such, populist and distributive policies were not needed to maintain social harmony, since the very nature of the organic corporatist society guaranteed it. Similarly, the restructuring of populist *étatisme* could not possibly threaten the “natural” harmony that existed within the Egyptian society. Any references to the class re-alignment of the regime could, therefore, be dismissed as manifestations of a “class envy” that threatened “national unity”⁶⁵.

On the other hand, the notions of a familial/patriarchal society had clear conservative overtones that appealed to the members of the conservative ruling alliance, particularly, the rural bourgeoisie that were instrumental in Sadat’s post-May 1971 regime, and the old

⁶⁴ Sadat’s discourse on “love society” was, Mohamed (1990:223) noted, reminiscent of Louis XIV’s use of the same term to disguise the stark social polarisation during his reign.

⁶⁵ This argument was often invoked by the official press, whose discourse had shifted significantly rightward after the appointment of the anti-leftist Abd al-Kadir Hatem as minister of information and the dismissal of many leftist editors after May 1971. Thus, Moussa Sabri dismissed students’ protest in 1972, in *Al-Akhabar* newspaper on the ground that it harmed the “national unity” and benefited the “enemies of the nation” (Shoukri 1987:127). Saleh Gawdat of *Al Musawwar* magazine used similar arguments to attack leftist writers, and members of Sabri’s faction (Baha’ al-Din 1987:22-23).

bourgeoisie who were happy to see any criticisms of the regime's goodwill gestures towards them justified and any calls for populist measures dismissed as "class envy".

Sadat also appealed to a certain version of Islam that represented a hybrid of traditionalism and modernity. He projected the image of the "*believing president*", dubbed his regime "*the state of science and faith*" (Beattie 2000:102), and encouraged the rise of a new generation of conservative Islamic preachers who were critical of the "atheist left", the most famous of whom was the legendary Sheikh Sha'rawy. This appeal to Islam served two purposes: a) consolidating the conservative alliance and appealing to a broad conservative constituency that included the conservative rural middle class, and members of the Muslim brotherhood; and b) as a very effective tool in Sadat's political struggle with his leftist opposition. It was particularly emphasised in the new constitution that was issued after the May 1971 power struggle, in which article 2 changed the statement in 1958 constitution that "Islam is the state religion" to "principles of Islamic Shari'a are a main source of legislation". Article 11 qualified the commitment to gender equality with the statement "without prejudice to the regulations of the Islamic Shari'a" (Chalabi 2000:55). This proved instrumental not only to securing the support of the rural bourgeoisie and members of the Muslim brotherhood, but also to improving relations with conservative Arab regimes, particularly Saudi Arabia, and confronting the leftist opposition.

Hence, Abd al-Halim Mahmoud, the Grand-Imam of Al-Azhar, signed a £E 40 million agreement with King Faisal to finance an anti-communist campaign (Mohamed

2000:146). Social protest was invariably blamed on the “atheist left”, and the conservative preachers, the Muslim brothers, and Al-Azhar attacked the “atheists” who threaten the “national unity” and the “nation’s beliefs” (Ibid).

Changes in the ASU leadership after May 1971 added further impetus to the new discourse of organic corporatism. Two ex-members of the Muslim Brotherhood were responsible for indoctrination and youth organisation. This was quickly reflected in a significant change in ASU’s pamphlets, particularly the *Guide for Political Action*, which was circulated amongst ASU members in 1972, and was the most accurate indication of the regime’s new inclinations. First, it emphasised the role of Islam as the guide to the “intellectual and political line” of ASU (Shoukri 1987:90). Secondly, it deliberately dropped references to social classes and spoke only of “social levels” and “social forces”, thereby ignoring, as Shoukri (Ibid: 91) argued, the very existence of classes, let alone class contradictions. The document went on to speak about the “*non-exploitative private ownership, which is permitted as long as it is consistent with the community’s consciousness*” in lieu of the Charter’s emphasis on the “*public control of the means of production*” (Ibid). Thus, private ownership was not anymore regulated by a clear political and legal commitment to the public control of the means of production, but by an appeal to the metaphysical notion of the “community’s consciousness”. Naturally, the latter position was more consistent with the interests of the rising conservative coalition.

The discourse of organic corporatism was equally instrumental to the transformation of the regime’s foreign policy. On one hand, after the dismissal of Soviet experts in July

1972, conservative preachers spoke about the impossibility of liberation of Sinai using “atheistic weapons” (Hinnebusch 1985:52). On the other hand, the concept of Egypt’s “national role” was reformulated, for the first time since the 1950s, to include explicit references to *Egypticity* as a source of identity in the Egyptian familial/patriarchal society, distinct from, although compatible with, Arab nationalism. Hence, the country’s name was changed from the United Arab Republic to the Arab Republic of Egypt, and Sadat began to argue that Arab nationalism should not swallow “Egypt’s national specificity” (El-Kholi 1986:70).

Although Sadat was keen on emphasising the compatibility of these two sources of identity, proclaiming that “*Egypticity and Arab Nationalism are our two weapons in the coming war*” (Ibid); the very emphasis on an Egyptian specificity implied the existence, and indeed primacy, of Egypt’s state interests distinct from those of the other Arab countries. Such an assumption was used later on to justify the large-scale re-orientation of Egyptian foreign policy after 1973.

The new notions of organic corporatism were not, however, sufficient to make up for the regime’s failure to recapture Sinai, or compensate for the unpopular new economic measures. Only a major political achievement could secure the necessary legitimacy and support needed by the regime to sustain and develop its new economic and foreign policy plans. This was only attained after the October 1973 war.

(1.4) Foreign Policy

As the transformation of populist *étatisme* progressed, the continued occupation of Sinai remained a time bomb that threatened to blow the whole regime up (Shukrallah 1989:66). First, debates over war preparations, and other foreign policy issues, became central to domestic political struggles, and reflective of the deep domestic divisions. Second, with the relinquishing of several populist measures, foreign policy pledges to recovering the occupied territories and furthering the cause of Arab unity became the only means of demonstrating continuities with Nasser's reign and legitimising Sadat's succession. Finally, the failure to recapture Sinai became a banner for social and political protest. A foreign policy breakthrough was, therefore, a necessary condition, not only to consolidate and deepen the economic shift rightward, but also to establish an independent source of legitimacy for Sadat's regime. Hence, between 1970 and 1973, Egyptian foreign policy was recruited to the twin goals of: a) establishing the regime's authority vis-à-vis Sabri's faction; and b) resolving the fundamental contradiction between the increased dependency on the USSR after the "setback" on one hand, and the economic shift rightwards on the other.

The former goal was the main preoccupation of Sadat's foreign policy activities during his first six months in office. To achieve it, Sadat's strategy was threefold. First, a series of token gestures sought to highlight his commitment to Arab unity and cooperation with "progressive" Arab regimes. Hence, confederation blueprints were signed with Libya and Sudan in November 1970, then with Syria and Libya in April 1971 (Rubinstein 1972:10). Second, Sadat cautiously challenged Sabri's faction by taking these decisions, as well as

the decision to extend the cease-fire in March 1971, unilaterally. Third, Sadat managed to neutralise skilfully the Soviets during and after the May 1971 crisis by signing a 15-year treaty of friendship and cooperation with the USSR on 29/5/1971. This treaty was the first of its kind in the history of Arab-Soviet relations (El-Kholi 1986:55), and aimed at neutralising the USSR and ensuring the continuation of Soviet military assistance. As such, it did not result in any significant improvement in Egyptian-Soviet relations. If anything, these relations suffered soon thereafter as the Egyptian government's anti-communist activities intensified. In July 1971, Egyptian armed forces intervened to abort an attempted communist *coup d'état* in Sudan and restore the rule of Numeiri (Lenczowski 1973:14). In July 1972 Egyptian Soviet relations suffered a further blow with Sadat's decision to dismiss the Soviet experts from Egypt (Ibid).

The key reason given by Sadat for this decision was his dissatisfaction with the types of weapons and the pace of arms' deliveries. However, Heikal (1975:164) reported that Sadat remarked, a few months after this decision, in December 1972, that the Soviets were "*dumping him with new weapons*". Also, only a few months before the decision, Sadat (1971:17) publicly expressed his gratitude for the Soviet "*support in rebuilding the armed forces...[without which] the enemy would have kept [its] superiority*". The decision was not, therefore, a mere "electric shock" to express his dissatisfaction with Soviet military assistance, as Sadat subsequently argued (El-Kholi 1986:57-59). Rather, it was indicative of a more profound change in the social disposition and preferences of the ruling elite.

Expelling the soviets was a common demand of all members of Sadat's conservative constituency. "New class" technocrats expressed anti-soviet sentiments and were in favour of a diplomatic solution in the region and rapprochement with the west (Hinnebusch 1985:47). Other members of the civilian elite were equally keen on an opening to the west. Heikal and Fawzi argued for a balanced approach between the superpowers, which *de facto* meant closer relations with the US (Ibid: 42). In a symposium organised by *Al-Ahram* on the implications of the Nixon-Brezhnev summit in Moscow, senior diplomat Ismail Fahmi advocated rapprochement with the US⁶⁶. Conservative rural middle class members and members of the Muslim brotherhood detested the "atheist USSR". Finally, the private bourgeoisie obviously welcomed the liberalisation overtones that the rupture in Egyptian-Soviet relations entailed.

Likewise, the conservative ruling elite welcomed the regime's early overtures to the US, which started with Sadat's letter to Nixon on 23/11/1970 expressing a desire for good relations with the US (Beattie 2000:53). Two channels were opened between Egypt and the US: a diplomatic channel with U.S. secretary of state William Rogers (Heikal 1996b:187); and a secret channel between Henry Kissinger and Sadat's national security adviser, Hafez Ismail (Ismail 1987). A series of goodwill gestures confirmed Egyptian intentions towards the US, from the timing of Sabri's dismissal, which coincided with Rogers' visit to Cairo, to the dismissal of the Soviet experts in July 1972.

⁶⁶ See: Hussein (1986:165-166). When pro-Soviet foreign minister Murad Ghaleb protested and asked Sadat to dismiss Fahmi, Sadat responded by promoting the latter to the position of special adviser to the president, and later on appointed him as foreign minister.

Regional factors also contributed to the rapprochement with the US. On one hand, Egypt's increased financial dependence on Gulf States, particularly Saudi Arabia, gave growing weight to the Saudi view that advocated a break with the USSR and reliance on American mediation to resolve the Arab-Israeli conflict. Sadat's activation of the "Islamic circle" of Egypt's foreign policy, on the other hand, enhanced the same shift towards the west, with the emergence of a Tehran/Riyadh/Cairo axis and both capitals were advocating closer Egyptian-US relations (Heikal: 1978).

Rapprochement with the US sought to achieve two crucial goals for the Egyptian regime: to attract much-needed Western capital to further economic liberalisation, and to convince the US to exert enough pressure on Israel to withdraw from Sinai. The former goal was clearly pending the latter. Hence, after less than four months in office, Sadat presented his initiative for an interim agreement with Israel in February 1971, and agreed to extend the ceasefire with Israel to give the peace efforts a chance.

The initiative, which Sadat discussed with William Rogers in Cairo in May 1971, aimed at re-opening the Suez Canal for international navigation in return for Israel's undertaking to implement "the first phase of a total withdrawal" (Sadat 1971:19). It included four key points: a) a first stage of withdrawal from parts of Sinai followed by the re-opening of Suez Canal; b) creation of a clear connection between the first phase and the comprehensive settlement provided for in the Security Council Resolution 242; c) the "total withdrawal" should cover all Arab territories occupied in 1967; and d) Egyptian forces must cross to the east bank of the Suez Canal. This initiative was, as Korany

(1991: 200) argued, a clear message to the US and Israel that the war option was downgraded, in consistency with the regime's need to end the political uncertainty that was rendering its efforts to transform populist *étatisme* futile.

However, this initiative and the subsequent contacts with the US bore no fruition. Given the relative regional stability under the "no war, no peace" state, Nixon's administration paid little attention to the Middle East (Quandt 1993:146). The US-Soviet *détente* meant that both superpowers had an interest in maintaining the status quo in the region and in avoiding crises. The joint communiqué issued after the Moscow summit in May 1972 pledged to maintain the state of "military relaxation" in the Middle East (Lipmann 1989:25).

Frustrated by the failure of his diplomatic efforts to extract concessions from Israel, and fearing that the *détente* would render any further efforts futile, Sadat decided to launch war. What was needed was a limited war aiming only at moving the situation on the ground by establishing bridgeheads on the east bank of the Suez Canal and opening the way to political negotiations. Sadat even code-named the October 1973 war "the Spark" (Hussein 1986:210).

2- Restructuring during the *infitah* Years: 1974-1977

On October 6th 1973, Egypt and Syria launched a coordinated military offensive on Sinai and the Golan Heights. Egyptian forces successfully crossed the Suez Canal and

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a process that had started since the mid-1960s, but was curbed by a series of political and foreign policy crises. The October war, insofar as it established decisively the legitimacy of the conservative ruling elite in Egypt and reduced the Egyptian dependency on Soviet military support, removed the two obstacles that had hitherto hampered the progress of the restructuring process of populist *étatisme*.

After the war, Egypt witnessed three crucial and inter-related developments: a) the consolidation of the conservative ruling alliance; b) a series of economic liberalisation laws dismantling populist *étatisme*; c) a slow process of political liberalisation, and a series of political measures aiming to mobilise the broadest conservative coalition possible to face any opposition to the restructuring process.

The first challenge to *infitah* came from within the ranks of the ruling elite, and was focused on opposing its foreign policy dimensions. However, the legitimacy that Sadat gained after the war enabled him to depose the opposition easily. Thus, Sadat dismissed his chief of staff, Sa'd al-Shazli, who disagreed with Sadat's management of the war. Heikal too was dismissed after he questioned the wisdom of relying exclusively on a US-brokered peaceful settlement. It was clear that the regime had defined its choices, and was not willing to rethink them (Hinnebusch 1985:60).

After politically cleansing the ruling elite, Sadat appointed a new cabinet led by Abd al-Aziz Hegazi. The government's mission was to implement Sadat's vision for *infitah*, as outlined in his *October paper*, which was circulated in April 1974 (Ibid:61). Right wing

journalists were appointed to the editorships of the key newspapers, thereby rendering the press unanimously in favour of the new policies (Aulas 1976:91)⁶⁷.

The new government issued a series of economic liberalisation laws that effectively dismantled populist *étatisme*⁶⁸ and helped consolidate the role of the bourgeoisie in the Egyptian political economy. These laws ended the state monopoly over foreign trade, foreign exchange markets, and commercial representation of international companies in Egypt, thereby opening new opportunities to all factions of the resurrected bourgeoisie. The state bourgeoisie was offered new opportunities in the newly established joint-ventures. *Infitah* laws deliberately exempted the directors of joint-ventures established under Laws 43 of 1974, and 32 of 1977 from the £E5000 ceiling on the salaries of public sectors directors, set forth by the “July 1961 socialist laws” (Ghoneim 1986:143). Thus, Law 43 created an incentive for public sector directors to enter into joint-ventures, thereby consolidating their alliance with local and foreign capital. This alliance was further reinforced as members of the state bourgeoisie were invited to join the boards-of-directors of *infitah* companies (Imam 1984).

The private bourgeoisie, on the other hand, was granted generous exemptions and benefits under *infitah* laws. They were able also to benefit substantially from the changes in the taxation system, which shifted much of the burdens from the high-income strata. Imam’s (1984) study of the companies registered between 1974 and 1982 revealed that

⁶⁷ Ali Amin replaced Heikal as the editor of *Al-Ahram*. His twin brother Moustafa, imprisoned by Nasser’s regime for espionage, was released and returned to *Al-Akhbar*. Mousa Sabri edited *Akhbar El-Yom*, and Abdel Moneim El-Sawy edited *Al-Jomhuriya*.

⁶⁸ These laws will be examined in the next sub-section.

several of the pre-1952 large capitalist families returned to the Egyptian market, investing primarily in the trade and banking sectors, in addition to acting as commercial representatives of foreign companies, and importers of luxury consumer goods. The US economic aid, which was resumed to Egypt in 1975, furnished further opportunities for the private bourgeoisie. Up to 1979, its largest aid programme was the commodity import programme (CIP), which sought to finance commodity imports to Egypt from the US (Brown 1981:9). This program facilitated the establishment of strong links between private bourgeoisie and foreign capital, to which CIP acted as a strong incentive to export to Egypt and establish commercial and marketing representatives (Zaalouk 1989:80-81).

Last but not least, was the rise of a “parasitic faction” of the bourgeoisie, whose activities focused on rentier sectors, circulation processes, as well as several illegal transactions. Waterbury (1985:76) estimated the size of transactions in Egypt’s black economy in 1980 at a staggering £E 2 billion. Investigations into a series of “economic scandals” in the 1980s revealed how members of this faction were linked to the bureaucratic bourgeoisie through family links (e.g. Esmat El-Sadat), corruption (bribery, subcontracting...etc), and some of them even held parliamentary membership (e.g. Rashad Uthman)⁶⁹.

A tangled web of relations amongst the three factions of the bourgeoisie, as well as amongst them, the state and foreign capital emerged during the *infitah* years, consolidating the rule of the conservative elite on one hand, and giving further impetus to the restructuring process on the other.

⁶⁹ See: Imam (1984); Ayubi (1989a).

Infitah laws were accompanied with cautious political measures steps, aiming at: a) encouraging local and foreign investors through limited political liberalisation gestures; b) granting the resurrected bourgeoisie a share in policy making; and c) consolidating a broad conservative coalition to defend the restructuring process of populist *étatisme* against the leftist protest. Thus, in August 1974, Sadat issued a paper on ASU restructuring, in which he called for “a formula to allow for interaction of different viewpoints” (Hillal-Dessouki 1997:197). The paper was debated in the ASU until, in March 1976, Sadat decided to create three “platforms” to express the views of the right (represented by the liberals), the left (represented by the national progressive unionist party NPUP) and the centre (represented by the Egypt Arab Socialist Party EASP). The three “platforms” competed in the parliamentary elections of 1976. EASP won 280 seats; the liberals 12 seats; the left 2; in addition to 48 independent candidates⁷⁰. On his inaugural address to the parliament, Sadat decreed that the three “platforms” would become political parties (Marei 1978:41). Thus began the second multi-party experience in twentieth century Egypt.

Simultaneously, a series of political gestures sought to appease the conservative rural middle class and members of the Muslim Brotherhood, by allowing the latter to issue its magazine *Al-Da'wa*, asking the parliament to review Egyptian laws to ensure they were compatible with Islamic Shari'a, as well as continuing to encourage the outspoken conservative preachers, most notably, Sheikh Sha'rawy (Chalabi 2000:67-71). This rapprochement with the religious right was intended primarily to help confront the rising opposition by the left to the economic liberalisation measures.

⁷⁰ See: Korany (1998:49); Hillal-Dessouki (1997:210-211).

The *infitah*'s economic measures began to generate social protest as early as 1975, i.e. one year after their inception. The protestors included small peasants who suffered from the increase in land rents, workers and mid-level state employees whose fixed salaries had not kept pace with the mounting inflation (Aulas 1998:157). In January 1975, food and wage riots erupted in Cairo (Rubinstein 1976:38). Two months later, textile workers in Mahala, Egypt's largest industrial city, went on strike but were quickly repressed by the anti-riot police (Shoukri 1987:235). On May Day, the underground communist party, which had dissolved itself under Nasser, announced its re-formation, and resumed publishing its underground newspaper *Al-Intisar* (Aulas 1976:93). A broad coalition of Nasserists and communists was emerging under the slogan "*defending the revolution's gains*".

Sadat responded by dismissing Hegazi, on the grounds that his cabinet did not proceed with economic liberalisation as quickly as expected (Hillal-Dessouki 1982b:75), and appointed Mamdouh Salem as his new premier. This decision indicated that the regime had no intentions of rethinking the new economic policies, and that it considered that all problems were due to the slow implementation of economic liberalisation. When Sadat launched *infitah*, he told his populace "*four years from now [1974], I foresee a durable and honourable peace in our region. And you will see prosperity that defies imagination*" (Israeli 1981:55). To Sadat, the economic and political aspects of *infitah* were tightly linked. Politically, *infitah* entailed rapprochement with the US so as to permit a rapid resolution of the conflict with Israel, ridding Egypt from the burdens of war, and allowing her a share in the benefits of the oil revolution and massive flows of aid. To reap the

peace dividends, and enjoy the “*prosperity that defies imagination*”, Egypt needed to abandon “socialism” and open up its economy so as to attract foreign capital and benefit from the oil surpluses. Hence, in the face of the protest, Sadat’s strategy was threefold: a) frequent cabinet reshuffles and blaming any problems on the slow pace of economic liberalisation⁷¹; b) encouraging the Islamist right to blame social protest on the “atheistic left”; and c) initiating a debate over Nasser’s legacy, which quickly developed into a strong attack on Nasser’s policies by the right, launching what came to be known as the *de-Nasserisation* process⁷².

Protest continued, however, and indeed reached an unprecedented peak in January 1977, with the famous bread riots, when the government decided, in response to IMF demands, to remove subsidies on basic consumer goods. The demonstrations started in Alexandria, but soon spread to every major Egyptian city. They represented an unprecedented challenge to the regime’s hegemony, and the army had to be called to the streets to contain the riots, for the first time since 1952. The regime’s post-1973 legitimacy was rapidly eroding, and a prolonged social and political crisis had started – a crisis that culminated, less than four years later, in Sadat’s assassination in October 1981.

(2.2) Economic Structures and Policies

After the October war, there was little doubt that the Egyptian economy was facing a severe crisis. Sluggish growth rates in the early 1970s dropped even further, reaching an alarming 1% in 1974. Private consumption dropped in the same year by 7%, and the debt

⁷¹ Sadat’s years witnessed the highest degree of cabinet instability in Egypt’s twentieth century history. In 10 years, Sadat appointed 16 cabinets, for an average of 7 months each (Hillal-Dessouki 1997: 212-213).

⁷² I will return to this point in some detail in sub-section 2.3.

service was absorbing 40% of the export earnings (Hinnebusch 1985:58). Leftist economists argued that with the legitimacy that Sadat gained in the 1973 war, he could afford to ask the populace for 3-5 years of belt-tightening, whilst the economy was rehabilitated, and the public sector restored after years of negligence due to limited investments. This suggestion was, however, quickly discarded. The social disposition of the ruling elite rendered any attempts to defer economic liberalisation, let alone restore populist *étatisme*, futile. Instead, the newly acquired legitimacy after the war was seen as an excellent opportunity to embark on the economic restructuring plans with as little resistance as possible.

The elite's diagnosis of Egypt's economic difficulties was straightforward. Due to the successive wars and the increase in military expenditure, the rate of growth fell after 1965. The goal was, therefore, to restore pre-1965 growth rates, which could not be done by mobilising domestic resources, hence, the need for foreign capital. *Infitah* was the only way to attract foreign and Arab capital and resolve Egypt's economic problems (Abdel Khlalek 1983:78). Economically, *Infitah* meant taking the necessary measures to open up the Egyptian economy for Arab and foreign private capital. The 1960s "socialist" policies, it was argued, could not be repeated, and economic liberalisation was the only viable option.

To this effect, 102 new economic laws and regulations were issued between 1974 and 1977 to transform the economy, of which the most important were the following seven⁷³:

⁷³ The following summary of the key *infitah* laws is based on: Abdel Khalek (1981; 1982a; 1983) and Zaalouk (1989).

- (i) *Law 43 of 1974, amended by Law 32 of 1977*: this was the centrepiece of *infitah* laws, aiming to encourage investment by Arab and foreign capital. It provided guarantees against all forms of non-commercial risks (including nationalisation), offered tax exemptions ranging between 5-15 years, as well as exemptions from several administrative regulations.
- (ii) *The new import-export Law of 1975*: this abolished the import regulations provided for in 1959 and 1963, thereby dismantling the state monopoly over foreign trade.
- (iii) *Foreign Exchange Law 97 of 1976*: this abolished the exchange control system that was *de facto* established in Egypt since 1939.
- (iv) *The Own-Import System*: this allowed anyone who had foreign exchange resources to import directly without having to go through the banking system.
- (v) *Phasing out of Bilateral Trade Agreements*, which existed between Egypt and countries of the Eastern Bloc.
- (vi) *Law 111 of 1975*: this went a step beyond Law 64/1971, and abolished the “general organisations” altogether.
- (vii) *Law on foreign representation in 1974*: this allowed Egyptian nationals to represent foreign firms.

Together, these laws amounted to a *de facto* dismantling of the populist statist apparatus, by abandoning state monopolies of foreign trade and exchange as well as key central planning tools (e.g. the “general organisations”). They were devised to attract private investment, which was to take over and lead economic growth. Foreign capital, was,

nevertheless, slow to respond. Between 1974 and 1982, total investments committed under laws 43 of 1974 and 32 of 1977 did not exceed £E 5 billion, of which 61% was contributed by Egyptian public and private sectors (Farah 1994:150). The picture was a lot bleaker with regards to the activities of foreign banks in Egypt. In 1977, the Central Bank of Egypt released a report indicating that 20 foreign banks whose total capital did not exceed £E 26 million, transferred to their head offices abroad £E 160 million (Hillal-Dessouki 1982b:81). Thus, instead of bringing foreign capital to Egypt, foreign banks were exporting Egyptian savings for investment abroad.

On the other hand, the state paradoxically failed to encourage the local private sector to invest in manufacturing industries. In fact, Egyptian industrial capital was only granted the exemptions set forth in the *infatih* laws, if it was in partnership with foreign capital. It seemed that the government at that time assumed that local capital was not able to invest in industry (Soliman 1999:14-15). Between the reluctance of foreign capital to invest in industries, and the relatively limited opportunities offered to Egyptian industrial capital, the second half of the seventies turned out to be a period of de-industrialisation, with the share of industry declining rapidly from 19.7% of GDP in 1973, to 14.9% in 1978 (Hussein 1982:479).

Having failed to attract investment in “productive industrial projects, the government tried to furnish “economic dividends for victory” through what Aulas (1988:154) called “a rentier quest”. Hence, capital was sought wherever it existed, without any conditions regarding which sectors or projects to invest in. All that mattered was to inject as much

capital as possible in the Egyptian economy to foster growth, and fend off the dangers of social and political protest against dismantling populist *étatisme*.

Although the period between 1975 and 1985 was a period of relatively high growth, averaging 8% per annum (Westley 1999:18), growth was driven not by internal growth but by the rise of external rent earnings (Soliman 1999:12). The Egyptian economy was driven towards the status of a quasi-rentier state, increasingly dependent on oil exports, emigrant worker remittances, and the revenues of Suez Canal's and tourism. Furthermore, growth was accompanied by high inflation, averaging an annual 25-30%, a massive budget deficit, which doubled between 1973 and 1976, and a staggering rise in external debt, which increased six-fold during the 1970s (Amin 1994a:125; Abdel Khalek 1982b).

Alongside the economic liberalisation laws, *infitah* laws entailed a virtual relinquishing of the remaining populist policies. In the countryside, the conservative rural bourgeoisie managed to force amendments to the agrarian reform laws, whereby land rent increased by 20-25% (Aulas 1976:89-90). In urban areas, high rates of inflation worked as an income re-distributing mechanism against all salaried strata. Foreign aid had little mitigating effects, since it: a) financed projects that benefited high-income groups primarily (CIP was financing mainly the import of luxury goods), and b) showed clear urban bias (in the case of infrastructure projects, which were confined to cities)⁷⁴. As a result, the *infitah* years witnessed a serious distributional crisis that threatened to erode all

⁷⁴ Abdel Khalek (1982a) presents an excellent analysis of the impact of foreign aid on income distribution.

populist gains of Nasser's years. Thus, between 1965 and 1976, the share of the poorest 60% in the national income fell from 28.8% to 19.93%, the share of the middle 30% fell from 40.2% to 21.52%. By contrast, the share of the richest 10% rose from 31.1% to 58.5% (Chalabi 2000:65-66). The shares of wages in national income fell from 50% in 1970 to 30% in 1979 (Soliman 1999:56), whereas the share of property earnings increased by 40% during the same period. These changes in the distribution of income, led to a steep rise in conspicuous consumption and an increase in imports, which, coupled with the stagnation of exports due to de-industrialisation, not only added to the balance-of-payment deficit, but also had serious political consequences, due to the provocative consumerist practices of the high income groups (Hillal-Dessouki 1982:81).

As a result, a broad coalition comprising workers, peasants and the impoverished middle class began to emerge from around 1975, with the aim of defending the "*gains of the revolution*" (Waterbury 1985:79). Social protest rose steadily, reaching an unprecedented level in the food riots of January 1977. The riots were triggered by IMF-induced cuts in government-subsidies of several basic goods. They demonstrated that the distributional crisis had reached an unbearable level that was threatening the very stability and survival of the regime.

(2.3) Ideology

Sadat emerged from the October war as "the hero of the crossing", establishing, for the first time since he assumed presidency, an independent source of legitimacy. "The crossing" became the regime's buzzword. Economic plans were called "economic

crossing plan”, and the war was seen as a signpost of a new era. In April 1974, Sadat’s regime issued its third, and most comprehensive, ideological pamphlet – the *October paper*.

The October paper, however, did not explicitly break with Nasser’s policy. Indeed, it sought to emphasise continuity as much as change, arguing that the new policies represent a mere adaptation of the July Revolution’s principles to a different environment. In a speech on 18/3/1974, Sadat argued that, “*If Nasser had lived to this day he would be doing what I am doing*” (Israeli 1981:77). Throughout the first year of *infitah*, the regime maintained this justification of the new policies. Thus, Sadat continued to talk of Egypt as revolutionary, even as the bourgeoisie was consolidating its position at the heart of the elite, and as a socialist economy even as *infitah* laws were issued to the detriment of any remains of populist *étatisme*.

However, the profoundness of the transformations, and the rise of an ideologically self-conscious opposition, whose discourse revolved around “*defending the gains of the revolution*” against *infitah*, and, after the second Sinai agreement in 1975, against the regime’s “*appeasing foreign policy*”, rendered any claims to continuities with populist *étatisme* incredible. The government devised a new, four-pillared rationale for its policies, comprising: a) arguing that peace was the only road to prosperity; b) criticising the Arabs for their lack of financial support for Egypt’s, and implicitly questioning Arab nationalism; c) launching a *de-Nasserisation* campaign, aiming at discrediting populist

étatisme; and d) emphasising Sadat's organic corporatist formula to silence the leftist opposition.

Thus, *the October paper* blamed the war for Egypt's economic problems. By contrast, peace was presented as the key to prosperity. Disengagement agreements with Israel were marketed domestically on the grounds that they were necessary steps to bring in the "economic dividends of victory". More importantly, *the October paper* argued that Egypt entered her successive wars primarily "for the Arabs" (Mohamed 1990:173). This argument had two key consequences: a) that the war with Israel, and anti-imperialism at large, were not due to strategic necessities or immediate Egyptian security concerns, rather, they were costly manifestations of solidarity with Egypt's Arab brethren; and b) that the Arabs countries should compensate Egypt for her massive sacrifices. In a speech on 24/8/1974, Sadat complained, "*We fought and lost thousands of lives, and by so doing made it possible for [the Arabs] to become fantastically rich overnight without lifting a finger. But our Arab brethren are tight-fisted when it comes to sharing their unearned wealth with us*" (Rubinstein 1976:17). This criticism developed a few years later into a full questioning of the viability of Arab Nationalism altogether.

The post-war years also witnessed a major shift in Sadat's public discourse on Nasser. Sadat stopped depicting Nasser as "the leader", rather, as a former leader whose performance was open to controversy and debate (Israeli 1981:78). Sadat occasionally went as far as to claim that he was the founder of the free officers⁷⁵. This gave the green

⁷⁵ Sadat first made this claim in a speech on 27/3/1976 (cf.: Israeli 1981:81). It was later repeated in his "official" ghost written autobiography (Sadat 1982).

light to a ferocious *de-Nasserisation* campaign (Hinnebusch 1985:61-62). The right wing press began to attack Nasser. The renowned playwright Tawfiq Al-Hakim issued a booklet entitled “The Return of Consciousness”, which included a bitter attack on Nasser’s regime. Naguib Mahfouz, Egypt’s most celebrated novelist, published a novella entitled *Al-Karnak*, depicting the practices and violations of human rights by Nasser’s secret police. Mahfouz’s novella was soon made into a movie, and had indeed set a trend for several movies along the same themes⁷⁶. *Al-Akhbar*, and *Akhbar Al-Yom* led the anti-Nasser campaign, and the “setback” was for the first time referred to as Nasser’s defeat, and contrasted with Sadat’s victory. Representatives of the different factions of the bourgeoisie and members of the Muslim brotherhood joined the campaign, accusing Nasser of replacing the British occupation with an Israeli one, of dictatorship, and of ruining the economy with “socialist” policies. The campaign was quite successful, and certainly managed to put the political left on the defensive⁷⁷.

Alongside the *de-Nasserisation* campaign Sadat emphasised his notions of organic corporatism in the face of the leftist critics, denouncing all their arguments about class polarisation in Egypt as indicative of a “class envy” that has no place in the “love society”⁷⁸. Meanwhile, the regime’s post-war discourse carried increasing religious overtones. The official media began to argue that the “defeat” in 1967 was due to lack of

⁷⁶ These included Mamdouh Shoukry’s *Za’er Al-Fajr* (Visitor of the Dawn); Hussein Kamal’s *Ehna Betu’ El-Autobis* (We’re the ones that were on the bus), and many others. The government also ordered the release of Youssef Chahine’s *Al-Osfour* (the Sparrow), a movie that depicts corruption of state officials under Nasser, and ironically, one which Sadat’s regime refused to show when it was first produced in 1972.

⁷⁷ Hence, Heikal (1979) had to write a book devoted to refuting the arguments of the anti-Nasserists. *Rose al-Youssef* magazine, a state-owned platform of a very moderate left, was completely exhausted in a battle with the rightwing press over the *de-Nasserisation* discourse.

⁷⁸ Cf.: Hillal-Dessouki (1982b: 76). Sadat argued in his speech on the 24th anniversary of the July revolution in 1976 that “Progress can never take place in an envious society” (Mohamed 1990:221).

religious commitment, and that the religious war cry “*Allah Akbar*” in 1973 was the key to victory (Mohamed 1990:186). The Muslim brotherhood was granted permission to issue its magazine *Al-Da’wa* (Chalabi 2000:67), and outspoken religious preachers, especially Sheikh Sha’rawy became television superstars. The new Islamist right dismissed Nasser’s experience, and any calls for “socialism” as atheistic, and was instrumental to supporting Sadat’s decision to abrogate the friendship treaty with the USSR on 15/3/1976 (Rubinstein 1977:19), as well as his rapprochement with the US and the West.

However, these justifications were not enough to keep in check the rising social and political protest. The 1977 bread riots indicated the scope the regime’s emerging hegemonic crisis. Henceforth, the regime’s legitimacy was sharply questioned, and a counter-hegemonic bloc was forming under the slogan of “*defending the gains of the revolution*”, thereby launching the regime’s prolonged and final legitimacy crisis.

(2.4) Foreign Policy

From its very first days, the economic and foreign policy aspects of *infitah* were inseparable. First, since war was considered the root-cause of Egypt’s economic ills, it was assumed that economic recovery was contingent on the peaceful settlement of the conflict with Israel. Second, the October war was seen to have furnished a unique opportunity to remove the central obstacle that faced the economic transformation of populist *étatisme* – the forced dependency on the USSR. Finally, rapprochement with the US was considered central to the influx of foreign capital into the Egyptian economy.

This was why foreign policy restructuring progressed in tandem with economic liberalisation.

Indeed, only ten days after the outbreak of the war, Sadat was keen on outlining his vision for peace. In his speech on 16/3/1973, Sadat demanded a full Israeli withdrawal from all occupied Arab territories, and a UN-sponsored international peace conference in which all concerned Arab countries (including Palestinian representatives) would participate, and in return he offered opening the Suez Canal for international navigation as soon as the guns fall silent (Shoukri 1987:486-487). On 22/10/1973, Sadat sent a cable to the Syrian president informing him that he had accepted a ceasefire, explaining that, "I am willing to fight Israel, but not the US"⁷⁹ (Hussein 1986:203). Soon afterwards, Sadat quickly pursued a US-brokered peace. The settlement process was divided into two phases, the first (1974-1976) focused on disengagement and confidence building measures, whereas the second (1977-1979) was devoted to negotiating a permanent peace agreement.

Henry Kissinger's shuttle diplomacy culminated in two disengagement agreements in 1974 (Sinai I), and 1975 (Sinai II). Sinai I paved the way for re-opening the Suez Canal, which entailed a *de facto* downgrading of the war option. Sinai II represented a quantum leap further, and was indeed the most significant milestone heretofore towards the restructuring of Egyptian foreign policy. On the one hand, it was concluded without linking it to a similar agreement on the Syrian front (as was the case in Sinai I

⁷⁹ A few years later, the claim that Egypt was facing the US in the war became the official rationale for Sadat's acceptance of a ceasefire and a US-sponsored settlement.

agreement), or even consulting with Syria, thereby hinting for the first time at the possibility of pursuing an individual peace. Secondly, it included a provision that there would be no recourse to force to resolve differences with Israel, and postulations to set US-monitored early warning mechanisms, thereby, dropping the war option altogether (Baker 1978:138). As such, the agreement brought forth a storm of protest from the “revolutionary” regimes in Syria, Iraq, Algeria, as well as the PLO (Beattie 2000:174), and instigated a new contentious phase in the Egyptian-Arab relations.

The progress of the disengagement agreements was closely linked to the progress of the *infitah* and economic liberalisation on the one hand, and the realignment of Egyptian foreign policy towards the United States on the other. Not only were the disengagement agreements intended to pave the way for a peaceful solution in the region, which was seen as a pre-requisite to the influx of foreign capital and economic recovery, they were also aimed at securing hard currency revenues. Thus, the Sinai I agreement in 1974 made it possible to re-open the Suez Canal in June 1975, and the Sinai II agreement in September 1975 led to the return of the important Abou Redeis oil fields (Cantori 1980:38). As the Egyptian economy moved towards a quasi-rentier status during the *infitah* years, foreign policy, and in particular Egypt’s attitude towards the Arab-Israeli conflict emerged as an essential source of rent. This was reflected not only in the return of tourism, Suez Canal, and petroleum revenues, but also in the resumption of US economic assistance in the aftermath of the Sinai II agreement, which was in effect a direct “foreign policy rent”⁸⁰.

⁸⁰ W.H. Blumenthal, the US treasury secretary explained that the US aid to Egypt is an “investment in foreign policy” and that “we feel that we are getting our money’s worth” (cited in: Baker 1978:141).

On the other hand, underlying Egypt's quest for a US-sponsored peace were three key assumptions: a) that only the US could exert enough pressure on Israel to return the occupied territories; b) that rapprochement with the US would facilitate the long awaited influx of foreign aid and investments; and c) that the kind of American commitment needed to recover Sinai is contingent on opening the economy, creating new opportunities for American investors, and demonstrating to the US that it had dependable allies in the region, other than Israel. Thus, Sadat was keen on giving any concessions needed to facilitate Kissinger's efforts to mediate the disengagement agreements⁸¹, arguing, in the face of any opposition to the content or implications of these agreements, that he was in fact "disengaging with America, not with Israel", i.e. that his strategic goal was to restore good relations with the US, so as to ensure that she would exert the necessary pressures on Israel to withdraw from Sinai (El-Kholi 1986:48-49). In the same spirit, Egypt and the US restored full diplomatic relations in March 1974, and the Watergate-beleaguered Nixon was given a warm popular welcome in the streets of Cairo in June 1974. During the visit, a joint statement was issued on 14/6/1974, entitled "Principles of Relations and Cooperation between Egypt and the United States", which caused increasing tensions in Egyptian-Soviet relations (Shoukri 1987:176-177).

It was against this background of re-alignment of Egyptian foreign policy that the Soviet leadership began to show signs of frustration with the new Egyptian policies. Thus the Kremlin postponed the Egyptian foreign minister's scheduled visit to Moscow on July 1974, as well as Brezhnev's visit to Egypt, scheduled in January 1975. Sadat responded by criticising the USSR in public, accusing it of: a) remaining hostile to any military

⁸¹ For a critical account of these concessions, see: Heikal (1996b); Shoukri (1987).

action before October 1973; b) refusing to compensate Egypt for the weapons it lost during the war like it did with Syria; and c) refusing to reschedule Egyptian debts (\$9 billion) (El-Kholi 1986:63-64). As *infitah* and foreign policy re-alignment progressed, Egyptian-Soviet tensions increased, culminating in Sadat's official abrogation of the friendship treaty in March 1976 (Rubenstein 1977:19).

Meanwhile, Egypt's regional policies witnessed an equally profound restructuring. On one hand, the post-1973 oil boom stimulated a growing perception that Egypt might be able to benefit from this sudden wealth, pending some foreign policy and economic adjustments, to solve its economic problems. *Infitah* was in part viewed as a mechanism of enhancing Egypt's chances of benefiting from the "oil panacea" (Ayubi 1982b:350). Likewise, the Cairo-Riyadh axis was reinforced, as Egypt became increasingly dependent on Saudi financial assistance, and King Faisal needed Sadat to maintain stability in the Levant, and to continue the de-radicalisation of Egypt (Hillal-Dessouki 1982c:335). Sadat spoke openly of an "Arab Marshall project". However, although substantial sums were obtained from Saudi Arabia and other Gulf States⁸², they were hardly enough to meet the government-induced expectations of post-war prosperity. Facing the unfulfilled expectations of his populace, Sadat blamed these countries. It was becoming increasingly clear that the "oil panacea" that would transform the Egyptian economy was a delusion.

On the other hand, tension with the "progressive" Arab regimes increased after the Sinai II agreement. With Egypt effectively abandoning the war option and showing readiness

⁸² The nominal value of the allocated sums was \$7.9 billion, of which \$6.7 billion were actually used. See: Hussein (1982b:209).

to reach an individual solution, she was also forfeiting much of her claim to leading the Arab struggle of liberation. As a result, the second half of the 1970s witnessed a gradual waning of Egyptian influence in the region. When the Lebanese civil war broke out, Egypt's lack of influence became abundantly clear, as Egypt, in sharp contrast to her central role in Arab politics over the previous two decades, had to leave it to Syria to contain the Lebanese crisis (Aulas 1976:84).

Western economic assistance and investments were Sadat's remaining hope, but were however, dependent on a peaceful settlement with Israel. As Beattie (2000:220) argued, Sadat's predicament became one of "no peace, no FDI, and no successful *infitah*", since for most foreign investors, the political situation remained risky. Such was the situation when the bread riots broke out in January 1977. They indicated that the post-war, opposition-free years were over, and that a radical solution is needed, if the regime's legitimacy and stability were to be sustained. The social disposition of the elite rendered either radicalisation or a reversal of the *infitah* policies impossible. With no domestic solution in hand, the government resorted anew to the foreign policy arena, in an attempt to pull off an international miracle that would release enough "foreign policy rent" to resolve the domestic problems and maintain the regime's hegemony (Cooper 1982:251). Thus came Sadat's visit to Jerusalem and the peace initiative that launched the second phase of the settlement with Israel, and, simultaneously, the prolonged domestic crisis of the regime, which lasted until Sadat's assassination in October 1981.

3- The Four Years' Hegemonic Crisis: 1977-1981

The January 1977 bread riots came twenty-five years, almost to the day, after the events of "Black Saturday", which signalled the "beginning-of-the-end" of the pre-1952 regime. However, given that *infitah* reflected, above all, a deep transformation in the social disposition of the Egyptian elite, reversing the government's new policies in the aftermath of the riots was no option. Instead, in the face of the "hegemonic crisis" that the riots revealed, the government responded by retracting the short-lived "controlled political liberalisation" measures that had started after the war.

Alongside this de-liberalisation, the government resorted its classic strategy, namely, using diplomatic acumen to generate the much-needed resources to resolve, or at least muffle, the domestic contradictions. Thus came Sadat's famous trip to Jerusalem and the ensuing peace negotiations with Israel. This section will examine the government's bid to resolve the domestic crisis with a combination of coercion and diplomatic acumen, and the consequences thereof.

(3.1) The State

Although the regime was in no serious danger of falling during the January 1977 riots⁸³, the riots dealt a serious blow to the regime's legitimacy, and indicated at a serious hegemonic crisis. From that moment onward, the regime's decisions and policies were subject to close scrutiny and criticism from an increasingly ferocious opposition.

⁸³ Contrary to many exaggerated accounts of the riots, primarily by the Egyptian left, any close examination of the scope and duration of the riots reveals that the rioters lacked the strength and the leadership to overthrow the regime. Thus, the security forces were able to re-establish their control within 48 hours.

The government's response was fourfold, involving: a) a tactical retreat from the decisions that triggered the riots, whilst maintaining the general policy line; b) blaming the left for the riots and initiating a series of coercive measures against representatives of the political left; c) repeating its earlier promises that prosperity would come with peace; and d) seeking to accelerate peace negotiations with Israel.

On 19/1/1977, Sadat ordered back the subsidies that were cut on the previous day. This was only a tactical move aiming at containing the crisis. The social disposition and preferences of the elite meant that rethinking the restructuring process of populist *étatisme* was out of question. Indeed, a close examination of the government reshuffle that took place in February 1977, demonstrates that the government stood by its economic choices. Whereas the deputy minister of interior lost his job in the aftermath of the riots, indicating the government's diagnosis of the crisis as a security lapse, all key members of the cabinet, including ministers with economic portfolios, maintained their posts. It was clear that the riots did not weaken the government's commitment to dismantling populist *étatisme*. If anything, the government saw to it that its coercive capacities increased to cope with any future protest. Thus, a qualitative and quantitative strengthening of the ministry of interior took place after the riots, under the leadership of al-Nabawi Ismail, who was promoted to deputy minister of interior in February 1977, and then to minister of interior in the following October. Under his guidance, the police forces were greatly modernised, so as to be equipped to "deal with all situations". The paramilitary "central security forces"⁸⁴ expanded substantially in size and were as well

⁸⁴ The paramilitary "central security forces" are led by police officers, but their rank and file are recruited from the rural, and often illiterate, conscripts performing their obligatory military services. The importance

equipped as the army (Beattie 2000:222-223). This served the twin purposes of: a) enabling the police forces to prevent and handle any future riots without having to call the army to the streets; and b) counterbalancing the army, thereby limiting the possibility of a military coup.

On the other hand, Sadat blamed the riots on the left and the mobs of thugs. He even designated them “the thugs’ uprising”. The riots were followed by massive arrests. 1500 activists from the left, which Sadat chose to blame, were arrested (Ibid:71). Meanwhile, Sadat repeated his claims that prosperity would come in a few years, as soon as complete liberalisation and peace were achieved. He repeatedly pledged in his speeches “1980 would be the year of prosperity” (Mohamed 1990:243).

The most important action Sadat took, however, was his decision to embark on direct, bilateral negotiations with Israel. The domestic crisis meant that resources had to be generated to maintain social stability and enable the transformation process of populist *étatisme* to bear its fruits. With the government’s reluctance to squeeze economic surplus from the bourgeoisie, using diplomatic acumen to extract resources from abroad was a classical strategy that had been used on several occasions by Sadat and his predecessor, and was all the more urgent now, given the intensity of the social crisis.

The Geneva conference formula was practically dead. Hence, Sadat decided to act individually, and made his famous trip to Jerusalem. Peace talks followed, reaching two framework agreements in Camp David in 1978 and a bilateral peace agreement with

of the socio-economic background of these conscripts would prove critical to understanding their 1986 riots, discussed in the next chapter.

Israel in 1979⁸⁵. Thus, according to the regime's prevailing conception of *infitah*, the conditions were set for reaping the economic gains of peace, and prosperity was expected to follow.

Although the trip and the following accords received the blessings of the key members of the conservative ruling elite⁸⁶, they did not contribute significantly to containing the rising social protest in Egypt. If anything, the protesters now added to their social agenda, accusations against the regime of "selling out the Palestinian cause", thereby appealing to a broader audience than the immediate beneficiaries of populist *étatisme*, and eventually breaking the consensus amongst the right over Egypt's policies. The Muslim brotherhood, for instance, whilst firmly backing Sadat's economic policies, opposed fiercely the accords with Israel. So did the rightwing, newly formed, *New Wafd* Party. Sadat's conservative alliance began to erode, and a counter-hegemonic consensus was emerging across the political spectrum (Baker 1981:378-379). Social protest against the *infitah's* social consequences, became intertwined with the political protest against Sadat's new policies towards Israel and against the resulting isolation of Egypt in the Arab world, thereby creating mounting pressures on the regime and beginning what turned out to be the regime's most critical, and indeed fatal, crisis.

With this hegemonic crisis, and the resulting erosion of its alliance base, the regime resorted to a two-pillared crisis-management strategy. First, a de-liberalisation process started in 1978, reversing the short-lived controlled liberalisation measures. Second, after

⁸⁵ This will be discussed in sub-section 3.4 below.

⁸⁶ See: Hinnebusch (1985:72-73)

its clampdown on its opposition from the right and left, the regime sought to fill in the political vacuum by trying to create a new ruling party and “tamed” opposition.

In 1978, after signing Camp David accords, Sadat launched a massive offensive against the opposition. The parliament, with its small but agitating opposition against his foreign and economic policies was dissolved, giving the regime the chance to arrange, via electoral engineering, the elimination of the 17 members who opposed the accords (Beattie 2000:241; Hinnebusch 1985:75). Sadat attacked those engaging in “irresponsible criticism” of his policies, proposing the notorious “Shame Laws”, to ensure that criticism remained “responsible”, and to outlaw the attacks against “traditional family values”, on top of which, was disrespect for the “head of the family”⁸⁷. In a series of referenda, the Egyptians allegedly supported the peace accords, and the clampdown on opposition via banning “atheists and pre-1952 corrupt politicians” (i.e. left wing and *New Wafd*) from politics, by majorities always within the range of 98- 99%. Anticipating a government’s decision to outlaw it, *New Wafd* disbanded itself on 2/6/1978. NPUP followed suit three days later.

The government sought to fill in the ensuing political vacuum via creating a new “majority party”, and “tamed opposition”. Hence, Sadat announced on 9/7/1978 that he would be forming a new party based on the principles of the “revolutions” of July 1952 and “May 1971”. His original plan was to transform EASP, which was associated in people’s minds with the 1977 riots, to a tamed opposition party. However, EASP’s members were quick to join the new National Democratic Party (NDP), in one of the

⁸⁷ See: Cantori (1980); Shoukri (1987).

most farcical scenes in Egyptian political life, and EASP was transformed overnight from a majority party to a no-member party⁸⁸.

Sadat claimed that he had to interfere in party life as a result of Mamdouh Salem's failure to build EASP from below, thereby implying that this would be the key difference between NDP and EASP (Beattie 2000:237). Far from being a popular party built from the village level upwards, however, NDP was the bourgeoisie party *par excellence*. Party elites were recruited from the three factions of the bourgeoisie alongside, traditional rural elites and landowners. It was of very little help in filling the political vacuum and mobilising support for the regime's economic and foreign policies. On the other hand, even after the farcical fall of EASP, Sadat had not given up the idea of a "responsible" opposition party. Thus, Sadat supported the creation of the Socialist Labour party (SLP), and even had a few NDP members of parliament join it. What was intended as a tamed opposition party, however, soon turned into a real opposition party, that began to oppose Camp David accords, and its newspaper *Al-Sha'b* was opened to Sadat's opponents from different convictions. The attempt to build a tamed opposition was a failure (Hillal-Dessouki 1997:215-216).

With the clampdown on the opposition, and the failure to fill the political vacuum via a new ruling party and tamed opposition, the regime entered a vicious circle of coercion and violent opposition. The regime escalated its repressive measures, whilst the opposition turned to underground activities (Cooper 1982:250). Repression and opposition fed one another. Alongside the leftist opposition, violent fundamentalist

⁸⁸ See: Hillal-Dessouki (1997); Beattie (2000).

opposition surged. Sectarian violence rose, alongside social protest and opposition to Sadat's foreign policy, creating mounting pressures on the regime. Such was the picture in 1980, supposedly the "year of prosperity", and ironically, the year that witnessed an unprecedented escalation in sectarian violence and opposition to Sadat's policies. In the face of the mounting crisis, Sadat dismissed his government, and assumed himself the post of prime minister. His government sought to give a rosy picture of the economy, and presented a package of expansionary economic policies, in an attempt to ease up the political tension with some economic "belt loosening". Simultaneously, the government sought to intensify its pursuit of Islamic legitimacy, in an attempt to counterbalance the growing influence of the radical Islamist groups. Sadat announced steps towards codifying Islamic Shari'a, and suggested, in May 1980, a constitutional amendment to make Shari'a "*the* main source of legislation". The government also introduced the notorious "Shame laws", penalising any abrogation of "society's basic values".

Protest, however, intensified as the economic crisis continued, and the inadequacies of the regime's new foreign policy were revealed when it had to stay silent in the face of Israel's military strikes in Iraq and Lebanon. The regime's hegemony was completely undermined, and a counter-consensus was forming across the political spectrum against its policies. Failing to contain the mounting pressures, the regime struck the opposition at an unprecedented scale. On September 5th, 1981 Sadat ordered massive arrests of politicians of all convictions, fundamentalists, and journalists, and deposed the Pope of the Coptic Church. This signalled, as Ajami (1995:74) argued, the breaking of the moral

and social contract between Sadat and his country. It was a desperate throw of the dice by Sadat and it backfired. Sadat was assassinated in October 6th, exactly one month later.

(3.2) Economic Structures and Policies

The resource crisis of the *infitah* political economy came, paradoxically, at a period of high growth of the economy, during which Egypt seemed awash in money. The economy was growing at an annual rate of 8%. Sinai I, and Sinai II agreements entailed the release of key economic resources, namely, Suez Canal and oil revenues, the combined value of which increased from \$641 million to \$6.784 billion between 1974 and 1981 (Owen and Pamuk 1990:135). Remittances of migrant workers in oil-rich Gulf States skyrocketed, and economic assistance from Gulf States, the US (from 1975) and other Western economies arrived in unprecedented sums.

Egypt was indeed awash in money, albeit very unevenly distributed. The crisis of the *infitah* economy was primarily, but not exclusively, a distributional crisis. It had three key components: a) an uneven distribution of wealth; b) a structural weakness of the productive sectors of the economy; and c) the failure of private capital to make up for the decline in public investments.

Growth during the *infitah* years was associated with a very uneven pattern of income distribution. The familial nature of many *infitah* projects led to a pattern of income distribution in Egypt characterised by the emergence of “fat cat” importers and government subcontractors with large fortunes and conspicuous patterns of

consumptions, amid deprived masses (Abdel Khalek 1982b:277). The high rates of inflation acted as an income re-distribution mechanism, further impoverishing salaried classes, especially that the prices of basic goods rose a lot faster than the general price index, itself rising by a staggering 25-30% per annum (Ibid). This meant that the poorest strata were the hardest hit.

The government's fiscal policies exacerbated the resource crisis. Public expenditure, particularly to finance the massive expansion of the state security apparatus, as well as the conspicuous consumption of the state bourgeoisie, rose steadily⁸⁹. On the other hand, tax revenues lagged, thanks to the massive tax exemption packages under *infitah* laws. Finally, since most *infitah* projects required massive infrastructural investments, these investments had to be financed from the public purse. As a result, budget deficit doubled between 1976 and 1979. Meanwhile, exports stagnated, as a result of the de-industrialisation of the Egyptian economy, whilst the cost of imports increased more than tenfold from \$427 million in 1973 to \$4.4 in 1981 (Weinbaum 1986:119). As a result, the chronic balance-of-payments deficit rose steadily during the seventies (Owen 1983:13). The massive resources that flowed to Egypt after 1973 were mal-distributed and/or squandered.

The *infitah* years also witnessed a steady decline in the share of the productive sectors in the economy. In the countryside, whereas some middle-sized landowners growing fruits and vegetables improved their lot during the *infitah* years, governmental regulatory and tax policies acted as a net tax on agriculture (Beattie 2000:218). Industrial capital was

⁸⁹ For more details on the rise of public expenditure under *infitah*, see: Ghoneim (1986).

relatively marginalized in the ruling alliance of the bourgeoisie. It suffered from imports of cheap textiles from China and South Korea throughout the *infitah* years but the government failed to respond to the demands for protection until 1979 (Wahba 1994:186). Egyptian industrial capitalists could only benefit from *infitah* laws if they were working in joint-ventures with foreign capital or using foreign currency in their investments. Industrial capitalists who used local currency had to wait until 1981 to be placed on the same playing field with foreign capital (Ibid:188). As a result, the *infitah* years witnessed several industrial capitalists shifting to the more profitable commercial activities (Shoukri 1987:424). Consequently, there was a steady decline in the share of productive sectors in the Egyptian economy, which was gradually moving to a quasi-rentier status. Indeed, Egypt was experiencing its own version of the so-called “Dutch Disease”, in which large capital inflows, high inflation, negative interest rates, and an over-valued currency encouraged a misallocation of resources, creating a bias in favour of non-tradable goods. As a result, investments were directed mainly to infrastructural sectors and housing, rather than the productive sectors (Owen and Pamuk 1990:136).

The initial promise of *infitah*, that FDI and private investments would lead the economy and allow Egypt to benefit from the “oil revolution”, was never fulfilled. FDI by Law 43 companies represented just 2.6% of fixed gross investment in 1977 (Beattie 2000:216), and foreign capital was reluctant to invest in the productive sectors, concentrating instead in the banking, tourism and other service activities. *Infitah* projects were mostly capital intensive⁹⁰, as such, their contribution to job creation was limited.

⁹⁰ The amount of fixed capital per job opportunity was £E 1500, compared to less than half that level in the rest of the economy (Abdel Khalek 1982b:277).

When the bread riots broke out in 1977, the government responded with a tactical retreat, withdrawing the planned subsidy cuts, but no attempt was made to redress the structural imbalances of the economy. Any form of statist intervention in the economy was out of the question, given the structure and preferences of the elite. Hence, the government sought to ease the crisis without exerting pressure on the members of the ruling alliance. The way to do so was via increasing its sources of external rent.

The experience of the *infitah* years clearly demonstrated that the main asset and source of rent for Egypt was its foreign policy. First, the rise in all sources of foreign currency in the aftermath of the October war was directly related to the government's foreign policy stances. Sinai I agreement made the re-opening of the Suez Canal possible, Sinai II resulted in the return of Abou Rdeis oil fields, and economic assistance from the Gulf States, and more importantly, from the US was politically driven. Second, the rise of international oil prices was a direct outcome of the October War. Finally, the *October paper* blamed war for Egypt's economic problems and equated peace with prosperity.

The government, therefore, calculated that the best way to resolve the economic crisis, and fend off the dangers of future riots was to proceed with the political settlement with Israel, and rapprochement with the US. Not only would this increase directly Egypt's rentier resources⁹¹, but it would also enhance private capital flows, thereby realising the original promises of *infitah*. Hence, Sadat made his trip to Jerusalem a few months after January riots, and embarked on peace negotiations. To all social and political protestors,

⁹¹ Sadat knew that regaining the rest of Sinai meant, besides the obvious political gains, increased oil and tourism revenues, and assumed that peace with Israel would result in massive US aid. He even spoke publicly of a "Carter Project" a la Marshal Project. See: Hussein (1982b:386).

he could now repeat his promise that prosperity would come with peace – no later than in 1980.

The “peace dividends”, however, fell too short of Sadat’s earlier expectations. Structural imbalances, which were not redressed in the hope of solving the economic crisis externally, remained intact, and indeed intensified. As a result, the promised “year of prosperity” – 1980 – turned out to be a year of intensified social crisis. Sadat dismissed his government, and assumed premiership to “lead the battle of reconstruction” (Baker 1981:379). His newly appointed economic czar Abd al-Razzaq Abd al-Magid, was instructed to keep the economy rosy. And indeed, there was a window of opportunity to redress the economic imbalances using the upsurge in the country’s resources that year, due to the unexpected rise in oil revenues in the aftermath of the Iranian revolution. However, like the “window of opportunity” that was available after the October war, this one too was missed. The political crisis and mounting protest against Sadat’s economic and foreign policies, made it imperative for him to “loosen the belt”, in an attempt to ease up the political pressures on the regime. Thus, minimum wages were increased by 25%, import duties were reduced on a wide range of commodities, including consumer durables, and some tax exemptions were offered to public sector employees (Beattie 2000:261).

Such measures were hardly enough to contain the crisis. High rates of inflation (25-30%) eroded any potential gains from the wage increases. Lowering import duties, given the mal-distribution of income and the rise of the “fat cats”, meant, on one hand, a further increase in the balance-of-payments deficit, and a further crisis for industrial capitalists

(due to the sharp rise of imported manufactured goods) on the other. The structural imbalances of the economy worsened, and the protest continued well into 1981. With no economic means at hand to redress the crisis, the government resorted to increased coercion. A vicious cycle of coercion, and violent opposition ensued, culminating dramatically with the assassination of Sadat on October 6th, 1981.

(3.3) Ideology

1977 witnessed a turning point in the regime's ideological discourse, when all the subtle references to de-Nasserisation and Egypticity were suddenly emphasised in a most explicit manner by Sadat himself. Three key developments triggered this ideological shift: a) the food riots of 1977; b) the mini-war between Egypt and Libya in summer 1977; and, most importantly, c) the peace negotiations with Israel and the following Arab protest.

The January 1977 riots dealt a lethal blow to the regime's legitimacy. They revealed that the ruled were no longer accepting the social and economic outlook of the ruling elite, thereby initiating a serious hegemonic crisis that lasted until Sadat's assassination in 1981. In his first speech after the riots, on 5/2/1977, Sadat's position was twofold: a) denying that the riots constituted genuine protest against *infitah*, and blaming the left and "mobs of thugs" for the agitation; and b) reiterating his promise of "prosperity that defies imagination", pledging that "prosperity will come by 1980" (Mohamed 1990: 239-243).

Sadat not only blamed the “left” for the riots, but also began, for the first time since he came in office to criticise Nasser directly. After the riots, Sadat criticised “*those who are trying to bring back detention camps and a ‘socialism of poverty’ for everyone*” (Hinnebusch 1985:72). The media attacks on Nasser intensified alongside their praise for Sadat, who was portrayed as the “hero of the crossing” and the “real founder of the 1952 revolution”. The May 1971 power struggle was glorified, not as a “*rectification movement*”, as it was hitherto called, but as a full-fledged “*rectification revolution*” (El-Kholi 1986:93).

On the other hand, the mini-war between Egypt and Libya in July 1977, and the rift between Egypt and the Arab world in the aftermath of Sadat’s trip to Jerusalem, made Sadat more explicit, sometimes even overtly abusive, in criticising the Arab states and emphasising *Egypticity*. From that moment on, Egyptians grew used to certain code words of Sadat’s increasingly strident attacks on Arab countries, including “*dwarfs*”, “*dwarf Qaddafi*”, “*Alawite Ba’th*”⁹², “*Takriti Ba’th*”⁹³ and so forth (Cantori 1980:26-29). An intense debate was opened amongst Egyptian intellectuals in 1978 over the “Arab role of Egypt”. Some called for Egyptian neutrality between Israel and the Arabs (Hopwood 1985:120), arguing that Egypt is essentially a Mediterranean, not an Arab country. Others emphasised ancient Egyptian history, suggesting that it conferred on Egypt a unique identity, distinct from other Arab states, and occasionally going as far as to talk about Egypt and Israel as islands of civilisation in a sea of Barbarism (Hinnebusch

⁹² Implying the religious minority status of the Syrian President.

⁹³ Mocking the town in which Saddam Hussein was born.

1985:117). To these intellectuals, the Arabs became the scapegoat for Egypt's ills: she had spent her blood and ruined her economy fighting for them, but they never showed gratitude⁹⁴. The majority, however, defended the Arabism of Egypt, and demanded a continued Egyptian leading role in the Arab world⁹⁵.

This heated debate was not an abstract intellectual exercise. It was deeply entrenched in the political conflict over the new course of Egyptian foreign policy and the *infitah* political economy by large. Social protest was intertwined with the accusation of "selling out the Arabs", and the post-war hegemony was gradually eroding, as a new "counter-consensus" was beginning to crystallise against Sadat's *infitah* and foreign policy⁹⁶.

In response, the regime's ideological justification of its policies was twofold: a) emphasising organic corporatism; and b) seeking to reconcile the new foreign policy orientation with the popular consensus on the need for a leading Arab role for Egypt.

After the events of 1977, the emphasis on "organic corporatism" reached unprecedented levels. Praise for Sadat was developed into a "personality cult", emphasising the unique

⁹⁴ Sadat was the first to use this line of arguing. In a speech on 26/11/1977, Sadat wondered, "what should I tell to my people who have suffered for the Arabs, only to be met with such ingratitude" (Mohamed 1990:256).

⁹⁵ For a comprehensive anthology of the key writings of the 1970s debate, see: Ibrahim (1978).

⁹⁶ This counter-consensus culminated in 1980, when a "Statement by the Egyptians", including the harshest and most articulate criticism of Sadat's policies, and signed by intellectuals and politicians from across the political spectrum, was distributed on 12/5/1980. See: Baker (1981:383).

qualities of the “head of the Egyptian family”. Sadat himself often identified the state with his personality, not only by speaking of “*my army, my people, my relations with Britain...etc*”(Sadat 1985:121-129), but also by personalising his foreign policy, and basing decisions on his “*friendship with Henry [Kissinger]*” whom he “*trusts completely*” (Hinnebusch 1985:80-82), and even going as far as to offer Sudan “*a gift of Egyptian land on the Mediterranean coast to act as a Sudanese port*” (Sadat 1985:113). Sadat’s critics were accused of, and called for investigation before the semi-judicial “socialist prosecutor” for, “*attacking Egypt*”⁹⁷. Domestically, Sadat’s discourse on “village ethics” became increasingly nostalgic, going as far to express, on a television interview on 25/12/1979, his desire to see Egypt as a “*one big happy Meit Aboul Kom*”⁹⁸ – a village based on “love”, and respectful of the “head of the family”. This “village nostalgia” was even operationalised in the notorious “Shame laws”, which criminalized the abrogation of “society’s basic values”. Political opponents were now imprisoned on such metaphysical accusations as “harming social peace”, or “abrogating society’s basic values”, and so forth.

On the other hand, since 1952, Egyptians have defined their national consciousness in a way that revolved around Egypt’s leading role in the Arab World (Cooper 1982:251). As argued in Chapter I, national roles, once established by the elites and accepted popularly, become major components of the prevailing political culture, and a source of distinguishing what is legitimate or illegitimate in the eyes of society. This was why the regime’s shift to *Egypticity* and attack on the Arabs, rather than resolving the regime’s

⁹⁷ See: Hinnebusch (1985:119). Mohamed Heikal’s (1982) record of the minutes of his investigation is exemplar of this “political inquisitions”.

⁹⁸ In reference to his birthplace. See: Imam (1986:6).

hegemonic crisis, intensified it. Hence, in 1980, with the rising consensus against the new foreign policy, and the demands for restoring Egypt's Arab role, the regime resorted to an eclectic approach, seeking to reconcile its new policies with the prevailing Arabist sentiments. A "White Paper" was issued in 1980, arguing that Egypt's central role in the Arab world was never undermined. *Egypticity* was no substitute for Arabism. In spite of the Arabs' ingratitude, Egypt remained the heart of the Arab world. And her treaty with Israel was not an individual peace treaty, but a first step towards a comprehensive peace (Hinnebusch 1985:117). In so arguing, however, the regime's vulnerability towards its critics increased. By accepting the opposition's terms of reference – the primacy of Arabism, the need for an active Arab role, and the undesirability of an individual peace treaty – it was *de facto* discrediting much of its post-1973 foreign policies. Opposition attacks grew fiercer, and the hegemonic crisis intensified, forcing the regime to resort to outright oppression. The September 1981 arrests signalled the culmination of the hegemonic crisis, and the break of the social and moral contract between Sadat and his populace. One month later, Sadat was assassinated whilst celebrating the eighth anniversary of the October war – his glorious moment that established his regime's hegemony. But the hegemony was over, and so was Sadat's rule.

3.4 Foreign Policy

With no recourse to the interior to resolve the domestic crisis in the aftermath of the riots of 1977, there was only the exterior. Sadat resorted again to foreign policy, in an attempt to pull off one more "international miracle" that would materialise the initial promise of *infitah* – the "prosperity that defies imagination".

Sadat's first attempt to solve his domestic crisis externally was a major miscalculation. In 19/7/1977, Sadat launched a mini-war against Libya⁹⁹. Sadat's Libyan adventure had two goals: a) occupying the oil-rich, eastern parts of Libya, thereby realising, albeit in a perverted way, the dreams of the "oil panacea"; and b) to demonstrate Egypt's importance as a Cold War ally of the US, thereby making up, in terms of a Cold-War-related role, for what he lost in terms of Egypt's Arab regional influence and role¹⁰⁰. Thus, his onslaught started with the announcement of the signing of a \$4 billion arms deal between the USSR and Libya, and claiming that Soviet soldiers will be deployed on the Libyan-Egyptian borders, thereby, seeking to bestow upon his regional adventure a Cold-War-related purpose. On 19/7/1977, Egyptian radio claimed that Libyan forces have attacked Salloum¹⁰¹, and the Egyptian operations began. Sadat was, however, immediately under domestic, Arab, and most importantly, American pressure to terminate his onslaught. He had to order his troops back a few days later. The failure of this Libyan adventure had a key corollary – that an "oil panacea", through Egyptian direct control of the Libyan oil resources, was not possible.

The other option was not only more realistic, but also more consistent with the *infitah's* foreign policy premises. Initially, the *October paper* had argued that war was the root-cause of Egypt's economic ills and equated peace with prosperity. After the January 1977 riots, such arguments gained further impetus. On 21/1/1977, two days after the riots, the editorial of the *Egyptian Gazette* argued that Egypt's "most economically viable option

⁹⁹ For a more detailed description of Sadat's Libyan adventure, see: Heikal (1996b:328-333).

¹⁰⁰ Notwithstanding the Libyan imbroglio, the same ambition seemed to have continued in Sadat's later, equally ill-fated and ineffectual, attempts to act as a regional, anti-Soviet policeman in Africa, hence his attempts to play a role in the crisis of Angola, against Mangistu's Ethiopia, in Somalia, and so forth.

¹⁰¹ A small Mediterranean town near the Egyptian-Libyan border.

was to opt out of the war with Israel altogether” (Beattie 2000:220). Thus came Sadat’s visit to Jerusalem and the peace initiative that moved beyond the “disengagement phase” and launched the second phase of the settlement with Israel.

Sadat’s initial position, set forth in his speech on 16/10/1973, was that any such settlement should be negotiated in a UN-sponsored peace conference in Geneva, attended by all concerned parties, including Palestinian representatives. After one preliminary meeting in December 1973, however, the Geneva conference was adjourned *sine die*, its problem being the Palestinian representation, since Israel and the US vetoed the PLO representation, which the Arab Summit in 1974 recognised as the “sole legitimate representative of the Palestinian people”.

Soon afterwards, particularly in the aftermath of Sinai II, Sadat was indicating that he would negotiate alone. Sadat was increasingly convinced that there was little, if any, benefit in allowing other Arab governments to participate in negotiating the fate of Egyptian interests, and was reluctant to accept the Syrian demand of having a joint Arab delegation to the Geneva conference (Doran 2001:116). In an interview with the NDP’s newspaper *Mayo*, Sadat argued that, “*knowing the political manoeuvres to which the Syrians were addicted, I rejected the proposals that Arabs should go to Geneva as one delegation, [telling] Carter that one delegation will achieve nothing. It will be an auction for never-ending slogans*” (Sadat 1985:100).

Nevertheless, Sadat sought to recast his individual peace initiative in a broader set of demands, insisting, in his speech before the Knesset, that he was not seeking an individual solution, and that the Palestinian question was indeed the crux of the conflict. His need for quick results, however, undermined his ability to realise his initial demands (Cooper 1982:255). His initiative was a major political risk, and he could not afford to negotiate for years. Indeed, as the symbolic benefits of his visits began to erode, and the Arab criticisms and accusations of “betraying the Arab cause” began to mount, especially in the aftermath of the Ismailia conference in Egypt in January 1980¹⁰², in which Israeli Premier Begin appeared uncompromising, the regime became particularly vulnerable to its critics, and its need for rapid progress increased. It had to give away some of its demands to ensure a quick agreement.

Thus, the Camp David talks (5-17/9/1978), resulted in two protocols. The first was entitled “A Framework for Peace in the Middle East”. Intended to constitute a basis for peace between Israel and its neighbours, it laid down a basis for discussing the future of the West Bank and Gaza, through a five-year autonomous self-government, during which final status negotiations would be launched between Egypt, Israel, Jordan, and “representatives of the inhabitants”, based on Security Council resolution 242. The second was a more rigorous document entitled “A Framework for the Conclusion of a Peace Treaty between Egypt and Israel”, providing for the conclusion of a separate peace treaty between Egypt and Israel within three months, and a time framework for the Israeli withdrawal from Sinai (Sawant 1979:37).

¹⁰² For a detailed description of the Ismailia conference, and Begin’s stances, see the memoirs of Egyptian former foreign ministers Mohamed Ibrahim Kamel (1987:40-50) and Ismat Abdel Meguid (1998:161-165).

The Camp David talks represented a major watershed in the region. First, they established, decisively and irreversibly, the separation between an Egyptian-Israeli settlement and the final resolution of the Arab-Israeli conflict. Second, the first protocol ignored the role of the PLO, which the Arab Summit in Rabat in 1974 recognised as “the sole legitimate representative of the Palestinians”. Finally, it did not make any reference to Israel’s intention to withdraw from all the Arab territories that were occupied in 1967.

As a result, they unleashed a large wave of criticism against Sadat regionally and domestically. After an Egyptian-Israeli peace treaty was signed in March 1979, a so-called “Steadfastness Front” was created amongst “progressive” Arab countries, and was later on able to mobilise Arab support for collective diplomatic and economic sanctions that isolated Egypt in the Arab world for the first time in modern history. More importantly, these efforts led to a massive wave of domestic criticism to Sadat, and accusations from across the political spectrum of “selling out the Arabs”. In the summer of 1981, the Israeli air force conducted two consecutive raids, the first in June 1981 on an Iraqi nuclear reactor under construction, and the second in July on Beirut, killing hundreds of civilians. Both attacks came within days of face-to-face meetings between Sadat and Begin, thereby giving further grounds to the accusation of “selling out the Arabs” for an “individual peace”, and making Sadat appear as complicit in the bombing, or as an impotent politician whom nobody took into account.

Thus, instead of resolving the crisis of legitimacy of 1977, Sadat’s bid for peace with Israel intensified it. Socio-economic criticisms were intertwined with foreign policy

criticisms, creating the hegemonic crisis that lasted until Sadat's assassination in October 1981.

4- Conclusion: The Patterns of Interplay of Egyptian Political Economy and Foreign Policy

Notwithstanding the extensive restructuring of the Egyptian political economy and foreign policy during Sadat's years, foreign policy maintained two key functions from Nasser's era:

- i) *As a means of resolving the inherent contradictions of the political economy:*
The rise of Sadat corresponded to the ascent of social forces that had supported the restructuring of populist *étatisme* from 1965. The key obstacle facing the regime remained, however, the contradiction between the regime's foreign and economic policies. At first, the regime sought to resolve this contradiction externally via the February 1971 peace initiative. When this failed, another foreign policy alternative, the October war, managed to resolve the fundamental contradiction, and gave the much-needed impetus to the restructuring process. Three years later, when the inherent contradictions of the *infitah* surfaced during the January 1977 riots, the regime sought to resolve them also via foreign policy acts, hence the Libyan adventure, then the Jerusalem visit and the following peace process with Israel.
- ii) *As a source of legitimacy and regime hegemony:* Foreign policy moves, particularly the blueprints for unity with Syria, Libya and Sudan, were

instrumental in Sadat's "war-of-position" against Sabri's faction during his first months in office, and eroding the latter's claims to Nasserism. The October war, however, was the turning point insofar as establishing Sadat's regime's hegemony is concerned. After the war, the regime gained an independent source of legitimacy and was, therefore, able to embark on the far-reaching transformation during the "hegemonic instance" that followed the war and lasted until the January 1977 bread riots.

However, the interplay of Egyptian political economy and foreign policy during Sadat's reign showed a key difference from his predecessor's era. During the rise of populist *étatisme*, the abovementioned functions of Egyptian foreign policy were complementary. Egyptian foreign policy could serve, simultaneously, the dual functions of generating external surplus to muffle the domestic contradictions and facilitate the populist and developmental policies on one hand, and to maintain the regime's hegemony on the other. The severe resource gap that forced the restructuring of populist *étatisme* after 1965 had a key consequence: it demonstrated potential contradictions between these two functions. The restructuring process entailed giving away some of the regime's populist and developmental policies, which were essential sources of the populist-statist regime's legitimacy. As a result, Nasser became much more vulnerable to any further challenges to his charismatic leadership in the foreign policy front. This vulnerability was, as I argued in the previous chapter, a key source of the 1967 crisis and the humiliating military defeat that followed.

During the 1970s, the extensive restructuring of populist *étatisme* further intensified the contradictions between these two functions. Restructuring Egyptian foreign policy (realignment with the US, and reconciliation with Israel) was necessary to secure the transformation of populist *étatisme* and realise the promises of the *infitah*. However, the very same measures created a hegemonic crisis for the regime on one hand, and eroded its conservative alliance base on the other. From that moment onward, the overarching concern of Egyptian foreign policy revolved around striking a balance between its rentier and hegemonic functions.

Between dismantling *étatisme* and relinquishing populism on the one hand, and the regime's failure to realise the *infitah* promise, "*the prosperity that defies imagination*", on the other, foreign policy became *the* remaining source of legitimacy. As a result, when the regime found it imperative to break away from the foreign policy consensus and restructure its external alliances to correspond to the needs of the economy, a fatal hegemonic crisis ensued, culminating dramatically in the assassination of Sadat.

Political assassination, notwithstanding its roots in the popular disapproval of the regime's new economic and foreign policy, remains essentially a random act, in that it does not alter the social disposition or the preferences of the elite. What Sadat's assassination did, however, was to highlight the intensity of the domestic crisis of the *infitah* political economy, and the hegemonic crisis of the regime. Thus, the main task of Mubarak's regime, at least during its first years, became to contain this crisis, and strike the balance between, on one hand, maintaining, and furthering the dismantling of populist

étatisme, and, on the other hand, seeking to restore the regime's hegemony and break the counter-consensus, which emerged against the regime's new economic and foreign policies, and was threatening its stability and survival. To fulfil the latter task, the only means available at the regime's disposal, given the erosion of the state's populist and developmental functions, was foreign policy acumen. The key dilemma of the new regime was, therefore, the contradiction between its desire to maintain *infitah*'s economic policies, whilst reviewing some of its foreign policies to reproduce its hegemony. Such was the tightrope act that Mubarak's regime had to perform to secure the regime's survival during the "hesitant decade" of the 1980s.

Chapter IV

The "Hesitant Decade"

1981–1990

Estragon: "I can't go on like this"
Vladimir: "That's what you think"
Samuel Becket (Waiting for Godot)

This Chapter seeks to explore the interplay of Egyptian political economy and foreign policy as Mubarak's administration sought to diffuse the socio-political crisis that Sadat's assassination highlighted, whilst maintaining its commitment to dismantling populist *étatisme*. Although Sadat's assassination, as I argued in the previous chapter, left the social disposition of the ruling elite unchanged, it was indicative of the magnitude of the regime's hegemonic crisis. Political stability and crisis resolution became, therefore, an overarching concern of Sadat's successor.

This was why Mubarak's regime, throughout the 1980s but particularly during its first five years (1981-1986), seemed to be giving conflicting signals, and flirting simultaneously with aspects of "Nasserism" and "Sadatism", in a way that led many analysts to argue that Mubarak is seeking to strike a balance between the policies of his predecessors¹⁰³, or to accuse him of being hesitant, averse to risk, and indecisive¹⁰⁴.

¹⁰³ This assumption underlies much of the research on Mubarak's policies, especially during the 1980's. Springborg (1989:19) argued that Mubarak is "by nature a balancer", and spent much effort to classify his different policy choices as "Nasserite" or "Sadatist" or "balancing". See also: Kramer (1987); Ibrahim (1982).

¹⁰⁴ See: Merriam (1982); Bianchi (1986); Ansari (1985) Hopwood (1993:184).

This Chapter seeks to challenge both lines of analysis, arguing instead that, far from a “personal balancing inclination” or “indecisiveness”, the policies of the Egyptian government during the “hesitant decade” – the 1980s– reflected the regime’s response to conflicting, and in many instances, contradicting, needs – to maintain and advance the process of dismantling populist *étatisme* on the one hand, and to diffuse the political and socio-economic crises caused by that very same process on the other.

The key argument in this chapter is that, in the aftermath of the crisis that culminated in Sadat’s assassination, the priority of Mubarak’s regime was to establish a “societal truce” by seeking national reconciliation, restoring the regime’s hegemony, and dispersing the counter-consensus that had emerged from across the political spectrum against *infitah*’s political economy and foreign policy. As such, this “societal truce” did not entail any abandonment of the *infitah*’s premises – only a deferment of any further large-scale liberalisation, whilst the regime re-establishes its legitimacy. All the minor flirtations with aspects of “Nasserism”, it is argued, should be understood against this backdrop. The regime’s utmost priority was to diffuse the societal crisis – any other goals simply had to wait. For most of the 1980s, the central dilemma of the government was to resolve the crisis without prejudice to the foundations of the *infitah* political economy, or the interests of the beneficiaries thereof.

To do so, the regime’s strategy was twofold. Domestically, it embarked on a “public relations exercise”, during which the regime’s discourse renewed the emphasis on distributional justice. Meanwhile, quinquennial plans were resumed, with the stated goal of

rectifying the structural imbalances of the *infitah*'s political economy. Notwithstanding such well-publicised measures, it will be argued, Mubarak's regime's actual policies, differed only in style, not in substance, from its predecessor (Ayubi 1989b:12), and dismantling populist *étatisme* continued, albeit at a cautious, slow pace.

Externally, Mubarak had to perform a tightrope act aiming at reviewing some of his predecessor's foreign policies to reproduce the regime's hegemony without changing significantly the basic thrust and orientation of Sadat's foreign policy. Hence, Egyptian foreign policy sought to reintegrate in the Arab world and restore diplomatic relations with the USSR, whilst maintaining close ties with the US and the west, and without jeopardising peace commitments with Israel.

In 1986, these fragile balances were severely strained. The regime faced an acute resource crisis due to the fall of international oil prices and the resulting sharp deterioration in Egypt's rentier earnings. Under the crisis conditions, the difficult social choices and decisions that the regime sought to evade during the "societal truce" surfaced anew. The regime was forced back to negotiations with the IMF, and to a new period of attempted, and failed, economic retrenchment and restructuring.

This chapter will be divided into three sections. The first will examine the "societal truce" between 1981 and 1986, and the regime's attempt to contain the domestic crisis and restore its hegemony, whereas the second will examine the resource crisis and the regime's management thereof between 1986 and 1990. Finally, the concluding section

will seek to abstract the patterns of interplay of political economy and foreign policy during the “hesitant decade” of the 1980s.

1- The “Societal Truce”: 1981-1986

Sadat’s assassination revealed the dark side of the political flamboyance and economic bonanza that characterised his reign: the structural weakness of the quasi-rentier economy, a huge mountain of debt, domestic and regional isolation of the regime, and unprecedented levels of sectarian violence. Although Mubarak, who had been Sadat’s vice-president since February 1975, adopted his predecessor’s key policy principles: *infitah*, cooperation with the US and the west, and peace with Israel, he had to balance these commitments with the internal and regional protest against them (Kramer 1987:378). As a result, during his first five years in office, Mubarak faced the formidable task of diffusing the domestic crisis, and overcoming the regional isolation without reversing the key policies of the *infitah*.

To do so, the regime adopted a new master policy under the conciliatory title “rationalising the *infitah*”. Its essence was a delicate, and indeed very fragile balance, comprising: a) domestic political reconciliation whilst maintaining the economic status quo; and b) overcoming the regime’s regional and international isolation whilst maintaining Egypt’s relations with the United States and Israel. In what follows, I will seek to examine the regime’s attempts to build a “societal truce”, and the problems thereof.

(1.1) The State

Notwithstanding its severity, the political crisis that followed Sadat's assassination left the ruling coalition, based on the alliance of state and private bourgeoisies that was reinforced during the *infitah* years, intact. It therefore came as no surprise that the transition of power was rapid and friction-free. Power was duly transferred without delay to the second-in-command, the vice president. Hosni Mubarak was nominated as Sadat's successor on the very night of the assassination, and the parliament supported him the following day in an emergency session, setting the stage for a national referendum that approved his nomination, making him Egypt's fourth president on 15/10/1981, less than 10 days after the assassination (Merriam 1982:6; Hillal-Dessouki 1997:236).

The continuity of the ruling coalition also meant that the key components of the previous regime's social and economic policies, which, naturally, reflected entrenched interests, remained unchanged. What the political crisis that the assassination revealed did alter profoundly was, however, the new regime's political agenda. First, it created an urgent need for a "societal truce" to contain the mounting social and political pressures, and to bring to an end the regime's domestic and regional isolation. Since Sadat's visit to Jerusalem, the regime grew increasingly isolated from both the political right and left. The priority of Mubarak's regime became, therefore, to restore the regime's hegemony, and broaden its support base. Second, the crisis forced the regime to review its perceptions of its allies and enemies. Whereas Sadat insisted that the leftist opposition constituted the regime's "enemy within", the rise of sectarian violence in the late 1970s

and, most importantly, the assassination of Sadat in 1981, made it all too clear that militant Islamism was the main source of threat to the regime's stability.

As a result, soon after he assumed presidency, Mubarak held out an olive branch to the opposition with the exception of militant Islamists, whom he moved swiftly to isolate and crush in the Southern city Assyut shortly after Sadat's assassination. In his first speech before the parliament, he defined his priorities as national unity and domestic stability (McDermott 1981a:4). This effectively meant that, with the exception of radical fundamentalists, the regime was open to reconciliation with the opposition, and the latter was free to express its legitimate interests and hold regular meetings. Thus, on 25/11/1981, Mubarak ordered the release of 31 prominent, mostly left wing, opposition figures, including leaders of opposition parties, and the influential journalist Mohamed Heikal. In a symbolic gesture, the prisoners were taken straight from the prison to the presidential palace for a meeting with Mubarak (Lief 1981:6). A gradual release of the 1500 political prisoners arrested in September 1981 followed.

In the same vein, the first years of Mubarak's reign witnessed many similar gestures of goodwill towards the opposition. Hence, the Pope of the Coptic Church, who had lost Sadat's favour, and was deposed in 1981 after refusing to lead a pilgrimage to Jerusalem (Merriam 1982:6) was reinstated in 1984. The control of political expression was relaxed, as the opposition newspapers, which were closed in Sadat's final years in office (particularly the SLP's *Al-Sha'b* and the NPUP's *Al-Ahali*) reappeared, and *New Wafd* and the NPUP parties resumed their activities (Ibrahim 2000:275).

These efforts helped achieve political relaxation and ease the mounting tensions and the regime-opposition polarisation, but they were not enough to re-establish the regime's legitimacy. After all, the regime maintained most of its predecessor's policies – the very same policies that created the crisis conditions that culminated in Sadat's assassination. The regime, therefore, needed more far-reaching measures to detach itself from its predecessor's legacy, and break up the counter-consensus that had formed against its policies. The dilemma was to achieve these two goals whilst staying committed to the key *infitah* economic and foreign policy objectives, which were in the interest of the ruling social coalition that Mubarak's regime inherited.

To do so, the regime embarked on an extensive "public relations exercise" aiming at breaking the regime's domestic isolation without prejudice to the economic and social pillars of the *infitah*. First, Mubarak's government announced that its main goal is to "reform and rationalise the *infitah*" (Ibid:227). In his first speech to the parliament, Mubarak pledged to fight the "fat cats" that had emerged during the *infitah* years (McDermott 1982b:4-5). Other measures sought to cultivate an image of Mubarak as a cool-headed reformer, seeking to draw together all shades of political opposition to reform the *infitah* and fight corruption. These included: a) calling a national debate over economic issues; b) distancing himself from the key politicians associated with his predecessor; c) initiating a new tradition in Egyptian party politics by meeting regularly with the leaders of the opposition to consult with them on key domestic and external decisions; and d) restoring some features of *étatisme*.

Thus, a national conference was convened in February 1982 to discuss Egypt's economic problems and to try to find a national consensus on a program of remedy. The key outcome of this conference, insofar as re-establishing the regime's hegemony is concerned, was the emergence of a new consensus amongst Egyptian economists of different convictions on what might be called "*the parasitic explanation of Egypt's economic predicament*". According to this explanation, the Egyptian economy during the *infitah* years was taken over by a group of "parasitic" opportunists, engaged in non-productive and occasionally illegal activities. This conviction dominated the discourse of opposition parties from across the political spectrum (Soliman 1999:2-3). The government, on the other hand, often spoke in a strikingly similar tone, of the need to transform the *infitah* from a "consumerist" to a "productive" *infitah* (Ibrahim 2000:228; Springborg 1993:145) and pledged to eradicate the "fat cats" and curtail conspicuous consumption, whilst pursuing a better planned and more orderly liberalisation of the economy that would be compatible with greater liberalisation of the political system (Bianchi 1986:71).

Implicit in this "parasitic narrative" was a key assumption – that the *infitah* policies are not inherently flawed. The only problem was the "parasites" that hijacked the *infitah*. Of the three factions of the bourgeoisie, therefore, only one bore the blame for Egypt's economic ills. The organic alliance between the different factions of the bourgeoisie was overlooked, and the "parasitic" faction was portrayed as antagonistic to other "productive" factions. Hence, all that needed to be done was to get rid of the "parasitic" faction and allow the other, "productive" factions to flourish. A return to populist

étatisme, or any form of state-led economy, was, therefore, not an option, not even for the opposition, as a new consensus on “rationalising the *infitah*” and fighting the “fat cats” that hijacked it, was beginning to emerge.

Hence, 1982 witnessed some high-profile trials of some of the *infitah*'s “fat cats” - most notably, Sadat's own brother Esmat, and the infamous rags-to-riches figure, Rashad Uthman (Springborg 1989:73). Under the slogan of “purity” (*al-Tahara*), the regime also razed the luxurious rest houses that were illegally built on the historical Pyramids' plateau – another much-publicised case of fat cats' corruption (Ansari 1985:23). The attack on members of this faction of the bourgeoisie, however, never went beyond these token gestures, which, symbolic as they had been though, were enough to disquiet them and instigate some \$1 billion capital flight, in graphic display of their power and concern (Tucker and Stork 1982:5). When, amid a serious liquidity crisis in 1985, an actual attempt was made to curb the influence of the importers' lobby and currency speculators, it was a big failure, demonstrating the strength of this faction of the bourgeoisie on the one hand, and the strong ties it had with the other factions, including the state bourgeoisie on the other¹⁰⁵.

In the meantime, Mubarak's “state personnel policy” was designed to escape Sadat's legacy. Many high-ranking politicians, associated with Sadat's rule, were replaced with those who were either junior to them in the NDP's hierarchy, or with technocrats who were not previously involved in politics, and were neither distinguished nor notorious

¹⁰⁵ I will return to this attempt in more details in section 1.2 below.

(Springborg 1989:39). More than any time since 1952, the technocratic nature of the Egyptian government was emphasised, with the university staff and state bureaucracy becoming the main sources of recruiting ministers, and the share of the military declining even further to 15% of all ministerial position during Mubarak's reign, compared to 24.7% during Sadat's era and 34% during Nasser's (Ibrahim 2000:231-232).

Mubarak also initiated a new tradition in Egyptian party politics by calling for regular meetings with the opposition leaders. In his first four years in office, between 1981 and 1985, 18 such meetings were held (i.e. one meeting every three months on average), cultivating the image that the Mubarak is keen on consulting regularly with the opposition on all major economic and political issues. These meetings, however, had hardly any real impact on the decision-making processes. They were part of the general public relations exercise that the regime conducted during its first years to end its domestic isolation. Thence, it was no surprise that the number of these meetings and their frequency, dropped dramatically after Mubarak's first term in office, when they had exhausted their "public relations purpose". Consequently, between 1986 and 1993, for instance, notwithstanding the intensifying socio-economic crisis, Mubarak held seven meetings only with the opposition (Ibid: 275) – a substantial, 75% drop from the first four years of his reign.

Finally, the early 1980s also witnessed some mild flirtations with aspects of *étatisme*. A new quinquennial plan was adopted in 1982 with the aim of rectifying the structural imbalances of the Egyptian economy, and redressing the weaknesses of the productive

sectors. Mubarak also confirmed his commitment to maintaining subsidies on basic consumer goods. These measures too were part of the regime's public relations manoeuvre, and did not, as I will explain in the following subsection, result in any structural change in the Egyptian economy. If anything, the role of the state diminished even further, albeit very slowly. Thence, the political and economic foundations of the *infitah*, and the interests of the beneficiaries thereof, remained intact.

Indeed, apart from the token trials of some of the *infitah*'s opportunists, the ruling alliance of the private and state bourgeoisies remained untouched, and was actually broadened and reinforced. Thus, the regime sought to incorporate the industrial bourgeoisie, which, as I argued in the previous chapter, was left in an unfavourable position vis-à-vis commercial and foreign bourgeoisies during the *infitah* years. In November 1981, one month after Sadat's assassination, Law 159 was issued to place local industrial bourgeoisie on the same playing field with foreign investors, and local investors using foreign capital (Beattie 2000:219). This was followed by a series of policies aiming at encouraging industrial bourgeoisie¹⁰⁶. Also, the ties between the state and businessmen were significantly reinforced during the 1980s. Alongside the old corporatist groups that existed in the pre-1952 era (federation of chambers of commerce, and federation of Egyptian industries) and were responsible for negotiating the business interests with the state, the 1980s witnessed the emergence of new businessmen associations, representing a segment of the haute bourgeoisie with particularly strong links with foreign capital, and close relations with the state. These included the various

¹⁰⁶ I will return to these measures in the following subsection.

Egyptian businessmen associations, and the American-Egyptian chamber of commerce (Bianchi 1985:151-154; Abdel Mo'ti 2002:116). The newly created mechanism of "joint committees" on various policy issues, which included government representatives and members of these businessmen associations, meant that the close cooperation and partnership between the state and private bourgeoisie was not only enforced but also institutionalised (Kandeel 1995:93). Furthermore, the transition of several members of the state apparatus to the business sector, especially to board memberships of many business associations, as well as the role of the private bourgeoisie in the NDP continued and was reinforced during the 1980s.

In 1984, the "feel good aura", and the shaky balance that the regime's public relations exercise sought to establish domestically started to show serious strains. The parliamentary elections, held in May 1984, witnessed the beginning of re-polarisation of Egyptian politics, by allowing the resurfacing of several tensions that had been kept submerged since Sadat's assassination (Bianchi 1986:71). Mubarak, in spite of the opposition's pleas, strengthened his identification with the NDP. The results of the elections revealed that only one opposition group (an unlikely alliance of the Muslim Brotherhood with the purportedly secular *New Wafd*) managed to surmount the 8% electoral hurdle (EIU 1990:4), obtaining 58 seats (8 of which for the Brotherhood members). The opposition accused the government of engineering the elections to ensure a sweeping victory for the NDP (Hendricks 1985). It was clear that the government-opposition honeymoon had come to an end. Meanwhile, the pledges of "rationalising the infitah" did not materialise, leading to increased frustration and a return of social protest,

as it became clear that the structural imbalances of the *infatih* were not redressed seriously. The doubling of the bread prices in September 1984, for instance, demonstrated that the government was unable, or unwilling, to keep its promises not to rescind subsidies on basic consumer goods. Violent rioting followed, mainly in the industrial town of Kafr al-Dawwar, resulting in the arrest of eighty-nine workers, and a clampdown on the political left which was blamed for the riots (Ayubi 1988:56). Political violence, which had stopped during the “honeymoon” that lasted for Mubarak’s first two years in office, resumed again in 1984¹⁰⁷. Mounting inflation and deteriorating real wages sparked a host of localised strikes in individual factories in 1984 and 1985. But it was in 1986 that the political and social protest hit an unprecedented level, with the escalation of acts of violence of Islamist militant groups, including explosions, firebomb attacks on video-clubs, cinemas and liquor stores in Cairo and particularly in Upper Egyptian towns (EIU 1986c:5). In March 1986, a 20-member Nasserite clandestine organisation called “*Egypt’s revolution*”, seeking to undermine Egypt’s relations with Israel and the US, conducted an assassination of two Israeli diplomats in Cairo International Book Fair, much to the embarrassment of the government (EIU 1986a:6). But the gravest incident of socio-political protest took place in February 1986, when 17000-20000 from the rank and file of the paramilitary CSF, which consisted largely of extremely underpaid and underfed conscripts rejected by the army for their uncouthness and illiteracy, took to the streets, burning down tourist hotels near the pyramids, in violent protest against a rumour

¹⁰⁷ A study of political violence between 1981 and 1988, did not record any incidents of political violence in 1982 and 1983. Only in 1984 did acts of political violence (including riots, demonstrations, “illegal” strikes, and so forth) resume before escalating dramatically from 1986 onwards. See: Yassin et. al. (1989:568-582).

that their three-year service, with its below-subsistence-level salaries¹⁰⁸ and appalling living conditions, will be extended one further year. The speed with which the first riots in Cairo were reflected in the cities of Ismailia, Sohag and Assiyut suggested that the grievances were widespread and for the first time since 1977, the army had to be called on to restore order. This protest was part of the larger social protest against the deteriorating economic conditions in the 1980s, including large and well-organised strikes by the railway workers, and the textile workers in Kafr al-Dawwar and Mahala (Helal 1987:129). If anything, it was more dangerous, since it demonstrated that the level of dissent, even within the state apparatus, was skyrocketing, and underscored the risks associated with the exclusive reliance on the state's security forces to force political stability and economic austerity (Springborg 1993:149). To add to the regime's troubles, a coup plot was uncovered in December 1986, involving 4 junior military officers (EIU 1986c:5), suggesting that dissent was reaching the army –the state's traditional bastion of security.

In the same year, Egypt was facing an unprecedentedly severe resource crisis, as the international oil prices dropped sharply, causing the budget deficit to reach an alarming \$5 billion. This made economic retrenchment and restructuring imperative, and rendered the government's policy of sustaining the "societal truce" via deferring any difficult economic choices unsustainable. Thus ended the "social truce", and began an extended social crisis that lasted for the rest of the hesitant decade of the 1980s.

¹⁰⁸ These conscripts were paid a mere £E 6 per month, barely enough to buy cigarettes, let alone to support their wives and children. See: Ayubi (1988:66).

(1.2) Economic Structures and Policies

Of all the different aspects of the new regime's agenda, it was its economic policies that contributed most to the mainstream argument that Mubarak was seeking to strike a balance between the policies of his two predecessors. Two factors contributed to the predominance of this argument. On the one hand, Mubarak's discourse on the need to shift from a "consumerist" to a "productive" *infitah*, his call for "rationalising the *infitah*", and the national conference to which he invited economists from across the ideological spectrum to discuss Egypt's economic problems, all created the impression that he is intent on reviewing the process of dismantling populist *étatisme*. This was supported, on the other hand, by several measures that cultivated the image that the new regime is restoring some aspects of *étatisme*. These included: the return to quintennial planning in 1982, the government pledges to sustain the levels of subsidies on basic consumer goods, and not to jeopardise the "gains of the revolution" (Ibrahim 2000:258).

This mainstream argument was shared by both the optimistic and the pessimistic observers inside and outside Egypt. Thus, on 10/1/1982, less than three months after Mubarak came into power, the *Observer's* leading article argued optimistically that "*Mubarak does not want to reverse the open door policy, but merely to see it properly implemented. In other words, it should be joint Western-Egyptian labour-intensive industrial ventures, not squandering foreign revenue brought in by the Suez Canal dues, oil and tourism on finished goods*"¹⁰⁹. Critics, on the hand, accused Mubarak of zigzagging between "the corrupt capitalism of the private sector and the wasteful socialism of the public sector" (Bianchi 1986:71). Ironically, both arguments,

¹⁰⁹ Cited in Soliman (1999:60).

diametrically-opposed as they might seem, shared one assumption: that Mubarak's policies were deviating from *infitah* towards incorporating some form of *étatisme*. They only differed on the scope of, and motives behind, such shift.

The problem with this assumption, widespread as it might be, is twofold: methodological and empirical. Methodologically, it is based on an extremely voluntaristic view, assuming that a new president can reverse at will the economic and social development of his country, regardless of the continuity of the social disposition of the ruling alliance. Not only is this argument theoretically challengeable, as I had argued in chapters I and II, but also it is not validated by the empirical evidence in the Egyptian case. Indeed, any close examination of the development of the Egyptian economy during the early 1980s, particularly during the quintennial plan of 1982-1987, reveals several anomalies for which this line of argument cannot account. For instance, the share of the private sector in the GDP increased from less than 50% to 57% during the quintennial plan (Issawi et.al. 1989:12). Thus, the role of the state was actually shrinking further, not expanding, during the very same years that witnessed this alleged return to *étatisme*. On the distributional level, the 1980s witnessed two key developments that the "return to *étatisme*" narrative fails to explain: a) a substantial increase in the degree of capital concentration in private industries, with the share of industrial enterprises employing more than 500 workers increasing from 55.97% of total industrial production in 1983/1984 to 71.6% in 1992/1993 (Soliman 1999:28); and b) a decline of the share of wages in GDP from 46% to 37.5% during the quintennial plan years, whereas the share of property earnings increased by 15% during the same period (Issawi et.al. 1989:14).

Empirical evidence suggests, therefore, that, contrary to the mainstream arguments, the developments in the Egyptian economy during the early 1980s represented a continuation of the trends demonstrated during the *infitah* years. Indeed, by the end of the quintennial plan, the maldistribution of income in Egypt had returned to the levels of 1950. This meant that any improvements in the income distribution that had been made during the populist-statist era were completely eroded by the end of the quintennial plan (Helal 1993:165). Paradoxically, the dismantling of the populist-statist apparatus continued steadily during the very same years that witnessed the restoration of several aspects of *étatisme*.

In lieu of the “balancing *étatisme* and *infitah*” line of analysis, this study argues that the aforementioned paradox can only be explained against the backdrop of the political and legitimacy crisis that culminated in Sadat’s assassination, and threatened that stability of his successor’s regime, whilst leaving the social disposition of the ruling elite intact.

When Mubarak assumed presidency, Egypt’s civilian debt had hit a record \$21.2 billion. The value of debt service had risen to more than \$1.5 billion, or 19% of the GDP. The richest 5% of Egyptians received 25% of the national income, whereas 44% of the rural population and 33% of the urban population lived below the poverty line (Helal 1987:123). As a result, social protest and radical Islamist groups, whose recruits came mainly from the impoverished rural and urban petite bourgeoisie, (Ibrahim 1983:13-14; Ansari 1985:23) were on the rise. Meanwhile, some of the underlying trends in the Egyptian economy were alarming. Domestic demand for oil, rice and other key foreign-

currency earners was increasing exponentially, eating away the surplus available for export (Owen 1983:15). This indicated that, given the steady rise in imports, the regime could be heading for a severer recourse crisis, and created a need for a “societal truce” to diffuse the social tension, and redress the resource gap.

Thus, parallel to the political relaxation measures outlined in the previous section, the regime’s “public relations exercise” included several economic measures aiming at: a) creating an “aura of reformism” and detachment from Sadat’s legacy; and b) finding mechanisms to resolve the resource crisis-in-the-making. Hence, on 3 January 1982, a new government led by Fu’ad Muhi al-Din was formed¹¹⁰, in which Sadat’s economic czar, Abd al-Razzaq Abd al-Magid, and all members of the “economic group”¹¹¹ were replaced with new faces. One month later, the national conference that Mubarak called to discuss Egypt’s economic problems was convened in February 1982. The conference concluded that the conspicuous consumption, corruption and uncontrolled importation policies had squandered the substantial capital flows that Egypt witnessed during the *infatah* years. It called for a two-year transitional period to redress the macroeconomic imbalances, after which, a national plan for development could be adopted with the aim of increasing “self-reliance” and redressing the structural weaknesses of the Egyptian economy (its quasi-rentier nature, the weaknesses of the productive sectors..etc) (Helal 1987:125).

¹¹⁰ This was effectively the first government to be formed under Mubarak. Upon his assumption of Presidency, President Mubarak headed a short-lived government that maintained almost all key ministers from Sadat’s last cabinet, for a transitional phase between October 1981 and December 1981.

¹¹¹ The “economic group” was formed since 1977, upon the IMF’s recommendation, and was headed by a deputy prime minister for economic affairs, and included all the ministers with economic portfolio.

However, apart from paying lip service to “self-reliance”, and “rationalising *infatih*”, the government was unwilling, and indeed, given the social disposition of the ruling alliance, unable to curb consumption and put restrictions on the imports to redress the macroeconomic imbalances. Mobilising external resources to redress the resource gap was a more convenient option. Consequently, Mubarak made his first visit in 1982 to the United States to discuss increasing American economic assistance to Egypt. In the same year, the government also requested a \$1.5 billion loan from the IMF to help defend the Egyptian pound against the quick appreciation of the Dollar. Both efforts were to no avail. Mubarak’s visit to the US revealed that aid, which had increased by leaps and bounds from zero to almost \$2 billion over the span of 6 years, was now going to increase only by tiny increments (Lipmann 1989:83). The IMF, on the other hand, demanded several austerity measures, including, most importantly, reducing subsidies, which were expected to exceed \$2.4 billion, making substantial claims on government revenues (Merriam 1983:27). Given the political crisis, and the government’s efforts to strike a “societal truce”, these demands were impossible to fulfil, and the government was forced to undertake some measures to mobilise the much needed economic surplus domestically. Thus, Fu’ad Muhi al-Din formed a new government in August 1982, in which the idea of an “economic group” was abolished altogether. This measure demonstrated the increasing tensions between the government and the IMF, upon whose recommendation the “economic group” was created in the first place. Furthermore, the abolishment of the group entailed the relinquishing of the idea that there is a quasi-autonomous sphere of economic activity which should be kept free from any “distorting” political influence.

Mustafa al-Said, the new minister of economy introduced a series of measures aiming at increasing the government control over the foreign currency transactions and curtailing imports, which were believed to be behind the siphoning away from the official economy of the major part of the \$3 billion workers' remittances (Ayubi 1988:58). Several restrictions were introduced on the so-called "parallel market" (legal black currency market), leading to shortages in import financing (Springborg 1989:46). In 1985, Mustafa al-Said went a step further with the introduction of an "import rationalisation committee" (Ibid:76). The economic retrenchment measures since 1982 were associated with other measures to encourage the industrial bourgeoisie so as to increase exports and reduce the trade deficit. These included concessionary interest rate and taxation policies¹¹², as well as a series of conferences with different groups of foreign businessmen, in which lists of government-approved, predominantly industrial projects were presented for foreign participation, provided that these joint-ventures embodied as large an Egyptian input and Egyptian-made components as possible (Owen 1983:16).

It is important to look to these two sets of measures as a package. Only by doing so, and by placing them within the context of the failure of government attempts to seek additional funds abroad since 1982, does it become clear that the aim of these measures were not to restore *étatisme*, but simply to redress critical imbalances at a moment when mobilising enough surplus abroad to muffle the domestic imbalances was not a viable option.

¹¹² See: Soliman (1999: 49-53).

However, like the measures that the post-1952 government introduced to encourage industrial capitalism, whilst clamping down on agrarian bourgeoisie, discussed in chapter II, these twin measures were based on an overstatement of the differences amongst the different factions of the bourgeoisie. Al-Said's decisions, based as they were on the aforementioned "parasitic narrative", overlooked the alliance of the different factions of the bourgeoisie. The currency traders, and the importers' lobby responded harshly, by steadily inflating the price of the foreign exchange and demanding al-Said's resignation (Bianchi 1986: 72). More importantly, the Chamber of Commerce, the Chamber of Industry, and the Egyptian Businessmen's Association acted concertedly to mobilise powerful support within the ranks of the NDP and the government itself, now headed by Kamal Hassan Ali after the sudden death of Muhi al-Din in 1984. Al-Said's decisions were not supported by many other cabinet ministers, including the prime minister himself, thereby demonstrating clearly the depth of the alliance between the different factions of the bourgeoisie, including the state bourgeoisie. In a rather farcical statement, Premier Ali announced that the 1985 decisions were not approved by the government, and that they only represented Al-Said's "personal views" (Helal 1987:127). Al-Said resigned in April 1985, and the "import rationalisation committee" was abolished the following year, in August 1986 (Springborg 1989:75). It was clear that the different factions of the bourgeoisie were organically allied, and that any attempt to curb the influence of any one faction, and restore any form of state intervention, would not be tolerated by the ruling social alliance. Consequently, importing continued unrestrained, and the trade deficit rose from \$4.9 billion in 1981/1982 to \$6.3 billion in 1985/1986 (Abdalla and Brown 1988:46).

What, then, were the analysts who spoke of the return of *étatisme*, even of “neo-Nasserism” (Bianchi 1986:72) referring to? They were probably referring to the return of quintennial planning, which was perceived as a restoration of a key tool of *étatisme*, especially that the return to planned development was one of the demands of the “national economic conference” in February 1982.

However, a closer examination of the quintennial plan that started in the fiscal year 1982/1983 tells a different story. The priorities of the plan reflected the continued dependence upon rentier revenue, the reduction in welfare spending, and the encouragement of foreign and local private investment to promote industrialisation (Wahba 1994:205). The Egyptian economy continued to depend on the so-called “big four” sources of hard currency – oil exports, emigrant workers' remittances, the Suez Canal's dues and tourism revenues. As a result, notwithstanding the rhetorical commitment to redressing the structural imbalances in the economy, the share of agriculture and industry in the GDP actually fell from 32.9% in 1981/1982 to 31.5% in 1986/1987 (Issawi et.al. 1989:39). The share of the trading sector in the GDP, contrary to any claims of curbing the “parasitic” activities and shifting to a “productive” *infitah*, increased from 12.8% in 1979 to 19% in 1989. This 48% increase looks even more impressive if we take into account that the share of the trading sector increased by a mere 13% during the *infitah* years – from 11.3 % in 1973 to 12.8% in 1979 (Abdel Mo'ti 2002:103). The quasi-rentier nature was further enforced as the conditions of the American economic assistance to Egypt improved, reflecting the continued importance of Egypt's “strategic rent”. Thus, the grant component of the US economic assistance to

Egypt increased from 21.3% in 1975 (when the aid programme started), to 78.5% by 1983, and from 1985, US aid to Egypt was given entirely on a grant basis (Aly 1988:65).

Indeed, examining the government investment policies reveals that there was no serious effort to redress the structural weaknesses of the economy. The share of the funds allocated to “project completion” amounted to 63% of the total government investment during the plan, revealing a *de facto* reduction in government expenditure on the public sector (Ibid:38; Wahba 1994:206). Furthermore, the share of industry in public investments actually fell from 28% in 1974 to an average 22.7% per annum during the 1980s (Amin 1994b:145). The plan, therefore, was little more than a part of the “public relations exercise”, aiming at cultivating an image of reformism, whilst keeping the economic tenets of *infitah* untouched.

In the same vein, the welfare function of the state continued to diminish. Notwithstanding the ambiguous government pledges to defend “the gains of the revolution”, the plan actually allowed for a decrease in some of the basic services. For instance, the number of pupils per classroom was planned to increase from 39.3 in the first year of the plan to 42.1 in its last year. Similarly, the number of hospital beds per thousand persons was allowed to drop from a low 1.97 in 1981/1982 to 1.8 in 1986/1987 (Wahba 1994:208). The process of dismantling populist *étatisme*, therefore, continued to progress, albeit at a slow pace and with a very low key approach, in the hope of not disturbing its efforts to restore its legitimacy and build the much needed “societal truce”.

During the plan years, the economy grew at a nominal rate of 6.8% per annum, compared to 8% per annum during *infitah* years (Helal 1993:165). Moreover, taking the high inflation rate (25%-30% annually) into account shows that the real GDP was actually shrinking by an average 2% per annum. This meant that the average per capita income fell by 4% per annum between 1981/1982 and 1986/1987 (Issawi et.al. 1989:10). Under these conditions, the government could only depend on one safety valve to prevent an economic collapse – borrowing abroad. Consequently, Egypt's debts doubled over the span of five years, reaching a towering \$43.5 billion in 1986 (Abdalla and Brown 1988:47). Egypt's merchandise exports in 1986 totalled less than her debt service to non-communist countries (EIU 1986b:3).

Such were the economic conditions when the international oil prices collapsed in 1986. The government oil revenues fell by \$2 billion in 1986 (Helal 1987:129). In addition, the collapse of oil prices had several knock on effects, such as a reduction in the value of workers' remittances, creating a sudden shock that intensified the resource crisis, and upset the fragile social balances on which the "societal truce" rested. The situation was made worse by the simultaneous drying up of international credit and foreign aid to developing countries (Owen and Pamuk 1998:138). This meant that muffling the crisis through borrowing is not possible. Economic retrenchment and restructuring became inevitable. Consequently, decisive measures had to be made over the nature and direction of this restructuring, and the division of its burdens. The "societal truce" had come to an abrupt end.

(1.3) Ideology

The role of the regime's ideology during the 1980s, and indeed the very existence of one, remains one of the key paradoxes of the "hesitant decade". On one hand, although his predecessors were no ideologues, it was Mubarak who had often been referred to as the pragmatic problem-solver who is disdainful of grand ideologies and incapable of bold decision-making¹¹³. Several reasons underlay this widely held perception. First, throughout the 1980s, Mubarak's regime broke with his predecessors' tradition of issuing ideological pamphlets explaining its worldview and defending its policy choices. Furthermore, the regime sought, and indeed managed, to project an image of the new leader as a dependable, pragmatic and strong man, more interested in Egypt's small problems than in cutting a deliberate image on the world scene (McDermott 1982b:9).

On the other hand, however, the regime's central task during the 1980s was, as I argued earlier, essentially ideological – to resolve the hegemonic crisis that followed Sadat's assassination, and to establish a "societal truce". In so doing, the regime's political discourse demonstrated a significant degree of consistency, indicating that whereas Mubarak refrained from issuing an "explicit" ideological document throughout the "hesitant decade", his regime followed a set of coherent, albeit implicit, ideological guidelines.

In fact, the lack of elaborate ideological pamphlets throughout the 1980s was actually due to the regime's strategic priorities of national reconciliation and establishing the much-

¹¹³ Cf.: McDermott (1982); Shamir (1986)

needed “societal truce”. To achieve this goal, there was a need to avoid controversy and to refrain from explicitly stating the regime's commitments to the *infitah* principles at a time when the government was seeking to diffuse the counter-consensus that formed against these very same principles. The hegemonic crisis that followed Sadat’s assassination meant that his regime was believed not to be sharing the ideas, aspirations, and values of its society. Any explicit statement of the new regime’s ideology and preferences, which, given the continuity of the ruling alliance from Sadat years, would have necessarily been similar to its predecessor’s, could have exacerbated the crisis. As soon as this task was accomplished, and the “hesitant decade” was over, the regime resorted anew to stating explicitly its ideological commitments, and issuing ideological pamphlets during the 1990s¹¹⁴.

Aiming at expanding its support base and re-establishing its hegemony without undertaking a radical revision of *infitah*’s policies, the crux of the new regime’s discourse revolved around three inter-related pillars: a) restoring the “technocratic approach to politics” that prevailed during the 1960s, albeit for different reasons; b) diminishing national expectations of any radical departure from the *infitah* policies through a “realistic” discourse; and c) emphasising the importance of stability in lieu of the large-scale, high-profile transformations of his predecessors.

During his first years, Mubarak sought to shun the flamboyance of his predecessor, and his “organic corporatism”, cultivating instead the image of a cool-headed, pragmatic

¹¹⁴ I will return to this point in the next chapter.

reformer who is seeking to forge a nation-wide alliance to fight corruption and reform *infitah*. Organic corporatism was replaced with a revival of the technocratic approach to politics that prevailed during the 1960s. Mubarak's cabinets were overwhelmingly technocratic. His eclectic combination of elements of "Nasserism" and "Sadatism" was justified by a discourse that emphasised a technocratic "problem-solving" approach, explaining the regime's policy choices on the grounds of their technical soundness, not as a part of a broader political vision. As such, the regime believed that its "technical" choices would not cause controversy and political polarisation, and would, therefore, serve the overarching goal of building the "societal truce".

Mubarak was also famous for his candid description of Egypt's problems. His speeches, at once sober and bitterly frank, were in sharp contrast with the ideological flamboyance that characterised Nasser's discourse, and the psychological shocks of Sadat's speeches. Indeed, Mubarak made it a point to mention explicitly in his first speech to the parliament on 15/10/1981 that he will not make any promises he cannot deliver (McDermott 1981a). This "realism" served a key purpose for the new regime – to lower any expectations of a radical revision of the *infitah*. Hence, social inequality, for instance, was presented as a fact that "existed everywhere" and had to be accepted. Consequently, any calls for redressing the inequalities or reversing the *infitah* decisions would be harking back to illusions (Aulas 1988:163). This enabled the regime to maintain its image of reformism, necessary as it was for restoring hegemony, whilst keeping the basic tenets of *infitah* intact. In the same vein, Mubarak's speeches, whilst making modest claims to reformism, emphasised stability and continuity with Sadat's policies. In a speech to the parliament

early in 1982, Mubarak announced, “*I am following the same method (sic.), and the same line that President Sadat adopted, and I consider the coming period to be a continuation of what Sadat actually achieved*”¹¹⁵. This served, as Ansari (1985:22) argued, the twin purposes of lowering any expectations of change, and assuring the entrenched interests.

Domestically, Mubarak’s speeches during the early 1980s focused on two issues: a) confronting militant Islamists; and b) reforming the *infitah*. His very first speech to the parliament emphasised the shift of the regime’s security priorities from the political left to militant fundamentalism, promising to continue the fight with the Islamists, without making any reference to the arrest of sixty communists accused of trying to overthrow the regime on that same week (McDermott 1981a:4). Other speeches extended a call of national reconciliation to all members of the opposition except the Islamic militants. Furthermore, Mubarak sought to distinguish between two versions of Islamism: a reformist version, with which he was willing to cooperate (hence, for instance, the regime’s toleration of the participation of the Muslim Brotherhood in the 1984 elections, in alliance with *New Wafd*), and a militant one, which should be isolated and confronted (Abou Zeid 1990:77). On the other hand, another key component of the regime’s “public relations exercise” was its continuous pledges to “rationalise the *infitah*”, emphasising the “parasitic explanation of Egypt’s economic predicament” and the concomitant call to transform the “consumerist” *infitah* to a “productive” one. As Springborg (1993:145) explained, the adjective “productive”, was not intended by Mubarak’s government to signal any serious departure from the original liberalisation plan, but rather to dissociate the process from previous errors and excesses. On the distributional level, Mubarak

¹¹⁵ Cited in: Al-Salehy (1990:671).

sought to reassure the opposition by announcing, on his May Day speech in 1983, that his policy aims to “maintain the gains of the revolution, defend the public sector and prevent any attempt to privatise it” (Owen 1983:16). This "reformist" discourse was echoed by a flood of writings emphasising the "parasitic narrative". Alongside various articles and academic books, Naguib Mahfouz published a novella *Ahl-Alkemma (People at the top)*, criticising the *infitah* parasites and blaming them for all *infitah's* vices. Like his *Al-Karnak* in the 1970s, *Ahl-Alkemma* was made into a popular movie, and a trend of movies covering the same themes followed suit¹¹⁶.

The challenge before the regime's foreign policy discourse was, however, more difficult, since it was Sadat's foreign policy that presented the crux around which the opposition's counter-consensus revolved. The political right and left, for instance, disagreed on the desirability of the *infitah's* economic policy, but were united on the rejection of Sadat's “accommodating” foreign policy towards the United States and Israel.

Mubarak's attempt to achieve the paradoxical goal of restoring the regime's hegemony without reversing its policies was reflected in his eclectic approach to the questions of Egypt's “national role”, and her relations with the United States. Thus, Mubarak announced that his regime's foreign policy aims at restoring Egypt's relations with her Arab brethren without sacrificing its “Egypt first” commitments (Abou Zeid 1990:83). This meant that reconciliation with the Arab world is welcome but only on Egypt's terms, i.e., without the pre-condition of renouncing the peace treaty with Israel or reviewing the

¹¹⁶ These included, most notably, Atef El-Tayeb's critically-acclaimed *Sawak Al-Autobis* (Bus Driver), as well as Samir Seif's *Al-Ghoul* (the monster), Mohamed Fadel's *Hob Fil Zinzana* (Love in the Prison Cell), and Mohamed El-Naggar's *Zaman Hatem Zahran* (The Age of Hatem Zahran).

“special relations” with the United States (McDermott 1981b:6). Likewise, Mubarak emphasised that the Egyptian “special relations” with the United States did not undermine Egypt’s independence. He even made explicit references in some of his speeches to restoring the “non-aligned role” of Egypt (McDermott 1981a:5), thereby reassuring the opposition that he is not continuing his predecessor’s unconditional pro-Americanism; whilst simultaneously hinting to the US not to suffocate him with difficult demands.

Several developments made the new foreign policy discourse, notwithstanding its eclecticism and in many instances incongruous nature, quite successful in restoring a substantial part of the regime’s hegemony. These included: a) some gestures aiming at emphasising the regime’s national independence, most notably, the much-publicised rejection of the American demand to establish a military base in Ras Banas on the Red Sea in 1983 (Richards 1983b:8); and b) the toning down of the debate over “*Egypticity* versus Arab nationalism”, and the re-emergence of a new consensus amongst most Egyptian intellectuals over a mild version of Arab nationalism. The Israeli *de facto* annexation of the Syrian Golan Heights in December 1981, and the invasion of Lebanon in 1982, led several of the anti-Arabist intellectuals to review their position and voice more pro-Arab views. Tawfiq Al-Hakim, for instance, a key proponent of “*Egypticity*” and Egypt’s “neutrality” between the Arabs and Israel, renounced his earlier views in a famous article published in November 1982 (Ibrahim 1983:202). This led to a gradual re-emergence of the consensus on the importance of Egypt’s pro-Arab role, albeit a much less flamboyant one, thanks to the diminished expectations that the regime sowed through

its “realistic discourse”, and that the failures of the “rejectionist” Arab States seemed to validate. Indeed, the forced return of Iraq to Egypt for military and political support in its war against Iran, and the “Prince Fahd’s peace initiative”, adopted by the Fez Summit in 1981 were portrayed by the state-controlled media as justifications of Egypt’s course of action, thereby, contributing significantly to vindicating the regime’s policies, and restoring its hegemony¹¹⁷.

However, the lack of an explicit ideological conceptualisation of the regime’s eclectic policies, central as it was to the regime's effort to restore its hegemony, had two serious shortcomings:

- i) The eclectic and inarticulate nature of the regime’s discourse rendered Mubarak’s regime vulnerable to the opposition’s criticism of being unable to fulfil its pledges to restore Egypt’s national role. Thus, foreign policy surfaced anew, on various occasions, as the banner of political protest (e.g. in the aftermath of the Israeli invasion of Lebanon; against the Israeli participation in Egypt’s international book fair in 1985..etc) (Bianchi 1986:73).
- ii) The absence of an ideological "sense of purpose" made it difficult for the Egyptian people to accept their economic hardships. Under Nasser and Sadat, the flamboyant discourse made it possible for the Egyptians to accept present sacrifices in the hope of a better future (Cassandra 1995:18). Lacking such justification, the success of the regime’s policies was measured strictly and exclusively by material criteria. And the results were hardly conducive to the restoration of the regime's hegemony.

¹¹⁷ See: Boutrous-Ghali (1991); (Richards (1983a); McDermott (1981a).

Hence, when the economic crisis hit in 1986, it threatened to erode any gains made by the regime during its first five years in terms of restoring its legitimacy, and the regime was not particularly well suited to provide justifications for the new economic hardships. The resource crisis, and the rise of social protest exposed the fragility of the balances on which the “societal truce” was based, and threatened to reproduce the hegemonic crisis anew.

(1.4) Foreign Policy

Foreign policy issues were at the heart of the counter-consensus that emerged from across the political spectrum during the final years of Sadat’s reign. This meant that, at least during Mubarak’s first years, the main function of the new regime’s foreign policy would be to restore its lost hegemony. Its other function, rent generation, was less pressing a concern during the first half of the 1980s, given the steady flow of oil-related revenues as well as the American economic assistance. Furthermore, the failure of Mubarak’s early attempts in 1982, a few months after he assumed presidency, to generate more “strategic rent” and increase the US economic assistance¹¹⁸, demonstrated that there was no immediate prospect for the “rent generating function of Egypt’s foreign policy”, and provided further impetus to the concentration on its “hegemonic function”.

As soon as he assumed presidency, Mubarak’s was under contradicting pressures: from the US and Israel to confirm his commitment to his predecessor’s foreign policy priorities, and from the domestic opposition to renounce and reverse them. The US made a vigorous effort to confirm its commitment to Egypt’s new president from the very

¹¹⁸ See section 1.2 above.

outset, promising to increase its mission in Egypt, which already had the largest number of staff anywhere in the world (Merriam 1982:25), and promising to continue (but not to increase) its economic assistance. Similarly, the Israeli government moved swiftly to explore Mubarak's commitment to the peace process. Israeli Premier extended an immediate invitation to Mubarak to visit Israel, and the Israeli government suggested that the two countries sign a new document confirming their commitment to the Camp David process. On the other hand, domestic opposition and regional forces expressed their hopes that the new president's priorities would be to re-integrate in the Arab world and to freeze the Camp David process, if not to abandon it altogether.

Trapped between these opposing pressures, Mubarak's strategy was twofold. On one hand, he sought to reassure the entrenched domestic and international interests that he shared his predecessor's foreign policy priorities. His first speeches sought to emphasise continuities with Sadat, and promised to continue on the same political line¹¹⁹. On the other hand, Mubarak, seeking to maintain some manoeuvring space, refused to undertake any further commitments towards Israel or the United States. Thus, he refused to sign any documents re-affirming his adherence to Camp David, arguing that no such re-affirmation is needed (Richards 1982b). He turned down Begin's invitation, announcing that he cannot accept such invitation if it included a visit to Jerusalem, since this would mean a *de facto* recognition of the Israeli annexation of the holy city (McDermott 1982a:5). Mubarak's strategy was to emphasise that peace between Egypt and Israel does not grant the latter any favourable position in Egypt. Israel's embassy, he stated, is "just one of some 120 embassies in Egypt, no more and no less" (Hillal-Dessouki 1988:97).

¹¹⁹ For more details, see Al-Salehy (1990).

Meanwhile, Mubarak moved promptly to resume his contacts with the Arab States. The process of political reconciliation with the Arabs began immediately after Sadat's funeral (Tucker and Stork 1982:4). Mubarak expressed in his early speeches a general concern for Arab reconciliation, announcing that he will pursue such reconciliation, whilst scrupulously observing Egypt's "contractual commitments" (i.e. Camp David accords) (Abou Taleb 1990:622). Thus, Mubarak ordered the press to refrain from attacking the other Arab states, even if his regime was attacked by Arab radios and press (Tucker and Stork 1982:4). In a reassuring gesture to Libya, He announced that Egypt refuses under any circumstances, to enter into a military conflict with a "neighbouring Arab country" (Abou Taleb 1990:623). This conciliatory tone was as aimed to the domestic public opinion as it was to Egypt's regional environment. A centrepiece of Mubarak's domestic "public relations exercise" was to distance himself from his predecessor's unpopular foreign policy, and prove that he was no hostage of the past. He needed to emerge from the shadow of his predecessor, and implement his own agenda.

In so doing, Mubarak defined his priorities as follows:

- i) Regaining some foreign policy manoeuvring space via diversifying Egypt's foreign relations. This meant to restore Egypt's relations with the USSR, and her non-aligned role, whilst maintaining the "special relations" with the United States.
- ii) To observe meticulously Egypt's commitments to the Camp David, without assuming any further commitments, or deepening the relations with Israel.

- iii) To restore Egypt's regional role, and her relations with the Arab states, without abandoning the "contractual commitments" of Camp David.

In order to restore Egypt's relations with the USSR without provoking the US, and risking the loss of the latter's economic assistance, Mubarak adopted, a low key, functional approach to the relations with the USSR, which were formally severed in September 1981. Egypt and the USSR moved slowly and gradually towards normalisation, starting with technical co-operation. Thus, in January 1982, Egypt's minister of electricity, Maher Abaza, announced that Egypt welcomed Soviet experts' participation in modernising the Aswan High Dam – a symbol of the golden age of Egyptian-Soviet relations (McDermott 1982a:4). Soon thereafter, the Egyptian-Soviet cooperation moved from the "low politics" areas of technical cooperation, to arms purchases, with the declaration of a "tanks deal" with the Warsaw pact in 1983, and in July 1984 the two countries decided to exchange ambassadors and their relations were fully normalised (Yefimov 1988:70).

This step was, naturally, welcomed by broad sections of the Egyptian opposition, since it was seen as a step towards restoring a "balanced" foreign policy, and reducing Egypt's over-reliance on the US. Mubarak's speeches sought to confirm this conviction. Hence, he made frequent references to Egypt's non-aligned role, and pointed out to the example of India, which, he argued, had "special ties" with the USSR and normal relations with the US. Egypt's "special ties" with the US would not be contradicting her non-aligned role, since they were balanced with normalised relations with the USSR (Ibid.).

Mubarak's motives behind the resumption of diplomatic relations with the USSR were, however, a mixture of domestic concerns for restoring his regime's hegemony, and *realpolitik*. In 1983, Mubarak's regime was put under increasing pressure from the Reagan administration, concerned as it was with the Second Cold War considerations, to exchange the economic assistance for a military base in Egyptian territory. The Congress asked for a formal lease of Ras Banas air and naval base on the Red Sea. Mubarak's turning down of the offer was highly publicised, and indeed contributed immensely to his image as a "balanced" or even "neo-Nasserist" leader. However, the US request itself made clear the dangers of over-reliance on the US, and the need to increase Egypt's manoeuvring space. It therefore came as no surprise that a few weeks after the announcement of Egypt's rejection of the US request, the Egyptian government announced its intention to buy tanks from the Warsaw Pact (Richards 1983b:8), and the Egyptian-Soviet relations witnessed a qualitative improvement. This improvement also proved particularly convenient given the several embarrassing incidents that the Egyptian-American relations witnessed in the 1980s – the Achille Lauro affair and the interception by American fighter planes of the Egyptian Aircraft carrying Palestinian commandos in October 1985, and the American raids on the Gulf of Sirte in Libya in March 1986, then the bombing of Tripoli and Benghazi on April 15th, 1986. With the increased Egyptian dependence on US economic and military assistance preventing the government from going beyond the soft-worded protests, improving relations with the eastern bloc was important to quieten the angry public opinion, and to show that Egypt is gradually moving towards restoring a balanced foreign policy, which will then enable her to respond more forcefully to any such embarrassments in the future.

Regarding Egypt's relations Israel, with the Sinai withdrawal due in six months, Mubarak started his term in office by reassuring the Israeli government of his commitment to the Camp David peace process. Alongside his early speeches which reaffirmed these commitments, Mubarak avoided making any uncalculated response to Israel's *de facto* annexation of the Syrian Golan heights, in December 1981. His reaction was measured and deliberately ambivalent. On one hand, he voiced a stern condemnation of the Israeli measure, reassuring the domestic opposition and the Arab states of his serious intentions towards restoring Egypt's Arab role. On the other hand, the government announced that the Israeli decision would have no effect on the relations with Israel (McDermott 1981b:6).

Israel's return of Sinai to Egypt in April 1982, then her invasion of Lebanon six weeks later, marked a turning point in Egyptian regional foreign policy. On one hand, the return of Sinai increased the manoeuvrability of the Egyptian regime domestically and internationally, as Mubarak gained substantially in terms of his legitimacy, and was relatively freed from the much of the pressures to avoid provoking Israel. On the other hand, the invasion put in question anew the merit of Camp David accords, and their implications for Egypt's regional role (Bianchi 1986:73). The week before the invasion witnessed a high-profile visit by an Egyptian delegation headed by Mustafa Khalil, the deputy prime minister, to Israel (Hillal-Dessouki 1988:98). The invasion, coming after such a strong "normalisation" measure, seriously undermined the government's position, not unlike the Israeli raids on Iraq and Lebanon in 1981, shortly after Begin's meeting with Sadat. Once more, the Egyptian government appeared either as complicit in the

bombing, or as a weak regional actor whom nobody took into account. After the invasion, Egypt's policy was a combination of strong condemnation and no sanctions. However, after the massacre of Sabra and Shatilla in September 1982, Mubarak recalled the Egyptian ambassador from Tel Aviv and laid down firm conditions from his return – Israeli withdrawal from Lebanon, resolution of the border dispute over the Sinai town of Taba (Ibid:74).

The most difficult aspect of Mubarak's foreign policy was the Arab dimension. Egypt sought to reintegrate in the Arab world without giving up her Camp David commitments. To do so, Mubarak distinguished between the two aspects of the Camp David accord. Whereas he observed strictly the Egyptian Israeli agreement, the second phase –the autonomy talks of the occupied territories– was gradually undermined, and later on abandoned altogether. Thus, Mubarak was not prepared to conclude an agreement on the question of the Palestinian autonomy before the withdrawal from Sinai as Israel requested (McDermott 1982a:5). Mubarak announced that Egypt would not negotiate in lieu of the Palestinian national movement (Bianchi 1986:74), and welcomed, with varying degrees of enthusiasm, all alternative arrangements for the autonomy question, including the "Prince Fahd's peace initiative", and the "Reagan peace plan" in 1982. In so doing, the purpose of Mubarak was twofold: a) to hint to the other Arab states that Egypt was willing to compromise on this aspect of Camp David; and b) to lay ground for reconciliation with Jordan and the PLO, and to reassure them that they would not be excluded from the negotiations. Both parties responded positively to the Egyptian gesture, and in December 1983 PLO leader, Yasser Arafat, prompted by a bitter conflict

with Syria that ensured the final evacuation of his forces from Lebanon, paid his first visit to Egypt since 1977. In May 1984, Jordan became the first Arab country to resume diplomatic relations with Egypt (Ingram 1984:9).

The Early 1980s witnessed a parallel rapprochement, albeit without resumption of diplomatic ties, with Iraq and Saudi Arabia. Under the pressures of her war with Iran, Iraq turned to Egypt for mines, ammunition, and spare parts. Mubarak declared that Egypt is providing this assistance in accordance with the Arab League Joint Defence Treaty (Tucker and Stork 1982:4), thereby serving the dual purposes of announcing the erosion of his regime's regional isolation, and establishing the regime's legitimacy by proclaiming the revival of Egypt's Arab role, and the resumption of her "national" support for her Arab brethren.

In the same vein, the war, and the Saudi fear of an increasing Iranian influence in the Gulf region laid the ground for rapprochement with Egypt. Thus, Saudi radio urged the Arab States to tone down their criticism of the Egyptian regime, and the Saudi government began quietly restaffing their embassy in Cairo immediately after Mubarak came in power, and by mid-May 1982, it had reached pre-Camp David levels, with only the ambassador missing (Ibid).

By and large, three key developments contributed to the success of Mubarak's regime's bid to make the necessary alterations to aspects of its predecessor's foreign policy without jeopardising its principal commitments to the US and Israel:

- i) The advent of the Second Cold War, which increased Mubarak's administration's "manoeuvring space", and enabled it to diversify its international relations and assume a more independent stance vis-à-vis the US administration without jeopardising the latter's economic assistance.
- ii) Regional developments, from the first Gulf War to the Israeli invasion of Lebanon, which created a need for the Arab States to end Egypt's isolation and reintegrate her in the Arab world, and led to the gradual erosion of the Iraqi-led rejectionist "steadfastness front".
- iii) The failure of the "rejectionist line" to develop a feasible alternative to Camp David in Fez Summit in 1981, which was considered a vindication of the Egyptian foreign policy, and made it easier for the Egyptian leadership to reintegrate in the Arab world without having to denounce its Camp David commitments.

These developments, alongside the steady flow of rent during the early 1980s, enabled the new regime to fulfil its urgent task – to restore its legitimacy without giving up any of its key political lines. During this period, Egyptian foreign policy was focused, almost exclusively, on its "legitimacy forming" function. The resource crisis that hit the Egyptian economy hard in 1986 changed the situation, as it created an urgent demand for the second function of the Egyptian foreign policy –rent generation to resolve domestic

crises— and from that moment onwards, the Egyptian foreign policy was faced with the need for both functions and the challenge of finding a balancing point between them.

2- The Resource Crisis and Failed restructuring: 1986-1990

Under the conditions of the economic and political crisis of 1986, some form of economic retrenchment and restructuring was urgently needed. This necessitated difficult decisions on dividing the burdens of restructuring, which were, expectedly, determined by the balance of power amongst the key social forces. Given the social disposition of the elite, it came as no surprise that the way out of the crisis was negotiated with the IMF. However, the regime's concern for domestic stability and maintaining its hegemony, and its “January riots complex”, made it difficult to comply with the IMF's demands. As a result, during the four difficult years between 1986 and 1990, the regime was locked in a vicious cycle of extended economic and social crisis, escalating political and sectarian violence, and endless, and fruitless rounds of negotiations with the IMF's and Egypt's creditors.

The conflicting needs of reflecting the interests of the social elite, whilst maintaining the regime's hegemony and political stability meant that there was no easy way out of the political and economic crisis, and doomed all far-reaching economic and social restructuring measures to failure. Thus, in lieu of resolving the crisis, the regime was forced to settle for managing it. This continued until 1990, when regional and international developments offered the regime a new opportunity to use its foreign policy

as a means of jumping over its internal contradictions, and trading its “strategic rent” for a better deal with its creditors that facilitated the launching of the second the second wave of restructuring in the 1990s, to which I will devote the next chapter.

(2.1) The State

The legitimacy-restoring, “public relations exercise” came to an end with the multidimensional crisis that hit in 1986. Alongside the resource crisis and the need for austerity and economic restructuring, from 1986 onwards, Mubarak's regime faced three key challenges: a) the escalation of social protest and political violence; b) a dangerous political debt to the already formidable chief of the military, Field Marshal Abou Ghazala; and c) the political “long march” of the Islamists to take over the state and civil society.

After a short societal truce from 1981 to 1984, social protest and political violence resumed, reaching unprecedented levels in 1986. This meant that the risks involved in implementing the required economic restructuring plans that the IMF proposed were paramount. The resource crisis hit at a time when the restoration of the regime's hegemony was not completed yet, and any dramatic restructuring would have meant a further escalation in the political and social unrest. As a result, the regime had to settle for managing the crisis, not resolving it. This socio-political setup, not the president's cautious or indecisive nature, is what explains the hesitant economic reforms that the regime sought to implement during the crisis years, and the melange of political oppression and liberalisation that took place between 1986 and 1990.

In the meantime, the fact that the regime had to resort to the military to curb the CSF riots entailed an additional political debt to the already too powerful Field Marshal Abou Ghazala (EIU 1986a:5). Abou Ghazala, a former military attaché in Washington, had particularly good relations with the US. The Economist Intelligence Unit (EIU 1989b:7) reported that he was often regarded as Washington's closest ally in Cairo, and Springborg (1987:7) noted that one version of the events that took place during the Achille Lauro crisis holds that it was Abou Ghazala who notified the US, through the military mission in Cairo, that the hijackers were being flown to Tunis. With his immense popularity in the army, which has since the 1973 restored its image as the successful defender Egypt's national interests, and his excellent relations with the US, Abou Ghazala was a serious challenge to the president, especially if Mubarak's regime was unable to bring about a clear solution to the mounting social and political crisis, or if, in so doing, it was further alienated from the poor and middle-classed majority of the Egyptians.

Last but not least, Mubarak's regime had to face the most serious civilian challenge to his rule – the Muslim Brotherhood. The Brotherhood did not settle for its token participation in the parliamentary elections, focusing instead for dominating the professional syndicates and student unions (EIU 1988a:5). In March 1986, the Brotherhood, feeling strong enough to challenge the regime in the parliament, rallied 100 members of the political assembly (including many NDP members) to sign a petition calling government to take action to make the Islamic *Shari'a* the sole and binding source of law (EIU 1990:5). This indicated that the Brotherhood was able to defy classical party boundaries and set the terms for the political debate in Egypt.

In facing these challenges, Mubarak's response to re-establish his power base and restore political order was fourfold. First, Mubarak sought to restore his regime's legitimacy through calling new parliamentary elections in April 1987. The elections came in the aftermath of a court ruling that the election law of 1984 was unconstitutional, and Mubarak needed to legitimise the parliament which was supposed to nominate him for a second term in office in October (EIU 1987a:5). As a result, the opposition was allowed to significantly increase its representation, and was now led by a Muslim-Brotherhood-led "Islamic coalition" (Ayubi 1989b:15). The opposition, notwithstanding the typical protests at elections violations, responded positively to Mubarak's gesture, and allowed his presidential nomination in October to go unchallenged (EIU 1987c:5), thereby conferring a much-needed legitimacy on his regime.

Second, whereas Mubarak's unopposed re-election reinforced the regime's legitimacy, Mubarak also needed a reliable, core social base to embark on any economic restructuring programme. The otherwise conveniently amorphous social base of the NDP was not very reliable at a time of difficult economic retrenchment decisions that would necessarily alienate much of the lower and middle classes. Thus, the regime made a strategic decision to re-enforce its alliance with the haute bourgeoisie – the only social stratum that backed full economic liberalisation unreservedly whilst refraining from demanding a significant share in political power and government. The regime, therefore, moved swiftly to consolidate its alliance with the businessmen associations (the institutional embodiment of the haute bourgeoisie). Government-business joint commissions increased in number and in influence, businessmen were increasingly

becoming full partners in economic decision-making, and they were assuming an increasing role in the economic activity as a result of the IMF-induced economic restructuring. The income differentials within the state bureaucracy increased further, as the senior state officials were able to earn further income through these symbiotic linkages with the haute bourgeoisie (Ayubi 1989b:11), and were further alienated from the middle-class, lower echelons of the bureaucracy. Finally, the state enforced reconciliation in 1989 between businessmen associations and the federation of chambers of commerce (which represented the other factions of the private bourgeoisie), and henceforth, the federation became a minor partner to the businessmen associations which maintained a quasi-monopoly on the access to the senior-level decision makers¹²⁰.

Third, alongside a "legitimate" re-election, and a consolidation of the alliance with the haute bourgeoisie, Mubarak needed to restore political control, to increase stability on one hand, and decrease his dependence on the military, which has reached a dangerous level during the 1986 riots, on the other. To do so, Mubarak moved swiftly to replace the minister of interior, Ahmed Roushdy, whom he held responsible for failing to control the CSF riots, with the hard-line, confrontational Zaki Badr. This move meant the regime was willing to take as many oppressive measures as it took to restore its control. Not surprisingly, the number of political detainees skyrocketed between 1986 and 1990. The security forces were given orders to adopt an iron-fist policy vis-à-vis the fundamentalists in Upper Egyptian cities, particularly in Assyut, the stronghold of the *Jama'a Islamiya* (Islamic association). All forms of political and social protest were equally oppressed.

¹²⁰ A joint communiqué was signed in 1989 to that effect. See: Kandeel (1995:154); Abdel Mo'ti (2002:116).

Fourth, although Ahmed Roushdy was thought of as a counter-balance to Marshal Abou Ghazala, and hence his replacement was considered by analysts such as Springborg (1987:7) a political victory for Abou Ghazala, it was actually Zaki Badr's iron-fist policies that reduced Mubarak's dependency on Abou Ghazala for his regime's security. Under Badr, the police forces and CSF resumed the role as the regime's key protectors. This probably facilitated Mubarak's seemingly abrupt decision in 1989 to demote Abou Ghazala to the ceremonial post of assistant to the president without portfolio (EIU 1989b:7).

The aforementioned measures meant that a) Mubarak's regime was fully preoccupied with the task of restoring his legitimacy and power hold during the crisis' years; and b) that whereas its social base, depending primarily on a coalition of the haute bourgeoisie with senior state bureaucrats, was strong enough to ensure that an IMF-led route out of the crisis was the only one considered by the regime¹²¹, it was not broad enough to undertake any far-reaching restructuring of the political economy without risking serious social and political upheaval. The regime remained vulnerable to its opposition's critiques of failing to respond to the needs of the poor masses or restore economic growth.

Such critiques were all the more embarrassing given the rapid success of the "Islamic investment companies", which maintained close relations with the members of the "Islamic coalition" in the parliament. In the middle of its crisis in 1986, the regime granted these limited liability companies an exception from law 159 of 1981, which

¹²¹ This was becoming abundantly clear in the aftermath of the dismissal of the minister of economics in April 1985, and the abolition of the import rationalisation committee in August 1986 (see sections 1.1, and 1.2 above).

confines the right of raising money publicly to joint-stock companies, which are listed and whose operations are closely monitored to protect shareholders (Abdel-Mo'ti 2002:120). It was particularly worth noting that instead of requesting that the "Islamic investment companies" registered themselves as joint-stock companies, in compliance with law 159 of 1981, the crisis-ridden regime sought to appease the political Islamists by granting their companies an exception from the law. In 1988, there were 154 such companies, using deposits from Egyptians estimated at \$20 billion, and dubiously investing them in the world financial and commodity markets (Ali 1988:83). Realising that they were becoming intolerably powerful, the government decided to clamp down on these companies in 1989, thereby destroying an essential power base of its fundamentalist opposition. The clampdown, however, did not only reveal the shady nature of their business, it also uncovered the huge losses made by large strata of the Egyptian middle classes whose savings were predominantly directed towards these companies.

With the middle and lower classes trapped between the pressures of the government's economic retrenchment measures¹²² on one hand, and the losses in the "Islamic investment companies" on the other, political and social unrest escalated further. Starting from 1984, and throughout the 1980s, Egypt witnessed 112 strikes, 26 rioting events, 175 demonstrations, the assassination of the parliament speaker, and three failed attempts to assassinate three successive ministers of interior (Helal 1993:197). The vast majority of these events took place between 1987 and 1990. The government responded by further intensifying its oppressive measures, and Zaki Badr escalated his iron-fist policies, and unorthodox violent tactics, further alienating himself from the opposition. The row

¹²² This will be examined in detail in the next subsection.

between Badr and the opposition reached no return point in March 1989, when Bard engaged in a fist-fight with two opposition members of parliament during a televised parliamentary session. A month later, he announced the arrest of 1000 opposition members (EIU 1989b:7)

By the end of 1989, the crisis conditions had reached a very serious level with sectarian, social and political violence mounting; the strife between the government and opposition escalating; and no deal underway with the IMF. Mubarak's regime made several desperate moves to contain the crisis. Zaki Badr was sacked, several foreign policy gestures sought to capture the public sentiments, including restoring relations with the Arab states, flirting anew with the USSR, and embarking on a new Arab Unity scheme, with the creation of the "Arab Cooperation council" with Iraq, Jordan, and Yemen¹²³.

As far as containing the tense domestic situation was concerned, these gestures proved necessary but not sufficient. Domestic tensions and sectarian and political violence continued, but never reached an unmanageable level. To add to the government's agonies, the constitutional court ruled in May 1990 that the electoral law of 1987 was unconstitutional, thereby creating the regime's second constitutional crisis in three years, and forcing Mubarak to dissolve the parliament. The two main opposition forces, the secular *New Wafd* and the "Islamic Coalition" boycotted the elections, as a result of the regime's reluctance to respond to their demands for political concessions including the termination of the state of emergency (Hopwood 1993: 187-189). Naturally, the NDP's

¹²³ I will return to these measures in some detail in section 2.4 below.

parliamentary majority increased, but the social and political support bases of the regime were shrinking further.

The regime's foreign policy manoeuvres seemed equally ill-fated, with developments in the Eastern Block rendering any flirtations with the USSR unrealistic, and the Iraqi invasion of Kuwait bringing to a quick end the Arab Cooperation council. Paradoxically, however, it was the latter development that offered the regime the long-awaited chance to use its "strategic rent" to negotiate a way out of its mounting crisis and brought forth of a second wave of restructuring the Egyptian political economy and foreign policy.

(2.2) Economic Structures and Policies

The 1986 resource crisis was characterised, and its management was determined, by three key factors: its size, social context, and timing. First, with a decline of \$2 billion in government oil revenues (a 70% drop from the previous year), a simultaneous decline in workers' remittances and tourism revenues (in the aftermath of the scare caused by the CSF riots), the government's manoeuvring space shrank considerably, and painful economic restructuring was imperative.

Second, equally important was the fact that this crisis took place in the aftermath of the triumph of the private bourgeoisie. Mustafa Al-Said's attempt in 1985 to curb imports had been defeated¹²⁴, the haute bourgeoisie was well represented in the government-business joint commissions, and was given further concessions as the minister of supply issued a decree in 1986 granting the private sector a *carte blanche* to import food products (Abdel

¹²⁴ See section 1.2 above.

Fattah 2003:55). This meant that crisis management by means of curbing consumption and curtailing the privileges of the haute bourgeoisie through an austerity program and a return to *étatisme* was not a viable option. Restructuring through an IMF-led liberalisation programme was the only possible alternative given this social context of the resource crisis.

Third, notwithstanding the magnitude of the crisis (which made restructuring imperative), and its social context (which determined the nature and direction of the restructuring), the timing of the crisis put serious limitations on the government's ability to undertake any far-reaching restructuring of the political economy. Political tension had reached unprecedented levels when the resource crisis hit, and any far-reaching economic restructuring was bound to intensify the social and political protest from the increasingly impoverished and alienated lower and middle classes.

It was the combined effect of these three factors, not Mubarak's "natural indecisiveness" that resulted in the dilatory, and in many aspects failed, restructuring attempt between 1987 and 1990, when the government proved willing to go to the IMF and undertake some liberalisation measures, but unwilling to embark on a full-scale, politically risky, liberalisation.

Thus, in May 1987, Egypt agreed on a \$325 million standby loan with the IMF over eighteen months, including an immediate payment of \$150 million. This was combined with debt rescheduling arrangements with Egypt's western creditors (the Paris Club), and

a softening of the US stance on Egypt's military debt (EIU 1987b:3). In return, Egypt embarked on an economic restructuring programme that had six components¹²⁵:

- a) Gradual simplification of the exchange rate structure and setting the exchange rate according to market conditions. This entailed a *de facto* devaluation of the Egyptian currency;
- b) Increasing domestic energy prices towards parity with international prices;
- c) Liberalising Agriculture through terminating the compulsory delivery quotas and raising procurement prices for agricultural crops;
- d) Adjusting public investment programme to match the availability of resources. This necessarily meant reducing the already declining public investment levels;
- e) Reducing the budget deficit; and
- f) Increasing domestic interest rates.

This programme, however, was a little too ambitious, particularly given the political circumstances between 1986 and 1988. The government, aware of these risks, resorted to delaying tactics, conducting the restructuring measures as slowly and gradually as it could (Richards 1991:1721). Restructuring was introduced by stealth, rather than by public announcement, for fear of riots. This was, for instance, how electricity and Kerosene bills were raised (EIU 1989b:8). As a result, implementation of the standby package fell behind the targeted date of January 1989. If anything, the picture of the Egyptian Economy in 1989 looked even bleaker. The IMF, displeased with Egypt's pace of implementing the restructuring package, refused to release the second tranche of the

¹²⁵ This summary of the restructuring measures is adopted from Abdel Khalek (2001:25-27).

standby agreement on Spring 1988 (Owen and Pamuk 1998:138). Egypt sought to approach her creditors directly for a relief arrangement bilaterally, without giving a timetable for restructuring. The attempt failed, forcing Egypt to enter into a new series of negotiations with the IMF and the World Bank, during which the two institutions added to their previous demands a call for the rolling back of the state control of the economy (Ibid.). Between the increasing demands of the two institutions, and the reluctance of Mubarak's regime to tackle the politically sensitive issues of stabilisation and structural adjustment, negotiations reached an impasse.

On the other hand, the debt burden continued to grow, swallowing more than 40% of the total export earnings of Egypt, and forcing the government to let deadlines pass on debts in 1989. By 1990, the debt had skyrocketed to \$50 billion (Richards 1991:1722). On the distributional level, the picture looked equally alarming. Inflation reached an unprecedented rate of 35%, taxing the salaried strata severely (EIU 1989a:6), and unemployment rose to 20% in 1989, compared to 9% in 1980 (Helal 1993:170) – doubling through the years of the "hesitant decade". As a result, 43% of the urban households were living below the poverty line in 1989, compared to 33% in 1981/1982 (Ibid: 167). In the meantime, the haute bourgeoisie flourished even further, being the main beneficiary of any liberalisation measures, and the least affected by the rising inflation and unemployment rates¹²⁶.

¹²⁶ Prominent Egyptian economist, the late Ramzi Zaki, devoted a series of books works to elaborate a very detailed analysis of the means through which inflation further deepened social inequalities, as the haute bourgeoisie was able to transfer any impact of the inflation to the other social strata. See particularly: Zaki (1993); (1996); and (1999).

It was becoming increasingly clear that whereas the nature and direction of the economic structuring measures between 1987 and 1990 were determined by the social disposition of the ruling elite, its magnitude and pace was limited by the government's limited ability to pressurise the already strained lower and middle classes, especially at a time of political unrest. With Egypt still in the process of re-entering the Arab regional system, foreign policy manoeuvres could not be relied upon to generate enough strategic rent to resolve the resource crisis. This was particularly evident in the government's failure to reach a relief arrangement with its creditors in 1989. Thus, the government had to settle for crisis management, and tight-rope manoeuvres with its creditors and its people (e.g. gradualism, liberalisation by stealth...etc). In 1990, the situation changed profoundly. Egypt had fully re-entered the Arab regional system, and was therefore standing in good stead to seize the opportunity of the 1990 Gulf crisis to negotiate a way out of its economic impasse, and embark on the second wave of restructuring in the 1990s.

(2.3) Ideology

By 1986, Mubarak's regime seemed to be on the verge of a renewed hegemonic crisis. The intense resource crisis put an end to the regime's "public relations exercise", since, under the crisis conditions, the regime's social and political preferences became more explicit. The government faced the challenge of defending its IMF-led economic reform package, and the social consequences thereof. On the other hand, developments in the domestic polity, from the mounting social protest, to the rising popularity of Field Marshall Abou Ghazala, and the Islamists' bid for ideological hegemony, created serious challenges to the legitimacy of Mubarak's regime that required more proactive

hegemony-restoring measures. The regime's policy of restoring its hegemony through ideological evasiveness and avoiding voicing any explicit policy choice was proving both insufficient and unsustainable.

In responding to these challenges, the regime's discourse developed along three lines: a) justifying the government's economic choices through a combination of the "logic of necessity" and emphasising the government's "nationalistic approach to the negotiations with the IMF"; b) qualifying Mubarak's "technocratic" image through the development of a personality cult; and c) portraying Egypt's return to the Arab league as a step towards restoring Egypt's national role, based on a milder form of Arab nationalism that emphasised the primacy of the contradictions between the Arab states and Iran instead of the Arab-Israeli contradiction.

Naturally, the government's decision to seek an IMF-led economic package in the face of the mounting resource crisis undermined all previous claims to restoring *étatisme*. The governmental discourse justified this decision through emphasising its inevitability on one hand, and highlighting its skilful and "nationalistic" approach to the negotiations with the IMF on the other. To demonstrate the inevitability of resorting to the IMF, the government's discourse invoked two key arguments. First, it emphasised that the question of structural adjustment is of a highly technical and apolitical nature. It was therefore reflective of "scientific" realities, not a result of the regime's social disposition or ideological preferences. Any opposition to this decision was dismissed as purely "ideological" – a term invoked in the official discourse in a pejorative sense, based on

contrasting the government's professionals debating scientifically the problems and deciding on the only possible "scientific" policy option, and the opposition's ideologues and rabble-rousers (Wahba 1993:51-53). Second, the government held the population growth responsible for the economic crisis (Aulas 1988:155). As such, the people, not the government, were to be blamed for the government's "inevitable" decision to resort to the IMF. All that could be done, therefore, was for the government to undertake the difficult negotiations with the IMF to find a way out of the problems caused by its own population growth.

In so doing, the governmental discourse celebrated the "national struggle" of the Egyptian government to resist the IMF's pressure to apply a rigid prescription regardless of its social and political costs (Wahba 1993:59). The government proclaimed its success to negotiate a package that is "hundred percent Egyptian", and assured its population that, in accordance with its famous slogan "*La Massass*" (no jeopardising [of the gains of the poor]), subsidies to the poor will not be reduced (Ibrahim 2000:258). After years of "realistic" discourse that succeeded in lowering the popular expectations from the state, the government could now confine its economic role to "resisting" the IMF pressures for even costlier reforms, and, as Premier Atef Sidki announced in a speech to the people's assembly on 29th December 1986, "[to] spare no effort to create the proper climate for private sector's growth" (EIU 1987a:9). The government still rejected privatisation, but made no commitments to developing the public sector or restoring its leading role in the economy (Ghoneim 2005:130). Furthermore, on 29th May 1989, a joint communiqué by the National Labour Union and the Egyptian Businessmen Association called for further

liberalisation, reforming the public sector and making it more profit-oriented, and confining the government's role to policy planning (Ibid., p.89). *Étatisme* was gradually forgone.

However, in a time of a severe resource crisis coupled with increasing social and political protest, claims to technocratic efficiency were hardly enough to establish the regime's legitimacy. Thus, Mubarak's second presidency witnessed the development of a personality cult in lieu of the hitherto technocratic image of the president (EIU 1987d:5).

The official narrative of the October 1973 war was revised, portraying the "first air strike", conducted by Mubarak, commander of the Air Forces at the time, as the key decisive factor in victory. This new presidential silhouette served the twin purposes of emphasising Mubarak's national and military credentials – particularly in the face of Abou Ghazala's popularity in the army – as well as preparing the population for the difficult economic and political decisions to come (Ibid., p.6) by adopting a grander image of a national leader entitled to asking for sacrifices from his population.

Such grander image required more than personality-based propaganda. A certain "cause" was required that could justify sacrifices. This remained the regime's central weakness. With no resources, ability or willingness to undertake any grand causes, the regime's discourse opted for portraying Egypt's return to the Arab league as a step towards restoring Egypt's national role, based on a mild form of Arab nationalism based on the primacy of the contradictions between the Arab states and Iran. Mubarak's first speech before the parliament after Egypt's readmission to the league in the Amman Summit in

November 1987, outlined his perception of Egypt's Arab policy, which should a) arrive at a common security policy (implying a leading role of Egypt in formulating and implementing such a policy, as was demonstrated in the Gulf War); b) remain committed to the Arab Joint Defence Treaty (which he vigorously claimed to have done by supporting Iraq); c) work for solidarity rather than unity because the former is more practical and reliable (thereby defending his choice of a less flamboyant version of Pan-Arabism); and d) preserve its resources for developmental purposes (thereby securing a strong argument against his radical opposition's demands for extending military support to the Palestinian *intifada*)¹²⁷.

Egypt's readmission to the league, Mubarak's open critique of the Israeli government's oppression of the Palestinian *intifada*, and the creation of the short-lived "Arab Cooperation council" with Iraq, Jordan, and Yemen, were represented as indicators of a re-emerging Arab role of Egypt. More importantly, however, the new official discourse on Egypt's Arab role focused on Iran, not Israel, as the key threat to the Arab cause. Routine criticisms of Israeli policies vis-à-vis the *intifada* continued, but the government's discourse on Iran emphasised its "aggression" on the "Iraqi brothers", as well as its commitment to toppling the Arab regimes – including Egypt's– and replacing them with fundamentalist regimes. A succession of announcements of discovered Iranian-backed plots to politically destabilise Egypt further emphasised this point. Thence, in 1987, members of the clandestine *Jihad* group were arrested, charged of attempting an Iranian-style revolution, with the support of Tehran. In May 1987, the Iranian interest section was closed, and the only resident Iranian diplomat was expelled

¹²⁷ See: Cantori (1991:356-357).

(EIU 1987c:3). And in June 1988, the Egyptian police announced the detention of another Iranian-backed underground group that allegedly maintained contacts with the Iranian intelligence, Lebanon's Hezbollah, and the outlawed Iraqi Da'wa party (EIU 1988c:7). Meanwhile, Egypt's political and military support for Iraq in its war against Iran continued, as did its depiction in the local media as indicative of the rejuvenation of Egypt's national role. Unsurprisingly, the "Iran-as-the-new-regional-villain narrative" also served domestic purposes, as it offered the grounds for questioning the nationalism and patriotism of the regime's established "enemy within" – the Islamists.

However, between the severe resource crisis which the government could only manage, not resolve, and the continued ascent of political Islamists, the success of the regime's trilateral hegemony-restoring strategy was meagre. All the government's discourse could do, during the "crisis management years" between 1986 and 1990, was a) to utilise Egypt's foreign policy breakthroughs on the Arab level to rebuild its image as a re-emerging regional power; and b) to attempt to minimise the damage caused by the resource crisis and the ensuing IMF-led reform package, and to cast the negotiations with the IMF in a nationalistic form, in which the government claims to be the defender of the national economic interests that sought to minimise the otherwise inevitable price for the damage made by its own population's growth. Only after the Gulf Crisis in 1990, and the launching of the second wave of restructuring, was the government able to adopt a more aggressive discourse, and voice its hitherto implicit ideological preferences¹²⁸.

¹²⁸ I will examine this development in the following chapter.

(2.4) Foreign Policy

Unlike the first half of the 1980s, in which Egyptian foreign policy could focus exclusively on the hegemony-restoring function, the crisis conditions since 1986 should have led to a shift in the planning and conduct of Egyptian foreign policy to meet the rent-generation demands of the resource crisis. This, however, did not happen, and Egyptian foreign policy remained devoted, almost exclusively, to its first function throughout the "crisis management years". The reason for that was threefold: a) with Egypt still, in 1986, out of the Arab league, and with a small part of Sinai (the border city of Taba) still under Israeli occupation, there remained unfinished business insofar as restoring the regime's hegemony is concerned; b) the socio-economic crisis conditions rendered many of the other hegemony-restoring tools, namely, those based on flirting with aspects of *étatisme*, unfeasible, and indeed led to certain mild arrangements that further reduced the social base of the regime and alienated much of the middle and lower classes¹²⁹. Foreign policy, therefore, remained the only possible tool to restore the regime's legitimacy, and providing an ideological compensation for the economic and social sacrifices to come; and finally c) the unfinished business of restoring Egypt's regional status meant that there were hardly any strategic assets on which the regime can rely as a basis of foreign-policy-related rent, as its predecessors frequently did. This can be demonstrated by comparing the failure of the government to negotiate a less-costly deal with the IMF between 1986 and 1990, to the swift easing up of Egypt's economic burdens in the fall of 1990, which witnessed over the span of a few weeks a \$20.2 billion reduction of Egypt's debt, thanks to the conditions resulting from Egypt's re-entry to the Arab world combined with the impact of the Iraqi invasion of Kuwait.

¹²⁹ See sections (2.1) and (2.2) above.

At the heart of this hegemony-restoring foreign policy was, obviously, arranging Egypt's re-entry to the Arab regional system – a pre-requisite for both liquidating a centrepiece of the domestic counter-consensus against the regime's foreign policy, and for reclaiming Egypt's regional role, which is her key strategic asset and the necessary condition for any rent-generation in the future. To do so, Mubarak's plan was twofold: a) to re-enter the Arab regional system "physically", by securing Egypt's re-admission to the Arab league; and b) to re-enter the Arab regional system "politically", by restoring Egypt's central role in the regional politics.

Egypt's return to the Arab regional system had already started gradually since 1984, as I argued in sub-section 1.4 above, but the qualitative leaps started only in 1987. In April the secretary general of the Arab league announced that Egypt would be welcome back in the organisation. In November, the Arab summit in Amman decided to authorise Arab States to resume bilaterally diplomatic relations with Egypt should they so decide. Nine Arab countries immediately did, leaving only Syria, Algeria and Libya. In December, Mubarak toured the Gulf States, met with Saddam Hussein and Yasser Arafat in Baghdad, and concluded with a meeting with King Hussein in Aqaba, Jordan (Cantori 1991:357-358). In the Arab summit in Casablanca in 1989, which Mubarak attended, a decision was taken to return the headquarters of the Arab league to Cairo, thereby announcing that Egypt is officially, and indeed literally, returning to the Arab centre-stage. By that time, even Syria, the bitterest of Egypt's Arab critics, resumed diplomatic relations, giving up her demand of Egypt's renouncement of Camp David (Hopwood 1993:191).

This swift re-admission of Egypt to the Arab league was a result of *realpolitik* calculations not just by Egypt but also by the Arab states. On one hand, several factors contributed to Egypt's increased need for manoeuvring space, and awareness of the limitations of her increased dependence on the US. First, as Cantori (1991:343) noted, the US support for Israel put Egypt in a trilateral relationship with Washington, in which *"issues nominally of bilateral character between Cairo and Washington or Cairo and Tel Aviv repeatedly became a 'ganging up' phenomenon with Israel using her special influence in Washington to put pressure on Egypt"*. Meanwhile, the unfolding of the Iran-Contra affair raised further suspicions in Cairo as to the nature of the US interests in the region and their possible contradictions with Egypt's national interests, and led Mubarak to cancel his annual trip to the US in protest to the implications of the affair (EIU 1987a:7), and convinced him of the need to explore other foreign policy options. Thus alongside the regional moves aiming at restoring Egypt's Arab relations, Mubarak's regime flirted more openly with the USSR. As a result, in February 1987, a protocol was signed by both countries on financial, trade and economic relations, as well as to grant Egypt a generous rescheduling of her \$4 billion military debt to the USSR (EIU 1987i:7; EIU 1989b:5). The Russian cultural centre was reopened in Cairo in March 1988, and in May, Egypt's foreign minister, Esmat Abdel Meguid visited Moscow, the first visit by an Egyptian foreign minister since 1972, when Sadat expelled Russian experts from Egypt (EIU 1988b:8). His counterpart Edward Shevernadze reciprocated by making Egypt the centre of his Middle East tour in 1989. It was in Cairo that he met, separately, with Yasser Arafat and the Israeli foreign minister Moshe Arens, followed by a three-hours

meeting with Mubarak that resulted in Egypt's support for a "Soviet peace initiative" (EIU 1989a:7-8) that actually never materialised.

On the other hand, perhaps more importantly, the developments in the Gulf – the successful Iranian ground offensive, the Iran-Contra affair and the tank war that followed it, the flagging of Kuwaiti ships, and the US naval deployment in the gulf – all created an atmosphere of a regional crisis that prompted, as Cantori (1991:341) noted, a nearly unanimous Arab states' concurrence in the need to re-establish diplomatic relations with Egypt. As Egypt continued to extend military support to Iraq, ranging from arms sales that amounted to more the \$3 billion in value, to freeing a number of army officers to serve in the Iraqi armed forces (Tripp 1989:177), the alarmed Gulf States moved swiftly to restore relations with Egypt. Thus, a Gulf Cooperation Council summit in January 1987 laid the ground for the readmission of Egypt in the Islamic Conference Organisation meeting in Kuwait at the end of the same month, and pushed for the re-admission of Egypt in the Arab league later in the same year. It was clear that, in the aftermath of the Iran-Contra affair and the simultaneous Iranian advances in the Gulf War, Egypt figured prominently in the Gulf States' foreign policy planning as they sought to marshal regional support in the face of the Iranian influence, after what they perceived as abandonment by the US – a perception that was so profound that even the US decision to re-flag Kuwaiti ships as a goodwill gesture to the Gulf States was not enough to change (Cantori 1991: 355-356).

In the meantime, Egypt continued her efforts at eliminating the differences between Jordan and the PLO in an effort to create a unified Jordanian-Palestinian negotiating team to take over negotiations over the future of the occupied territories, since Egypt, as I mentioned earlier in this chapter, had already abandoned the second phase of the Camp David accord in favour of Palestinian self-representation. Mubarak also sought to mediate between the PLO and Washington (Talhami 1990:236), but his efforts bore no fruition. The outbreak of the Palestinian *intifada* in December 1987 not only rendered any such efforts at mediating a peace agreement more difficult, but also led to revival of questions on the regime's legitimacy and the impact thereupon of the Egyptian-Israeli relations. The regime's response was twofold. First, Mubarak condemned the "Israeli oppression of the *intifada*", and Boutros Ghali, the state secretary for foreign affairs, announced that Egypt's relationship with Israel has become a "cold peace" (EIU 1988c:5). This was supported by the swift recognition, on November 20th, 1988 of the Palestinian State declared five days earlier at the Palestinian National Council meeting in Algiers. The gesture, as well as Israeli Defence minister Yitzhak Rabin's condemnation thereof as a deviation from Egypt's commitments under the Camp David accords (EIU 1988d:5), were conducive to the regime's claim to a revival of its Arab role – particularly important when it came at a time of economic hardships and very difficult negotiations with IMF. Second, acknowledging the complexity in the Middle East conflict brought about by the Intifada, Mubarak regime shifted the focus of its Arab policy from the Arab-Israeli conflict to the Gulf. Thus, Egypt's support to Iraq and concerns for the "Iranian threat" to the stability of the Gulf were emphasised in the regime's foreign policy discourse. Mubarak toured the Gulf States, emphasising not only Egypt's concern for their stability,

but also calling for economic integration as the more realistic manifestation to Arab solidarity. In 1989, Egypt formed the Arab Cooperation Council (ACC) with Iraq, Yemen and Jordan. The ACC was presented, not only as a further indication of the return of Egypt's leading Arab role, but also as a new political centre of gravity in inter-Arab politics (Hinnebusch 2002:107). The same year witnessed another foreign policy triumph for Mubarak's regime. The international arbitration committee on Taba ruled in Egypt's favour. Thus Taba was to return to Egypt's sovereignty, and Egypt would only have to pay \$37 million in compensation for the Avia Sonesta Hotel, built there by an Israeli entrepreneur – less than half of the \$80 million that Israel demanded for the facility (EIU 1989a). At once, Mubarak's regime was able to boast the completion of the liberation of Egypt's occupied Sinai, the return of Egypt to the Arab league, and the resumption of Egypt's efforts at Arab integration through the establishment of the ACC.

Naturally, this was conducive to the regime's restoration of hegemony, and at least partly made up for lack of economic success. However, these diplomatic successes were not enough to enable Egypt to resume the strategic rent generation – much needed as it was during the "crisis management" years to facilitate the necessary shift from "crisis management" to "crisis resolution".

It was only when Iraq invaded Kuwait in August 1990 that the opportunity of resuming the second function of Egypt's foreign policy, i.e. rent-generation, surfaced anew. With the Arab world shaken to its core by the Iraqi seizure of Kuwait; many other Gulf States, particularly Saudi Arabia, recognising the need for Egyptian support; and the US need for

an Arab participation in any military operation in the Gulf, lest it appears as a "western crusade not far from the holy sites in Saudi Arabia", Mubarak moved swiftly, and at a summit in Cairo he forced through a resolution condemning Iraq. Furthermore, Egypt immediately decided to send troops to Saudi Arabia to participate in the US-led international coalition to liberate Kuwait. This diplomatic aggressiveness was almost instantaneously rewarded by a generous financial package, examined in more detail in the next chapter, that ended Egypt's tight-rope manoeuvres to manage the socio-economic crisis, and made "crisis resolution" possible through a far-reaching economic restructuring plan that took place almost immediately after the guns in the Gulf fell silent.

And between the regime's legitimacy restoration on one hand, and the strategic rent resumption on the other, the "hesitant decade" has effectively come to an end, and a second wave of restructuring Egypt's political economy, and foreign policy, was about to start.

3- Conclusion: The Patterns of Interplay of Egyptian Political Economy and Foreign Policy

Throughout the 1980s, Egypt's foreign policy was focused on the second of its two traditional functions – acting as a source of legitimacy and restoring the regime's hegemony. This overarching concern with the restoration of the regime's hegemony was an important key to understanding the sometimes contradictory manoeuvres conducted by Mubarak's regime domestically and internationally throughout the "hesitant decade".

Foreign policy issues were at the heart of the counter-consensus that emerged from across the political spectrum during the final years of Sadat's reign, and Mubarak had to make some careful alteration in some aspects of his foreign policy to restore his regime's legitimacy. Since his predecessor's foreign policy options were, as I argued in the previous chapter, embedded in a broader process of restructuring the Egyptian political economy in response to changes in the social disposition of the ruling elite and its economic and political choices as well as its international alliances, any alteration in Egyptian foreign policy had to be carefully made so as not to jeopardise the regime's domestic and international network of alliances. Such was the tight-rope act that Mubarak was forced to perform during the 1980s.

Domestically, a "public relations exercise" involving token flirtations with *étatisme* sought to disguise the fact that the basic thrust and orientation of the first wave of restructuring of populist *étatisme* continued, albeit at a slower pace, during the 1980s, leading to further erosion of the regime's social base. Internationally, Egypt's foreign policy sought to reintegrate in the Arab World without prejudice to her relations with Israel or the United States. The process started in 1984 but was only able to bear fruition in 1989, with the return of the Arab League headquarters to Egypt. Alongside the return to the Arab world, Mubarak's regime could only in the very same year, 1989, boast the full return of Egypt's occupied territories. With these two developments, as well as other foreign-policy-demonstrations of Egypt's resumption of her Arab role – albeit with a focus on the Gulf region in lieu of the Arab Israeli conflict as the heart of Egypt's foreign policy – the regime was able to use foreign policy successes to restore its hegemony.

That such hegemony restoration process took the whole of the 1980s had two key corollaries. First, it rendered the regime's ability to count on foreign policy acumen to help resolve the inherent contradictions through the 1980s impossible. Second, it made serious economic restructuring in response to the resource crisis that struck in 1986, i.e. before the regime's foreign policy exercise to restore its hegemony bore fruition, politically risky. Thus the regime had to settle for "crisis management" until the regional developments made possible to resume the generation of strategic rent and embark on a second wave of restructuring the Egyptian political economy and foreign policy in the aftermath of the Gulf Crisis on 1990-1991. The transformation from "crisis management" to "crisis resolution" through a second wave of restructuring proved largely dependent on the ability to resume the second function of Egyptian foreign policy.

However, the resumption of the second function of Egyptian foreign policy at the end of the decade brought anew the question of the potential contradictions between the two functions which had previously appeared on two occasions since the 1952 revolution: in the resource crisis that forced the restructuring of populist *étatisme* after 1965, and throughout the first wave of restructuring in the 1970s. Egypt's ability to resume the second function of her foreign policy was possible only through joining a US-led coalition in war against Iraq to liberate Kuwait. This not only spelled the death of the much-hyped-but-short-lived ACC and stood in stark contrast with Egypt's military support of, and close relations with Iraq during the latter's war with Iran, but also was in many ways incompatible with the regime's claims to restoring any form of Arab nationalism. In fact, it led to a serious questioning of the relevance of Pan-Arabism, and a

resurfacing of the “*Egypticity* versus Arabism” debate. Furthermore, the intense Western military presence in the Gulf raised serious questions about whether there will be any room for a leading Egyptian regional role in the post-war Gulf. The short-lived attempt to reinvent the Gulf as the focus of Egypt's Arab policy was proving unsustainable.

Thus, if the direction of the second wave of restructuring populist *étatisme* in Egypt was obvious, given the nature of the social base of the regime and the shifts therein in the 1980s, which in fact deepened the alliances between the three branches of the bourgeoisie, with an increased role of the haute bourgeoisie through such mechanisms as the joint-commissions and businessmen associations much to the alienation of other social strata, the foreign policy aspects thereof were quite problematic. The questions of Egypt's ability to find a balancing point between the hegemonic and rent-generating functions of her foreign policies resurfaced, and were reflected in renewed debates about Egypt's regional role that were closely intertwined with the socio-economic transformations brought about by the second wave of restructuring, and the debates thereabout. It is to the analysis of the second wave of restructuring Egypt's political economy, and to the foreign policy questions that such wave entailed, that the final chapter of this study will be devoted.

Chapter V

The Second Wave of Restructuring: 1990–2008

*“It is as if the body [was] deprived of its soul”
Marie-Christine Aulas, State and Ideology in Republican Egypt*

*“Is this you, Egypt?
Are you Egypt?”
Mahmoud Darwish¹³⁰*

This Chapter will account for the interplay of political economy and foreign policy during the second wave of restructuring *étatisme* in the aftermath of the Gulf Crisis. As I argued in the previous chapter, the Gulf Crisis offered the Egyptian regime a long-awaited opportunity to use diplomatic acumen to generate strategic rent, thereby facilitating a more aggressive redressing of the resource crisis that had been looming since 1986.

The direction of the second wave of restructuring was obvious, given not only the social disposition of the regime, but also a set of regional and international developments which helped present the neo-liberal path to restructuring as the only viable course. However, this did not mean that the restructuring process was smooth. From its first days, the second wave of restructuring was replete with political and social crises, culminating in an acute and comprehensive crisis of governance in the early 2000s.

First, the strategic rent generation made possible by Egypt’s participation in the US-led international coalition during the Gulf War was short-lived. Post-war economic resources

¹³⁰ From his poem: “Return of the captive”.

came with immediate and unequivocal conditionality. Egypt had to go through a rigorous IMF-led economic restructuring programme, which severely limited the state's ability to mitigate the social costs of economic austerity. Second, Egypt's position during the Gulf War caused a re-surfacing of the legitimacy crisis as a broad counter-consensus was formed, challenging not only Egypt's position during the Gulf War, but also her subsequent foreign policy moves. This was reflected in the heated debates over the "role of Egypt". Last but not least, Egyptian foreign policy became a victim of some of its very successes, which, paradoxically, contributed to the erosion of Egypt's regional role. This in turn limited Egypt's ability to mobilise resources through diplomatic clout.

Caught between the limited financial means on one hand, and the controversial and occasionally self-defeating foreign policy on the other, the government responded with a mix of political de-liberalisation measures, and some token foreign policy gestures that indicated Egypt's intention to maintain her leading role in the region.

These efforts were, however, in vain. Economically, restructuring yielded hardly any fruits beyond the improvement of macroeconomic indicators in the first half of the 1990s. Even these rapidly eroded as the implications of a series of financial crises in different parts of the world hit the Egyptian economy hard by the late 1990s, causing a new resource crisis. The problem was that this resource crisis hit at a time when Egypt's ability to fill the resource gap through diplomatic acumen had deteriorated, resulting in the government's forced reliance on domestic resource mobilisation, with the twin

consequences of a rapidly mounting domestic debt, and a further erosion of the state's social base.

In the meantime, the need for a simultaneous execution of both functions of foreign policy – rent generation to facilitate the economic transformation, and hegemony restoration to help mitigate the increasing social and political discontent, proved to be an overwhelming strain, and Egyptian foreign policy ended up in a vicious cycle of an eroding “regional role” leading to an eroding ability to mobilise strategic rent, and vice versa.

Thus, the second wave of restructuring rapidly developed from a “troubled liberalisation phase” during the 1990s to a full-fledged “crisis of governance” in the early 2000s. To examine such development, this chapter will be divided into three sections. The first will examine the interplay of political economy and foreign policy during the 1990s, and the dynamics that rendered restructuring *étatisme* after the Gulf War problematic. The second will examine the evolving crisis of governance since 2000, as Egypt was caught in a three-legged quandary: an unfruitful economic liberalisation programme, a state with an eroding social and political bases, and a foreign policy that is neither capable of mitigating the economic predicament, nor restoring the regime's legitimacy on the eve of a looming power vacuum. Finally, the concluding section will seek to abstract patterns of interplay between Egypt's political economy and foreign policy during the second wave of restructuring.

1- The Troubled Liberalisation: 1990-1999

As a result of Egypt's foreign policy during the Gulf Crisis, a large part of her external debt was written off by her creditors. Consequently, Egypt appeared in good stead to embark on aggressive economic restructuring. The direction of restructuring was straightforward. Managing the social consequences thereof was not.

In spite of significantly more favourable economic and political conditions than those of 1987, when Egypt made her failed attempt to agree to an IMF-led restructuring programme, the resources made available through diplomatic rent-generation were not only finite but also conditional. Furthermore, the regime's foreign policy choices during the crisis and afterwards were not popular, forcing it to juggle the two traditional functions of its foreign policy, mostly with limited success.

Between the social disposition of the rulers making it clear how the costs of economic retrenchment would be divided, and the foreign policy failing to sustain rent-generation or defend the regime's legitimacy against the increasing popular discord, Egypt navigated through the troubled waters of the second wave of restructuring. In what follows, I will examine the dynamics of this navigation, and the problems thereof.

(1.1) The State

After Egypt's participation in the "Desert Storm" military operation in 1991, her \$14 billion military debt was written off, and Paris Club creditors, agreed to halve the \$20.2 billion debt (Bromley & Bush 1994:202). These resources were large enough to facilitate

the launching of the second wave of restructuring, but the accompanying conditionality meant that the benefits of debt relief would be devoted to financing restructuring, not to buying off support of the disadvantaged strata.

Added to that was the erosion of many of the “hegemony restoration” gains of the 1980s. Whereas the regime could by the late 1980s boast its return to the Arab league, and the restoration of Egypt’s “Arab role”, Egypt’s participation in the US-led coalition amid unprecedented polarisation in the Arab world was quite controversial. Nationalists, Islamists, and the left accused the regime of “complicity with American imperialism” in the region. Any claims to a significant role in Gulf security was negated by the rapid fall of the short-lived “Damascus Declaration”. The combined effect of limited resources and legitimacy problems rendered the second wave of restructuring problematic from its onset.

Islamist opposition underwent its worst and longest upsurge since the assassination of Sadat, thriving off the legitimacy problems posed by the Gulf Crisis, and using it as further “evidence” of the regime’s collaboration with the deployment of “infidel troops” in “Islamic lands”. The sporadic clashes between the militants and state security in 1991, developed into a full-fledged war in Upper Egypt by 1992. Thirty deaths were counted in 1991. They increased exponentially to 93 in 1992, 208 in 1993 and 373 in 1995 (Kienle 1998: 226). Violent attacks on tourists dealt a heavy blow to Egypt’s \$3 billion-a-year tourism industry, adding to the economic agonies of the country. Militants were able to

draft recruits from the disaffected middle and lower-middle class youth in the economically depressed areas.

Mubarak's regime was facing two challenges: fighting the insurrection and addressing its economic causes (Springborg 1998:32). Subscribing to the neoliberal thesis that the benefits of restructuring would eventually trickle-down to the economically depressed classes and address the latter challenge, the more pressing need was, therefore, to face militant Islamism. For that, the regime relied on the heavy hand of its security apparatus, alongside a series of far-reaching de-liberalisation measures¹³¹. First, the emergency law, introduced right after Sadat's assassination, was renewed repeatedly by the Egyptian parliament. The penal code was amended in July 1992, introducing harsh penalties for "belonging to organisations seeking to undermine social peace and the rule of law". All such "crimes" became under the jurisdiction of the state security courts, which were quick to sentence convicts to death or to long spells of forced labour. Between 1992 and 1996, 74 civilians were sentenced to death by military judges, and the number of political detainees was reported to be around 16000 in 1996.

Second, the government took active measures to restrict political and civil liberties. The "parties' committee" continued to refuse the requests to establish new political parties, raising the number of rejected applications since Mubarak assumed presidency to 50 (Hirst 1999). The few legal political parties were denied the right to organise and assemble. Most professional syndicates, traditionally the most vibrant civil society institutions, were brought under direct government control.

¹³¹ The following summary of the de-liberalisation measures is adopted from: (Kienle 1998; Kienle 2001).

Explanations of these de-liberalisation measures normally fall into two categories: the first adopts a “static approach” considering them yet another phase of the continued authoritarianism of the post-1952 regimes in Egypt (cf.: Kassem 2004; Fahmy 2001). The second is best represented by Kienle’s (1998; 2001) and Wickham’s (1994) argument that the active de-liberalisation during the 1990s was a deliberate measure to curb both the threat of Islamic militants as well as the social unrest in the wake of economic restructuring. The shortcomings of the first line of analysis are obvious – it fails to account for the dynamics of Egyptian governance, such as introducing some liberalisation measures in certain periods of time, say the late 1960s, between 1974 and 1976, and in the early 1980s, then retracting them in others.

This study accepts the second explanation, but argues that whilst it sheds more light on the dynamics of de-liberalisation in the 1990s, it does not fully explain its scope. The battle with the Islamists did not necessitate the closure of the main channels of political expression (political parties, syndicates...etc), particularly those in the hands of secular forces. Regional and international developments (from the Gulf War to the fall of the USSR) had demoralised and weakened the opposition to the regime on nationalist or leftist grounds by the early 1990s, when most of the de-liberalisation measures were introduced. The militant Islamist threat from 1992 onwards had turned to a security, not a political threat. It can therefore only be a pretext for, not a cause of, the active state control over civil society.

Instead, this study argues that the scope of de-liberalisation can be understood against the backdrop of the steady erosion of the social base of the Egyptian state during the 1990s. The 1980s, as I argued in the previous chapter, witnessed a reinforcement of the alliance between the upper echelons of the state bureaucracy and the haute bourgeoisie, and the relative marginalisation of the middle and working classes. The resulting balance of power was, naturally, reflected in dividing the burdens of economic retrenchment. The subsequent transformation of the Egyptian state from a quasi-Keynesian *étatisme* to a neo-liberal state, as Ghoneim (2005:9) argued, broadened the prospects for social and class conflict and eroded the state's ability to mitigate it.

The de-liberalisation measures were an integral part of a process of reinforcing the ruling alliance's control over the state, and the exclusion of, and shifting the burdens of economic restructuring to, social strata that had hitherto been amongst the beneficiaries of *étatisme* in Egypt. The resulting erosion of the social base of the state was reflected in three developments: a) the increasing role of the haute bourgeoisie in the direct governance of the state, and the deepening of their alliance with the upper echelons of state bureaucracy; b) the withdrawal of several social and economic gains that the workers and peasants have acquired during the populist-statist years; and c) the increased marginalisation of the urban middle classes.

The weight of the haute bourgeoisie in the ruling elite increased significantly in the 1990s. Government-business joint commissions continued to increase not only in number, but also in their political role. The early 1990s witnessed the creation of a series

of government-business councils between Egypt and her main economic partners, most notably the Egyptian-American Businessmen Council, whose spokesman was Mubarak's own son, Gamal, later to be groomed to succeed him. These forums often exceeded their main function of discussing bilateral economic relations to coordinating policies, and sometimes even discussing political relations. Businessmen were frequently invited to accompany Mubarak and his foreign minister on their external trips. Increasing numbers of businessmen gained parliamentary membership, especially after the 1995 parliamentary elections – considered by many observers the least democratic since the restoration of multi-party system in 1976– and then moved on to join key economic and legislative parliamentary committees (Mitchell 1999; Kienle 1998). Thus, the 1990s witnessed the early beginnings of a slow process through which the very essence of the alliance of the haute bourgeoisie and bureaucratic bourgeoisie, hitherto based on the former's support for and partnership in economic restructuring without demanding a significant share in government was changing, with consequences that I will return to later in this chapter.

This rise of the haute bourgeoisie was facilitated by the deepening of its ties with the upper echelons of state bureaucracy. Several mechanisms enforced these ties – some legal, others not quite. One such mechanism was the creation, within the programme of privatisation, of several joint-ventures between public and private sectors, whose directors invariably came from the public sector. These directors received ludicrous salaries and benefits in these profit-making joint-ventures whilst maintaining their

positions in their loss-incurring public sector enterprises (Ghoneim 2005:111-112)¹³². Critics argued that these vast benefits were in fact the price of transferring profits from the public sector enterprises to the newly-created joint-ventures.

Second, in the name of encouraging investment, state-owned land was sold at nominal prices to businessmen, and credit was offered by government-owned banks to businessmen without requiring guarantees. By 1998, 64% of the total credit provided to businessmen was offered without any guarantees (Abdel Fadil 2000). Thus, the 1990s witnessed the rise of some thirty business tycoons who, Hirst (1999) argued, thrived off two worlds: the freedoms of the new economy and the favours of bankers and high functionaries in the old state-controlled one.

Both the haute bourgeoisie and the bureaucratic bourgeoisie flourished during the early 1990s. The workers and peasants did not. They had to bear the costs of restructuring. The transformation from *étatisme* to a neoliberal state was nowhere reflected as clearly as it was in the erosion of the benefits of *étatisme* to the workers and peasants. Law 203 of 1991, the public business sector law, which replaced law 97 of 1983, required that the workers should have a share of no less than 25% in the companies' profits – compared to at least 50% in the earlier law. Article 3 of the same law required that the workers have one representative in the board of directors – a violation of article 36 of the constitution, which required a 50% workers' representation in the board of directors of public-owned enterprises (Ghoneim 2005: 101-102).

¹³² This indeed was a revival of one of the key mechanisms adopted during *infatih* years (cf.: chapter III).

Thus, in the 1990s, workers faced the pressures of: a) a stagnating economy, with annual real GDP growth rate below 1% until 1993, before rising to the 2-3% range between 1994-1996, and eventually to 5% in 1996/1997 – staying well below the 8% required to maintain the current unemployment levels (El-Sayed et.al 2001:7); and b) a new legal framework that eroded their share in companies' profits and management. They protested. The annual number of strikes rose from 8 in 1990, to 26 in 1991, 28 in 1992, and 63 in 1993 (Kienle 1998:233).

The level of workers' protest throughout the 1990s, however indicative of the regime's alienation from one of its key support bases, did not seriously threaten political stability. In part, this was because the 1990s were the years when thousands of workers were "bought out" of the labour force by the early retirement packages as part of the privatisation process. Many workers accepted these packages because with their low wages, and the wilful decline of their industries due to the government's decision, as part of its new fiscal policy, to stop investing in public-owned industries, the temptation of cash was too great. On average, between 50 and 100 thousand workers "retired early" every year between 1993 and 1998 (CSS 1999:23).

On the other hand, Law 96 of 1992 amounted to what many argued was a rolling back of the agrarian reform laws of the 1950s and 1960s. It stipulated for a full overhauling of the relationship between landowners and tenants, hitherto based on fixed rents at a rate equal to seven times the land tax. According to the new law, the land rents were allowed to triple between 1992 and 1997, and from October 1997, all old rent contracts were

terminated, tenants lost all legal rights to the land they have lived off for decades, and were required to negotiate new tenancy agreements in which the rent was to be determined solely by market forces (Ashmawy 2001:225-248).

This law led to an immediate increase in the cost of living for tenants, representing the large rural lower-middle classes, numbering some 7 million with their families (Ghoneim 2005:114-115), and to further erosion of the social base of the state. This was further reinforced as the government resorted to its security apparatus to force the implementation of this law amidst large protests from those affected thereby. Hundreds of protesters were arrested under the emergency law, particularly in Gharbeya and Menya governorates (El-Naggar 2005:20). Many were forced off the countryside altogether, contributing to the ever-increasing illegal and unplanned slums that encircled Cairo, which comprised some 84% of the accommodation built since the end of the 1980s (Hirst 1999), and joining the informal economy.

Finally, the impoverishment and alienation of the urban middle class was deepened during the 1990s. Mitchell (1999) noted that real wages in the industrial public sector dropped by 8% per annum from 1990/1991 to 1995/1996. Other public sector wages that stabilised during these years were effectively below a living wage, amounting to less than 2 dollars a day for a schoolteacher or other public sector employee. Household expenditure surveys showed a sharp decline in real per capita consumption between 1990/1991 and 1995/1996 and an increase in the number of people below the poverty line over the same period from 40% (urban and rural), to 45% in urban areas and 50% in the

countryside. Between economic entrenchment and political repression of civil society and political parties (hitherto the main outlet for middle class political activity), the middle class was increasingly alienated from the rapidly eroding social base of the regime.

Mubarak's regime subscribed to the notion that the erosion of the social base of the emerging neoliberal state will be reversed as the growth rates "take off". The appointment of a new government in 1996 was meant to launch this "take off". For the first two years of this government, economic performance was mediocre, never approaching the required 8% to maintain the current unemployment rate, let alone reduce it. Later on, the financial crisis that extended between 1997 and 1999 from Asia to Russia and Latin America began to take its toll on the Egyptian economy, which entered a new resource-crisis and began experiencing stagflation for the first time in modern Egyptian history¹³³.

The political significance of this crisis was twofold: a) that the years of "troubled liberalisation" have come to an end with no significant economic benefits for the majority of the population; and b) that the resource crisis came at a time when the social base of the state had significantly eroded, making further entrenchment politically risky. The political risk was made all too clear when, in the 2000 parliamentary elections, for the first time since the restoration of multi-party system, the ruling party failed to gain the parliamentary majority. NDP won 170 from 444 parliamentary seats (a massive drop from 410 seats in the previous parliament). Opposition parties won sixteen seats. The

¹³³ I will return to this in subsection 2.2 below.

Muslim Brotherhood won seventeen seats. The rest (256 seats) were won by independents, reflecting public distrust not only in NDP, but also in the restricted partisan life as a whole (Abdel Latif 2001:276-277). That 218 “independents” joined NDP after the elections, giving it the much-needed majority, did not hide the fact that a serious political crisis was looming. The years of “troubled liberalisation” were over, and the extended crisis of governance, which continued since 2000, was only starting.

(1.2) Economic Structures and Policies

In spite of the short-term losses incurred by the Egyptian economy during the Gulf crisis, resulting from decreased revenues from tourism and workers’ remittances, the crisis presented the regime with the opportunity to generate enough strategic rent to embark on the second wave of restructuring. Confident of both the prospects for strategic rent-generation and the direction of restructuring, Mubarak announced a “1000 days” programme of economic liberalization as early as December 1990 (Lofgren 1993:411), two months before the Gulf War, five months before the actual signing of the standby agreement with the IMF in May 1991, and almost a year before obtaining the structural adjustment loan from the World Bank in November 1991. Together, the agreement with the IMF and the World Bank structural adjustment loan constituted the economic reform and structural adjustment programme (ERSAP) that signalled the beginning of the second wave of restructuring of the Egyptian political economy¹³⁴.

ERSAP comprised four main components: a) macroeconomic reforms, b) public enterprise reform, c) domestic price liberalization, and d) foreign trade liberalization.

¹³⁴ The following description of the main pillars of ERSAP is adopted from Abdel Khalek (2001:44-50).

Macroeconomic reforms involved i) a fiscal policy aiming to trim off the double digit fiscal deficit to a mere 1.5% by 1996, via a reduction of public expenditure, and a substantial hike in public revenues through the introduction of a broad range of indirect taxes; and ii) a monetary policy involving liberalising interest rates, eliminating all credit lines between the central bank and the government, creating a market for treasury bills, devaluation and simplifying the exchange rate system.

The centrepiece of public enterprise reform was the law 203 of 1991, discussed in the previous subsection, amongst the implications of which was the increased financial and administrative autonomy of company managers whose sole objective was now to maximise profitability. Domestic price liberalisation meant primarily raising domestic prices of petroleum and electricity prices. Measures in the agricultural sector included the removal of the delivery quota for rice, bringing cotton prices closer to world prices, and most importantly, law 96 of 1992, discussed in the previous subsection. Finally, foreign trade liberalisation involved two sets of measures: reducing import bans, and a general lowering of tariffs.

The outcome of the first five years of ERSAP was ambivalent. The macroeconomic success was unequivocal with budget deficit reduced to less than 1% of GDP, inflation reduced to 5%, its lowest level for more than two decades, and foreign currency reserves were at a record \$20 billion (Springborg 1998:33). The real economy, however, remained stagnant with very low growth rates and rising unemployment. The regime responded with a forward leap aimed at deepening the restructuring measures with the appointment

of Kamal El-Ganzouri's government in 1996, which announced that the stabilisation phase was successfully concluded, and that economic take off was about to start.

El-Ganzouri announced shortly after his appointment that his government's priorities would be: a) achieving an annual growth rate of more than 7% within two years; b) tripling exports within five years to redress the trade deficit; c) encouraging investments and speeding up privatisation and d) increasing the national savings rate from 18% to 25% (EIU 1997:16-17).

The actual economic performance of El-Ganzouri's government fell short of these goals. Growth rate never exceeded 6% in its first two years. Exports stagnated and failed to cover more than 29.7% of the imports bill. Imports on the other hand increased by a staggering 70.4% from \$1.7 billion in 1996 to \$2.9 billion in 1997/1998 (El-Naggar 1999:28). The resulting trade deficit put pressure on the exchange rate, forcing devaluation in 1998 (El-Gebaly 1999:28). The private sector achieved only 52% of the investments targeted in the quinquennial plan (1997-2002), with the industrial sector particularly lagging, achieving only 26% of its targets (Ghoneim 2005:95). This was not compensated for by public sector investments, which, as a percentage of GDP, had halved during the first five years of the 1990s and continued to decline thereafter (Ibid:149). Far from launching a productive take off, the share of commodity producing sectors in total value added continued to decline, demonstrating unmistakable signs of the "Dutch disease" in the Egyptian economy (Abdel Khalek 2001:159). Unemployment rate

rose to an alarming 11.3%, according to official figures, with unofficial estimates doubling it (El-Sayed et.al 1998:110).

The string of financial crises between 1997 and 1999 from Southeast Asia to Russia and Latin America exacerbated the weaknesses of Egypt's real economy, gradually spilling over the macroeconomic level, and threatening to roll back the gains of the stabilisation phase. A wave of cheap imports flooded the Egyptian market, increasing the trade deficit exponentially. A large drop in international oil prices from \$20 per barrel in 1996 to \$9 in 1998 resulted in a sharp decline in the state's revenues (Issawi 2007:181-182). Consequently budget deficit as a share of GDP increased rapidly from 1.5% in 1995/1996 to 2.9% in 1998/1999 to 3.9% in 1999/2000 – almost trebling in less than four years (El-Naggar 2005:63). The increasing trade and budget deficits pressured the Egyptian pound. To defend the exchange rate, the government was forced to use the international reserves which declined subsequently from \$20.3 billion in 1996/1997 to \$18.6 billion in 1999 (Ghoneim 2005:97). By the end of the 1990s, the government was facing a second resource crisis and a stagnating economy.

The transformation to the neo-liberal state was almost complete, but at the cost of alienating large social strata, and with no fulfilment of the take off promise. This was reflected in the patterns of distribution of the burdens of ERSAP and the ensuing mediocre economic performance. It also rendered further economic retrenchment politically risky. With the regime's ability to mobilise resources through its foreign policy eroding, as I will argue in subsection 1.4 below, resources had to be mobilised

domestically, however politically risky that might be. This was how the troubled liberalisation of the 1990s ended and the governance crisis of the 2000s began.

(1.3) Ideology

The second wave of restructuring started amid a set of regional and international developments that not only furnished the resources needed to embark on ERSAP, but also weakened any domestic opposition to the transformation from *étatisme* to a neo-liberal state. The Iraqi invasion of Kuwait and the subsequent demolition of Iraq in the war discredited radical pan-Arabism. The simultaneous developments in Eastern Europe and the fall of the USSR discredited command economies. Combined, these developments furnished the government with the opportunity to justify both its foreign policy during and after the crisis, and the neoliberal path of restructuring the political economy on grounds of lack of any viable alternatives. The government's discourse emphasised a mixture of the technocratic argument employed frequently by Mubarak's regime since the 1980s –that technical, apolitical macroeconomic reforms were chosen exclusively on their problem-solving efficiency, not their ideological significance– alongside a local variation of Margret Thatcher's famous TINA ('There is no alternative') slogan¹³⁵.

Thus, the scope of political debate was narrowed, with most of the public discussion about economic restructuring casted in the abstruse terminology of neoclassical economics (Mitchell 1999). The government's argument, reiterated vehemently in the regime's press, was threefold: a) that Egypt's economic ailments were the product of the

¹³⁵ In so doing, the Egyptian regime was invoking a recurrent argument that prevailed in several parts of Eastern Europe, to justify similar measures. Cf.: Kagarlitsky (1999); Callinicos (2001).

inefficiencies of *étatisme*, b) since 1967 *étatisme* became evidently unworkable, and c) the restructuring steps taken since *infitah* were too limited to produce meaningful reform (Bromley & Bush 1994:203).

Unlike ERSAP, Egypt's foreign policy during the Gulf Crisis was more intelligible, thereby more controversial. A Nasserist, Islamist, and leftist counter-consensus emerged, condemning the regime's foreign policy and accusing it of being a pawn of American imperialism. The government's first response was to enforce the "personality cult" that began to develop since the beginning of Mubarak's second presidential term in 1987. Thus, the state-owned media trumpeted, on the occasion of the tenth anniversary of Mubarak's accession to presidency, his "masterly and statesmanlike" management of the crisis, occasionally leaking to the media stories about his firm opposition the Americans' attempts to develop the "Desert Storm" offensive into Iraqi territories. Mubarak was therefore depicted as the wise statesman, committed to "moderate pan-Arabism" – fulfilling his obligations towards Kuwait under the Arab Joint Defence Treaty, whilst standing firmly against any American intentions to invade Iraq (EIU 1991c:10).

The government's campaign was unsuccessful, however, particularly in the face of Islamists' accusations of complicity with the deployment of the "infidel" troops in the "holy lands". The Islamists' attacks, being an integral part of their violent offensive throughout the early 1990s, merited a stronger response.

The government employed the same strategy that it used in the early 1980s, defining Islamists as the immediate danger, and invoking a public relations manoeuvre to co-opt the secular opposition. The economic conference of 1982 and the “parasitic explanation of Egypt’s economic predicament” served that purpose in the 1980s. In the 1990s, the centrepiece of the new public relations exercise was “defending the civic nature of the Egyptian state”. A series of publications, comprising a mix from early writings of “Egyptian renaissance” and critiques of the Islamists by modern-day seculars, appeared in the markets in 1992 and 1993. The series was titled *al-muwajaha* (the confrontation), and its books were sold at nominal prices (Soliman 2005:86-87).

The assassination of the secular writer Farag Fouda, the assassination attempt on Egypt’s most celebrated novelist Naguib Mahfouz, as well as numerous burnings of theatres and bookshops in Upper Egypt during the early 1990s, played a key role in convincing the secular intelligentsia (particularly its culturally influential leftist prong) to accept, if only tactically, the “lesser evil” of Mubarak’s secular regime and to focus on preventing the advent of an Islamists’ theocracy. This was particularly evident in the discourse of NPUP’s newspaper *Al-Ahali*, as well as the increasing number of contributions of leftist intellectuals in government press’s attacks on the Islamists, particularly in the weekly magazine *Rose Al-Youssef*, which under the editorship of Adel Hammouda during the early 1990s was devoted to the battle with the Islamists. A new “political contract” was formed between the regime and the secular intelligentsia, based on the primacy of the Islamists’ threat, and the need to defend the “civic nature of the state”.

This “political contract” formed the basis of a “national dialogue” conference called on by Mubarak in 1994, with the stated goal of “determining the priorities of the development needs and national security” (El-Kora’y 2000). Islamists were virtually excluded from the invitation¹³⁶, and notwithstanding the conference’s ambitious claims, the developmental questions (e.g. debating the neoliberal restructuring) were virtually neglected, and the conference focused on the “civic question”.

On the longer term, however, the emphasis on secularism was not sufficient to face challenges to the government’s legitimacy by the mid-1990s, when the social implications of ERSAP began to unfold. As the social base of the state rapidly eroded, the secular left resumed its attacks on the government’s social and economic policies, going as far as to blame these policies for the rise of fundamentalism.

The government’s ideological Achilles’ heel, however, was more its foreign, than its domestic policy. The Gulf-centred Arab role celebrated by the regime’s press since the late 1980s was dealt a serious blow with the fall of the Damascus declaration. The Madrid peace process, insofar as Egypt’s regional role was concerned, raised more questions than it answered. The first question was existential – questioning the need for Egypt’s role as a mediator between the Arabs and Israel, now that the latter are involved in direct negotiations. The second came with Shimon Peres’ (1993) much-publicised argument that the peace process would lay the foundations for a new Middle East in which Israel leads with her technological superiority, entering in a partnership with the

¹³⁶ Only Islamist intellectuals with traditionally close relations with the regime, such as Ahmed Kamal About Magd, were invited. Islamist activists and members of the Muslim Brotherhood were not.

vast capital of the Gulf States and Egypt contributing cheap labour. This argument was reiterated by Peres in the MENA conferences¹³⁷ in Casablanca in 1994 and in Amman in 1995, inviting a harsh response from Egypt's outspoken foreign minister Amr Moussa (Satloff & Pipes 1996). The threat of being reduced from the regional leader to a mere supplier of cheap labour to a region run by other powers led to an intense debate amongst intellectuals, diplomats and politicians on the "role of Egypt"¹³⁸. Nationalists accused the government's foreign policy of squandering Egypt's regional leadership, and turning the country to an American satellite. A nationalist public opinion which is highly critical of the *Pax Americana* emerged in Egypt, and many intellectuals were re-discovering Nasser (cf.: Jacquemond 1997). On the other hand, Lutfi El-Kholi (1994; 1995) led a small group of intellectuals calling for a new "Middle Eastern" identity, and arguing that "normalisation" with Israel is inevitable¹³⁹.

The government's response to the accusations of squandering Egypt's leading role in the region was ambivalent, and on occasions self-contradictory – denying the accusations whilst appeasing the accusers, and occasionally throwing the neoliberal argument that everything will be alright as soon as the economy takes off.

Thus, the regime's first reaction was to deny that Egypt's role is eroding. Mubarak's political advisor Usama El-Baz (1996) edited a book to which influential writers and the regime's ideologues contributed chapters denying the erosion of Egypt's leading role,

¹³⁷ The Middle East and North Africa (MENA) conferences constituted the economic side of the multilateral prong of the peace process.

¹³⁸ See: Abou Taleb (1996); El-Kholi (1994; 1995); Said (1995, 2000); El-Baz (1996); El-Dessouki et.al (1999); Salama (1995); Jacquemond (1997); El-Mashat (1995).

¹³⁹ See also: Said (1995; 2000).

which was a “structural trait” that no other country possessed, and promising brilliant prospects after the economic take off. The official media trumpeted every trip by Mubarak as another sign of Egypt’s international indispensability. The government’s discourse emphasised that the peace process, far from undermining Egypt’s regional influence, is in fact the necessary condition for Egypt’s economic development (Fathi 2003:154).

In the meantime, the regime sought to appease its nationalist critics, which were rapidly growing in number and in influence. Thus, the government-owned television produced a popular movie on Nasser and two movies on Egypt’s military deeds in the wars with Israel¹⁴⁰. Celebrations of the anniversaries of 1952 and the nationalisation of the Suez Canal became more elaborate, and several of the regime’s foreign policies were dressed in Nasserist robes by the official press (Doran 2001:117). Finally, Egypt’s foreign minister became increasingly outspoken and critical of Israel and the US, gaining a level of popularity that none of his predecessors ever enjoyed.

The self-contradictory discourse on Egypt’s national role was also reflected in realm of policies. Thus, Amr Moussa would criticise what he called “*al-harwala*” (the scramble) towards Israel in the MENA conferences in Casablanca and Amman, arguing fervently that “normalisation” cannot precede the conclusion of final, just and durable peace agreements between Israel and the Arabs (Satloff & Pipes 1996), before moving on to host the third MENA conference in Cairo in 1996.

¹⁴⁰ These were: *Nasser 1956* by Mohamed Fadel, *Hikayat El-ghareeb* (tales of the stranger) and *Al-Tareeq ila Eilat* (the road to Eilat) by Ina’am Mohamed Ali.

His defence was that the conference was important to promote foreign investment in Egypt, and that Egypt would not turn it into a “normalisation” conference. However unconvincing to his critics, it was indicative not only of the regime’s “role crisis” and bewilderment vis-à-vis the legitimacy challenge put forth by its foreign policy choices, but also of the government’s conviction that economic growth remains the ultimate priority of all state policy. Anything could, in the last resort, be justified on grounds of promoting economic growth, which, according to the regime’s neoliberal orthodoxy, would eventually trickle down to all social strata, resolving Egypt’s economic predicament.

In the same vein, the government returned to its long-deserted strategy of issuing ideological pamphlets. For the first time in 23 years, El-Ganzouri’s government issued in March 1997 a document entitled “Egypt and the twenty first century”, claiming to set forth a grand strategy for a “long term renaissance”, and outlining Egypt’s plans until 2017 (Issawi 2004:299; Aouda 2004:118-125). Its main problem, however, was that it tried at once to announce a new phase in Egypt’s economic development, whilst stating that all the policies it advocated are those that Egypt had already been adopting in the previous 16 years of Mubarak’s rule. Paradoxically, the document argued that a new qualitative leap in economic performance was going to happen as a result of adopting the same policies of the previous 16 years (Issawi op.cit.). In essence, it amounted to little more than reiterating the positions outlined in the 1974 *October paper* (Aouda 2004:123).

Expectedly, it was neither convincing nor capable of raising expectations, let alone resolving the regime's legitimacy problem. It was quickly dropped from the government's discourse, and was hardly referred to again within less than a year. It became even less relevant as the economic slowdown hit and the resource crisis surfaced anew by the late 1990s, thereby confining all references to this document to sardonic articles by opposition writers comparing the ambitious rhetoric of the document with the disappointing economic realities.

On the other hand, the aforementioned regional developments and the confused attitude towards the Middle East peace process and the question of "normalisation" rendered futile any attempt to rely on foreign policy to restore the regime's hegemony. Between a poor economic performance, an eroding social base of the state, and accusations of squandering Egypt's leading role in the region, the regime was facing a serious hegemonic crisis by the end of the 1990s, manifested by the NDP's unprecedented failure in maintaining its parliamentary majority in the 2000 elections. This was also when the economic resource crisis surfaced anew, bringing to an end the "troubled liberalisation" years and signalling the onset of the "crisis of governance" of the 2000s.

(1.4) Foreign Policy

Realising the rent-generation prospects of the Gulf Crisis, Mubarak moved quickly to identify himself with the war. Hence, in addition to hosting an Arab summit on August 10th 1990, in which he forced through the "US-led forces" option, and refused to allow discussion, amendments, or votes for alternatives (Hinnebusch 1994:170-171), two

armoured divisions and a commando regiment were in the frontline at the start of the war. With around 27000 men in Saudi Arabia, and another 5000 in the UAE, Egypt furnished the second largest contingent in the Gulf war after the United States (EIU 1991a:8). Egypt's foreign policy during the Gulf Crisis rendered substantial, albeit conditional and indeed one-off economic dividends, and was instrumental in facilitating the second wave of restructuring. However, it was deleterious to the regime's hegemony, with Islamists, Nasserists and leftists accusing the government of being the conduit of American imperialism in the region.

Unlike the first wave of restructuring, the second wave was neither conducted against the backdrop of a major legitimacy-building event like the October 1973 war, nor amidst a significant financial bonanza. As a result, for the first time since the beginning of restructuring in the 1970s, the two functions of Egyptian foreign policy had to be performed almost simultaneously.

Participation in the US-led coalition secured rent-generation. Restoring the damage caused thereby to the regime's legitimacy was more complicated. The official discourse, emphasising that Egypt's participation in the war was in compliance with her "contractual obligations" under the Arab Joint Defence Treaty (Ibid.), was not sufficient to face the growing counter-consensus against the war. The government needed to be seen as a partner in the post-war security arrangements, not, as the opposition claimed, a mere client of the US. To this end, on March 6th 1991, few days after the guns fell silent, Egypt, Syria and the six members of the Gulf Cooperation Council (GCC) signed the

Damascus declaration, which was designed to be the back-bone of an inter-Arab post-war security arrangements. Stipulating that the Egyptian and Syrian forces should constitute the nucleus for an Arab peace force to guarantee the security and safety of the GCC countries, the declaration involved, at least in theory, a barter of Gulf oil wealth for Egyptian and Syrian military power, and furnished a clear role for Egypt in the Gulf region (EIU 1991b:7). Moreover, Egypt and Syria were to benefit from the formation of a \$1 billion Gulf development fund – a seemingly perfect combination of the two functions of Egypt's foreign policy.

From its first days, however, implementation of the Damascus declaration was replete with problems (Hillal-Dessouki 1992:34), eventually rendering it ineffectual. The Gulf States quickly changed plans, opting for bilateral security agreements with the US and other European countries. As a result, on May 8th 1991, Mubarak decided abruptly to start withdrawing the Egyptian troops from the Gulf. The Gulf development fund never materialised. The Damascus declaration was all but dead. Egyptian newspapers were criticised the “ungrateful” Gulf States (EIU 1991b:9), but it was clear that a Gulf-centred Arab role was not possible, and the attempt to restore the regime's hegemony through the Damascus declaration had failed.

As a result, the regime shifted its attention to the Levant, focusing on the Middle East peace process, and pledging to contribute to the resolution of the Arab Israeli conflict. Mubarak announced that achieving peace is Egypt's top foreign policy priorities, and foreign minister Amr Moussa claimed that Egypt with her working relations with all

parties, including Israel, is best suited to be the broker of negotiations (Hillal-Dessouki 1992:34). This served the twin purposes of giving Egypt's regional role a new mission, and validating the regime's choice for peace, now that the Arab states were following Egypt's footsteps and engaging in direct negotiations with Israel. Thus, Egypt took a central part in an intensive round of diplomacy in preparation for the Madrid peace conference, during which, Cairo was a prime destination for a succession of statesmen including US secretary of state James Baker and his Soviet counterpart Boris Pankin (EIU 1991c:8).

Recognising that there are no real prospects for an Egyptian mediating role in the Jordanian, Syrian, and Lebanese negotiating tracks, the Egyptian role was effectively confined to the Palestinian track. However, between Egypt's limited ability to deliver any significant pressure on Israel, and the establishment of a secret negotiations channel between the PLO and Israel in Oslo, even this role became increasingly problematic.

The peace negotiations developed along two tracks: a) a bilateral track devoted to the conclusion of peace agreements between Israel and each of Jordan, Syria, Lebanon the Palestinians, and b) a multilateral track addressing regional economic cooperation, disarmament, water management, and so forth. As the peace process progressed, Egypt appeared to have worked herself out of a job. The Arabs were already engaged in direct talks with Israel, and the latter was actively pursuing an economic diplomacy to end the Arab economic boycott to Israel and was achieving important breakthroughs with Jordan, Morocco, Tunisia and some Gulf countries (Gerges 1995:70). Not only did this raise

serious questions about the need for an Egyptian mediatory role between parties negotiating directly, but it also questioned the future role of Egypt as a regional leader.

In the first of the MENA conferences in Casablanca in 1994, Shimon Peres mocked Egypt's political and economic agonies, arguing that 40 years of Egypt's leadership brought failures to the Arab world, and promised significant improvements as Israel takes the reins of leadership in the region (Ibid.:71). Amr Moussa replied harshly, criticising both Peres' ridicule and the Arab states' scramble "*harwala*" towards Israel (Satloff & Pipes 1996). However, the damage to Egypt's pride, and to the regime's legitimacy, was done. The opposition accused the regime of dissipating Egypt's regional leadership with its misguided foreign policy choices. The resulting role-crisis was reflected in the intense debate on Egypt's role, discussed in the previous subsection.

Paradoxically, when the hawkish Benjamin Netanyahu replaced Peres as Israel's prime minister, bringing the peace process to a complete standstill, the role-crisis only intensified. It appeared that Egypt was losing in both scenarios. In Peres' Middle East there was hardly any place for Egypt. In Netanyahu's, there were no prospects for the peace process itself. In the former case, Egypt's pride was hurt. In the latter, the *raison d'être* of her foreign policy for over two decades was discredited.

Ideologically, the regime's ambivalent response combined, as I argued in the previous subsection, denial of the accusations of squandering Egypt's regional leadership with the appeasement of its critiques with a "quasi-Nasserist" pro-Arab discourse. In the realm of

policies, this was reflected in the regime's attempt to perform a tight-rope act, reiterating its commitment to the peace process and the main tenets of Egypt's foreign policy since 1979, whilst outspokenly criticizing Netanyahu and calling for a freeze of "normalisation" with Israel.

Thus, shortly after co-hosting with the United States a "peace summit" in March 1996 to rescue the peace process from the verge of collapse (EIU 1996:16), Egypt convened, in the aftermath of Netanyahu's election in 1996 an Arab summit designed to place the new Israeli government before an Arab consensus. This was the first summit since the great rift between the Arab states in the 1990 summit in Cairo. It was dubbed by the local press "the solidarity summit" and presented in Nasserist shades (Doran 2001:117).

In the same vein, Egypt hosted the third MENA conference in Cairo, in spite of her critique of "*al-harwala*" during the previous conferences, and before moving on to boycott the fourth MENA conference in Doha in November 1997 (Tabler 1998:174) – an act which contributed to the cancelling of MENA conferences altogether. Finally, in April 1997, the Arab League Council passed a resolution, proposed by Egypt, to cease all forms of "normalisation" with Israel (Yassin 1997:16). Ironically, the resolution included a special waiver for the Egyptian government, allowing for its "contractual commitments" according to the Camp David accords, thereby rendering the "hegemony restoring" aspects of the resolution futile.

However unsuccessful these self-contradictory attempts were to restore the regime's hegemony, they subjected Egypt's strategic alliance with the United States to considerable tension. The decision to boycott the Doha conference particularly strained the ties with the US administration. The American press became increasingly critical of Egypt, publishing embarrassing stories about Egypt, and outlining a lengthy list of differences between Egypt and the US – from Egypt's relations with Libya, to her opposition to the US calls for tougher sanctions on Iraq, and the congressional accusations to Mubarak's regime of persecuting the Coptic Christians (EIU 1997:16). More importantly, when considering foreign assistance in 1997, the senate committee on foreign relations omitted the annual \$2.3 billion earmarked for Egypt. This was ultimately restored in the final version of the bill, but only after it was reduced by \$50 million (given to Jordan) and the US administration had pledged to gradually phase out the economic assistance (Springborg 1998:37). This decision did not only demonstrate the limited prospects for the rent-generation function of Egypt's foreign policy, but it was also indicative of Egypt's role-crisis.

Thence, the government was neither capable of buying off political support of the alienated social strata, nor of justifying, as it did during Nasser and Sadat's years, economic difficulties through foreign policy achievements. This spelled the end of the "troubled liberalisation" years, and the beginning of the "crisis of governance".

2- The Crisis of Governance 2000-2008

The troubled liberalization years of the 1990s gave way to an acute social and political crisis in the 2000s. The continuous erosion of the social base of the state throughout the 1990s resulted in NDP's unprecedentedly poor performance in the 2000 elections, and in a string of political crises thereafter. The economic slowdown led to an unprecedented rise of social and political protest, especially with the regime's inability to count on diplomatic acumen to secure its hegemony or generate enough rent to relieve the social costs of the crisis.

Also, the crisis of governance since 2000 developed against the backdrop of an unfavourable international environment. Several regional and international developments, from the second *intifada* in September 2000, the September 11th 2001 terrorist attacks, to the US invasion of Iraq in 2003, not only exacerbated the regime's hegemonic crisis and gave further reasons for political protest, but also created external pressures on the regime to undertake political reforms. Caught between external pressures for change, mounting domestic protest, and the prospects of a sudden political vacuum at the top, as Mubarak approached his 80th birthday with no designated vice-president, the questions of political change and succession dominated the political scene in Egypt throughout the 2000s.

In what follows, I shall seek to outline the dynamics of the unfolding crisis of governance since 2000, and the regime's attempt to address the questions of change and succession, whilst deepening, in spite of a rapidly eroding social base, the second wave of restructuring.

(2.1) The State

Egypt's prospects at the dawn of the millennium looked gloomy. The first decade of the second wave of restructuring had alienated most of the traditional support bases of the regime. The protest of the alienated strata mounted, particularly as the economic slump exacerbated the social cost of restructuring, and stagflation intensified after two successive devaluations of the Egyptian pound in 2001 and 2003. Not only was this reflected in the alarming results of the 2000 elections, but also in the violent protests that broke at the wake of the second intifada in September 2000, in which such biting anti-regime slogans as "*Husni Mubarak zay Sharon, nafs el-shakl wa nafs el-lon*" (Husni Mubarak is like Sharon, same looks, same colours), and "*Thawra Thawra hata al-nasr, Thawra fi Filasteen we fi Masr*" (Revolution, revolution until victory! Revolution in Palestine and Egypt) (El-Ghobashy 2003a), were indicative of the scope of the regime's hegemonic crisis. These were arguably the largest anti-regime demonstrations and the harshest slogans since the 1977 bread riots (EIU 2002a:15). That is, until March 20th 2003, when demonstrators took-over Tahrir square in the middle of Cairo, for the first time since 1972¹⁴¹. Like the 2000 demonstrations, the demonstrators' slogans were as much against the regime's domestic policies as they were protesting the assault on Iraq.

Meanwhile, after September 11th 2001, and particularly after the invasion of Iraq in 2003, the Bush administration showed a greater inclination to pressure Mubarak's regime on political reform (Hamzawy 2004), especially amid growing international concerns about a possible sudden vacuum at the top of the regime (Rodenbeck 2003:42).

¹⁴¹ Even in the 1977 bread riots, demonstrators were not allowed to reach Tahrir square. See (Schemm 2003).

The regime's reaction to these mounting domestic and international pressures was threefold: a) announcing its refusal to succumb to any pressures and insisting on its "Egyptian particular path" to reform, based on deepening the second wave of restructuring *étatisme*; b) consolidating its ruling alliance, based on the continued rise of the haute bourgeoisie, and its direct participation in governance; c) addressing the question of political succession so as to guarantee, political stability and the continuance of the second wave of restructuring *étatisme*.

A broad counter-consensus emerged in Egypt, covering liberals, Islamists and the left, on the main steps needed to realise the desired political reform, including direct presidential elections, limiting presidential terms and powers, terminating the emergency laws and reducing controls on civil society and political parties (Hamzawy 2004). Mubarak's regime ignored these demands, denouncing them as an "imported recipe for reform". The government argued that it is following an "Egyptian path to reform" based on continuing the reforms that Egypt had started since the 1990s. Only token reforms were conceded, including the appointment of Egypt's first female judge, the creation of a human rights council, and the designation of Coptic Christmas as a national holiday (El-Ghobashy 2003a:29). The governmental discourse maintained that once the economic reforms were concluded, a trickle-down effect would solve Egypt's economic agonies, thereby creating the basis for a safe transfer to full democracy (Hamzawy 2004). In other words, the government prioritised continuing the "second wave of restructuring", which, ironically, was essentially based on economic liberalisation and political de-liberalisation.

Meanwhile, the alliance of the haute bourgeoisie and the upper echelons of the bureaucracy was consolidated, and the share of the haute bourgeoisie in direct governance underwent a qualitative leap. The 2000 elections witnessed not only an increase in the parliamentary seats held by members of the haute bourgeoisie, but more importantly, for the first time since 1952, their rise to the chairmanship of key parliamentary committees, thereby giving a greater impetus to the process of restructuring.

The most important component of the regime's strategy of responding to the domestic and international calls for change, however, was the revamping of NDP shortly after the 2000 elections. A committee was formed by the president to restructure the party after the appalling electoral performance. A key member of this committee was Mubarak's own son Gamal, who was beginning to be groomed as his potential successor (Abdel Latif 2001:278). In the NDP's eighth conference in 2002, a group of younger technocrats, mid-career professionals and members of the haute bourgeoisie were injected in the newly-formed "Policies Secretariat" (PS) headed by Gamal Mubarak (El-Sayed et.al 2005:25-30), and the party raised the slogan "new thought" in this and all the subsequent conferences (Abou taleb 2004:425). In July 2004, the Gamal Mubarak-led "new guard" went a step further, with the formation of a new cabinet led by Ahmed Nazif, in which, not only were PS members appointed to the ministries of finance and investment, but also, for the first time since 1952, members of the haute bourgeoisie took office (EIU 2004b:14). Nazif's cabinet announced that its main priority is to redress the stagnating

economy, leaving very little doubt about the regime's commitment to the "primacy of economics" approach to the question of reform.

The formation of Nazif's government was also seen as a further step in Gamal Mubarak's presidential bid. In spite of his ambiguous dismissal of having "personal wishes to run for presidency", with a commanding share in government, and the PS chairmanship, as well as the position of NDP's undersecretary, Gamal Mubarak seemed ready for presidential candidacy in the 2005 elections. He was presented as the embodiment of the new ruling alliance (being both the son of a former military bureaucrat, and a businessman who spent most of his professional career as a banker and a manager of a private equity fund), and stories were leaked to the government-controlled press on the "need for a president like Gamal Mubarak"¹⁴².

Political protest rose almost instantly. In August 2004, only a few weeks after the formation of Nazif's government, the Egyptian Movement for Change, was formed, began protesting against what it saw as transforming Egypt to a "republican monarchy", and quickly became known by its slogan *Kefaya* (enough!) (Dunne 2008). The movement was joined by other middle-class movements that spanned the different strata of the middle class, and included students, independent political activists, journalists, judges¹⁴³, opposition parties, as well as the "National Rally for Democratic Transformation" which included several intellectuals, retired army officers and bureaucrats, and was headed by former prime minister and *étatisme* veteran Aziz Sidky (ICG 2005:9).

¹⁴² I will return to this point in section 2.3 below.

¹⁴³ Alongside *Kefaya*, other middle-class reformist organisations included: students for change, 9th of March university professors' movement, journalists for change, and the Judges' club.

The government responded to the mounting protests by calling, at the end of 2004, less than a year before the presidential and parliamentary elections, for a national dialogue. Political parties were invited. Middle-class protest movements and the Muslim Brotherhood were not. The political parties accepted to postpone their demand for constitutional reform until after the elections. *Kefaya*, other middle-class movements, and the Muslim Brotherhood refused, and continued protesting. On February 26th 2005, Mubarak succumbed to the pressure and called for the amendment of article 76 of the constitution to allow direct, multiple-candidates presidential elections (Madi 2009:152). This conceded one of the protestors' demands, whilst ignoring other, more radical demands such as limiting presidential terms and powers, terminating the emergency laws and appointing a vice president.

Fearing that the amendment might be yet another way of furthering Gamal Mubarak's presidential schemes, the middle-class movements escalated their bitter criticism of Mubarak and his potential heir. The level of political protest rendered Gamal Mubarak's presidential candidacy risky, especially that the reaction thereto of other centres of power in the Egyptian regime, particularly the army –the final arbiter in politics since 1952 – remained unknown. Thus, the question of succession was postponed and the 77 year old Mubarak ran for presidency, and was easily re-elected (Dunne 2008).

The 2005 parliamentary elections dealt another blow to Gamal Mubarak and his "new guard". In spite of all the hype about the "new thought" and NDP restructuring, the party performed even worse than it did in the previous elections, gaining 149 seats (down from

170). And in spite of the repeated claims by Gamal Mubarak that NDP would no longer tolerate the “rebels” who challenged its favourite candidates, the results forced him to swallow his pride and re-admit to the NDP 167 “independents” so as to secure its much-needed parliamentary majority (El-Amrani 2005).

Notwithstanding both setbacks, Gamal Mubarak’s “new guard”, with full support of, and close partnership with the haute bourgeoisie strengthened their political control. Thus in July 2005, a wholesale change of the editors of the state-controlled press brought the “new guard’s” favourite candidates to key opinion-forming positions (ICG 2005:24). In December, a cabinet reshuffle further increased the share of the haute bourgeoisie and Gamal Mubarak’s aides in the cabinet. PS members from the haute bourgeoisie were appointed to the ministries of trade and industry, health, tourism, housing, transport and agriculture. Gamal Mubarak’s technocratic aides took the ministries of economy, investment, and finance. On the other hand, despite the setback in the parliamentary elections, NDP (enforced by the “independents”) managed to elevate members of the haute bourgeoisie to the chairmanship of all the economic committees of the new parliament.

The continued and uninterrupted rise of the haute bourgeoisie since 2000 resulted in further alienation of another support base of *étatisme* – the workers. This was reflected in the law 12 of 2003 (the unified labour law) which increased the management rights to change or terminate contracts or reduce salaries and allowances, even below the minimum level of wages, for “economic reasons”. Workers hired after the law was

passed were denied all rights provided for by the previous labour laws of the quasi-Keynesian welfare state. Article 192 of the law, acknowledged the workers' right to strike, but required a long list of conditions that need to be met before the strike can take place, rendering it, as Ghoneim (2005:105) pointed out, practically impossible. The acceleration of privatisation processes under Nazif's government resulted in a sharp rise both in unemployment as well as the threat thereof for employed workers, thereby rendering them unable to negotiate pay rises to compensate for the strong inflationary pressures in the aftermath of two successive devaluations. Between law 203 of 1991, and law 12 of 2003, the workers' benefits from *étatisme* all but eroded. They protested.

Thus, the 18 months between 2003 and mid-2004 witnessed 161 workers' protests (strikes, sit-ins, hunger strikes, demonstrations and so forth). This was the beginning of what Benin and Hamalawy (2007) argued, was the longest and strongest wave of labour protest since the end of World War II. In 2006, the protests rose to 222 (Ibid.), then almost tripled in 2007 to 614, including 106 strikes, and 608 in 2008, including 122 strikes¹⁴⁴.

A series of foreign policy embarrassments, discussed in subsection 2.4 below, robbed the government of its ability to use foreign policy to restore the hegemony lost by the erosion of the social based of the state. The government, therefore, resorted to a second round of political de-liberalisation. From 2007, a series of de-liberalisation measures were introduced, ranging from arrests and a financial campaign against the Muslim

¹⁴⁴ The figures for 2007 were calculated from the statistics published by *El-Ard* centre for human rights (<http://www.lchr-eg.org>). The figure for 2008 was published by both *El-Masry El-yawm* and *El-Badeel* newspapers on 12/9/2009.

Brotherhood, constitutional amendments that removed the judiciary's role as electoral supervisor, and the extension of the state of emergency in 2008 (Dunne 2008).

As Mubarak turned 80 in May 2008, raising more concerns about a sudden power vacuum, the post-2000 crisis of governance was reaching a deadlock – with no signs of easing up. Indeed, on April 6th 2008, a call by some middle-class internet literate activists for a general strike, posted on *facebook*, proved exceptionally successful, and coincided with a general labour strike in the industrial city of Mahala, which quickly turned into massive and violent riots, in which some 20,000 protesters burned pictures of Mubarak, and engaged in street fights with the anti-riot forces. 100 were injured, and 331 were arrested on the same day – the largest single-day arrests since the antiwar protests in 2003. The prime minister visited Mahala a few days later, and announced in a speech before press cameras a one-month bonus for the workers because “they did not burn the factories” (sic.)¹⁴⁵.

With the sharp erosion of the social base of the Egyptian state, and the unprecedented levels of political and social protest from the alienated working and middle classes, the prospects for Gamal Mubarak succeeding his father, ensuring political stability and continuance of restructuring, remained unclear. As Dunne (2008) noted, after more than eight years of his political ascent, “succession fatigue” became palpable, with Gamal Mubarak increasingly looking like the Prince Charles of Egypt – forever in waiting. He has also been socked with the lion's share of the blame for Egypt's political and economic agonies, and questions were raised about a possible political struggle between

¹⁴⁵ This account of the April 6th 2008 incidents is adopted from El-Marghani (2008).

Gamal Mubarak and the haute bourgeoisie on one side, and the predominantly middle-class military bureaucracy on the other, in the case of a sudden power vacuum. Speculations on the results of such power struggle¹⁴⁶, apocalyptic predictions of chaos or implosion (Bradley 2008; Bizry 2009), and even calls by some members of the middle-class intelligentsia for the army intervention to stop Gamal Mubarak and the haute bourgeoisie from “taking over” the country,¹⁴⁷ abound.

Such is how the post-2000 crisis of governance developed, with the regime approaching the end of another term of its octogenarian president, amidst an unprecedented challenge to the regime hegemony, acute social and political crises, a series of foreign policy embarrassments, and a looming vacuum of power.

(2.2) Economic Structures and Policies

Egypt’s economic agonies in the early 2000s included an economic slowdown, a resource crisis resulting in mounting trade and budget deficits, and a limited ability to use foreign policy to generate resources, thereby forcing the government to mobilise domestic resources, and further eroding the social base of the regime.

The financial crises of the late 1990s had a profound effect on the Egyptian economy. First, with the decline in the international prices of hydrocarbons and derivatives, which accounted for more than 55% of Egypt’s export earnings (EIU 2008B:31), the capital flows to all emerging markets, including Egypt, and the Suez Canal revenues, the growth

¹⁴⁶ Cf: Dunne (2008); Rodenbeck (2003)

¹⁴⁷ I will return to these calls and the implications thereof in section 2.3 below.

rates steadily decelerated, from 5.1% in 2000 to 3.5 in 2001, to 2% in 2002 and 2.8% in 2003 (El-Naggar 2004:217). Second, the declining revenues exacerbated the budget deficit, to 5.6% of GDP in the fiscal year 2000/2001, to 5.8% in 2001/2002, 6.3% in 2002/2003 and 9.4% in 2003/2004 (El-Naggar 2005:63), eroding a key achievement of ERSAP, and fuelling inflationary pressures. A flood of cheap imports from the East Asian countries, whose currencies were devalued in the aftermath of the crisis, led to a staggering trade deficit averaging \$7-8 billion annually between 2001 and 2003. Together, the budget and trade deficits created mounting pressures on the exchange rate, forcing the government to undertake two successive devaluations. Thus on August 5th, the government devalued the Egyptian pound by 6.4%, the largest single-day devaluation in eight years (EIU 2001b: 19). When the devaluation had little impact on the economy, the government announced a full liberalisation of the exchange rate on January 1st 2003, leading to a further devaluation by 25% (Ghoneim 2005: 98).

In so doing, the government was both faithful to the neoliberal argument that devaluation would boost competitiveness of the Egyptian exports, which is the key to ending Egypt's economic predicament, and reflective of the social disposition and economic agenda of the ruling alliance. The results were, however, problematic. Since 72% of Egypt's consumer goods, foodstuffs, and industrial inputs were imported, the devaluation led to a skyrocketing of the prices for basic consumer goods, and the Egyptian economy showed symptoms of stagflation for the first time in Egypt's modern economic history (Ibid.). The rise in consumer price inflation also acted as an income distribution mechanism in favour of importers and business owners (who could offset the implications of inflation

by raising their sale prices) at the expense of the salaried middle and working classes, whose purchasing powers underwent a prolonged slide, and their frustration skyrocketed (EIU 2002a:7).

Furthermore, these inflationary pressures came on top of a liquidity crisis and a forced credit crunch, as a result of bad debts given by banks to members of the haute bourgeoisie with no guarantees (Gamal 2007a:3), estimated by the central bank of Egypt to constitute 14.4% of the total credit facilities of Egypt's banking sector (El-Naggar 2005:118), and double digit unemployment, feeding the rising social and political protest.

These economic problems were also particularly embarrassing politically to Gamal Mubarak and his "new guard", whose discourse focused on their technical credentials as economic problem-solvers, and to the regime at large, given its emphasis on an "Egyptian path to reform" based on the primacy of economic reforms, and the belief in the trickle-down political effects of a robust economy.

Gamal Mubarak's team maintained that the problem is that reforms were not vigorous enough, and pointed out to the "un-economic" remnants of *étatisme*, especially subsidies and high tax burdens, which were crippling the economy and discouraging investors (Soliman 2005:52; Gamal 2007b). As a result, with the appointment of Nazif's government, and the elevation of liberal technocrats and members of the haute bourgeoisie to ministerial positions and the chairmanship of the parliamentary committees, the second wave of restructuring *étatisme* gained a strong momentum.

A series of aggressive liberalisation measures followed, including, in addition speeding up privatisation and approving the partial divestiture of one of the four large banks (a traditional privatisation taboo), raising diesel prices by 50%, a new income tax bill entailing halving the maximum corporate and personal income taxes from 40% to 20% (EFG-Hermes 2005:5). Such measures were meant to encourage investors by increasing profitability. However, they also increased income disparities, and the rise in diesel price was reflected in an immediate increase in the transportation costs of practically all consumer goods, adding further burdens to the alienated social strata. Attempts to use foreign policy to mobilise resources from abroad to provide some minimal safety nets failed¹⁴⁸, the government was forced to mobilise resources domestically. This meant that there limited additional resources for buying off the support of the alienated strata. Even maintaining the current level of subsidies and public expenditure, insufficient as it was to ease the crisis conditions, required a rapid increase in domestic debt, which rose by a staggering 117.2% in five years, between 2000 and 2005 (El-Naggar 2005: 62), and subsequently exacerbated the resource crisis.

The net result of the aggressive restructuring under Nazif's government was ambivalent. On one hand, economic growth rates started to accelerate anew, averaging 5-7% between 2004 and 2007 – still lower than the 8% required to maintain the current level of unemployment (El-Beblawy 2008:35). The “new guard” attributed this growth to the restructuring measures, renewing the pledge of an eventual trickle-down of the growth dividends to the disadvantaged social strata. Critics countered that the sources of post-2004 growth were: a) the hike in international oil prices as a result of the Asian recovery

¹⁴⁸ See section 2.4 below

and the war on Iraq; and b) the rise of Suez Canal revenues as a result of the world recovery after the 1999-2003 slump, whilst pointing out that the productive capacities were not coping with the import drive, resulting in a 60% increase in trade deficit to \$12 billion by 2007, and raising serious questions about the regime's claims about an export-led growth –the centrepiece of its “Egyptian particular path” to reform (Gamal 2007a:4).

Apart from the controversies over the sources of the post-2004 growth, it was clear that, for the marginalised social strata, the dividends of this growth were meagre. Inflation rose to more than 20% in 2006/2007 (El-Hawit et.al. 2009:93), resulting in further impoverishment of the salaried social strata, and the budget deficit increased to 9% of GDP fuelling further inflationary pressures. Net domestic public debt increased to 80% of GDP, plus some 30% in foreign debt (El-Beblawy 2008:35). Unemployment reached 22% according to international estimates and 12% according to government figures (Gamal 2007a:3). Finally, according to the United Nations Development Programme, the richest 20% received 43% of the national income, compared to 8.6% for the poorest 20% (UNDP 2008).

These increasing socio-economic disparities dealt serious blows to Gamal Mubarak's succession plans, which depended in the main part on his image as an economic problem-solver. He was therefore blamed for the economic agonies. In the face of these criticisms, and, more importantly, the unprecedented wave of workers' protest since 2006, the NDP acknowledged the gravity of the problem, and announced that “social justice” would be the main theme of its annual conference in October 2008. That same year, however,

witnessed the strongest wave of international recession in decades, threatening a further deepening of the resource crisis and a sharp decline in the state revenues and growth rates (Abou Ali 2008).

As Mubarak's fifth term in office headed towards its end, and questions were raised on political succession in Egypt, and a possible power struggle between Gamal Mubarak's "new guard" of technocrats in partnership with the haute bourgeoisie, and the predominantly middle and lower-middle class army, the "new guard", who controlled both the government and the parliament's economic committees, faced the difficult choices put forth by the second resource crisis in less than a decade. On one hand, there were no prospects of a one-off positive shock that would rescue the economy due to foreign policy manoeuvres, like the Gulf Crisis in 1990. On the other hand, mounting political and social protest rendered any attempt to respond to the resource gap through further economic entrenchment too dangerous for Gamal Mubarak's succession plans. The second wave of restructuring was heading towards an impasse.

(2.3) Ideology

The troubled liberalisation years gave way to a serious hegemonic crisis, as the regime faced the twin challenge of: a) increasing pressures for reform and; and b) mounting accusations of dissipating Egypt's regional clout.

The regime's first reaction was to denounce the calls for reform as an outside imposition, and demand US intervention to resolve the Palestinian question which constituted the

root cause of religious extremism and terrorism, especially that Egypt was already democratic, and becoming more so all the time¹⁴⁹.

However, the question of reform continued to dominate the political scene, as *Kefaya* and other middle-class movements mushroomed in the early 2000s¹⁵⁰. Denial was no longer viable. The regime had to counter with its own reform plan. This rested on three pillars: a) an “economics first” approach; b) gradualism and controlled change; and c) the rise of Gamal Mubarak and his “new guard”, as the application of the desired reforms.

Mubarak maintained that vigorous reforms had started since 1990 and all that needs to be done was continuing them. This meant, in effect, that the primacy should be given to restructuring *étatisme*. On the other hand, the official press emphasised the need for a gradual approach for reform, citing the sectarian violence in Iraq as an example of “uncontrolled change” (Hamzawy 2004).

The official press also trumpeted Gamal Mubarak’s rise from 2000, and particularly after the NDP’s conference in 2002, and the advent of the “new thought”, citing it as the application of an “Egyptian path to reform”, involving: a) the rejuvenation of the political leadership; b) the introduction of new concepts to NDP’s discourse and literature covering such topics as “citizenship”, “women’s rights”, and so forth; and c) the formation of a new cabinet with many young members from the PS, to implement the “new thought” (Abou Taleb 2004:425-429; EL-Sayed et.al 2005:25-26).

¹⁴⁹ Cf.: the editorial of the *Washington Post* “Our man in Cairo”, 12/4/2004.

¹⁵⁰ See section 2.1 above.

Opposition press accused the regime of ignoring the demands for democratisation, and opting for “cosmetic reforms” to pave the way for a dynastic succession (Rodenbeck 2003:42). *El-Araby*, the mouthpiece of the Nasserist party launched a long campaign against Gamal Mubarak since 2002 (El-Ghobashy 2003b). Leftist and Islamist newspapers, and the independent *El-Dostour* followed suit, accusing Gamal Mubarak of seeking a “hereditary transfer of power” and “handing over the state to business tycoons”. The official discourse countered by emphasising the “generational aspects” of change within the NDP and Nazif’s cabinet, rather than the social background of the new appointees, and reiterating the regime’s favourite “technocratic argument” on policies (and people) chosen on grounds of technical efficiency. In this context, the official press highlighted Gamal Mubarak’s economic credentials, and his banking and business background, implying that he is best suited for leading Egypt out of the economic bottleneck. *Rose Al-Youssef*, now under the editorship of Abdallah Kamal – a confidant of Gamal Mubarak – became the PS’s unofficial mouthpiece, running campaigns on the “need for Gamal Mubarak’s leadership”, and hardly a week went without Gamal Mubarak’s name, picture and opinion appearing on front pages of the official newspapers.

However, as *Kefaya* and the protest movements upped their criticisms prior to the 2005 elections, under the dual slogan “*la lil-tajdid, la lil tawrith*” (no to renewal, no to dynastic succession) (El-Ghobashy 2003b), the technocratic defence based on emphasising the “new guard’s” technical qualifications was rendered insufficient. Therefore, during Mubarak’s presidential campaign, the official discourse underwent a

brief populist twist, with Mubarak seeking to appease the alienated strata, pledging to create 4.5 million job opportunities in his new 6-year tenure. However, critics were quick to point out that the regime had no funds for this ambitious scheme, given that the Egyptian economy managed to create only 4.4 million job opportunities in the previous 12 years (Naguib 2007:10). The sharp rise in inflation and employment in the following years rendered any such populist discourse futile. Thus, the regime's discourse returned to the "technocratic" rationale for its policy choices, with occasional vague pledges to "social justice" as the workers' protest rose sharply against Nazif's cabinet and its neoliberal policies¹⁵¹. The hegemonic crisis continued, and intensified.

Foreign policy, on the other hand, once a key tool in the regime's hegemony-restoring arsenal, became a heated domain for contesting its legitimacy. The early 2000s witnessed successive foreign policy embarrassments, including, the second Palestinian *intifada*, Yasser Arafat's siege in his Ramallah residence, the US invasion of Iraq, and Israel's wars on Lebanon in 2006 and on Gaza in 2008. With every new embarrassment, the regime's inability to influence the course of events, or justify its foreign policy choices became clearer. Popular protest in the wake of every foreign policy humiliation, invariably blamed the regime's foreign policy choices for squandering Egypt's regional role, and demanded dramatic policy changes (e.g. cutting off diplomatic ties with Israel; allowing volunteers to fight in the occupied territories...etc).

¹⁵¹This was exemplified, as I mentioned in the previous subsection, by choosing "social justice" as the theme for the NDP's annual conference in 2008.

At first, the official line maintained that Egypt's "structural propensity for regional leadership" remained intact, and accused critics of adventurism. Nevertheless, between the regime's limited ability to influence developments in the region, the magnitude of protest, and the Islamist/Nasserist/leftist counter-consensus on foreign policy issues, a more aggressive strategy was needed.

Consequently, for a brief period in 2002 and 2003, the official discourse flirted anew with *Egypticity* and openly challenged Arabism for the first time since 1981. *Rose Al-Youssef* published a series of articles under the title "Egypt first" for five months in the run-up to NDP's eighth conference in 2002. NDP's conference documents in 2002 and 2003 focused on *Egypticity* and the importance of avoiding "fighting other people's wars". Underlying this discourse was the assumption that foreign policy debates stemmed primarily from a misconception about Egypt's identity and national interests, and a belief that isolationism is conducive to solving Egypt's economic and political problems (Abou Taleb 2004:437-438).

The problem with the emphasis on *Egypticity* was that, in the actual practice of foreign policy, the regime could not afford *Egypticity* and isolationism. As Hinnebusch (1994:167) explained, "*Egypt's Arabism, at least that of the foreign policy establishment is instrumental – less a commitment for its own sake than a tool in the service of state interest*". Internal legitimacy and rent generation were dependent largely on diplomatic acumen. Any form of isolationism would inevitably reduce the Arab centrality which makes Egypt important to the United States and the west.

As a result, the regime's discourse maintained the self-contradictory position of appeasing critics by arguing that Egypt remained the natural leader of the Arabs, whilst arguing that she should stay away from their problems. Thus, during the second *intifada*, Egypt's foreign minister Ahmed Maher even accused Ariel Sharon of practicing "state terrorism" against the Palestinians, and pointing that Egypt, the largest Arab state, cannot accept his stances (EIU 2002a:14). Mubarak, speaking as the leader of the Arab world, criticised, in a television interview with the Dubai-based *Arabiya* on April 9th 2006, the Iranian regional ambitions, refusing the intervention of a non-Arab country in Arab Affairs. Meanwhile, arguments with isolationist undertones continued, refusing adventurism and calls to "fight the wars of others". In one such incident, Egypt's prime minister Atef Ebeid went as far as to say that the Arab states should put up \$100 billion to fund Egypt if they wanted her to go to war with Israel (EIU 2002a:16).

The ambivalence of the regime's discourse on both foreign policy and the questions of economic and political reforms undermined its credibility. Critics continued to cite foreign policy embarrassments, economic difficulties, and corruption scandals¹⁵², and to blame them on Gamal Mubarak and his clique. In July 2008, the influential analyst Diah Rashwan published a series of articles in the independent newspaper *El-Masry El-yawm* calling for the intervention of what he dubbed "the hardcore of the Egyptian state" to rescue the country from Gamal Mubarak and his business tycoons, fuelling the intense debate about the possible scenarios of post-Mubarak's Egypt, and the ambiguous political

¹⁵² For a brief but illuminating account of some of these scandals, involving high-profile government officials and senior members of NDP, see: El-Sayed et.al. (2005:28-29); Soliman (2005: 98-100).

role of the military in Egypt¹⁵³. This debate broke a major taboo in Egyptian politics. It was the first open invitation for the army to interfere and seize power, and it presented a serious challenge to Gamal Mubarak's succession bid, indicating that a significant section of the intellectuals might support the middle-classed military bureaucrats in any future succession struggle. Above all, it reflected the magnitude of the regime's hegemonic crisis, the controversial succession scenarios on the eve of an anticipated troubled transition of power.

(2.4) Foreign Policy

As the crisis of governance of the 2000s unfolded, the two functions of Egypt's foreign policy were urgently needed: a) generating rent to ease of the social costs of the economic restructuring amidst an economic slowdown and an increased erosion of the social base of the neoliberal state; and b) resolving the hegemonic crisis fuelled thereby.

Ariel Sharon's infamous "visit" on September 28, 2000, to the "noble sanctuary" – where *Al-Aqsa* mosque is located in Jerusalem – and demonstrations that followed were the overture of the second Palestinian *intifada*, igniting an unprecedented level of political protest (Elwy 2002:3). The government's response was twofold. First, it sought to appease the protesters, and decided to withdraw the Egyptian Ambassador in Tel Aviv on November 21st 2000. This gesture fell short of the protesters radical demands, even though it was the strongest diplomatic action taken against Israel since the invasion of Lebanon in 1982 (EIU 2001a:15). Second, the government made it clear that recalling the

¹⁵³ See: Rashwan (2008a; 2008b, 2008c, 2008d); Ateya (2008a; 2008b). Rashwan's articles were reprinted in and cited by several opposition newspapers. Nationalists supported him, the left was divided, and Islamists, particularly the Muslim Brotherhood, stayed silent.

ambassador did not mean rethinking the commitment to Arab-Israeli peace. Instead, the overriding concern of Egyptian diplomacy became persuading George W. Bush's administration to step up its engagement in the conflict, and bring pressure on Israel so as to allow the peace process to restart (EIU 2002a:13). Central as it was to vindicate her "moderate" foreign policy in the face of critics, Egypt's ability to impress this view on the US was very limited.

Already strained since the late 1990s, September 11th 2001 terrorist attacks further complicated the Egyptian-American relations. First, the majority of the culprits were of Egyptian and Saudi origins, raising questions within Bush's administration about feasibility of supporting its Arab dictatorial allies unconditionally (EIU 2003b:8). The US started pressuring Egypt on reform issues. Furthermore, instead of joining the so-called "coalition against terrorism" as the US administration expected, based on the Gulf Crisis experience, Mubarak's regime questioned the effectiveness of the war on terrorism, maintaining that the only way to beat terrorism was solving the Palestinian question, and expressing its concern that Afghanistan might not be the only target and the Iraq might be "phase two" of the campaign (EIU 2002a:14-15).

However, Mubarak, not wanting to jeopardise the alliance with the US, proposed a compromise. Egypt could join the "coalition against terrorism" on two conditions: a) the war on terror would be waged under the aegis of the UN to ensure the campaign's international legitimacy; and b) international observers would be installed in the West Bank and Gaza – at once reflecting the popular concerns on the "double standards" of the

US, and bringing the US to interfere in the Palestinian question and putting pressure on Israel (EIU 2001c:13).

Bush's administration rebuffed these suggestions, and the Egyptian-American relations hit the lowest point of Mubarak's presidency. In August 2002, Bush's administration turned down an Egyptian request for additional assistance to ease the deteriorating economic situation (EIU 2002b:15). The differences over the invasion of Iraq exacerbated tensions between the two countries, and the US upped its protest against human rights violations, and demanded the release of the Egyptian-American sociologist and activist Saad Eddin Ibrahim and the former presidential candidate Ayman Nour.

Egypt's regional role rested in part on her relations with the US, and her alleged ability to influence the latter towards extracting concessions from Israel. As the Egyptian-American relations deteriorated after 2000, Egypt was forced to take an unfamiliar backseat in regional diplomacy, as a new "Arab peace initiative" was proposed by the Saudi crown-prince in February 2002 (EIU 2002a:13).

Faced with the threat of losing his traditional mediating role, Mubarak searched for a *modus vivendi* with the US administration. Thus, whilst dismissing the US "Middle East Partnership Initiative" December 2002, as an attempt to impose reforms from abroad, and keeping a critical distance from the invasion of Iraq in 2003, Egypt worked tirelessly in support of the launch and maintenance of the US-backed "road map" (EIU 2003b:15). Egypt went further to host closed-door talks with the main 12 Palestinian factions in

January 2003, aiming to achieve a one year cease-fire –a *de facto* termination of the intifada (EIU 2003a:16). The talks failed.

On the other hand, Ariel Sharon's successive escalatory measures rendered Egypt's efforts to reinvigorate the peace process fruitless. Yasser Arafat's siege in Ramallah and the assassination of Hamas leaders Ahmed Yassin and Abdel-Aziz Rantisi dealt serious blows to Egypt's diplomatic efforts, and eroded the regime's legitimacy. The Egyptian reaction followed a clear pattern: Hard-worded denunciation of Israel's actions and bitter attacks on Ariel Sharon in the official press aimed at appeasing the angry protestors. Invariably, this was followed by calls for reviving the peace talks and resuming contacts with Sharon's administration (Ibid:17). The regime seemed to be clinging desperately to the peace process, amidst accusations by the opposition of "selling out" the Arabs, and no tangible outcomes to its diplomatic efforts. The regime's image suffered, and the successive embarrassments culminated in a major humiliation during Egypt's foreign minister Ahmed Maher's visit to the Aqsa-mosque in Jerusalem, when he was jostled by an angry crowd in the mosque dubbing him a traitor and a collaborator with Israel. The official press blamed the "ungrateful Palestinians", but the damage was done (EIU 2004a:18). Egypt's leverage on the Palestinians, one of the few remaining assets for her role, and her importance for the US administration, was quickly eroding, as Hamas started to dominate the Palestinian scene after the demise of Arafat in 2004, and particularly after Hamas' sweeping electoral victory in 2006, then its coup in Gaza in 2007. The latter development particularly alarmed Mubarak's regime, given the historic ties between Hamas and the Muslim Brotherhood (which, with 88 members in the 2005

parliament, was the largest opposition group and a major threat to the regime). Instead of being an Egyptian bargaining-chip, and a cornerstone of Egypt's regional influence, the Palestinian politics were turning to "a threat to Egypt's national security", as foreign minister Ahmed Aboul Gheit declared (EIU 2007:16). Hamas' leader Khaled Mashaal was more influenced by Damascus and Tehran than by Cairo, and reportedly turned down several invitations to visit Cairo (EIU 2006:16).

Save for an agreement regulating the transport of individuals from Rafah crossing (linking Egypt and Gaza), in the wake of the Israeli unilateral withdrawal from Gaza in 2005, and a six months fragile ceasefire in Gaza in 2008, the peace process reached a complete deadlock. As a result, not only was the regime increasingly vulnerable to accusations of losing its last bastion of influence, but the crux of its foreign policy for almost three decades was discredited.

On the other hand, the decline in Egypt's regional clout further strained her relations with the US. With Bush's administration showing little interest in the Israeli-Palestinian peace, especially after the steady rise of Hamas, and focusing its attention on areas where Egypt had little or no influence (e.g. Iraq, Syria and Lebanon), Egypt was increasingly losing her utility to the US.

Thus, US pressures for reforms in Egypt escalated, jeopardising Egypt's prospects for reducing the trade deficit through a free trade area with the US, which was dismissed by the US secretary of state, Condoleeza Rice in her visit to Egypt in February 2006. In May

2006, the US Senate voted to further reduce by 10% the annual assistance to Egypt, citing the country's failure to introduce democratic reforms as the reason behind this decision (EIU 2006a:16-17). It was increasingly clear that the rent-generation prospects of Egypt's foreign policy were steadily deteriorating.

Throughout Bush's second term in office, the US administration stopped sending Mubarak its annual invitations to visit the white house, settling instead for US visits from his senior staff to meet with their American counterparts, and a single, unsolicited visit by Gamal Mubarak in 2006.

In 2008, as Mubarak turned eighty, and the concerns over a sudden power vacuum intensified, his regime was dealt two major foreign policy blows. In June, whilst Egypt was hosting the World Economic Forum in the Middle East, George W. Bush arrived late for Mubarak's opening speech, and Mubarak then missed Bush's speech, in which, he criticised the suppression of dissidents in Egypt. He left Egypt without seeing Mubarak. Foreign minister Abul Gheit responded by blaming US military presence in Iraq for the region's problems (EIU 2008a:9-10).

In December 2008, the Israeli war on Gaza broke two days only after a visit by Israeli foreign minister Tzipi Livni, in which she met with Mubarak, making him appear either as complicit in the war, or as an impotent leader, failing to prevent it.

The crisis of legitimacy mounted, with the opposition accusing Mubarak's regime of complicity, so as to appease the US and secure Gamal Mubarak's presidential chances. The war became yet another weapon in the arsenal for the supporters of an intervention by the "hardcore of the state". The calls for such intervention were even echoed in the Arab world, as Hizbullah's leader Hassan Nasrallah, who had gained considerable popularity in Egypt during Israel's war on Lebanon in 2006, called on the Egyptian Army to force a profound change in Egypt's policies (Darwish 2008).

The regime's attempt to use diplomatic clout to muddle through the post-2000 "crisis of governance" through a tightrope act seeking simultaneously to appease the pro-Arab protesters, and maintain the strategic relations with the US had clearly failed. Instead, foreign policy embarrassments became a salient pillar of Egypt's three-legged quandary, alongside the unyielding economic liberalisation, and the eroding social base of the neo-liberal state.

3- Conclusion: The Patterns of Interplay of Egyptian Political Economy and Foreign Policy

Egypt's foreign policy choices during the Gulf crisis were imperative to generating the much-needed strategic rent to start the second wave of restructuring *étatisme*, albeit at a substantial cost in terms of the regime's hegemony.

However, the resources made available by Egypt's participation in the US-led coalition during the crisis came with unequivocal conditionality. Thus, between the finite, one-off

resources made available for the second wave of restructuring, and the hegemony challenges put forth by unpopular foreign policy choices during and after the Gulf crisis, the questions of Egypt's ability to find a balancing point between the hegemonic and rent-generating functions of her foreign policies surfaced anew. This proved a daunting task.

The conditionality of the financial resources made available for the second wave of restructuring, meant that the disadvantaged strata could not be bought off. The division of the social costs of restructuring was, obviously, determined by the social disposition of the ruling elite, characterised by a strong alliance between the upper echelons of the state bureaucracy and the haute bourgeoisie. Throughout the second wave of restructuring this alliance was enforced, and even witnessed an unprecedented role for the haute bourgeoisie in the direct governance, at the cost of alienating the traditional support base of *étatisme* – the urban middle classes, workers, and peasants. To make up for this erosion in the social base of *étatisme*, the second wave of restructuring followed a particularly unpopular formula – economic liberalisation and political de-liberalisation. They alienated strata protested and challenged the regime's hegemony, particularly as stagflation hit the Egyptian economy at the end of the 1990s, and the resource crisis surfaced anew.

Foreign policy, on the other hand, could not be relied on to restore the regime's hegemony. Egypt's position during the Gulf War, fulfilling as it was of the rent-generation function of foreign policy, was a key source of the legitimacy crisis. Subsequent foreign policy moves intensified the crisis. After the failure to maintain a

Gulf-centred Arab role with the fall of the short-lived Damascus declaration, Egypt devoted her foreign policy almost entirely since the early 1990s to the question of resolving the Palestinian-Israeli conflict. The inherent logic was straightforward – bringing the parties of the conflict to direct talks mediated by Egypt, and using Egypt’s strategic alliance with the US to extract concessions from Israel. Ideally, this should make Egypt the champion of the Palestinian cause, restoring the regime’s hegemony, and boosting its regional clout. In turn, an increased regional role would render Egypt more valuable to the US, thereby increasing prospect of strategic rent generation, and alleviating the social cost of the second wave of restructuring.

The reality proved more problematic. As the peace talks progressed, Egypt seemed to have worked herself out of a job. The earlier successes of the peace process in the early 1990s (an Israeli-Jordanian peace agreement in 1994, interim Israeli-Palestinian agreements in 1993 and 1994, and a steady progress in economic normalisation) brought forth the prospects of a Middle East where Egypt would be reduced from the status of a (mostly) undisputed regional leader, to a mere supplier of cheap labour. The mediating role too was becoming less important, since the Arabs were talking directly to Israel. Paradoxically, the deadlock in the peace process since 1996 made things only worse, as the very *raison d’être* of Egypt’s foreign policy for the previous two decades was questioned. In either case, the regime’s hegemony suffered.

Thus, the second wave of restructuring rapidly developed from a “troubled liberalisation phase” during the 1990s to a full-fledged “crisis of governance” in the early 2000s,

involving: a) an unprecedented level of public discontent, reflected not only in the appalling performances of NDP in the 2000 and 2005 elections, but also in the mushrooming of middle-class protest movements, and the longest wave of labour protest since World War II; b) an unyielding economic liberalisation programme, both during the slowdown phase (2000-2003), or during the brief moderate growth phase (2004-2007); c) a pressing question of political succession with Mubarak turning eighty, not appointing a vice-president, and grooming his son to succeed him; and d) an inability to count on diplomatic acumen to secure the regime's hegemony in the face of the mounting protest, or generate enough rent to relieve the social costs of the crisis.

Indeed, the crisis of governance broke out at a time when Egypt's ability to mobilise resources through diplomatic acumen had severely deteriorated, resulting in the government's forced reliance on domestic resource mobilisation, with the twin consequences of a rapidly mounting domestic debt, and a further erosion of the state's social base. The need for juggling the two functions of foreign policy was more pressing, but less possible.

Instead of relieving either the hegemonic or the resource crises, Egyptian diplomacy in the early 2000s faced the dual challenges of a seriously strained relation with the US, and the rapid deterioration in Egypt's regional clout. The heightening tensions in the Egyptian-American relations meant that: a) Egypt stood limited chance at impressing her views on the primacy of the Palestinian question on Bush's administration, thereby losing her only hope of influencing the course of events in the Palestinian-Israeli conflict; b)

Bush's administration joined the demanders of reform in Egypt, increasing the pressures on the regime on the eve of a looming succession crisis; and c) the prospects of rent-generation were dim. Indeed, the second wave of restructuring witnessed three successive decisions made by the US to turn down requests for additional assistance by Egypt to mitigate the costs of the crisis (in 2002), and even reduce the existing economic assistance to Egypt (in 1998 and 2006). The inability to influence the course of events in the Palestinian-Israeli conflict, exacerbated by the rise of Hamas after Arafat's demise, reduced regional clout – the main source of Egypt's utility to the US. Thus, Egypt's foreign policy ended up in a vicious cycle of a strained relation with the US and an eroding "regional role" leading to an eroding ability to mobilise strategic rent and an intense legitimacy crisis, and vice versa.

Throughout the different phases of the second wave of restructuring, foreign policy was an integral part of the broad transformation process of *etatisme*. In 1990, it facilitated the beginnings of restructuring. In 2008, it became a central part of the crisis of governance and the looming succession crisis. Calls for political change capitalised on the successive foreign policy embarrassments as much as on the unyielding economic liberalisation and the eroding social base of the state. Likewise, the opposition to Gamal Mubarak's presidential bid and calls for an intervention by the middle and lower-middle class "hardcore of the state" combined nostalgia for Nasser's foreign policy clout, with hopes of redressing the rise of the haute bourgeoisie. The interplay of political economy and foreign policy was, therefore, central to the beginning of the second wave of restructuring, central to its crisis on the eve of the looming power vacuum, and is very

likely to be central to its end (in the case of the “hardcore” succession scenario), or resurrection (in the case of Gamal Mubarak’s succession scenario).

Conclusion

*“The purpose of anyone who writes the history of any large epoch must necessarily be to impose a pattern on events or at least discover a pattern”
George Orwell*

This study sought to explore the relation between economic liberalisation and foreign policy restructuring in Egypt, and to challenge the mainstream analyses of the large-scale transformation of Egyptian foreign policy since 1970, which have been dominated by the psychological-perceptual analysis of the Egyptian presidents’ belief systems. It also sought to redress a key anomaly in the literature on Egypt’s political economy and foreign policy. The former is dominated by the socially deterministic arguments about the Egyptian “hydraulic society”. The latter assumes the primacy of the Egyptian leader’s individual choices, codes of behaviour and belief systems, regardless of the social structures and forces. To transcend this fundamental incompatibility, this study sought to present a more holistic account of the patterns of interplay between the internal and external activities of the Egyptian state.

The central argument was that the roots of Egyptian foreign policy restructuring since 1970, and its subsequent development, were intertwined with the simultaneous process of transforming populist *étatisme* in Egypt. The task of this study was, therefore, twofold: A) to demonstrate that the coincidence of economic liberalisation and foreign policy restructuring in Egypt since 1970 entailed correlation; and b) to identify the patterns of interaction of the Egyptian political economy and foreign policy throughout the different phases of the restructuring process.

The interplay of foreign policy and political economy was central to the very creation of Nasser's populist *étatisme*. The crisis of the pre-1952 regime, and the rise of the petite bourgeoisie since the 1930s, particularly with the admission of its members in the army from 1936 onwards, coupled with the military defeat in Palestine in 1948, furnished the necessary conditions for the free officers' "revolution-from-above" in 1952. The subsequent rise of populist *étatisme*, as I argued in chapter two, was also a result of the interplay of domestic developments and international pressures.

As Clapham (1985: 113) argued, the foreign policy of developing countries is the result of the interaction between their modernisation efforts and the international setting. Egypt was no exception. As Egypt developed a populist-statist political economy, her post-1952 foreign policy developed to reflect the fundamental needs of the Egyptian politico-economic system. Throughout the populist-statist years, foreign policy served two key functions: a) as a means of facilitating the development of populist *étatisme*, and containing or resolving its inherent contradictions, primarily through rent-generation; and b) as a hegemony-building (or restoring) mechanism, and a key source of the regime's legitimacy. The two functions continued ever since, with varied emphasis on either function at different stages, and different patterns of interplay between these two functions to correspond with the modernisation needs of the different epochs.

Theoretically, the two functions were complimentary – regional clout facilitating rent-generation and vice versa. The analysis of their actual patterns of interplay since the rise of populist *étatisme* in Egypt, however, demonstrated that, with the exception of a brief

period (1956-1965) when the exceptional conditions of the Cold War allowed Egypt to perform both functions simultaneously, the two functions were inherently contradictory, rendering any attempt to perform them at the same time problematic.

Thus, rent generation (after the first quinquennial plan in 1965, during the *infitah* years, and during the Gulf crisis) often came at the cost of the regime's hegemony. Similarly, at the times when the regime's priority was to establish (or restore) its legitimacy (Sadat's first three years in power, and the "hesitant decade" of the 1980s), the ability to generate strategic rent was hampered.

Chapters two and three demonstrated that the transformation of populist *étatisme* and the realignment of Egyptian foreign policy were reflective of broader social forces that developed within the earlier populist-statist years under Nasser, particularly since 1965, thereby challenging the psychological perceptual analysis which attributed the change to the rise of Anwar Sadat, and the ways in which his "perceptive screen" differed from Nasser's.

However, Nasser's charisma, his need to preserve his populist-statist legacy, and the political conditions in the aftermath of the military defeat in 1967 held in check, and indeed slowed the pace of transformation during his years. The foreign policy breakthrough in 1973 made possible the launching of the first wave of restructuring during the *infitah* years. The same applies to the role of Mubarak's foreign policy choices during the Gulf crisis in facilitating the second wave of restructuring.

In other words, to locate foreign policy restructuring in the broader context of the development and subsequent transformation of Egypt's political economy, is not to reduce it to the mechanical outcome of developments in the political economy, with no significance whatsoever to the policy preferences and choices of the rulers. The aim of this study was to historicise foreign policy restructuring, and place it in a broader context of economic and political transformation, without suggesting any determinism or teleology. To the contrary, this study sought to demonstrate that the interplay of political economy and foreign policy was, on the whole, two-way.

In any rate, Sadat's rise to power and particularly his victorious emergence from the May 1971 power struggle were indicative of a fundamental shift of the balance of power within populist *étatisme* that favoured economic and foreign policy restructuring. The main obstacles were a) Sadat's need to consolidate his rule and establish an independent source of legitimacy, before embarking on a wholesale transformation of Egypt's political economy and international alignments; and b) the fundamental contradiction between the political-military conditions that necessitated the increased reliance on the USSR, and the economic shift rightwards. The October War solved both problems and the restructuring gained tremendous momentum during the first three years of *infitah* (1974-1977).

Nevertheless, the extensive restructuring during the *infitah* years demonstrated the inherent contradictions between the two functions of Egyptian foreign policy. The very same foreign policy measures (realignment with the US, and reconciliation with Israel)

which were instrumental to resolving the contradictions that had hampered the transformation of populist *étatisme* prior to the 1973 war, created a hegemonic crisis for the regime on one hand, and alienated part of its conservative support base (the religious right) on the other, culminating dramatically in the assassination of Sadat in 1981.

As chapters three and four argued, political assassination, however indicative of the regime's hegemonic crisis, remains essentially a random act, in that it does not alter the social disposition or policy preferences of the ruling elite. This was particularly demonstrated in the rapid and friction-free transformation of power to the second-in-command, Husni Mubarak, after Sadat's assassination, and in Mubarak's pledge to follow the footsteps of his predecessor.

Yet, the magnitude of the hegemonic crisis that resulted in the assassination of Sadat meant that Egypt's foreign policy had to be focused on the second of its functions – hegemony restoration, throughout the 1980s. Foreign policy issues were at the heart of the counter-consensus that developed from across the political spectrum in the last years of Sadat's reign, and Mubarak had, therefore, to make some alterations in some aspects of his foreign policy to restore the regime's hegemony. However, since these foreign policy choices were embedded in the broader process of restructuring populist *étatisme*, in response to the changing social disposition of the ruling elite, and its economic and political choices, any alterations had to be made carefully so as not to jeopardise the regime's domestic power base and international alliances. Such was the tight-rope act that Mubarak was forced to perform during the 1980s.

In chapter four, I sought to demonstrate that these objective conditions, and the tight-rope act they necessitated, are the key to understanding the sometimes contradictory manoeuvres by Mubarak's regime domestically and internationally during the 1980s, and not, as several analysts argued, a hesitant tendency in Mubarak's character – another shortcoming of the predominance of the psychological-perceptual paradigm.

Mubarak's regime undertook a "public relations exercise" throughout the 1980s, which involved token flirtations with aspects of *étatisme*. However, the process of restructuring continued, albeit at a slower pace. The ruling alliance, based mainly on the alliance of the bureaucratic and haute bourgeoisie, remained intact, and was indeed reinforced through the 1980s. Meanwhile, Mubarak's foreign policy sought to reintegrate Egypt in the Arab world, without prejudice to Egypt's relations with the United States and Israel – a process that started slowly in 1984, and only bore fruition in 1989, with the return of the Arab league headquarters to Cairo, and the full return of Egypt's occupied territories.

The hegemony-restoration process, therefore, took all of the 1980s, with the twin corollaries of: a) hampering the regime's ability to use foreign policy manoeuvres to generate rent and help resolve the inherent contradictions in the political economy; and b) forcing the regime, when the resource crisis struck in 1986, to postpone any radical economic retrenchment, which would have been detrimental to his overarching hegemony restoring concern, and settle for "crisis management" until regional and international developments made it possible to resume the generation of strategic rent and embark on the second wave of restructuring in the aftermath of the Gulf Crisis on 1990-

1991. The transformation from “crisis management” to “crisis resolution” through a second wave of restructuring, therefore, proved largely dependent on the ability to resume the second function of Egyptian foreign policy.

Egypt’s foreign policy choices during the Gulf Crisis facilitated the launching of the second wave of restructuring, but threatened to erode the regime’s hegemony, to the restoration of which the Egyptian foreign policy throughout the 1980s was devoted. The social disposition of the ruling elite made clear the direction of transformation. However, the relatively limited, one-off nature of the resources that facilitated the launching of the second wave of restructuring, and the accompanying conditionality created a pressing need, throughout the second wave of restructuring, for a simultaneous performance of both functions of Egypt’s foreign policy, to redress the twin challenges of: a) a hegemonic crisis created by the foreign policy choices of Egypt during and after the Gulf Crisis, and exacerbated by the increasing erosion of the social and political support bases of the Egyptian state as the second wave of restructuring progressed; and b) the need for generating strategic rent to mitigate the cost of restructuring, and the resulting protest. Once more, the inherent contradictions between the two functions of Egypt’s foreign policy prevailed, and juggling them proved impossible.

Indeed, the interplay of domestic, regional and international developments, as the second wave of restructuring unfolded, rendered the regime incapable of performing either function satisfactorily. Instead, foreign policy became at the heart of the mounting legitimacy challenge to the regime, as the second wave of restructuring developed from

the “troubled liberalisation” phase in the 1990s, to the “comprehensive crisis of governance” in the early 2000s, and a new resource crisis surfaced anew.

Unlike in earlier resource crises, foreign policy could not be counted on to resolve the regime contradictions, or restore the regime’s legitimacy. Consequently, the crisis intensified, with the second wave of restructuring reaching an impasse, and a looming power vacuum at the top of the regime, as the fifth term of Egypt’s octogenarian president approached its end, with no appointed vice president, and widespread speculations about a possible power struggle for succession between his son Gamal (backed primarily by the haute bourgeoisie, and some upper-middle class technocrats) and the predominantly middle and lower-middle class military bureaucrats.

Whether this comprehensive crisis of governance will bring to an end the second wave of restructuring, or give it “second wind”, is to a great extent dependent on the different succession scenarios and the patterns of interplay they will entail between Egypt’s political economy and foreign policy. Thus, the interplay of political economy and foreign policy, which proved central to the rise and subsequent transformation of populist *étatisme*, is also expected to be central to development of post-Mubarak Egypt. It is unlikely the “twain could be separated” – at least not in Egypt’s case.

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