

# EVOLUTION AND SHIFTS IN EGYPT'S ECONOMIC POLICIES: IN SEARCH OF A PATTERN

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## Abstract

التطورات والتحويلات في سياسات مصر الإقتصادية:

بحثاً عن نمط

يلاحظ الباحث أوجه شبه كبيرة بين عهدي محمد على وجمال عبد الناصر في مصر اللذين إتسما بتدخل قوي من الدولة، وأعقب كل منهما قدر كبير من الإنفتاح. وفي كلتا الحالتين برزت معالم ثلاث، أولها تعديل الهيكل الإقتصادي لصالح الصناعة؛ وثانيها تحقيق قدر كبير من الإستقلال الإقتصادي رغم قوة بعض الروابط الخارجية؛ والثالثة إرتفاع مستويات معيشة فئات الدخل الأدنى. وإتسمت الفترة التالية لكل من العهدين المذكورين بتراجع في كل من الجوانب الثلاثة سالفة الذكر. ويسعى الباحث إلى تفسير الأسباب الداعية إلى التقدم خلال العهدين، اللذين إشتراكا في وجود مشروع قومي يستهدف تحقيق تنمية مستقلة، بينما غاب ذلك المشروع في الفترة اللاحقة. وإستثنى الباحث فترة ما بين الحربين العالميتين، حيث تحققت سمات تماثل بعض سمات العهدين دون تدخل قوي من جانب الدولة. من جهة أخرى لاحظ أوجه شبه بين التجريبتين وبين تجربتي دولة أخرى هي تركيا، خلال الثلاثينات وسيطرة الدولة بقيادة أتاتورك، وفترة خطتي ١٩٦٣-١٩٧٢ الخمسيتين. وتلا كلا منهما فترة إضطراب، مصدره للأولى الحرب العالمية، وللثانية الإرتفاع الكبير في أسعار النفط. وأعقب كلا منهما قيام نظام يعكس توجهات الإقتصاد الوطني، مبتعدا عن تدخل الدولة نحو الليبرالية. ورغم توجه الإقتصاد التركي نحو التكيف الإقتصادي فإن توزيع الدخل أصابه تدهور. ويستخلص الباحث من عرض هذه التجارب أنها تشير إلى نمط واضح المعالم.

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## (1) Introduction:

In any review of the modern history of Egypt's economic policy, it is not difficult to note certain common features between the economic policies of the two best known of Egyptian leaders: Mohammed Ali (1805 - 1848), and Gamal Abdel-Nasser (1952-1970)<sup>(1)</sup>. Though different in many other respects (think of their origin, the length of their reign, apart from the great differences between the economic and demographic conditions of the two periods), both leaders adopted strongly interventionist economic policies which, towards the end of their rule, turned the state into virtually "the sole manufacturer, the sole trader and the sole farmer". Of course, this last phrase contains some exaggeration, especially in the case of Nasser, but it is true that, in both experiences, the bulk of manufactured output, and of all new investments in all sectors, came to be realized by the state, in addition to the very tight control by the state of prices, incomes and of the composition and marketing of agricultural output. It is worth noting, however, that this predominance of the role of the state was achieved to a large extent, in the case of Nasser, through nationalization, in contrast to the case of Mohammed Ali where it was achieved mainly by creating what has not existed before, including the introduction of new, and highly successful varieties of cotton.

This overwhelming role of the state in running the economy, and indeed in shaping political and social life, was associated with three important economic features which to a large extent explain why these two periods stand out as constituting two of the most important turning points in Egypt's modern history. These three features are: (1) a radical transformation of economic structure in favour of manufacturing; (2) the achievement of a high degree of "economic independence", and (3) a distinct rise in the level of living of lower-income groups.

Although these three statements should be interpreted cautiously and understood in relative terms, they seem to me to provide correct descriptions of some of the most important characteristics of these two periods, and in all three respects: economic structure, economic independence and income distribution, there was a clear deterioration during the two periods following the Mohammed Ali and the Nasserist eras respectively.

During most of the period falling between the end of Mohammed Ali's reign and the First World War (1848-1914), Egypt was ruled by

weak, unambitious rulers who were strongly influenced or dominated by the representatives of foreign powers, even before the beginning of the British occupation in 1882. More important for our purposes, is the fact that all through this long period, Egypt was forced to follow an open-door policy with regard to both foreign trade and foreign investment. In both respects: the weakness and lack of vision of the ruler, as well as the nature of economic policy followed, this period was in direct contrast to those of M. Ali and Nasser, but so was the case also with the three major features just referred to.

The aim of this paper is to provide evidence for this allegation of striking contrast in these three respects between the Mohammed Ali / Nasser experiences on the one hand and the two periods of "open-door policy" which immediately followed them, on the other, and to present a tentative explanation of this contrast. A separate section on the inter-war period (1918-1939) will hopefully lend additional support to the argument, and a final section which draws some parallels from the Turkish experience, may make the argument more widely applicable and hence of some theoretical interest.

## **(2) Economic Consequences of Etatist Policies:**

### **(a) Economic Structure:**

The most obvious and least controversial of the economic consequences of the interventionist policies of both Mohammed Ali and Nasser was the radical change in economic structure. There are of course no national income statistics for Egypt under Mohammed Ali, but there is enough evidence that Mohammed Ali not only attempted but in fact succeeded in launching an industrial revolution in Egypt through what Crouchley calls "an almost incredible effort of development".<sup>(2)</sup> Egypt was transformed from a country that produced hardly any manufactures other than the simplest kinds of textile, pottery, straw mats and sugar, to a country that produced, apart from textiles, spinning machines, weaving looms, armaments and every kind of ironwork. The modern factory system was introduced and by 1837, there were as many as 29 such factories all over the country. The cotton factories alone employed, in the 1820's, no

less than 30,000 workers<sup>(3)</sup>, a stunning figure for a country of no more than 2.5 million people.

A similarly "incredible" and successful effort at changing Egypt's economic structure in favour of manufacturing was made by Nasser 130 years later. During the period of Nasser's and Egypt's first five-year plan (1959/60 - 1964/65), investment in industry and electricity was about 37.3 % of total investment compared with 21 % for agriculture (including the High Dam). Industrial output grew at 8.5 % annually compared to 3.3 % for agriculture, and employment in industry grew by 6.5 % compared to only 3.3 % for agriculture and 4.1 % for total employment<sup>(4)</sup>. The share of manufacturing in GDP increased, therefore, from 17 % in 1956 to 23 % in 1965 and the share of industry, electricity and construction in employment from 13 % in 1959 in 1959/60 to 16 % in 1964/65.

### **(b) "Economic Independence":**

One is on less solid grounds arguing that there was a high degree of "economic independence" under both Mohammed Ali and Nasser, but only because the concept of economic independence is more elusive. Mohammed Ali certainly caused Egypt to be more integrated in the World economic system than it was before him, and as a result, Egypt came to be more "dependent" on external sources of goods than previously. It is a fact however, that in spite of the great increase in the variety of goods available in Egypt under Mohammed Ali, imports were reduced to a minimum. To give one example, "a complete arsenal was erected with foundry, workshops, rope factory, etc., which could turn out everything required to make and fit out a complete ship-of-war except for the finer nautical instruments, brass nails and cannons, all of which were brought from England"<sup>(5)</sup>. Needs have certainly multiplied, and so have imports; what is most impressive is the degree to which the growth of the former has exceeded the growth of the latter. The point will become more readily accepted when the degree of economic independence under Mohammed Ali is compared, not with the almost complete isolation of Egypt before 1800, but with the degree of dependence on imports that characterized the period following his reign, to which we will return later. If to this is added that, with all his efforts for development, Mohammed Ali left Egypt completely free from

external debt, the statement about "a high degree of economic independence under Mohammed Ali" would probably be granted.

A similar statement could be made of the Nasserist era, but there are more statistics available to support this thesis. Table (1) provides 12 indicators of different aspects of what could be called "economic independence", related to foreign trade, including food imports, and the financing of investment. The figures show that, with regard to almost all indicators related to foreign trade, the period 1957-67, which is the most representative period of Nasserist policies, Egypt achieved a higher degree of economic independence than in the previous period (1952-56). With regard to some of these indicators, the effect of Nasser's policies seem to appear more clearly in the following five years (1968-73), which constitute a transitional period between Nasser's period of tight state control and Sadat's period of open-door policies.

The labeling of the Nasserist period as a period of "economic independence", seems, however, to need qualification so far as the dependence on foreign capital is concerned. As table (1) shows, the period 1957-67 witnessed some dependence on foreign borrowing in contrast to the previous period. During the decade preceding the Suez war, Egypt was in fact a net creditor country, as a result of the accumulation of sterling balances during WW II. During the "Nasserist" years, of 1957-67, what remained of these balances were used up and handsome foreign debt started to accumulate. This qualification, however, does not oblige one, in my opinion, to abandon describing the Nasserist years as years of "economic independence". Economic dependence and independence are obviously relative concepts, with no country achieving full independence or being completely dependent on others, if indeed "full" independence or "complete" dependence mean anything at all. Moreover, the pursuing of economic independence may include taking certain measures that may increase rather than decrease economic or political dependence in the short run, in the hope of achieving greater independence in later years. Nothing may perhaps bring the country nearer to "complete economic independence" than complete economic stagnation. Such was the case of Egypt before Mohammed Ali, and also, though to a much lesser extent, before the inauguration of Nasser's ambitious development program in the late 1950's. It is possible to argue, therefore, that when Nasser's borrowing is looked at as a part of his

**Table (1)**  
**Egypt: Some Indicators of Economic Independence**

Period	Exports as % of Imports	Concentration of Exports (1)	Geographical Concentration of Exports (2)	Imports as % of GDP	Imports of Consumer Goods as % of Total Consumption Expenditure	Imports of Capital Goods as % of Gross Domestic Investment
1952-56	70	86	47	21	8	24
1957-67	70	75	39	20	5	22
1968-73	60	58	57	12	2	19
1974-80	80	69	58	24	9	26
After 1980	90(a)	84(b)	73(c)	35(d)	19(e)	32(f)

  

Period	Imports of Consumer Goods as % of Total Imports	Geographical Concentration of Imports (3)	Debt Service Ratio (4)	External Debt as % of GDP (5)	Foreign Financing as % of Gross Domestic Investment	Food Imports as % of Food Consumption (6)
1952-56	47	47	--	--	--	4
1957-67	38	58	10	26	15	4
1968-73	31	40	35	25	19	5
1974-80	35	62	26	48	32	34
After 1980	34(g)	79(h)	41(i)	53(j)	53(k)	41(l)

Notes:

- (a) average of 1981 and 1983/84      (b) 1981-83      (c) 1983  
(d) average of 1981/82 and 1982/83      (e) 1982  
(f) average of 1981/82 and 1982/83      (g) average of 1981 and 1982  
(h) 1983      (i) average of 1982 and 1983      (j) average of 1981/83  
(k) average of 1981/82 and 1986/87 (l) 1983/84

- (1) percentage of primary commodities in total commodity exports.  
(2) share of most important geographical bloc in total exports.  
(3) share of most important geographical bloc in total imports.  
(4) percentage of debt service to total exports of goods and services.  
(5) does not include military debt.  
(6) refer to 8 major food items: wheat, rice, maize, beans, lentils, edible oil, sugar and meat.

**Source:** Compiled from various tables in Issawi, I. *The Measurement of Dependence in the Arab World*, (Arabic), Center for Arab Unity Studies & UN University, Beirut, 1989, pp. 138-201.

overall economic policy, the rise of Egypt's foreign indebtedness during 1957-67 may not necessarily be regarded as a step away from greater independence but may indeed be a step towards it. This view may gain support from certain facts related to the nature of Nasser's debt, and concern the utilization of the proceeds of the loans, as well as the conditions on which these loans were obtained.

As for utilization, it may be argued that almost all the proceeds of the loans obtained during the Nasserist period were directed to productive use. The loans obtained from the Eastern bloc went to finance industrial products as well as the High Dam. But even the food aid provided by the US could be regarded as largely used for "productive" purposes rather than a mere addition to consumption. Food could legitimately be regarded as a "capital good", when its increased supply is used to employ a greater number of people in productive activities rather than in raising the level of consumption of those already employed. And this is precisely what happened during the Nasserist period, as total employment increased (1959/60 - 1964/65) at a rate 50 % higher than that of the increase in the labour force, and the highest rate of increase was for employment in construction, electricity and manufacturing, in this order.

With regard to the conditions of the loans, it can safely be stated that these were among the best that Egypt has ever obtained, if not actually the very best conditions. For, as far as political conditions are concerned, the decade extending between the mid 1950's and the mid 1960's was characterized by a relatively high degree of tolerance, on behalf of the two superpowers, of Third World neutrality between East and West. This was a period, reminiscent of that of Mohammed Ali, during which each of two superpowers could accept the relative independence of a small country from its own sphere of influence provided it does not fall under the domination of the other superpower. Egypt could thus obtain a large amount of economic assistance from each of the two superpowers so long as it shows itself to be quite independent of the other. In this way, Egypt could receive US food aid while introducing "Arab Socialism", and obtain soviet aid to build the High Dam and industrial projects while putting Egyptian Marxists in prison.

### c. Income Distribution and Relative Poverty:

Several writers have drawn a picture of increased suffering under Mohammed Ali, both in the country-side and in the towns, and of a deterioration in the standard of living. Not only do they refer to his incessant wars, in Arabia, Sudan, Greece, Syria and in Turkey itself, but also to the forced labour of hundreds of thousands of peasants driven to work on his irrigation schemes. Mohammed Ali's monopoly system is said to have been too harsh and exploitative, with the peasants being paid far less than international prices for their crops which they were forced to deliver to the Wali. The peasants lacked incentives to grow cotton, being particularly unpopular as it needed more work and brought little reward. Another source of complaint was the system of "solidarity" in tax payment according to which, if one farmer failed to pay his taxes his neighbours would be collectively responsible, and so were one village for the failure of another. Crouchley even refers to "the apathy and discontent" of industrial workers who were "dragged from their fields and workshops to labour in the factories"<sup>(6)</sup> Owen describes the conditions of Mohammed Ali's industrial workers thus: "Working conditions were bad, hours were long, and there was every encouragement for the workmen to commit various acts of sabotage. St. John reported that there was not one of Mohammed Ali's mills which had not been accidentally or designedly set on fire"<sup>(7)</sup>. Even if all this did not contain some element of exaggeration, it is very unlikely that the living conditions of most Egyptian peasants and industrial workers did not actually improve under Mohammed Ali. The change in this respect, brought about by Mohammed Ali, as compared with what went on under the Mamlukes is probably analogous to that brought about by the industrial revolution in England as compared with living conditions of the 18th century. Here also, writers who describe the sufferings brought about by the industrial revolution tend to forget the horrors of life before it. If Mohammed Ali did not pay the farmers the international prices of their crops, it was he in any case who allowed the country to make any benefit at all out of these crops, the most important of which were introduced by him. We also know that "the production of wheat, beans and barley remained fairly steady during M. Ali's reign" and that in the 1840's, "cereal production rose to three or four times above its 1821 level".<sup>(8)</sup> People were almost certainly eating better, which in those times at least, was the most important measure of the standard of living. Demographic data lend support to this

conclusion, since population which remained more or less constant during the first two decades of the century (at about 2.5 million) increased by no less than 75 % between 1821 and 1847, to 4.5 million.<sup>(9)</sup> This increase occurred in spite of the high death toll resulting from the plague of 1835, which killed one quarter of the population, in addition to the frequent wars.

The improvement in the standard of living of the lower income groups and the narrowing of income gaps during the Nasserist era is less controversial. Those were the years (1956-1965) of the great expansion of free or greatly subsidized social services of education, health and housing, of the application and extension of land reform which put a ceiling on land ownership and land rents and provided valuable security for tenant farmers. Large industrial firms were nationalized, tax rates greatly increased on high incomes, profit sharing for industrial workers introduced and prices tightly controlled. Statistics show a significant increase in the share of wages in both agricultural and industrial incomes between 1960 and 1966 (see table 2), a very big increase in real agricultural wage during the same period and in real industrial wages between 1959/60 and 1964/65 (see table 3), and an improvement in the distribution of consumption expenditure in rural areas as measured by the Gini coefficient.<sup>(10)</sup>

**Table (2)**  
**The Share of Wages in Agricultural and Industrial Income**  
**in Egypt, (1960 - 1974)**

Year	Share of Wages (%) in		Year	Share of Wages (%) in	
	Agricultural Income	Industrial Income		Agricultural Income	Industrial Income
1960	25	27	1968	31	33
1961	31	29	1969	28	32
1962	30	36	1970	29	31
1963	29	35	1971	27	
1964	29	35	1972	25	
1965	32	33	1973	24	
1966	33	32	1974	22	
1967	31	35			

**Source:** Amin, G.: *The Arab East and The West*. (Arabic), Center for Arab Unity Studies, Beirut, 1983, p. 147.

**Table (3)**  
**Development of Average Annual Real Wages**  
**in Agriculture and Industry in Egypt**  
**(1959/60 - 1970/71) (1959/60 = 100)**

Average Annual Real Wages			Average Annual Real Wages		
Year	Agricultural Wage	Industrial Wage	Year	Agricultural Wage	Industrial Wage
1959/60	100	100	1965/66	136	101
1960/61	91	84	1966/67	136	96
1961/62	108	91	1967/68	134	98
1962/63	118	119	1968/69	135	97
1963/64	126	119	1969/70	132	91
1964/65	134	112	1970/71	129	

Source: as for table (2), p. 148

### (3) Economic Consequences of Open-Door Policies

Although the labeling of economic policy in Egypt as an "Open-door policy" is no more than 16 years old, and was introduced to describe the shift in policies brought about by Anwar El-Sadat in 1974, the label can just as aptly be used to describe the shift which occurred in mid-19th century, particularly under the reign of Said Pasha (1854-63), towards freer trade, greater foreign investment and less government control. The earlier period lasted for almost a whole century, until the revolution of 1952, but the inter-war period (1918-39) witnessed some important deviations from the open-door principle which warrant a special discussion later in this paper, and make it more appropriate to confine our present discussion of the first period, to the period (1848-1914). In all the three aspects discussed in the previous section, the two periods following Mohammed Ali and Nasser witnessed remarkable deterioration.

### (a) Economic Structure:

It is not an exaggeration to say that Egypt was a much less industrialized country in 1914 than in 1848. Rapid growth did occur in agricultural output and great progress was achieved in infrastructure, as indicated by the length of railway and telegraph lines introduced, the construction of roads and bridges, the digging of new canals, the expansion of sea ports and the opening of new schools. Most of this effort was done, however, to serve foreign trade, foreign merchants and foreign investors and contributed little to the diversification of the economy.

This was a period which could be described as one with "growth but little development". Although income statistics are lacking, the growth of agricultural production and international trade undoubtedly indicate a substantial increase in average income, but an even more unbalanced economy in 1913 than existed in 1848.

The similarity with the post-Nasser period is striking. Between 1975 and 1985 the annual rate of growth of GDP in Egypt was 8.5 % in real terms, a rate which was rarely experienced in Egypt's modern history, and was surpassed only by very few countries during the same period. As a result, real per capita income more than doubled, from \$ 334 in 1975 to \$ 700 in 1985. Gross domestic investment was increasing at an unprecedented rate reaching 25 % in 1984, a rate 50 % higher than the already respectable rate achieved during the period of comprehensive planning in the early 1960's. The most striking results of this high rate of investment were to be seen in the progress of infrastructure: transport and communications, electricity and natural gas, water and sewage systems.

Behind these successes however, lie a much more bleak picture of failures and imbalances. In many ways, the most serious failure, simply because it explains much of the rest, is the imbalance in the economic structure. During the 15 years following Nasser's death, agriculture grew at a rate below that of population and well below that of GDP. Manufacturing grew at a much slower rate than services and crude petroleum. Thus, while the share of the two major "productive" sectors in GDP tended to decline, the share of extractive industries tended to rise. Between 1972 and 1985, the share of agriculture in GDP declined from 25 % to 17 %, that of industry (excluding petroleum) from 28 % to 20 % while the share

of petroleum rose from 5 % to 16 % and that of services remained more or less the same at about 47 %. The deterioration in the structure of employment was more serious, for while the share of manufacturing in the total labour force remained virtually constant at about 12 % during that period, the decline in the share of agriculture was almost totally matched by the rise in the share of services in the labour force, which increased by about 50 % (from 30 % to 45 %) and this is where "disguised unemployment" is most in evidence.<sup>(11)</sup> The government sector in particular, has been acting as the "employer of last resort", where those failing to find remunerative jobs in agriculture or manufacturing get employed at very low pay in return for little or no work.

This serious imbalance in economic structure has been quite effectively covered up for a considerable amount of time until it was dramatically revealed in the mid 1980's by the sudden collapse of oil prices. Between the mid 1970's and mid 1980's, the drastic increase in oil prices and in the oil revenues of the Arab oil-surplus countries opened new opportunities for work for hundreds of thousands of Egyptian labourers, both skilled and unskilled, who migrated to the Arab Gulf Countries and to Libya and sent back to Egypt what, in the early 1980's became the largest single source of foreign exchange, surpassing even oil. The collapse of oil prices in 1986 revealed however, how fragile the economic structure has been and how the rapid growth of income and infrastructure since the mid 1970's has been merely the result of regularly injecting the economy with external sources of income or capital, whether in the form of foreign aid, labour remittances or higher oil prices, all of which having little relation with an increase in productive activity at home.

The bleakness of the economic picture during the last 4-5 years constitutes therefore a bitter, but to my mind, just judgment of Egypt's economic performance since 1975. Since 1986, Egypt has been suffering from stagflation and severe unemployment. Each of which being directly related to the weakness of economic structure. The real rate of growth of GDP has been barely above the rate of population growth since 1986, and was accompanied by a rate of inflation in the neighborhood of 20 %. What was also fairly new to Egypt was the high rate of open unemployment experienced since 1985. This rate exceeded 12 % of the labour force and is now as high as 25 % among university graduates.

## **(b) Economic Dependence:**

According to virtually all the twelve indicators of economic dependence/independence contained in table (1), Egypt became much more economically dependent during this period (1848-1914) than she was under Mohammed Ali. Foreign financing came to constitute a handsome proportion of domestic investment, while it played virtually no role under Mohammed Ali. Foreign debt emerged and grew until it constituted about 100 % of national income at the turn of the century. Exports became even more dominated than ever by cotton, and both exports and imports became more concentrated in Britain. With the growth of the middle class and the increasing extravagance of the ruling elites, imports of consumer goods increased as a proportion of total consumption, and with the complete abandonment of capital-good industries, the imports of these goods must have grown as a proportion of total investment. The degree to which imports were covered by exports varied between the first half of this period (1848-1882), during which the deficit in current account tended to grow and was covered by growing borrowing from abroad, and the second half (1882-1914) during which one of the main aims of the colonial administration was to realize a surplus on current account so as to service the foreign debt. Even with regard to self-sufficiency in food, the situation deteriorated in spite of the very rapid growth in agricultural production. With the increasing profitability and popularity of the cotton crop, cotton increasingly replaced wheat, and this, together with the increased in population, made the locally grown wheat insufficient, by the turn of the century, to meet the needs of the country. Imports of wheat and flour started to grow, which were again encouraged by the increasing availability of cheaper wheat from Canada, Australia and South America. By 1914, Egypt had become a British protectorate, had been under British occupation for over three decades, and was as politically dependent as she was economically.

Table (1) already provided data on the change in a number of indicators measuring "economic independence", since 1974. It clearly points out the tendencies towards an increase in the concentration of exports, both with regard to their composition and their geographical destination, an increase in the geographical concentration of imports, an increase in the percentage of food imports in total food consumption, in the proportion of foreign financing in domestic investment, in the percentage of total imports

in GDP, in the percentage of imports of consumer goods in total consumption expenditure and in the percentage of imports of capital goods in domestic investment. Particularly striking is the growth of external debt. On Nasser's death in 1970, Egypt's public external debt, both long and medium term, but excluding military debt as well as private debt, was \$ 1.7 billion. If one is to add estimated public short-term debt, military debt as well as private debt, the total would probably not exceed \$ 5 billion. This is to be compared with the total debt on the death of Sadat in 1981, of \$ 30 billion. Egypt's external debt multiplied therefore, six times during the 1970's. It increased again by about 50 % under the first 9 years of Mubarak to reach \$ 45.7 billion at the end of June 1989.<sup>(12)</sup> Of this, a little under 25 % consists of military debt (see table 4).

**Table (4)**  
**External Debt Outstanding**

(\$ million at end of period)

	83/84	84/85	85/86	86/87	87/88	88/89
Supplier's Credit	4260	4650	5562	6160	7518	8509
IBRD and IDA	1554	1752	1903	1963	2011	n/a
GODE(*)	2269	2381	2406	2449	2529	n/a
Other Multilateral Loans	413	428	603	682	685	n/a
Bilateral Civilian Loans	9740	10365	10759	12012	12756	24817
Military Loans	7330	9380	8936	9447	10495	
Total Medium and Long-term Public and Public Guar- anteed Debt	25566	28956	30169	32713	35994	38591
Short-term Debt	5655	5637	4929	4388	4321	4344
Private Sector Debt	1849	1807	2750	2750	2826	2818
Total Debt	33070	36400	37848	39851	43141	45753

(\*) The Gulf Organization for the Development of Egypt

Source: *International Monetary Fund*, 1990

Needless to say, this rapid growth of external debt is largely the result of the very poor performance of our agricultural and manufactured exports when compared with the growth of imports, a fact which is again a reflection of the weakness of the economic structure manifested mainly in the poor performance of the two major commodity sectors: agriculture and manufacturing. Egypt's external debt today is high by any standard, even when compared to the relative size (about 100 % of GDP) of the famous Egyptian debt of a little over a century ago which led to the dethronement of khedive Ismail and to the British Occupation. Today, the servicing of the debt has gone beyond Egypt's capacity to pay. According to a recent report by the American Embassy in Cairo, Egypt's total debt service obligations during the year (1989/90) exceeded \$ 6 billion, or 54 % of the total value of all Egypt's exports of goods and services of the year before (1988/89) (see table 5).

**Table (5)**  
**Egypt's Balance of Current Accounts (1984/85 - 1988/89)**

(\$ million)

Item	84/85	85/86	86/87	87/88	88/89
<b>Trade balance</b>	-6588	-5681	-5688	-6567	-7533
-Exports (f.o.b)	3928	3576	2264	3274	2546
of which petroleum		2378	906	1563	1066
- Imports (c.i.f)	-10516	-9256	-7952	-9841	-10079
<b>Service Balance:</b>	434	-232	778	1941	1836
• <b>Receipts:</b>	3505	3450	4016	4575	5044
of which					
★ Suez Canal	897	1028	1148	1269	1307
★ Investment income	568	533	614	624	729
★ Tourism	410	321	380	886	920
• <b>Payments:</b>	-3072	-3683	-3238	-2634	-3208
of which					
★ Interest Payments	-981	-1321	-1094	-785	-1016
★ Transfers	4593	4183	3986	4081	4240
Governmental	1097	1210	974	698	710
Workers Remittances	3496	2973	3012	3384	3530

Source: American Embassy in Cairo: Egyptian Economic Trends, March 1990

Such obligations cannot of course be met, as were those of the last few years, the result of which was the accumulation of debt service arrears exceeding \$ 10 billion at the end of June 1989. According to the same American report, "both commercial and official sources of external credit tightened. At the beginning of 1990, the Government was experiencing difficulties in financing high-priority food imports."<sup>(13)</sup>

### **c. Income Distribution:**

One can also confidently argue that income distribution worsened between 1848 and 1914, even though conclusive statistics are of course lacking. There are several indicators for this. In the first place, there was the emergence and growth of ownership of agricultural land by foreigners. While this was confined, under Mohammed Ali, to uncultivated land so as to encourage bringing new land into cultivation, foreigners were allowed by khedive Said in 1858 to buy already cultivated land, which was confirmed under Ismail by a decree from Constantinople in 1867. This foreign ownership of agricultural land went on growing with the failure of small cultivators to repay their debts to mortgage banks. In the second place, the burden of land tax became excessively high on small cultivators. What the small cultivator gained, under Said, as a result of the abolishment of the "solidarity" principle in the collection of taxes was lost, under Ismail, as a result of an excessively high burden of taxation to which Ismail was driven by his own heavy burden of foreign debt. The growing gap between the poor and rich under Ismail is vividly illustrated by Janet Abu Lughod's description of the development of Cairo during his reign. She calls this development "a tale of two cities", these two cities being the modern part of Cairo which grew under the name of "Ismailia", between the Nile and the Azbakeya gardens, and was inhabited mainly by foreigners and the newly-rich Egyptians, and the "oriental" city which occupied roughly what is now called the "old Cairo", and in which the bulk of lower-income Egyptians dwelled. While this old "city" was left practically untouched, the new "city" was built in French style, all with pavements and boulevards lined with trees. This is to be contrasted with the Cairo of Mohammed Ali, the physical features of which were virtually the same when he died as when he came to power, except for the factories, iron foundries and the schools he built.<sup>(14)</sup>

The trend of growing inequality continued under the British occupation. The British can indeed boast of the big increase in agricultural production, in the productivity and profitability of agriculture, in the security of land ownership as well of the reduction in the burden of taxation. But with this went a big increase in foreign ownership of agricultural land until it covered no less than 1/7 of total cultivated land by the turn of the century. The process of depriving small landowners of their land, which started under Ismail, also accelerated. The burden of land tax became indeed lighter and lighter, but to a progressively smaller proportion of the population. By 1917 no less than 53 % of the population of upper Egypt and 36 % of the population of the Delta were landless.<sup>(15)</sup> More and more landowners were therefore forced to become either tenants of other people's land or merely agricultural labourers. For tenants, conditions became increasingly difficult with the growing scarcity of land, as agricultural rent tended to soar to the benefit of landlords. As for agricultural labourers, although they benefited from the abolition of coerced labour, the more rapid growth of supply of labour compared with demand, especially with the migration every year of some 500,000 to 800,000 labourers from upper Egypt to the Delta, worked to keep the wage rate close to subsistence level.

The development of income distribution following what we called the "Nasserist era" (1956-1967) is less straightforward than that of the change in economic structure or in the degree of economic "dependence". Reviewing the various information and statistics available, one is left with a strong presumption that income distribution deteriorated slightly or remained more or less the same between the mid 1960's and the mid 1970's, both in the sense of the size of the gap between the rich and the poor and in the sense of the relative size of the population in absolute poverty. Between 1975 and 1985, there are signs of significant improvement in the latter sense but a big deterioration in the former sense, and of deterioration in both senses after 1985. The conclusion with regard to the period (1965-1975) is based on data on Gini coefficient,<sup>(16)</sup> on the development of real agricultural and industrial wages (see tables 2 and 3 above) as well as on the nature of economic policies undertaken during this period, which did not witness any important redistribution measures. This was also a period of economic stagnation following the 1967 war.

The allegation of widening gap between rich and poor in the decade following 1975, is strongly supported again by the nature of economic policies followed during this period, the laxity of government efforts in collecting taxes and fighting corruption, and the very rapid growth of national income and external revenues. The suggestion that the proportion of people falling under the poverty line has decided in the decade following 1975 is supported by ILO sample survey of rural Egypt in 1977, by statistics on the movement of real wages in both the rural and construction sectors<sup>(17)</sup> as well as by the study of the impact of the migration Egyptian labour abroad after 1975 on low income groups.<sup>(18)</sup> The suggestion of a deterioration in income distribution since 1985, particularly in the sense of an increasing in the proportion of people falling under the poverty line is based mainly on the very big rise in the rate of inflation and in the rate of unemployment, and the big reduction in government expenditure on food subsidies and social services following the big fall in oil prices, particularly since 1986.

#### **(4) An Attempt at an Explanation:**

If one is at all right in suggesting that certain economic features tend to be associated with a state-controlled economy and that the opposite features tend to be associated with open-door policies, one is naturally tempted to look for an explanation. It is of course possible that such associations may be merely a coincidence, with no causal relationship involved. But one presumably should not dismiss the matter as pure chance unless no causal relationship seems to be at all plausible. What follows is an attempt to find such a relationship.

Both Mohammed Ali and Nasser were committed to what may be called an "ambitious national project of independent development" to which they were wholeheartedly dedicated and for which they made a heroic effort to mobilize the nation's material and human resources. It was "ambitious" since the goals went far beyond what the nation had achieved for a very long time before their rule, "national" in the sense that it revolved around the image of the nation's future rather than the ruler's own personal ambitious, and involved almost every aspect of the country's development, and "independent" in the sense that it was not inspired or motivated by the interests of foreign powers, but rather was often in conflict with

these interests. The two experiences may indeed have been "tolerated" by these powers but they were not "dictated" by them.

The nature of the two projects, though quite similar in many respects, was not identical: military strength may be the dominant element in the case of Mohammed Ali, in contrast to rapid industrialization and social justice in the case of Nasser. But in both cases, the fact that the project was highly ambitious and often came into conflict with the interests of foreign powers seemed to require a high degree of consolidation of political and economic power in the hands of the state. The rapid change in economic structure was itself an essential element in Nasser's national project and was at least a necessary condition for the fulfillment of that of Mohammed Ali, since a strong army capable of fulfilling independent military targets required an ambitious industrialization programme. To increase the country's resources to an extent which would make possible the fulfillment of national goals, required a greater integration of the national economy into the international economic system, as was manifested by the growth in importance of foreign trade under Mohammed Ali, and of foreign aid under Nasser, but very clear and strict limits were drawn to this integration by the determination to preserve the ambitiousness and independence of the national project. Hence all the elements of "economic independence" to which we referred in describing both Mohammed Ali's and Nasser's experiences.

The implementation of this national project was bound to have important consequences, in both cases, for the standard of living and the way of life of the masses both in the cities and the countryside. In the case of Mohammed Ali, the new irrigation projects, the introduction of new crops, the change in the system of cultivation and of tax collection, as well as the non-ending mobilization of new recruits for the army, radically changed the way of life of the peasants, and not always for the better. In the city, the introduction of the monopoly system, the massive industrialization programme, the restrictions imposed on merchants and craftsmen, the great expansion of education and the improvement of medical facilities, in addition to the successful maintenance of law and order, have also radically changed the way of life of the urban population, mostly for the better. In the case of Nasser, life in the countryside was transformed by land reform and the various forms of government intervention in the production and distribution of agricultural output and agricultural income. In the city, life was transformed by redistribution measures, industrialization, the growth

of the bureaucracy and the army, and the expansion of the education, medical, and other services. In both experiences, economic progress was achieved at the cost of political authoritarianism. This probably did not entail great sacrifices in the earlier experience, except for the human sacrifices entailed by Mohammed Ali's military campaigns. The political price was much higher in the Nasserist experience, and the controversy will probably go on forever regarding whether or not the economic benefits of Nasserism were greater than its political cost.

In both cases, the transformation of the way of life of the masses, more often than not for the better, was not dissociated from the high degree of independence, attempted and achieved, from foreign pressure. Lacking a permanent and reliable source of foreign support, Nasser had no alternative but to rely on a domestic source which, given his attack on the old ruling elite of big landowners and urban bourgeoisie, could only be provided by the lower ranks of the middle class, industrial workers and small landowners. In this way, a relationship could be seen between the commitment to an independent national project and the third feature of the Nasserist era: the improvement in the standard of living of the lower income groups. One may note a similar relationship between Mohammed Ali's pursuing of an independent project and his new reliance on a purely "Egyptian" army consisting, for the first time in centuries, of Egyptian peasants.

It is important to emphasize that this commitment to a "national project of independent development" was conspicuously lacking in the two extended periods that followed the two experiences of tight state control under Mohammed Ali and Nasser. Successive rulers between Mohammed Ali and the First World War were mostly weak and unambitious, and/or severely manipulated by foreign powers. I am inclined to the view that the same thing could be said of the rulers following Nasser. Whether this was merely a historical accident or the inevitable result of the prevailing international or domestic conditions is a highly controversial point and I have already expressed my position on it elsewhere.<sup>(19)</sup> Very briefly, I believe that a very strong case can be made for the view that changing international conditions were the dominant factor behind the shift in Egypt's economic and foreign policies after 1840 and again after 1970. Although domestic conditions obviously play a role, including the personal inclination of individual rulers, not to mention the underlying economic, social and

demographic conditions, the decisive factor in the case of countries like Egypt seems to lie in the international context.

"In studying the economic, political or cultural development of a country which is truly independent it may be perfectly legitimate to have as one's starting point the nature of the country's natural or human resources, its technological development, the changing balance of power among its own social classes or even the personal characteristics of its political leadership. The same approach might, however, be seriously misleading when applied to a country which is desperately dominated by another, and in such a case, it may be much more fruitful to have as one's starting point whatever development that might have occurred within the dominant country itself".<sup>(20)</sup>

I have traced these developments as well as their impact on the Arab World in an earlier work of mine<sup>(21)</sup> so that it is pointless to pursue the argument any further in the present paper which is more concerned with the consequences than the causes of shifts in economic policy. One point however, may deserve some elaboration here, namely the role played by the political nature of the system, particularly in relation to the degree of democracy and mass participation, in determining the nature of economic policies. This issue of the relation between democracy and economic policy and economic performance has come to attract much greater attention since the dramatic changes in Eastern Europe. Unfortunately, the lessons drawn for Egypt and the Arab World from these events seem to me to be, though nobly motivated, faulty in logic.

Much of the economic successes of Mohammed Ali and Nasser have been based, as I referred to earlier in this paper, on their tight control of the state and economy. What may be regarded as a decline in people's motivation and a weakening in their private incentives seem to have done little damage to the country's economic performance whether in the first four decades of the 19th century or in the 1950's and 1960's. When economic decline started after 1840 and again after 1967 it was sudden and abrupt and was clearly associated not with a sudden decline in people's participation or support but with sudden and severe external shocks.

It seems to me that we tend here to commit an error of logic by thinking that if two things are desirable (e.g. democracy and economic de-

velopment) then they must come together or one must be a condition for the other. The real world does not seem to lend support to this view.

### **(5) The Special Case of the Inter-War Period**

In many ways, the inter-war period in Egypt lies somewhere in between the two models outlined above: that of far-reaching interventionist policies and that of an unrestrained *laissez-faire* system. No state-monopoly system of the type introduced by Mohammed Ali or Nasser was applied but the tariff system was drastically changed in order to provide a much greater protection for domestic industry. Industry remained in private hands, but the state did not take deliberate efforts to stifle it as happened during the first three decades of the British occupation. Agricultural production was subject to little control, but the state interfered to provide some protection for small landowners from the impact of the world depression.

Politically, the inter war period also shows some parallel characteristics. Egypt continued to be under British occupation, but achieved nominal political independence in 1922 and a greater measure of freedom by the treaty of 1936. No absolute ruler of Mohammed Ali's or Nasser's type could obviously be expected, but nor did Egypt completely lack effective nationalist leaders as she did in the second half of the 19th century or indeed in the two decades following the death of Nasser. Saad Zaghloul and Talaat Harb provided respectively the model of political and economic leadership. These two men may not have had the degree of ambition that Mohammed Ali and Nasser had, but they probably had the maximum degree of it that circumstances could allow. Interestingly enough, some success was achieved during the inter-war period in changing the economic structure and in gaining economic independence, but here again, the success was less notable than that achieved under strict government control.

Agriculture did quite badly, between 1918 and 1939 but manufacturing grew rapidly thanks mainly to the establishment of Bank Misr in 1920, and to the contribution of its companies under the leadership of Talaat Harb. The result was that the share of industrial output (including manufacturing, mining, electricity and construction) in GNP doubled between 1927 and 1937, though still not exceeding 8 % in the latter year.<sup>(22)</sup> The rate of urbanization during this period was probably the highest rate

experienced by Egypt whether before or since, with the proportion of urban population doubling between 1913 and 1947 (16 % and 33 % respectively). By 1939, the degree of self sufficiency in several manufactured products exceeded 90 %, as in sugar, soap, cigarettes, shoes, cement and furniture, while the share of manufactured consumer goods in total imports declined heavily in favour of imports of industrial raw materials and intermediate goods.<sup>(23)</sup> Cotton continued to dominate exports but even here, notable progress was achieved in the form of diversification of export markets. The share of Britain in Egyptian exports fell from 43 % in 1913 to 32 % in 1938 and that in imports from 31 % to 23 % respectively.<sup>(24)</sup> The inter war period also witnessed a very big reduction in Egypt's external debt until it was completely liquidated in 1943 and Egypt was quickly turning into a creditor rather than a debtor of Britain.

Behind all these developments it is not difficult to discern the primary importance of the international environment. Egypt's economic and political development, including the shifts in economic policies between 1914 and 1945, was largely the result of the two World Wars and the great depression of the 1930's. It is difficult to imagine the establishment of Bank Misr, the rise of the Bank Misr companies, the great progress in manufacturing, the decline of agriculture, the very rapid urbanization or the repayment of the external debt, in the absence of the accumulation of savings during the first world war, the big fall in agricultural prices as a result of the world depression, the difficulties facing importation of manufactured goods and the huge expenditure of foreign troops during the two wars. The inter-war period may indeed seem to be neither the replica of the two periods of "etatism" of Mohammed Ali and Nasser, nor of the *laisser-faire* periods of their immediate successors, but still lends support to our main theses: There are certain important economic features that tend to be associated with one or the other of the two types of economic policy, and external factors seem to play a primary role in determining the nature of this policy.

## **(6) Parallels with Turkey ?**

During the 67 years that passed since the emergence of Republican Turkey, the country witnessed two periods, of about a decade each, characterized by a high degree of state intervention. Comprehensive planning

and ambitious development programmes aiming at accelerated industrialization, greater economic independence and the reduction of social and regional inequalities. These were the period of the 1930s, of Ataturk's etatism, and the period of the two five-year plans of the 1960s and early 1970s (1963-1972). Each of these two periods was followed by a period of great economic hardships resulting, in the earlier period (1939-1950) from the disruption caused by the Second World War, and in the later period (1973-1980) from the big increase in oil prices. But in both periods, the economic hardships were faced by governments that were much weaker than their predecessors and enjoyed much less popular support. These periods of economic hardship were again followed by political regimes that reversed the earlier policies of strict government control of the economy and pursued much more liberal economic policies: the Menderes era of 1950-1960, and the era of "structural adjustment" of the 1980s.

One can make a strong case arguing that the two periods of etatism and economic planning were much more successful than the following periods in diversifying the economic structure, in achieving economic independence, and in reducing income disparities. During the etatist era of Ataturk, the share of agriculture in national income declined in favour of industry and services from 50 % in 1929 to 38 % in 1939.<sup>(25)</sup> This was achieved "without any loss of economic and political independence".<sup>(26)</sup> Only two foreign loans were received during the 1930s, one of eight million gold dollars from the Soviet Union to be repaid without interest, over a twenty per period, and the other of 10 million gold dollars from a Swedish-American firm at 6.5 % interest in return of a grant of the matches and briquette monopoly, but this latter loan was repaid within a short time with the monopoly returning to Turkey. During this period, Turkey also managed to repay a good proportion of her external debt, and to reduce her dependence on the imports of textiles and foodstuffs while her imports of capital goods increased from 14.5 % to 37.2 % of total imports between the beginning and the end of the 1930.<sup>(27)</sup> While no adequate data exists on the change in income distribution under Ataturk there is evidence for significant improvement in the average diet and for some slight improvements in the distribution of land ownership as a result of the land reform of 1923, although the main beneficiaries were the two million Turkish refugees from abroad.<sup>(28)</sup>

During the period 1963-1972, the diversification of economic structure was also impressive, with the share of industry in GNP rising from 17.3 % in 1963 to 22.7 % in 1972, and that of agriculture falling from 34.8 % to 25.9 % during the same period.<sup>(29)</sup> The data on income distribution is again inadequate but the Gini coefficient appears to have fallen from 0.56 in 1963 to 0.51 in 1973, indicating some improvement in income distribution.<sup>(30)</sup>

In contrast to these two periods of the 1930s and the 1960s, the 1950s show a big increase in the dependence on Western aid, with Turkey's total foreign indebtedness reaching \$ 1011 in 1957, or about three times her export earnings, while the remaining years of the 1970s (1973-1979) show again a striking increase in foreign indebtedness in spite of the great increase in labour remittances.<sup>(31)</sup> This is strongly reminiscent of Egypt's experience during the same years: a rapid growth of borrowing when the country is least in need. Income distribution seems to have deteriorated in the two periods of the 1950s and 1973-1979 while the economic structure stagnated in the latter period.<sup>(32)</sup>

The liberalization policies of the 1980s were supposed to correct all this, but there are already signs that at least with regard to income distribution there has been further deterioration with real wages in 1988 less than half their level in 1979, compared with the development in real interest income which is estimated to have multiplied more than 16 times during the same period.<sup>(33)</sup>

One is tempted to conclude that in spite of all their differences, the consequences of the major shifts in economic policies in Egypt and Turkey show a strikingly similar pattern.

## Notes

- (1) An excellent book on the political history of Egypt under Mohammed Ali is Dodwell, H.: *The Founder of Modern Egypt: a Study of Mohammed Ali*, Cambridge (England), the University Press, 1931; and the best economic history is probably still Crouchley, A.: *The Economic Development of Modern Egypt*, London, Longmans, 1983. It is not as easy to select two works on Nasser. Arabic sources on Nasser are more indispensable, and good books written on him in English tend to be more specialized than those dealing with earlier periods of Egyptian history. The most balanced work on the political economy of Nasserism seem to me to be that of Issawi, Hansen, O'Brien, Watebury and Mabro.
- (2) Crouchley, *op. cit.*, p. 41.
- (3) Owen, R.: *Cotton and the Egyptian Economy: 1820-1914*, Oxford, Clarendon Press, 1969, p. 45.
- (4) Hansen, B: "Planning and Economic Growth in the UAR 1960-s", in Vatikiotis, P: *Egypt since the Revolution*, Allen & Unwin, London, 1968, pp. 22-35.
- (5) Crouchley, *op. cit.*, p. 69.
- (6) *Ibid*, p. 72, see also Owen, *op. cit.*, p. 25.
- (7) *Ibid*, p. 45.
- (8) *Ibid*, pp. 49-59.
- (9) Crouchley, *op. cit.*, p. 51.
- (10) See ILO: *Employment Opportunities and Equity in Egypt*, ILO, Geneva, 1982, pp. 95-96.
- (11) See Amin, G.: "Adjustment and Development: The case of Egypt", in El-Naggar, S. (ed.): *Adjustment and Development Strategies in the Arab World*. AMF. 1987, p. 93.
- (12) See Amin, G.: *The Story of Egypt's External Debt*, (Arabic) Ali-Mukhtar Publishing House, Cairo, 1987. pp. 71-2.
- (13) American Embassy in Cairo: *Egyptian Economic Trends*. March 1990, p. 2.
- (14) Abu-Loghoud. Janet: Cairo: *One Thousand and One Years of the City Victorious*, Princeton University. 1971.
- (15) Owen, *op. cit.*, p. 240.

- (16) See ILO, *op. cit.*, pp. 93-96.
- (17) *Ibid*, pp. 96-127.
- (18) See Amin, G. and Awany, E.: *International Migration of Egyptian Labour*, Ottawa, IDRC, 1985, pp. 130-145.
- (19) Amin, G.: "External Factors in the Reorientation of Egypt's Economic Policy", in Kerr, M. and Yassin, S. *Rich and Poor States in the Middle East*, West view, Boulder, Colorado, 1982.
- (20) *Ibid*, p. 285
- (21) Amin, G.: *The Arab East and the West*, (Arabic), Center for Arab Unity Studies, Beirut, 1979.
- (22) Issawi, Charles: *Egypt in Revolution*, Oxford University Press, London, 1963, pp. 44.
- (23) Egyptian Economic Society: *Proceedings of the 50th Anniversary*, (in Arabic) Cairo, 1960, p. 455.
- (24) Issawi, *op. cit.*, p. 39.
- (25) Hershlag, Z. Y.: *Introduction to the Modern Economic History of the Middle East*, Brill, Leiden, 1964, pp. 190-1.
- (26) *Ibid*, p. 193.
- (27) *Ibid*, p. 198.
- (28) *Ibid*, p. 192-8.
- (29) Hale W.: *Political and Economic Development of Modern Turkey*, Croom Helm, London, 1981. pp. 130-131.
- (30) *Ibid*, p. 137.
- (31) *Ibid*, p. 106 and 230.
- (32) *Ibid*, p. 111 and 131.
- (33) Boratav. K.: "Contradictions of Structural Adjustment: Capital and the State in post-1980 Turkey", a paper submitted to a symposium organized by the Ford Foundation on "Socio-Economic Transformation, State and Political Regimes in Egypt and turkey", Istanbul, July 1990.