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CHAPTER I

EGYPT IN THE CONTEXT OF "DEPENDENCIA"

INTRODUCTION

According to the 'October Paper' the purpose of the economic opening was to engage State, Private, Arab and Foreign capital in collaborative economic activities.[1)] Export-oriented industrialisation was viewed as the only solution for Egypt's development crisis.[2)] The Open-Door Policy thus aimed at reintegrating Egypt into the world capitalist system. Therefore, in attempting to study the political economy of Egypt during the period of economic liberalisation, the "dependent development" approach is an appropriate theoretical tool. The peculiarities of the Egyptian case, however, do not conform to a "pure" model of dependent development. These peculiarities cover Egypt's economic, societal, cultural and institutional legacies as well as its unique role in the Arab region. Therefore, this study is rather an attempt to examine the "concrete situation" of the Egyptian case within the conceptual framework of the dependent development approach.[3)]

A number of broad theoretical assumptions underlie the analysis:

1) "Dependencia" is defined in the broad sense as "a situation in which the rate and direction of accumulation are externally determined". A dependent country is therefore one "whose development is conditioned by the development and expansion of another country."[4)]

2) Dependent development is not a break with classic dependency. Dependent development has evolved during periods of classic dependancy as an antithesis to the dominant current of classic dependency. Under classic colonial dependence, peripheral economies were subordinated through monopoly of their trade, land, mines and manpower by the colonialist state. At a later stage, financial-industrial dependence introduced investments in raw materials and agricultural production in the periphery for the satisfaction of consumption needs in the centre. Following

the second world war, a modern type of dependence, based on multinational corporations investment in industries geared to the internal markets of the periphery, began to gradually replace older forms of dependence.[5] An economy evolves from classic dependency to dependent development only when "capital accumulation and diversified industrialisation are dominating the transformation of the economy in a peripheral country."[6] Under dependent development, industrialization could occur in peripheral areas, in the presence of a strong state apparatus and a local elite enjoying a degree of sovereign automomy. A distinguishing feature under dependent development is that dependent groups are not passive elements in the process of dependency.[7] As dependency does not imply a fixed position in the international division of labour, a dependent economy may exhibit a number of classic dependency characteristics, depending on its position along the scale of "periphery - semi-periphery - centre".

3) Between the centre and periphery there exists a large number of semi-peripheral areas characterized by relatively complex economic activities, relatively strong state apparatuses and local elites and a high degree of cultural integrity.[8] Semi-peripheral countries, according to Evans, are countries that are structurally different from the centre and the periphery. Using a combination of macro socio-economic indicators such as GNP, per capita GNP, market size, share of industry in GNP, percentage of industrial employment in total employment and rate of illiteracy, they lie between the two extremes of centre and periphery.

4) The concept of dependence attempts to analyse the specific forms of interaction between internal and external structures. The external element is not seen as an independent factor that mechanically determines the internal. The

dependence approach, rather, aims at studying the social and class manifestations of the external in dependent countries.[9)]

5) Strategies of multinational corporations (MNCs) are based on global benefit-cost analysis. A purely economic explanation would be insufficient to explain the relationship between centre and semi-peripheral countries particularly during a period of transition of the latter. The centre's strategy is one of keeping the door wide open for foreign capital. "What matters to the economic system in the world of business, as a whole, is keeping chances of foreign investment available." For worldwide strategies, it is not benefit-ccst analysis in a particular instance that matters, but rather conditions that would have otherwise prevailed.[10)]

6) The development of capitalism in semi-peripheral societies is not accompanied by the ascent of a single industrial bourgois class. Mechanisms of dependent development play their role through the interaction of different social groups and classes. Neither the state nor the local bourgoisie are homogeneous entities. MNCs operations are controllable through the relatively strong state apparatus in the semi-periphery. Under these circumstances, the outcome of interaction among state, private and foreign capital will differ from one issue to another. This, however, does nct negate the fact that the semi-periphery's development and class structure will be incresingly determined by external factors.[11)]

EGYPT - A SEMI-PERIPHERAL CASE - STUDY

Different economic indicators place Egypt among countries of the semi-periphery. However, so far, Egypt's semi-peripheral status has to a large extent been a potential rather than an actual one. According to Waterbury, Egypt is one of 30 less developed countries (LDCs) which qualify for a semi-peripheral status, for which about 120 LDCs do not qualify.[12)] The criteria used are the GNP, per capita GNP, debt service ratio and amount of direct foreign investment. Other structural indicators include the share of industry in GNP and in total employment which in the early 1980s amounted to 25.4% and 12.5%, respectively.[13)] These indicators and other quantitative and qualitative measures like Egypt's geographic location, the size of the local market, cheap labour supply and sophisticated infrastructure, according to which Egypt is classified as a middle income economy and one of the top 40 developing countries, imply that Egypt has the potential to be a successful example of dependent development.[14)]

On the other hand, Egypt's increasing involvement in the world capitalist market has dramatically increased more primitive forms of dependence on the external world. According to different macro economic indicators this dependency has in many cases reached unprecedented levels (see Tables 1 and 2). These indicators include reliance on one export item, namely oil, increasing share of exogenous sources in national income, a declining share of commodity production in GNP, increasing reliance on imports, in addition to the paradoxical phenomenon of importing increasing amounts of basic food requirements in a primarily agricultural economy.[15)] The share of direct foreign investment inside the country ($ 1.1 billion) does not place Egypt among major LDCs hosting foreign investment from O.E.C.D. countries. In spite of an open-door economy starting 1974, direct foreign investment lagged behind other forms of economic relations.namely aid and trade.

Macro-economic indicators reveal the co-existence of classic dependency and potential dependent development features. A specific form of socio-economic transformation, among several structural economic possibilities will be determined by the interaction of social groups and classes.[16)]

TABLE 1 - SOME INDICATORS OF INCREASING DEPENDENCE ON THE EXTERNAL WORLD

	Indicator	1973	1980
a)	Food imports (LE Million)	351.6	1566.4
	Percentage of Imported wheat to total cons.	54	70
	Percentage B of T deficit to GDP	10.2	16.5
	Export coverage of imports (including oil)	63.7	50.8
	Export coverage of imports (excluding oil)	63.7	17.7
	Percentage of foreign financing to total Inv.	31.0	48.0
	Amount of foreign loans (LE Billion)	2.1	17.0
	Percentage of foreign loans to GDP	52.0	106.0
	Rate of deb t service to total exports	16.2	21.4
		1972/73	1979/80
b)	(imports & Exports) as % of GDP	35.6	96.8
		1970	1980
c)	Imported wheat (kgs per capita)	39	129
	Wheat Aid (Kgs per capita)	6	35.7

a) Ramzy Zaki, Studies, Egypt's Economic Crisis, Madbouli 1983, p.269.
b) Abdel Fadil, Mahmoud, 1983, p.50.
c) Waterbury, 1983, p.30.

TABLE 2 . - DEVELOPMENT OF QUASI-RENTAL SOURCES OF INCOME IN THE EGYPTIAN ECONOMY - 1975/1980

(LE Million)	1975	1976	1977	1978	1979	1980
1) Remittances of Egyptians abroad (Total)	268.8	420.5	649.4	1241.3	1549.5	1888.3
2) Suez Canal Revenues	42	145	174	300	427	400
3) Oil exports	202	451	504	561	1316	1900
4) Tourism revenues	72	263	430	396	320	500
1+2+3+4	602.8	1279.5	1757.4	2498.3	3612.5	4688.3
National Income	3933	4793	5974	7428	9492	12299
Ratio of rental incomes to National Income	15%	27%	29%	34%	38%	38%

FROM: Abdel Fadil, 1983, op.cit. p. 52.

THE STATE AND LOCAL CAPITAL

In spite of the State's changing policy orientation since 1974, its relative power has remained unchallenged. Among several factors, its strength and manoeuvring power are accounted for by a high degree of autonomy from different social groups and strata.[17] According to Wallerstein, the partial autonomy of the State is conditioned by the presence of "... a group of people whose direct interests are served by such an entity: State managers and a State bureaucracy."[18] Trimberger emphasises that a strong state is one whose bureaucracy and military are neither recruited from nor responsible to classes economically dominant in society.[19] Since these conditions prevailed in Egypt during the 1970s, the State apparatus and economic enterprises continued to play a major role in implementing the new economic policy favoured by the ruling elite.

Although some of the social and class roots of the economic opening could be traced back to the period 1967-1973, and in some cases to earlier periods, it was, however, the political inclinations of the State elite which took over power in 1971 that led to the shift to the economic opening. Starting in 1974, the State began implementing a number of policies aiming at restructuring domestic social and associational groups. These policies constituted an attempt at creating new social groups, more than being a direct response to already existing groups or classes. The issuance of Law 43 for Foreign and Arab Investment is an example. While the Law granted Arab and foreign capital several privileges and incentives in response to clearly defined plans and in some cases specific projects, it was not until 1977 that the local private sector was given the same incentives.[20]

As the State does not exist as a metaphysical notion, but as economic enterprises and political entities, its display of power has varied from one sphere to another. Its leverage combines both political and economic factors. Economically, the State's control over the public sector gave it a leverage of major importance. Its bargaining was highest where the public/private symbiosis was most intense, i.e., the contracting sector.[21] The flow of foreign assistance, primarily through aid, gave the State vast resources in addition to those generated within the national economy. The State used political institutions, including the National Democratic Party (NDP) and some professional syndicates to enforce its policy and to subsidize the private sector. The following three examples illustrate different mechanisms of the State-private capital collaborative endeavours and how the Sadat elite used its power to restructure the relationship of the State to the private sector.

With the gradual implementation of economic liberalisation, the local private sector was hesitant to indulge in industrial activities. For this reason, state support was seen as a pre-requisite for engaging the private sector in industrial projects. Accordingly, the Ministry of Housing incorporated a large cement project, the "Suez Cement Company", with a capital of LE 16 million paid by 11 State banks and companies. Foreign exchange of $ 100 million was provided by the United States. The Company intended to offer 20% of its capital share to Egyptian private investors including Egyptians abroad. Minister of Housing, Osman, predicted a 10% annual return on these shares.[22]

While it was only after amending Law 43 of 1974 that the local private sector was allowed to establish its own companies without foreign participation, the pioneering attempt came from within the public sector. Upon the call of Engineer Osman A. Osman, more than 6000 workers and engineers in the Arab Contractors Company (ACC), the largest Middle East construction company, started preliminary steps for the establishment of the first private joint-stock company since the nationalizations. Prior to amending Law 43, the new company "Industrial Engineering Company for Construction and Development", was finally established in April 1977 according to Law 26 of 1954 with a capital of LE 1.5 million which was later raised to 3 million. The Company was first engaged in trade activities and later on got involved in industrial projects and joint ventures with American and British based firms.[23]

The process of encouraging private sector participation in economic activities on a decentralised basis, started with the appointment of Osman A. Osman as head of the Popular Development Committee of the National Democratic Party. The Party established the National Bank for Development with a capital of LE 50 million which was later on raised to LE 100 million. The bank then established a chain of 20 regional banks and a large number of companies in several governorates.[24)] Sadat specifically met with State bank representatives which were to finance these projects. Moreover, popular development committees were headed by respective governors.[25)] In the case of the "Dakahlia Bank" for example, the founders of the LE 10 million bank were all party members including a large number of local businessmen.[26)] This phenomenon indicates an important qualitative shift in the link between major groups and classes and their political representatives. Until early 1970s, public figures and politicians who were recruited either for their technocratic capabilities, for their role in the army or for their political loyalty to the regime, had made use of their positions in the State apparatus for accumulating wealth. They had a vested interest in preserving the dominant role played by State economic enterprises, as long as neither alternative official channels for capital accumulation existed nor were investment opportunities abundant. By the beginning of the 1980s, the new groups of businessmen which flourished during the early phase of economic liberalisation became increasingly involved in the policymaking process. Such a process was accelerated by the establishment of the NDP and the popular development committees. These committees, led by Osman A. Osman, who is known for the dual nature of his Arab Contractors Company, gave new groups of businessmen more access to the economic decision-making process and led to a close affiliation with State officials. In the long run, this trend is expected to result in weakening the State's power and autonomy.

Osman's task of the late 1970s and early 1980s was two-sided. On the one hand, he had to overcome the haphazardness and disunity that characterized the local private sector during the early years of liberalisation and to integrate different segments of the local bourgoisie. On the other hand, Osman had to convince Ministers that they were in charge of private as well as public sectors and that they had to promote the development of private projects even at the expense of competition with State enterprises.[27] Osman, who personifies the construction sector symbiosis,[28] seemed to be the right man for such a job. Although the local bourgoisie granted Sadat its broad political support, it did not always act as a unified lobby. There were several cases of conflict between the State and the local private sector and among private sector segments. During the second half of the 1970s, Egypt witnessed a high rate of social mobility. Wings of the old bourgoisie revived, fluid categories[29] of the private sector crystallized and new groups were born. The major groups of the highly differentiated bourgoisie were remnants of old classes of large landowners and entrepreneurs, the 1960s group of bureaucrats and upper management personnel, the industrial private sector, new open-door groups of importers and representative agents of foreign companies, the commercialised professional groups in addition to a vertical segment of Egyptians working in Arab oil rich countries running through horizontal layers of classes and groups.[30]

The most favoured segment of the local bourgoisie was that of commercial representatives, traders and importers. However, their black market networks, affiliations with private banks and the upsurge in their operations especially following the dramatic increase in remittances of Egyptians abroad resulted in embarassing the State economic authorities on several occasions. The policy of encouraging importation through the private sector resulted in expanding the ranks of importers and increasing their profits at the expense of local public and private manufacturers. Representatives of pharmaceutical companies, for instance, made sizeable profits that prohibited the establishment of local manufacturing firms.[31] In 1977, the government issued Law 119 fixing a profit ceiling of 30% on imported goods. Due to resistance of merchants and importers, the Government was unable to implement the Law and its backer in the Government was removed.[32] In 1979, Decree 600 was issued requiring depositing duties on own exchange imports in one of the State's four major banks. The Decree was abolished less than a year later.

Issam Refaat listed Port Said importers and the triple alliance of importers, currency traders and bankers as the major economic groups which took shape during the economic liberalisation period. These interrelated groups share a common interest in devaluing the Egyptian pound and raising the prices of imported goods. They are, therefore, very sensitive to foreign trade laws, custom duties and credit regulations and lobby against attempts to control their activities in these areas.[33)]

Old private manufacturers, especially export-oriented groups, were more vulnerable as a result of the State's changing import-export regulations during the 1970s. In addition to the flow of imports, Sadat's decision concerning the suspension of bilateral agreements with socialist Europe in 1977, deprived export-oriented local manufacturers of their only reliable export markets.[34)] Following Decree 1058 of 1975, allowing the duty free import of textiles, about 300 private firms were on the brink of collapse.[35)]

On the other hand, the State was more successful in "...selling the concept of free enterprise to Sadat's cabinet ministers."[36)] No conclusive data is available on the participation of representatives of State enterprises and political figures in joint ventures. Their participation took several forms. The most common form was management board membership of joint ventures with State capital participation. In other cases, public sector technocrats took part, as individuals, in private-Arab and/or foreign ventures, making use of their technical capabilities and contacts. Another form was the participation of present or former major political figures in Law 43 projects, as shareholders. In most cases, their equity contribution was minimal; their main leverage being a political one (see Annex 1).

While top management officials and political figures could easily reap the fruits of economic liberalisation, the army of lower level State officials had been excluded and therefore resistant to such a process. The common complaint of foreign investors against the Egyptian bureaucracy always distinguished between the cooperative attitude of top Government bureaucrats and the antagonistic attitude and exhausting procedures at lower levels.[37)]

THE STATE AND FOREIGN CAPITAL

The State's bargaining power has been weakest vis-à-vis the external world. The Egyptian State's best cards have historically been political. However, the way in which Sadat linked the settlement of the Egyptian/Israeli conflict to the economic question, resulted in reversing the situation. Sadat's complete reliance on the U.S. in settling the Egyptian/Israeli conflict deprived Egypt of a major leverage. It was no longer possible for Egypt to exploit contradictions on the regional and international arenas.

Political enthusiasm for cooperation between Egypt and the west was not equally reflected on investment. Until the beginning of the 1980s aid remained the major channel of dependency.[38)] Through this channel, bargaining has led to diversified forms of cooperation. Most significant was the U.S. acceptance to provide State enterprises with aid conditioned by varying degrees of liberalisation which did not always necessitate their transformation into private entities. This acceptance on the part of the U.S. stemmed from an understanding of the superior capacity of the State sector relative to that of the private.[39)] In addition, loans and grants were used to upgrade Egypt's deterriorating infrastructure and support the decentralization of the decision-making to make the economic system more sensitive to free market operations.[40)] As the role of state economic entities varies widely from one sector to the other and from one governorate to another, the U.S. laid increasing emphasis on its decentralisation aid.[41)] This attitude was welcomed by the Egyptian Government and comes in accordance with its popular development strategy. Domestically, the MNCs most favourite partner, a private one, was lacking. Privatization policies have not gone at a pace satisfactory to the U.S. The disagreement was basically a political one. As a U.S. report put the matter bluntly "... the United States wants to help the Egyptian private sector more than the Egyptian Government wants to help its private sector..."[42] The remaining option of dealing with the public sector was not without political and bureaucratic trouble.

On the regional level, the post 1977 Jerusalem visit deterrioration in Egyptian/Arab relations and the complete boycott following the ratification of the Peace Treaty in 1979, had serious economic implications. Egypt was deprived of Arab aid which had amounted to about $ 7 billion between 1974 and 1977.[43)] The share of Arab direct investment declined from 24% of total capital of Law 43 approved projects in 1978 to 13% in 1980.[44)] More importantly, local private, State and foreign capital were deprived of vast markets for joint ventures production.

So far, Egyptian/American economic relations combine features of classic dependency and dependent development. Egypt's lucrative market, which has widened by the flow of remittances of Egyptians abroad, was primarily invaded through trade channels. Out of about 400 U.S. firms with operations in Egypt about 15 are involved in productive activities, while the rest are engaged in services and trading business.[45)] The U.S. is now Egypt's major trading partner, almost its only source of armaments ; its most important source of aid and its major grain supplier.[46)] In FY 1981 Egypt received 37% of the worldwide funding of PL 480 food aid programme.[47)] By the end of 1978, foreign investment accounted for about 8% of Egypt's total investment outlays.[48)] The majority of State-foreign collaborative investments falls in the areas of banking (where foreign capital is not allowed to keep a majority share), tourism, contracting and services. In the industrial sector, cooperation was highest in the engineering sector, especially in the auto-industry.[49)] This combination of classic dependency and dependent development, in which the balance is in some cases in favour of classic dependency indicators, could be seen as a necessary prerequisite for a more advanced type of dependency through the creation of a more favourable investment climate and assistance of the Egyptian authorities in overcoming the bottlenecks created by any radical shifts in its economic policies. Although the West has succeeded in opening the door for foreign investment, it has not been successful in putting things in the desired order inside Egypt. For instance, the rationalisation of food and energy subsidies, bridging the gap between the official and free market exchange rates and abolishing or, at least, dampening the effects of the 1960s social welfare schemes. The process of restructuring the Egyptian economy and assigning the respective roles of State, private and foreign capital and their multi-factional wings is far from complete. The outcome will continue to be a function of these groups bargaining power determined within a complex set of domestic, regional and international economic and political variables.

LOCAL PRIVATE AND FOREIGN CAPITAL

Cooperation between local private and foreign capital took place through several channels. Emphasis on joint ventures through direct investment has not yet played a significant role in this respect. In addition to the broad economic and political constraints, one major reason has been the absence of a strong organised local bourgoisie capable of successful collaboration with MNCs. During the 1960s, only trade and small manufacturing activities remained outside State ownership. In 1976, "The Business Week" wrote: "It has been 15 years since Egypt had anything like a private corporation...", "... and qualified local partners are scarce."[50] This experience left an enduring mark on the structure and behaviour of the local bourgoisie. The absence of a strong organised private sector was especially important given the limited understanding of the role of private capital or foreign investment among state officials. The economic opening was envisaged by some State officials as a process of consumerism and westernization more than being one of sophisticated collaborative investment.[51] The early years of economic liberalisation witnessed contradictory official policies and statements concerning the division of labour among State, private and foreign capital as well as the incentives and constraints that should govern direct foreign investment. However, as it gradually revived from the lean years of Nasser's socialism, the local private sector expressed its need for credit, equity and training for workers and managers.[52] For this reason, the U.S. which was implementing its most comprehensive aid program since the Marshall Plan, provided special funds to the Egyptian private sector rhgough AID, the International Finance Corporation and other channels. In addition, foreign companies are represented in Egypt through a vast network of representatives estimated at about 2013 in April 1982.[53] Earnings generated from these and other commercial and services activities in addition to foreign aid could serve as a source of "primitive accumulation" for potential industrialisation. On the other hand, they could be recycled into similar non-productive rapid-return activities. The eventual outcome will be determined by the interaction between foreign companies, their local partners and the State. So far, the State has not succeeded in channeling capital accumulated from contracting, trade and Egyptians abroad into industry. The process of revolving trade and import surplus into the same activities results from the evolution and historical nature of the local commercial bourgoisie and the ambiguity and inconsistency of State policies towards private capital. The result is a vicious circle that is in many respects similar to the pre 1919 period.[54]

The lack of industrial capital and expertise has been partially compensated for by the local private sector's relation to the State, the personal links between Egyptian businessmen and State representatives and their access to the market. In order to institutionalise this leverage for successful collaboration with MNCs, foreign enterpreneurs established a number of joint committees with Egyptian businessmen. These include the Egypt/U.S. Business Council, Canadian, French, Italian, Spanish, Mexican and Argentinian joint business councils.[55] This process facilitated and accelerated the mediating role of private capital in triple alliances of State, private and foreign, including Arab capital. For foreign capital, participation in this type of triple alliance venture became an opportunity whose advantages outweighed those of participating with either state or private capital alone.

Until the beginning of the 1980s, the outcome of Egypt's increasing involvement in the world economy has been negative. Egypt is increasingly relying on external sources for the provision of food, employment and income. Its industrial public sector has deteriorated creating a gap that neither private nor foreign capital have been able to fill. The outcome is what might be termed "de-industrialisation".[56] Annual employment growth rate in industry dropped from 6.7% over the period 1960/70 to 3.6% over the period 1970/1979.[57] Industrial employment as a percentage of total employment has almost stagnated between 1970/1971 (12.3%)and 1980 (12.6%).[58] De-industrialisation was accompanied with economic, social and cultural commercialisation. Imports reached unprecedented levels. In 1982/83, Egypt faced a $4.5 billion balance of payments deficit.[59] Between 1970 and 1978 consumption of basic commodities rose by 57.9% that of semi-basic commodities by 33.8% while the consumption of luxuries went up by 1160.7%.[60] Different groups of technocrats, officials and skilled workers, in addition to Egyptian temporary migrants have been attracted to trade activities. Exclusion and alienation of the masses, that usually accompany such a process, have been dampened and diluted by the Arab Gulf emigration outlet.

In order to assess the future scenarios of the roles to be played by State, private and foreign capital and the accompanying type of socio-economic development, it is essential to analyse the respective roles of State, private and foreign, including Arab, capital and their collaborative, complementary and contradictory aspects. In Chapter II an attempt will be made to analyse the role of each of the three elements in the Egyptian economy during theperiod 1974-1982. The Chapter will study the internal structure of both State and private capital and their changing roles during the period under study. The Chapter will also review the major channels of economic cooperation between Egypt and the external world. Lastly an overall, macro level analysis of Law 43 projects approved until the end of 1982 will be presented with emphasis on the respective roles of different elements in various economic activities.

Chapter III aims at a microscopic examination of a sample of 200 Law 43 companies for the purpose of analysing the contribution of different wings and groups within State and private capital to different areas of economic activities. The second major purpose of the chapter is to examine the fundamental types of alliances among State, private and foreign capital and their sub-categories. The paper ends with a conclusion summarising the findings and the analysis presented in the three chapters within the conceptual framework of the dependency approach.

ENDNOTES

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11) EVANS, op.cit., Introduction.

12) WATERBURY, 1983, op.cit., p.25.

13) GAMAL HIMDAN, Shakhsiyat Misr. "The Character of Egypt", Vol. III, Alam Al Kotub, 1984, pp.88-89.

14) The notion of semi-periphery cannot be understood in isolation from those of centre and periphery. The basic principle is that the world economic division of labour involves a heirarchy of occupational tasks in which high skill/capital-high reward functions are reserved for higher ranking areas. The set of relations between an economy and the rest of the world determines its status as centre, semi-periphery or periphery. Since no quantifiable cutting off points exist along this continuum, it must be stressed that combined macroeconomic indicators only provide some of the necessary conditions for

an economy's integration in the world economy as a semi-periphery. Equally important is the ability of society to create autonomous decision-making capacity. Factors, like the strength of the State machinery, cultural integrity and geographic location, are no less important than quantifiable economic indicators. For different approaches to the "semi-periphery", see, for example, Cardaso and Faletto Op.Cit., pp.16-19, and Wallerstein Op. Cit., pp. 231, 232, on a functional approach to centre-semi-periphery-periphery. For a more quantitative approach see Waterbury, 1983, Op.Cit., p.26.

15) EVANS, op.cit., pp. 10, 11 and 59.

16) CARDOSO and FALETTO, op.cit., p. XIV

17) For a detailed discussion, see WALLERSTEIN, op.cit., p.237, and WATERBURY, 1983, op.cit., p.32.

18) WALLERSTEIN, op.cit., p.237.

19) TONY SMITH, The Underdevelopment of Development Literature: The Case of Dependency Theory, <u>World Politics</u>, 1979, Citing Trimberger, p. 277.

20) For a review of projects proposals presented to the Egyptian Government prior to the issuance of Law 43, see Peoples Assembly Minutes of 9.6.1974. Also see Abdel HUSSEIN, <u>Al Iktisad Al Misri Min Al Istiklal Ila Al Tahariya</u>. "The Egyptian Economy from Independence to Dependence" Vol. II, p.28.

21) WATERBURY, 1983, op.cit., p.181.

22) <u>International Management - Africa,</u> June1983, and <u>Al Ahram Al Iktisadi</u>, 13.10.1980.

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33) Al Ahram, 1.8.1983.

34) WATERBURY, 1983, op.cit., pp. 172, 187 and 188.

35) Ibid, p.172.

36) International Management - Africa, op.cit.

37) DAVID WILLIAM CARR. Foreign Investment and Development in Egypt, Praeger Publishers, New York, 1979, p.95. Also see Survey of 30 U.S. companies doing business in Egypt Proceedings of Egypt - U.S. Business Council, 1983.

38) Until 30.6.1981 Egypt had received more than $18 billion of aid from foreign and Arab sources. RAMZY ZAKI, The Foreign Loans Case: The Open Door, Roots, Harvest and Future, p. 173.

39) United States Economic Assistance to Egypt and Sudan. Reports of Staff Study Missions to Egypt and Sudan, October 1982, to the Committee on Foreign Affairs, U.S. House of Representatives, December 30, 1982, Washington, 1983, p.12.

40) Egypt - Opportunities for Suppliers and Investors, A Business International Research Report, 1980, pp. 58-59.

41) United States Economic Assistance to Egypt and Sudan, op.cit., p.8 and Al Gomhouriya 5.4.1984.

42) United States Economic Assistance to Egypt and Sudan, op.cit. p.12.

43) MARVIN G. WEINBAUM. Politics and Development in Foreign Aid: U.S. Economic Assistance to Egypt, 1975-1982. The Middle East Journal, Autumn 1983, Vol. 37, No. 4, p.639.

44) Annual Reports of the General Authority for Investment and Free Zones, 1978, 1980.

45) United States Economic Assistance to Egypt and Sudan, op.cit., p.11

46) WATERBURY, 1983, op.cit., p.404.

47) WEINBAUM, op.cit., p.637.

48) WATERBURY, 1983, op.cit., p.201

49) INVESTMENT AUTHORITY STATISTICAL REPORTS: Public Sector Contributions to Law 43 Projects, until end 1982.

50) Business Week, 1.3.1976

51) According to former Minister of Trade "....twenty years ago, Cairo was abundant in everything, it was the city of good taste and new fashion and the meeting place for all the chic classes. I want it now to be a prosperous city whose markets are full of everything to be found in the civilized capitals of the world" cited by NAZIH AL AYUBI in MALCOLM KERR and EL SAYED YASSIN (eds), Rich and Poor States in the Middle East. Colorado: Westview Press - Egypt: AUC press, 1982, p.400.

52) United States Economic Assistance to Egypt and Sudan, 1983, op.cit. pp.11,12.

53) Al Ahram Al Iktisadi, 10.5.1982.

54) See SAMIR RADWAN. Capital Formation in Egyptian Industry and Agriculture 1882/1967. St. Antony's Middle East Monographs No.2 1974, pp. 237-240. Radwan argues that it was neither relative profitability nor risk considerations that prohibited the pre 1979 agricultural bourgoisie from investing in industry. Instead, he cited three reasons of which the first two seem to be of relevance to the current stage. First, the emergence and consolidation of a local bourgoisie dependent on agriculture. Second, the Government's laissez-faire policy and third, the position of foreigners protected by capitulations.

55) Al Ahram Al Iktisadi, 15.3.1982, 22.3.1982, 24.5.1982 and Al Akhbar 16.8.1983.

56) See ABDEL FADIL, 1983, op.cit., p.27.

57) Application of the Declaration of Principles and Programme of Action of the World Employment Conference. Report II, Sixth African Regional Conference, ILO - Geneva, 1983, p.75.

58) WATERBURY, 1983, op.cit., p.27.

59) Economic Trends Report: Egypt. Prepared by American Embassy - Cairo, Egypt, October 13, 1983, p.2.

60) HIMDAN, op.cit., p.123.

CHAPTER II

THE ROLE OF STATE, PRIVATE AND FOREIGN CAPITAL UNDER LAW 43 PROJECTS - AN OVERALL PICTURE

LAW 43 PROJECTS - AN OVERALL SURVEY

An overall examination of Law 43 approved projects until the end of 1982 will be the primary aim of this section in order to determine the respective roles played by State, local private and foreign capital according to different economic activities. An attempt will also be made to place the contribution of different elements (i.e., State, private and foreign) within the broader frame of these elements' role in the Egyptian economy as whole over the period 1974-1982.

In this context, the banking sector deserves special attention. Banks have played a significant role with respect to the transformation process involving State, private and foreign capital.

Talks concerning the establishment of foreign banks' subsidaries in Egypt preceded the issuance of Law 43 and even before the official endorsement of the Open-Door Policy, Arab capital had expressed its desire to participate in Egyptian banks.[1)]

For the purpose of filling the investment gap, the law allowed for the investment of Arab and Foreign capital in these new banks, in addition to the establishment of foreign banks subsidaries in order to grant financing facilities to local and joint projects inside the country and in the free zones and to finance foreign trade.[2)] By the end of 1982, 77 Law 43 banks were approved, with a total capital of LE 621 Million. Of these, 63 had started operating with a total capital of LE 447 Million (See Table 1).

On the whole, a number of results of these banks operations were contradictory to the declared goals. Investment banks kept almost half of their resources abroad; in foreign banks or with their correspondants (LE 289.9 Million in 1977, 483.8 Million in 1978 and 562.6 Million in 1979).[3)]

The amount of resources attracted from abroad was modest. These deposits represented 12% of their total resources in 1977, 7% in 1978 and 6.9% in 1979.[4)] Deposits of Investment Banks, including foreign subsidaries, grew from LE 40.2 Million at the end of 1975 to LE 752.4 Million by the end of 1981.[5)]

The major sources of these deposits were as follows:

	LE Million
- Household deposits	363.7
- Private deposits	277.5
- Public deposits	51.5

The number of banks that obtained approvals dropped from 17 banks in 1974/75 to 7 in 1976, 8 in 1977, 5 in 1978 and 5 in 1979. The number then rose to 19 banks in 1980 and 16 in 1981. Total capital went up from LE 31 million in 1978 and LE 43.5 million in 1979 to LE 278 Million in 1980. This upward turn was due to the establishment of the National Bank of Development (NDB) with a total capital of LE 50 million.[6)]

The establishment of the central NDB, followed by a chain of provincial banks, was prompted by the State in response to the negative performance of foreign and joint banks on the one hand, and the lucrative profits of the banking sector on the other.

The establishment of the NDB marks a new departure in the State's socio-economic policy. The Central NDB with 65% State Capital contribution was followed by a number of regional banks each at LE 2 Million capital, where the NDB acts only as a safety valve to cover the gap between private provincial subscriptions and the LE 2 million target. These banks, with the assistance of specialised firms would then establish a number of companies in the country's areas of priority, namely, food security, land reclamation, housing and also in other related areas of trade and transport. These firms, acting on commercial basis, could also engage in other industrial and services activities.

National Development projects could be considered the nuclei of the ruling party's socio-economic plans for the 1980s.[7)] (See Table 2).

The overall picture of approved and implemented Law 43 projects over the period 1974-1982 shows that financial and services companies constituted the majority of approved and implemented projects (60% and 68.7%, respectively). At the same time, the shares of the agricultural and construction sectors were equal to 11.6% and 11.6% while those of the industrial sector were equal to 27.8% and 19.6% (see Table 1).

TABLE 1

APPROVED AND OPERATIONAL PROJECTS - Until 31/12/1982

(LE 000)

SECTOR	Approved				Operational			
	Number of Proj.	Approved Capital	Total Investment Cost	Employment	Number of Proj.	Approved Capital	Total Investment Cost	Employment
A. Finance & Services:								
- Investment	213	1,460,841	1,537,552	-	71	422,056	462,467	-
- Banks	77	621,100	621,100	-	63	447,600	447,600	-
- Tourism	115	650,800	1,197,479	16359	36	115,303	226165	1462
Transport & Communications	21	41,371	94,446	2504	11	33,839	81,336	1396
Health & Hospitals	25	52,488	104,710	2953	10	25,620	43,198	976
Services	45	204,981	320,511	11563	23	43,136	128,400	4725
TOTAL 'A'	496	3,031,581	2,875,798	33379	214	1,087,554	1,389,166	8559
B. Agriculture & Construction:								
Agriculture & Animal Wealth	88	212,583	482,154	16860	29	107,976	221,550	5553
Housing	63	235,683	631,464	129	15	18,617	108,046	-
Contracting	118	126,659	244,804	36646	54	49,736	89,279	28002
Consultancy	29	9,732	11,200	750	20	8,095	9,263	716
TOTAL 'B'	298	584,657	1,349,622	54385	118	184,424	428,138	34271
C. Industry:								
Textiles	62	180,556	743,553	53193	37	54,238	122,120	7845
Food	92	183,765	481,468	12700	37	58,314	142,139	4711
Chemicals	108	417,238	1,275,311	13871	62	77,324	131,806	6801
Wood	17	27,519	49,707	2631	8	9,447	17,089	1440
Engineering	59	149,129	358,144	11570	25	27,964	40,486	2577
Building Materials	77	254,402	672,106	9034	20	31,554	63,512	2685
Metallurgical	39	99,716	507,517	6837	21	27,962	43,480	3187
Pharmaceuticals	13	39,306	77,250	2503	3	3,943	5,221	20
Mining	7	29,808	82,929	368	2	1,444	3,024	50
Oil	5	14,334	29,874	349	5	14,334	29,874	349
TOTAL 'C'	479	1,395,773	3,277,859	113056	220	310,524	598,751	29665
GRAND TOTAL (A + B + C)	1273	5,012,011	9,503,279	200820	552	1,582,502	2,416,055	72495

These results reveal the normal tendency of capital to concentrate in low risk, short capital turnover projects, under conditions of social and political uncertainity.

Upon its initiation, the Open-Door Policy laid emphasis on banking, construction and tourism activities as pre-requisites for the provision of the necessary infrastructure, financial network and confidence for the flow of private and foreign capital.

Table 2. - Popular Development Projects - September 1981 (LE Million)

	TOTAL	In Production	Established & Under implementation	Awaiting License for establishment	Under Establishment
Number	159	46	36	6	71
Capital	606	283.2	92,050	29	201,750
Investments	2253.3	818	242,050	85	502,250

In addition, the industrial sector was rapidly increasing its absolute share in Law 43 approved project. Table 3 shows that while the share of industrial projects was equal 29.1% of total approved projects in 1974 and 1975 and 28.4% in 1980, it went up to 54.8% in 1981. The decline in 1982 to a 7.1% level could be attributed to the politically unstable situation that prevailed, following the 1981 political events.

STATE CAPITAL - A REVIEW

With the implementation of the Open-Door Policy, the relative liberalisation of the economy, the opening of new areas to the private sector and changes in the planning system, the State had to redefine the role to be played by the public sector. The 1974 October Paper described the role of the public sector in the Open-Door stage as an extremely important one. The Paper added that with the encouragement of the private sector, Arab and foreign capital, the public sector would remain the main tool for the execution of any development plan. More importantly, the Paper said it was only the public sector that could be directly committed by the Plan, while planning for other sectors was to take place indirectly through tax, credit and pricing policies.[8)] While the Five-Year Plan 1982/83-1986/87 charts a general broad framework for activities of the private sector, it directs the course of the public sector.[9)]

One of the measures affecting the performance of the public sector, since the issuance of Law 43 of 1974, was the dismantling of the public institutions "Mu'assasat" according to Law 111 of September 1975. The new law replaced institutions by "Supreme Sectoral Councils" within respective ministries. Thus, boards of directors became in charge of the management of their companies.[10)] Among other objectives, the new structure would facilitate the participation of public sector units in joint projects with private or foreign capital. Some industrial public sector companies suffered from the competition of commodities imported by the private sector, and in some cases by other public sector units. This resulted in decreased sales and increased inventory. The problem of managerial skills was aggravated by the transfer and dismissal of 347 chairmen and members of boards of directors in industrial public sector units between 1974-1977.[11)] Measures for decentralising the public sector were a pre-requisite for the participation with private and foreign capital. The involvement of private and foreign capital was a pre-condition for the success of industrial investment policies in Egypt. The public sector dominated in Egyptian industry in the early and mid seventies, especially in large scale production. In 1975, the share of the public sector in gross industrial production was equal to 73.6% of total industrial production.[12] According to 1966/67 statistics, the public sector accounted for 95% of industrial establishments employing 500, or more, workers. Its share declined to 65% in the 100-499 workers bracket, 49% in the 50-99 workers bracket and to only 7% in the 10-49 category.[13]

By the end of the 1970s, the share of the public sector in national investments was declining. Its share in aggregate national investment dropped from 92% in 1965 to 79% in 1979.[14] The share of the industrial public sector gradually declined from 97% of total industrial investment in 1969/70 to 89% in 1977.[15] According to the 1982/83-1986/87 Five-Year Plan, the share of the public sector in industrial production will be 62.9% by the end of the plan period.[16] Financial profitability sharply declined between 1974 and 1978. Out of 104 public sector companies affiliated with the Ministry of Industry, the number of companies with a negative rate of profitability went up from two companies in 1974 to 19 companies in 1978. On the other hand, the number of those companies with a profit rate of more than 30% declined from 22 to 11 companies over the same period.[17] Apart from the quantitative decline in the share of the public sector in total investments and industrial production, its favoured position in the sixties has gradually faded out. This decline can be seen in its subjection to State pricing policies, employment, management and accounting systems to which the private sector is not subject.[18]

The industrialisation strategy of the Government implied that the new projects were to be implemented through joint ventures in which the State would only have to contribute the local share.[19] Foreign participation was viewed as the best means for developing industry and reducing the balance of payments burden.[20]

STATE CAPITAL AND LAW 43 COMPANIES

The share of State capital was equal to 24% of total approved capital until the end of 1982. Its share was equal to 35% of total capital in the industrial sector, 21% of agricultural and construction projects and 19% of finance and services companies (see Table 3). Of its total contribution to Law 43 approved projects, 48.8% was in the finance and services sector, 10.3% in the agricultural and construction and 41.3% in the industrial sectors. (See Table 4).

State capital played the leading role in the banking, agriculture and animal wealth, together with private capital. It played the leading role in three industrial subsectors namely, chemicals, metallurgical and mining (see Table 3).

With the dismantling of public institutions and decentralisation of the state enterprises decision-making process, different enterprises became increasingly motivated by market considerations. This resulted in State enterprises' adoption of different strategies towards other State units, private and foreign capital. For example, State banks have set lending ceilings beyond which public sector industrial companies were no longer granted loans.[21)] Thus, public sector industrial companies suffering lack of finance necessary for their production and expansion activities can resort to Law 43 joint ventures with foreign or local partners.

On the other hand, State banks and insurance companies, unburdened by industrial companies recruitment and pricing policies were able to diversify their sectoral activities and partners and increase their resources in spite of foreign and joint banks competition. The share of public sector banks and insurance companies in total State contributions to Law 43 projects was equal to 33.3% and 9.6%, respectively. Their respective shares in Law 43 industrial projects were equal to 23.1% and 17.8% of their total contribution to Law 43 projects.

TABLE 3

THE SHARE OF STATE, PRIVATE AND FOREIGN CAPITAL IN LAW 43 APPROVED PROJECTS UNTIL 31/12/83

(%)

Sector	State	Private	Foreign
A. Finance & Services:			
Investment	18	23	59
Banks	40	39	21
Tourism	8	55	37
Transport & Communication	6	52	42
Health & Hospital	21	53	26
Services	6	27	67
Total A	19	35	46
B. Agriculture & Construction:			
Agriculture & Animal Wealth	40	40	20
Housing	11	64	25
Contracting	7	68	25
Consultance	21	42	37
Total B	21	56	23
C. Industry:			
Textiles	31	34	35
Food	15	64	21
Chemicals	47	21	32
Wood	12	64	24
Engineering	20	42	38
Building Materials	38	44	18
Metallurgical	46	26	28
Pharmaceuticals	22	54	24
Mining	91	7	2
Oil	12	3	85
Total C	35	37	28
GRAND TOTAL (A+B+C)	24	38	38

TABLE 4

STATE, PRIVATE AND FOREIGN CAPITAL
CONTRIBUTIONS TO LAW 43 SUB-SECTORS AS A PERCENTAGE
OF THEIR TOTAL CAPITAL CONTRIBUTIONS TO LAW 43 APPROVED PROJECTS
Until Dec. 31, 1982

SECTOR	STATE	PRIVATE	FOREIGN
A. FINANCE & SERVICES			
Investment	21.4	18.1	44.7
Banks	20.75	12.9	6.66
Tourism	4.2	19.2	12.3
Transport & Communication	0.2	1.1	0.9
Health & Hospitals	0.9	1.5	0.7
Services	0.97	2.9	7.1
TOTAL 'A'	48.4	55.8	72.4
B. AGRICULTURE & CONSTRUCTION			
Agriculture & Animal Wealth	7.0	4.5	2.2
Housing	2.25	7.9	3.04
Contracting	0.75	4.5	1.66
Consultance	0.17	0.2	0.2
TOTAL 'B'	10.3	17.2	7.1
C. INDUSTRY			
Textiles	4.7	3.2	3.3
Food	2.4	6.2	2.0
Chemicals	16.2	4.7	6.9
Wood	0.3	0.9	0.3
Engineering	2.5	3.3	2.95
Building Materials	8.2	5.9	2.3
Metallurgical	3.9	1.4	1.4
Pharmaceuticals	0.7	1.1	0.5
Mining	2.3	0.1	0.03
Oil	0.1	0.02	0.6
TOTAL 'C'	41.3	26.9	20.4

THE PRIVATE SECTOR - A REVIEW

Since 1919, the local bourgoisie had been composed of several wings. However, the period 1974-1982 is characterised by the crystallization of new groups that had begun to take shape during earlier periods, in addition to the formation of new groups inspired by new activities created by the Open-Door Policy.

These new local groups were in many cases closely related to and often dependent on, the State, Arab oil rich countries and foreign capital. It is in the multiplicity of the local bourgoisie's wings and their different links and affiliations that the diversity of private sector investments under Law 43 could be sought.

The old local bourgoisie reacted to the post-nationalisation period in diverse ways. It shifted a portion of its activities to real estate and trade activities. Some of its more politically active elements, particularly those affiliated with the Moslem Brothers group, fled to Arab oil rich countries and North America where their businesses flourished and developed close contacts with Arab and foreign business circles.[22)] Some elements of the bureaucracy and the political elite developed strong personal ties with Arab business circles, in addition to their own networks within the State apparatus. Links with foreign companies began to develop through trade channels, commercial representative agents and the formation of joint business associations, following the 1970s liberalisation policies.

The relative strength of other groups lay in a socio-cultural factor which facilitated their integrative role in the domestic market. The islamic banks, hotels, companies and chains of retail shops are a case in point. These represent the efforts of members of the Moslem Brothers, including returnees from Arab countries, in collaboration with other Arab and local groups.[23)]

The Open-Door Policy resulted in the expansion of private sector activities. The revitilisation of the private sector in itself was considered an achievement from the official viewpoint. The expansion that occured was both vertical and horizontal. Vertically, the private sector intensified its investments in the agricultural , trade, services and light industries sectors. Horizontally, it entered new areas of investment where its role had been absolutely curtailed during the 1960s like banking, foreign trade and heavy industries.

The level of private sector investment rose from LE 39 million in 1973 to LE 1100 million in 1981/82.[24)] While its share in national investment was about 8.5% during the first half of the seventies, it went up to 18.5% in the 1979/81 period.[25)] Before examining the role of local private capital in investment projects under Law 43 of 1974, it is necessary to throw some light on its major wings.

a) Remnants of old classes of large landowners and entrepreneurs

This group continued to employ its capital in non-nationalised sectors such as internal trade and contracting.[26)] Its less active wings revived with the 1970s sequestration reforms. Those who had fled managed to repatriate their overseas accumulated wealth. Some of the elements of this class remained on the boards of their nationalized companies.[27)] It is the fragmented nature of this class and its political demobilisation during the 1960s that led Waterbury to describe the roots of the private sector that fluorished under the Open-Door as being shallow and "... having little to do with the pre-1961 bourgoisie".[28)] The political revival of the Wafd party indicates that the old bourgoisie, not in isolation of new social forces, still has the legitimacy, economic political and organisational power to play a significant role in Egypt's contemporary political economy.

b) Egyptians in Oil Rich States

The upward thrust in emigration following the 1973 War and the rise in oil prices has resulted in creating new groups from different professions whose savings constituted a major source of private sector investment in Egypt.[29)]

To this group we may add landlords and contractors who left the country during the 1950s and 1960s for fear of persecution and settled in Arab oil rich countries. This group includes a number of millionaires who later became major shareholders in Law 43 companies in addition to other activities.[30)]

In 1978/79 Egyptians abroad, mostly in the Gulf and North America, employed about 2 billion dollars in European money market, a large amount of which was expected to flow into Egypt in 1980.[31)] The ruling party encouraged the employment of this capital, particularly in agriculture and housing.[32)]

c) The 1960s Group of Bureaucrats and Upper Management Personnel

This group of high ranking civil servants, army officers and directors of public sector companies, managed to accumulate wealth during the 1960s, through legal and illegal means. Legally, it invested its human capital, experience, skills and information gained from the State apparatus in the private sector and Arab countries. Illegally, through bribes, commissions from the private sector, and through shifting public sector clients to the private sector.[33)]

In the seventies, this process of capital accumulation was accompanied by the involvement of these elements in newly established joint ventures.[34)]

It is also possible to add to this group elements of a semi-nationalised sector in contracting and consulting activities.[35)] This group flourished following the 1967 War and the rise in activities involving mixed public and private operations.[36)] These elements aimed at benefitting from the State's production activities while remaining independent to the largest possible extent.[37)]

d) The Industrial Private Sector

The industrial private sector has continued to play an important role in some industrial sub-sectors. By the end of the 1970s, its

15,000 establishments yielded about 25% of the total industrial income and absorbed about half of the industrial labour force. It predominated in light metal industries, manufacture of electrical equipment, weaving and ready-made clothes, chemicals, textiles, engineering, furniture and car engines industries.[38] The share of the private industrial sector was particularly high in small scale enterprises employing between 10-49 workers.

The share of the industrial private sector production during the decade of the seventies went up from 25.46% in 1970 to 33.77% in 1980. (See Table 5).

Late in 1979, the Government announced that priority should be given to the private sector in certain industries, such as cement, iron bars, sheet glass, clay bricks and consumer items in which public sector involvement would be sharply curtailed.[39]

The majority of these activities are closely related to the construction and housing areas in which the private sector had enjoyed a priviledged status during the 1960s. Its economic status was politically strengthened by the ascent of Osman A. Osman to key positions within the State apparatus.

e) The New Open-Door Elements

This cluster comprises different groups which directly benefitted from new areas open to the private sector after the implementation of the open-door policy. Although the "reservoir" from which these core groups were formed dates back to earlier periods, it was not until the issuing of the liberalisation laws that these groups began to take form. The major wings of this Group are the 5000 representatives of foreign companies in Egypt, 60% of which are inland and 40% free zone companies.[40] These companies or offices operate through extensive networks of middle-

TABLE 5

PRODUCTION DEVELOPMENT OF THE INDUSTRIAL PRIVATE SECTOR

(LE Million)

Sector	Years 1970	1977	1978	1979	1980
Textiles	124	195	219	241	265
Food	108	178	193	212	233
Chemicals	87	77	78	86	95
Mining	31	316	304	334	371
Construction	9	27	27	29	30
Total Private Sector	359	793	821	902	994
Total Public Sector	1410				2943
Private as a % age of public	25.46%				33.77%

SOURCE: Statement by Minister of Industry and Mineral Wealth on industrial and mineral wealth policy presented to committee of industry. Peoples Assembly, December 1979.

TABLE 6

SHARE OF PUBLIC AND PRIVATE SECTORS IN DIFFERENT LAW 43 INDUSTRIAL AREAS - 1978/1982

(%)

Industrial Sector	Private Share 1978	1982	Public Share 1978	1982
Textiles	24	34	38.9	31
Food	40	64	30.8	15
Chemicals	44	21	9.8	47
Wood	56	64	16.8	12
Engineering	11	42	33.6	20
Building materials	32	44	50.-	38
Metallugical	34	26	6.6	46
Pharmaceutical	60	54	12.8	22
Mining	40	7	46.5	91
Oil	-	3	22.2	12

SOURCE: Compiled from Investment Authority Annual Reports 1978, 1982.

men and retail traders. Representations were either newly issued or withdrawn from public sector units.[41] Most offices represent more than one foreign company in Egypt.[42] Following the call for balancing public and private sector activities in the import/export trade, a 1975 Law allowed individuals to import without currency transfer.[43] By the end of 1982, the number of private import offices was estimated to be 7,500 compared to 3,837 in 1974.[44]

A survey of the new millionaires in Egypt[45] concluded that these new groups were concentrated in the following major categories:

1) Owners of buildings on an area of 1,500 sq. meters or more, and over 30 flats.
2) Owners of import/export offices.
3) Owners of transport companies employing more than 10 cars.
4) Owners of supermarkets, shoe shops and car dealers
5) Owners of 50 feddans or more.
6) Representatives of foreign companies.
7) Other minor groups like night-club owners, producers of video films and scrap-iron traders.

The type of business activities of these groups suggests that a combination of more than one function would produce economies of scale, (e.g., importation, representation of foreign firms, transport and trade activities). In addition market relations create overlaps among these different categories.

f) Commercialised Professional Groups

Studies in the Egyptian political economy of the 1960s included top members of different professions (doctors, pharmacists, lawyers, etc...) among the major groups of the local bourgoisie.[46] However, it was only in the late 1970s that these "fluid categories"[47] moved in the direction of becoming a unitifed class with common interests and a clearer organizational structure.

The election of Egypt's most famous contractor, Osman A. Osman as head of the Engineers Syndicate, marked a new era in the political and economic history of professional groups. Osman laid down new principles for syndicate work by mobilising Engineers Savings and Funds of Insurances and Subscriptions and directing them into investment activities. The first project of the Syndicate was the establishment of "Muhandiss Bank", the second Law 43 national bank after the Suez Canal Bank with an LE 5 million capital.[48] The Engineers Syndicate then notified 19 professional syndicates of its activities and invited them to participate in joint projects in an attempt to spread the new syndicative policy.[49] The initiation and development of the engineers project was facilitated by the presence of seven engineers in the 1980 Cabinet.[50]

The Engineers Syndicate was followed by the syndicate of 'El Tugariyoun' headed by former Prime Minister Higazy. It started a number of housing and health projects in collaboration with the syndicates of teachers, lawyers and applied professions.[51] The Press Syndicate joined the Bank of Trade and Development 'Al Togariyoun' following the election of the NDP's candidate in March 1981.[52] The Federation of Medical Profession Syndicates, established an investment company with a capital of LE 7.1 million.[53] Several syndicates collaborate in the establishment of specialised companies as in the case of the 'National Housing Company for Professional Syndicates' which brought together the Engineers Syndicate, the Applied Professions Syndicate, the Teachers Syndicate and the Agriculturalists Syndicate.[54]

The contribution of these projects to raising the living standards of the syndicates members and satisfying their demands of food, housing, medical care and other needs, at a higher level than the national average, will determine the feasibility of these new policies towards syndicative work. The success of these experiments would guarantee increasing support for the new technocratic vision of the regime, against the more politically oriented attitude of the opposition.

THE PRIVATE SECTOR AND LAW 43

Until the end of 1982, the local private sector had been the major contributor to Law 43 companies capital. Its share in total capital was equal to 38% of approved companies total capital until the end of 1982, followed by 24% for the public sector. Respective figures until end of 1978 were equal to 28% and 27%. The largest portion of its investments was concentrated in finance, services and construction sectors as indicated in Table 3. Its relative share was highest in the housing and contracting sectors with about 64% and 68% of total capital invested in these sectors, respectively. This is explained by the high and relatively secure yields of these investments and by the well-established role and experience of the local bourgoisie in these sectors. The Government, in its current Five-Year Plan 1982/83-1986/87 has allocated 94.3% of total housing investments to the private sector.[55] The share of the private sector was also higher than 50% in the tourism, transport and health sectors. In the industrial sector, it played the major role in the food, textiles, wood, engineering, building materials and pharmaceutical sectors. These tendencies indicate a significant and increasing interest in industrial activities. As Table 6 indicates, the private sector gradually replaced the public sector as a major contributor to several industrial sub-sectors, namely textiles, engineering and building materials. It also maintained its higher share in the food, wood and pharmaceutical industries. On the other hand, State capital replaced private capital in the chemical and metallurgical sectors. These shifts are indicative of a changing division of labour.

In absolute terms, the largest shares of the private sector were concentrated in the tourism, investment and banking sectors representing 19%, 18% and 13% of its total capital contribution to Law 43 projects. In the industrial Sector, its highest absolute contributions were in the food and building materials sectors representing 6.1% and 5.9% of its total capital invested in Law 43 projects.

ARAB CAPITAL

In the case of Egypt, the three sided model of dependency, involving State, Private and Foreign capital has to be modified in order to include Arab capital. Arab capital differs from foreign capital generally in the absence of the technology and know-how usually accompanying the transfer of foreign capital from developed to under-developed countries. Thus, the Open-Door formula for development and progress was: Arab capital + Western technology + Egypt's resources.[56] Arab Capital movement to Egypt is also influenced by different political factors peculiar to the Arab/Israeli conflict.

Following the October 1973 War and the disengagement treaties with Israel on the Egyptian and Syrian fronts, the Open-Door Policy was officially endorsed in May 1974. The Arab oil rich states began to support the new economic orientation of the Egyptian regime. As a result, Arab economic channels were open, including deposits in Egyptian banks, bilateral loans, loans through regional development funds, in addition to direct investment.[57] The amount of Arab grants and loans that Egypt received over the period 1973-1976 was equal to about US$ 6.35 billion (see Table 7). By the end of 1977, the share of Arab capital in approved Law 43 companies was about 24%.[58]

Sadat's trip to Jerusalem and the ratification of the Peace Treaty in 1979 resulted in a drop in Egyptian/Arab cooperation.[59] Arab economic boycott measures were taken in the Baghdad Conference of 1979. Aid transfers to Egypt were ceased.[60] The 24% share of Arab capital in total direct investment dropped to 13% by the end of 1980.[61] Arab markets were closed to Egyptian products. This has also acted as a disincentive for Western investment in Egypt.[62] However, the Egypt-Arab tension was to remain within limited confines, in view of both sides recognition of their inter-dependence. The flow of Egyptian labour to the Gulf continued at unprecedented rates, especially following the outbreak of the Iraq-Iran War. Iraq, in spite of Sadam's extreme political opposition to Sadat, was receiving increasing numbers of Egyptians on whose entrance to Iraq all restrictions were removed. Remittances of Egyptians working abroad rose from US$ 0.896 Billion in 1977 to 2.6 Billion

TABLE 7

SOME INDICATORS OF ECONOMIC RELATIONS BETWEEN EGYPT AND THE ARAB WORLD

Type of Activity	Amount
Trade (LE Million)	
Exports - 1980	225,044
Exports - 1981	110,849
Imports - 1980	74,179
Imports - 1981	107,155
Aid (US $ Million)	
Grants	3,645
Cash Loans and Deposits	2,570
Loans for Financing Projects	139
TOTAL AID	6,354
Direct Investment (LE Million)	1,128

SOURCE: Trade - CAPMAS Annual Yearbook, 1982
Aid - Ramzy Zaki, Evaluating the Performance of Economic Stabilization between Egypt and the IMF, 1977-1981, 7th Conference of Egyptian Econom ists, 1982, p.23,
Direct Investment - Investment Authority 1982 Report.

TABLE 8

EGYPT'S AID SITUATION - Until 30/6/1981

DONOR	Amount of Debt US$ Million	Relative Share %
U.S.A.	6414.2	35.4
Canada	88.7	0.5
West Europe, Japan, Iran	3749.8	20.7
East Europe and China	2435.3	13.5
International and Regional Organizations	2421.5	13.4
Arab Funds	2527.7	14.-
Arab countries	437.6	2.5
TOTAL	18086.6	100.0%

SOURCE: Ramzy Zaki, The Foreign Loans Case: The Open-Door, Roots, Harvest and Future, p. 173.

in 1980.[63] The diversified and pioneering role of Egyptians in different educational, technical and labour fields in the Arab world made a complete suspension of economic relations virtually impossible.

Following Sadat's departure, Arab direct investment showed some signs of revival. Its share rose to 22% of the total approved capital. Politically, the atmosphere of 'detente' between Mubarak's Egypt and the Arab world was an important reason for this rise. Economically, the saturation of the construction boom in the Arab oil rich countries resulted in diverting capital into direct investment abroad.

By the end of 1982, Arab capital played the leading role in the investment sector where it represented 55% of total capital invested in that sector. About 83% of total Arab investment was concentrated in the Finance and Services category of which 70.6% were in the investment sub-sector, 7.5% in tourism and 4% in banks. The industrial sector received only about 10% of total Arab capital while the agricultural and construction sectors received about 7%.

FOREIGN ECONOMIC RELATIONS - A REVIEW

American peace efforts in the Middle East were accompanied by increasing Western economic involvement in Egypt. This parallel economic and political expansion took place through several channels. Economically, the period 1974-1979 must be viewed as one of transition, during which aid and trade with the West as well as other political changes paved the way for future successful direct foreign investment. This included the provision of political stability in the region, social peace in the country and a proper investment climate through legal measures and structural changes, and the new "permissive and incentive policies".[64]

Although the U.S. is carrying out its largest and most comprehensive assistance programme in Egypt.[65] Its direct foreign investment remains relatively low. An analysis of direct foreign investment in Egypt would fail to account for Egypt's increased involvement in the world economy. It is thus important to throw some light on other channels responsible for that process (see Table 8).

1) Aid

By mid-1981, Egypt had received about US$ 18 billion from different foreign and Arab donors[66] (see Table 8). The highest share was that of the USA, amounting to about 35.4% of the total aid.[67] Direct U.S. economic aid runs at about 1 to 1.1 billion dollars invested in infrastructure, industry, management, agriculture, decentralisation, health, population control, education, electric power generation, telecommunications and port capacity expansion, etc...[68]

From the foreign side viewpoint, aid is considered a prerequisite for the future flow of direct foreign investment to Egypt. Aid funds are used through economic, political, cultural and military channels to create a proper investment climate. A good example is the widening and deepening projects in the Suez Canal following the 1973 War which helped ease the military tension on the Egyptian/Israeli front. Aid from the World Bank and the USA played an important role in these projects. More importantly, aid programmes create opportunities for foreign capital involvement in aid financed projects. This process takes place indirectly through infrastructure and communications improvement projects[69].

In other cases, the loan is used to finance the foreign share in newly established joint ventures.[70] By mid-1980, over 360 US companies had received US AID financed orders, ranging from US$ 10,000 to 25 million, with an average of 3.1 million. By 1983, it was estimated that more than 400 U.S. firms had indirectly benefitted from the US AID commodity import programme.

*As in the case of the World Bank loan to Racta Paper Company.

2) **Trade**

By beginning of the 1980s, Egypt's major trading partners were Western Europe and North America (see Table 9). In 1982/83, Egypt suffered a US$ 4.5 Billion deficit. On the export side, oil constituted about 70% of Egypt's receipts from commodity exports amounting to US$ 3.9 billion. On the other side, imports were equal to US$ 8.4 billion[72] US exports to Egypt were equal to US$ 2.87 billion in 1982 or more than eleven times total U.S. Capital approved under Law 43 during the period 1974-1982.[73] Foodstuffs were the major item on the US export list to Egypt followed by machinery and transport equipment. By 1982, the U.S. supplied Egypt, which had to import about half of its food needs with 20-25% of its total food imports.[74] Egypt is considered the second largest market for U.S. goods in the Near East and North Africa.[75] The U.S., Egypt's leading trading partner, accounts for one fifth of Egypt's imports and about one eighth of its exports.[76]

DIRECT FOREIGN INVESTMENT

In 1978, direct foreign investment in Egypt was equal to 12% of the total capital flow into the country.[77] By the end of 1982, the share of foreign capital in Law 43 approved projects was equal to 16% of total capital. The share of the US was equal to 4%, the EEC 5% and other countries 7%. The share of the U.S. was highest in the services sub-sector accounting for about 72.6% of its total invested capital. The share of industry was equal to 22.6% of the U.S.'s total invested capital and only 3% of the industrial sector's capital.

Although the share of the EEC countries was only one percent higher than that of the U.S.A., its share in the industrial sector was equal to 11% of total capial invested in that sector and about 54.4% of total EEC invested capital (see table 10). Until mid-1979, the highest share among EEC countries was that of France 16.3%, England 8% and Switzerland 7.9% of total EEC contribution to Law 43 approved projects.[78]

The 'others' category, accounted for about 7% of Law 43 total invested capital. The majority of these investments were concentrated in the Finance and Services Sectors, accounting for about 66% of its total capital investments.

TABLE

Some Indications of Economic Relations Between Egypt and the West -

Type of Activity	Amount
1. Foreign Aid (US$ Billion) 30.6.81	
U.S.A.	6,414,2
West Europe - Japan - Iran	3,749,8
2. Exports to Egypt (L.E. Billion) 1981	
West Europe	2,703,450
North America	1,271,660
3. Direct Foreign Investment (L.E. Million)	
U.S.A.	205,692
E.E.C.	271,247

Sources: Aid Figures: Ramzy Zaki, The Foreign Loans Case - The Open Door, Roots, Harvest and Future, p.173

Exports: Central Agency for Public Mobilisation and Statistics - Annual Yearbook - 1982, p.

Direct Investment: Authority for Arab and Foreign Investment and Free Zones 1982 Report. (Approved Capital)

As seen from our review of investment projects in Egypt, primary emphasis was laid upon non-industrial activities, which represented about 72% of total capital investments approved under Law 43, during the period 1974-1982. The biggest role was played by local, State and foreign capital, accounting for 62% of total capital.

The share of foreign capital investments remained minimal, in comparison to the share of local capital and to direct foreign investment in other third world countries. We tend to evaluate the 1974-1982 period as one of transition and transformation of relations between State and private capital and of the national attitude toward foreign capital.

Although by 1983 this process was far from complete, there are signs of a state's changing attitude towards private and foreign capital. This trend was first illustrated in the new regime's early emphasis on 'Productive Open-Door', the anti-corruption campaign and the distinction

Sector	Egypt Capital	%	Arab Capital	%	U.S.A. Capital	%	EEC Capital	%	Others Capital	%
A. Finance & Services										
Investment	597044	41	797264	55	1761	0.1	22113	1	42659	2.9
Banks	492318	79	45236	7	19260	3	32222	5	32064	6
Tourism	411438	63	84096	13	3817	1	29491	4	121958	19
Transport & Communications	24153	58	6322	15	-	-	3635	9	7261	18
Health & Hospitals	38974	74	4305	8	1239	3	2160	4	5810	11
Services	67750	33	2435	1	123287	60	5585	3	5924	3
Total 'A"	1631677	54	939658	31	149364	5	95206	3	215676	7
B. Agriculture & Construction										
Agriculture & Animal Wealth	170128	80	17878	8	6598	4	8507	4	9472	4
Housing	176931	75	50015	21	-	-	4463	2	4274	2
Contracting	94470	75	9593	7	2279	2	14454	11	5863	5
Consultancy	6131	63	200	2	850	9	987	10	1564	16
Total 'B'	447660	77	77686	13	9727	2	28411	5	21173	3
C. Industry										
Textiles	116502	65	19419	11	14250	8	2325	1	28060	15
Food	144988	79	15038	8	2183	1	9388	5	12168	7
Chemicals	283635	68	25550	6	6419	2	74033	18	27601	6
Wood	20902	76	4392	16	57	2	1882	6.8	286	1
Engineering	92003	62	12231	8	10447	7	28395	19	6053	4
Building Materials	209919	83	18558	7	8849	3	12203	5	4873	2
Metallurgical	75926	72	15421	16	843	1	4153	4	7373	7
Pharmaceuticals	29781	76	200	1	3553	9	3004	7	2768	7
Mining	29125	98	442	1	-	-	-	-	241	1
Oil	2087	15	-	-	-	-	12247	85	-	-
Total 'C'	1000868	72	111251	8	46601	3	147630	11	89423	6
Grand Total (A-B+C)	3080205	62	1128595	22	205692	4	271247	5	326272	7

between profiteering and productive wings of the local bourgoisie. Later on, these initiations crystallised in a number of policies concerning the encouragement of productive private sector investment and manufactured exports, import rationalisation, increased emphasis on local manufacturing in lieu of existing assembly projects (e.g., vehicles and T.V. sets) and encouragement of regional distribution of investments.

Facing a deterriorating balance of payments, whose weaknesses were concealed by the outstanding performance of non-commodity exports and oil, the Government took a number of measures to rationalise imports. Differentiated custom duties were applied to four categories of goals: Foodstuffs; intermediary goods, raw materials and spare parts; investment goods and means of transportation and unnecessary and luxury goods.[79] Consideration was also given to the availability of locally manufactured substitutes to imported goods.[80]

On the other hand, private sector manufactured exports were encouraged through the removal of a number of procedural barriers and improved commercial relations with the Soviet Union. These measures came in view of the poor export performance of Law 43 projects whose exports were equal to less than half percent of the country's total exports, compared to 94.4% by the public sector and 5.2% by the private sector.[81] Concomitant with the issuance of new import-export laws, was the Ministry of Economy's attempt to limit the amount of credit available to the commercial sector.[82] In an attempt to reduce the monopoly over imports and to make intermediates available to small local producers, the Government abolished the system of commercial agent representation of foreign companies.[83]

Regarding foreign investment, the Government's earlier attitude of considering every condition a restriction and every restriction incomprehensible, changed dramatically.[84] The Government's new policies are encouraged by the more enlightened and productive wings of the local bourgoisie which realise that foreign capital participation should be increasingly determined by national priorities and capabilities.[85]

END NOTES

1) Peoples Assembly Minutes, 35th Session, 9.6.1974, pp. 3780.

2) ABUL HASSAN ABDEL RAHMAN, AL Bonouk al Agnabiya wa Dawraha, "Foreign Banks and their Role", Al Infitah: Al Gozour wal Hisad wal Mustakbal, Al Markaz al Arabi lil Bahth wal Nashr, 1982, pp.271-275.

3) MOHAMED NABIL IBRAHIM, Tanzim Siyasat al Iktisad min al Kharig, "Regulating the Policy of Borrowing from Abroad", Conference of Developing Production in a Peace Economy, 3-5 November 1980, p. 16.

4) MOHAMED NABIL IBRAHIM, Op.Cit. p.17.

Ibid

5) MAHMOUD SHAKER, Dar al Bonouk al Watania fi Ta'biat wa Tanmiyat al Mudakharat al Mohaliya, "The Role of National Banks in Mobilising and Developing Local Savings", Seventh Annual Scientific Conference of Egyptian Economists, May 1982, p.4.

The average rate of profit for banks was equal to 54.8% of capital for joint commercial banks and about 36.4% for investment banks. Aboul Hassan, p. 283.

6) The Egyptian Chronicle, 7.7.1980.

7) The NDP's policy of popular development finds its roots in the 1960s central planning system and the 1970s Open-Door Policy and attemps to overcome their combined negative aspects. It also draws on the Japanese experience of mobilsing private savings, the German agricultural cooperatives and the Israeli Kebbutz farms and the Hestodrot -Maba m example.
The idea of popular development attempts to support the private sector by mobilsing its savings, including those of Egyptians abroad, and directing them to socially vital and commercially profitable areas of investment accompanied by State technical and administrative support. State financial support and foreign joint ventures are sought only where private endeavours fall short of the set targets.
The first step in this respect was the establishment of a central NDB with a total capital of LE 50 million, later raised to LE 100 million. This bank was followed by 20 provincial banks in 20 governorates each with a capital of LE 2 million (except Dakahlia Bank, LE 10 Million).

The role of the State within the context of Popular Development was envisaged as one of constructing the necessary infrastructure and large scale projects exceeding the capacity of private efforts. The close links between the Popular Development Committee of the ruling NDP, and the former Ministry of Popular Development, were to ensure State assistance in overcoming bureau-cracy and administrative obstacles.
The support of pre-eminent figures was also seen as an important catalyst in this respect. Sadat strongly supported the new trend and symbolically sub-scribed with LE 100 in the central NDB. The role of Osman was manifested in his being former Minister of Popular Development and Head of the Popular Development Committee of the NDB. The Popular Development approach had been initiated by Osman on a micro level through the Arab Contractors, and its Employees Fund, and through the Engineers Syndicate. Significantly, the share of Ismailia governorate in Popular Development projects came second to Cairo (17 and 28, respectively).
Until September 1981, foreign capital had taken part in the establishment of 8 companies out of 159. Its share varied between 2-25% and was limited to the use of know-how and basic production requirements which were to be gradually replaced by locally manufactured inputs. (See Popular Development - Report to the General Conference of the NDP, 1981).

8) <u>Warakat October</u>, "The October Paper". April 1974, Supplement of Al Amal Magazine, May 1974, p. 36.

9) The Detailed Frame of the Five-Year Plan for Econcmic and Social Development, 1982/83-1986/87. Part I, Principle Components, Arab Republic of Egypt, Ministry of Planning, December 1982, p.24.

10) COOPER, Op.Cit. p.

11) ADEL HUSSEIN, Op.Cit, Vol. II, p.490.

Including : 1) Presidential Decree 692 of 1974 which involved 37 chairman and 104 Board members. 2) Prime Minister's Decree 1165 of 1975 including 10 chairmen and 99 board members. 3) Prime Minister's Decree 235 of 1977 concerning the transfer and dis-missal of 21 chairmen and 76 board members known as "Massacre of the Industrial Public Sector" (Hussein, Vol. II, pp. 490,491).

12) WATERBURY, 1983, op.cit., p. 163.

13) ROBERT MABRO and SAMIR RADWAN, <u>Industrialisation in Egypt, 1939-1973</u>, (in Arabic, 1981, p. 132).

14) ESSAM MONTASSER, El Furas / Al Mutaha lil Kitaan al Am wal Khas, "Opportunities Available to the Public and Private Sectors", Conference of Developing Production in a Peace Economy, 1980, p.32.

15) Ibid.

16) The Five-Year Plan, 1982/83-1976/87, Op.Cit. p.

17) HEBA HANDOUSSA, The Future of the Public Sector in Egypt, 1981, p.3 Citing the Ministry of Industry.

18) GALAL AMIN, Mihnat al Iktisad wal Thakafa fi Misr, "The Crisis of the Economy and Culture in Egypt", Al Markaz al Arabi lil Bahth wal Nashr, 1980, p.108.

19) Al Siyasa al Sinaiya, "The Industrial Policy", Ministry of Industry and Mineral Wealth, 1980, p.64.

20) Ibid.

21) MAHMOUD AL MARAGHY, Al Kitaa al Am fi Mugtamah Mutaghayer (Taagrubat Misr) "The Public Sector in a changing Society (Egypt's Experience) Dar al Mustakbal al Arabi, 1983, p.99.

22) AL Mussawar - 30 March 1984.

23) Ibid.

24) The Five-Year Plan, 1982/83-1986/87, Op.cit, Part I, pp. 149,157.

25) Ibid, p. 152.

26) MORSY, 1976, Op.Cit, pp, 251-252

27) WATERBURY, 1983, Op. Cit., p. 81.

28) Ibid, p. 171.

29) SAAD EDDINE IBRAHIM, The New Arab Social Order, Westview Press, London 1982, p.73.
See for example, Nile Bank Case ($20 million) where 124 out of 211 shareholders were Egyptians in Saudi Arabia and Kuwait. The Egyptian Chronicle 26.1.1978; also see LE 2 Million Investment Company where Egyptian share was equal to 40% paid by 104 Egyptians in Kuwait, Al Ahram el Iktisadi, 23.5.1983.

30) Ibid.

31) Egypt-U.S. Business Council Reports, Florida, 1980, p.11

32) Al Ahram, 7 January 1981.

33) IBRAHIM EL ISSAWI, Tanmiyat el Nizam el Igtima'e wa Mustakbal al Tanmiya el Iktisadi fi Misr, "The Development of Social System and the Future of Economic Development in Egypt", Fifth Annual Conference of Egyptian Economists, 27-29 March 1980, pp.22-24.

34) ABDEL KADER SHOHEIB, Mohakamat el Infitah el Iktisadi fi Misr, "Trial of the Open-Door Policy in Egypt", Dar Ebn Khaldoun, March 1979, p.26; Also See:
Akhbar el Yom, 25.12.1982.

35) COOPER, Op.Cit, p.26.

36) Ibid, p.27.

37) Ibid, Also see:

OSMAN AHMED OSMAN, Safahat min Tagrubati, "Pages from my Experience", El Maktab el Masry el Hadith, 1981, p.222.

38) Planning the Open Door Policy: Project of the Five-Year Plan, 1978-1982, August 1977, pp.42-43; Also see:

MORSY, Haza el Infitah el Iktisadi, p. 255.

39) Foreign Economic Trends and their Implications for the United States, Egypt - April 1980, International Market Information Series prepared by the American Embassy, Cairo, p.14.

40) Al Ahaly, 20 April 1983.

41) MORSY, Haza el Infitah el Iktisadi, p. 167.

42) Al Ahram el Iktisadi, 10 May 1982.

43) MORSY, Op.Cit, pp. 167, 168.

44) Al Ahaly, 20 April 1983.

45) Ibid.

46) ABDEL FADIL, Op.Cit, p.92

47) Ibid.

48) OSMAN, Op.Cit, pp.518-522.

49) Ibid, p.527.

50) Al Ahram el Iktisadi, 27 October 1980

51) Al Gomhuria, 29 October and 22 February 1979.

52) Ahram, 17 April 1981

53) Al Ahram, 17 April 1981 and The Egyptian Chronicle 23.3.1981. Comprising Syndicates of Phisycians, Pharmacists, dentists and veterinarians.

54) The Egyptian Chronicle, 9.12.80.

55) The Five-Year Plan 1982/83-1986/87, Vol. I, Op.Cit, p.157.

56) COOPER, Op.Cit, p.91

57) Al Ahram el Iktisadi, 15 April 1979.

58) General Authority for Investment and Free Zones, Annual Report Different issues 1977-1982.

59) The political impact on Law 43 projects was also manifested in the low share of Libya which amounted to only 3.7% of total Arab capital that had started production until mid-1979. In this respect, it came seventh to the Emirates (25%), Kuwait(17.9%) S.Arabia (16.6%), Lebanon (10.9%), Jordan (10.1%), and Abu Dhabi (4.5%), (CAPMAS, 1980, p. 61).

60) THEODORE PARNELL, "Egypt's Efforts to Attract Foreign Investment: A Post Treaty Prognosis of the Reopening of the West, Middle East Executive Reports, 1979, p. 19.

61) Investment Authority, op.Cit.

62) Ford Motor Co. had signed an agreement with the Egyptian Government for the construction of an LE 145 million plant for the production of 10,000 trucks and 50,000 diesel engines annually by 1 985. Most of the sales were planned for other Arab countries, David Williams Carr, pp. 63, 64.

[63] IBRAHIM SAAD EL DIN and MAHMOUD ABDEL FADIL. Intikal Al Amala Al Arabiya, "The Transfer of Arab Labour", Markaz Darasat Al Wihda Al Arabiya, 1983, p. 117.

[64] Industrial Financing Strategy in Egypt, Investment Review, A quarterly Journal on Investment Conditions in Egypt, April 1983, Vol. 4, No. 1, p. 1.

[65] More than the Marshall Plan in per capita terms and controlling for inflation. See Egypt - Opportunities for Suppliers and Investors. A Business International Report, July 1980, p.84.

[66] RAMZY ZAKI, Kadiyat el Duyoun el Kharigia, "The Foreign Loans Case", Gouda Abdel Khalek, (Ed), Al Infitah: Al Gouzour wal Hisad wal Mustakbal, Op.Cit, p. 173.

[67] Ibid.

[68] Egypt, U.S. Business Council Report, 1981, Section 4.

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[72] Economic Trends Report, Egypt, October 13, 1983. Prepared by the American Embassy, Cairo, Egypt, op.2.

[73] Ibid, pp. 18, 19 and the Investment Authority Annual Report, 1982, Table 8.

[74] WEINBAUM, op.cit., p. 637, and Economic Trends Report, Op.cit., p. 4

[75] Economic Trends Report, Egypt. Op.Cit., p. 4

[76] Ibid, p. 15

[77] RAMZY ZAKI, Al Tamueel al Kharigy wal Eitimad ala Zat, "External Financing and Self-dependency" Sixth Annual Scientific Conference of Egyptian Economist, 26-28 March, 1981, Cairo, p. 19.

78) Mawkef al Infitah el Iktisadi "Position of the Economic Opening until 31.6.1979. The Central Agency for Public Mobilisation and Statistics, March 1980, p. 64.

79) Al Ahram, 2.10.1983

80) Al Ahram, 31.7.1983, and Al Akhbar 18.10.1983

81) Al Ahram, 26.1.1984

82) Al Ahram, 29.7.1983

83) May, 16.4.1984.

84) WATERBURY, 1983, Op.Cit., p.145, and Al Mussawar 10.2.1984. According to the Minister of Investment, no new banks are to be approved and no projects in areas like consmetics, tooth paste and soft drinks where current production exceeds demand are to be established.

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CHAPTER III

STATE, PRIVATE AND FOREIGN CAPITAL: SUB-CATEGORIES ALLIANCES

(An analysis of a sample of 200 Law 43 companies)

This Chapter will examine two main issues:

First

The role played by each category of investor within each economic sector. Public and private capital will be broken down to smaller sub-groups that would allow for a more detailed examination of their nature during the period 1974-1982.

Second

Emphasis will be laid upon the types of alliances within different economic sectors. This will attempt to answer questions like: In which areas do public and private capital collaborate and what are the relative shares of each? Which sub-groups within the public sector collaborate with Arab capital? What are the major characteristics of triple alliances in Law 43 companies? What is the the relative share of companies fully owned by one element and their significance?

A random sample of 200 Law 43 companies was drawn, and different classifications and combinations of Law 43 companies were investigated for the purpose of providing a microscopic examination of these companies.[1)] Our analysis of the sample will proceed from companies fully owned by one element (public, private or Arab) to dual alliances, triple alliances and companies involving more complex combinations of investors.[2)]

I - COMPANIES FULLY OWNED BY ONE ELEMENT

Out of a sample of 200 companies, there were 34 cases of one source company. These include 31 instances of fully private companies, two State and one Arab company.

Private Sector Companies

All fully private sector companies were established after the amendment of Law 43 by Law 32 of 1977. Prior to that, Law 43 necessitated the collaboration of local capital with foreign capital. Local private companies were then established according to the less advantageous Law 26 of 1954. While still in its cradle in 1974, the Open-Door Policy laid emphasis on broad political and legal issues which should have created an atmosphere of security and legitimacy for the cooperation of private and foreign capital. By 1977, however, and following a three-year stumbling experience, it became clear that time was not yet ripe for an "Egyptian miracle",and that the long frustrated local bourgoisie needed more incentives and outlets for pushing it into diversified economic activities, before engaging with MNCs in joint ventures. The domination of the one-element category by the private sector (31 out of 34 cases) shows the relatively fast response of the private sector to new investment outlets. The majority of shareholders in these companies were individuals, including a large number of family and kinship based companies. These individuals came from diverse backgrounds including mainly old private sector elements, contractors, Egyptians working in the Gulf, political figures and members of the new Open-Door groups.

The majority of fully-private companies (24 out of 31) were concentrated in non-industrial projects.

The attractiveness of non-industrial projects to the private sector is shown by other indicators. The average capital size in industrial projects was lower than that of other sectors (US$ 0.7 Versus 1.8, 2.6 and 3.4) (See Appendix II). The high average number of shareholders in industrial projects implies a tendency to spread the risk in these projects, unlike contracting or services projects.

Moreover, no 'A' type shares were paid by the private sector in industrial projects, and 'B' shares were below the average of other non-industrial areas while the majority of shares were concentrated in the 'C' and 'D' categories.

One Family Companies

A striking characteristic of these companies is the high share of one family companies among 100% private companies. These were equal to 17 out of 31 companies. The average number of shareholders in one family companies was equal to 6.4.

This trend was highest in the private sector's most attractive area of business, i.e., contracting. Out of 11 companies there were 8 instances of one-family company. In this respect, the contracting sector was followed by the investment sector, where in most cases capital is reinvested in construction, tourism and services activities. In some instances, famous political figures and their families were involved in these companies. The most prominent examples are Osman Ahmed Osman and Sayed Marei.

The phenomenon of one family companies was not limited to those fully owned by the private sector. Table 1 shows that out of 32 one-family companies, 15 shared their private capital with a second partner. That partner was European in 8 cases, Arab in 6 and 'others' in 2. In 11 out of these 15 cases, the share of European, Arab and 'others' capital was equal to or less than 50% of total capital.

The sample included one private-Arab-European company.

TABLE 1

ONE-FAMILY COMPANIES

	Private Sector Partners				
Private Sector Share	Private	Arab	European	Others	TOTAL
Less than 50%	-	2	2	1	5
Equal 50%	-	1	1	-	2
More than 50%	17	3	5	1	26
				TOTAL	33

Apart from one-family companies, the majority of shareholders in private sector fully-owned companies were individuals. This factor may explain why the average size of these companies is much lower than that of Law 43 companies in general. While the latter was equal to US$ 5.6 million until the end of 1982, that of fully private sector companies was only about 2 million (2,085,506). However, there were three exceptions with total capital of US $ 7.1, 3, and 16.4 million. The first instance was that of 'Al Muhandis Bank' where total equity was paid by two shareholders: The Engineers Syndicate and the Suez Canal Bank. This case is a clear illustration of the mechanisms mentioned in Chapter I concerning the new role of professional groups and the transformation of State capital into private. About 63% of the equity of Suez Canal Bank was paid by four State banks and one insurance company, 11% by the Employees funds[4)] of the Arab Contractors Company and the Suez Canal Authority, and 10% by Arab shareholders. The remaining 16% was paid by individuals.

Once Established, the Suez Canal Bank is considered a private bank and its share in any new project, including 'Al Muhandis Bank' is, in turn, private. The case of 'Al Muhandis Bank' is not an exceptional one. By the end of 1982, the Suez Canal Bank had participated in the establishment of 41 banks and companies.[5] During this process, state capital was continuously and progressively transformed into private. The political influence of Osman A. Osman and ex-Minister Z. Abdel Fattah, Chairman of the bank, was an important leverage in this respect.

In the second and third instances of fully owned private sector companies with high equity components (U.S.$ 3 and 16.4 million) part of the equity was paid in kind (about 90% in the latter). Payment in kind is common to state and private shareholders. In the case of non-industrial entities as well as private ones, in-kind payment was usually in the form of land and estate whose prices have risen substantially during the seventies.

In the case of 100% state capital projects, the sample included two instances, both in the area of construction. Their capital was equal to US $ 5,3 and 85.7 Million, paid by non-industrial state entities including banks, insurance companies, governorates and the Ministry of Housing. In both cases, part of equity was paid in kind. (See Table 4).

The presence of two cases of 100% state capital companies versus 31 100% private owned ones, indicates that the category of Law 43 companies owned by one element is dominated by the private sector, in spite of the public sector's large contributions. This implies that by 1977, when the rise in the formation of new projects took place, following the amendment of the law, the links between state and private capital were mature enough to account for the majority of newly established companies involving state capital. Evidence from overall figures supports this trend.

Out of 274 companies with state capital participation, until the end of 1982, only 10 were 100% state owned. Taking into consideration that out of 1273 approved Law 43 projects, over the same period, 527 were purely Egyptian, it could be concluded that the remaining companies were established either by purely private entities or in collaboration between public and private capital.

The sample included only one case of a 100% Arab equity company, in the investment sector, concerned with housing and construction. Its capital was equal to U.S.$ 2.1 Million and was paid by three members of the Sabbah Kuwaiti Royal Family

Although Law 43 allows the establishment of purely Arab companies, under special conditions, the presence of only one company under this category indicates the importance of having a local partner for dealing with the Egyptian bureaucracy and integrating into the market. The fact that all shareholders of the Kuwaiti Investment Housing and Urban Development Company are members of the Kuwaiti Royal Family further enhances the point.

II - DUAL ALLIANCES

After examining cases of one element companies, we will now turn to dual alliances or cases of full collaboration[6)] between two elements of the six elements of the sample (State, private, Arab, European, U.S. and others). The majority of companies in the sample (123 out of 200) were registered under this category. As in the case of one-element companies, the private sector played the leading role in the dual alliance category participating in 104 out of 123 dual-alliance cases.

Private and State Capital

Fifteen cases were included in the private-State dual-alliance category. Ten of these companies were in non-industrial sectors and five in the industrial sector. For state capital, private partners were its major collaborators. For private capital, State partners came third to European and Arab partners. A close examination of the interaction of State and private sub-categories reveals the nature of their alliances that is obscured by their legal classification. A representative case, in this respect, is the "Arab Company for Assembly and Manufacture of Building Supplies and Equipment - Osmacon" in which public-private capital represented 70% and 30% of total equity respectively. The public sector partner was the "Arab Contractors Company - Osman Ahmed Osman - A.C.C." which is an old private contracting company that was nationalised in the 1960s but remained to enjoy a special status. The private share was paid by two private sector companies, namely the "Arab Contractors Company for Investment" and the "Middle East Agricultural Company". Both are Law 43 companies established by the A.C.C. and its legally private employees fund. This example reflects the behaviour of several private sector entities which were nationalised, but continued to operate under semi-autonomous regulations. This dual-status resulted in freezing their private activities on the one hand and in preventing their complete transformation into purely public sector units on the other hand. The opportunity for reprivatizing their activities as well as those of other para-statal units, was seized by their management.

Such a process was made possible by the gradual involvement of Law 43 projects in a chain of ventures through which the activities and share of new private companies increased without affecting the legal status of the mother public sector companies. Thus, it is not surprising that the public sector capital contribution was much higher than that of the private sector in their dual alliances, in spite of the financial stringencies from which public sector companies, in general, suffer. The share of State capital was higher than 50% in 10 out of 15 cases, equal to 50% in 2 and less than 50% in 3. In the industrial sector, its share was higher in three and equal to 50% in one out of 5 cases. In the only case where its share was equal to 11.7%, the majority of the private contribution, 72.6% was made by the insurance fund of a public sector company.[7] In the 5 cases where capital was higher than US$ 10 million, the share of State capital was greater than 50% in four. In the only case where the private share was equal to 51%, a large portion of its contribution was paid by the Insurance and Pension Fund of the Medical Professions.

State banks and insurance companies were found to be the major State sub-categories collaborating with private capital, followed by contracting companies, 'Others'[8] State entities, industrial and tourism companies (See Table 2).

On the otherside, Law 43 companies were the major collaborators with State capital followed by insurance, pensions and employees funds of State units, then individuals and lastly a political figure in one case (see Table 2).

TABLE 2

PRIVATE SUB-CATEGORIES	STATE SUB-CATEGORIES						TOTAL
	INSURANCE	BANKS	CONTRACTING	INDUSTRIAL	TOURISM	OTHERS	
Companies	5	3	4	2	1	1	16
Funds of State Units			2	1		2	5
Individuals		2		1			3
Political Figures	1			1		1	3
TOTAL	6	5	6	5	1	4	27

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The reason for the relatively high share of Law 43 companies in new private-State dual-alliances is that although they are considered to be purely private from the legal viewpoint, they represent a third sector falling in between the public and private sectors which facilitates their intermediary role in bringing State and private units together. Significantly, Law 43 companies are often distinguished from other purely private sector activities and are usually referred to as investment firms, vis-à-vis public and private firms.

The highest share of one sub-category was that of private companies, primarily Law 43, while the lowest was that of individuals and political figures.

The only case in which individuals played a significant role was that of the 'Medical Professions Investment Com any' with a capital component exceeding US$ 10 million. It is one of a few examples in which an individual's share, a doctor's in this case, was more than US$ 1 million. The institutional and organised form of these State-private associational projects seems to provide professionals who lack the business experience, with the necessary confidence and semi-official guarantees for their investments. Other participants were the Syndicate of Medical Professions, public and private banks and public sector pharmaceutical companies.

Private and Arab Capital

Thirty-five companies were registered in the category of private-Arab capital. These included eleven companies in the contracting sector, eight in the investment and seven in other non-industrial areas.

The industrial sector included nine companies of which five were in the building materials sector; one that is closely related to contracting and construction activities.

The share of private capital was higher than 50% in 21 cases, equal to 50% in 5 and less than 50% in 9. These proportions varied from sector to another (see Appendix II).

The frequency of participation of different private sector sub-categories in joint ventures with Arab Ca ital shows that in all sectors, the major participants were individuals (see Table). It is striking that with the exception of 3 companies, private sector participation with Arab capital was dominated by individuals. In 7 cases, the Egyptian partner was one person, in 5 cases 2 persons and in 4 cases one family. This is due to the non-institutional nature of interaction between Arab and local private capital.

TABLE 3

PRIVATE SECTOR SUB-CATEGORIES IN JOINT VENTURES WITH ARAB CAPITAL

	PRIVATE SECTOR SUB-CATEGORIES				
ECONOMIC SECTOR	PRIVATE COMPANIES	FUNDS OF STATE UNITS	INDIVIDUALS	POLITICAL FIGURES	TOTAL
Investment	1	-	8	-	9
Contracting	-	-	11	-	11
Industrial	1	-	9	-	10
Others	1	-	7	-	8
TOTAL	3	-	35	-	38

Until the establishment of the Arab-Gulf Business Committee in early 1980s, the main form of contact was that between Egyptian residents in Arab countries and respective Arab businessmen. These include Egyptians who accumulated their wealth through contracting, trade and other activities in the Gulf during the 1950s and 1960s. A good example is that of Lokma, the famous contractor and millionaire. 9) Osman Ahmed Osman's case, though a more complex phenomenon, is also a good illustration. Osman established close links through the "Arab Contractors" in oil rich countries which constituted a major source of income during the sweeping wave of nationalizations in the sixties. 10)

Osman's and Lokma's examples were repeated in miniatures. Perhaps a less known, but a more typical example is that of Abul Fotouh. A large estate owner whose assets were nationalised in 1962, Abul Fotouh established a successful contracting firm in Saudi Arabia. Returning as a wealthy man in 1977, the young Abul Fotouh, Houssam, became the representative agent of BMW cars in 1980. The sales of this car rocketed from about 80 cars in 15 years to 600 in one year. With the new investment outlets, Houssam abandoned the contracting business and started a variety of projects including photo-processing, a mosaic tile plant, steel construction advertising and banking. By 1982, the annual turnover of his companies reached about US$ 22.3 Million.

In our sample, Abul Fotouh is included as a major founder of a US$ 8.5 million private-Arab joint wood manufacturing company. The company's 35 shareholders include 12 of Abul Fotouh's family members. The 25% Arab share was contributed by a famous Saudi prince, with whom Abul Fotouh had established close contacts during his years of business transit in Saudi Arabia. Houssam, also known as Mr. BMW, is an example of a businessman with diversified business interests inspite of the contracting-land-estate-trade base of his wealth.[11)]

Private capital financing a number of financial and real-estate projects came from Egyptians working in the Gulf. A good example is that of the Nile Bank established with a total capital of US$ 20 million. Out of 211 shareholders in this 100% Egyptian bank, more than 120 shareholders were Egyptians living in Saudi Arabia and Kuwait.[12)] Another example is that of "Al Salam Company" where 132 out of 159 shareholders were Egyptians in the Gulf.[13)] These included a number of advocates of Islamic economics and old members of the Moslem Brothers group.

It is normal that Arabs[14)] and Egyptian investors lay emphasis on contracting and services sectors as these areas constitute the major sources of capital accumulation in the Gulf on the one side, and have been relatively more open for private investment in Egypt during the sixties, on the other side. There is, however, a growing industrial concern on behalf of private- Arab companies though mostly in contracting related activities like wood-marking and building materials whose capital represents about 87.5% of private-Arab joint ventures in the industrial sector.

Private and European Capital

The most frequent type of alliance was that of Private and European capital. Out of 200 companies 38 cases were registered under this category (see Appendix II).

The share of private capital was higher than 50% in 15 cases, equal to 50% in 14 and less than 50% in 9. Sectoral proportions differed significantly. Among 17 contracting companies, the share of the private sector was higher than 50% in 8, equal to 50% in 8 and less than 50% in one. On the other hand, its share was higher than 50% in 2 cases, equal to 50% in 3 and less than 50% in three in the industrial sector. In the remaining 13 non-industrial joint ventures, the share of private capital was higher than 50% in 5 cases, equal to 50% in 3 and less than 50% in 5.

In the two industrial companies where the private share was higher than 50%, part of capital was to be subscribed in one, while the second was a small venture with total capital of U.S.$ 257.000.[15]

Private Sector Sub-categories in Joint Ventures with European Capital.

TABLE 4

ECONOMIC SECTOR	PRIVATE SECTOR SUB-CATEGORIES				TOTAL
	PRIVATE COMPANY	FUND OF STATE UNIT	INDIVIDUALS	POLITICAL FIGURES	
Investment	1	-	5	-	6
Contracting	9	-	12	-	21
Industry	3	-	8	1	12
Others 1 -	1	-	7	2	10
TOTAL	14	-	32	3	49

A surprising feature of private-European joint ventures' sectoral distribution is the high share of contracting companies, 17 out of 38, with relatively low capital components. Speculation has made the construction sector one of the most lucrative profit opportunities for all potential investors. Moreover, Egyptian private construction sector activity has reached a scale and technical level beyond which Western high-tech is required.

In contrast with private-Arab joint ventures, the relative share of new Law 43 companies and political figures among private-European projects increased at the expense of individuals who were still dominant in absolute terms, (see Table 4 above). Individuals included famous contractors, new Open-Door elements among whom were several importers, owners of retail shops and representative agents of foreign companies. Their initial business involvements provided them with necessary contracts for collaboration with foreign capital. The private-European projects category did not include any large scale joint ventures with MNCs. Total capital was higher than, or equal to, US$ 10 million in only three cases; two in tourism and one in banking. In both tourism companies, the share of European capital was higher than 50%. In the banking sector, where the Law necessitates a majority of capital for the Egyptian partner, two former ministers were on the Egyptian side. These examples reveal the still cautious attitude of foreign capital when the volume of its investments exceeds a certain level. The risk for foreign capital is usually dampened by a majority of shares, which in in turn guarantees a majority on the management board, or by the participation of political figures, whose relation with the State apparatus ensures more confidence.

Private and U.S. Capital

The low contribution of American capital to Law 43 projects (4% of total capital until end of 1982) is made apparent by different indicators in the sample.

Eleven cases of dual alliance between private and U.S. capital were registered. Of these, 3 were in the industrial sector, 3 in the contracting and the remaining 5 in investment and other non-industrial areas.

The share of private capital was higher than 50% in 4 cases, equal to 50% in 2 and less than 50% in 5. This is the only case of dual alliance between local capital, State or private, and foreign capital where the latter held more than 50% of the shares in the majority of cases. More significantly, in all cases where capital was equal to or greater than U.S.$ one million, more than 50% of the share belonged to U.S. capital (See Appendix II).

The average capital size of private-U.S. joint ventures was found to be the lowest in the sample and was equal to U.S.$ 0.962 m.

The major local private partners of U.S. capital were individuals followed by private companies in addition to two instances of political figures participation. Compared to private-Arab and private-European alliances, the share of private companies relative to individuals was highest in the private-U.S. category (See Table 5).

TABLE 5

PRIVATE SECTOR SUB-CATEGORIES IN JOINT VENTURES WITH U.S. CAPITAL

	PRIVATE SECTOR SUB-CATEGORIES					
ECONOMIC SECTOR	PRIVATE COMPANIES	FUNDS OF STATE UNITS	INDIVIDUALS	POLITICAL FIGURES	OTHERS	TOTAL
Investment	-	-	1	1	-	2
Contracting	1	-	2	-	-	3
Industry	1	-	3	1	1	6
Others	3	-	1	-	-	4
TOTAL	5	-	7	2	1	15

A significant characteristic which is unrevealed by aggregate figures is the participation of Egyptian-American joint banks (which are included in official statistics as local private banks) in new projects with American based companies. An example from the sample is that of a Xerox affiliate, established by the "Egyptian American Bank" (a joint venture between Bank of Alexandria and American Express) and Ranks Xerox Holding Ltd. This example indicates a decentralised approach of American capital in dealing with the Egyptian market.

Lastly, private capital participated with the 'others' category in the establishment of 5 joint ventures including four with Panamanian capital in non-industrial projects and one with Japanese capital in a small zippers firm.

State and Arab Capital

The most significant characteristic of this category is the absence of dual cooperation between Arab capital and public sector industrial companies, which suffered financing problems. This trend should have developed had there been serious intentions to the implementation of the formula of : Arab capital + Local resources. Only three instances of dual collaboration between State and Arab capital were registered; two in the investment sector and one in the agricultural. The share of state capital was equal to 50% in two cases and to 25% in the third (See Appendix II). These joint ventures were characterised by a low number of shareholders (2,3 and 2), and a high capital component (U.S.$ 11.7 m 30,9m and 5.3 m, respectively).

State partners were Alexandria Governorate in one investment company, Cairo Governorate and a construction in the other investment company, and an agricultural company in the third case. In all three cases, the State share was paid in kind. These three cases are an indication of the nature of Arab interests and precautions in case of collaboration with State capital.

State and European Capital

State and European capital collaborated in the establishment of 12 companies distributed among different sectors (See Appendix II). The characteristics of these companies varied widely from one area to another.

Capital was highest in the only case registered in the agricultural sector (U.S. $ 47m). This was followed by two banks with a capital of U.S. $ 10m each. As Law 43 prohibits a majority of shares for the foreign partner in joint banks, the share of the public sector partner, National Bank of Egypt, was equal to 50% in one case and 51% in the other.

The lowest capital component was that of the services sector where the Egyptian Railways Authority participated with French and German firms for the rehabilitation and maintenance of its equipment. Total capital was equal to U.S.$.7m in both cases, with the State share equal to 51% in both.

While the overall picture shows that the State capital share was higher than 50% in 8 out of 12 cases, equal to 50% in one and less in three, the sectoral picture indicates significant variations.

In the 5 industrial sector joint ventures, the share of State capital was higher than 50% in two and less in three.

In only three of the five cases, the State partner was an industrial public sector company (See Table 6).

TABLE 6

INVESTMENT	STATE PARTNERS IN STATE-EUROPEAN JOINT VENTURES					
	BANK	INSURANCE CO's	CONTRACTING	INDUSTRIAL	OTHERS	TOTAL
Contracting			1			1
Non-Industrial	3	2		1	3	9
Industrial			1	4		5
TOTAL	3	2	2	5	3	15

In two cases, where public sector share was less than 50%, one public sector company had participated with one, or more, European companies. In the case where public sector share was higher than 50%, four public sector companies represented the Egyptian side against one European company.

In the remaining two industrial projects, the state partner was the Arab Contractors, entering the field of building materials and a State transformers and electrical products manufacturing firm (MACO) where part of the contribution was made in kind.

Although State-European joint ventures in the industrial sector are higher than those of State-Arab or State-U.S. projects, their relative share to overall State-European projects remains low with respect to number and average capital component. The average size of the 7 non-industrial joint ventures was equal to U.S.$ 10.16m while that of industrial ventures was equal to U.S.$ 3.27m (See Appendix II).

State and U.S. Capital

State and U.S. capital collaborated in the establishment of three companies; two in the industrial sector and one in the agricultural sector[16] (See Appendix II).

In both industrial companies, in the food and textile sub-sectors, the State partner was Misr Bank which paid 80% and 75% of total capital, respectively.

The food company, of U.S. $ 3m, was to produce canned food, to which the local market was not familiar until mid-seventies. The textile joint venture, 'The Amerya Synthetic Fibres' was part of a large textile complex project, whose total investment costs were to reach LE 530 m. This complex project was confronted with a wave of oppositions on the basis of its anticipated threat to the already deterriorating public sector textile industry in Egypt.

The third company, involved a public sector bank, two insurance companies, a public sector bottling company and the General Egyptian Agricultural Company. Each of the State and U.S. sides had 50% of the shares.

The involvement of State financial units in the establishment of State-foreign industrial joint ventures, emphasizes the heterogeneity of the public-sector whose units operate more and more on individual basis in a market increasingly governed by profit and free competition considerations.

Lastly, the remaining company in the dual alliance category was an Arab-European one. As in the case of the purely Arab company, the same disadvantages resulting from not having a local partner, are expected to apply for a non-Egyptian joint venture.

III - TRIPLE ALLIANCES

The sample included 35 cases of triple alliances among different elements. The vigour of the private sector is best revealed through an examination of the triple, or more, category. This category included 43 companies in all of which the private sector was the only common element.

Private-State-Arab

The important mediatory and catalytic role of the private sector in bringing together State and Arab capital is exemplified by the fact that while State participation with Arab capital was limited to three cases (where the State share was paid by two Governorates and two construction and agricultural companies) 11 instances of private-State-Arab alliances were included with a more diversified role played by State banks, insurance, contracting and tourism companies. On the other hand, the number of private-Arab dual alliances, 35, was much higher than that of private-State-Arab. The importance of the private sector's mediatory role is further emphasized by its relatively low capital contribution. The share of State capital was highest among the three elements in six out of 11 cases, Arab in four and private in only one case in which part of its contribution was to be paid through general subscription.

The participation of private and State sub-categories differed from that of their dual alliances with Arab capital. Major State participants in these triple alliances were insurance companies and banks. Only two public sector industrial companies took part in these alliances. One of them was for the production of mineral water and the second for furniture.

While State capital participation with Arab capital in dual alliances was limited to 3 cases where its share was paid by 2 governorates and 2 construction and agricultural companies, in state-private-Arab triple alliance, a much more diversified role was played by State banks, insurance companies, contracting and tourism companies. On the other hand, the number of private-Arab dual alliances (35) was much higher than that of private-State-Arab triple alliances (11). The sectoral picture also varied considerably. While in private Arab dual alliances 11 out of 35 joint ventures were in the contracting sector, none were found in the priave-State-Arab triple alliances. This indicates the readiness of Arab capital to indulge in diversified forms of investment involving a higher risk and a slower rate of return in case of private capital participation. For local private capital, individuals remained to play a major role in triple alliances. However, unlike dual alliances, insurance, pensions and employees funds funds came second to individuals in frequency of participation as indicated in Table 7. In addition, private companies included Law 43 ones, played a more important role than in dual alliances.

TABLE 7

LOCAL ALLIES SUB-CATEGORIES OF ARAB CAPITAL IN STATE-PRIVATE-ARAB TRIPLE ALLIANCES

PRIVATE SUB-CATEGORIES	STATE SUB-CATEGORIES						
	INSURANCE COMPANIES	BANKS	CONTRACTING	INDUSTRIAL	TOURISM	OTHERS	TOTAL
Private companies	2	1	1	1	1	1	7
Funds of State units	2	3	1	-	1	1	8
Individuals	6	6	1	2	1	2	18
Political Figures	1	-	-	-	-	-	1
TOTAL	11	10	3	3	3	4	34

Private-State-European

Eight cases of triple private-state-European capital alliance were registered. These included four companies in the industrial sector and four in non-industrial areas. The share of local capital was higher in 6 cases, equal to 50% in one and less than 50% in one. The sub-sectoral picture shows that the private sector's traditional major shareholder, i.e., individuals, was replaced by private companies and banks, including a large number of Law 43 ones. The most significant result of the sub-sectoral examination of state shareholders is the unprecedented high frequency of public sector industrial companies involvement (see Table 8).

TABLE 8

PRIVATE SUB-CATEGORIES	STATE SUB-CATEGORIES Insurance Co's	Banks	Contracting	Industrial	Tourism	Others	Total
Private Companies	1	2	1	2	1	2	9
Funds of State Units	-	-	-	-	-	-	-
Political Figures	-	-	-	-	-	-	-
Individuals	-	-	1	2	-	1	4
Others	-	-	1	1	-	-	2
TOTAL	1	2	3	5	1	3	15

The four industrial companies illustrate different routes of the types of industrialisation taking place under the economic opening. The first two of these companies represent a successful model of collaboration among private, State and foreign capital for the satisfaction of the local market's needs of high quality import substitution goods. The capital of the "International Shoes Company" and the "Vestia Ready-Made Garments - VESTIACO" was equal to US$ 2.1 and 1.7 million, respectively. In each case, the local share was equal to 75% and the European to 25%. In both cases, industrial public sector capacity was brought together with private banks' money and western know-how. This combination was facilitated by the presence of important figures. In the "International Shoes Company", the president of the "Egyptian Business Association - EBA" participated as a shareholder while in the "VESTIACO" case, a political figure headed the private Arab Investment Bank's board. The two average sized cases are examples of "non-zero-sum" triple alliances, through which high quality, or new, goods are produced for a vast market without liquidating the already existing firms.

The third example was that of the "Ismailia National Company for Ready-Made Garments". Although this company also combines private, State and European capital, the sub-categorical composition points to a significant variation from the previous pattern. This US$ 4.2 million company brought together five State sector units including three public sector banks, one insurance company and the Suez Canal Authority together with seven private sector units and one European entity. The seven private sector shareholders included five established through the majority participation of State capital (The National Bank for Development, The Suez Canal Bank, the Mohandes Bank, the Mohandes Insurance Company and the Arab Contractors for Investment). The common factor in these companies and in the location of the project is Osman. This example illustrates the strength of a major wing of the local bourgoisie, Osman's, whose power stems from the dual relationship with the public and private sectors. This power was manifested in the relatively high capital component of the company, its distribution among several private companies as well as the ability to involve State financial units in the "Popular Development" projects and the final distribution of its products in public sector retail outlets. This example also illustrates Osman's conception of the division of labour under the economic opening in which the private sector is to play the leading role in industrialisation while State economic activities be limited to the areas in which the private sector refrains from investing like infrastructural works.

The last case of private-State-European industrial triple alliance presents a third variant of potential industrialisation under Law 43. The "Chloride Egypt Company" brought together the British Chloride Group Ltd., Barclays Bank Ltd., the public sector "General Company for Batteries" and the private "University Education

Endowment Fund". The company's capital, US$12.8 million, is the highest among all triple, or more, industrial companies. This is also the only case in which the share of European capital was higher than 50% of total capital. More importantly, it is a case where a public sector industrial firm completely closed down. Part of the employees of the public sector wet-cells firm were transferred to the new project and others to the public sector dry-cells firm belonging to the "General Company for Batteries". Such an extreme case was made possible by the poor performance of the public sector firm and the political influence of a public figure who represented the foreign company in the new venture and later became Minister of Industry. The three models of private-State-European industrial alliances illustrate the variety of forms of industrialisation made possible under the economic opening policy. Aggregate figures, however, suggest that the first two represent a common pattern while the last represents an exception.

The remaining private, State and foreign capital triple alliances included two small contracting and consulting companies with the U.S., and a US$ 10 million bank. The bank was established by public sector banks and one insurance company, five Korean banks and a former Minister of the Economy paying a nominal share.

Private-Arab-European

The category of Private-Arab-European triple alliances included eight companies. It represents the only category where the local share was in most cases less than 50%. The share of private capital was higher than 50% in 3 cases, equal to 50% in one and less than 50% in four. The share of Arab capital was higher than 50% in 2 cases and equal to 50% in one case while that of European capital was equal to 50% in only one case and higher than 50% in none (see Appendix II).

Private Sector's major contributors were individuals and private, including Law 43 companies.

The remaining five triple alliance companies included two private-Arab-U.S. companies, two private-U.S.-'Others' and one private-European-U.S. In all cases, the private shareholders were individuals.

They were famous businessmen representative agents of foreign companies in three out of the five cases. The only industrial company represented a potential model fcr manufacturing a new product, cassette tapes in this case, through the collaboration of Arab capital, Western technology, and local partners with access to the market.

IV - QUADRIPLE OR MORE ALLIANCES

The sample included 8 cases where more than 3 partners participated in the establishment of a Law 43 company. These included a variety of combinations. Six cases witnessed the collaboration of local State and private capital with other Arab and foreign investors (See Appendix II).

The share of local capital was higher than 50% in 4 out of these 6 cases, equal to 50% in one and less than 50% in one. The share of State capital was higher than that of private capital in 4 out of the 6 cases, including the 2 industrial companies. In both cases, the State share was paid by public sector industrial companies. Major State partners were banks, 'Others' entities and industrial companies in industrial ventures. Private Sector participation was dominated by individuals, followed by private companies.

In one of the remaining two Private-Arab-European-U.S. alliances, foreign companies collaborated with political figures from both Egypt and Saudi Arabia. In the second, individuals participated with foreign companies.

CONCLUSION

The most striking characteristic in the sample is the dominant and diversified role played by the Egyptian private sector which was represented in 163 out of 200 companies; 31 fully owned private sector companies, 89 in the dual alliance category, 35 in the triple and 8 in the quadriple, or more (i.e. 91%, 72.3%, 100% and 100% of all cases in each category, respectively).

Several private sector sub-categories played roles that differed from one sector to another and from one partner to the other.

In fully private and private-Arab companies, the major private Egyptian shareholders were individuals and in many cases one family. These companies were primarily concentrated in non-industrial areas, mainly contracting and services, where primitive forms of management prevail and where little know-how is required.

Impressionistic data suggests that most local partners of private-Arab joint ventures came from the reservoir of Egyptians in the Gulf, whether on temporary or permanent bases.

In dual alliances with European, U.S. and 'Others' capital, private companies, including Law 43 companies, played a more important role.

The establishment of Law 43 companies, even in non-industrial areas, returned to the private sector the confidence it lost during the 1960s and increased its acquaintance with the market. A common example was one of establishing a purely private Law 43 investment company which would then take part in trade and services activities and later get involved in simple industrial projects, primarily import substitution, and lastly indulge in more complex forms of private-foreign industrial joint ventures.

One example is that of the "Arab Contractors for Investment". This company was established in 1978 by the "Arab Contractors - Osman Ahmed Osman - A.C.C." and its employees Fund. In 1979, the new company took part with a small share in a State-private company for the assembly and manufacturing of building supplies with its mother company the A.C.C., and in another State-private-Arab agricultural company with a higher share and without the participation of the A.C.C. Later, in 1980, the "Arab Contractors for Investment" played an important role in the establishment of a purely private clay-bricks company. Lastly, in 1981, the Company took part in the "Ismailia Ready-Made Garments" company with State, private and European capital. By FY 1981/82 the "Arab Contractors for Investment" had participated in establishing several industrial projects including aluminum products and metallic sealfolding and formwork without the participation of the A.C.C.[17)]

With respect to dual alliances with State capital, a major private shareholder was those entities on the borderline of public-private like employees, pensions and insurance funds of State enterprises.

The upper management echelons of these para-statal units encouraged a new business oriented approach of their institutions and employees. This category includes several diverse entities like "Al-Ahram" press institution and its employees insurance fund, the "Suez-Canal Authority" and its employees fund and the Arab Contractors Company and its insurance fund.[18)]

Although these are considered private, their close links with their mother companies was manifested in the limitation of their participation in Law 43 companies to State-private alliances.

No immediate personal links exist between individuals and State units, the way they exist with foreign capital.

The mediating and catalytic role of the private sector in the formulation of triple, or more, alliances, between State and foreign capital indicates the important role played by the private sector in bringing about deep transformations, and not only isolated islands of private or private-foreign sectors in the Egyptian economy. The magnitude of this role is illustrated in Table 9 which shows that more than 60% of the instances of collaboration between State and foreign capital included the local private sector. Its orientation varied according to the type of sub-categories of private and State units involved. All cases, however, pointed to the spear_headed role played by the private sector in the establishment of triple alliances.

TABLE :9

STATE CAPITAL ALLIANCES WITH ARAB AND FOREIGN CAPITAL INCLUDING AND EXCLUDING THE LOCAL PRIVATE SECTOR

TYPE OF ALLIANCE	EXCLUDING LOCAL PRIVATE SECTOR (1)	INCLUDING LOCAL PRIVATE SECTOR (2)	1/2 %
State-Arab	3	20	13
State-European	12	26	31.5
State-U.S.	3	6	50
State-'Others'	-	1	
Total	18	53	33.9

The process of participation of local State and private capital in triple, or more, alliances ensured a majority of shares for the national side and combined their resources to increase their bargaining power vis-à-vis foreign capital. On the private side, it provided more practical guarantees against nationalization. On the foreign side, it provided a more flexible approach and more appropriate atmosphere as opposed to the political and social tension accompanying State-foreign joint ventures.

The involvement of political figures was an important vehicle for shortening the lengthy process of decision-making in the public sector. In other instances, especially those of units with special regulations, the power enjoyed by board chairmen was a sufficient prerequisite.

In general, State capital was more keen on keeping a majority of shares for the national side than was the local private sector. (See Tables 10 and 11). This results from historical development, structure and mechanisms of decision-making and from the nature of its allies.[19]

TABLE 10

SHARES OF STATE CAPITAL IN DUAL ALLIANCES

TYPE OF ALLIANCE	SHARE OF STATE CAPITAL MORE 50% (1)	50% (2)	LESS 50% (3)	TOTAL ALLIANCES (4)	PERCENTAGE 1/4	3/4
State-Private	10	2	3	15	66.6	20
State-Arab	-	2	1	3	-	33.3
State-European	8	1	3	12	66.6	25
State- U.S.	2	1	-	3	66.6	-
TOTAL	20	6	7	33	60.6	21.2

TABLE 11

SHARE OF PRIVATE CAPITAL - DUAL ALLIANCES

TYPE OF ALLIANCE	SHARE OF PRIVATE CAPITAL MORE 50% (1)	50% (2)	LESS 50% (3)	TOTAL ALLIANCES (4)	PERCENTAGE 1/4	3/4
Private-State	3	2	10	15	20	66.6
Private-Arab	21	5	9	35	60	25.7
Private-European	15	14	9	38	39.4	23.6
Private-U.S.	4	2	5	11	36.4	45.5
Private-Others	3	-	2	5	60	40
TOTAL	46	23	35	104	44.2	33.6

State capital major ally was local private sector followed by European capital. In the industrial sector, however, the case was reversed. State-Arab alliances were limited to 3 cases while those of triple State-private-Arab alliances amounted to 11.

The general reliance of State capital on the private sector in the formulation of triple alliances was particularly striking in the absence of any State-Arab-European ventures.

Major state capital sub-categories were primarily banks and insurance companies in the case of alliance with private capital and industrial companies in the case of European and U.S. capital.

Competition facing the industrial public sector did not only result from private-Arab or private-foreign joint ventures, but also from State-private and State-foreign joint ventures.

In the industrial sector, new enterprises were established through State non-industrial companies and foreign partners, as in the case of State-European and State-U.S. projects.

This Chapter illustrated the degree of heterogeneity of both the private and public sectors which have, until the end of 1982 been the major actors in Law 43 projects. It also illustrated the resulting complexity of interaction among their different sub-categories, whether including or excluding foreign capital. While the boundaries of Egypt's economic development are set by the constraints of the international division of labour, its internal socio-economic transformations are governed by a more complex pattern of interaction between local and foreign forces. During the period 1974-1982, the most deeply rooted elements in Egypt's class structure, the State and the local bourgoisie, played the major rcle in determining the specific pattern of socio-economic development, from amongst several potential alternatives set by brcader regional and international constraints.

END NOTES

1) See Appendix one on Methodology.

2) See Appendix two: Sample description

3) Shareholders were divided into four sub-categories:
Category 'A for Capital share equal to or above US$ 1 Million
Category 'B' between 100,001 and 999,999
Category 'C' between 10,001 and 99,999, and
Category 'D' less than or equal to 10,000.

4) Although the Arab Contractors and the Suez Canal Authority are State entities, their employees and pensions funds are considered private.

5) The Middle East Observer, June 9, 1983.

6) Other instances of collaboration between two elements, involving a third, or more, partners will be discussed under triple, quadruple, or more categories.

7) The Arab Contractors

8) This category includes Governorates, ministries and other administrative governmental bodies.

9) An old friend of Osman, Likma fled out of Egypt during the massive arrests of the Moslem Brothers in 1954, and returned home only after Sadat's assumption of power. See Osman op.cit., pp, 364-371.

10) Among companies established by Osman outside Egypt are: "The Saudi Contractos, O.A.O. and Co.", "Kuwait Engineering O.A.O. & Co.", "Libyan Contracting & Reconstruction O.A.O. & Co.", and in Abu Dhabi "Osman Ahmed Osman & Co.". According to Osman, capital was provided by Arab partners while he got two-thirds of the profits for his experience. See Osman, Op.Cit.pp. 200-201

11) The Egyptian Chronicle, 18.2.80, and South, June 1983, p. 62

12) The Egyptian Chronicle, 26.1.78

13) The Egyptian Chronicle, 6.7.78

14) Mostly members of the ruling family, merchants working as agents for foreign firms or some Government officials.

15) According to the classification of an Arthur D. Little study, an enterprise with capital up to LE 300,000 or 10-200 employ employees is considered a small scale enterprise (SSE) . See D. Little, Arthur, Review & Evaluation of Small Scale Enterprises in Egypt, 1982, p.II-7.

16) The agricultural company, classified as such by the Investment Authority, was also to be involved in some manufacturing activities, like the production of sugar in addition to agriculture. The U.S. partner to the Coca-Cola Company (The Egyptian Chronicle 23.5.78).

17) The Egyptian Chronicle, 21.9.78, 4.10.79, 28.2.80, and 7.9.81 and the Arab Contractors Company Annual Report 1981/82.

18) The Egyptian Chronicle, 21.9.78, 15.4.78, 26.9.81 and 23.10.80.

19) For an analysis of decision-making in the public sector see: ALI EL SALMI, Public Sector Management: An Analysis of Decision Making and Employment Policies and Practices in Egypt, ILO, 1983.

CONCLUSION

A CONCEPTUAL REPRISE

The 1974-1982 period was one of rapid socio-economic transformation. It was primarily one of restructuring relations among the State, Private and Foreign capital, in a semi-periphery, for potential future successful dependent development. For the centre, the purpose was integrating Egypt in the world capitalist system. Although direct investment is an essential component of the modern world division of labour, the main tools employed during the 1974-1982 period were aid and trade with direct investment playing a relatively minor role. Within the semi-periphery, the main job was one of creating a lucrative investment climate via adjusting the relations between a multi-factorial local bourgoisie and a heterogenous public sector.

The period under review was described by many studies as being one of transition and so was the earlier period of 1967-1973. The socio-economic implication is that because social formations and coalitions took place under changing domestic and regional conditions, where different modes of production co-existed, the crystallization of classes and production relations in line with classic notions of these terms were not fully realized. For this reason, a classic class analysis of Egypt's political economy would leave much to be desired.

The works of Latin American "Dependentistas" on "specific situations of dependency" provided us with useful conceptual tools for analysing the Egyptian case.[1] Although some dependency works were criticized for having laid too much emphasis on external forces to the extent of depriving local societies of their specificity and attempting to understand the part through an analysis of the whole, these were usually a result of an oversimplification on the part of analysts rather than being an essential component of the dependency approach.[2] The most valuable contribution of the dependency approach for the purpose of our analysis was the importance attached to the "wholeness" of the international economic division of labor. The relationship between external and internal forces is seen "...as forming a complex whole whose structural links are not based on mere external forms of exploitation and coercion, but are rooted in coincidences of interests between local dominant classes and international ones, and, on the other side, are challenged by local dominant groups and classes.[3] Students of contemporary Egyptian political economy widely disagree on assigning respective weights to internal and external factors and disagree as to whether one is a dependent or an independent variable.[4] Our disagreement with their line of thought is not only based on an assessment of the results reached, but primarily on a methodological rejection of the possibility of separating internal and external factors. Our analysis, on the other hand, attempted to throw some light on "the ways external factors are interwoven with internal ones".[5]

In analysing the interaction between internal and external factors, particular emphasis must be laid on a number of issues. Among these is that the interest of the centre in semi-peripheral markets does not automatically imply the immediate flow of large scale direct investment. The centre's strategy is global and the ultimate goal is to keep long term opportunities available. Moreover, Egypt's geographic location and historical role in the Arab region required an adaptation of the triple alliance model which is applied to Latin American countries. The Arab element provides Egypt with an additional source of capital, though lacking the know-how component. More importantly, the lower level of industrial capacity of Arab societies and their geographic and cultural proximity, provide Egypt with an unusual opportunity for expanding its manufactured exports. Egypt's ability to play this "sub-imperialist" role, would be a mjaor factor for realising successful dependent development.[6]

Overlooking the distinctive domestic and regional characteristics of Egypt could lead to oversimplistic models of division of labour. According to Wilber and Weaver, the typical structure of division of labour involves the existence of three separate sectors where MNCs, dominate the durable consumer goods sector, the State specializes in standardised intermediate products while local private capital is left to produce non durable traditional consumer goods.[7] This universal formula ignores the specifities of semi-peripheral societies and the politics of bargaining among State, private and foreign capital.

According to Evans, the particular pattern of division of labour is determined through the bargaining process in which State, private and foreign capital make use of the leverages available to each of them.These leverages include a number of factors that are technically and historically determined and whose relative weights vary from one economic sector to the other. In case of State power, a distinction must be made between its role internationally and domestically. For Egypt, linking the process of a peaceful settlement with Israel to economic relations with the West, coupled with an Arab boycott, resulted in weakening the State's bargaining power vis-à-vis the external world especially at times of domestic social unrest. Although the State apparatus enjoys a relatively high degree of autonomy under dependent development, in comparison with earlier periods of classic dependency, Evans' argument that "...dependent development is associated with strengthening of strong States in the semi-periphery"[8] cannot be accepted as a general principle as is evidenced by the case of Egypt.

Domestically, the State has remained to be the strongest actor in moulding the political economy of Egypt. This primarily results from the heterogeneity of the local bourgoisie and the, sometimes, conflicting interests of its different wings, where none had a power stronger than that of the State.[9] The State, which did not represent the interests of a particular class or group had been an arena of struggle among conflicting groups. These groups withih the State apparatus, were gradually unified by a growing market and profit orientation and a gradual abandonement of a comprehensive development strategy. According to Evans, such a process leads to the transformation of the State apparatus from "State bureaucracy" to "State bourgoisie".[10]

The main leverage of the local bourgoisie, on the other hand, lay primarily in its relation to the State. This process began to take an institutionalized form through the experience of Popular Development adopted by the ruling NDP. This experience resulted in the gradual involvement of businessmen in party activities which indicates a shift and loyalty of army officers are replaced by economic power. The relation between the local bourgoisie and Arab businessmen was also a major leverage for attracting Arab capital to Egypt. Lastly, although the heterogeneity of the bourgoisie led to its relative political weakness, it provided its different factions with diverse sources of income and several contacts with foreign capital through export/import activities and foreign company representations. These activities increased access to the local market on behalf of the private sector which, in turn, provided it with an edge over other elements for future collaboration with foreign companies in joint ventures. Another advantage of the local bourgoisie was its skill in commercial operations that facilitated the integration of its own or joint projects into the market.

For Arab capital, the main leverage was its close ties with Egyptian businessmen in addition to its cultural acquaintance with the local market.

Lastly, foreign capital's main leveral lay, contrary to Evan's assertion, in its relation with the mother country. According to Evans, "There is no longer a single hegemonic power standing behind foreign capital."[11)] However, in the case of Egypt, the political element is of greater importance than in the case of Latin America.

U.S. economic involvement in Egypt was in close association with the American involvement in Middle East peace negotiations.[12)] In specific instances, the main leverage of foreign capital lay in its access to intangible capital and trademarks.

Under Law 43 projects for direct foreign, Arab and private investment, Finance and Service activities have so far been dominant, accounting for more than twice the share of industrial projects. State capital concentrated its investments in the industrial sector, followed by finance and services while private capital played a complementary role by laying primary emphasis on finance and services and secondary emphasis on industry.
Arab capital devoted the biggest share of its investment to the Finance and services sector, mainly to investment companies. European capital directed more than half of its investments to the industrial sector while American capital played the leading role in the services sector.

More important than the individual roles played by respective elements was the types of alliance that evolved. The major element in all types of alliances was private capital whose various sub-categories played diverse roles in all types of alliances. Private-State joint ventures played a major role in industrial ventures bringing together private companies with different State units and a number of entities on the private-public borderline. With Arab and foreign capital, the majority of joint ventures were in the contracting and services sector. Individuals were the major ally with Arab capital while individuals and private companies were the major allies with foreign capital. Public sector industrial companies played an important role with foreign capital in the establishment of industrial joint projects. With Arab capital, the role of the State was limited to governmental bodies in non-industrial activities. Of particular importance was the role of the private sector as a mediator in all triple, or more, alliances involving State, Arab and Foreign capital. In this respect, private sector heterogeneity acted as a leverage in utilizing and combining resources available to other elements.

Each of the State, Private and Foreign actors enjoys a number of unutilized leverages. The State's unfavorable diplomatic relations with the Arab world deprive the country of large scale Arab investments, and the possible involvement of foreign capital/know-how. The attempts of the different factions of the local bourgoisie at creating its own unified authentic organizational structures is expected to provide it with additional leverages. Its efforts which crystallized in the formation of the Egyptian Business Association and its sectoral and geographic committees, would lead to increasing the local private sector's involvement in the economic decision-making process and facilitating its participation with Arab and foreign capital in new projects. Due to the unfavorable diplomatic ties with Egypt, Arab capital is still deprived of the full backing of its governments. Lastly, foreign capital has not yet made use of its access to foreign markets in promoting export-oriented projects primarily due to unstable regional conditions.

To sum up, the 1974-1982 period was one of restructuring the Egyptian economy for potential successful dependent development.

The process of division of labor is far from being complete. The most important change of the period was the transformation of relationships between different State and private entities which provided a more favorable climate for Arab and foreign capital. The concern of external forces, on the other hand, has been primarily one of keeping the door open for foreign investment and supporting the institutional and structural changes through a number of channels mainly aid, trade and foreign investment. Regional and international factors provided special resources, the availability of which has facilitated the process of transformation.

END NOTES

1) See GABRIEL PALMA op.cit., for a conceptual analysis of the dependency approach.

2) TONY SMITH "The Underdevelopment of Development Literature. The Case of Dependency Theory". World Politics 1979, pp. 257-259

3) FERNANDO HENRIQUE CARDOSO and EZNO FALETTO, Dependency and Development in Latin America. University of California Press 1979, p. xvi.

4) See for example the Studies on the economic opening in GOUDA ABDEL KHALEK (ed) 1982 op.cit. An analysis of the transformation to the economic opening and subsequent socio-economic developments is provided in two studies. The first by I.EL EISAWY is a study of the internal forces that led to the economic opening while the second article by G. AMIN is devoted to an analysis of the external factors. Both writers admit the existence of internal and external factors, but each one concentrates his analysis on one set of factors to which he assigned the determining role in the socio-economic transformation.
Also see FOUAD MORSY, 1975, op.cit. pp.138-139, for an oversimplistic explanation of the relationship between internal and external forces.

5) CARDOSO, op.cit., p. 15

6) EVANS, pp. 218,219

7) CHARLES K. WILBER and H. WEAVER, Patterns of Dependency: Income Distribution and the History of Economy of Development and Underdevelopment. Random House, New York, 1973, p. 126.

8) EVANS, op. cit., p.11

9) For an analysis of State power under peripheral capitalism, see HAMZA ALAVI, State and Class Under Peripheral Capitalism in HAMZA ALAVI and TEODOR SHANIN (eds), Introduction to the Sociology of Developing Societies. The MacMillan Press Ltd., 1982, p. 291.
Also see TONY SMITH op.cit., p. 280.

10) EVANS, op.cit., p. 267, and ALAWI, op.cit., p. 291.

11) Ibid, p. 83, and p. 321

12) For an analysis of how economic relations went hand in hand with negotiations for a peaceful settlement in the Middle East, see, for example, ADEL HUSSEIN, op.cit., Vol. II, pp 26, 29 and WATERBURY, 1983, op.cit., p. 134.

ANNEX I

OFFICIAL FIGURES PARTICIPATION IN LAW 43 PROJECTS

Post	Company's Total Capital LE	Egyptian Share %	Official's Share LE
1) Former Prime Minister	2,100,000	19	20,000
2)	3,500,000	5	175,000
	3,500,000	17	14,000
	3,000,000	79	1,000
	1,500,000	40	20,000
2) Former Prime Minister	700,000	50	3,500
3) Former Minister of Economic Cooperation	700,000	50	3,500
4) Former Minister of Finance	7,000,000	51	35,000
5) Former Minister	724,000	25	45,250
	10,600,000	51	50,000
6) Former Minister	7,000,000	100	--
7) Former P.A. Delegate	2,800,000	41.1	
8) Former Minister of Irrigation	10,000,000	51	20,000
9) Former Minister of State for Arab Affairs	2,800,000	30	80,000

SOURCE: -The Egyptian Chronicle : 9.2.78, 16.5.78, 14.8.78, 21,6.78, 5.12.78, 28.4.79, 21.1.80, 27.1.80, 19.3.80, 27.3.80, 8.6.81, 10.2.82.

-List does not include officials families. See for example: Marei 14.4.80 and El Sawy 4.2.80 and 7.2.80.

1. Abdel Aziz Higazy
2. Aziz Sidky
3. Taher Amin Hassan
4. Ahmed Abu Ismail
5. Mohamed Abdallah Marzaban
6) Mohamed Zaki Shafei
7) Anrouallah Baligh
8) Abdel Azim Abul Atta
9) Ashraf Marwan

METHODOLOGY

A random sample of 200 Law 43 Companies was drawn from different issues of 'The Official Gazette' and 'The Egyptian Chronicle' covering the period 1974-1982. These include articles of incorporation of these companies; the company name, total equity, amount deposited in banks, names and nationality and amounts paid by shareholders, indication of general subscription or in kind payment in addition to other legal articles.

This information enabled us to punch the following information on computer cards:

- Sector of Activity
- Company names
- Equity in dollars*
- Percentage shares of public, private, Arab, European, U.S. and 'Others' capital
- Number of shareholders
- Payment in kind
- General subscription
- Type of bank where part of the capital is deposited
- State capital sub-divisions:
  . Financial units
  . Industrial units
  . Housing units
  . Tourism units
  . Governorates
  . Others
- Private capital sub-divisions:
  . Individuals
  . Political figures
  . Syndicates

*According to an exchange rate of US$ 1 = LE 0.70. This is the rate used in articles of incorporation of Law 43, companies. See for example 'The Egyptian Chronicle'. 24.4.80 and 23.10.80.

APPENDIX II - 1

A - COMPANIES FULLY-OWNED BY ONE ELEMENT

1 - Private Sector

	Capital (US$ 000)
Investment	714
	2,875
	2,857
	1,000
	714
	2,143
	2,143
	2,143
	2,143
Banking	7,143
Tourism	2,857
	3,000
Agriculture	536
Industry	
Food	1,429
	571
	450
Chemical	357
Building Materials	1,250
	257
	1,093
Contracting	2,143
	1,429
	571
	1,143
	2,000
	714
	1,024
	1,429
	1,429
	16,428
	714

2 - Public Sector

Investment	85,714
Contracting	5,357

3 - Arab

Investment	2,143

B - DUAL ALLIANCES

1 - Public and Private Egyptian Capital

Sector	Capital US$ 000	Public %	Private %
Investment	35,714	76	24
	3,000	99	1
	2,857	50	50
	8,571	83	17
	10,714	95	5
	6,000	75	25
	7,143	80	20
	10,163	49	51
Services:			
- Health	10,000	95	5
- Agriculture	1,429	15	85
Industrial:			
- Textiles	5,100	99	1
- Food	3,286	12	88
- Chemical	16,000	50	50
Engineering & Mechanical	0.429	70	30
Building Materials	7,857	60	40

2 - Private and Arab Capital

Sector	Capital US$ 000	Private %	Arab %
Investment	2,143	25	75
	2,200	10	90
	2,500	60	40
	2,143	92	8
	2,143	60	40
	2,304	91	9
	2,857	40	60
	5,000	10	90
Services: Tourism	2,143	69	31
	1,500	55	45
	1,200	51	49
Transport	15,000	60	40
Consultance	200	55	45
Agriculture	2,214	68	32
	3,431	15	85
Contracting	300	50	50
	2,143	51	49
	7,143	67	33
	286	50	50
	2,200	31	69
	2,143	51	49
	1,429	51	49
	1,429	90	10
	2,837	50	50
	1,157	51	49
	589	50	50
Industrial Food	1,000	40	60
	2,143	32	68
Wood working	8,571	75	25
Building Materials	1,257	36	64
	8,571	88	12
	714	50	50
	4,000	51	49
	1,000	75	25
Metallurgical	286	95	5

3 - Private and European

Sector	Capital US$ 000	Private %	European %
Investment	1,200	10	90
	2,143	51	49
	2,143	72	28
	2,143	60	40
	286	51	49
Banking	14,286	51	49
Tourism	10,000	10	90
	10,000	30	70
	200	50	50
Transport	529	24	76
Consultancy	286	50	50
	100	50	50
	714	49	51
Contracting	500	50	50
	286	50	50
	929	50	50
	1,000	51	49
	650	51	49
	300	10	90
	1,429	50	50
	1,429	63	37
	286	51	49
	1,429	50	50
	1,429	64	36
	2,000	65	35
	714	50	50
	5,000	65	35
	1,429	50	50
	357	50	50
	429	52	48
Industrial:			
- Textiles	1,400	50	50
- Food	2,200	50	50
- Chemical	500	30	70
	2,857	85	15
	1,429	50	50
Wood working	1,257	31	69
	257	65	35
Engineering & Mechanical	286	25	75

4 - Private and U.S.

Sector	Capital US$ 000	Private %	U.S. %
Investment	2,143	40	60
Services	1,000	25	75
Contracting	171	58	42
	286	51	49
	714	50	50
Consultancy	143	50	50
	786	75	25
Agriculture	2,143	40	60
Industrial:			
- Food	590	62	38
- Chemical	1,576	13	87
	1,034	25	75

5 - Private and Others

Sector	Capital US$ 000	Private %	Others %
Investment	1,000	10	90
Tourism	1,000	70	30
Contracting	400	51	49
	1,726	68	32
Metallurgical	429	25	75

6 - Public and European

Sector	Capital US$ 000	Public %	European %
Banking	10,000	51	49
	10,000	50	50
Services	714	51	49
	714	51	49
	1,000	75	49
Contracting	1,600	51	49
Agriculture	47,143	90	10
Chemical	3,214	49	51
Engineering & Mechanical	7,857	49	51
	1,000	55	45
	2,143	70	30
Building Materials	2,143	40	60

7 - Public and Arab

Sector	Capital US$ 000	Public %	Arab %
Investment	11,763	50	50
	30,971	50	50
Agriculture	5,333	25	75

8 - Public and U.S.

Sector	Capital US$ 000	Public %	U.S. %
Agriculture	10,000	50	50
Textiles	22,857	80	20
Food	3,000	75	25

9 - Arab and European

Sector	Capital US$ 000	Arab %	European %
Investment	1,000	50	50

C - TRIPLE ALLIANCES

1 - Public + Private + Arab

Sector	Capital US$ 000	Public %	Private %	Arab %
Investment	2,857	30	25	45
	3,015	17	2	81
	1,429	10	41	49
	4,286	61	24	15
	10,000	73	17	10
Banking	14,286	63	22	15
	20,000	25	26	49
Agriculture	2,643	11	70	19
Industry:				
- Food	1,429	70	23	7
	1,000	55	20	25
Wood Working	1,250	40	30	30

2 - Public + Private + European

Sector	Capital US$ 000	Public %	Private %	European %
Investment	4,200	82	10	8
Contracting	1,143	25	25	50
	1,429	37	26	37
Consultancy	1,429	20	77	3
Industry:				
- Textiles	1,714	55	20	25
	4,286	25	66	9
- Chemical	12,857	38	10	52
	2,191	49	26	25

3 - Public + Private + U.S.

Sector	Capital US$ 000	Public %	Private %	U.S. %
Contracting	1,000	30	20	50
Consultancy	286	40	10	50

4 - Public + Private + Others

Sector	Capital US$000	Public %	Private %	Others %
Banking	10,000	50	1	49

5 - Private + Arab + European

Sector	Capital US$ 000	Private %	Arab %	European %
Investment	2,143	25	25	50
	3,500	51	46	3
Contracting	357	50	2	48
Agriculture	4,000	25	60	15
	3,000	20	60	20
Industrial:				
- Food	1,575	60	10	30
	6,000	92	5	3
Wood working	714	25	50	25

6 - Private + Arab + U.S.

Sector	Capital US$ 000	Private %	Arab %	U.S. %
Investment	2,400	79	8	13
Engineering & Mechanical	1,093	25	52	23

7 - Private + European + U.S.

Sector	Capital US$ 000	Private %	European %	U.S. %
Consultancy	229	50	33	17

8 - Private + U.S. + Others

Sector	Capital US$ 000	Private %	U.S. %	Others %
Investment	2,143	51	8	41
Services	700	51	14	35

D - QUADRIPLE OR MORE ALLIANCES

Sector	Capital US$ 000	Public %	Private %	Arab %	European %	U.S. %	Others %
Investment	4,000	-	30	42	25	3	-
	2,150	-	50	12	37	1	-
Banking	10,000	26	34	30	10	-	-
Health Care	2,914	29	50	5	6	10	-
Transport	1,000	40	10	20	30	-	-
Agriculture	5,714	91	4	2	3	-	-
Industrial: - Food	6,650	35	16	5	44	-	-
Mechanical and Engineering	4,000	41	1	8	50	-	-

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