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FOREIGN INVESTMENT AND THE TRIPARTITE RELATIONSHIP: GOVERNMENT, FOREIGN INVESTORS, AND LOCAL INVESTORS DURING EGYPT'S ECONOMIC OPENING

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ABSTRACT

This thesis is about the tripartite relationship among government, foreign investors and local private investors. In particular, the study centers on Egypt during its Economic Opening under President Anwar Sadat, although the implications of the study are more far-reaching.

The thesis contends that there are discernable patterns of coalition building and erosion among the three parties concerned with foreign direct investment in developing countries. These three parties--government, foreign investors, and local private investors--tend to enter bipartite coalitions, two parties in coalition with the exclusion of the third, which form and erode as each of the parties strives to increase advantages to itself. Furthermore, these shifting coalitions among the three parties are likely to follow a succession, possibly even a cyclical pattern. Such a pattern may be observed in Egypt in the 1970s.

Egypt's Economic Opening began, as have other open-door policies, with a "development coalition" between government and foreign investors in which the Egyptian government offered incentives to potential foreign investors in hope of receiving assistance in national development. The original development coalition was later replaced by a "capitalist coalition" in which the government could be perceived as being more pro-business in general and in which local private investors rose to a position of essentially equal status with foreign investors as far as government incentives to investment were concerned. Subsequently, as Egyptian investors began to feel more secure in their position vis-à-vis their government some began to push for discriminatory measures against foreign investors, and a "nationalist coalition" began to emerge. Even the nationalist coalition proved unstable, however. Local private investors taking advantage of the Economic Opening represented only a thin layer of society, and their behavior generated substantial political controversy within the country. Opposition to this class culminated in government measures designed to return the Economic Opening to its original development-coalition orientation. Thus the coalition cycle could be said to have come full circle.

TABLE OF CONTENTS

PART I: BACKGROUND 9

Chapter One: Introduction 10

Egypt: A Case Study of the Tripartite Relationship 12

The Tripartite Relationship: An Overview 14

The Three Parties in Conflict 15

The Coalitions 18

The Development Coalition 19

The Capitalist Coalition 21

The Nationalist Coalition 22

The State of Abeyance 24

The Tripartite Coalition: The Possible and the Probable 24

The Unstable Nature of Bipartite Coalitions 25

National Development, Foreign Investment and the Coalition Cycle 27

The Coalition Cycle in Egypt 36

Stage 1: The Development Coalition 37

Stage 2: The Capitalist Coalition 38

Stage 3: The Nationalist Coalition 42

Stage 4: Return to the Development Coalition . . 42

Chapter Outline of the Thesis 45

Notes to Chapter One 47

Chapter Two: Methodology and Sources 58

Statistical Sources 59

Historical Sources 70

Law 43 Projects and Other Interviewed Sources . . . 71

Notes to Chapter Two 74

Chapter Three: The Tripartite Relationship in Egypt: An Historical Perspective 79

The Development Coalition in Egypt: Phase 1, Under Mohammed Ali 80

The Development Coalition in Egypt: Phase 2, After Mohammed Ali 84

The Capitalist Coalition 88

The Nationalist Coalition in Egypt: Phase 1, Pre-Nasser 91

The Nationalist Coalition in Egypt: Phase 2, The Early Nasser Period 94

The State of Abeyance 104

Development of Business Forms in Egypt 108

Conclusion 113

Notes to Chapter Three 114

PART II: EGYPT'S ECONOMIC OPENING 126

Chapter Four: The Building and Foundering of the Development Coalition 127

Reasons for the Re-Establishment of a Development Coalition 128

Government's Vision of the New Development Coalition 132

Foreign Investor Response 135

Difficulties With Approvals and Negotiations 139

Further History of the Development Coalition 143

Changes in Law 43 144

Internal Political Changes 145

Peace With Israel and its Repercussions on the Development Coalition 153

Conclusion 162

Notes to Chapter Four 166

Chapter Five: From Development Coalition to Capitalist Coalition 184

The Economic Opening and Local Private Investors . . 185

The Rising Position of Local Investors 187

Increasing Participation of Local Private Investors Under Law 43 191

The Capitalist Coalition 193

Conclusion 199

Notes to Chapter Five 200

Chapter Six: Conflicts of Interest Within the Capitalist Coalition and the Emergence of a Nationalist Coalition 205
Conflicts of Interest Within the Capitalist Coalition 206
Evidence of an Emerging Nationalist Coalition 212
Conclusion 216
Notes to Chapter Six 218

Chapter Seven: Local Private Investors in Egypt: Further Observations 221
The Composition of Local Private Investors 225
Local Private Investors and the Privatization of Egypt's Public Sector 234
Privatization and Arab Contractors 238
Conclusion 245
Notes to Chapter Seven 246

Chapter Eight: Opposition to the Economic Opening and Its Repercussions on Investors 253
Sources of Local Opposition 255
Repercussions of Opposition on Local and Foreign Investors 265
Conclusion 274
Notes to Chapter Eight 276

PART III: CONCLUSIONS 282
Chapter Nine: Conclusions and Recommendations for Further Research 283

APPENDIX A 306

APPENDIX B 335

BIBLIOGRAPHY 359

LIST OF TABLES

4:1 Project Approvals by Year 146
4:2 Project Approvals by Quarter 148
4:3 Approved Projects With United States Participation by Year 158
4:4 Approved Projects With Arab Participation by Year 163
4:5 Foreign Participation in Approved Projects by Year 164
6:1 Comparison of Project Forms of Law 43 Projects With Pure Egyptian, Arab and American Participation 211
6:2 Wholly Foreign and Wholly Egyptian Projects as a Percentage of Total Law 43 Projects Over Time 214
7:1 Foreign Exchange Earnings from Non-Traditional Sources 227
7:2 Number of Egyptian Individuals Participating in Surveyed Joint-Stock Companies Involving Egyptian Individuals 230
B:1 Project Approvals by Date 336
B:2 Inland and Free Zone Project Approvals by Date . 337
B:3 Approved Capital of Inland and Free Zone Projects 338
B:4 Inland and Free Zone Project Approvals by Industry 339
B:5 Project Approvals by Industry by Date 340
B:6 Number of Approved Projects with U.S. Participation by Date 341
B:7 Number of Approved Projects With Arab Participation by Date 342
B:8 Number of Approved Projects With Western Participation by Date 343
B:9 Number of Approved Projects, Each Including Western, Egyptian and Arab Participation, by Date 344
B:10 Pure Egyptian Approved Projects and Approved Projects With Foreign Participation by Date . . 345

B:11 Percentage Subscription to Capital Made in Foreign Exchange in Surveyed Wholly-Owned Egyptian Projects Under Law 43 347
B:12 National Participation in Various Project Forms 348
B:13 Project Forms of Approved Wholly-Owned Egyptian Projects by Date 349
B:14 Participation of Parties in Surveyed Wholly-Owned Egyptian Joint-Stock Projects Under Law 43 351
B:15 Project Forms of Approved Projects by Date 352
B:16 Participation of Parties in Surveyed Joint-Stock Projects Under Law 43 353
B:17 Number of Projects to Which Parties Contributed Foreign-Exchange Capital and the Corresponding Proportion to Total Projects in Which the Parties Participated in Surveyed Law 43 Joint-Stock Companies 354
B:18 Number of Wholly-Owned Egyptian Projects by Industry 355
B:19 Number of Pure Foreign Projects by Date 356
B:20 Distribution of Law 43 Projects by Form and Capital 357
B:21 Patterns of Participation Among Public and Private Egyptian Investors in Surveyed Joint-Stock Companies Under Law 43 358

NOTE ON TRANSLITERATION:

For the benefit of the general reader, Arabic names are presented in the form in which they commonly appear in Western news and business publications. Readers are asked to note, however, that the spelling of some names can vary among these sources.

PART I:

BACKGROUND

Chapter 1

INTRODUCTION

This thesis is about the tripartite relationship among government, foreign investors, and local private investors. It is about the way each of these three parties intereacts with the other two, forming and breaking coalitions, as each pursues its own perceived self-interest.

This study centers on Egypt during its Economic Opening under the administration of the late President Anwar Sadat. As such, the research concentrates on a single country undergoing a particular experience. Indeed, Egypt's Economic Opening generated substantial interest among Western business and governments. For this reason, an analysis of the relationship between the Egyptian government, foreign investors, and Egyptian private investors over this period is of substantial interest in its own right, and thesis findings specific to Egypt are described later in this chapter. The relationship of government, foreign investors, and local private investors in Egypt, however, also reflects certain general patterns which are more far-reaching. There are clearly discernible patterns of coalition building and erosion among the three parties concerned with foreign direct investment in developing countries. The three parties--governments, foreign investors and local investors--in the tripartite relationship tend to enter bipartite coalitions--two parties in coalition with the exclusion of the third--which form and erode as each of the parties strives to increase advantages to itself. Furthermore, these shifting coalitions among the three are likely to follow a succession, possibly even a cyclical pattern. The

succession is likely to begin with a "development coalition" between government and foreign investors initiated to attract foreign investment to the country but leaving local investors at a disadvantage relative to their foreign counterparts. Then, a "capitalist coalition" is likely to arise between foreign investors and local private investors in which local investors assist foreign investors by promoting business interests in general against other conflicting interests of the host government. For their part, local investors rise to equal status with foreign investors as far as government incentives to business and investment are concerned. Subsequently, when local private investors feel secure in their position vis-à-vis their own government, they are likely to seek a "nationalist coalition" with their government in which they keep government-granted benefits and foreign investors receive adverse discrimination. Even a nationalist coalition is likely to be unstable, however. Local private investors are only one of many political interest groups within a country, and their interests may well conflict with those of other interest groups. In the case of Egypt in the 1970s, local private investors taking advantage of the Economic Opening represented only a thin layer of society. Other groups within the country may conclude that their best interests lie with what foreign investors can provide the nation and not with what their local investors have to offer. These groups, therefore, will oppose a so-called nationalist coalition and may even call for a return to a development coalition. If this opposition succeeds, the succession of coalitions will have come full-circle.

There has been a growing need for such a study of the tripartite relationship among government, foreign investors, and local private investors in order to provide more explanatory depth to the existing literature on foreign direct investment patterns. The relationship between governments and foreign investors (often multinational companies) has been a major object of study in the field of international business.[1] The relationship between foreign investors and local private investors has received more sketchy tangential notice;[2] but integrated studies of the three parties and their interrelationships has been noticeably absent.[3] It is the hope of the author that this study on Egypt, exhibiting the important role played by local private investors in influencing the more frequently studied relationship between foreign investors and host governments, will encourage more research to be undertaken on the interaction among all three parties of the tripartite relationship.

Egypt: A Case Study of the Tripartite Relationship

As a case study in which to examine the tripartite relationship, the recent experience in Egypt possessed three intriguing features.

First, no strong coalitions of any kind existed among government, foreign investors, and local private investors at the beginning of the Economic Opening. The previous administration under President Abdul Nasser had purged the country of almost all foreign investment and exiled local private investment to the realms of small enterprise only. A goal of the Economic Opening was to once again encourage foreign investors and local investors to join government's efforts to develop the country. It was

almost as if "real life" had delivered an experiment in the social sciences which mimicked the laboratory of the physical sciences, where the scientist could begin at "point zero" and watch the experiment evolve from there.

Of course, real life is never quite that accommodating to the social scientist. No experiment in the social sciences can ever be truly isolated from its historical setting; and Egypt possessed a long turbulent history of interaction among government, foreign investors and local private investors--a history which had culminated in severe government reaction to both foreign and local private investors. It is not surprising, therefore, to discover that such a history had an impact on Egypt's Economic Opening. In fact, it is this impact which history had on government policy which lent the Egyptian case its second intriguing feature vis-à-vis the study of the tripartite relationship. In its inauguration of the Economic Opening, the Egyptian government was anxious that history not repeat itself, that the three parties not play the role of adversaries, but that all three parties cooperate to their mutual advantage. Egypt was not to be exploited by foreigners and capitalists and, in turn, foreigners and capitalists were not to suffer from reactionary government moves. Yet, with the ability to begin anew, with all the advantages of hindsight, and with the declared determination not to allow the tripartite relationship to fall into its old patterns, the Egyptian government stood by apparently helpless as history did to a large degree repeat itself.

The inability to control the tripartite relationship represented the third intriguing feature of the Egyptian case and raised a fundamental question. Was the Egyptian government uniquely inept at handling the task it had set itself; or was it simply difficult to achieve the goal of all three parties working harmoniously for their mutual benefit? It is the contention of this thesis that the latter is true.

To understand more fully the implications of the Egyptian experience however, we must first examine--in a more theoretical manner--the tripartite relationship among government, foreign investors, and local private investors.

The Tripartite Relationship: An Overview

It is difficult for even a sovereign state to try and control the tripartite relationship among itself, foreign investors, and local private investors.[4] The tripartite relationship involves three parties, each pursuing not only differing but often conflicting goals. A conflict relationship in which the interests of all three parties are maximized is an impossibility. Even a relationship such as the one envisaged in the early ideals of the Economic Opening in which all three parties are sufficiently satisfied not to attempt to upset the status quo is itself improbable.

Instead, the three parties tend to enter into successive bipartite coalitions. None of these coalitions is essentially stable, however. To better understand this phenomenon, we must examine in more detail the conflicting goals of the three parties, the coalitions they form, the inherent instability of these coalitions, and, finally, the cyclical pattern these coalitions

may tend to follow when a developing country initiates an open-door policy.

The Three Parties in Conflict

Each of the parties involved in the tripartite relationship has particular needs and goals which differ from, and often clash with, the needs and goals of the other two parties.

Governments from country to country vary in the roles they assume and consequently the tasks they presume to undertake. Governments, however, are the institutions through which "national interest" is often championed and its integrity upheld against foreigners, including foreign investors. In fact it is a nation's government elites who mainly determine what actions will be taken concerning foreign investment and national interests as Raid Ajami, surveying elite attitudes toward multinational companies operating in the Arab World, summarized:

> ...the place of the multinational corporate sector in the world economy, the freedom it will be permitted, and the conditions essential for its success and expansion are all dependent, to a great extent, on elite orientations and the kind of policies and visions that those elites believe in and adopt.[5,6]

Whatever the personal opinions of ruling elites, however, they are usually compelled to take into account certain political realities. These political realities have been referred to as "objective" factors--cultural values, geography, and the international distribution of power. Ruling elites who fail to take these factors into account do so at their own peril.[7] More importantly, however, most ruling elites do not possess totalitarian power and must balance different interests within

their nations in order to keep peace in their nations and keep in power themselves. This is as real a problem for dictatorial regimes attempting to rule day by day as it is for democratic governments facing an up-coming election.

Foreign investors, on the other hand, are interested in accruing economic performance for themselves. These investors need not be totally insensitive to the "national interest" of their host country, but their primary role is to champion the interests of the company not those of any one country with which the company may be involved.

Given the potential for conflicts of interest between governments and foreign investors, it is not surprising that foreign investors have come under increasing scrutiny by host governments. In many countries which have colonial legacies as has Egypt there is often widespread resentment to the involvement of foreign companies in the local economy. Such involvement is viewed as a manifestation of continued foreign meddling in the country. In addition, there has been growing concern over the powers of multinational companies, who are perceived by many to be operating virtually outside of any government control and prospering to the detriment of the nation state.[8]

Despite potential conflicts of interests, few countries totally exclude foreign investment from their territories. In many cases, such investment supplies highly desired capital and foreign exchange. Multinational companies can also offer new technology, management and technical training for locally hired personnel, and access to international markets for locally produced goods. Nevertheless, these benefits may be supplied at a price. Foreign investors often repatriate profits as well

as royalties and management fees; and multinational companies can be accused of usurping local management talent away from local enterprise and not giving exporting the pre-eminence desired by their host governments.[9]

In an attempt to improve their position in relation to foreign investors, however, national governments including those of developing countries, have become increasingly knowledgeable concerning the operations of multinationals and have increased their bargaining power in relation to potential foreign investors as well as in relation to foreign-owned companies already operating within their domain.[10] For example, the manipulation of transfer prices within multinationals had long been a way to show high profits in low-tax rate countries and low profits in high tax-rate countries, or to effectively transfer profits out of a country which had harsh regulations concerning the repatriation of profits. Subsequently, transfer pricing became a major target of governmental interest and regulation.[11] Another major area of contention and increased government regulation was payments for technology. Such payments, including management fees, could easily equal or exceed repatriated profits.[12] Furthermore, these types of payments could also be used by a multinational within its own system of subsidiaries as a means of accomplishing the same desired effects previously achieved through transfer pricing.[13] Other governmental actions to enhance the national position in relation to the multinationals have included attempts to receive more modern technology and a greater share of export markets.[14,15]

Just as for the other two parties, local private investors are interested in procuring benefits for themselves, and in attempting to do so they can undermine the interests of foreign investors and/or their own government. To begin with, local private investors may comprise a homogeneous or hetergeneous segment of a nation's citizenry. Local investors who could interact with foreign investors, either as partners or competitors, likely comprise a relatively wealthy, sophisticated and small segment of society, especially in developing countries such as Egypt. Even if this group were more widespread, the interests of local private investors still would represent those of particular interest group within the state--not the state as a whole. Interests of local private investors might clash with government policies such as redistribution of wealth, full employment, and austerity measures to promote saving and investment in development. Furthermore, interests of local private investors are likely to diverge from those of foreign investors who may represent additional competition in the local investors' own home market.

The Coalitions

Despite some conflicting goals for each of the three parties, it is conceivable that situations would arise in which a single party needed the cooperation of another party in order to realize its own goals. If, concurrently, this other party were to need the cooperation of the first party, it is possible that the two parties could, with some compromise on both sides, form a coalition to their mutual advantage. It may also be possible that a similar situation could arise in which all three parties

chose to compromise and cooperate with each other in a single tripartite partnership. On the other hand, the three parties may refuse to cooperate at all, each pursuing its own goals without soliciting the aid of another. Therefore, within the tripartite relationship, five basic states exist in theory:

(1) A coalition between government and foreign investors, which we will call the "development coalition."

(2) A coalition between foreign investors and local private investors, which we will call the "capitalist coalition."

(3) A coalition between local private investors and government, which we will call the "nationalist coalition."

(4) No significant coalition among the parties, which we will call the "state of abeyance."

(5) A three-way partnership among all three parties--government, foreign investors, and local private investors--which we will call the "tripartite coalition."

Each of the coalitions described above can manifest itself in a micro setting--a joint venture between parties to establish a particular firm--or a macro setting--the cooperation of parties, or in the case of the state of abeyance, the lack of cooperation of parties, to establish or perpetuate a mutually beneficial political-economic policy. While this thesis will be especially concerned with tracing the pattern of the latter, the micro aspects of coalitions are important as well, since they can reflect the coalitions occurring at the macro level.

We will now examine the characteristics of each of the five states:

1. <u>The Development Coaltiion</u>. In certain cases governments and foreign investors may form a bipartite coalition with the

common ground between them being the desire to develop the local market or to build a production facility in the country. The foreign investor may be interested in doing this for his own profit; the nation may be interested in doing this to encourage national economic development. Under this coalition, government is likely to offer some concessions to foreign investors by offering incentives. In return, however, governments are likely to expect concessions from foreign investors which will help advance the country. Such concessions might include the training of local personnel and the introduction of advanced technology.

Under a development coalition, it would not be surprising to discover that the government had granted foreign investors privileges beyond those granted to local private investors.[16] This phenomenon arises from a government's need to consider the interests of citizens other than private investors. The foreign investor may offer the country benefits such as capital, foreign exchange, technology, and market access that local investors may be unable to match.[17] Perhaps an extreme example of the development coalition is the joint venture between a foreign company and an East-bloc state. In this situation, the local communist government accepts a foreign capitalist partner for the benefits the foreigner can supply. Yet, it would not accept a local capitalist partner for ideological reasons.[18]

There are several reasons put forth why a foreign investor may prefer such a coalition with government. (Although these reasons were formulated in the context of a micro coalition--i.e., a joint venture--it is not difficult to extrapolate to

some degree their validity to a macro coalition as well.) First, there is often the incentive of a monopoly or quasi-monopoly in the local market. Other reasons center on traditional beliefs that having the government as a partner decreases the likelihood of other controls or harassment, and that the government usually has ample funds for expanison, is less interested in profit distribution than in growth, and is generally less interested in taking over the business itself or undertaking the day by day management of the joint venture.[19] In the macro setting, foreign investors may enjoy an advantageous competitive position as a result of government incentives.

2. The Capitalist Coalition. The capitalist coalition is the hypothetical coalition between foreign investors (who we are assuming in this case to be private and not foreign governments) and local private investors.

Again, on a micro level, foreign investors and local investors may choose to form a joint venture for several reasons. A local private partner may stand to gain various benefits from a partnership with a foreign investor including access to technology, know-how, and trademarks; a possible monopoly position; and a potential ally against local or international competition.[20] A foreign investor may in return need the local investor for his more tangible assets such as capital, production facilities, or an operational distribution system.[21] Foreign investors have also been advised that a small number of local partners with significant holdings can be advantageous in protecting a joint venture from government control.[22]

It is this feeling of camaraderie between foreign and local capitalist--against the government--which translates into their coalition at the macro level.[23] At this level the coalition is more political. Such a coalition would attempt to influence the government to encourage private enterprise as a whole and to accept free interaction between foreign and local investors.[24] Under this coalition it is not surprising that controversy surrounds the question as to the loyalties of local private investors, whether these loyalties are to the nation or to the foreign partners.[25] In certain cases, local private investors have been accused of joining forces with foreign multinationals to exploit their own country.[26]

It is important to note, however, that an inherent conflict of interest exists between foreign and local investors in their capitalist coalition. Since free enterprise is encouraged more and government incentives are available to all, greater competition can be expected to emerge.

3. The Nationalist Coalition. Under a nationalist coalition local private investors join or influence their government to create a xenophobic economic climate which discriminates against or even excludes foreign investors.

A government may be amenable to such a coalition due to a desire to acquire political independence via economic self-reliance. Also, a government may wish to encourage local industry and trade by placing restrictions on foreign competition. In many cases, if profits are to accrue, governments prefer to have them accrue to their own citizens.[27]

Local investors for their part can be happy to see measures which exclude or at least handicap foreign competition. Furthermore, in situations where foreign participation in some form is still allowed, government requirements can help put local investors in a better position to bargain with potential foreign partners--assuming, of course, that given the government restrictions the country is still attractive to foreign investors.

A major example of relatively recent national legislation of this sort is the growing trend especially among developing countries (including Egypt)to discourage wholly-owned subsidiaries of multinational companies and often to specifically require joint ventures with local enterprise--either public or private.[28] This trend can in part reflect a belief of many government policy makers that by requiring a multinational to take a local partner, they can not only stimulate local capital participation but increase the possibility of developing experienced local managers and receiving more advanced training for labor in general.[29,30] There is, however, substantial controversy as to whether the perceived benefits of joint ventures to the host country are in fact illusory.[31] Nonetheless, while there may be no a priori basis for suggesting that joint ventures are better for a country than wholly-owned subsidiaries of multinationals the perceived value of national control within the multinational operation in their country is apparently important to host governments.[32] Therefore nationalism itself is probably a major consideration in national legislation favoring joint ventures. Also, it can be--in the sense of a nationalist coalition--a gesture of goodwill from the government to its local business leaders.[33]

4. <u>The State of Abeyance</u>. The tripartite relationship may also experience a period in which it is in a state of abeyance; i.e., no significant coalitions exist among government, foreign investors, and local private investors. For example, this could occur if a country was both laissez-faire in its attitudes towards business and was so unattractive to foreign investment that no foreign investors were involved in the country. On the other hand, countries with strong ideological learnings toward communism or socialism may nationalize industry and trade and exclude private investment, local or foreign.

5. <u>The Tripartite Coalition: The Possible and the Probable</u>. In theory, government, foreign investors and local private investors could each compromise and amiably cooperate to the perceived increased benefit of all parties involved.

In order for parties to form such a coalition--i.e., work together--there must be a conceded common ground which the parties wish to--and can--exploit. As we can see from the above discussion of the bipartite coalitions, the exploitable common ground which could be said to exist between foreign investors and the local national government is seldom the same common ground which exists between foreign investors and local private investors. ("Development" versus "Capitalism.") Neither is the common ground which exists between government and foreign investors of the same common ground which exists between government and its own local investors. ("Development" versus "Nationalism.") Similarly, the common ground which exists between local private investors and foreign investors differs from that which exists between local investors and their government. ("Capitalism" versus "Nationalism.") In short, there

is very little three-way overlap of needs and goals among the parties.

While any two of the parties may find sufficient ground in common to exploit for their mutual advantage, it is difficult for all three parties to be satisfactorily accommodated at any one time. It is far easier to accommodate one partner whose needs and goals conflict with one's own than to accommodate two partners whose needs and goals conflict with one's own *and* with one another's.[34]

The expected result of this phenomenon would be a tendency for any attempt to establish a tripartite coalition to in fact fail and for bipartite coalitions to arise instead--i.e., two parties joining together to exploit their two-way common ground to the exclusion--and often the detriment--of the third party.

The Unstable Nature of Bipartite Coalitions

While bipartite coalitions may be a natural form within the tripartite relationship, no single bipartite coalition is stable. In fact, the bipartite coalitions are all inherently unstable. This instability can be attributed to factors both external and internal to the tripartite relationship.

Various external factors can cause coalitions to break up and parties to realign. For example, a national government may at one point join a development coalition to attract foreign investment to help the country during a foreign exchange shortage. If another source of foreign exchange were to materialize--e.g., the discovery of massive oil reserves or the successful negotiation for foreign aid--the government's interest in continuing a development coalition with foreign investors could pall. Another example

would be a political coup in which a dogmatic nationalist government came to power, a government which no longer judged the benefits of a development coalition worth the onerous presence of foreign investment in the country.

Yet, even without these external factors, one could expect strain on any status quo within the tripartite relationship due to the inherent instability of the bipartite coalitions. This strain arises from a continual goal conflict between the parties of a bipartite coalition--a dissatisfaction which can be actively or passively exploited by the less favored third party.

Although bipartite coalitions when formed are viewed by both parties as mutually beneficial, the formation of such a coalition does involve compromise by both parties in relation to each party's ideal. For example, governments would prefer to get the benefits of foreign investment, technology, and know-how without paying foreign investors for them. Similarly, foreign investors would prefer to be allowed a free hand in accruing tax-free profits on government allotted monopoly markets. While a bipartite coalition may represent a "realistic" and "acceptable" compromise between two parties, a certain amount of dissatisfaction continues to exist on the part of both parties and may increase on the part of one party if it perceives its bargaining power has changed since the original partnership agreement.[35]

This inherent dissatisfaction within any bipartite coalition can be expected to lead to one party being "tempted" by the excluded third party. This temptation can be active or passive on the part of the third party, i.e., the third party may actively solicit a new coalition with either of the two other parties; or else

the simple presence of the third party may inspire one or both of the original partners themselves to solicit the excluded party's support in strengthening their own position within the tripartite relationship. If the temptation becomes great enough for one or both partners, the coalition will erode and parties will realign.

However, whatever new bipartite coalition arises from the ruins of the old, this coalition will suffer from the same inherent instability as its predecessor. Understanding this inherent instability of the bipartite coalitions is essential to the anlaysis of the evolving patterns within the tripartite relationship.

National Development, Foreign Investment, and The Coalition Cycle

Bipartite coalitions are unstable, but their instability to a large degree may indeed follow predictable patterns. In the case of developing countries, particularly those, like Egypt, who undertake an open-door policy, this pattern of instability may be predicted to result in a coalition succession or cycle.

Initially under an open-door policy, a government attempts to build a development coalition. Open-door policies are, after all, a declaration of a government's realization that foreign investors possess resources which can be beneficial to the development of the country--resources which the government judges to be lacking within the country itself. The government also realizes that to attract these beneficial resources, some encouragement in the form of an incentive system must be offered to foreign investors. Since local investors are not judged to possess the needed resources, the incentive system need not be extended to them.

As predicted in the previous section, however, goal conflict on the side of both parties exists within the coalition. This conflict strains the coalition and eventually allows the excluded third party--in this case, the local private investors--to take advantage of the rift between the original two parties. Furthermore, dissatisfaction on the part of the government with the development coalition may be intensified by the unique politics of an open-door policy.

The inauguration of an open-door policy, such as Egypt's Economic Opening, results from a government realization that a major change of direction is necessary for the country, at least as far as the national economy and foreign investors are concerned. To open the door to foreign investors after a period in which these investors have been discouraged if not totally prohibited is a policy change which most governments cannot afford to make lightly. The fact that a government is willing to make such a major change confirms that things have not been going as well as they might, that expectations have not been met, and that it is believed new measures need to be tried which will produce better results.

Of course, it is easier for an administration which is newly come to power to make such a major policy change. An administration is freer to label previous policies as "wrong" or "inadequate" if they can be attributed to others. This is as true in the more dictatorial regimes as it is in the democratic ones, since dictators may often trace their right to rule to the ability to provide greater efficiency and faster development.

In any case, a decision to attempt to attract foreign investors can prove politically problematic, and especially so in a developing country. The government may have to justify its positive, perhaps apparently obsequious, attitude toward foreign investors to a populace previously exposed to arguments condemning national economic dependence on foreigners, a dependence credited with encouraging neo-colonialism. Sceptics will remain, some of whom may wield significant political power. The government, to defend its position, may tend to argue more vehemently, promise great benefits from its open-door policy, and consequently find itself in the uneasy position of having to make good these promises.

Unfortunately for the government, investment reaction to open-door policies can fail to meet expectations, as Theodore Moran noted concerning Chile's Nuevo Trato [New Treaty] of 1955:

> ...if expectations were based on rhetoric about the automatic stimulus of a good investment climate, then the results of the Nuevo Trato could be labelled a failure.[36]

There are several factors which may contribute to the dichotomy between government expectations and foreign-investor response. One factor is the self-generated optimism described above. Other factors are suggested by Moran as an explanation for the lack of response to the Nuevo Trato. Moran states that the government of Chile assumed that according to classical economic theory, private firms try to maximize profits. Therefore, if Chile would offer foreign investors a higher rate of return on their activities (discounted for relative risk) than alternatives available elsewhere, then investment would flow into the country. Moran notes, however, that this might not "automatically" occur because (1) multinational

corporations follow a strategy of maximizing returns to the company as a whole and not to each individual national operation, and (2) the decision for new investors to move into an unknown region involves substantial information and decision costs which must be offset before the possibility of investment can even be considered.[37] Yair Aharoni elaborated on this last point, noting that when a certain level of uncertainty is present concerning an investment decision this can discourage positive action.[38]

Therefore, it is not surprising to observe--either in Chile or in Egypt--that response to a new foreign investment policy, and thus an uncertain situation, is not immediately overwhelming. This slow or negative response can put additional strain on the relationship between government and foreign investors and even re-generate ill feelings towards foreign investors, as Moran noted in Chile:

> But when foreign corporations failed to respond with dynamism to the "automatic" stimulus of higher profits, to legal guarantees and tax provisions more generous than those enjoyed by many Chilean businesses, the sense of frustration returned. The failure of the Nuevo Trato to stimulate the multinational copper companies according to Chilean expectations renewed and reinforced the feeling of dependencia [national economic dependence on foreign companies.][39]

While the initial bipartite coalition--the development coalition--is likely to be foundering, even eroding, the initially disfavored third party--local private investors--can be expected to emerge either via a capitalist or a nationalist coalition.

In fact, the second coalition which can be expected to emerge in the coalition cycle is the capitalist coalition. Local investors are likely to desire for themselves special concessions their

government is making to foreign investors. Nonetheless, in the early stages of an open-door policy, local private investors are not likely to directly attack the new system, or oppose incentives to foreigners. This is because in many developing countries, the business classes may be uncertain as to their own position vis-à-vis their government. Many developing countries espouse or have at some time espoused socialism and consequently restricted the actions of their business and capitalist classes. Members of these classes see in government concessions to foreign business and investment the beginning of a more revered position for business as a whole and the potential enhancement of their own position. Again, Moran notes that in Chile in the 1950s, local private investors actually backed foreign investment concessions in order to eventually help themselves:

> ...a mood of laissez-faire replaced the preoccupation with control. This reversal was sponsored most strongly by Chilean business interests and the political parties that represented them. The establishment of a "good investment climate" for foreign corporations was part of their own domestic campaign to restrain government intervention in their activities. Although still preoccupied with the capacity to import, they became persuaded--that the strong drive of private enterprise (domestic and foreign) to increase profits would... serve their own and national interest. They claimed that the mining [foreign investment] legislation would be a model for how they should be treated.[40]

Local private investors, therefore, are not initially interested in undermining the idea of government incentives to business--they just want in on the act. Their strategy centers on subtly redirecting government thinking. The government under the

development coalition seeks foreign investment for a variety of perceived benefits, many of which local investment cannot offer. Local foreign investors, therefore, attempt to de-emphasize those aspects on which they cannot compete with foreign investors, e.g., recent technologies or access to international markets, and emphasize their similarities with foreign investors. It is simply free enterprise which is needed, local private investors argue. All investors should be encouraged--foreign and local.

It is not surprising that at this point foreign investors, and those writing on their behalf, see local private investors as encouraging allies in a capitalist coalition to establish business in a better position within the country. David Carr, writing at such an interim period during the Egyptian Economic Opening at which time Egyptian investors had recently been extended certain privileges similar to those offered foreign investors, remarked:

> Domestic investors are thus accorded benefits substantially similar to those accorded foreign investors. Since an important element of a favorable foreign investment climate is stimulation of private enterprise generally, the new generous treatment of Egyptian enterprise is welcomed by foreign investors.[41]

The capitalist coalition can be ephemeral, however. As local private investors perceive a strengthening of their position in the eyes of their own government, they will prefer to carry the trend a step further and lobby for a nationalist coalition. They can play on general xenophobic sentiment as well as the specific strain on the original development coalition arising from foreign investors' failure to meet government expectations. If local investors have been successful via the capitalist coalition in averting attention from "development" per se and towards "free

enterprise," they may successfully argue that they can supply that which the government originally, and mistakenly, believed was necessary from foreign investment.

The government by this time may be gratefully relieved to discover this new local source of investment which can significantly supplement the timid response by foreign investors. This gratefulness causes the government to accept first the arguments of the capitalist coalition and, in turn, be susceptible to those of the nationalist coalition.

The emergence of a nationalist coalition is characterized by several changes in the investment environment and consequently the investment patterns. To begin with, one notes more publicized rhetoric on the part of government officials and vocal business representations espousing the availability and preferability of local investment and downplaying the necessity of foreign investment. Also, more investment projects under the incentive system will become locally owned or, in the case of joint ventures between local and foreign parties, the local position within joint ventures will increase. Furthermore, foreign investors are even likely to be excluded from certain industries of particular interest to local investors. Also, foreign investors already in the country may find themselves in a weaker and more sensitive position. They can find any desired renegotiations with the government more difficult to handle.[42]

While the local private investors seem at this point to have successfully maneuvered the open-door policy to eventually benefit themselves, their position is not especially solid. The instability of their position stems again from the fact that what is good

for the local private investors is not necessarily good for the rest of the country.

To begin with, a possible history of alienation from their government is likely to influence local private investors' attitudes toward investment. Fear--or memory--of arbitrary government action can cause them to want low-investment, high-payback projects. While this could also be said to be the expected behavior pattern of foreign investors as well, the tendency to assess "political risk" as being very high is likely to be even greater with local investors. Their attitude towards such risk is likely to be on a more personal, immediate level. Government actions in the past may have severely hurt or wiped out their own or their parents' personal fortunes. Members of their families may have even been imprisoned. Managers in a multinational company, however, view the possible political risk from a different perspective, especially in as far as memory of past government deeds is concerned. First, the companies interested in investing at the current time may have no previous experience in the country. Therefore, if previous acts such as nationalization or expropriation did occur, it would not have affected these companies. Second, even if such an act had befallen the company, the current managers are not likely to have been personally involved in a situation which occurred say fifteen to twenty years earlier. These decision makers, therefore, may look on the situation as new and not bring to it the same prejudices as the local investor. Furthermore, even if foreign investors were interested in low-capital, fast-payback projects, many would be restricted in their options by the type of business they are in. For example, General Motors and Ford

are basically in the automotive industry and are unlikely to enter a country to invest in luxury real-estate projects.

Local private investors, therefore, may especially avoid capital intensive projects or projects which require a number of years to produce profits. Such projects, however, may be what the government wants to develop the country. Also, higher margins and more certain profits are more likely to be made on luxury goods for sale to the rich than basic products for sale to the poor. Consequently, local investors are likely to prefer projects aimed at serving the consumption patterns of the rich rather than the development goals of the country as a whole.

While local private investors may convince the government to join them in a nationalist coalition, it is not long before other interest groups within the country begin to vigorously oppose this coalition. Some opposition will derive from the groups which oppose capitalism per se, but some opposition will derive from those who supported the original development coalition. The government itself may realize retrospectively that it was lured into a nationalist coalition on faulty reasoning. The result may be a call for and possible return to the original development coalition, where the value of an investment to the nation as a whole is more thoroughly scrutinzed--and this to the foreign investors' probable advantage over the local's. Furthermore, similar to the case of the change from the capitalist to the nationalist coalition, the already present investments of local private investors are likely to come under attack especially in the form of higher taxes.

Unfortunately for the government, there is no reason to believe that a new development coalition will suffer any less from the problems attached to the original one. In fact, the uncertainty surrounding government policy changes added to the likely social tension generated by the capitalist and nationalist coalitions is likely to make the country look even less attractive than before in the eyes of foreign investors. And in the projected case that the government must once again turn to local investors, these investors--their previous attitudes towards investment reinforced by their latest experience of a collapse of a nationalist coalition and the resulting "arbitrary" actions of government--will behave as they did before. Consequently, the same social tensions will be generated, and thus the coalition cycle could well continue and reinforce itself. Of course, if social tensions in the country either by themselves or in conjunction with external political influences, lead to communist or radical socialist revolution within a country, the cycle may be halted, possibly only temporarily, while a state of abeyance prevails.

The Coalition Cycle in Egypt[43]

As stated earlier in this chapter, the Egyptian government may have envisaged its Economic Opening as enacting a tripartite coalition among government, foreign investors, and local private investors for the three parties' mutual benefit and for the development of Egypt. Instead, the history of the Economic Opening during the 1970s followed the pattern of the coalition cycle. The stages of the cycle as they appeared in Egypt during this period are described below:

Stage 1: The Development Coalition. Like governments of many other developing countries, the Egyptian government under President Sadat was interested in industrialization, or more especially, modernizing existing industries. To assist in this undertaking, the government decided to promote an open-door policy, offering incentives to foreign investors. (While local investors were also to be included in the government's envisaged tripartite coalition, their initial role was in fact secondary, as will be discussed in the following section.) The incentives to foreign investors, however, were not to be granted free of any control. The government, by means of its Investment Authority which had the power to grant entry to investment, retained the right to judge each proposed project's potential contribution to national development.

This development coalition predictably came under strain almost immediately. The Economic Opening of Egypt generated relatively high interest in investment, but actual investment--especially of the "development" sort--was slow in emerging. It failed to realize Egyptian government expectations or the public's expectations aroused by the government. One government response to the situation was to increase the incentives via a revision in the foreign investment law. Another response--one which was likely more effective in the short term--was the apparent relaxation of the Investment Authority's attitude toward granting project approval. These moves were to prove to be no panacea for the problem.

As the government took more and more controversial steps to encourage their development coalition with foreign investors--not the least of which was Sadat's visit to Jerusalem and the ensuant Camp David talks, moves aimed at alleviating tension in

the Middle East and consequently allaying some investors' fears--the government came under pressure to deliver, and deliver quickly, the promised fruits of their new economic and political policy. As its disappointment with foreign investor response increased, the government became more susceptible to overtures from its own local private investors; and the failing development coalition began to give way to an increasingly strong capitalist coalition.

Stage 2: The Capitalist Coalition. In the early stage of Egypt's open-door policy towards foreign investment, potential local investors stood to gain handsomely. Although a relatively large private sector existed in Egypt in the areas of agriculture, retail trade, and handicraft industries, Egyptian "big business" had been purged under the previous socialist regime of President Abdul Nasser. Only small commercial concerns remained. Furthermore, the socialist government, believing class conflict to be wasteful and detrimental to its development effort, had introduced graduated taxation and other legislation to level incomes and discourage capitalism. Conspicuous consumption was well suppressed despite alleged widespread corruption in government.

A decision to encourage private enterprise once again could be as politically controversial--if not more--as a decision to encourage foreign investment. While President Sadat's administration spoke of a liberalization of investment opportunities for the Egyptian private sector concurrent to its open-door policy, it is not surprising that actual movement in this direction remained embryonic--at least while the government retained hope of making the development coalition with foreign investors work. Nevertheless,

there proved to be scope for private Egyptian investment under the auspices of Egypt's new "foreign investment" law.

To begin with, Egyptian investors could participate as partners of foreign investors. Since the Egyptian government preferred foreign investors to take local partners, either public or private, Egyptian investors were granted the advantage of garnering the various benefits from possible joint ventures with foreign parties. Furthermore, the local investor, could by virture of partnership in an approved project, enjoy the incentives under the foreign investment law.

Also, if Egyptian investors did not want foreign partners, they could theoretically establish a project under the foreign investment law by simply paying a portion of the subscribed capital in hard foreign currency. Despite foreign exchange controls, many Egyptians could easily provide such foreign exchange. In this sense, therefore, Egyptians could become pseudo-foreign investors.

Any pure Egyptian projects, however, needed government approval to be accepted under the foreign investment law, as indeed did any joint venture. Nonetheless, government approval was increasingly forthcoming. There were several reasons for this. First was the difficulty the Egyptian government experienced attracting the type of foreign investment it originally envisaged when it introduced its open-door policy. The government's beleaguered policy could be made to look successful by allowing more and more Egyptian investment to participate. Also, an improvement in Egypt's balance of payments made the providing of foreign exchange a less important criteria for investment approval. A provision in the amendment to the foreign investment law in 1977 even allowed the

consideration of projects whose capital was totally subscribed in Egyptian currency. Perhaps of greatest importance, however, was the increasingly positive attitude of the Egyptian government towards the idea of allowing a new capitalist class to emerge. The government was influenced in this direction from both outside the country and within.

From outside, the Egyptian government's more positive attitude towards freer enterprise was reinforced by its closer ties with the United States. As a result of political actions taken by the Egyptian government under President Sadat--partially as any attempt to encourage foreign investment--Egypt in the late 1970s had become closer to the United States but more isolated from the rest of the Arab World. The United States in response had more than made up to Egypt its loss from Arab aid sources by initiating its own massive aid program to the country. One of the United States' concerns in assisting the Egyptian economy was to sponsor the local private sector.

Within Egypt, proponents of free enterprise were becoming increasingly vocal. In addition, President Sadat appeared personally to favor an increased role for the private sector. His relation by marriage, Osman Ahmed Osman, chairman of the "public-private" company of Arab Contractors, supplied a major impetus in this direction and became known as "Mr. Egypt."

Also, as local investors lobbied to attain similar rights as foreign investors, the issue of "privatization" of public companies was raised as well. Under the foreign investment law, joint ventures between public companies and foreign investors were considered "private" under a new definition which released the joint ventures

from the shackles of certain labor laws and restrictions on management's pay. If foreigners were allowed to form partnerships with public companies, Egyptian private investors wanted the same opportunities. At least part of the government, including the president, agreed with this capitalist-coalition reasoning.

While rhetoric and even changes in the foreign investment law portrayed the rising prominence of local private investors, the most illuminating evidence of their emergence is the actual change of investment patterns under the foreign investment law. The investment patterns of approved foreign investment projects show increasing local involvement--both in joint ventures and in totally Egyptian projects.

There were of course certain potential benefits to foreign investors of local private participation in the Egyptian Economic Opening under the emerging capitalist coalition. As potential partners for foreign investors, local private investors could prove more willing and more flexible than the large, public Egyptian companies. Such partners could also share business values which were perceived as more congenial to their foreign counterparts and could help in influencing government to be more pro-business in general. Similar to public companies, local private investors could offer local currency funding and knowledge of local customs and markets; although unlike the public companies they might not be able to offer a foreign partner a market monopoly. Those benefits could only be truly accrued, however, as long as a capitalist coalition remained in force. Unfortunately for foreign investors, it was not long after the emergence of a capitalist coalition in Egypt that a move towards a nationalist coalition became evident.

<u>Stage 3: The Nationalist Coalition</u>. As the local investors began to feel themselves in a stronger position, they felt less of a need to ally themselves with foreigners. Foreign investors desirous of forming partnerships with private local investors found themselves dealing increasingly on the terms of the local investors. One result of this was a tendency for the foreign partner's percentage participation in a joint venture to decrease; and in an increasing number of cases, local investors excluded foreign investors from their projects altogether and still received government approval under the "foreign investment" law.

Following upon this desire to exclude foreign investors from individual projects was a desire to exclude foreigners from whole markets. Powerful local parties attempted--sometimes successfully--to persuade the government to discriminate against foreign investors, to exclude them as potential competitors to local investors. The local investors appealed to a nationalistic logic; noting that they were capable of financing and running the projects, therefore there was no need to allow foreigners to reap the profits.

<u>Stage 4: Return to the Development Coalition</u>. While local private investors may have argued for special consideration on nationalist grounds, they in fact represented a small fraction of Egyptian society. Many companies in which local private investors participated were personal enterprises and partnerships composed of one or a few owner-managers. The joint-stock companies in which they participated were thinly held, often with a few shareholders as the personal companies. What was particularly good for a few Egyptian individuals was not necessarily good for the rest of the country.

Furthermore, given a recent history of mutual distrust between government and capitalists, local Egyptian investors predictably and possibly prudently chose to invest primarily in luxury real estate and the production of luxury consumer goods. Both were perceived to be generators of high and fairly immediate profits but did little to create an image of a grass-roots development progress for President Sadat's Economic Opening as a whole.

In addition, the privatization issue, which had been controversial even when the government argued that such moves were necessary to attract the participation of reluctant foreign investors was becoming increasingly problematic. With the foreign element eliminated, privatization could simply be viewed as a way for hitherto public companies to circumvent existing legislation or a way for a few, select individuals to tap government resources.

In fact, the whole incentive system of Egypt's open-door policy required re-examination if the local investors' nationalistic logic was to be accepted. If foreign investors were not really necessary in certain industries, the incentives introduced to attract foreign investors need not especially be transferred to local investors.

To the political opponents of President Sadat's open-door policy as well as to many poor Egyptians, the Economic Opening appeared to benefit only a few of their countrymen. A concurrent rise in conspicuous consumption heightened social tension within the country. Although the Sadat administration may have on the whole supported the emerging Egyptian upper classes--in fact members of the administration belonged to them--few governments can ignore the level of social unrest and political tension which Egypt was experiencing in the late 1970s. (Unrest and tension,

it might be noted, which eventually contributed to the assassination of President Sadat.)

The nationalist coalition, therefore, was destined to enjoy as short a heyday as the preceding two coalitions. The Egyptian government, attempting to diffuse some of the controversy surrounding its open-door policy, began removing certain incentives and began initiating what were in essence penalties on projects in selected industries--mainly the non-development-oriented industries preferred by the local private investors.

The coalition cycle could be said to have come full circle when upon the assassination of President Sadat, Hosni Mubarak ascended to the presidency of Egypt. Although President Sadat's chosen successor, President Mubarak was not known for his sympathy towards local private investors nor their contribution to the Economic Opening's divergence from its original development goals. In his first presidential address he vowed to return Egypt's Economic Opening to those original goals.

Whether President Mubarak will be able to accomplish this in the future is beyond the scope of this thesis. It appears difficult, however. Foreign investors as well as local investors were caught in the government's retroactive moves to discourage non-development projects. This, combined with the timidity of investors to enter nations where fundamental policy changes are occurring relatively rapidly, is likely to discourage much interest in investment in Egypt. In addition, potential foreign investors are likely to be uneasy about President Sadat's assassination and the possible resulting political uncertainty in the Middle East region.

President Mubarak is likely to be faced with two alternatives if a new development coalition fails. He can, as did President Nasser, return Egypt to a socialist state, thereby putting the tripartite relationship in a state of abeyance. If he chooses, on the other hand, to stop short of socialism he may, like his predecessor President Sadat, be forced to concede the necessity for the local private investors and consequently compromise with them. And thus the coalition cycle continues..

Chapter Outline of the Thesis

This thesis continues in Chapters Two and Three to present essential background information. Chapter Two describes the research methodology and sources used for the thesis. While the general reader may wish to skip this chapter, it may, on the other hand, provide useful insights for those interested in undertaking similar research either in developing countries or on politically sensitive topics. Chapter Three presents the historical background of the tripartite relationship in Egypt in order to provide a better understanding of the attitudes of the three parties involved, especially the attitudes of the Egyptian government and the local private investors.

Chapters Four through Eight present the unfolding of the coalition cycle in Egypt during its Economic Opening under the administration of President Sadat. Chapter Four describes the emergence of development coalition and the problems it encountered. Chapters Five and Six examine the role of the local private investors and their growing power, resulting first in a capitalist partnership, then an emerging nationalist partnership. Chapter Seven provides

further examination of these local private investors, noting the potentially controversial nature of their position. Chapter Eight describes the growing social stress and the political backlash in Egypt which culminated in a call for the return to a development coalition.

Chapter Nine presents the conclusions which may be drawn from the study and provides suggestions for further research.

Notes to Chapter 1

1. A selective list of works on the relationshps between government and foreign investors includes (1) Barnet, Richard J. and Ronald E. Müller, Global Reach: The Power of the Multinational Corporations, (London: Jonathan Cape), 1974; (2) Behrman, Jack N., National Interests and the Multinational Enterprise: Tensions Among the North Atlantic Countries, (Englewood Cliffs, New Jersey: Prentice-Hall), 1970; (3) Boarman, Patrick M. and Hans Schollhammer, eds., Multinational Corporations and Governments, (New York: Praeger Publishers), 1975; (4) Hahlo, H.R., Graham Smith, and Richard W. Wright, eds., Nationalism and the Multinational Enterprise: Legal, Economic and Managerial Aspects, (Dobbs Ferry, New York: Oceana Publications), 1975; (5) Jacoby, Neil H., Peter Nehemkis, and Richard Ells, Bribery and Extortion in World Business: A Study of Corporate Political Payments Abroad, (New York: Macmillian Publishing Company), 1977; (6) Lall, Sanjaya and Paul Streeten, Foreign Investment, Transnationals and Developing Countries, (London: Macmillan Press), 1977; (7) Sauvant, Paul and Farid G. Lavipour, Controlling Multinational Enterprises: Problems, Strategies, and Counterstrategies, (London: Wilton House), 1976; (8) United Nations, The Impact of Multinational Corporations on Development and on International Relations, (New York: Department of Economic and Social Affairs), 1974; and (9) Vernon, Raymond, Sovereignty at Bay: The Multinational Spread of U.S. Enterprises, (New York: Basic Books), 1971.

Also, studies have been written on the relationship of foreign investors and specific governments; e.g., (10) Arevalo, Juan Jose, The Shark and the Sardines, (New York: Lyle Stuart), 1961; (11) Moran, Theodore H., Multinational Companies and the Politics of Dependence: Copper in Chile, (Princeton, New Jersey: Princeton University Press), 1977; and (12) Pinelo, Adalberto J., The Multinational Corporation as a Force in Latin American Politics: A Case Study of the International Petroleum Company in Peru, (New York: Praeger Publishers), 1973.

2. Some reference to the relationship between foreign investors and local private investors often appears in texts on international business and certain other general studies; e.g., (1) Kolde, Endel J., International Business Enterprise, (Englewood Cliffs, New Jersey: Prentice-Hall), pp. 272-274; (2) Robock, Stefan H., Kenneth Simmonds, and Jack Zwick, International Business and Multinational Enterprises, pp. 248-251; and (3) Ayal, E.B., ed. Micro Aspects of Development, (New York: Praeger Publishers), p. 175. In essence, these sources note that sometimes local private investors can be attractive and beneficial to foreign investors and other times they present an obstacle to foreign investors. Examples are given, but an in-depth analysis of this phenomenon is absent.

Studies whose titles at first suggested a possible in-depth analysis of this bipartite relationship, proved disappointing in this particular aspect, e.g., Balassa, Bela, et.al., The Structure of Protection in Developing Countries, (Baltimore, Maryland: John Hopkins Press), 1971; and (2) La Palombra, Joseph and Stephen Blank, Multinational Corproations and National Elites: A Study in Tensions, (New York: The Conference Board), 1976.

3. It is possible that the relationships arising among these three parties are recounted in economic histories of various countries. This was the case with certain economic histories of Egypt used and cited in Chapter 3. The theses of these histories, however, were not centered on the tripartite relationship. Although these studies presented useful facts to be analyzed, they did not in themselves offer an analytic framework in which to view the relationship among government, foreign investors, and local private investors.

4. Of course, in many cases a government has the option of ending any "tripartite" relationship by excluding one or both of the other parties from operating within its domain. This, however, can be viewed as government's reaction to its own "loss of control" of the working relationship more than any "ultimate control" it has over the working relationship. Also, in theory

either of the other two parties can terminate the relationship as well by refusing to participate.

5. Ajami, Riad A., Arab Response to the Multinationals, (New York: Praeger Publishers), 1979, p. 2.

6. Often regimes which are termed to be "right-wing," "conservative," "moderate," or "reactionary" are associated in the public mind as being more amiable to multinationals. This was apparently true in the Arab World where multinationals were closely identified with "reactionary" regimes such as Saudi Arabia. (Ajami, Arab Response to the Multinationals, p. 51.) However, in 1968, the Peruvian military junta seized the assets of the International Petroleum Company, which was 99.5 percent owned by Standard Oil of New Jersey. This was strikingly out of step with the hitherto traditional role of the South American military as a defender of the status quo and friends of the United States. (Pinelo, Adalberto, J., The Multinational Corporation as a Force in Latin America, p. "v."

7. Gilpin, Robert, U.S. Power and the Multinational Corporation, (London: Basic Books), 1975, p. 39.

8. Such a thesis was professed by Barnet and Müller in Global Reach, pp. 1, 2, 18-19; and Vernon, Sovereignty at Bay, pp. 3, 265, 271.

9. Robock, Simmonds, and Zwick, International Business and Multinational Enterprises, pp. 184-185.

10. Richard Robinson, in a survey of 15 countries, concluded that national controls imposed on the entry of foreign businesses had become so increasingly effective and sophisticated that the central concepts of Global Reach and Sovereignty at Bay were no longer valid. (Robinson, Richard D., National Control of Foreign

Business Energy: A Survey of Fifteen Countries, [New York: Praeger Publishers], 1976, p. 320.)

11. Such interest in transfer pricing was not restricted to host countries. The transfer-price review program of the United States Treasury was considered possibly the most advanced in the world. (Robock, Simmonds, and Zwick, International Business and Multinational Enterprises, p. 467.)

12. In 1973, Brazil paid $400 million for the use of patents and "know-how." In 1974, transnational investors repatriated only $249 million in profits but received nearly that same amount again, $207 million, in management fees alone. ("Brazil Has Second Thoughts About Multinationals," Multinational Business, Volume 3 [September 1975], p. 19.)

13. One of the possible reasons for the high rate of payments for patents, know-how, and management fees in Brazil could have been due to a harsh, graduated withholding tax on dividends paid by local subsidiaries to foreign parent companies.

14. Receiving the latest technology or increased exports was more difficult to achieve through regulations than the simple control of international payments. In its original legislation, Egypt's Law 43 penalized import-substitution projects, wishing instead to attract export-oriented projects. Egypt did not want to be handed backward technology, which import substitutions are popularly believed to offer. This policy, however, was contrary to the behavior of most multinational companies (See: Vernon, Raymond, "International Investment and International Trade in the Product Cycle," Quarterly Journal of Economics, Volume 80 [May 1966].) Unfortunately, Egypt was to discover that discouraging import substitutors and encouraging exporters were not one and the same thing. Egypt's legislation, though succeeding in the fomer, was unsuccessful in the latter.

Furthermore, export markets are not guaranteed. Brazil had for years enjoyed the benefits of key export markets for Volkswagen vehicles produced by the Brazilian subsidiary of the German automobile manufacturer. The parent company in Germany, however, usurped these markets as soon as its own operations experienced significant over-capacity. Also Brazil was designated to produce kits for assembly when Volkswagen began operations in Egypt. While this supplied exports for one developing country, the recipient, also a developing country, was determined to close that export market as soon as possible by increasing its own manufacturing operations--as well as looking, in turn, for its own export markets for the products. (Middle East Economic Digest (MEED) 23 [26 January 1979], p. 23.).

15. In addition to the proliferation of national regulations and entry requirements for transnational investors, many countries especially developing ones, were reserving the right of judging and approving each proposed investment project separately. Even countries like Egypt, who were eager to encourage foreign investment by offering incentives, required special project-by-project approval of any such investment. Tengku Razaleigh Hamzah, Minister of Finance for Malaysia, explained his country's attitude towards keeping this degree of flexibility concerning investment approvals as follows:

> ...it seems the manner of managing an economy can be spelt out only if it is either under full state control or complete laissez faire. In a mixed system, where we mostly find ourselves, the manner must be worked out on the basis of each case, depending on the circumstances.*

By keeping the terms of investment approval flexible, a government did not find itself particularly hampered in negotiations with potential foreign investors by any concessions it had made to previous investors. By not strictly legalizing the terms of

*Hamzah, Tenguku Razaleigh, "Matching the Interests of the Foreign Investor and the Recipient Country," mimeographed, p. 7.

foreign investment or, as in Egypt's case, by leaving a loophole in the foreign investment code, a government could continually reassess its own wants as well as its own perceived bargaining position and that of the potential foreign investor. Major as well as minor policy changes could be affected without the apparent political instability and indecisiveness, and possible political debate, accorded to official changes in the law.

16. John Diebold, Chairman of the Diebold Group, states as the first ground rule for a developing country to follow in relation to multinationals is to make sure that multinational corporations do not have special concessions that are not available to local businessmen. (Diebold, John, "Doing Business in Developing Countries," Financial Executive, 41 [December 1973], p. 26.) Governments desirous of attracting foreign investment, however, may often find themselves in a weaker bargaining position vis-à-vis the multinationals than they are with their local businessmen. While granting local enterprise the same concessions necessary to attract foreign enterprise, a government may feel that it is placating merely one interest group within the country at the expense of other groups with equally pressing demands.

17. One area in which foreign enterprise apparently has difficulty in justifying itself to local governments is retailing. In his survey of 15 countries, Robinson found that alien involvement in retailing services was often prohibited. (Robinson, National Control of Foreign Business Entry, p. 321.) One may conclude that multinationals have difficulty in convincing potential host governments of their superior expertise in this area. On the other hand, retailers likely represent a significantly larger portion of the population than do industrialists, which can no doubt reflect in government behavior. In Egypt, despite a purge of private enterprise in the 1960s, most of the retail trade remained in the hands of small private concerns. (See Chapter 3.)

18. Holt, John B., "Multinationals in Eastern Europe," Columbia Journal of World Business Vol. 8 (Fall 1973) pp. 131-139.

19. Robock, Simmonds, and Zwick, International Business and Multinational Enterprises, p. 250.

20. Franko, Lawrence, "International Joint Ventures in Developing Countries," Law and Policy in International Business, Volume 6 (Summer 1974), p. 327.

21. Tomlinson, James W.C., Model of the Joint Venture Process in International Business: British Joint Ventures in India and Pakistan, (Cambridge, Massachusetts: MIT Press), 1970, p. 65.

22. Aharoni, Yair, The Foreign Investment Decision Process, (Boston: Harvard Business School), 1966, p. 156; and Robock, Simmonds and Zwick, International Business and Multinational Enterprises, p. 250.

23. In a survey undertaken in Kuwait and Iran, the economic and business elite were found to be less nationalistic and less anti-multinationals than the government and intellectual elites. (Ajami, Arab Response to the Multinationals, p. 70.)

24. During the last 20 years a sizeable number of private drug companies in Brazil passed into foreign hands until the entire industry became virtually 100 percent controlled from overseas. During this period there was intense opposition to a proposed publically owned drug company, which was probably the only effective way of keeping local control of the industry. A possible explanation for this opposition could be that local private investors in pharmaceuticals considered a partnership with, or an outright sale to, a foreign company more advantageous to them than allowing a large public competitor into the market. ("Brazil Has Second Thoughts About Multinationals," Multinational Business, p. 25.)

Barnet and Müller in Global Reach (p. 137) note that the phenomenon of local businesses selling out to multinationals resembles a similar occurence in the United States where small family businesses were often found to sell out to large national competitors.

Another example in which local entrepreneurs opposed their government's efforts to defend them against the multinationals occurred in Guatemala, where the Chamber of Commerce campaigned to keep Sears out of their country, claiming that it would put 3-4,000 shopkeepers out of business. They were opposed by certain local entrepreneurs who had decided to "join rather than fight." (Barnet and Muller, Global Reach, p. 139.)

25. Franko, "International Joint Ventures in Developing Countries," Law and Policy in International Business, p. 330.

26. This is reported to have occurred in both Mexico and India. (Wells in Ayal, ed., Micro Aspects of Development, p. 175.)

27. There are exceptions to this rule, however. One is the case of communist countries seeking Western investment. (See Note 18, Chapter 1.) Another exception arises when the government in power is largely composed of a class which is alienated from or in political competition with the predominant business class in their country. This occurred in Malaya where the politically dominant Malays, who for the most part represented rural interests, opposed local industry protection measures which would have aided the predominantely Chinese urban interests. (Balassa, The Structure of Protection, pp. 207-208.) A similar situation arose in Egypt during the early twentieth century and will be discussed in Chapter 3.

28. Prior to 1968, only a few developing countries such as India, Pakistan, Spain, and Sri-Lanka had policies promoting joint ventures; although other countries such as Indonesia, Liberia and Egypt required that stock be made available to local investors. (Franko, "International Joint Ventures in Developing Countries,"

Law and Policy in International Business, p. 318.) Government pressures for joint ventures were increasing, however. The Andean Common Market's Decision No. 24 of 1972 called for a cessation of foreign majority of companies located in members states and the subsequent transfer of ownership to local partners over a number of years. (Franko, Lawrence, The European Multinationals, [London: Harper and Row], 1976, p. 129.) A United Nations report in 1976 noted that countries with legislation favoring joint ventures between multinational firms and local parties included Algeria, Iraq, Kuwait, Libya, Nigeria, Colombia, and the Andean pact nations among others. (United Nations, National Legislation and Regulations Relating to Transnational Corporations, Report to the Secretariat, Economic and Social Council [New York], 1976.) In another report the United Nations recommended that host countries in the developing world establish joint ventures with multinationals as well as reduce over time foreign equity interests in their countries. (United Nations, The Impact of Multinational Corporations on Development and on International Relations, Department of Economic and Social Affairs, [New York], 1974, p. 61.)

29. Friedmann, Wolfgang and George Kalmanoff, Joint International Business Ventures, (New York: Columbia University Press), 1961, p. 262.

30. A study on joint ventures in Australia claimed that although wholly-owned subsidiaries of multinationals sent more employees to their home offices for training, locals held more responsible positions in joint ventures. (Wells in Ayal, ed., Micro Aspects of Development, p. 174.)

31. Stopford and Wells noted that joint ventures resulted in less capital entering the country and greater borrowing from local sources. Also, the foreign partner would be more likely to capitalize know-how in a joint venture than in a wholly-owned subsidiary. (Stopford, John M. and Louis T. Wells, Jr.,

Managing the Multinational Enterprise: Ownership of the Subsidiaries, [London: Longman Group Limited], 1972, pp. 158-159.

32. Vernon, Sovereignty at Bay, p. 144.

33. Stopford and Wells, Managing the Multinational Enterprise, p. 167.

34. Olson and Zeckhauser argue that adding a member to a military alliance can be done "without substantially subtracting from the amount of defense available to those already in the alliance." In this case, however, the goal conflicts are assumed to be minimal. (Olson, Mancur, Jr. and Richard Zeckhauser, "An Economic Theory of Alliances," The Review of Economics and Statistics XLVIII, [February 1966], p. 273.

35. For example, the more a company becomes "committed" to an investment in a country, the greater the country's potential bargaining power with the company. (Aharoni, Foreign Investment Process, p. 125.)

36. Moran, Theodore H., Multinational Corporations and the Politics of Dependence: Copper in Chile, (Princeton, New Jersey: Princeton University Press), 1974, p. 99.

37. Ibid., p. 111.

38. Aharoni, The Foreign Investment Decision Process, pp. 35, 220.

39. Moran, Multinational Corporations and the Politics of Dependence, p. 90.

40. Ibid., pp. 89-90.

41. Carr, David William, Foreign Investment and Development in Egypt, (New York: Praeger Publishers), 1979, p. 50.

42. Louis Goodman predicts a similar scenario involving the relative power relationship of the multinational corporation and its host government, even in the absence of local investors. The multinational, he states, has greater power before it enters--or reinvests in--a country since it is in a strong position to deliver or withhold benefits desired by the government. Once an investment comes on stream, however, complications will invariably arise involving such factors as labour, inflation, government crises, or lower than expected profits. As a result, the multinational will seek to renegotiate terms with the government. The government will consequently acquire the power to allow an adequate return to the multinational. (Apter, David E. and Louis Wolf Goodman, eds., The Multinational Corporation and Social Change [New York: Praeger Publishers], 1976, p. 86.)

43. This section is meant to be an overview only. The facts presented are further substantiated and referenced in following chapters.

Chapter 2

METHODOLOGY AND SOURCES

This thesis contends that different bipartite coalitions--development, capitalist, and nationalist--tend to emerge and erode over time and did so in Egypt during its Economic Opening under President Sadat. Therefore, a methodology needed to be developed which could identify the existence of these coalitions in Egypt and reasonably trace their shifting positions relative to one another.

Furthermore, there were basic problems which posed a challenge to the development of such a methodology. First, much public information such as statistics similar to what are taken for granted in the West is often biased, incomplete, or totally unavailable in a country such as Egypt. Second, the subject under investigation was a relatively sensitive one, both at a national level and at an individual project level.

A three-pronged methodology was in fact established. First, an ex-post empirical analysis of investment patterns was planned in which these patterns could be plotted against historical data of changes in legislation, changes of economic position of parties, formation of lobbies and other political alliances, evidence of shifts in political opinions, and other major environmental changes which could reasonably be expected to affect the relative positions of the government, foreign investors, and local private investors and thus identify coalitions and trace their emergences and erosions. In the same vein, an analysis of public records was planned to identify more precisely investors and partners. Detailed and relatively complete statistical information was needed for this

section of the methodology, and it was in collecting data for this section that the research encountered the problem of finding adequate statistics. Second, in order to be able to plot the aforementioned data, the historical data had to be collected and analyzed in its own right. Third, to reinforce the broader research above, field investigations of cooperating Law 43 projects as well as interviews with appropriate government representatives and consultants were planned. This section of data collection allowed for pursuing lines of enquiry beyond the mere statistical and presented a number of human sounding-boards for hypotheses raised by the other two sections. Of course, interviewing has its own limitations and this particular section of data collection had to deal with the other major problem facing the research as a whole, that of its political sensitivity.

The operational procedures of data collection for each of the three sources, the problems involved, and the eventual resolution of those problems is discussed more at length in the separate sections below:

A. Statistical Sources

1. General Statistical Sources. Finding reliable statistics has been a constant problem for economists and other social scientists working on topics concerning modern Egypt. One reason for this problem is simply the operational difficulties of accurate data collection in any developing country. A second reason is the suspected "fudging" of data in order to present it in a more politically acceptable light. Unfortunately, researchers have often been forced into the position of saying, "Since we have

nothing else, we will assume these statistics are correct and proceed from there."

In the case of statistics on Law 43 projects, the issue was not so much that the statistics were wrong but that they were generally misleading. For example, annual statistics published by the Investment and Free Zones Authority listed capital by "local" and "foreign" referring to the currency in which the capital was paid and not to the nationality of the capital contributors.[1] Also, the aggregate numbers published by the Authority were virtually worthless in determining what the actual investment patterns were. For example, a project sponsored by the United States Agency for International Development (USAID) of more than $4,000,000,000 was lumped in with small projects of under £E 100,000.[2] In addition to these problems intrinsic to the Authority's statistics was the general problem that compiled statistics such as these reflect what the compilers wish to show or what they feel is important and not especially what another researcher wants to know or thinks is important. Therefore, it was necessary to pursue these statistics in their rawer form.

Unfortunately, the source of such information, the Investment Authority, claimed to be unable to supply it. This phenomenon of official "unableness" has been encountered by other researchers, and was so noted by Egypt's own Ministry of Economy, Foreign Trade, and Economic Cooperation when it was compiling information for its Study on Law 43 Investment Policies.[3] Perhaps the most revealing summation of the system, however, was supplied by a representative of USAID in Egypt who said:

> Whenever someone asks for a list of Law 43 companies, someone in the Investment Authority begins from scratch. It should all be on computer!
>
> In fact, you have to have clout. They told us they couldn't do it, and we told them they could forget USAID money for Free Zones if they didn't deliver... and we agreed to pay their staff to do it on a private consulting basis in their off hours.[4]

Luckily, Egyptian entrepreneurship came to aid of the study by publishing a directory of Law 43 projects.

2. The Fiani Directory. In July 1980, a directory of Law 43 projects was published by a private consulting firm in Cairo.[5] The directory was in English and sold for the relatively high price of £E 60 (approximately $100 at the parallel rate of exchange). The directory included several introductory chapters on the open-door policy in Egypt, but its main purpose, as its name implied, was to be a directory of Law 43 projects, listing names of managing directors, office addresses, telephone and telex numbers.

Included in the directory, however, was a variety of other information on each project: its industry designation, its inland or free-zone status, its legal business form, its date of approval, the amount of its approved capital, its status vis-à-vis operations, and the nationalities of its investors. Although the directory claimed to have contacted, or tried to contact,[6] the participating projects it was simply to confirm the information the directory had already compiled on them--information which could only have come from the Investment Authority. In fact, Dr. Abdel Meguid, Deputy Prime Minister for Financial and Economic Affairs and Chairman of the Investment and Free Zone Authority, wrote a preface to the directory in which he graciously referred to

private enterprise work which its own statistics department was apparently unable or unwilling to do under public auspices. He wrote:

> We hope the publishers will find it sufficiently rewarding to continue to produce updated editions of this Directory in order to serve the participants of the Open-Door Policy in their endeavor to help achieve accelerated prosperity for the people of Egypt.[7]

The Fiani Directory had its critics. A representative of USAID contended that the directory did not totally correspond with a similar list supplied by the Authority to their Cairo office.[8] Also, as can be expected, there were occasional gaps in information for each project. On the whole, however, the directory supplied the aforementioned information on all Law 43 projects approved through the end of 1979, nearly eleven hundred projects; and, for the purpose of this study, it was accepted as an appropriate census of the population through that date. A substantial amount of rearranging and coding, however, needed to be done in order to extract the information from its directory form and render it manageable for computer analysis.

Four of the seven variables--industry designation, inland or free-zone status, legal business form, and status vis-à-vis operations--were relatively straightforward. The other three variables, however, required coding decisions. Date of approval was recoded into quarters. It was believed that annual groupings distorted interesting trends, while groupings of less than three months were too small. The amount of approved capital also needed coding. As noted above, extraordinarily large projects were included alongside the multitude of small and medium-sized companies, thus rendering any averages meaningless. Therefore,

the approved projects were rounded to the nearest £E 1,000 and grouped into discreet groups: £E 1-99,000; £E 100,000-499,000; £E 500,000-999,000; £E 1,000,000-4,999,000; £E 5,000,000-14,999,000; and £E 15,000,000 and over.[9] The nationalities of investors were first grouped by participation of Egypt, Saudi Arabia, other Arab countries, the United States, Western Europe,[10] and Other.[11] Then each project was coded for whichever combination of nationalities applied.

After appropriately coding the variables for each project, these variables were entered as an item into a computer data base which could then be analyzed using the Statistical Package for the Social Sciences (SPSS).[12]

3. Further Analysis: Articles of Incorporation of Joint-Stock Companies Under Law 43. Although the information extracted from the Fiani Directory supplied significant insight into certain aspects of partnership patterns, as discussed above, certain other important data was absent. For example, the various nationalities of partners were mentioned, but there was no breakdown of their respective participations. Nor was there any indication concerning the supply of foreign currency to the ventures. In the case of foreign participation there was no information pertaining to whether foreign companies or foreign individuals participated. In the case of Egyptian participation, there was no statement as to whether the participation was a public or private company or individual, or whether it was made by an operating company in an industry related to the Law 43 project or by a financial investing company.

For all of the personal enterprises and partnerships, a large degree of additional information could be determined simply from the legal requirements of these business forms; e.g., owners of such enterprises had to be private individuals and, in the case of personal enterprises, a single individual. Similar information could not be determined from the legal requirements of joint-stock companies. Participants in joint-stock companies could be any number of individuals or companies, both public or private, as well as any combination of these.[13] In the case of personal enterprises and partnerships there was no recourse to further public information. Fortunately, for the much more ambiguous joint-stock stock companies there was an additional source of information.[14]

All articles of incorporation of joint-stock companies are required to be published in the Official Egyptian Gazette. The Companies Law No. 26 of 1954, under whose statutes Law 43 companies fell, except where amended, further states that such articles of incorporation must be printed in special bulletins issued by the Ministry of the Economy.

However, of the 459 joint-stock companies appearing in the Fiani Directory, articles of incorproation for only 154, or approximately 34 percent of the total, were able to be located. (Efforts to locate these articles of incorporation are described in the next section.) This number would be quite adequate for statistical analysis if it were a random sample. However, since the sample was not collected under accepted random sampling procedures, it cannot be considered a random sample and thus falls outside traditional statistical analysis. Nonetheless, since the

sample is large and represents over a third of the joint-stock companies under investigation, it could still be considered reasonable to extrapolate from the sample to the population, albeit with caution, if evidence suggested that a high degree of randomness did indeed exist in the sample.

To accept that a high degree of randomness existed in the sample would require evidence that just under two-thirds of the articles of incorporation were randomly "lost." There is, in fact, substantial evidence in support of this supposition. On the other hand, one cannot ignore the possibility of the existence of systematic error in the sample, and it is only reasonable to ask whether certain factors caused certain types of approved joint-stock companies to appear less regularly than others, consequently introducing bias into the sample.

Various evidence supporting both the case for randomness and the case for systematic error and its subsequent implications are discussed below.

a. The case for randomness. In many countries the possibility that a requirement for legal operation of a joint-stock company had not been fulfilled in the majority of cases might seem unlikely. Certain aspects particular to the case of Egypt, however, suggest otherwise. First, the public administration in Egypt seems relatively unconcerned with minor formalities such as the publication of articles of incorporation. The Investment Authority itself did not keep a collection of articles of incorporation of their approved companies. When the author informed a high-ranking member of the Investment Authority that

a complete set of such articles was not to be found in a published collection the official response was a nonchalant shrug of the shoulders.[15]

Furthermore, there was a question of efficiency in relation to the distribution of the bulletins carrying the articles of incorporation. The "Official Egyptian Gazette" is not, in fact a Western-style periodical or official publication. As laws--or in this case, articles of incorporation--are printed, they are dispersed to various recipient libraries who independently bind these papers into their own collections. This process seemed likely to increase the possibility of loss in handling. To counter-balance this likelihood, two separate collections of these bulletins were consulted; the first at the American University in Cairo, the second at the General Authority for Books in Cairo. Except for a period of about two years when the American University was itself skeptical about the adequacy of their collection, the two collections tallied closely. Still, due to this particular distribution process, no complete index existed for these collections and the search for articles of incorporation required a page by page perusal of volumes from mid-1974 through 1980; and a bulletin by bulletin search in the as yet unbound copies issued in 1981. Overall, this distribution system suggested a certain informality on the part of the issuing agency.

Finally, the possibility of conscious suppression of the missing articles of incorporation appeared untenable. In two cases, members of management at interviewed companies whose articles of incorporation were not in these collections were neither surprised nor concerned

with the situation and graciously offered their own copies. Also, certain ventures which might be considered controversial and thus avoid publication--e.g., private Egyptian individuals involved with public companies or the increasing number of Arab Contractors' investments--appeared time and again.

b. The case for possible systematic error and the implications thereof. The problem surrounding any question of systematic error or bias is the need for an independent measure by which such bias can be ascertained. The information available from the census supplied by the Fiani Directory afforded several opportunities for testing various biases in the sample, and comparative tests on three particular variables were conducted. The three variables were chosen for their general applicability and importance to the analysis. The variables were: date, amount of capital, and the proportion of pure Egyptian-owned projects to total projects.

Looking first for a possible bias based on date, it was discovered that of 249 approvals prior to 1978, 76 articles of incorporation were found or 31 percent of this subtotal. Of the 202 joint-stock companies approved in 1978 and 1979, 78 or 39 percent of this subtotal were found.[16] Therefore, the latter years had a higher representation. It would consequently be dangerous to extrapolate from the sample to the population on the whole concerning variables believed to have changed between these two periods. Any such overall statement would first need to be tested for time-dependence.

The second test for bias in the sample involved comparing the sample to the census vis-à-vis the amount of capital approved for the projects.[17] At the extremes, representation of joint-stock companies was similar in both groups. Companies with approved capital of under £E 100,000 represented two percent in both sample and census. Companies with approved capital of £E 15 million and above represented 3.3 percent of the sample compared to 3.9 percent of the census. Generally, however, the lower end of the spectrum was more heavily represented in the sample. Joint-stock companies with approved capital under £E 1,000,000 represented 41.9 percent of the sample versus 37.9 percent of the census, an over representation of about ten percent. Joint-stock companies with approved capital of £E 1,000,000 and over represented 58.1 percent of the sample versus 65.1 percent of the census, an under-representation of about eleven percent.

The third test for bias was to ascertain whether pure Egyptian joint-stock companies appeared in their correct proportion in the sample. In fact, they were under-represented by nine percent; i.e., 17.5 percent in the sample compared to 19.6 percent in the census.

A fourth test was also conducted which was separate from the census. Instead it was based on a reference in the Ministry of Economy, Foreign Trade, and Economic Cooperation's Study on Law 43 Investment Policies which noted that the public sector was involved in 70 non-financial projects (as of the end of 1978).[18] This would represent 21.9 percent of the census to that

date. Similarly, the public sector was involved in 20.2 percent of projects in the sample to that date.

From the evidence provided above, it seemed reasonable to treat the sample as though it were random, although discrepancies of relatively small degrees did exist. The sample has been used therefore to extrapolate to the population within the bounds of three considerations: (1) known discrepancies have been noted where appropriate; (2) larger rather than smaller subsets have been preferred in order to minimize the effect of possible unknown biases; and (3) when comparisons between subsets are made, only differences between these subsets large enough to offset a possible small degree of bias are considered significant.

c. Selection of Basic Data. The first step in coding the articles of incorporation was to identify each company by its census code number in order to coordinate the two sources of information. Then a company two-dimensional chart was filled in, noting participation by Egyptian public industrial and non-financial service companies, Egyptian public financial companies, Egyptian private industrial and non-financial service companies, Egyptian private financial companies, Egyptian individuals, foreign companies, and foreign individuals; and noting relative to the above, number, percentage participation in capital, and percentage participation in foreign currency. Percentage participation was divided into seven categories: 0 = 0; 1 = $(0 < x < 10)$; 2 = $(10 \leq x < 25)$; 3 = $(25 \leq x < 50)$; 4 = 50; 5 = $(50 < x < 100)$; 6 = 100. Finally, board domination by nationality--Egyptian, equal, or foreign--was determined, as

was investment and board participation by women; and any unusual characteristics, such as participation by Arab royalty, were also noted.

B. Historical Sources

A wide range of historical source material was collected concerning Egypt's open-door policy; e.g., published books and articles and internal reports from companies, consultants, USAID, and the Investment Authority. While these secondary sources were in themselves very useful, they presented a similar problem to the one encountered with the published statistics; i.e., the information was not sufficiently detailed or complete. It was necessary, therefore, to supplement these sources with historical data in a rawer form which could, in turn, be analyzed in terms of the specific subjects under investigation.

Fortunately, the weekly periodical Middle East Economic Digest (MEED), proved extremely useful in providing this data.[20] Not only did it supply reports on major political and economic events in Egypt as they occurred but its regular country section on Egypt listed a variety of small news items collected from both the Western and the Arabic press during the week. Often these snipets involved company announcements. In the case of the Ford Motor Company, whose management categorically refused to be interviewed on their "politically sensitive" joint-venture proposal in Egypt, a collection of small news items over time provided considerable insight into what was going on behind Ford's closed doors. In this way, a week by week analysis of

news published in MEED over the period from June 1973 through November 1981 not only provided macro historical data but micro historical data as well.

C. Law 43 Projects And Other Interviewed Sources

The major obstacles facing business research at the enterprise level, especially politically sensitive research, are gaining access to business enterprises in the first place and, secondly, getting relatively complete and accurate answers from the respondents. Fortunately, the author was able to gain access to a wide breadth of Law 43 projects which covered a well-balanced variety of industrial and joint-venture types. Also, a number of public officials and private consultants cooperated with this section of the research.

Project interviews were held with executives representing 20 Law 43 projects (exclusive of projects involving Arab Contractors which are discussed below). Because of the political nature of the interviews anonymity was guaranteed.[21] However, the projects can be grouped as follows:

Industry:	Natural Resources	1	
	Industrial Activities:		
	Consumer non-durable goods	4	11
	Consumer durable goods	3	
	Industrial goods	4	
	Services:		
	Banking	4	8
	Tourism	3	
	Property	1	

Partnership

Patterns:		
	Foreign Only	2
	Foreign with public Egyptian partners	6
	Foreign with private Egyptian partners	7
	Foreign with both public and private Egyptian partners	3
	Private Egyptian only	2

Eighteen of the projects were involved with inland projects, two with free-zone projects. Thirteen projects were in production, six were under execution, and one was going out of business. Foreign partners came from Arab countries, Europe, the United States, Japan, and Iran. In six cases, representatives of more than one investing partner were interviewed; and in two cases, representatives of three investing partners were interviewed.

In addition, top management at both Arab Contractors and Arab Contractors' Investment Fund were interviewed. Arab Contractors was participating in 34 projects under the open-door policy and was engaged in negotiations involving three more. The company's founder, Osman Ahmed Osman, was in fact one of the most controversial figures involved with the open-door policy and President Sadat's regime in general.

The interviews aimed at collecting the following information about each project:

1. Original initiative to invest under Law 43.
2. Search for partner(s)--public or private.
3. Negotiations between potential partners and consequent agreements.

4. Later coordination between partners and possible re-negotiations.
5. The part the government--in its various manifestations--played over the life of the project.
6. The part the local capital market played.
7. How changes in the legal code, the environment, or the market affected the project.

The quality of response to each question varied among projects and among executives. Some executives appeared to be more wary of answering certain questions and avoided responding directly.[22] Also, since the questions, by nature, covered a period of several years some respondents simply could not remember how events exactly evolved or, since they themselves were not personally associated with the project at an earlier period, could not comment with certainty or detail on all topics. Since the large majority of interviews took place in Cairo, the completeness of response was to a degree skewed to the more immediate events. However, in the cases of two major British investors cooperating with the study, complete project files (documents, reports, letters, contracts) covering over six years were made available to the author.

In addition to the project interviews, discussions were held with officials in the Investment Authority and consultants to the Authority; representatives of USAID in Egypt; consultants to private industry in Egypt; and Egyptian and foreign businessmen who had considered or were considering investing under Law 43. In all, the interviews produced valuable insights to complement the statistical and historical sources.

Notes to Chapter 2

1. It is the author's opinion that the representation of figures in this manner did constitute a form of "fudging," in that they tended to suggest a higher than actual success in attracting foreign corporate investment.

2. Egypt's Investment and Free Zones Authority published aggregate statistics in a chronological series of brochures, "Facts and Figures." In these brochures the statistical breakdown of capital is listed by "Foreign C." and "Local C.". The initial "C." is misleading. It could stand for "capital" or "currency." A comparison of similar breakdowns in Arabic in which there was no ambiguity involving the initial "C." strongly suggests that the "C." in English refers to "currency."

Furthermore, these statistics break down aggregates of projects and capital by industry only. The Fiani report reveals, however, incredible ranges of capital among projects. No reasonable "average" could therefore be determined from government statistics. Neither could a reasonable distribution of project size be determined from these statistics.

3. Ministry of Economy, Foreign Trade, and Economic Cooperation, Study on Law 43 Investment Policies (Cairo: 1979) p. 29.

4. Personal Interview at USAID in Cairo; April 6, 1981.

5. Fiani and Partners, Egypt Investment Directory 1980/1981 (Cairo: 1980).

6. There was, in fact, a high rate of non-response witnessed by the frequent appearance of the note: "Company did not confirm informations" [sic].

7. Fiani and Partners, Egypt Investment Directory 1980/1981. It is also appropriate to note that the Fiani Directory was the only directory of its kind at the time of its publication. No Arabic directory existed.

8. Personal Interview at USAID in Cairo; April 6, 1981.

9. In 140 cases, about 13 percent of the total, the capital was not given in Egyptian pounds but in foreign currencies. US dollars constituted by far the largest group--132 cases or 94 percent of total foreign currency cases. The eight non-dollar cases were first converted to dollars according to the International Financial Statistics' quarterly quotations. All dollar amounts were then converted to Egyptian pounds using the following rates:

1972	Official Rate	$2.30 = £E1.00
1973 May 1977	Official Rate	$2.56 = £E1.00
June 1977 - Year End 1977	Parallel Market Rate	$1.43 = £E1.00

10. Western Europe was chosen as the appropriate grouping rather than the commonly used EEC (European Economic Community) because the EEC would exclude such countries as Sweden and Switzerland, when these countries were providing similar Western business and technical expertise as their neighboring countries. One question was raised, however, by this grouping; i.e. were investments made from Switzerland or Luxembourg, particularly, really representative of Western investment or merely Arab money coming via holding companies in these countries? In the case of Switzerland, investment appeared on the whole to be Swiss rather than Arab. An analysis of the 60 projects with Swiss participation showed them to be almost exclusively in the areas of banking, tourism, and relatively high technology industries associated with Switzerland. The case for Luxembourg was more ambiguous and evidence did exist that Arab money was coming via Luxembourg in at least some cases. Luckily, projects with

Luxembourg participation were considerably fewer, only 25 in number. The only other 'questionable' countries of significance were Panama and the Cayman Islands. Panama represented only 14 projects and the Cayman Islands represented five projects. Both were confined to the "Other" category.

11. A variety of far-flung countries were represented under "Other." Their names, in alphabetical order, and number of projects in which they were represented is presented below:

Argentina (1)	Kenya (2)
Australia (1)	Korea (4)
Bahamas (1)	Liberia (2)
Canada (5)	New Zealand (2)
Cayman Islands (5)	Pakistan (3)
Ethopia (3)	Panama (14)
Hong Kong (1)	Romania (1)
India (1)	Senegal (2)
Iran (10)	Tanzania (1)
Japan (9)	Yugoslavia (2)

12. The Fiani Directory also included, in most cases, a short description of the business of each company. The collection of businesses was considered too eclectic to reasonably code for this thesis. This information, however, was kept on file for appropriate reference.

13. Limited liability companies being neither partnerships nor joint-stock companies fell to a large degree outside of both methods of determination followed at this stage of the study. Fortunately, they represented less than six percent of the Law 43 companies.

14. The possibility of using a mailed questionnaire to ascertain information along these lines was ruled out early in the research on operational grounds. Response to a questionnaire sent out by the Fiani Partners to Law 43 companies simply requesting confirmation of their already compiled short list of information on each company met with a considerable rate of non-response.

Furthermore, it was believed that what response there was would be severely biased toward companies with Western managements who were accustomed to cooperating with business research and dealing with questionnaires.

15. Personal Interview at Investment Authority in Cairo, Egypt; April 28, 1981.

16. The time test was conducted along this basic division since it was the division to be used in the subsequent analysis of the data. The possibly unique year of 1977 was at first isolated and analyzed to see whether it merited its own category. However, it was determined that 1977 resembled the previous years closely enough not to merit such special consideration.

17. There are, in fact, procedures which an approved joint-stock company under Law 43 must fulfill before it is actually incorporated, the most important of which is the requirement to deposit the initial subscription of capital. A company theoretically has six months to comply to the necessary requirements. If no evidence was available to the contrary, it might be assumed that the missing articles of incorporation represented companies which could not or did not fulfill these final requirements. However, since it was known that some companies were incorporated and in production without the publication of their articles of incorporation, this assumption was considered to be invalid. On the other hand, problems with final incorporation procedures--e.g., actually raising the proposed cash--might be the cause for the absence of a certain proportion of companies from the sample.

18. Ministry of Economy, Foreign Trade, and Economic Cooperation, Study of Law 43 Investment Policies, (Cairo 1979), p. 22.

19. No further definition of "non-financial" projects was given in the Ministry's study; therefore, it was unclear whether insurance companies were considered financial projects. The author assumed they were not.

20. Other periodicals dealing with the Middle East such as Middle East Economic Survey and Arab Economist provided sporadic articles on Egypt but lacked MEED's breadth and week by week reporting of events.

21. In order to respect the anonymity of companies interviewed, the text of the thesis refers to such companies in a general manner; e.g., "a major British industrial company" or "a US-based multinational bank." In a few cases, anonymity was waived by the interviewed company either in general or for specific information. In other cases, some information collected in confidential interviews later appeared in public sources. In these cases, it was considered allowable to use actual company names when appropriate.

22. The author drew upon substantial interviewing experience in the field of international business casewriting, and considerable care was taken during each interview to reassure respondents and to gather as much information as possible.

Chapter 3

THE TRIPARTITE RELATIONSHIP IN EGYPT: AN HISTORICAL PERSPECTIVE

A study of the tripartite relationship among government, foreign investors, and local private investors in Egypt prior to President Sadat's regime in the 1970s is useful in two ways.

First, whatever the universal aspects of conflicts arising among the three parties, each confrontation of these parties is unique in time and place and is influenced by the relevant historical relationships of the parties involved. The history of modern industrial Egypt stretches roughly over 150 years. During those years, rather turbulent relationships between business and government, as well as between native and foreigners, resulted in widespread suspicion among government, foreign investors, and local investors. This widespread suspicion was evident even during Egypt's Economic Opening in the 1970s.

In contrast, the second benefit arising from an historical analysis of the tripartite relationship in Egypt is not concerned with the particularity of the case on which this thesis is based but with the ability to extrapolate from the case. It is a contention of this thesis that the behavior of government, foreign investors and local investors as described in Chapter One is not completely case specific; i.e., does not simply apply to Egypt during its Economic Opening under President Sadat. An historical analysis of Egypt prior to the Economic Opening lends credence to this assertation. The historical analysis points out, [illegible] [illegible] to the Economic Opening, the existence of the three parties, their conflicts and bipartite coalitions, and the workings of the

coalition cycle. References to situations in other developing countries as presented in Chapter One suggest that the general behavior of the three parties involved transcends national borders and is not "place specific." The historical analysis establishes that the behavior of these three parties in Egypt was not "time specific" to the Sadat regime.

Furthermore, the historical analysis supports the contention that the bipartite coalitions may follow a cyclical pattern. We will observe below that the early industrialization of Egypt began with a development coalition between government and foreign investors in the early 1800s. Only later did local private investors truly assert themselves and a capitalist coalition arise. Eventually the capitalist coalition was replaced by a nationalist coalition. A political backlash against local investors, however, dissolved the nationalist coalition. The tripartite relationship in Egypt was consequently put in a state of abeyance until the advent of the Economic Opening and a return to a development coalition. Thus the coalition cycle had come full circle by the time of President Sadat's ascendency to power.

At the end of the chapter a short history on the development of business forms in Egypt is presented. This background will prove useful in understanding the later analysis of investment patterns during President Sadat's Economic Opening.

The Development Coalition in Egypt: Phase 1, Under Mohammed Ali

A development coalition could be said to have emerged in Egypt at the beginning of the nineteenth century and survived--in one of two phases--through World War I. The original phase of the

development coalition began in the reign of Mohammed Ali (1805-1849). In the early nineteenth century, Egypt was nominally under the rule of the Ottoman Empire. The empire was in decline, however, and Egypt enjoyed near autonomy under its strong local king, Mohammed Ali. Between 1816 and 1849, Mohammed Ali attempted to turn his country into a modern industrial state, complete with a diversified industrial base totally controlled by the state. It was an ambitious undertaking. Vestiges of Egypt's past glories--associated either with Pharonic times or the Islamic Middle Ages--had all but disappeared. At the beginning of Mohammed Ali's rule, Egypt was in decay, and the country was barely surviving on a subsistence economy.[1,2,3]

Mohammed Ali's industrial revolution was characterized by the following conditions: (1) the prevailing system of communal ownership of land was replaced by individual ownership and large tracts of land were given to relatives or followers of Ali; (2) major irrigation works were undertaken to replace basin irrigation with perennial irrigation and to expand the cultivated area from 3.1 million acres in 1813 to 4.2 million acres by 1852; (3) planting of long-stable cotton was started on a commercial scale in 1821, and by 1845, 17 million pounds of cotton per year were being exported; (4) communications were developed mainly to facilitate foreign trade--for example, the improvement of the port of Alexandria and the canal linking it to the Nile; and (5) Ali monopolised trade by buying crops from farmers at low fixed prices and selling them to foreign exporters at great profits.[4] While these policies may have helped modernize Egypt, the more immediate profits of such

modernization accrued to the government--that was Mohammed Ali.

In addition to the above, however, one of Mohammed Ali's principle economic policies was to introduce modern industry to Egypt. The range of factories established during the years from 1816 to 1844 encompassed an incredible range of manufacturing, from elementary processing of agricultural commodities to the manufacture of consumer goods and construction of vessels for the navy. Weaving of cotton textiles was the major industry. Also, cotton ginning and rice milling were introduced as well as industries producing sugar and rum, dairy products, edible oils, indigo, linen, silk, woolen fabrics, books, paper, ropes, leather, glass, saltpeter, and sulphuric acid. Military arsenals produced swords, rifles, cannons, and gun powder. Furthermore, iron foundries fabricated many of the tools and simple machine parts used in the textile plants.[5,6]

This industrialization of Egypt was undertaken via a development coalition. At the beginning the involvement of foreigners was predominantly sought for the expertise they could contribute to the development of Egypt. Much of the success which took place in the industrial sector was attributed to the hiring of foreign managers and technicians and their training programs for local employees. These foreign managers and technicians were especially numerous in the arsenals, foundries, and cotton textile plants. Foreigners were employed to assist in installing new equipment, in imitating the simpler imported parts for local production, and in upgrading Egyptian manufacturing techniques. Furthermore, more than three hundred Egyptians were sent to Europe for training in new skills and about one thousand studied in the newly open schools

of medicine, engineering, chemistry, accounting, and military science.[7] A notable example of one of Mohammed Ali's early successes was the naval arsenal in Alexandria which was said to have created a "favorable impression," at least as long as it remained under the direction of its French founder.[8] In addition to recruiting foreign skills, Mohammed Ali provided his factories and arsenals with quality, imported machinery.[9]

Mohammed Ali's development coalition achieved some early successes, such as the Fous fez factory and the aforementioned Alexandria arsenal. By the early 1830s the domestic textile industry had succeeded in eliminating imports of low quality cotton and Indian muslims; and certain goods such as indigo and cotton yarns were exported.[10]

Despite Mohammed Ali's ambitions and his early successes, industrial modernization in Egypt was arrested in the succeeding generations. Within a few years, virtually nothing remained of Mohammed Ali's industrial dream. Various reasons and combinations of reasons have been put forward to explain this phenomenon. A significant factor contributing to this situation, however, was the increasing control foreign parties were to have over the Egyptian government itself.[11]

The coalition between the Egyptian government and foreigners was to continue far into the twentieth century. The nature of the coalition however, changed after the death of Mohammed Ali. With the Egyptian government becoming less "Egyptian" and perhaps as a consequence less concerned with industrial development within Egypt, the increasing participation--even domination--of foreign

investors in Egypt could be said to do little to develop the industrial base of the country in the long run. This betrayal of the spirit of the original development coalition would contribute to tensions between Egyptians and foreign investors as late as the Economic Opening in the 1970s.

The Development Coalition in Egypt: Phase 2, After Mohammed Ali

Ironically, the decline of the Ottoman Empire which allowed Egypt its relative independence under Mohammed Ali also caused Egypt's loss of independence to Europeans for more than a hundred years. Beginning in Mohammed Ali's reign, European powers began to play on the Ottoman's weakness, extracting agreements which secured rights for Europeans in Egypt and the Levant.[12] One such agreement removed Egypt's right to levy tariffs on imported goods thus destroying the country's ability to protect its own infant industries. Also, the 1838 Anglo-Turkish Treaty, abolished state monopolies and struck directly at Mohammed Ali's economic system.[13]

While Mohammed Ali had been able to keep the Ottomans at bay, the Europeans--predominantly British and French--were proving to be more aggressive. Britain and France were at a stage of imperial expansion and consolidation. Egypt, with its cotton growing potential and its strategic location along the trade routes to India and the Far East, was too attractive to ignore.[16]

Furthermore, whatever success and independence the Egyptian economy experienced under Mohammed Ali may be attributed [illegible] personality. He was not dissimilar to the entrepreneur who creates a viable business empire but is unable to establish a corporate

entity which will survive its founder. His successors proved to be considerably weaker rulers and provided the Europeans the opportunity they needed to take over the country. Mohammed Ali was succeeded by two rulers of relatively short reigns, Abbas (1849-1854) and Said (1854-1863). Both possessed little desire to continue the totalitarian policies of their predecessor. Abbas and Said were however succeeded by Ismail (1863-1879) who tried to reactivate state participation in economic life. French educated Ismail reinstituted large-scale public investment to modernize communications and extend arrable land; and he cooperated with the French to build the Suez Canal.[15]

Unfortunately many of Ismail's projects turned out to be of an ill-conceived nature. In addition, the ruler himself proved inept in dealing with his foreign creditors and an increasing debt. Ismail's large-scale investment policies were too extensive to be financed from government proceeds alone, and the country relied more and more on foreign borrowings. In fact, Ismail's investments were largely financed by loans obtained abroad. In addition, Ismail's court was hardly a Spartan one, and a high rate of royal consumption compounded a rapidly growing rate of public investment. The country was eventually unable to service its gargantuan debt.[16]

To try to avert a crisis in 1875 Ismail sold his personal shares of stock in the Suez Canal to the British government for just under four million pounds sterling.[17,18] Foreign creditors remained nervous, and Ismail was forced to agree to the creation of two international commissions. These commissions concluded that Egypt was in essence bankrupt. The first commission

established a dual-control system, whereby Egypt's revenue was supervised by a British official and its expenditures supervised by a French official. The second commission extended international control over the king's estates.[19]

Ismail, possibly encouraged by xenophobic unrest within the Eyptian army, attempted to defy his European trustees by dismissing the English and French financial supervisors. Britain and France, thereupon, appealed to the Ottoman sultan who duly informed Ismail that he was replaced by his son and heir, Mohammed Tewfik Pasha.[20] In the pursuing few years the British succeeded in out-maneuvering the French and establishing sole control by 1883.[21]

The purpose of British rule, at least ostensibly, was to restore order to Egyptian finances, placing priority on the payment of interest and the amortization of the national debt. Therefore, public policy dictated the retrenchment on all items of expenditures except investments which clearly and immediately benefited public revenues.[22] Subsidization or even protection of Egyptian industry was of no interest to the new administration. Instead, the world demand for cotton was high, and the British encouraged Egypt to adopt an economy almost exclusively devoted to the growing of this one product. Nearly all economic activities were geared to the financing, transport, trading, and, to a lesser degree, the processing of the cotton crop.[23]

The government assisted private enterprise in the area of cotton cultivation by building canals, dams and drainage systems. However, British colonial concerns did not look favorably on the creation of a local Egyptian textile industry.

British interests dictated that raw Egyptian cotton be sent to Manchester for manufacture into textiles which, in turn, were exported to Egypt. When an Egyptian-initiated eight percent rate of duty was imposed on British textiles, Lord Cramer, in his position as British Council General of Egypt, was able to effectively nullify the duty by imposing an eight percent excise tax on locally produced cotton textiles.[24]

The period in Egypt between the 1850s and the 1920s can therefore, be described as an export economy; or as the historian Charles Issawi summarized:

> The attempted leap from a subsistence to a complex economy had failed and instead the country had landed on the road leading to an export-orientated economy. Egypt could now be integrated, as an agricultural unit, in the worldwide economic system.[25]

While Egypt remained a predominately agricultural economy, a small and narrowly based industrial sector was beginning to emerge by the 1890s. This sector, however, was almost exclusively financed and owned by foreign companies and foreign residents, who mainly invested in cotton-related industries and consumer goods.[26] One reason for foreign dominance in industry was the "capitulation" system in effect in Egypt at the time. The Capitulation System granted foreigners preferential treatment over a wide range of investment opportunities--a phenomenon associated with a development coalition. In this case, the system was the outgrowth of original Ottoman concessions concerning Europeans within their domain combined with the ever-increasing European influence in the Middle East, especially Egypt.[27]

The Capitulation System, as well as a stable political system under the British, attracted foreign investment to Egypt.[28] In this sense, the development coalition was succeeding. By the early twentieth century, however, the coalition was experiencing strain. Nationalist feeling was aroused against the Capitulation System.[29] Although the export economy was supposed to pull Egypt out of debt and put the country on a sound financial footing, nothing of the sort occurred. The greater part of the country's export surplus was drained abroad either to service the public debt or to repatriate profits on foreign capital.[30] Furthermore, some Egyptians were beginning to question whether the development coalition was in fact contributing to national development.[31] It is not surprising, therefore, given the cyclical coalition model of development, that local private investors would begin to play an increasing role--beginning with the emergence of a capitalist coalition.

The Capitalist Coalition in Egypt

Between the two World Wars, Egypt's export economy was replaced by a new economic order based on import-substitution industrialization. Concurrently, a stronger national private enterprise was emerging in Egypt, and some Egyptians at least were regaining interest in the industrialization of their country. The result was the appearance of a capitalist coalition in Egypt.

Egyptian private investment in industry had previously been almost nonexistent. Local investors preferred the traditional sectors of agriculture and urban building. Their criteria for investment were based neither on risk nor expected return but

apparently emanated from social and political considerations. In predominantly agrarian Egypt, the privileged positions at the top of the social hierarchy were reserved for large landowners. Thus, investment in more and more land was of foremost consideration to those Egyptians in a position to invest money. Isolated cases occurred in which members of the agrarian bourgeoisie invested in industry, but these enterprises were usually undertaken with foreign parties and more often than not proved short-lived affairs.[32]

Toward the end of World War I some Egyptians, however, were worried about their country's economic vulnerability in relation to the West. Tied into the world economy by its heavy involvement in the cotton trade, Egypt's economic position fluctuated, for better or for worse, with world markets and political events. For example, a world cotton boom doubled the value of exported cotton between 1899 and 1906. The United States stock market crash in 1907, however, dried up financial resources in Europe and resulted in widespread bankruptcies in Egypt as well. Then the outbreak of World War I in 1914 caused another cotton boom. This boom in cotton prices abroad, along with the presence of Allied Forces in Egypt which provided incremental demand at home, ushered in another period of relative, though short-lived prosperity in Egypt.[33]

Even the Egyptian government, though still under British domination, was beginning to show signs of concern. In 1916 the government appointed a Trade and Industry Commission to present policy recommendations in the area of national industrialization. A year later the Commission published a report calling for an extensive drive toward import substitution. The report, however, had no perceivable effect on pursuant government policy.[34]

Nevertheless, one member of the Trade and Industry commission, Talat Harb, refused to abandon the joint goals called for by the Commission: industrialization and domestic capital participation in Egypt. In 1920 he joined several Egyptian financiers and businessmen to found Bank Misr, an industrial credit bank to aid domestic industries. Notably, these investors did not come from Egypt's aristocratic class of Turko-Circassian descent nor from the class of Egyptianized Europeans and Levantines, particularly Greeks, Armenians, and Jews, who had hitherto dominated all non-agricultural sectors of the economy which were not under direct foreign control.[35] Instead, the founders of Bank Misr were native Egyptians of a relatively recent landowning class.[36]

Bank Misr, the major contributor to the rising capitalist coalition, combined deposit and investment banking and floated companie together with foreign and Egyptian promoters. Despite the foreign participation the bank garnered a certain popularity as being a "purely national" institution and succeeded to a degree in attracting local money away from the traditional investment areas of commerce, land, and buildings.[37] If certain shares issues were not fully subscribed the bank absorbed them into its own Misr group portfolio, to be sold later when the new company had become better established. The bank also provided working capital and managerial and technical advise to its companies. The Misr group was involved in shipping, publishing, hotel and insurance firms as well as the production of chemicals, pharmaceuticals, and cement. Investments in food processing and textiles dominated, however.[38]

This new capitalist coalition was no meager force. Misr associated spinning and weaving companies came to produce sixty percent of Egypt's output and employ fifty-three percent of Egyptian labor in organized textile production.[39] The Misr complex, however, dominated the emerging Egyptian "big bourgeoisie." It is estimated that Bank Misr contributed to forty-five percent of the growth in paid-up capital of all Egyptian joint-stock companies between 1922 and 1938;[40] and directors of Misr companies frequently sat on the board of the bank as well.[41]

The Nationalist Coalition in Egypt: Phase I, Pre-Nasser

Capitalist coalitions, as stated in Chapter One, tend to be temporary, giving way to emerging nationalist coalitions. As local capitalists rise in power, their perceived need for foreigners decreases and they rally with local government to establish policies favoring local business and discriminating against foreign business.

By the early 1920s, the British were facing significant nationalist opposition to their rule in Egypt, and local private investors were in a position to benefit from increasing nationalist sentiment. Opposition to foreign rule was not a new thing in Egypt. Since Europe's foreclosure on Ismail, many Egyptians had questioned the validity of a whole nation paying for one man's excesses. Opposition movements had arisen before but had failed mainly due to their inability to attract and hold different interest groups within the Egyptian population. At the end of World War II, however, a new nationalist leader, Zaghoul, rallied these different elements and succeeded, with Britain's consent, in

establishing a parliamentary system in Egypt. In exchange, Britain retained discretion over the security of British imperial communications, the protection of foreign interests in Egypt, the administration of the Sudan and the defence of Egypt.[42]

Parliamentary life in Egypt was far from serene. Two main parties emerged. The pro-British Liberal Constitutional Party, composed of king and aristocrats, opposed the nationalist Wafd party. The Liberal Constitutional Party wanted the perpetuation of upper-class Egyptian influence. Consequently, it attempted to crush industrialization and with it, the growing political power of the industrial and technocratic group of the Egyptian bourgeoisie. The Wafd Party was comprised of professionals and intellectuals though later it became infiltrated by land-owners. This party broadly encompassed nationalist ideas from reformist Islam to liberal modernization along the lines of Kamal Atatürk. The contest between the parties were rarely fair. Whenever the Wafd won honest elections the king forced those elected to resign.[43]

Nonetheless, the Wafd wielded sufficient power to force the introduction of certain measures to protect and promote emerging Egyptian industry. The Wafd's slogan "Buy Egyptian!"[44] proved good for local enterprise, especially when backed by more concrete measures. Government participation in the supply of credit to industry began in 1922, when the Ministry of Finance deposited £E 50,000 with Bank Misr for loans to newly established firms which found difficulties obtaining short-term finance elsewhere. As the effects of world depression became more apparent in Egypt the government increased its involvement. By 1936, approximately

£E 1,000,000 of public money was being allocated annually to local firms at lower than market rates of interest. Bank Misr continued the administration of these funds until 1949, when the government established a separate Industrial Bank. Although loans were made available to newly established firms, other government policies encouraged the amalgamation of rival domestic producers. The government, in effect, did not believe in strengthening efficiency by fostering competition--even locally behind a tariff barrier.[45]

Also, after World War II, the government, pressured by Egyptian industrial interests, revised import duties to such a degree that whenever domestically manufactured products suffered from foreign competition, protection was afforded so as to make importation of the competitive product prohibitive.[46]

All was not smooth for the nationalist coalition, however. The anti-industrialization faction was able to introduce legislation as well. In 1947, industrial importers were required to obtain import licenses; and in 1950, a new tax on corporate profits was enacted.[47] By 1952, industry at best estimate represented only ten percent of Egypt's gross national product--having risen in 25 years from five percent.[48]

For better or worse in the eyes of its private partners in the nationalist coaliton, the Egyptian government still played a relatively insignificant part in the country's economic life. Government consumption and capital expenditure represented about one-eighth of national outlay. The state contributed only 16 percent

of gross domestic product, mostly in the traditional areas of defence, justice, and fiscal and social administration. State enterprises, including railways, postal services, gas and electric undertakings of the Cairo municipality and a petroleum refinery at Suez, accounted for a mere two percent of production. Only eight percent of the work force was engaged by the public authorities. Even the National Bank of Egypt, nominally the country's central bank, lacked the authority to influence either the volume or direction of lending by local financial institutions.[49] As the economist Patrick O'Brien remarked:

> Successive Egyptian governments from 1923 to 1952 displayed no strong disposition to force the pace of economic advance. Those years are certainly not marked by large and imaginative public projects, or by very positive governmental attempts to take the lead in the promotion of economic development. But in defence of the old regime it should be said that much of the energies of politicians came sadly to be diverted into a protracted struggle with the king and British embassy over sovereignity. Men struggling to establish a viable political system have little time for anything else...[50]

The Nationalist Coalition in Egypt: Phase 2, The Early Nasser Period

The period between World War II and the early 1950s was one of political upheaval in Egypt, when Egyptian nationalists were attempting to secure complete independence from Britain.[51]

Nonetheless, British forces remained entrenched in Egypt, until on the night of July 22-23 a group of Egyptian officers led by Lieutenant-Colonel Gamal Abdul Nasser took control of Cairo in a bloodless coup. This group of "Free Officers" declared

Egypt a republic, exiled the king and installed General Mohammed Naguib, a hero of the Palestine War, as head of state. Naguib, who acted primarily as a figurehead, was subsequently replaced in 1954 by Nasser, the real power behind the revolution.[52]

Nasser and the other Free Officers, which included Anwar Sadat, were all middle-ranking officers of rural origin, born between 1917 and 1922. There is general agreement that the Free Officers had no specific philosophy, though they expressed a determination to eliminate social, economic, and political injustice in Egypt.[53,54]

During the first two years after the coup, the Council of Revolution politically paralyzed the ruling class but allowed it to keep its economic power. This economic power lay primarily in the onwership of land. In 1952, 65 percent of cultivated land was owned by only six percent of Egypt's landowners. Nevertheless Nasser soon struck directly against this power base by enacting massive land reforms aimed at abolishing the social discrepancies and, hopefully, improving the stagnant state of Egyptian agriculture as well.[56]

Since land reforms were a blow against private property, industrialists in Egypt became uneasy. The new administration, however, hastened to reassure them that the government was not anti-business.[57] Nonetheless, local business was not to be immune from the fortunes of politics.

While Nasser believed that politics at home were counter-productive, he expected politics abroad to work to Egypt's advantage. Nasser saw foreign policy as his country's greatest resource. He developed a strategy of non-alignment, a policy soon to become

popular among many developing nations. With the Cold War at its height, Nasser saw nothing wrong with playing the West off against the communists, in order to garner for Egypt the best access to foreign aid. Nasser would not tolerate communists in Egypt, but he began to deal more and more with them overseas. By mid-1956, trade with communist countries accounted for 35 percent of Egypt's foreign commerce. In that same year, Egypt also arranged for substantial arms shipments from Czechoslovakia--a worrisome development to the West, and especially worrisome to Egypt's neighbor and enemy, Israel.[58]

In July, however, Nasser turned again to the West for aid in building the new Aswan Dam. Although aid had been previously offered for the building of the dam, Nasser was rebuffed on this occasion by both the United Sates and Britain on the grounds that the project was not financially viable. Nasser reacted to this rebuff by announcing the nationalization of the Suez Canal. During a speech in Alexandria on July 26, he declared that Suez revenues would be used to build the much-needed dam and refused to answer a call by maritime nations for an international conference concerning the canal.[59]

In the international confusion which followed, Israel--who had been suffering intermittent guerilla attacks from Sinai--chose in collusion with the United Kingdom and France to attack Egypt on October 29. Israel met with immediate successes; and on November 5, British and French forces, in defiance of Egypt, landed near Port Said to guarantee freedom of transit through the canal. The United Nations subsequently forced the Israelis, British, and French to withdraw and assisted Egypt with clearing and reopening

the canal. In retaliation for the part Britian and France played in the crisis, Nasser sequestrated all British and French property in Egypt.[60]

This attack on foreign business did not encompass local private enterprise--at least at the beginning. To the contrary, Egyptian industrialists prospered by the misfortune of their foreign competitors, especially when a breakdown in trade resulted in numerous British and French goods being excluded from the Egyptian market.[61]

Furthermore, the new nationalist government was enthusiastic about a nationalist coalition with local investors. The government set up a Permanent Council for Development of National Production with the close participation of private enterprise. The council formed policies in consultation with the private sector, especially Bank Misr.[62] This "close participation," however, was to prove a mixed blessing, and eventually the downfall of the nationalist coalition.

Early in 1956, the Egyptian government issued a new constitution. The constitution stated that private economic activity was to be free from state interference provided that it did not prejudice public interests or endanger the people's security, or infringe upon their freedom or dignity (article 8); economic development was to be planned (article 7); and capital should be at the service of the national economy (article 9).[63]

Presidential Decree No. 78 of January 1957 established a National Planning Committee to "prepare a long term plan for social and economic development which would mobilize public and

private effort." Two hundred officials plus experts from Holland, East Germany, and Norway were assigned to draw up a five-year plan to begin in 1960.[64]

The plan projected an annual rate of increase in industrial production of 16 percent, though Egypt was currently averaging only six percent. By the end of the plan period the share of the industrial sector of national income was expected to increase to 19 percent from eleven percent. The plan presented a lengthy, often contradictory set of priorities and listed 150 "carefully chosen" core projects. There was no information given as to the financing or execution of these projects. The plan called for net investment of £E 45 million a year, considerably above the then current gross investment.[65]

Defending the government's emphasis on rapid industrialization, the Minister of Industry, Dr. Sidky, remarked, "...the ingredients for industrialization are abundant in Egypt. We must realize that our lack of experience in the industrial field may drive us into exaggerated hesitation and cause us to refrain from taking positive steps."[66]

Although representatives of the private sector of the nationalist coalition were not consulted when devising the plan, they figured prominently in its foreseen implementation. Nearly all official publications and speeches stated or implied that the five-year plan represented a joint effort between the government and private enterprise. While the state planned to deliver 60 to 65 percent of the required capital formation, the private sector was expected to contribute significantly, as well as increase its output by

80 percent during the plan period. The National Planning Committee had studied domestic resources for development and decided that profits from organized business[67] provided half of Egyptian savings and "could be easily mobilized" for national development.

The Bank Misr group was made responsible for nearly half of private enterprise's role in the Development Plan, especially in the area of spinning and weaving projects. The government, in effect, was making use of its new-found power over the bank. At the beginning of the Suez Crisis there had been a run on the bank. The government had stepped in, guaranteeing deposits and repaying £ E 2,000,000 in debt, thus saving Bank Misr from bankruptcy. In return, the Ministry of Finance reorganized the bank's administration, acquired a percentage of share capital, and received the power to veto appointments to the bank's board of directors.[69]

This state encroachment at the heart of the Egyptian industrialists' center of power reflected the government's determination to work with private enterprise in a nationalist coalition--but increasingly on terms laid down by the state. In another statement, the Minister of Industry remarked:

> If capitalists were free to invest their capital in the industries they liked or were able to determine the place, volume and object of their projects in the manner they desired without control or supervision or guidance from the government, whose task it is to see that they avoid ways leading to risks and to protect them from the consequences of bad investment, great harm would befall the public welfare. It has been observed that this absolute liberty most often leads to the existence of industrial projects not needed in any way by the national economy.[70]

Private Egyptian investors were encouraged and expected to participate in the attempt at national economic development; but even before the plan went into effect, there were signs of uneasiness on the part of these investors.

The government noticed that its tax and other incentives to business, put into effect after 1952, were not working. Most investors put their money primarily into urban real estate, and the total investment in buildings rose from £E 40 million in 1954 to £E 59 million in 1958. Particularly the ample compensation paid to Egyptian landowners whose lands were being redistributed was largely invested in luxury building projects. These projects were attracting four times as much investment capital as all manufacturing industry. To discourage this "anti-social" investment, the government had passed a law in late 1956 making the erection or improvement of buildings costing £E 500 or more subject to license. Investment did not fall, however, until another law in 1958 reduced by 20 percent rents on all accommodations erected after September 1952. Nevertheless, investment which did not go into building did not necessarily go into industry.[71,72]

In the late 1950s and early 1960s, the nationalist coalition was under increasing strain. The ambiguous attitude of the Egyptian government towards private enterprise was becoming more negative. All major companies were nationalized and most of Egypt's industry was consolidated under the public sector. This abrupt change in direction came about as the result of two interrelated causes discussed below: (1) the state's disappointment in the private sector's contribution to its development plans, and (2) the failure and the consequent dissolution of the union between Egypt and Syria.

Unlike Egypt, Syria was a nation of small landowners and capitalists. It also had the most powerful communist party in the Middle East. The Syrian president, worried about the increasing power of the communists in his country, convinced Nasser to form a union of their two countries. Nasser's success at thwarting British and French interests during the Suez crisis had lent him great prestige in the Arab world; and, despite his economic tradings with east-bloc countries, he was vigilant against communism within his own domain. In February 1958, the union was established.[73]

One of the foremost advocates for the union had been Bank Misr. Egyptian industrialists feared that the national economy was becoming far too dependent on the Soviet Union, and they saw a chance to once again open Egypt to the West via Syria. They also believed that a merger with a country of small capitalists such as Syria would arrest further state expansion into the private sector.[74] Such intrusion into the private sector had taken several forms. At the beginning of 1958, the Ministry of Industry passed a law making the establishment, expansion, or change of location of any industrial plant subject to a license from the Ministry. Another law in 1959 fixed corporate dividends at no more than ten percent above the previous year and compelled corporations to invest in government bonds at a proportion of net profits equal to five percent.[75] In addition, a varied selection of laws were enacted to prevent the flight of capital, limit corporate profits and provide managerial position for members of the ruling military-bureaucratic establishment.[76]

When the union with Syria was consummated, Nasser and his ministers began to make more candid remarks concerning the perceived failure of business groups to cooperate fully with government plans and to discuss more radical views on the future of capitalism in the newly formed United Arab Republic.[77]

In February 1960, nearly two years to the day after the formation of the United Arab Republic, Bank Misr was nationalized. The official reason for the nationalization was the alleged threat by the bank to unload its portfolio on the Stock Exchange, thereby disrupting the capital market. To Nasser's increasingly suspicious mind, however, the bank had become a den of opposition to his revolution. The nationalization of Bank Misr was soon followed by others. In June, all newspapers became state-owned;[78] bus services were nationalized for failing to provide adequate service; and internal trade in tea and pharmaceuticals was brought under government control to stop "profiteering." The Ministry of Supply announced a program to build a chain of cooperative stores to compete with private shopkeepers, and the Ministry of Economy received the power to inspect the books of any joint-stock company suspected of being inefficiently managed.[79] Share prices on the Egyptian stock exchange were falling rapidly, and the business community was in a "state of gloom" wondering where the axe would fall next.[80]

With the increasing state of uncertainty about their position under Nasser's administration, Egyptian capitalists more than ever shied away from investing in local industry. This attitude, in turn, infuriated the government. By mid-1961, with the first

year of the Five-Year plan complete, it was obvious to the government that private investors were not willing to meet the responsibilities assigned them by the state.[81]

On July 19, 1961 the government declared that, "The fruits of production accrue to all citizens and not a minority. Hence, expanding the public sector is an expression of ownership of the majority, a right of which they have been deprived."[82]

A series of decrees immediately followed which radically altered the economy of Egypt. The cotton trade was fully Egyptianized and brought under close government control. All import-export houses were placed under much stricter state supervision. All remaining private banks and insurance companies were nationalized.[83] Forty-four companies in basic industries such as timber, cement, copper, electricity, and motorized transport were nationalized; and the state acquired 50 percent holdings in the capital of another 86 companies, mainly in commerce and light manufacturing. Owners of a further 147 companies were dispossessed of assets above individual shareholdings of a market value of £E 10,000, the rest being placed under public ownership.[84] All corporations were required to distribute a proportion of their profits to workers, taxes were raised, and maximum limits were set on the ownership of shares in Egyptian joint-stock companies.[85] Although compensation for nationalized assets was fixed at the price of each negotiable company share on the Cairo Stock Exchange, prices of shares were extraordinarily depressed due to expectations of nationalizations.[86]

Trying to extend these same controls over the more adamantly free-enterprise Syrians proved fatal to the United Arab Republic. The propertied classes in Syria, strengthened by popular unrest

in the country stemming from two consecutive bad harvests, staged a military coup on September 28, 1961 and declared Syria independent of the union with Egypt. Similarly members of the bourgeoisie in Egypt petitioned (unsuccessfully however) the country's Commander-in-Chief General Amr to end Nasser's dictatorship.[87]

The severence of the union with Syria was a severe blow to Nasser's pride and his position as honorary leader of the Arab World. Government reaction to perceived enemies at home was immediate. Representatives of many old ruling families were imprisioned and the property of several hundred members of the wealthy classes was sequestrated. In a speech on November 4, 1961, Nasser blamed the dissolution of the United Arab Republic on "reactionaires, capitalists, and feudalists."[88] By December, no less than 367 companies had been taken over by the government and placed under various state agencies.[89]

The State of Abeyance

For the next decade the tripartite relationship was in a state of abeyance in Egypt. The government, for the most part, no longer cared to work with private investors--foreign or local. The government slogan ceased to be "cooperation" and became "socialism." A new national charter was promulgated and a new popular organization, the Arab Socialist Union (ASU) was established as the country's single political party. Membership in the ASU was restricted. Fifty percent of Egypt's National Assembly had to be allotted to peasants and workers, and the government reserved the right to purge the ASU of undesirable persons. "Businessmen" and "merchants" together represented a mere six percent of ASU

membership.[90]

The Egyptian economy became increasingly dominated by the public sector during the 1960s. After the measures of 1961, two-thirds of the economy still fell under the private sector and 79 percent of commercial sphere was in private hands. Two years later, 80 percent of Egyptian industry had been taken over by the state.[91] By 1967, the government share in industrial value added was 64 percent; in firms employing ten or more people, this share was 90 percent.[92] Private enterprise remained significant only in retail trade, handicrafts, repair services, housing, the service sector, agriculture, and the smaller, less modern industries.[93] Wholesale trading dealing with international markets was totally in government hands. Although the private sector continued to dominate internal trade, the state owned several large wholesaling companies, and a growing public sector began to encroach on Egyptian retail shops.[94]

In 1964, the government restructured Egypt's banking industry. Existing banks were amalgamated into five companies. Each sector of the economy channelled its entire demand for credit and loans through a single bank, thereby ending competition between banks. The banks, on their part, could make no unsanctioned loans to the private sector. They were told where to lend and what to charge.[95]

Ostensibly all productive activity took place within the framework of a series of comprehensive plans: the ten-year plan, the five-year plan, and the annual plan. The Ministry of Industry oversaw nine General Organizations, holding companies which planned

and coordinated the activities of some 294 companies under their jurisdiction. In reality, the gargantuan state system appeared to be blundering by, rather than following any plan.[96] Historians and economists writing on Egypt largely agree with Patrick O'Brien's summary of the state system of that era, "With the extension of state power over every part of the economy, it is difficult to locate where decisions are taken and even harder to reveal the assumptions upon which they are based."[97]

With the public sector expanding in Egypt and the state's emphasis on industrialization, industry's share of gross national product swelled to 23 percent in 1966, only five percent less than that of agriculture.[98] Even so, the growth rate of industry fell short of projection in the first five-year plan. A few industries remained competitive, primarily because local materials represented a high proportion of total value added as in sugar and cement production; or, in some cases, due to improved technology such as the manufacture of fertilizers and tires.[99] For most of industry, however, productivity was down. Output per man hour dropped 5.5 percent in the period between 1963/1964 and 1969/1970.[100]

This fall in productivity was due to a variety of causes: shortages in capital and foreign exchange, misallocation of investment resources, and new wage and employment policies. The rate of saving in Egypt had not increased during the 1960s. With public consumption up 90 percent and private consumption up 37 percent, investment was made possible only by increasing foreign, especially Soviet, debt.[101] The defense budget was a considerable drain on the state treasury. In order to regain prestige after the dissolution of the United Arab Republic, Nassar undertook a drawn-

out, financially draining, and eventually unsuccessful war in Yemen. The subsequent Egyptian defeat in the June 1967 War against Israel caused even more money and foreign exchange to be directed from economic development to the military. At the same time, in an attempt to broaden Egypt's industrial structure, the government starved traditional industries such as textiles. Resources were allocated instead to sophisticated high-prestige industries such as steel and automobiles, although viable, economic scales of production of such products required output levels considerably in excess of Egypt's own market demand.[102] In addition, industry was saddled with increasing employee benefits, such as guarantees against dismissal, a maximum seven-hour workday, health and accident insurance, and pensions.[103]

The Egyptian economy was further undermined by widespread corruption.[104] A large number of army officers, engineers, and economists had suddenly found themselves in full control of major portions of the economy. This new "state bourgeoisie"[105] only retained power and wealth as long as their posts were kept. The resulting instability led such officials to establish personal ties throughout the government, reinforcing a mutually beneficial labyrinth of corruption. Thus public capital flowed to Arab and Western banks or into the few remaining areas of non-controlled investment. In addition a black market in state goods was rampant. The remnants of Egypt's capitalist class were also involved--buying licenses, building permits, and state contracts. Their position was most precarious, however, and they often served as scapegoats for scandals.[106] Nasser, himself a man of relatively modest living,

was not adverse to the corruption around him, particularly at high levels. Instead, evidence of such corruption gave him leverage over his ministers, assuring their personal loyalty to him.[107]

Whatever the various reasons for the depressed state of the Egyptian economy by the beginning of the 1970s, President Sadat chose to attack the problem by ending the state of abeyance which had proved unsuccessful and soliciting foreign investment. Thus, the coalition cycle would begin again with, predictably, a development coalition and an attempt to attract foreign investment to Egypt.

Development of Business Forms in Egypt[108]

Since later analysis of investment patterns under President Sadat's Economic Opening will be concerned with business forms as an indicator of project ownership and management, it is appropriate to look at the development of business forms in Egypt in conjunction with the broader history of Egyptian business.

In the early 1950s, Egypt, like many developing countries, was about a century behind Europe and the United States in defining and establishing the legal position of various business forms. Non-person enterprises or "money" companies which have a legal existence independent of their owners, such as limited liability or joint-stock companies, were relatively few but increasing in number. The ensuing nationalizations and the demise of private enterprise in Egypt, however, handicapped further development in this area.

Western legislation, largely French, had been introduced in the nineteenth century to govern commercial transactions in Egypt. Most business enterprises in Egypt were not companies. Instead, they were personal enterprises, general partnerships, and limited partnerships. In a personal enterprise, a single individual was liable for the company's obligations. Similarly, in a general partnership, all partners were liable. In a limited partnership one or more partners carried this responsibility, but other partners were liable only to the extent of assets specifically contributed. The interests of such secondary partners were protected by certain rights of inspection and supervision but they were forbidden active participation in management. These enterprises were relatively informal, easy-to-establish organizations where ownership and management were coupled, and owners were most often relatives, friends, or neighbors.

Companies on the other hand, were less common in Egypt. Such companies, especially joint-stock companies, have played an important part in the development of capitalist societies. Large numbers of investors can invest with limited liability in projects requiring large capital and an extensive period of implementation. Capital is divided into negotiable shares and owners liability extends only to their investment. Also, juristic persons as well as natural persons can establish joint-stock companies; e.g., the case of two companies forming a joint venture. The individual investors are not required to be involved with the day by day operations of the project. Nonetheless laws protect, or attempt to protect, investors from exploitation by unscrupulous management.

In 1954, Law 26 Concerning Joint-Stock Companies, Partnership Limited by Shares,[109] and Limited Companies, was promulgated. Before Law 26 there had been no comprehensive law regulating joint-stock companies in Egypt.[110]

At that time nearly all joint-stock companies were owned by the private sector. The government participated only in exceptional cases such as the Industrial Bank and banks established for the purpose of providing agricultural loans. The primary purpose of the law, therefore, was to encourage private investment in joint-stock companies by defining, in fact limiting, the power of management in order to protect the investors. In personal enterprises and partnerships where investor and management were largely one and the same, personal and company assets often became intermingled. This was especially the case in situations where the government was not wholly trusted and taxes were perceived to be high or even arbitrary, as was the case in Egypt. Under these circumstances the owner-manager could achieve a higher lifestyle by padding company expenses with personal expenses, thus helping to keep taxable "profits" down. Investors in joint-stock companies could not easily benefit from this system and preferred instead to see profits as high as possible.

Besides defining the proper sphere of management, and its accompanying expenses, Law 26 covered a variety of other issues pertaining to joint-stock companies. It established a minimum of seven founders and a minimum paid-up capital of 20,000 Egyptian pounds. It prohibited the issue of negotiable bonds for a value exceeding that of paid-up capital shares

subscribed by founders were non-negotiable for a period of two complete financial years in order that a better assessment of their value could be made by the market. The law further required that the majority of the board of directors be Egyptian, excepting companies where the capital was totally or predominantly foreign. There was criticism of Law 26 at the time of its promulgation, especially the requirement that made it necessary in most cases of obtaining permission from the Executive Authority in the form of a Presidential Decree to establish a joint-stock company. However, Bank Misr contributed actively to suggestions pertaining to the draft law and the Ministry of Commerce amiably complied to most of these.[111]

Between the years 1958 and 1963 a number of basic amendments were added to the law as a result of nationalization and the need to adjust the law for application to the public sector. Rules concerning conflict of interest were particularly tightened. No individual, either on his own account or in the capacity of representative, could be a member of the board of directors of more than one company. (The original text allowed up to six companies.) No person could be managing director of more than one company. (The original text allowed two companies.) In any case, no managers or director of a company could trade in a competing line. An amendment in 1958 added that no board member of the Central Bank or any joint-stock company in which the government or public utilities participated could personally be a member of the board of any other joint-stock company without Presidential permission. In 1961, five percent of net profits were required for the purchase of government bonds. Of the remaining profits, 75 percent were to

be distributed to shareholders (in most cases, the government) and 25 percent to workers and employees. A maximum remuneration in any form was fixed at 5,000 Egyptian pounds for the chairman of the board, the managing director, and any other members of the board; and the mandatory retirement age for directors was reduced to sixty years. In 1966, a new law regulating public sector companies was promulgated, superceding Law 26 of 1954. Law 26 remained, however, encumbered by the new public sector amendments.

Between 1962 and January 1977 only 18 joint-stock companies and 91 limited liability companies were established in Egypt. The relative popularity of limited liability companies over joint-stock companies was probably due to a minimum capital requirement of only 1,000 Egyptian pounds, although recent history of nationalization of joint-stock comapnies may also have had a bearing on decisions of investors. During the same period, however, newly established limited partnerships numbered 5,910 and general partnerships 28,844.[112] The establishment of these companies required no deposit of any portion of capital; no advertisement in the Official Gazette; nor were they governed by Law 26 of 1954.

By the early 1970s, the remnant of Egypt's private sector had retrenched into traditional, small,[113] closely held, investor-manager enterprises which had become, with justification, highly suspicious of the government.

Conclusion

Even before President Sadat ascended to rule in Egypt, the country had already been once through a coalition cycle. As suggested in Chapter One, going through a coalition cycle only helps to heighten tension within the tripartite relationship. Memories of disappointing and failed coalitions can increase mistrust among the three parties involved.

Egyptians could look back on a previous development coalition which was the antithesis of its name--a coalition further tainted by association with colonial rule. Local private investors and their government were highly distrustful of one another as well, and potential foreign investors in Egypt could be highly wary of a country whose government had recently participated in both xenophobic and general nationalization and anti-business measures. Despite the aspiration of the new Economic Opening to foster cooperation to the benefit of all parties, Egypt as it entered the 1970s still had to face reality and deal with the legacy of distrust left it by its first experience with the coalition cycle.

Notes to Chapter 3

1. Carr, David William, Foreign Investment and Development in Egypt, (New York: Praeger Publishers), 1979, p. 12.

2. The reasons for Egypt's economic stagnation under the Ottomans is subject to debate. One theory attributes it to changes in the routes and patterns of international commerce which deprived the economy of the benefits of transit trade in spices. Another theory claims that the root of the problem stems from the Black Death in the fourteenth century. (Mabro, Robert and Samir Radwan, The Industrialization of Egypt 1939-1973: Policy and Performance, [Oxford: Clarendon Press, 1976], p. 11.)

3. Mohammed Ali's motives in undertaking such an attempt at economic revolution and modernization were probably complex. One reason could well have been a military consideration. Despite the independence Egypt enjoyed, its political position vis-à-vis the Ottoman Empire remained ambiguous; and Mohammed Ali realized that modern military power required a certain degree of national control over the production of modern arms and military equipment. Indeed, a significant amount of Egypt's new industry was orientated to supplying the military. Secondly, an element of personal greed cannot be discounted. Mohammed Ali and his entourage garnered substantial profits from "government" monopolies in agriculture, industry, and trade. However, in an interview in 1837, Mohammed Ali claimed that it was rather for the purpose of accustoming his people to manufacture than for any profit which could be expected that he continued his manufacturing operations. (Bowring, John, "Report on Egypt and Candia," British Parliamentary Papers, No. XXI, 1840.)

Whatever his ancillary reasons, Mohammed Ali did exhibit a vision unusual in his age that economic advancement for his country would require the modernization of agriculture and the creation of modern industries.

4. Carr, Foreign Investment in Egypt, p. 12.

5. A more complete list of factories and their products was compiled by Mabro and Radwan in Industrialization of Egypt, pp. 14-15.

6. Total investments in industrial establishments at that time is estimated to be about £12 million, financed by trade monopoly profits,taxation, and forced loans. If this estimate is correct, the ratio of industrial investment to export earnings during this period was 36 percent, much higher than in any other phase of industrialization in Egypt. This estimate was forwarded by Ahmad el-Hitta (Economic History of Egypt, [Arabic], Cairo, 1957, p. 174). Mabro and Radwan explain that while this figure is frequently quoted it is of uncertain reliability. Nonetheless, they agree that investment during this period can be regarded as considerable. (Industrialization of Egypt, p. 16).

7. Carr, Foreign Investment in Egypt, p. 13.

8. Mabro and Radwan, Industrialization of Egypt, p. 16.

9. Ibid.

10. Ibid.

11. Proponents of laissez-faire economics saw in early nineteenth century Egypt an example of the inefficiencies of monopolies and state administration. Other writers blamed these inefficiencies on labor shortages, the lack of a local source of energy, or, simply, corrupt administration. Whatever the causes of industrial inefficiencies under Mohammed Ali, the quality of most goods manufactured in Egypt was lower and their cost higher than comparable goods made in Europe. Most infant industries, however, do not compare favorably in quality or cost-efficiency with their established competition. Had Egyptian industry received a longer period of protection and possibly subsidization, it may have become economically

viable. However, industry had to compete with agriculture, public works, education, and the military for scarce resources. In the meantime, European interests--as discussed in the text of Chapter 3-- were becoming more actively involved in the fate of the Egyptian economy and contributed to a slowing of industrialization. (Mabro and Radwan, Industrialization of Egypt, p. 17.)

12. Carr, Foreign Investment in Egypt, p. 15.

13. Ibid., p. 13.

14. O'Brien, Patrick, The Revolution in Egypt's Economic System: From Private Enterprise to Socialism, 1952-1965, (London: Oxford University Press, 1966), p. 45.

15. Ibid.

16. Ibid.

17. It is interesting to note in this context that France's policy at the time was to regard the Suez Canal as a French enterprise, since the promoter, the board of directors, most of the employees, and the majority of subscribers were French. (Al-Sayyid, Afaf Lufti, Egypt and Cromer: A Study in Anglo-Egyptian Relations, [London: Oxford University Press, 1977], pp. 1-2.)

18. A more in-depth history of European involvement during the early years of the Suez Canal can be found in Al-Sayyid, Egypt and Cromer, pp. 1-8; and Bowie, Robert R., Suez 1956, (London: Oxford University Press, 1974), pp. 1-7.

19. Al-Sayyid, Egypt and Cromer, pp. 3-4.

20. Ibid., p. 2

21. Girgis, Maurice, Industrialization and Trade Patterns in Egypt, (Tubingen: Mohr, 1977), p. 6.

22. O'Brien, Revolution in Egypt's Economic System, p. 45.

23. Mabro and Radwan, Industrialization of Egypt, p. 19.

24. Radwan, Samir, Capital Formation in Egyptian Industry and Agriculture: 1882-1967, Ithaca Press, 1974), p. 177.

25. Issawi, Charles, "Egypt Since 1800: A Study in Lop-Sided Development," Journal of Economic History, 21 (March 1961), pp. 7-8.

26. Mabro and Radwan, Industrialization of Egypt, p. 19.

27. Al-Sayyid, (Egypt and Cromer, pp. 5-6) writes concerning the Capitulations:

> Originally priveleges of extraterritoriality granted in the fifteenth century to foreign merchants in the fields of law, taxes and tariffs, these eventually became an instrument of exploitation in the hands of the European Powers. Because of the Capitulations the Egyptian government never enjoyed complete control over its territories, because no law passed in Egypt could be applied to aliens unless their government accepted it... Under the protective mantle of the Capitulations, and often with the complicity of their Consuls, aliens could commit any form of crime with impunity... Alien residents in Egypt were not taxed, merely because they refused to pay taxes...

28. Girgis, Trade Patterns, p. 9; and Mabro and Radwan, Industrialization in Egypt, p. 19.

29. Al-Sayyid, Egypt and Cromer, p. 5.

30. During the period 1884 through 1914, a balance of trade surplus was constantly wiped out by payments of interest abroad. Also, new inflow of private investment amounted to £E 34.8 million during this period against a net public and private outflow of dividends and interest amounting to £E 111.3 million. (Mabro and Radwan, Industrialization of Egypt, p. 20.)

31. Sources are established for this conclusion in the following section of the text.

32. Girgis, Trade Patterns, p. 7; Mabro and Radwan, Industrialization in Egypt, pp. 21-25.

33. Girgis, Trade Patterns, p. 10.

34. Ibid.

35. In 1907 and 1914 paid-up capital in joint stock companies held abroad totalled 65.3 percent and 71.2 percent respectively. The rest was held by foreigners in Egypt and only to a very limited extent by nationals. (Girgis, Trade Patterns, p. 7.)

36. Taucher, Frank, Ed., Political Elites and Political Development in the Middle East, (New York: John Wiley and Sons, 1975), p. 82.

37. Girgis, Trade Patterns, p. 11.

38. Ibid.

39. Girgis, Trade Patterns, p. 11; and O'Brien, Economic Revolution, p. 92.

40. Girgis, Trade Patterns, p. 11.

41. O'Brien, Economic Revolution, p. 92.

42. Al-Sayyid, Egypt and Cromer, p. 6.

43. Baker, Raymond William, Egypt's Uncertain Revolution Under Nasser and Sadat, (Cambridge, Massachusetts: Harvard University Press, 1978), p. 6; and Girgis, Trade Patterns, p. 16.

44. Girgis, Trade Patterns, p. 11.

45. O'Brien, Economic Revolution, p. 56.

46. Girgis, Trade Patterns, p. 15.

47. Ibid.

48. O'Brien, Economic Revolution, p. 56.

49. Ibid., pp. 59-60.

50. Ibid., p. 66.

51. Economic conditions created by World War II both helped and hindered industrial development in Egypt. Supplies of capital equipment, spare parts, and raw materials were hurt by the War. On the other hand, industrial output was encouraged by a local population increase and local expenditures by the Allied Forces in Egypt and the 200,000 Egyptians employed by them. (Girgis, Trade Patterns, p. 12.)

52. Mansfield, Peter, Nasser's Egypt, (Baltimore: Penguin Books, 1965), pp. 42-43, 50-51.

53. Girgis, Trade Patterns, p. 18.

54. The Free Officers had taken control without popular participation and Nasser himself was inclined to be disillusioned with the masses and with politics in general--with its factions and disagreements, compromises and loss of time. Nasser wanted to establish the idea of Nationalism in place of the idea of Politics.

To this end, the Free Officers excluded members sympathetic to any major trend of political thought. Instead, the army, with its military discipline, was expected to supply the organization needed in the country. (Baker, Nasser and Sadat, pp. 38-39.)

55. Hussein, Mahmoud, Class Conflict in Egypt: 1945-1970, (New York: Monthly Review Press, 1977), p. 99.

56. Baker, Nasser and Sadat, p. 7.

57. Originally, Nasser based his plan to develop Egypt on the cooperation of both local and foreign private industrial interests. In fact, he inaugurated his own open-door policy, providing certain guarantees to foreign investors. Among the incentives offered in 1953 were: (1) a generous package of five-year tax exemptions offered to new investment projects and expansions; (2) the raising of the allowed foreign participation rate in capital stock from 49 percent to 51 percent; (3) a revised tariff structure, penalizing competitive foreign products, but lowering rates on raw materials and investment goods. (Baker, Nasser and Sadat, p. 7; and Hussein, Class Conflict, pp. 96-97.)

Virtually nothing came of this overture, however. The uncertainty surrounding political turmoil probably deterred action on the part of foreign investors--as President Sadat was to discover anew in the 1970s.

58. Bowie, Suez, pp. 10-11.

59. Ibid., pp. 53-67, 60.

60. Ibid., pp. 78-79.

61. Hussein, Class Conflict, p. 158.

62. Girgis, Trade Patterns, pp. 19-20.

63. O'Brien, Economic Revolution, p. 85.

64. Ibid., p. 86.

65. Ibid.

66. Ibid.

67. Retained earnings of the "non-organized" business sector--individuals, partnerships, and small-scale private companies--were usually ploughed back into the enterprise. (Ibid., p. 88.)

68. Ibid., pp. 88, 104, 110.

69. Ibid., pp. 92-93.

70. Ibid., p. 89.

71. Nutting, Anthony, Nasser, (London: Constable and Company, Limited, 1972), p. 295; and O'Brien, Economic Revolution, pp. 87-88.

72. The Egyptian government was experiencing the recurrent phenomenon that investment, though relatively easy to discourage, is harder to encourage.

73. Perlmutter, Amos, Egypt: The Praetorian State, (New Brunswick, N.J.: Transaction Books), 1974, p. 145.

74. Nutting, Nasser, p. 296.

75. O'Brien, Economic Revolution, p. 89.

76. Binder, Leonard, In a Moment of Enthusiasm: Political Power and the Second Stratum in Egypt, (Chicago: University of Chicago Press, 1978), p. 306.

77. O'Brien, Economic Revolution, p. 124.

78. Censorship of the press already prevailed. (Ibid.)

79. Nutting, Nasser, p. 296; and O'Brien, Economic Revolution, pp. 125-126, 129.

80. O'Brien, Economic Revolution, p. 126.

81. Ibid.

82. From speech by Abdel-Kader Hatem, State Minister, on July 19, 1961 (Information Agency, Socialist Laws, 1961-1964, Cairo, 1966), p. 6.

83. The earlier Egyptianizing of foreign banks, insurance companies, and commercial agencies had compelled these institutions to convert themselves into domestically owned joint-stock companies within five years. In reality, the principal ones were taken over by the government. (O'Brien, Economic Revolution, pp. 95-96.)

84. Joint ownership proved untenable, however, and most of these companies were fully nationalized in 1963 or 1965. (Ibid., p. 134.)

85. Binder, Moment of Enthusiasm, p. 306; and O'Brien, Economic Revolution, p. 130.

86. O'Brien, Economic Revolution, p. 209.

87. Binder, Moment of Enthusiasm, p. 307.

88. Ibid.

89. Nutting, Nasser, p. 297.

90. Binder, Moment of Enthusiasm, pp. 308-310, 316.

91. Nutting, Nasser, p. 299.

92. Carr, Foreign Investment, p. 25.

93. Ibid., p. 23.

94. O'Brien, Economic Revolution, pp. 184-185.

95. Ibid., pp. 182-183.

96. Ibid., p. 165.

97. Ibid.

98. Issawi, Charles, "Growth and Structural Change in the Middle East." The Middle East Journal 25 (Summer 1971), p. 316.

99. Carr, Foreign Investment, p. 26.

100. Mabro and Radwan, Industrialization of Egypt, pp. 147, 183.

101. Vatiokis, P.J., Nasser and his Generation (London: Croom Helm, Limited, 1978), p. 45.

102. Carr, Foreign Investment, p. 29.

103. Hussein, Class Conflict, p. 177.

104. Widespread corruption at all levels of government has been credited with establishing relative political stability in countries other than Egypt. Mark Siebel, reporting for the Dallas Times Herald on recent corruption scandals in Mexico, remarked:

> Most political observers in Mexico believe that corruption is an integral part of the delicate political balance that has allowed Mexico to be ruled for the last 50 years with a stability rare among Latin American nations. Violent power struggles have been avoided, the common wisdom

goes, because everyone knows that if they just play along they will get a slice of the public treasury pie.

(The Guardian, Thursday, August 27, 1981, p. 7.)

105. This term is apparently used by Egyptian Marxists such as Mahmoud Hussein. (Class Conflict.)

106. The subject of corruption is covered more thoroughly by Mahmoud Hussein (Class Conflict, pp. 190-195.) Although Hussein is a self-avowed Egyptian Marxist, his views concerning widespread corruption in Egypt are not disavowed by most Western writers, even those apparently more sympathetic to the Nasser regime, such as Anthony Nutting.

107. Nutting, Nasser, p. 304.

108. Information for this section was gathered from interviews with government officials and Egyptian businessmen, and from (a) El-Shalakany, Ahmed, "Proposed Amendments to the Law Governing Joint Stock Companies," Paper prepared for Workshop on Proposed Changes to Law No. 43 of 1974, 26 February 1977, Cairo, Egypt; (b) General Authority for Investment and Free Zones, Guide to Investment in Egypt, Cairo, Egypt, 1977; and (c) Gahnem, Hafez and Dina Dakrowry, "A Review of the Economic Effects of Changes in the Companies' Law," General Authority for Investment and Free Zones, Cairo, Egypt, 1980.

109. Partnerships Limited by Shares are generally conceded to possess the worst legal qualities relating to both partnerships and companies. They must operate by the same rules as joint-stock companies while having one or more partners assume full liability. Consequently they were not a popular form. Between 1962 and 1980, only twelve such companies were established, and only one of these under Law 43. (Ghanem and Dakrowry, "Changes in the Companies' Law," p. 14.) They will, therefore, be largely disregarded for the purpose of this study.

110. Prior to Law 26 of 1954, there had been general provisions for joint-stock companies in the Commercial Code. There were also pertinent decisions by the Council of Ministers in 1899, 1906, 1923, and 1927. The decisions, however, did not carry force of law. In 1947, Law 138 Concerning Certain Provisions for Joint Stock Companies was promulgated. Still, this law did not contain detailed regulations. (El-Shalakany, "Proposal Amendments," p. 5.)

It should be noted that Law 26 of 1954 was also applicable, save where excepted, to joint-stock companies under the Investment Law 43 of 1974.

111. Limited liability companies were closely held ventures not exceeding fifty shareholders, and excepting under Law 43 of 1974, the shareholders were required to be physical persons. Shares could not be subject to public offering, and limited liability companies were excluding from banking, insurance, receiving deposits, or engaging in general investment funds for others.

112. Ghanem and Dakroury, "Changes in the Companies' Law," part 2, pp. 1-3.

113. It was reported that even in 1978, only two to three percent of the 150,000 small private companies employed 50 or more workers. "Special Report: Egypt," <u>Middle East Economic Digest</u> 22 [May 1978], p. 23.

PART II:

EGYPT'S ECONOMIC OPENING

Chapter 4

THE BUILDING AND FOUNDERING OF THE DEVELOPMENT COALITION

On June 19, 1974, President Anwar Sadat of the Arab Republic of Egypt signed Law No. 43 of 1974, "Concerning the Investment of Arab and Foreign Funds and the Free Zones." The new law, as its name implied, outlined the conditions under which foreign investment could be undertaken within Egypt, either inland or within designated free zones.[1]

Egypt's economy was facing near disaster. By the signing of Law 43, President Sadat underlined a belief that an influx of foreign capital investment combined with technical and managerial know-how was necessary to stimulate economic growth and development within Egypt. Consequently, the Egyptian government decided to offer incentives via Law 43 to foreign investors interested in establishing projects in the country, thus attempting to initiate a development coalition between government and foreign investors. Nonetheless, the government was anxious that the new development coalition would result in development for the country and not simply an opportunity for foreigners to make money at a perceived cost to Egypt. Thus, the government aimed at being relatively selective as to which foreign investment projects it in fact permitted.

Serious foreign investor response failed to materialize on a large scale, thus threatening the eventual success of a development coalition. The reasons for this lack of response

were varied, but not altogether unpredictable. Egypt's incentives were not as attractive to foreign investors as the government may have originally believed. Egypt's cumbersome bureaucracy apparently alienated some foreign investors, while political uncertainty within the country and the region worried others. Potential investors who actually undertook to establish projects faced an often long and difficult approval process.

The Egyptian government attempted to address these problem areas in order to stimulate the foundering development coalition. Changes were made in the original foreign investment law resulting in more concessions to potential foreign investors. Certain internal political changes aimed at streamlining the investment approval process. Even Egypt's peace treaty with Israel and a political rapprochement with the West in general and the United States in particular presented hope that investors' concerns with political risk might be allayed. Still, the development coalition in which the government had placed such high hopes continued to languish and eventually eroded as it was replaced by a capitalist coalition.

Reasons for the Re-Establishment of a Development Coalition

As stated in Chapter Three, the latter years under President Nasser when there was little local private investment in industry and hardly any foreign investment were marked by a drop in industrial productivity. Furthermore, Egypt faced a number of interrelated political and economic problems.

During its first Five Year plan, 1960-1965, Egypt produced an annual GNP growth rate of approximately six percent. The balance of trade, however, fell below target. The country failed either to curtail imports significantly through import substitution or to generate new export markets. Exchange difficulties were aggravated by increasing expenses payable in hard currency for military forces deployed to the Yemenese War and the grain imports needed to feed Egypt's burgeoning population.[2,3] Also, while over sixty percent of Egyptian exports went to the Soviet Union or Eastern Europe, less than half the country's imports came from the East Bloc.[4] Hard currency was siphoned away from industrial development to meet the more immediate demands. Some industrial projects languished from lack of raw materials or supplies, while others could not be rejuvenated. Overpriced Egyptian goods of inferior quality failed to sell in hard currency markets.[5] Egyptian goods were also closed out of hard currency markets by an uncompetitively high exchange rate maintained to finance Egypt's "essential imports."[6]

The June 1967 War worsened the situation in Egypt. The war caused the loss of two hard-currency earners, the Suez Canal and the Sinai oil fields, and caused a sharp decrease in a third, tourism, due to perceived political instability in the region.[7] Furthermore, military expenditures grew dramatically after the 1967 defeat,[8] with Egypt's major exports being placed "in hock" for Soviet arms purchases.[9] These hard currency losses were only partially offset by Arab aid in the form of annual subsidies

to Egypt from Arabia, Kuwait, and Libya.[10]

Egypt had also contracted a substantial external debt to help pay for development and military preparedness. In 1974, the year Law 43 was promulgated, servicing this debt alone amounted to £E 170 million, nearly 45 percent of the total value of Egypt's exports that year.[11]

President Nasser himself is reported to have realized towards the end of his regime that his socialist economic experiment was a failure.[12] His successor, President Sadat, from his ascendency to power in 1970 began to take steps to introduce a new economic policy. Unhappy with his country's dependence on the Soviet Union and its isolation from Western technology and markets, President Sadat purged his government of pro-Soviet figures in May 1971. and expelled Soviet military missions in July 1972.[13] Concurrently, a new foreign investment code, Law 65 of 1971, was introduced to attempt to attract foreign investment to Egypt,[14,15] and in August 1973 the Egyptian government announced that foreign investors were invited to set up industries for such products as small cars, electric motors, and textile equipment.[16,17]

The new drive to attract foreign investment to Egypt was hampered by the reality that part of the country was occupied by foreign forces and as such the nation remained on a war footing. If the status quo and its concurrent, austere war economy were to be changed, President Sadat could choose either capitulation to Israel via a diplomatic arrangement or a military campaign to free Sinai from occupation. In October 1973, President Sadat

ordered Egyptian forces to attack Israeli positions across the Suez Canal.[18]

The results of the October War and its implications for the re-establishment of a development coalition are described by John Waterbury:

> The October War of 1973 had direct and mainly positive implications for the Egyptian economy. By breaking the military stalemate and catalytically provoking the Arab embargo on sales of oil to the United States, Sadat was able to draw Washington directly into the process of looking for a rapid settlement to the Arab-Israeli conflict. To bring about a negotiated settlement in light of Egypt's and Syria's limited but highly significant military success would require the "even-handedness" that the Nixon administration had pledged but never applied in its Middle East policies. Having proved Egypt's willingness and determination to fight for its occupied territories, Sadat felt more secure in suggesting that a logical outcome--given a settlement--would be a rapprochement with the West in general and the United States in particular. Part of that rapprochement would certainly consist in renewed and expanded trade relations and the opening of the Egyptian economy to Western technology and investment.[19]

Indeed, in 1974 Richard Nixon became the first American president to visit Egypt. In a joint communique, Presidents Nixon and Sadat expressed their enthusiasm for economic partnership between their two countries:

> The United States regards with favour and supports the ventures of American enterprises in Egypt. It is noted that such ventures currently being negotiated are in the fields of petrochemicals, transportation, food and agricultural machinery, land development, power, tourism,

> banking, and a host of other economic sectors.
>
> The estimated value of projects under consideration exceeds $2 billion.[20] American technology and capital combined with Egypt's absorptive capacity, skilled manpower and productive investment opportunities can contribute effectively to the strengthening and development of the Egyptian economy.[21]

Ironically, while the October War may have encouraged the Economic Opening in Egypt, the war also served to necessitate it. If the Egyptian economy was suffering before the war, the sixteen-day battle exacted an expensive toll;[22] and in President Sadat's own words:

> So that I can give you an idea of what the Opening is all about, I must go back to the 4th of Ramadan of last year [October 1, 1973] six days before the battle... we had reached the "zero stage" economically [marhalat assifr] in every sense of the term. What this meant in concrete terms was that I could not have paid a penny toward our debt installments falling due on January 1 [1974]; nor could I have bought a grain of wheat in 1974. There wouldn't have been bread for the people, that's the least that one can say... But as soon as the battle of October 6 was over, our Arab bretheren came to our aid with $500 million... and this sum would never have come had we not taken effective action as regards the battle. But despite these dollars, we are now in the same situation we were a year ago, perhaps worse.[23]

Government's Vision of the New Development Coalition

Concurrent with Nixon's visit, Law 43 was promulgated. Its package of incentives to foreign investors in approved projects included guarantees against expropriation and nationalization;

a five-year tax holiday on profits; exemptions from import duties; and allowances for repatriation of capital over a number of years.[24]

In addition to the incentives included in Law 43, policy makers in Egypt were optimistic about other attractions their country could offer to potential foreign investors. One advantage was the country's geographical location, centered between Europe and the Orient, and close to the newly oil-rich Arab states. Another attraction could be Egypt's own domestic market with 37 million inhabitants, Egypt was the most populous Arab nation. Also, proponents of the new Economic Opening pointed to Egypt's relatively high supply of skilled and semi-skilled labor and managerial personnel for a developing country and a relatively developed infrastructure of roads, railroads, port facilities and power supply.[25]

While offering incentives to foreign investors, the Egyptian government also wished to assure that the new development coalition would indeed pursue development and not the "foreign exploitation" of the country's colonial era. The Egyptian government was anxious to invite foreign investors to participate in national development, but apparently intended to keep the upper hand in the relationship, as noted in a publication of The General Authority for Investments and Free Zones:

> ...the Open-Door policy in this sense differs from the type of foreign investment which existed prior to the Revolution (1952). Whereas the present policy is primarily keen on realising Egypt's interests, and that of the investor's, the pre-revolution investment policy favoured the foreign party over the country's interest. Moreover foreign investment in the past was not systematic and there were neither laws nor responsible bodies to organise it.[26]

The new development coalition expressed the government's desire not only to encourage investment and attract foreign--Western and Arab--capital but to encourage the transfer of technology as well.[27] To this latter end, the Egyptian government decided to discriminate against import substitution projects, favoring export oriented projects.[28] The purpose for this discrimination apparently lay in an area of contention in development economics; i.e., the benefits of import-substitution development versus those of export-oriented production. The defenders of export-oriented development contend that only by setting one's eyes on export markets, does a nation's industry ever become efficient and internationally competitive. Such is not accomplished by protecting local industry via import-substitution policies.[29] Since lack of competitiveness in foreign markets plagued Egyptian industry, it is not surprising that the arguments of export-orientation apparently appealed to Egyptian policy makers at the beginning of the Economic Opening. Egypt did not want the "intermediate" technology, later made famous in E.F. Schumacher's Small is Beautiful.[30] Instead, the Egyptian government wanted to catapult Egyptian industrial goods into international markets where they would earn hard currency for the nation. Furthermore, it was hoped that foreign capital and expertise would also stimulate Egypt's public sector via joint ventures or competition to become more efficient and consequently more competitive.[31]

A major control the Egyptian government retained over the new development coalition was its approval process for investment projects. The Egyptian government invited foreign investment yet retained flexibility as to what investment it would in fact

allow into the country. Law 43 did not specifically mention areas in which foreign investment would not be acceptable;[32] but instead, the law provided a procedure in which each prospective investment could be judged on a case-by-case basis.[33] The General Authority for Arab and Foreign Investment and the Free Zones (Investment Authority) became the "control mechanism" or investment-licensing agency, with the Deputy Prime Minister for Economic and Financial Affairs as its chairman of the board of directors.[34] The board itself was comprised of a number of relatively prestigious figures in Egyptian government and economic circles.[35] The board was designated to meet at least once a month and approve projects by a majority vote. Furthermore, any decisions needed in turn to be endorsed by the Minister of the Economy.[36]

Foreign Investor Response

At the very beginning, Egypt's Economic Opening appeared to catch the imagination of a number of potential foreign investors. One U.S. businessman was quoted as saying, "It's like the California gold rush."[37] Interest did not materialize into investment, however. Herman Elits, the U.S. ambassador to Egypt, remarked in 1977 that over 3500 U.S. businessmen had visited Cairo to investigate the Economic Opening, and almost 1000 had spoken with the ambassador himself. In the end, "almost nothing" had materialized from this initial interest.[38]

As early as August 1974, Prime Minister Abdel-Aziz Higazi[39] warned the Egyptian press that it was over-optimistic about the country's health and exaggerating the rate of investment into Egypt.[40] By autumn of 1976, it was an open secret that the inflow

of foreign funds had not measured up to government expectations.[41]

There were a variety of reasons put forward to explain the poor foreign-investor support for the Economic Opening. Some of the possible advantages of Egypt as a site for investment turned out to be less attractive than had been projected. While labor was relatively skilled and cheap, labor productivity appeared to have suffered from the lax standards under the public sector. There were also shortages of certain skilled labor due to worker immigration to Saudi Arabia and the Gulf.[42] Furthermore, Egypt's infrastructure was in fact overburdened and malfunctioning.[43] In a questionnaire administered by the Ministry of Economy, Foreign Trade, and Economic Cooperation, investors noted that even finding a suitable location for their factory was a problem.[44]

Egyptian policy makers may have also failed to realize that their incentives to foreign investors were not as attractive as they had believed--especially when viewed in a world-wide competitive market. Even after the government had amended Law 43 in 1977 to make it more attractive to foreign investors, the head of the U.S. delegation to the U.S.-Egyptian Chamber of Commerce remarked that both Ireland and southern Italy offered incentives to foreign investment wich were more attractive than those of Egypt.[45]

Potential foreign investors also complained about "stifling bureaucracy," noting that businessmen could be kept waiting for weeks trying to see the appropriate govenrment official.[46] Part of the problem may have been attributable to the massive state bureaucracy established in the mid-1960s. Civil servants earned pitifully low salaries and reflected a general lack of dedication.

A "proliferating procedural system" further presented an obstacle to progress.[47] An Egyptian weekly magazine, Rose el-Youssef reported that U.S. firms were pessimistic about Egypt because of the bureaucracy and "commissions" necessary to elicit action.[48] Even a report on Law 43 prepared by the Ministry of the Economy complained about administrative inefficiency caused by an over-abundance of bureaucratic procedures.[49]

Another hindrance to more substantial foreign investment may have been the remembrance of Egypt's past hostility to foreign investment, and its concommitant nationalizations in the early 1960s, still relatively fresh in investors' minds.[50] Yair Aharoni noted in his study of foreign investor response to Isareli incentives in the mid-1960s that potential investors tended to avoid making positive decisions for investment when a certain level of "uncertainty" surrounded a situation due to its unsettled nature.[51] The change from a strongly negative attitude towards foreign investment in Egypt to one of encouraging foreign investment may have left some potential investors wary, wishing to wait and see what would happen tommorrow.[52] Aharoni also noted that foreign investors did not believe that developing countries kept their promises.[53]

Potential foreign investors could have been nervous about the external political situation as well. At least some potential investors surveyed after the Economic Opening had been in operation three years stated that the uncertain political situation in the region was perhaps the most important constraint on their entering Egypt.[54] The deputy head of the General Authority for Arab and Foreign Investment and the Free Zones remarked in 1977 that the slow pace of peace negotiations between his country and Israel

was undoubtedly contributing to the disappointing response by foreign investors.[55]

Certain impediments to foreign investment apparently lay in Law 43 itself. As an indicator of the Egyptian government's concern, meetings with potential foreign investors were initiated as early as autumn of 1975 when the Egypt-U.S. Business Council held its first meeting in Cairo--attended by forty American business executives, twenty Egyptian executives, and six Egyptian government officials--to try and determine impediments to foreign investment in Egypt. A task force was subsequently formed which surveyed over fifty U.S. companies as well as a few Canadian and European companies with current or potential investments in Egypt.[56,57]

These investors widely stressed that the two greatest obstacles to foreign investment in Egypt were ambiguities in Law 43--first the currency rate for repatriation of funds was unclear; and, second, the situation of import-substitution projects was also ambiguous.[58,59]

According to the original version of Law 43, foreign capital entered at the official rate of exchange, and repatriation of capital was to occur at the "prevailing rate." The law did not define what was meant by "prevailing," causing potential investors to worry about possible automatic exchange losses.[60]

Also, as mentioned earlier the original version of Law 43 was biased against import-substitution projects. Foreign investors proposing such projects believed they had no real assurance regarding their rights to repatriate profits. There was also a lack of assurance that adequate foreign exchange would be made available

to finance the import of components and spare parts for such projects.[61] Apparently a number of foreign investors were being discouraged by the government's policy of trying to attract higher-technology and export-oriented industries.[62]

Difficulties With Approvals and Negotiations

Even potential foreign investors who were not initially discouraged found themselves caught up for years in the Investment Authority's approval process and subsequent negotiations with other government agencies.

One well-respected Egyptian manager of a U.S.-Egyptian industrial joint venture related his experience with the Investment Authority as a "lengthy approval procedure where small employees rule."[63] An Egyptian management consultant noted that a Lebanese client of his repeatedly failed to receive notification of any sort from the Investment Authority concerning his application for project approval during the first two years after the passing of Law 43.[64] Even a promising export company which claimed to be "treated favorably from the beginning" discovered that a full year was necessary simply to process its application for approval and subsequent incorporation under Law 43.[65]

The Investment Authority could also hold surprises for potential investors. The U.S. Embassy in Cairo claimed that U.S. businessmen encountered an unwritten policy of the Investment Authority that "no foreign investors could earn a return of over seven to eight percent on their money."[66] Also, Kuwaiti economic circles were reported as expressing "strong reactions" when the Egyptian government

asked to withdraw from some $700 million worth of joint ventures with Kuwaiti investors because they had received better offers from the U.S. and Europe.[67]

Approval by the Investment Authority, however, was often only the first step in an even longer process. Investors also required authorizations from ministries responsibile for their project's various spheres of activities; e.g., the Ministries of Tourism, Industry, Planning, or Finance, not to mention additional authorization for such things as building sites and import licenses.[68] Negotiations with these different government departments could represent considerable duplication of effort on the part of the foreign investor, and often the investor had difficulty establishing where the influence and authority of one department ended and where that of another began.[69]

Furthermore, the ease or difficulty facing the foreign investor was affected to a large degree by the attitude of the ministries with which the investors needed to deal and the importance ministries attached to the "denationalization" of any public sector business currently operating in the investor's target industry.[70] For example, a British multinational bank stated that in its experience the Egyptian Central Bank strongly resisted the Economic Opening.[71] Also very early in the Economic Opening, Prime Minister Higazi had replaced the Minister of Industry and Mining due to this minister's alleged opposition to changes in the relationship between the public and private sector.[72]

Certain ministries, probably as a partial result of the attitudes of their directors, often appeared at loggerheads with each other; e.g., when Ibrahim Shawkas was director of the General

Organization for Industry he apparently made it clear to the Investment Authority that he and his ministry would fight the establishment of any Law 43 project which would compete against a public company despite the Investment Authority's desire to promote such competition.[73] Another example occurred in 1978 when the Investment Authority told investors that office equipment would be free from import duties, but the Trade and Supply Ministry said the opposite.[74]

The often long, drawn-out process of actually bringing a project to fruition could be discouraging to foreign investors. One major British manufacturer undertook to establish a joint venture with an Egyptian public company. Negotiations began in 1974, and by May 1979 after much "unproductive activity," the British company decided to put the project in "cold storage." Suddenly the potential Egyptian partner agreed to all the proposed conditions and the agreement was signed in early 1980--nearly six years after negotiations began. Production itself was not projected to begin until the end of 1982.[75]

Delay and uncertainty were also encountered by other major foreign companies interested in investing in Egypt. In January 1978, it was announced that a delegation of experts from Fiat would visit Egypt soon with a view to setting up an automobile factory.[76] A short time thereafter, Fiat signed an agreement with El Nasr Automotive Manufacturing Corporation (Nasco) to set up a consortium to expand production at Nasco's Helwan plant outside Cairo.[77] Three years later, however, it was announced that the Fiat-Nasco joint venture had been "delayed."[78] Similarly, Thomas-Brandt of France signed a $36 million deal for a joint

venture to expand Egypt's Delta Industrial Company, maker of Ideal appliances.[79] Two years later the joint venture was halted by the Minister of Industry and Mineral Wealth who said his ministry was negotiating with the Philips and General Electric Companies.[80]

Nor were Arab investors or even Arab governments secure from such upsets. The Alexandria Kuwait Real Estate Investment Consortium was established--via an agreement reached in early 1977--as a joint venture between Kuwait's Finance Ministry who supplied fifty percent of the capital in the form of a prime building site in Alexandria.[81] However, at the beginning of 1979 a new head of the Alexandria Governate indicated that he did not approve of the earlier negotiated agreement and wanted the land in Alexandria revalued. The joint venture ground to a halt and its Kuwaiti chairman remarked that it represented the "incompatibility between commercially minded investors and [Egyptian] government organizations."[82]

Perhaps the most publicized of these projects which were caught between contending government bodies was the Pyramids Oasis project. Pyramids Oasis was to be a major hotel and leisure project near the Pyramids of Giza outside Cairo. Among the partners participating in the nearly $500 million project were two Saudi princes and the Egyptian state tourism company.[83]

Various delays at the beginning almost caused the project's cancellation. The project finally got underway only after President Sadat directly intervened, signing a decree incorporating the project in December 1975 and appointing a new director of the state tourism company.[84] On June 28, 1977 the first construction

contract for the project was signed.[85] The project, however, was then turned down by the Giza Municipal Council who claimed the initial agreement was made without consulting them and that the proposed site of the tourist village was too close to the pyramids themselves.[86] Subsequently, in a statement of May 28, 1978, the Ministry of Information and Culture declared the site an antiquities area.[87,88]

The problems arising from such intra-governmental disagreements and their effects on investors did not go unrecognized by the government. A study on Law 43 stated that:

> Certain legislative and administrative action, such as the cancellation of the Ahram Plateau [Pyramids Oasis] project--have raised questions among foreign investors about the investment climate.[89,90]

Further History of the Development Coalition

With the development coalition foundering due to the low level of serious investor response coupled with the difficulties interested foreign parties faced when attempting to establish ventures in Egypt, the Egyptian government attempted to stimulate the development coalition. Changes were made in Law 43, granting foreign investors more concessions, and internal governmental changes took place which appear to have facilitated the approval process for foreign investment projects. Furthermore, government's attempts to stimulate the development coalition became intertwined with it pursual of peace with Israel and its political rapprochement with the West.[91]

1. Changes in Law 43. In July 1976, a revision of Law 43 was presented to Egypt's parliament, the People's Assembly, for discussion. At the time it was believed that the revised law would be promulgated within a few months.[92] In fact, the amendment to Law 43, Law 32 of 1977, came into effect nearly a year later on June 19, 1977.[93]

The amendments to the law aimed at alleviating some of the complaints voiced by foreign investors. Addressing the ambiguity surrounding the foreign exchange rate, the revised verison of the law provided the same definition for the exchange rate on capital entering and departing the country:

> Invested capital shall be transferred to, and exported from, the Arab Republic of Egypt, and profits generated therefrom shall be transferred in foreign currency abroad... at the highest rate prevailing and declared for free foreign currency by the competent Egyptian authorities.[94,95]

An apparent policy shift on the part of the government concerning import substitution projects was also witnessed in the amendment:

> Projects that are basically not export oriented, and that limit a country's need for imports, shall be permitted to transfer, in whole or in part, their net profits at the highest rate prevailing and declared for foreign currency within the limits approved by the Authority and subject to currency regulation in force.[96]

From the wording of the amendment, however, the government still retained the power to judge projects case by case.

Besides these compromises in more major areas, the revised law continued to offer added incentives. Authorized foreign investors could now augment their foreign currency accounts through purchases from local banks or with proceeds of sales in foreign currency

to the local market.[97] The sale of company shares on the local stock market was also allowed.[98] Three further fields of investment were specifically opened up: (1) construction activities outside the existing agricultural areas and cities; (2) construction contracting in which there was at least a fifty percent minimum Egyptian equity; and (3) technical consulting projects urgently needed for other approved projects.[98]

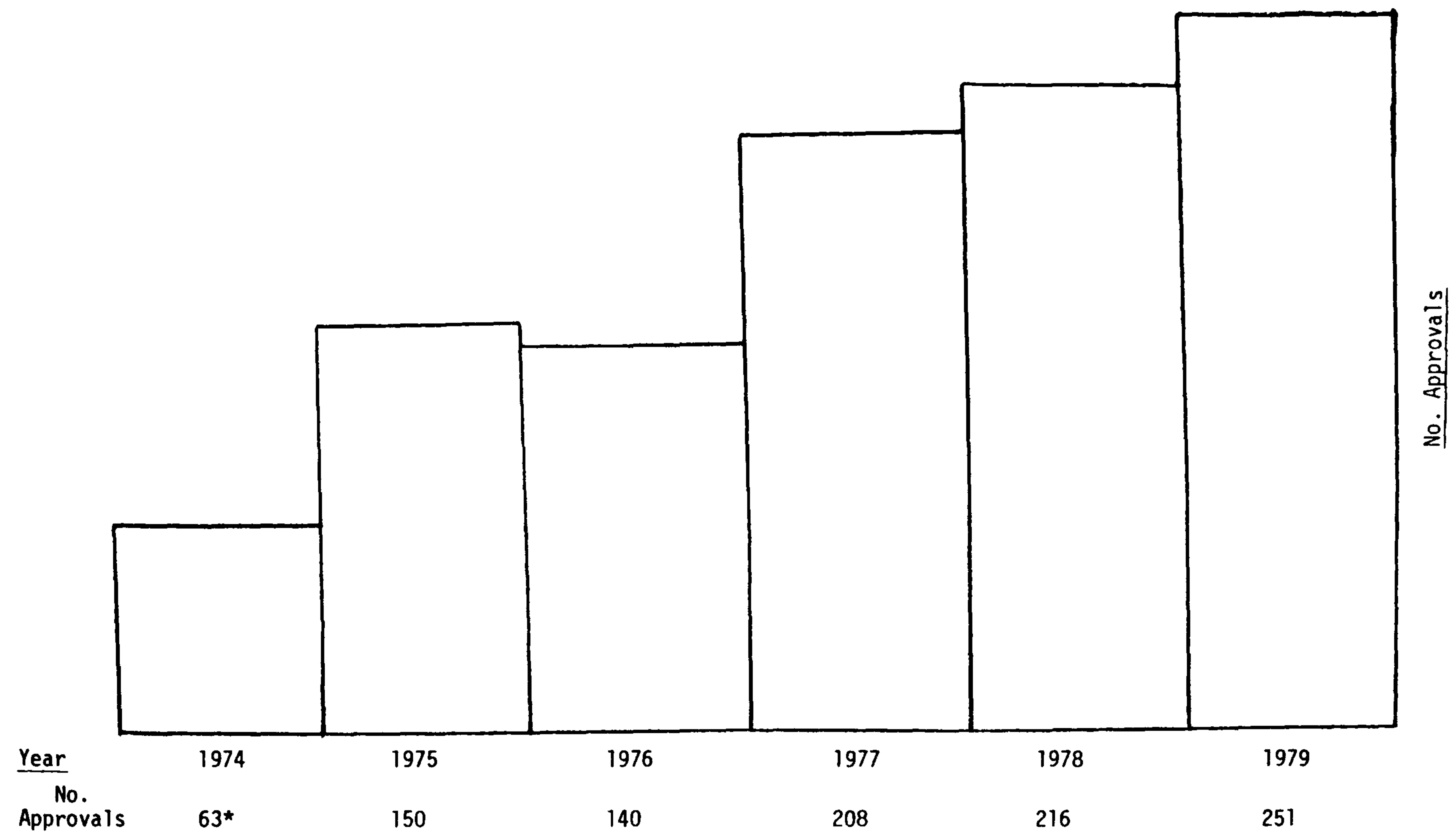
The range of tax exemptions was increased, though not as dramatically as some investors would have liked.[99] For example, the tax holiday became applicable to undistributed profits set aside for special reserves to be distributed after the exemption period had elapsed.[100] Also, expatriates' salaries were made exempt from the General Tax on Income.[101]

On the surface, the amendment to Law 43 might be perceived as adding impetus to the inflow of foreign investment projects. The number of projects approved had risen from 63 in 1974 to 150 in 1975, but had dropped back to only 140 in 1976. In 1977, the year of the revision of Law 43, the number of approved projects increased to 208, nearly a fifty percent rise over the year before. Subsequently the number of approved projects in 1978 and 1979 were 216 and 251 respectively.[102] However, the increase in project approvals must also be viewed in the light of certain political changes which occurred at the time.

2. <u>Internal Political Changes</u>. If one simply looks at the number of projects approved on an annual basis (See Table 4:1) a substantial jump in the number of approvals occurs in 1977, the year of the reforms, and increases relatively steadily

TABLE 4:1

Project Approvals by Year



Year	1974	1975	1976	1977	1978	1979
No. Approvals	63*	150	140	208	216	251

*Includes projects retroactively approved in first and second quarters of 1974.

Source: Table B:1

thereafter, suggesting that the "big surge of [investor] interest [which] began in earnest last May [1977] after the government announced important modifications to the Investment Law 43"[103] was being translated into a larger number of project proposals and subsequent approvals. One must keep in mind, however, a fact noted by the government itself that:

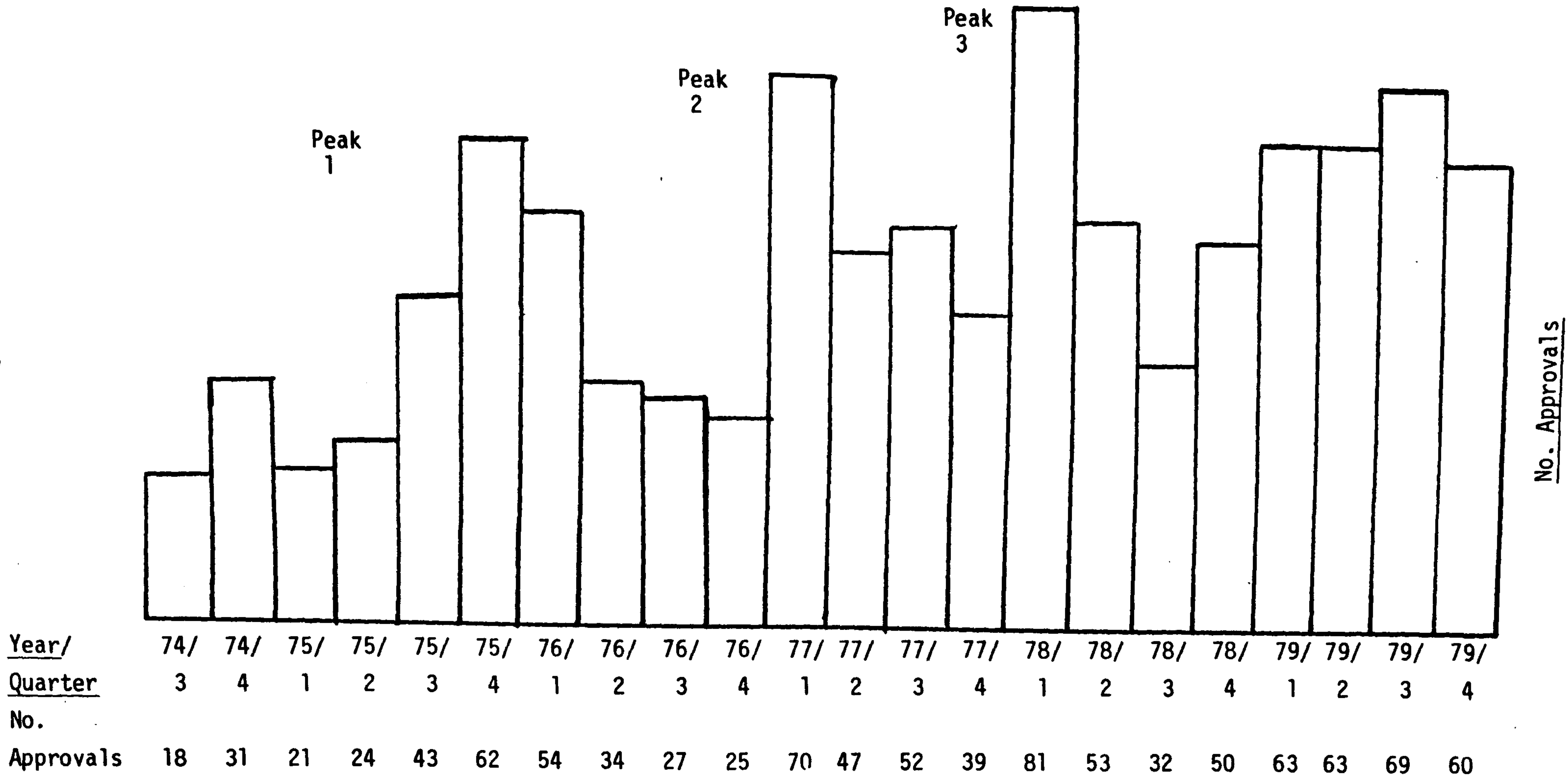
> Any modification in the mix approvals may be due, of course, either to a change in the proposals coming forward or to a change in the [Investment] Authority's policies toward them.[104]

Indeed, if one looks not at the annual approval numbers but at the quarterly ones (See Table 4:2) the pattern of gradual increase disappears and a much more apparently erratic pattern, replete with peaks and troughs, emerges. It is more difficult to believe that this pattern reflects many investors reacting in unison in what appears to be a particularly impulsive fashion. It seems much more likely that the pattern more reflects the impulsive action of a single actor; i.e. the Investment Authority. This contention may be furthered by identifying three "peak" approvals times and noting evidence which would suggest that the Investment Authority was likely under pressure to hasten the approval of projects at these times.

The first of these peaks occurred in late 1975 and early 1976; and it is noteworthy that this first peak followed the dismissal of Prime Minister Higazi who, as noted earlier, had warned his country about over-optimism concerning foreign investment. In a report to President Sadat in January 1975, Prime Minister Higazi stated that foreign investors had proposed 552

TABLE 4:2

Project Approvals by Quarter



Year/ Quarter	74/ 3	74/ 4	75/ 1	75/ 2	75/ 3	75/ 4	76/ 1	76/ 2	76/ 3	76/ 4	77/ 1	77/ 2	77/ 3	77/ 4	78/ 1	78/ 2	78/ 3	78/ 4	79/ 1	79/ 2	79/ 3	79/ 4
No. Approvals	18	31	21	24	43	62	54	34	27	25	70	47	52	39	81	53	32	50	63	63	69	60

Source: Table B:1

projects since the liberalization had been announced. As of that point, only 196 of these had been accepted.[105] After the Economic Opening had officially been in force almost one year, President Sadat dismissed the government under Prime Minister Higazi in April 1975, promoting Mamduh Salem, formerly Minister of the Interior, to prime minister.[106] At the same time, President Sadat spoke publicly of his Economic Opening being victimized by "bureaucratic red-tape and erroneous ideological resistance."[107] It is not surprising, therefore, to find the newly appointed Prime Minister Salem, remarking to the Egyptian press concerning potential investors:

> Every condition is a restriction, and every restriction is incomprehensible. The thing is to let the investor direct himself to his natural place according to his own freedom of action and the dictates of the needs of the Egyptian market.... Anything that leads to an increase in production and self-sufficiency--or prosperity--we must accept and not refuse. We must welcome all Arab and foreign capital that finds its way to investment in Egypt.[108]

It is also not surprising that a surge in the number of approvals followed Prime Minister Salem's appointment to office. It is also interesting to note that the projects approved in late 1975 and 1976 included a high proportion of free zone projects as opposed to inland projects.[109] Free zone projects were generally projects of lower levels of capital investment[110] and were for the most part warehouses and depots.[111] They represented investment but were hardly the originally envisaged high-technology industries.

The second peak approval time occurred at the beginning of 1977. In fact, it is this increase in approvals early in

the year which can be largely credited with the jump in projects approvals in 1977 and not the official revision of Law 43 which came into effect mid-year.

Similar to the previous peak there appears to be a potential political impetus for this second flurry of activity at the Investment Authority, following as it did the "food riots" which occurred in Cairo in late January 1977. In an attempt to reconcile Egypt's economic policies to certain demands made by the International Monetary Fund, the Egyptian government had announced the end in whole or in part to a number of government subsidies, among them subsidies on fine flour, some sugar, rice, oil, bottled gas, cigarettes, and beer. The announcement resulted in heavy rioting which left 77 persons dead and required for the first time since the 1952 revolution that the government bring in the army to deal with a civil disturbance.[112, 113] This manifestation of economic-based social unrest may have once again encouraged the government to try and hasten investment and subsequently the economic benefits envisioned in the Economic Opening. In any case, on a single day--March 27, 1977--the board of directors of the Investment Authority approved 65 investment projects totalling £E 404 million ($1,010 million).[114]

Remarks made by major government officials reinforce the contention that the desire to hasten investment had intensified at this time. Deputy Premier for Financial and Economic Affairs, Abdel Meguid, replied to a question concerning the revision of Law 43:

> The law itself is only part of the story. Obviously, laws can remain on the books without being implemented... there has been an incredible decline in the degree of bureaucracy. Things are moving much faster.[115]

Continuing on the subject of project approvals, he remarked:

> Foreign private investment has increased tremendously. We have appproved something like $1,700 million worth of projects recently, for some hundred odd projects in various sectors. We expect that momentum to continue... There are 10% already producing, and an additional 20% are under implementation. The others have just been approved in the last 4 months.[116]

Dr. Abd al-Moneim al-Qaisouni, Minister of Finance, noted:

> "There is no delay now in considering foreign investments or joint investments. Actually, I don't think there is anything remaining in the pipeline since last week.[117]

Also, foreign businessmen operating in Egypt reportedly observed at this time a change in attitude among Egyptian officials, remarking that these officials were becoming convinced that "it was possible to conduct business to mutual advantage without profit being synonymous with exploitation."[118] A spokesman for a consortium of European textile groups negotiating with the Egyptian government during the spring of 1977 stated, "The Egyptians really went out of their way to let us know that they wanted our investment."[119] The general manager of an interviewed joint venture noted that at this time the government was, in his opinion, "chasing capital."[120]

After the peak at the beginning of the year the number of approvals per quarter decreased during the next three quarters of the year, though remaining above the previous year. Indeed,

by emptying the "pipeline" of projects, the Investment Authority may not have had as many available proposals to act upon. This situation may have prompted Ali Gamal al-Nazar the newly appointed[121] deputy head of the Investment Authority to remark, "The open-door policy has not been unsuccessful, but we are still not satisfied, and we are working very hard."[122]

Towards the end of the year another political reshuffle occurred. President Sadat changed his cabinet, once again for the stated purpose of cutting red tape and giving Dr. Qaisouni more power.[123] In the wake of this change, investment-project approvals again soared in the first quarter of 1978.

Dr. Qaisouni, however, was charged with carrying out further reaching reforms in eliminating bureaucratic inefficiencies. By April 1978, Dr. Qaisouni was reported to have run head-long into the full force of Egyptian bureaucracy and its vested interests and, as a result, was unhappy with the effectiveness of his planned economic and administrative reforms.[124] By May, Dr. Qaisouni was rumored to have tendered his resignation;[125] and on May 7 a cabinet change removed him from power.[126] This period of political in-fighting which resulted in at least a temporary set-back for the reformists may have contributed to the trough in investment approvals following the third peak. Indeed, the number of approved projects reached its lowest level since 1976 in the third quarter of 1978 before beginning a more steady rise in the following year.

On the whole, the evidence above supports the contention that the Egyptian government was anxious about its Economic Opening and as such took what might be termed reactive measures to try

and insure its success--or at least apparent success. In the short-term, these measures provided the government with statistics showing increasing investment under Law 43--investment which the government could point to with relief if not with pride.

3. Peace With Israel and its Repercussions on the Development Coalition. Beginning with the October War in 1973, Egypt's desire to establish a development coalition became intertwined with Egypt's attempts to establish peace with Israel. As stated earlier in the chapter, some potential foreign investors had voiced concern with regional instability and some members of the Egyptian government were in turn worried that this concern was discouraging foreign investment. Egypt's steps towards peace in the 1970s did move the country more into the Western, particularly American economic sphere. The effects of the peace process on the development coalition, however, were more ambivalent. In fact, a peace process envisaged as potentially encouraging to foreign investment actually discouraged certain investors.

In early 1974, President Sadat had resumed diplomatic relations with the United States--relations which had been severed under the previous regime.[127] With the help of Henry Kissinger, an Israeli disengagement along the Suez Canal resulted in the winter of 1974.[128] Further efforts were less fruitful. Dr. Kissinger's "shuttle diplomacy" broke down in April 1975,[129] and President Sadat stated in May that another war was "inevitable" if his upcoming talks with President Ford were unsuccessful.[130] By early September, however, Egypt and Israel signed an interim Sinai agreement wherein Israel retained occupancy of 95 percent

of Sinai and Egypt received a U.S. pledge of $650 million in economic assistance in 1975 and 1976 as part of its reward for signing the agreement.[131]

Further movement towards a full Israeli withdrawal from Sinai and a more potentially lasting peace was stalled in the following two years. Even a visit by Presiident Sadat to Washington D.C. in April 1977 to meet with the newly elected President Carter merely resulted in President Sadat making a "good impression" with "nothing tangible" coming from the meetings.[132]

Later in the year, however, President Sadat began initiatives to hasten the peace process. In July, he became the first Arab leader to announce his readiness to accept Israel as "one of the countries in the Middle East."[133] In November President Sadat flew to Jerusalem to address the Israeli parliament in the cause of peace between the two nations.[134,135]

Peace talks between Egypt and Israel, however, were stormy from the beginning. On January 18, 1978, President Sadat called his peace delegation home from Jerusalem, remarking to President Carter that, "Israel wants territory, not peace."[136] On January 23, Israeli Premier Menachem Begin requested that Egypt "drop its obnoxious language "and" anti-semitic public tone."[137] By June, President Sadat was warning that Egypt would go to war again if Israel failed to respond positively to his peace initiative.[138] In June, Egypt rejected an Israeli proposed plan[139] and countered with its own proposal in July,[140] which Israel in turn rejected.[141] President Sadat then returned unopened

a letter from Premier Begin requesting the re-opening of negotiations, stating that in his opinion Premier Begin was the "main obstacle" to peace.[142]

The United States had also been involved with the peace negotiations. On a visit to the United States in February 1978, President Sadat had stated, "The United States is not an observer or a go-between or a mediator. No, the role of the United States now is complete partnership."[143] Therefore, when the peace initiative seemed close to collapse, President Carter called for a tripartite meeting at Camp David, Maryland that September.[144] The Camp David talks progressed through the autumn of 1978, and despite the award of the Nobel Peace Prize to Presidents Sadat and Begin in November,[145] the negotiations were in difficulties, primarily over the issue of Palestinian self-rule.[146] The December 17 deadline for signing a definite peace treaty passed without concord.[147] However, on May 13, 1979, President Sadat agreed to a United States proposed peace plan which also met Israel's approval.[148] The peace treaty returned Sinai to Egypt and provided some Israeli concessions on the Palestinian issue.[149]

The increasing United States involvement with Egypt was accompanied by an upsurge in United States foreign aid to Egypt. Even by mid-year 1977, the director of the United States Agency for International Development (USAID), John Gilligan, remarked that more United States economic assistance was being channeled into Egypt than into the whole of Latin America and the rest of Africa combined.[150] Following President Sadat's journey to Jerusalem, Democratic House Leader James Wright upon returning from a Middle East tour stated that President Sadat "could write his own requirements for the next year."[151] After the initiation

of the Camp David talks, President Sadat announced that he was asking President for $10,000-$15,000 million in economic assistance along the lines of the Marshall Plan for revitalizing European economies after World War II.[152] A year later, Egypt was receiving almost one third of USAID's total annual disbursements,[153] and one USAID official noted that the agency was spending more per capita on Egypt than the Marshall Plan had in Europe.[154] Also, in 1978 USAID supplied $25 million in funds to Egyptian banks for use by the private sector in importing U.S. goods.[155] The United States had by that time become Egypt's major single trading partner, with the United States accounting for forty percent of all Egypt's imports in 1978.[156,157]

Egypt was also coming further into the Western sphere of economic influence via aid from other Western countries and international agencies. In April 1976, Sadat toured Europe returning with aid pledges from France,[158] Italy,[159] and Germany.[160] In January of the next year, a $204 million aid agreement was signed with the European Economic Community.[161] Japan also increased its aid to Egypt;[162] and by 1978, the World Bank's program in Egypt had become its largest worldwide.[163,164] The International Monetary Fund also extended substantial standing credits to Egypt despite a relationship replete with disagreements concerning conditions for credit.[165]

Private western investment, however, was more elusive, and the United States in particular seemed anxious to reinforce their political and economic support of Egypt with American private investment. Five years after the Nixon-Sadat joint communique,

relatively few projects approved under Law 43 included any U.S. participation, (See Table 4:3) and President Carter's Special Envoy Robert Strauss was entrusted with setting up an inter-agency co-ordinating committee to promote U.S.-Egyptian joint ventures.[166] Unfortunately, both the U.S. and Egyptian governments were faced with the fact that what might be good for the two of them might not be particularly good for the private investor. One U.S. official reportedly remarked:

> Few companies that come out here get the same return on investments as elsewhere in the world--they are not in Egypt because it is the best place to be. We are stressing the crucial necessity for western economic support for Egypt and Sadat now.[167,168]

Ironically, however, Egypt's attempts to establish peace with Israel could be credited with discouraging Western private investment in a number of cases due to the country's increasing political isolation from other Arab countries.

Egypt had been becoming progressively isolated politically in the Arab World since signing the interim Sinai agreement in 1975,[169] and President Sadat's trip to Jerusalem had especially aggravated tension between Egypt and the other Arab states. Immediately following the trip, the Kuwaiti press called for aid to Egypt to be cut off and Libya called for Egypt's expulsion from the Arab League.[170] At a conference in Tripoli in early December 1977, Libya, Algeria, South Yemen, Syria, and Iraq agreed to "freeze" relations with Egypt.[171] At a meeting of Arab heads of state (with the exclusion of Egypt) in Baghdad the following November, a resolution was adopted declaring that the Arab League

TABLE 4:3

Approved Projects With United States Participation

by Year

Year	1974	1975	1976	1977	1978	1979
Approved Projects with United States Participation	10	11	14	21	14	21
No. With United States Participation as a Percentage of Total Approvals	15.9%	7.3%	10%	10.1%	6.5%	8.4%

Sources: Tables B:1 and B:6.

would not meet at its headquarters in Cairo until Egypt abandoned the Camp David talks.[172] In addition, the Arab states offered Egypt a substantial aid package along the same terms.[173,174] Egypt continued with its peace initiative, and a second meeting of Arab states took place the following March. At this meeting, Saudi Arabia suddenly withdrew its opposition to the Arab "hardliners" approach to Egypt, and on March 13, 1979, 19 nations of the Arab League[175] voted to cut diplomatic and political relations with Egypt within a month.[176,177]

Since one of the purported attractions of investing in Egypt was its proximity to other Arab markets, it is not surprising that some foreign businessmen in Egypt began to voice uneasiness over the Arab sanctions.[178] President Sadat, himself, met with representatives of United States companies in May 1979 to try and assure them that it would still be profitable to invest in Egypt despite Arab attempts to isolate Egypt politically and economically.[179,180]

Furthermore the negative attitude toward Egypt on the part of other Arab states likely served to increasingly hinder negotiations between the Egyptian government and certain major foreign companies who were interested in investing in Egypt as a way to possible removal from the Arab Boycott List.[181]

In 1975, Egypt had announced that companies on their boycott list would be able to do business with Egypt if their involvement in Egypt was at least twice that of their involvement with Israel.[182] From Egypt's point-of-view this could be a way of further attracting foreign investment; and the Minister of the Economy had remarked at that time concerning a proposed plant

in Egypt to be built by a currently boycotted company, "It should cost a horrible amount. We would love it."[183] Over the next few years, a number of boycotted companies began negotiations to invest in Egypt. Among them were British Leyland, Coca Cola, Ford, Colgate Palmolive, Motorola, Xerox, and Revlon.[184] These companies, however, probably saw their Egyptian investment as a step towards entering other Arab markets as well. British Leyland, boycotted since 1968 because of financial interests in an Israeli assembly firm, presented a project to export Landrovers from an Egyptian plant to other Arab states.[185,186] Egypt's ability to influence the attitudes of these other states, however, was apparently less than originally imagined by either government or foreign investors, as evidenced by the cases of Coca Cola and Ford.

In January 1977 the President of Coca Cola, Paul Astin met with President Sadat, and negotiations between Coca Cola and the Egyptian government concerning the building of a soft drinks plant in Egypt followed. However, it was reported that the two parties were unable to agree on terms to repatriate profits due to Egypt's lack of foreign exchange at the time.[187] Later that year, Coca Cola reaffirmed that it was "anxious to reopen operations in the Middle East" and confirmed that it was again negotiating with the Egyptian government--this time concerning a joint venture for citrus fruit production.[188] The venture, however, was originally conditional on Coca Cola's removal from the Arab Boycott List, hopefully in November of that year when the Boycott Committee met.[189] Egypt failed to deliver this condition.[190,191]

Ford began talks with the Egyptian government in 1975;[192] and by May 1977 the government had approved Ford's technical feasibility study for a plant in Alexandria to assemble trucks and manufacture diesel engines.[193] The joint venture was still being negotiated, and it was understood that the final decision depended on Ford's removal from the Arab boycott list.[194]

Signs were foreboding. The previous year the Boycott Office had stated that Ford would not be allowed back into the Arab World unless it got out of Israel first, and a "source in the Arab League" was quoted as saying:

> Ford has become a pro-Israel symbol, along with Coca Cola, in the Arab World. I doubt that any Arab country would challenge the whole Arab world by taking unilateral action that favors Ford or Coca Cola.[195]

It is not surprising, therefore, that Egypt failed to rally support from other Arab nations. Before the November 1977 meeting of the Boycott Committee, Kuwait had already announced that Ford would stay on its boycott list.[196] Furthermore, Egypt's unilateral actions concerning boycotted companies were unpalatable to some Arabs. Mohammed Mahgoub, the secretary-general of the Boycott Office, remarked, "We are definitely surprised at Egypt's move. Egypt has violated the boycott regulations and there is no justification for it."[197] Ford, along with Coca Cola, remained on the boycott list.[198,199]

The peace process and its consequent rift between Egypt and the other Arab states produced a second development. While the political isolation of Egypt from the other Arab states was hardly encouraging to the development partnership as far as attracting Western investors interested in other Arab markets,

Arab private investors on the whole continued to show interest in investing under Law 43, although their participation in projects as a percentage of all projects decreased. (See Table 4:4.) The vice-chairman of the Misr Iran Development Bank noted in June 1978 that a growing number of Arab investors were becoming interested in Egypt.[200] Despite the boycott, the Faisal Islamic Bank, whose chairman, Prince Mohammed Faisal, was brother to the Saudi minister of foreign affairs, was announced to open on July 5, 1979.[201] A similar policy was taken by the Kuwait Fund for Arab Economic Development whose spokesman noted that private Kuwaiti investors considered Egypt and Saudi Arabia the best places for investment.[203] An executive of a Law 43 joint venture involving one of Kuwait's largest companies, commented that his Kuwaiti partners had invested in nearly a dozen projects under Law 43 and that they perceived the political risk in Egypt was lower than in Kuwait or Saudi Arabia.[204,205]

Conclusion

Despite the Egyptian government's attempts to stimulate its development coalition through legal reform, greater leniency in its project approval system, peace with Israel, and political rapprochement with the West, the development coalition foundered. As shown in Table 4:5, the number of approved projects with any Western participation rose only moderately in 1977 and remained relatively constant in the following two years, despite the overall growth in the number of approved projects. The idea of combining Western technology, Arab money, and local Egyptian participation in joint ventures never materialized to any degree.

TABLE 4:4

Approved Projects With Arab Participation

by Year

Year	1974	1975	1976	1977	1978	1979
Approved Projects With Arab Participation	35	70	59	70	64	70
No. With Arab Participation as a Percentage of Total Approvals	55.6%	46.7%	42.1%	33.7%	29.6%	24%

Sources: Tables B:1 and B:7.

TABLE 4:5

Foreign Participation in Approved Projects

by Year

Year	1974	1975	1976	1977	1978	1979
Number of Approved Projects with Foreign Participation and Percentage of Total Approvals	52 (82.5%)	114 (76%)	109 (77.9%)	148 (71.2%)	135 (62.5%)	114 (55.8%)
Number of Approved Projects with Western Participation and Percentage of Total Approvals	19 (30.2%)	61 (40.2%)	56 (40%)	78 (37.5)	70 (32.4%)	84 (33.5%)
Approved Three-Way Joint Ventures Among Western, Arab and Egyptian Partners and Percentage of Total Approvals	2 (3.2%)	14 (9.3%)	11 (7.9%)	15 (7.2%)	15 (6.9%)	11 (4.4%)

Sources: Tables B:1, B:8, B:9, and B:10.

In fact, from 1977--the year in which the government took its most strident steps to compromise with hesitant foreign investors--the number of approved projects with any foreign participation at all steadily decreased as a percentage of total approved projects.

The foundering of the development coaliton, however, was to prove beneficial to many local private investors. They were to move from a position of adverse discrimination under the original development coalition to a position of relative equality under a capitalist coalition as the development coalition eroded. This movement is described in the following chapters.

Notes to Chapter 4

1. See Appendix A for the text of Law 43. Amendments to the Law as of 1977 appeared underlined.

2. Waterbury, John, Egypt: Burdens of the Past, Options for the Future, (London: Indiana University Press, 1978), p. 202.

3. Agricultural production failed to keep pace with the increasing population and consequent increase in domestic consumption. (Ibid., p. 205). In 1978, the population growth--still unstemmed--was estimated at 2.58 percent a year. At this rate, the Egyptian population, 38 million in 1978, would reach 70 million by the end of the century. "Special Report: Egypt," (Middle East Economic Digest [MEED], London: May 1978, p. 5.)

4. Waterbury, Egypt: Burdens and Options, p. 205.

5. Ibid., p. 202.

6. "Special Report: Egypt," MEED, p. 5.

7. Waterbury, Egypt: Burdens and Options, pp. 202, 203.

8. Ibid., p. 203.

9. "Special Report: Egypt," MEED, p. 5.

10. Waterbury, Egypt: Burdens and Options, p. 203.

11. Ibid., p. 204.

12. Hussein, Mahmoud, Class Conflict in Egypt: 1945-1970, (New York: Monthly Review Press, 1977), p. xi.

13. Waterbury, Egypt: Burdens and Options, p. 207.

14. Ibid., p. 222.

15. Among the incentives included in the new law were: (1) capital repatriation after five years in the original currency and at the prevailing exchange rate; (2) remittance of profits at the prevailing exchange rate; (3) proceeds of foreign currency earnings could be used for remittances or for payment for imported materials and capital equipment, and (4) profits were exempt from taxation for five years. In addition, there was to be fair compensation in the event of nationalization or expropriation. A General Authority for Investment of Arab Funds and the Free Zones was established to prepare lists of types of projects in which foreign investment would be allowed; priority being given to projects aimed at exportation or tourism development, projects requiring advanced technical expertise, patents, or trademarks, or projects helping to reduce imports. The Authority was also allotted the responsibility for approving investment applications and facilitating necessary clearances from other government departments. Although the law and its Authority specifically applied to Arab investment funds, Article 18 stated that other foreign investors would be included under its auspices following the approval of the President and his Cabinet. (Carr, David William, Foreign Investment and Development in Egypt, [New York: Praeger Publishers, 1979], p. 42.

16. MEED: 18, 22 February 1974, p. 8.

17. The net result of Law 65 from the time of its issuance in 1971 until its replacement by Law 43 in 1974 was the submission of 250 projects for approval within its terms, representing a total value of £E 13 million. By 1974 none had actually been started. (Waterbury, Egypt: Burdens and Options, p. 207.)

18. Ibid., p. 206.

19. Ibid.

20. Ibid., p. 207.

21. Ibid.

22. Immediate estimates of war costs were $20 million a day. (MEED: 17, 30 November 1973, p. 1393.) In addition, the October War did not cease hostilities in the region. A record budget was presented for Egypt in 1974--£E 4,187 million versus £E 3,233 million in 1973. Of this, £E 1,225 million was to be spent on defense. (MEED: 18, 4 January 1974, p. 12.) One astute journalist noted--albeit, after the fact--that "the fact that this opening-up process happened immediately after a war which had cost Egypt £E 16,000 million ($41,025 million) over the six years to 1973 made that process extremely hazardous..." (MEED: 21, 14 January 1977, p. p. 4.)

23. Interview appearing in al-Ahram October 9, 1974. Quoted in Waterbury, Egypt: Burdens and Options, p. 201.

24. See Appendix A.

25. Waterbury, Egypt: Burdens and Options, pp. 217, 218.

26. Investment and Free Zones Authority, "Report on the Arab and Foreign Investment Until 31/12/1977," (Cairo: Statistics and Information Department), March 1978, p. 5.

27. Ministry of Economy, Foreign Trade and Economic Cooperation, Study on Law 43 Investment Policies, (Cairo:Economic Studies Unit, 1979), p. 1.

28. Carr, Foreign Investment in Egypt, p. 47.

29. Elkan, Walter, An Introduction to Development Economics, (Harmondsworth, Middlesex: Penguin Books, Ltd., 1978), p. 100.

30. Schumacher contends that advanced technology is capital rather than labor intensive. By introducing advanced technology, developing countries encourage unemployment at great social costs. He, therefore, suggests more labor-intensive, "intermediate" technology as a more humane answer to the problems of the developing world. (Schumacher, E.F., Small is Beautiful, [London: Sphere Books, Ltd., 1979] pp. 167-185.)

31. Waterbury, Egypt: Burdens and Options, p. 217.

32. Earlier proposals to restrict certain areas of investment to Arab capital only had been subsequently dropped with the exception of luxury and above-average housing. (MEED: 18, 5 April 1974, p. 386.)

33. Waterbury, Egypt: Burdens and Options, p. 222.

34. Fiani and Partners, Egypt Investment Directory, (Cairo: 1980), p. 39.

35. Besides its chairman, the board of directors of the Investment Authority consisted of:

- Chairman of the General Authority of Construction projects and Agricultural Development;
- Deputy Chairman of the General Authority for Planning Transportation projects;
- Deputy Chairman of the General Organization for Industrialization;
- Under-Secretary, Ministry of Economy and Foreign Trade;
- Under-Secretary, Ministry of Petroleum;
- Representative of the Central Bank of Egypt;
- Under-Secretary, Ministry of Planning;

- Under-Secretary, Ministry of Housing;
- Under-Secretary, Ministry of Reconstruction and New Settlements;
- Under-Secretary for Exchange Control;
- Counsellor of State, Chairman of the Advisory Section of the Council of State;
- Two Consultants to the Ministry of Economy and Foreign Trade;
- Not more than five other persons appointed by the Minister of Economy and recommended by the Deputy Chairman of the General Authority for their expertise in fields related to the activities of the General Authority.

(Ibid.)

36. Ibid.

37. MEED: 18, 22 February 1974, p. 200.

38. Berry, John, "Hell Paved with Good Intentions;" Forbes: 120, 15 November 1977, p. 39.

39. President Sadat appointed Mr. Higazi prime minister in early 1974. (MEED: 18, 22 February 1974, p. 199.)

40. MEED: 18, 23 August 1974, p. 969.

41. MEED: 21, 14 January 1977, p. 3.

42. Waterbury, Egypt: Burdens and Options, p. 219.

43. Ibid.

44. Ministry of Economy, Study on Law 43, Table 16.

45. "Special Report: Egypt," MEED, p. 9.

46. Ibid.

47. Ibid., p. 5.

48. MEED: 18, 15 November 1974, p. 125.

49. Ministry of Economy, Study on Law 43, p. 17.

50. Ibid., p. 2; and Waterbury, Egypt: Burdens and Options, p. 217.

51. Aharoni, Yair, The Foreign Investment Decision Process, (Boston: Harvard Business School, 1966), pp. 92-94.

52. Michelin appeared to stall on beginning to build its factory in Egypt even after having signed an agreement with the government. The desire to see how the political and economic situation within the country progressed was forwarded as a possible explanation of this behavior. (MEED: 21, 4 November 1977, p. 7.)

53. Aharoni, Foreign Investment, p. 171.

54. Carr, Foreign Investment in Egypt, p. 110.

55. MEED: 21, 4 November 1977, p. 7.

56. Carr, Foreign Investment in Egypt, p. 47.

57. A further list of similar activities involving the Egyptian government and potential foreign investors can be found in Carr, Foreign Investment in Egypt, pp. 46-47.

58. Ibid., p. 58.

59. A British-Egyptian joint economic committee meeting in Cairo in autumn 1975 revealed that potential British investors shared concerns similar to their American counterparts. (MEED: 19,

28 November 1975, p. 16.)

60. Carr, Foreign Investment in Egypt, p. 60.

61. Ibid., p. 60.

62. Two relevant studies in international business help to elucidate why foreign investors might prefer import-substitution investments over new technology export-oriented investments. Raymond Vernon explained that manufacturers of new technology products need to remain in the developed countries because of the need for a close and constant interaction of ideas between such manufacturers and their markets which are in the developed nations. (Vernon, Raymond, "International Investment and International Trade in the Product Cycle," Quarterly Journal of Economics: 80, May 1966, pp. 195-196.) Stephen Kobrin noted in his study of foreign investment that the domestic-market oriented variables are the overriding factors explaining actual foreign investment in a country. (Kobrin, Stephen J., "The Environmental Determinants of Foreign Direct Investment: An Ex Post Empirical Analysis," Journal of International Business Studies: 7, Fall-Winter 1976, p. 37.) A case in point appears to be the relatively good response by foreign banks to invest in Egypt, especially to finance the growing trade as a result of the Economic Opening. (MEED: 21, 21 July 1977, p. 4; and Carr, Foreign Investment in Egypt, p. 58.)

63. Personal Interview, U.S.-private Egyptian industrial joint venture, Cairo, 5 April 1981.

64. Personal Interview, Egyptian management consultant, Cairo, 15 February 1981.

65. Personal Interview, Wholly-owned Japanese free-zone project, Cairo, 19 April 1981.

66. Berry, "Good Intentions," p. 39.

67. MEED: 18, 6 September 1974, p. 1019.

68. Waterbury, Egypt: Burdens and Options, p. 227.

69. Wright, D.J., "Negotiating and Incorporating a Joint Venture Manufacturing Company in Egypt," Paper read at Council for British Industry Conference," Egypt: Opportunities for British Investment," 20 March 1980, London, (mimeographed), p. 9.

70. Ibid., p. 3.

71. Personal interview with British multinational bank, London, 19 January 1981.

72. MEED: 18, 4 October 1977, p. 1159.

73. Personal interview with U.S. Economic Attache, Cairo, 2 April 1981.

74. MEED: 22, 28 April 1978, p. 3.

75. Personal interview with British multinational manufacturing company, London, 11 November 1980.

76. MEED: 22, 13 January 1978, p. 18.

77. MEED: 22, 14 April 1978, p. 21.

78. MEED: 25, 5 February 1981, p. 18.

79. MEED: 21, 14 October 1977, p. 25; and MEED: 22, 26 May 1978, p. 32.

80. MEED: 24, 1 August 1980, p. 19.

81. MEED: 21, 7 January 1977, p. 15; and MEED: 23, 2 November 1979, p. 5.

82. MEED: 23, 2 November 1979, p. 5.

83. MEED: 21, 12 August 1977, p. 11; and MEED: 22, 4 August 1978, p. 7.

84. MEED: 21, 12 August 1977, p. 11; and MEED: 22, 26 May 1978, p. 13.

85. MEED: 21, 12 August 1977, p. 11.

86. MEED: 22, 21 April 1978, p. 27.

87. MEED: 22, 2 June 1978, p. 18.

88. The Pyramids Oasis project also generated considerable controversy in the Egyptian parliament, which will be discussed in Chapter 6.

89. Ministry of Economy, Study on Law 43, p. 7.

90. The exact extent of the effect that the cancellation of Pyramids Oasis had on potential foreign investors is unclear. MEED reported that as a result of the cancellation all potential investors were reconsidering, that interest had subsided, and that all the big deals such as the Ford project had been shelved indefinitely. (MEED: 22, 9 June 1978, p. 11.) An official of the Investment Authority, however, remarked that two months after the cancellation, investors appeared to be "indifferent" to the cancellation and that it apparently had no adverse effect on investment. (MEED: 22, 18 August 1978, p. 9.)

91. The government did take some steps to address the problems of Egypt's infrastructure. Solving such problems, however, is not achieved immediately. Most projects in this sphere remained in the

planning stage or other stages of implementation throughout the period of this thesis. A description of some such projects is supplied by Carr, Foreign Investment in Egypt, pp. 96-98.

92. MEED: 20, 9 July 1976, p. 21.

93. See Appendix A.

94. Ibid., Article 2.

95. In June 1976, the Minister of Economy and Economic Cooperation had told foreign investors that they could remit their profits abroad at the official rate of 39 piastres to the U.S. dollar--the rate in which investment was made. (MEED: 20, 11 June 1976, p. 18.) In April of 1977, however, it was announced that foreign investment was to now enter at the "parallel rate" of seventy piastres to the dollars. (MEED: 21, 22 April 1977, p. 25.)

96. See Appendix A, Article 22.

97. Ibid., Article 21.

98. Ibid., Article 3.

99. The Egyptian-American Business Council had proposed a tax holiday of eight years minimum and ten years in special cases. (Ministry of Economy, Study on Law 43, p. 16.)

100. See Appendix A, Article 16.

101. Ibid., Article 20.

102. See Appendix B, Table B:1.

103. "Special Report: Egypt," MEED, P. 11.

104. Ministry of Economy, Study on Law 43, p. 6. (The report did not pursue this issue further.)

105. Waterbury, Egypt: Problems and Options, p. 227; and MEED: 19, 31 January 1975, p. 8.

106. Waterbury, Egypt: Problems and Options, p. 220.

107. Ibid., p. 232.

108. Ibid.

109. See Table B:2.

110. See Table B:3.

111. See Tables B:4 and B:5.

112. Waterbury, Egypt: Burdens and Options, p. 314.

113. The change in government preceeding the previous approval peak had also followed civil disturbances though not on the same scale. (Ibid., p. 219.)

114. MEED: 21, 1 April 1977, p. 18.

115. MEED: 21, 3 May 1977, p. 5.

116. Ibid.

117. Ibid., p. 5.

118. MEED: 21, 22 April 1977, p. 6.

119. MEED: 21, 6 May 1977, p. 20.

120. Personal Interview, U.S./Arab/Egyptian joint venture, Cairo, 5 April 1981.

121. MEED: 21, 3 June 1977, p. 18.

122. MEED: 21, 17 June 1977, p. 18.

123. Dr. Qaisouni took over the planning portfolio from outgoing minister Abdel Meguid. (MEED: 21, 28 October 1977.)

124. MEED: 22, 28 April 1978, p. 3.

125. MEED: 22, 5 May 1978, p. 6.

126. MEED: 22, 12 May 1978, p. 3.

127. MEED: 18, 5 February 1974, p. 7.

128. Waterbury, Egypt: Burdens and Options, p. 206.

129. MEED: 19, 11 April 1975, p. 7.

130. MEED: 19, 9 May 1975, p. 13.

131. From the text of a White House news conference, 4 September 1975, reported in MEED: 19, 12 September 1975, p. 16.

132. MEED: 20, 8 April 1977, p. 16; and MEED: 20, 15 April 1977, p. 17.

133. MEED: 21, 22 July 1977, p. 15.

134. MEED: 21, 25 November 1977, p. 3.

135. One possible motive contributing to President Sadat's decision to undertake such a relatively dramatic step may have been a desire to recapture popularity after economic-based riots in Cairo in

January 1977. (Waterbury, Egypt: Burdens and Options, p. 317.)

136. MEED: 22, 20 January 1978, p. 13.

137. MEED: 22, 27 January 1978, p. 13.

138. MEED: 22, 9 June 1978, p. 17.

139. MEED: 22, 25 June 1978, p. 17.

140. MEED: 22, 7 July 1978, p. 19.

141. MEED: 22, 14 July 1978, p. 20.

142. MEED: 22, 28 July 1978, p. 19.

143. MEED: 22, 10 February 1978, p. 15.

144. MEED: 22, 11 August 1978, p. 15.

145. MEED: 22, 3 November 1978, p. 18.

146. MEED: 22, 3 November 1978, p. 18; MEED: 22, 10 November 1978, p. 21; MEED: 22, 17 November 1978, p. 20; MEED: 22, 24 November 1978, p. 19; and MEED: 22, 15 December 1978, p. 21.

147. MEED: 22, 15 December 1978, p. 21; and MEED: 22, 22 December 1978, p.14.

148. MEED: 23, 16 March 1979, p. 27.

149. MEED: 23, 23 March 1979, p. 18.

150. MEED: 21, 1 July 1977, p. 17.

151. MEED: 21, 25 November 1977, p. 23.

152. *MEED*: 22, 10 November 1978, p. 27.

153. *MEED*: 23, 28 September 1979, p. 19.

154. *MEED*: 23, 10 August 1979, p. 18.

155. *MEED*: 22, 7 April 1978, p. 20.

156. *MEED*: 23, 4 May 1979, p. 26.

157. A high proportion of U.S. imports into Egypt were foodstuffs. In 1975, of imports worth $682.7 million, edible oils represented $117 million and wheat represented $238 million. (*MEED*: 21, 7 January 1977, p. 14.)

158. *MEED*: 20, 16 April 1976, p. 12.

159. Ibid.

160. *MEED*: 20, 2 April 1976, p. 15.

161. *MEED*: 21, 21 January 1977, p. 20.

162. *MEED*: 23, 6 April 1979, p. 10.

163. "Special Report: Egypt," *MEED*, p. 9.

164. Egypt's ability to actually use the aid it received was sometimes questioned. The director of USAID warned in 1977 that donors "would not stick with Egypt" if the funds lent were not used effectively. (*MEED*: 21, 1 July 1977, p. 17.) An Egyptian government report in November 1978 reported that Egypt's use of all loans was 62 percent, and their use of Western loans was ony 52 percent (*MEED*: 23, 5 January 1979, p. 5.) In 1981 the U.S. Congress's General Accounting Office reported that of $357 million given to Egypt to support agriculture programs since 1975, only $61.8 million had been spent.

(MEED: 25, 15 May 1981, p. 12.)

165. Problems between Egypt and the IMF appeared to center on three basic issues: (1) the floating of the Egyptian pound, (MEED: 20, 30 April 1976, p. 15; MEED: 20, 7 May 1976, p. 16; MEED: 20; 23 July 1976, p. 13; MEED: 20, 17 December 1976, p. 20; and MEED: 22, 7 April 1978, p. 4); (2) the raising of Egyptian domestic interest rates, (MEED: 22, 7 July 1978, p. 4; MEED: 22, 13 October 1978, p. 24; and MEED: 25, 15 January 1981, p. 19); and (3) Egypt's price subsidies (MEED: 22, 12 May 1978, p. 4.)

166. MEED: 23, 9 November 1979, p. 26.

167. Ibid.

168. The U.S. government in some cases attempted to provide U.S. private investors in Egypt with more tangible incentives. For example, it issued political risk insurance to Xerox Corporation to cover the company's equity in an Egyptian joint venture. (MEED: 23, 9 November 1978, p. 28.) Egypt, it is interesting to note offered to pay $10 million in compensation to U.S. investors whose property had been expropriated in the early 1960s. (MEED: 20, 7 May 1976, P. 17.)

169. MEED: 20, 27 February 1976, p. 16.

170. MEED: 21, 25 November 1977, p. 23.

171. MEED: 21, 9 December 1977, p. 21.

172. MEED: 22, 3 November 1978, p. 18; and MEED: 22, 10 November 1978, p. 21.

173. MEED: 22, 17 November 1978, p. 7.

174. At that time, the Arab states had relatively little economic hold on Egypt due to Egypt's successful wooing of Western aid. (Ibid.)

175. Oman and Sudan did not attend. (MEED: 23, 6 April 1979, p. 3.)

176. Ibid.

177. The ministers at the conference, however, did stipulate that good relations would be maintained with Egyptian expatriates working in their countries. Remittances from these workers had totalled $955.7 million in 1978. (Ibid.)

178. MEED: 23, 22 June 1979, p. 4.

179. MEED: 23, 18 May 1979, p. 24.

180. In fact, one interviewed company had invested in Egypt hoping to export to Saudi Arabia and the Gulf. These markets, however, turned out to be prohibitively competitive and the company successfully sold to the Egyptian market instead. (Personal Interview, U.S./Arab/Egyptian joint venture, Cairo, 5 April 1981.)

181. The League of Arab States set up its Permanent Boycott Committee in 1945 and banned the import of Israeli products. In 1952 this ban was extended to companies doing business in Israel. Still, the Boycott Office could only recommend measures. Each member state could decide for itself whether to adhere to these measures. For example, Lebanon's security forces bought Landrovers from boycotted British Leyland. (Hotaling, Edward, The Arab Blacklist Unveiled, [New York: Landia Publishing Company, 1977], pp. 3, 4, 6, 8.)

182. MEED: 19, 4 July 1975, p. 12.

183. Hotaling, Arab Blacklist, p.162.

184. MEED: 21, 4 November 1977, p. 23; and MEED: 23, 12 October 1979, p. 35.

185. Hotaling, Arab Blacklist, p. 15; and MEED: 19, 20 June 1975, p. 12.

186. Talks between the Egyptian government and British Leyland eventually dissolved over the issues of financing and local content in the assembled vehicles. (MEED: 20, 24 September 1976, p. 14.)

187. MEED: 21, 28 January 1977, p. 17.

188. MEED: 21, 19 August 1977, p. 21.

189. MEED: 21, 16 September 1977, p. 22; and MEED: 21, 11 November 1977, p. 20.

190. Hotaling, Arab Blacklist, p. 17.

191. Despite the boycott provision in its contract, Coca Cola decided to proceed with its $50 million citrus joint ventures. (MEED: 22, 18 August 1978, p. 10.) In 1981, however, Coca Cola was reported to have halved its original fifty percent stake in the venture and withdrawn its technicians working on the project. (MEED: 25, 5 February 1981, p. 17.)

192. MEED: 19, 24 October 1975, p. 11.

193. MEED: 21, 13 May 1977, p. 21.

194. Ibid.; and MEED: 21, 16 September 1977, p. 23.

195. Hotaling, Arab Blacklist, p. 17.

196. MEED: 21, 4 November 1977, p. 23.

197. MEED: 21, 11 November 1977, p. 20.

198. Ibid.

199. Ford's negotiations with the Egyptian government continued nonetheless. It was twice reported that negotiations had foundered over the question of domestic Egyptian market protection. (MEED: 21, 4 November 1977, p. 23; and MEED: 24, 6 June 1980, p. 26.) However, in 1978 it was reported that Ford's plans were delayed because private Saudi Arabian investors who were contributing $30 million in cash to the $145 million project preferred to "maintain a low profile" until Egypt's split with the rest of the Arab world was resolved. ("Special Report Egypt," MEED: p. 12.)

200. MEED: 22, 2 June 1978, p. 8.

201. MEED: 23, 22 June 1979, p. 23.

202. MEED: 23, 18 May 1979, p. 26.

203. Ibid.

204. Personal interview, U.S.-Egyptian-Arab joint venture, Cairo, 5 April 1981.

205. Arab tourism, which accounted for fifty to sixty percent of tourists visiting Egypt in 1978 and 75 percent of tourist revenue that year, was reported to have declined sharply immediately following the Camp David peace treaty. (MEED: 23, 22 June 1979, p. 5.) In 1980 however, the number of Arab tourists visiting Egypt was reported to have risen again, up 21 percent over the previous year. (MEED: 25, 9 April 1981, p. 6.)

Chapter 5

FROM DEVELOPMENT COALITION TO CAPITALIST COALITION

At the beginning of Egypt's Economic Opening, it was unclear what exact role local private investors were to play in the Opening. Passages in Egypt's new 1971 constitution appeared favorable to capitalism. On the other hand, members of government including President Sadat warned that the country would not abandon its socialist ideals.

With the promulgation of Law 43, the "foreign investment" law, local private investors in Egypt remained at a disadvantage relative to their foreign counterparts as far as government incentives were concerned. Over the latter half of the 1970s, however, local private investors gained an increasingly equal footing with foreign investors under the law. By the end of the 1970s, a capitalist coalition could be said to have replaced the original development coalition between government and foreign investors, for all caapitalists--local and foreign--were receiving essentially similar government incentives.

Several factors likely contributed to this change from a development coalition to a capitalist one. Local private investors naturally strove to improve their position. Foreign investors apparently welcomed a rising position for local private investors or were at least initially unconcerned with the trend. Furthermore, the Egyptian government, anxious to see its Economic Opening succeed and faced with a foundering development coalition and relatively little serious foreign investor response, was apparently becoming less discriminating as to the expected development benefits of proposed investment projects and more amenable

to allowing local private investors to help bolster investment statistics.

The Economic Opening and Local Private Investors

From the beginning of the Economic Opening, local private investors were in a position for potential gain from the government's defection from the Nasserite socialism which had prevailed in the 1960s. During a "de-Nasserization" program under President Sadat in the early 1970s the Egyptian press singled out for particular criticism the sequestering of property which had affected approximately 15,000 people.[1] President Sadat, shortly after his ascendency to power, also embarked upon a "Rectification Movement" which was hearlded within Egypt as an attempt to remove the suspicions engendered by the widespread sequestrations and arrests during the latter part of the Nasser era. A new constitution, based upon respect for "individual freedoms" and the "rule of law" was passed on September 11, 1971.[2] The new constitution included articles exhibiting positive attitudes towards private property in general:

> Private ownership shall be safeguarded and may not be put under sequestration except in the cases specified in the law and by medical decisions. It may not be expropriated except for public interest and against a fair compensation in accordance with the law. The right of inheritance is guaranteed in it. (Article 34)
>
> Nationalization is prohibited, except in cases of public interest and only by means of law and against a fair compensation. (Article 35.)
>
> General confiscation of funds is prohibited, and special confiscation is not allowed, except by judicial decision. (Article 36)[3]

Nonetheless, the beginning of the Economic Opening, the true extent to which Egypt was to return to a capitalist economic order, and thus the foreseen position of local private investors, remained unclear. One Egyptian official, Dr. Fu'ad Mursi, writing in March 1975, explained the Economic Opening in terms definitely reminiscent of a development coalition and spoke disparagingly of those interested in establishing a capitalist coalition stating:

> The Economic Opening merits our attention and concern for it confirms the essential differences between big capital and national capital. While big capital sees in the Opening a means to return Egypt to a capitalist framework, locally and internationally, national capital sees in it a way to face the crisis of financing economic growth by attracting foreign and Arab capital, all the while safeguarding Egypt's economic independence.[4]

Several months earlier in October 1974, President Sadat himself had spoken words potentially discouraging to the emergence of a capitalist coalition, noting, "There are some people who try to depict the Economic Opening as a basic change in our ideological framework... our socialism; but this is a grave error."[5]

With the promulgation of Law 43 in 1974 and the attempt by the Egyptian government to establish a development coalition, local private investors remained at a disadvantage in relation to their foreign counterparts. The investment of Arab and Foreign No. 43 of 1974 Concerning the Investment of Arab and Foreign Funds and the Free Zones," provided incentives for foreign investments not available to local investors. Whereas Law 43 did encourage--and in some cases required--local participation alongside foreign in investment projects, this stipulation did not automatically include local private investors in Law 43 projects. Except

certain designated industries, the Investment Authority could--and did--approve totally foreign-owned projects. Furthermore, the required local partner or partners could be public industrial or service companies and/or financial institutions.[6]

It might be noted that Law No. 86 of 1974 had been issued to provide projects funded in local currency with incentives similar to those made available to joint ventures. However, no implementing body similar to the Investment Authority was ever established to supervise investment and Law 86 and its provisions remained unimplemented.[7] Therefore, local private investors wishing to establish an investment project without a foreign partner remained at a disadvantage.

The Rising Position of Local Investors

Despite the ambiguity surrounding the part local private investors were to play in the Economic Opening, a number of concessions were granted by the Egyptian government to local private enterprise during the 1970s. A 1961 law had required that commercial agents representing foreign firms be companies in which the government's share was at least 25 percent.[8] Law No. 93 of 1974 authorized Egyptian persons and private corporations to act as commercial agents for foreign firms.[9] New legislation in September 1975 removed the monopoly over foreign trade from the state trading companies allowing private companies to import directly all commodities except 28 key ones, including wheat, flour, fuel and fertilizers.[10] In early 1977 import licenses were also dropped for items such as supplies of automotive spare

parts, medical appliances, raw materials for the leather and furniture industries, glasses, film, and certain chemical products.[11] Egypt's 1974 state budget also recommended the revival of the Egyptian stock exchange.[12] Subsequently, in May 1977 the Cairo and Alexandria stock exchanges were re-opened.[13] Also, a past requirement that public sector contracts only be allotted to public sector companies was dropped.[14]

Moreover, further concessions granted local private investors over the period of 1975 through 1977 improved the legal status vis-à-vis investment under Law 43. In the spring of 1975 the Egyptian government decided to allow Egyptian-owned capital transferred from abroad the same incentives under Law 43 offered to Arab and foreign investment.[15] If Egyptians could gain access to foreign exchange they could, under the new rules, invest under Law 43 as if they were foreigners; and over the next two years measures were taken by the Egyptian government which served to increase local investors' access to foreign exchange.

To begin with, a preferential exchange rate which had been established at fifty percent above the official rate during the summer of 1973 was raised to 65 percent in February 1976. This "parallel" rate applied to tourist purchases, the proceeds of nontraditional exports, and, of increasing importance, remittances from Egyptians working abroad, particularly in the neighboring oil-rich Arab states.[16] These remittances could be an important potential source of capital for re-emerging private Egyptian investment. Also, in late 1976 Egyptians were allowed to open checking and savings accounts in foreign currencies without as previously required, providing written statements as to the

origin of the money.[17,18]

Furthermore, Law No. 97 of 1976 allowed Egyptians possessing foreign exchange, however obtained in the past, to use such funds to buy imports from a list of approved parallêl market goods without converting their currency through the banking system.[19] Law 97 created in effect an "own exchange" market or "grey market" in which Egyptians could buy and sell foreign exchange at a rate determined between buyer and seller. As long as checks and not cash were involved, the bank received no commission and the government in effect did not become involved.[20] While businesses in Egypt often had the legal right to buy foreign exchange at the parallel rate, there was no guarantee that it would actually be made available.[21] A "grey market" therefore developed from the discrepancy between the parallel rate and the true market value of foreign currencies.[22] The effect on remittances was largely unexpected by even the Egyptian government. By November 1977, the Central Bank estimated that foreign exchange remittances were running at $1,000 million a year, well over twice the level of the previous year.[23,24] Business was brisk on the grey market. Its rate for foreign exchange reached approximately fifteen percent above parallel rate by 1979; and deals of up to £E 25 million were rumored to be transacted on it.[25]

The 1977 amendments to Law 43 further promoted the position of local private investors. An addition to Article Six introduced the possibility of establishing Law 43 projects with entirely Egyptian capital and owned by Egyptian nationals alone. These projects, like all others, were subject to the Investment

Authority's approval, such projects were only granted the priveleges and exemptions set forth in Articles Nine, Fourteen, Fifteen, Sixteen, Seventeen, and Eighteen. This meant, in essence, that wholly Egyptian projects received the tax benefits of the law but were far less exempt from labor and management regulations than were the foreign projects or joint ventures.[26] Nevertheless, they were granted a more realistic position under the revised Law 43 than they had enjoyed under the ineffectual Law No. 84 of 1974.

While it may be argued that local private investors remained at a disadvantage due to the limitations mentioned above which still affected wholly Egyptian projects,[27] it may be argued on the other hand that the 1975 decision to consider Egyptian-owned capital subscribed in foreign currency to be legally considered "foreign investment" had in fact made the subsequent 1977 amendment to Article Six redundant. In theory, a wholly-owned Egyptian project need only produce a token proportion of capital subscribed to in foreign currency to no longer be considered "purely Egyptian" under the law and thus be eligible for consideration for investment approval prior to the 1977 amendments and exempt from labor and management restrictions subsequent to them.

In this study's survey of 154 joint-stock companies incorporated under Law 43, 27 were wholly-owned Egyptian projects.[28] Only one of these wholly-owned Egyptian projects had no capital subscribed in foreign currency and therefore subject in law to the remaining labor and management restrictions.[29] The remaining 26 wholly-owned Egyptian projects had a proportion of their capital subscribed to in foreign currency, although the percentage of foreign currency

subscription to total capital was relatively minimal. In all cases foreign currency represented less than 25 percent of capital, and in 65 percent of cases it represented less than ten percent of capital.[30]

Increasing Participation of Local Private Investors Under Law 43

One indicator of local investors' growing importance to the Economic Opening could be their changing participation patterns under Law 43. As explored in Chapter Four, there is evidence to contend that investment patterns under Law 43 reflected not only the number and type of project proposals being presented for approval but the Egyptian government's, i.e., the Investment Authority's decisions to accept or reject any such proposals. Therefore, in order for local investors to play a greater role under Law 43 they must have not only wished to do so, but the government must have allowed them to do so by approving project proposals in which local private investors featured more prominently. The decrease over time in the number of Law 43 projects with foreign participation as a proportion of all Law 43 projects pictured at the end of Chapter Four reflected an increase in wholly-owned Egyptian projects (See Chart 5:1). This trend might reflect a lessened governmental concern to see foreign partners attached to projects.

However, wholly-owned Egyptian projects could comprise public investors, private investors, or a combination of the two. Nonetheless, evidence from this study reveals an increase in wholly-owned private Egyptian projects. Private enterprises

and partnerships could only comprise private individuals by legal definition, and this type of project represented the majority of wholly-owned Egyptian projects under Law 43; i.e., 195 out of 341.[31] While the number of wholly-owned Egyptian personal enterprises and partnerships continued to grow from 1977 on, their growth was more than matched by an increase in wholly-owned Egyptian joint-stock companies.[32] Looking at the study's survey on joint-stock companies under Law 43, participation by local private investors in wholly-owned Egyptian joint-stock companies continued with the increase in this form of enterprise; i.e., 3 out of 4 such projects surveyed prior to 1978 and 10 out of 32 in 1978 and 1979.[33] Thus the trend to more wholly-owned Egyptian projects most definitely included increased participation by local private investors.

Local private investors were also actively participating in their joint ventures with foreign partners. The number of personal enterprises and partnerships of which only 67 out of 427 did not include private Egyptian participation, grew steadily from 1977 on.[34] As in the case of wholly-owned Egyptian joint-stock companies, the participation of Egyptian individuals and private companies in joint-stock companies overall was keeping pace as the number of joint-stock companies were proportionately increasing under Law 43. This private participation rose from 48 surveyed projects out of 76 prior to 1978 to 57 out of 78 in 1978 and 1979.[35]

The Capitalist Coalition

A capitalist coalition could be said to have displaced the original development coalition only after several years into Egypt's Economic Opening. In practical terms, local private investors had acquired a combination of legal and political status--at least as far as the Investment Authority was concerned--which allowed them to enjoy government investment incentives similar to those received by foreign investors.

This replacement of the old development coalition with the new capitalist one came about as the result of three criteria. First, foreign investors either actively welcomed the idea of emerging strength among local private investors or were passively tolerant of the idea. Some foreign investors perceived that they stood to gain from a stronger, combined capitalist front against the government and the others seemed to be unconcerned--at least until their own projects came under attack from local competition. Second, the government who might well stand to lose--at least as far as its original envisaged development plans for the country were concerned--apparently found itself in a position of weakness which caused it to acquiesce to the new capitalist coaliton. Finally, given a relatively passive attitude on the part of the government and foreign investors, local private investors were in a position to push for and receive their elevated legal and political position.

David Carr writing circa 1978 reported that foreign investors had welcomed the "new generous treatment of Egyptian enterprise" because the stimulation of private enterprise generally was an important element of a "favorable foreign investment climate."[36]

Indeed, foreign investors who might have hesitated at taking on a public company as a joint-venture partner--either on principle or from experience in negotiating with or even working with an Egyptian public firm--could see the encouragement of local private enterprise as possibly resulting in a larger pool of potential local private partners.[37] Even the increasing trend towards wholly-owned Egyptian projects need not have worried many foreign business concerns--if they were in fact aware of such a trend. Many foreign businesses were happy, or even preferred, to sell technology or know-how via licensing arrangements without being involved in capital participation.[38] Foreign businesses might also prefer to simply sell goods--machinery, components, or simply consumer goods for distribution--to local investors rather than become directly involved in an investment venture themselves. As mentioned in Chapter Four, the United States became Egypt's main trading partner during this period, yet the number of projects with American participation remained very low.

Perhaps because the Economic Opening was still relatively new and further opportunities for business in the Egyptian market seemed rather extensive, no companies interviewed for the study appeared to know very much about local competition or perceived it to be an area of great concern.[39] In all, the initial rise of local private investors to a stage of equal treatment with foreign investors appeared to have been viewed by their foreign counterparts as far as from ominous development.

While foreign investors were welcoming either actively or passively, the rise of local private investors in Egypt, other foreign organizations, United States Agency for International

Development (USAID) in particular, were encouraging their rise as well. The Development Industrial Bank (DIB) was established in 1975 with capital aid of $31 million from USAID and for the purpose of encouraging Egypt's private sector development.[40,41] In the first year of operations, $7.25 million in loans had been dispersed and this rose to $231.4 million in 1979.[42] USAID also established a private sector commodity import program in the wake of the Egyptian government's loosening of import controls. This program provided, as of autumn 1980 approximately $102 million to finance the importation of commodities, raw materials, spare parts and capital goods to Egypt's private sector.[43] Other projects involving Egypt's private sector included conferences on Egypt's Companies Law and capital markets study.[44]

USAID was not insensitive to its own potential American investors in Egypt. The Agency provided $5 million to reimburse qualified American firms up to 75 percent of the costs of undertaking a pre-investment feasibility study for Egypt. This program, however, paled against the effort and money USAID was supplying to local business.[45]

While foreign investors might be as amenable to a capitalist coalition with local private investors as to a development coalition with the government, the Egyptian government could stand to lose from a capitalist partnership as far as its development plans were concerned. That is, the government might give incentives to local investors and not receive the same advantages as those foreign investors could provide, i.e., new technologies or access to international markets. Nonetheless, under the circumstances, the Egyptian government acquiesced. A government acts as the

agent responsible for developing the country, but it is also subject to political realities which can make it waiver from its longer-term development goals and for the sake of political and economic expediency allow a capitalist coalition to emerge without providing much, if any, opposition. The Egyptian government appears to have found itself in such a situation within several years of the inauguration of the Economic Opening.

The Egyptian government had already taken active measures to attempt to save its development coalition. A major reason for these attempted measures was apparently the dichotomy between the expectations raised by the rhetoric of the Economic Opening and the reality of how slow it was progressing. Prime Minister Higazi, soon to be replaced, had often stressed that the masses needed to be prepared to wait a long time before capital actually entered the Egyptian economy and even longer before such investment had any impact on their lives.[46] Nonetheless, the social unrest resulting in riots in 1975 and the more serious ones in early 1977 indicated that the masses were not paying heed. The subsequent "chase after capital" did not result in a large, sustained increase in foreign participation in projects. Instead, the increase in the number of projects came primarily from increased Egyptian investments; indicating that the government under stress was susceptible to the temptation to succumb to the arguments of a capitalist coalition. If all capitalists were treated alike--i.e., given the same incentives--the government would likely raise more capital more quickly.

Indeed, after the cautious Prime Minister Higazi had been replaced, the new Prime Minister Salem announced a Five-Year Plan in which the private sector was expected to make up at least half of the earmarked investment of £E 2,8000 million (approximately $6,700 million).[47] The prime minister was also reported to have said that the plan would give priority to "schemes with quick, returns."[48] A project's contribution to the longer-term development of Egypt, a cornerstone of the government's original development coalition, had lost priority.

Furthermore, the concessions the government had made as an attempt to hurry and increase foreign investment had made discrimination against local firms less supportable. It could be argued that the government's compromise on the issue of export-oriented projects made certain perceived advantages of foreign investors, in particular knowledge of foreign markets and current, internationally competitive technology, redundant criteria. As for access to foreign exchange, local investors proved able to provide that as well. In nearly seventy percent of all surveyed joint-stock companies involving local private investors the private investors had themselves subscribed to capital in foreign currency.[49]

With its rationale for discriminating in favor of foreign investors somewhat undermined, the Egyptian government may have become more sensitive to nationalistic grumblings against its more favorable treatment of foreigners. For example a workshop on proposed changes to the law governing local joint-stock companies held in 1977 published as one of its conclusions that:

> There is no justification for making or preserving a distinction between companies operating under the Investment Law of 1974 and local companies operating under Law 26 for 1954; except a foreign investor should enjoy only those guarantees and privileges accorded to the national investor.[50]

Another writer, in this case a Western one, noted what many Egyptians no doubt felt; i.e., that special incentives offered to foreign investors in the early 1970s were too reminiscent of the old "legal enclaves" available to foreigners prior to the Revolution.[51]

Though on a less patriotic level, the Egyptian government might also have become more amenable to the rise of local private investors because members of the government shared the same aspirations as this class. An addition to Article 11 in the amendments of Law 43 served as a poignant reminder of the enduring problem of conflicts of interest between private and public affairs:

> Prohibited activities.... included undertaking any private activity, directly or through an intermediary, including consultant activities, if during the year prior to leaving office or employment, the Minister or official was involved in licensing the establishment of these projects or supervising their activity.[52]

In 1977--the year in which foreign investors appeared to have received their greatest concessions from the Egyptian government--a most telling statistics heralded the change from a development coalition to a capitalist one. Foreign participation in total private-sector investment in Egypt which had in a few years risen to 38 percent in 1976 fell in a single year, 1977 to only 24

percent, as finance from local sources rose proportionately.[53]

Conclusion

In a relatively short time, local private investors in Egypt were successful in securing essentially equal status with foreign investors vis-à-vis government incentives, thus replacing a development coalition with a capitalist one. This change was apparently welcomed by foreign investors as being good for the capitalist investment climate as a whole or at least ignored as being non-threatening to the position of foreign investors. The Egyptian government apparently acquiesced to the change due to pressures inherent to the politics of an open-door policy; i.e., the government promised benefits to the populace from foreign investment, foreign investment failed to materialized on the envisaged scale, and the government "chased after capital"--foreign or local--in order to try and save the new policy.

Despite the relative amenability of both foreign investors and government to the emergence of a capitalist coalition, the rising importance of local private investors was to present negative repercussions to both foreign investors and the Egyptian government. Chapter Six proceeds to explore the attempts of local private investors to further increase their position to the detriment of foreign investors via a nationalist coalition. Chapters Seven and Eight explore the controversial and largely non-development-oriented nature of local private investment under Law 43 and the political turmoil resulting from this controversy.

Notes to Chapter 5

1. Middle East Economic Digest (MEED): 18, 15 March 1974, p. 291.

2. Carr, David William, Foreign Investment and Development in Egypt, (New York: Praeger Publishers, 1979), p. 41.

3. Fiani and Partners, Egypt Investment Directory, (Cairo), 1980, p. 80.

4. Watesbury, John, Egypt: Burdens of the Past, Options for the Future, (London: Indiana Press, 1978), p. 201.

5. Ibid.

6. See Appendix A, Article 4.

7. Carr, Foreign Investment in Egypt, p. 50.

8. Carr, Foreign Investment in Egypt, p. 51.

9. Ibid; and Frith, Denis E., Winning Business in Egypt, (London: Graham and Trotman Limited, 1978), p. 21.

10. Carr, Foreign Investment in Egypt, p. 51.

11. MEED: 21, 1 April 1977, p. 18.

12. MEED: 18, 22 February 1974, p. 200.

13. Carr, Foreign Investment in Egypt, p. 51.

14. "Special Report: Egypt," MEED, May 1978, p. 26.

15. MEED: 19, 23 May 1975, p. 11.

16. Carr, _Foreign Investment in Egypt_, p. 51.

17. Ibid; and _MEED_: 22, 15 September 1978, p. 26.

18. Funds from these accounts could be used to purchase imported goods, local-market goods sold in foreign currencies, or Egyptian company stock issued in foreign currencies. Also, $5,000 per annum could be withdrawn and taken abroad for business or vacation. There were no restrictions on "free accounts" for which the sources of funds had been fully disclosed. (Touch Ross International, "Investment Incentives and Taxation, Egypt," Cairo: May 1977, p. 5.)

19. Carr, _Foreign Investment in Egypt_, p. 51.

20. _MEED_: 22, 1 December 1978, p. 3.

21. _MEED_: 21, 11 November 1977, p. 8.

22. _MEED_: 21, 18 November 1977, p. 8.

23. Ibid.

24. Expatriate savings also rose in the first nine months of 1977 compared to first nine months of 1976. These savings rose 136 percent to £E 308.4 million ($443 million). (_MEED_: 22, 6 January 1978, p. 17.)

25. _MEED_: 23, 2 March 1979, p. 23.

26. See Appendix A.

27. This was the opinion of one interviewed American lawyer and USAID official responsible for recommendations concerning changes in Egypt's joint-stock company laws. (Personal Interview, Investment Authority, Cairo, 26 February 1981.)

28. See Table B:11.

29. The only surveyed project with no capital subscribed in foreign currency was Misr Company for Soft Drinks and Food Preservation, a company dominated by Arab Contractors. (Own Survey of Joint Stock Companies and "Annual Report, Arab Contractors: Osman Ahmed Osman and Company, 1979," p. 4.)

30. See Table B:11.

31. See Table B:12.

32. See Table B:13.

34. See Tables B:13 and B:15.

35. See Table B:16. An apparent proportional increase in private Egyptian participation cannot be substantiated using a chi-square test at a significance level of .05.

36. Carr, Foreign Investment in Egypt, p. 50.

37. One interviewed multinational bank in a joint venture with a public Egyptian bank was contemplating expanding investment in Egypt. The multinational bank had been contacted by Egyptian individuals who wished to join the bank in a second joint venture. The bank considered the option to be potentially more attractive than expanding with a public partner; although given its current involvement with a public partner, the bank felt obliged to decline the offer. (Personal Interview, British-based multinational bank, Cairo, 19 February 1981.) Similarly, it was reported that First National City Bank was waiting for private Egyptian partners rather than enter a joint venture with a public bank. (Waterbury; Egypt: Burdens and Options, p. 225.)

38. Personal Interview, Egyptian business consultant, Cairo, 11 March 1981.

39. Several interviewed companies, however, were keenly aware of--and in two cases extremely worried--about comeptition in their potential export markets.

40. "Special Report: Egypt," MEED, May 1978, p. 16; and MEED: 24, 18 April 1980, p. 11.

41. DIB also received large amounts in funding from the World Bank. (Personal Interview, USAID, Cairo, 1 April 1981.)

42. MEED: 24, 18 April 1980, p. 11.

43. Personal Interview, USAID, Cairo, 1 April 1981; and USAID Internal Records.

4. Ibid.

45. USAID programs could be viewed as being more potentially beneficial to American business at home than to American investors in Egypt. Both USAID loans channelled through DIB and its own import financing afforded through the private sector commodity import program were subject to restrictive clauses requiring the purchase of American products. Also, under the private sector feasibility studies program, studies of "activities which would prove harmful to U.S. manufacturers" were excluded from financing. (Ibid.)

46. Watesbury, Egypt: Burden and Options, p. 231.

47. MEED: 20, 7 May 1976, p. 17.

48. MEED: 20, 18 June 1976, p. 19.

49. See Table B:17.

50. El-Shalakany, Ahmed, "Proposed Amendments to the Law Governing Joint Stock Companies," (Cairo: 26 February 1977, mineographed). p. 31.

51. Salacuse, Jeswald W., "Back to Contract: Implications of Peace and Openness for Egypt's Legal System", American Journal of Comparative Law: 28 (Spring 1980), p. 326.

52. See Appendix A, Article 11.

53. MEED: 22, 5 May 1978, p. 24.

Chapter 6

CONFLICTS OF INTEREST WITHIN THE CAPITALIST COALITION AND THE EMERGENCE OF A NATIONALIST COALITION

Foreign investors may have judged a capitalist coalition as not threatening their position in Egypt and even beneficial to the extent that it could sponsor a more liberal attitude towards free enterprise on the part of what hitherto had been a somewhat ambivalent, divided government. They were, however, soon to encounter the unpleasant counter-side of any new coalition; i.e., whereas one receives new advantages from a coalition with a new partner one is required to make new compromises. In the case of the abandonment of a development coalition for a capitalist coalition, foreign investors were required to compromise a protected market position and face increased competition supplied by their new coalition partners, the local private investors.

While both parties of the capitalist coalition might promote the idea that an open, free market with its concomitant competition is good for the economy of a country, both parties must face the reality that competition can be bad for business. As stated earlier, this less than desirable repercussion of a capitalist coalition may be overlooked by foreign investors at the start because they underestimate local investors' abilities to mobilize and thus prevent effective competition.

From the point of view of the local investors, a capitalist coalition is a stepping stone to a more desirable nationalistic coalition with their government in which they still accrue the benefits of a capitalist coalition while receiving in addition

a protected market in which their former allies, the foreign investors, face adverse discrimination from the government.

By the end of the 1970s in Egypt, foreign investors and local private investors were experiencing conflicts of interest. There was also evidence of an emerging nationalist coalition beginning with nationalist rhetoric and proceeding to the exclusion of new foreign investment from certain lucrative markets.

Conflicts of Interest Within the Capitalist Coalition

With increasing opportunity for local private investors to participate in the Economic Opening, some foreign investors were beginning to feel the effects of increased competition. Their relatively protected market positions under the development coalition gave way to a more competitive environment due to freer market entry granted to local investors under the new capitalist coalition.

One foreign investor to discover the more unpleasant side of a capitalist coalition with its increased competition from local private investors, was the Wilkinson Match company, the first British company to form a joint venture with an Egyptian public company.[1]

Similar to other examples cited in Chapter Four, Wilkinson's attempt to establish a joint venture in Egypt turned into a long, drawn-out affair, which began in 1973 and finally culminated in production in late 1978.[2] The joint venture was divided among Wilkinson, which held 51 percent of the capital; a public Egyptian company, Alexandria Metal Products, which held forty percent; and Arab interests, which held the remaining nine percent.[3]

The project aimed at eventual production of 200 million razor blades a year, primarily targeted for the local Egyptian market.[4,5]

In early 1979, however, Egyptian private investors submitted a proposal to set up a $6 million factory to produce 50 million razor blades a year in conjunction with the Gillette Safety Razor Company.[6] The subsequent approval of the project by the Investment Authority angered management at Wilkinson who claimed they had been given an understanding from the Authority that there would be no competitors allowed in the domestic market during their project's start-up period.[7] In defense, Deputy Premier for Financial and Economic Affairs Abdel-Meguid, asked:

> Which country, open door or non-open door, provides a total monopoly to companies? In the United States they have an antitrust Law.[8]

In Egypt, however, some public companies had monopolies, and Wilkinson might well expect that a joint venture with a public company could demand market protection. The tide of the capitalist coalition, on the other hand, favored allowing private Egyptian investors into the hitherto protected market.

Ironically, Wilkinson's joint venture in Egypt eventually fell victim to a different source of private Egyptian entrepreneurial competition which appeared to be thriving under the capitalist coalition; i.e., smuggling. Smuggling had grown to be big business in Egypt in the late 1970s, particularly in such items as razor blades and foreign cigarettes.[9] Port Said which had been converted into a free-zone city had become a major center for smuggling duty-free items into Egypt.[10] Stumbling upon the obvious, a government report concluded:

> Where free zones are not properly fenced off and security facilities are not full in operation, it is difficult to monitor traffic and avoid smuggling. Private free zones have sometimes been located in areas where it is very difficult to control the entry and exit of goods.[11]

As a result of the smuggling of an estimated 300 million razor blades into Egypt, Wilkinson's joint venture amassed unexpected losses in 1979 of around $1 million and a similar loss was projected for the next year. Consequently, Wilkinson was attempting to reduce its participation in the joint venture.[12]

Massey Ferguson Ltd. also became embroiled in a situation similar to Wilkinson's. Massey Ferguson had negotiated a joint venture with the public Egyptian auto manufacturing company to build tractors. Again, the foreign company had received an agreement from the Investment Authority that its joint venture would be protected from competition during its early stage. Nonetheless, the project was thrown into doubt when in February 1978 the West German manufacturer Deutz signed a protocol with the powerful "public-private" Egyptian Company, Arab Contractors,[13] to produce tractors in an Egyptian free zone. This new joint venture was based on a change in law which allowed argicultural machinery to be imported tax-free into Egypt.[14]

A whole major industry in which foreign investors began to feel the bite of local competition was banking. As mentioned in Chapter Four, banking had been one industry which had been successful in attracting foreign investment. Foreign banks such as Chase Manhattan and Barclays Bank International formed joint ventures with the five nationalized state banks. Although the

public partner usually held either fifty percent or the majority of the capital, the new joint-venture banks were considered to be much more competitive in the market than the public banks which were used to operating in monopoly positions in separate areas of the economy.[15] With the restrictions relaxed on Egyptians holding foreign currency many dollar accounts opened at the new banks. Chase National's profit of nearly $5 million in its first year of operations in Egypt was due to placing $54 million dollars in local deposits on the Eurodollar market.[16]

At the beginning of the Economic Opening, only the five public banks along with foreign partners could form the new private-sector joint-venture banks. While in office, Prime Minister Hagazi had suggested, however, that the required Egyptian ownership might eventually be private;[17] and his successor Prime Minister Salem announced in May 1977 that a totally Egyptian private bank, the Nile Bank, was to be established by Egyptians working in Saudi Arabia.[18]

The following June, the Suez Canal Bank opened as a bank purportedly aimed at investing worker remittances.[19] The same month the bank announced its plans to open four new branches in Ismalia, Port Said, Suez, and Alexandria.[20] Unlike the Nile Bank, the Suez Canal Bank had both public shareholders such as the Bank of Alexandria and the Misr Insurance Company as well as private Egyptian individuals.[21] By the end of 1979, its first full year in operations, Suez Canal Bank had deposits of $201.5 million versus deposits of the older joint-venture banks such as $60 million at the Misr Iran Development Bank, $38.25 million at Misr American, and $61.8 million at Cairo Barclays

International Bank. Its deposits even exceeded those of the exceptionally successful Chase National Bank whose deposits only reached $194.2 million. The Suez Canal Bank was making loans totalling $145.6 million versus $20 million at Misr Iran Development Bank, $40.5 million at Misr American, $36.4 million at Cairo Barclays International Bank, and $74.2 million at Chase National. The same year, Suez Canal Bank enjoyed a 53 percent return on equity.[22]

This increase in pure Egyptian private banks coincided with what was described as a breakdown of the "gentlemen's agreement" among banks not to "poach each other clients."[23] Speaking in spring 1981, the chairman of Chase National remarked that competition was "strong and fierce" but not "fair and equal."[24] A manager at another interviewed joint-venture bank accused the Suez Canal Bank of actively soliciting customers of other banks to switch their business.[25]

Furthermore, as relates to partnership patterns, an increasing ability for Egyptian private investors to do as they pleased combined with an apparent preference for personal enterprises and partnerships could prove discouraging to joint ventures between them and foreign--or more particularly, Western--investors. (See Table 6:1.) Egyptian private investors apparently preferred the relative informality and flexibility of personal enterprises and partnerships to limited liability and joint-stock companies. This required, however, that the foreign partner be an individual or individuals, not a company. This does not seem to have presented a grave problem in the case of Arab participation. The figures for

TABLE 6:1

Comparison of Project Forms of Law 43 Projects With Pure Egyptian, Arab and American Participation

National Participation

Project Form	Pure Egyptian	Arab Participation	American Participation
Personal Enterprise/ Partnerships	195 (57%)	179 (46%)	23 (23%)
Joint-Stock Company	90 (26%)	166 (42%)	58 (58%)
Other*	56 (17%)	47 (12%)	19 (19%)
Total	341 (100%)	392 (100%)	100 (100%)

* Limited liability companies, partnerships limited by shares, and branches.

Source: Table B:12

American participation, on the other hand, present almost exactly reversed numbers from the pure Egyptian projects for participation in unincorporated firms and joint-stock companies. It is possible even likely that the vast majority of potential American investors were companies not individuals. If local private investors wished to establish a limited or general partnership in conjunction with a foreign company, they would have to limit the foreign participation to something other than equity; e.g., licensing. It is perhaps ironic that when the government insisted that foreign investors take local partners for the perceived national benefits of joint ventures, that the local partners might well have been the ones to reject the idea.

Thus the capitalist coalition was not free of conflicts of interest among foreign and local private investors. Foreign investors were facing increased competition due to the loss of a privileged market position, and many potential foreign investors were possibly facing exclusion from joint ventures due to local private investors' preference for personal enterprises and partnerships. The increasingly powerful local private investors, on the other hand, were beginning to lobby for a privileged position of their own, and towards the end of the 1970s signs of an emerging nationalist coalition could be seen in Egypt.

Evidence of An Emerging Nationalist Coalition

A real threat to foreign investors and potential foreign investors posed by the increasing participation and power of local private investors in Egypt's Economic Opening could be

the eventual ability of these local investors to arouse nationalist sentiment which might in turn manifest itself in discriminatory government restrictions against foreign investors.

Evidence of nationalistic rhetoric was present in Egypt during the second half of the 1970s. With a liberalization of the political system under President Sadat, a New Wafd Party emerged with a similar nationalist platform to its namesake of pre-Revolution days. The new party was seen by some to appeal to "disgruntled elements in the private sector by advocating protective measures against foreign investment and higher tariff walls."[26] In 1976, Dr. Qaisouni, then President of the Arab International Bank lamented:

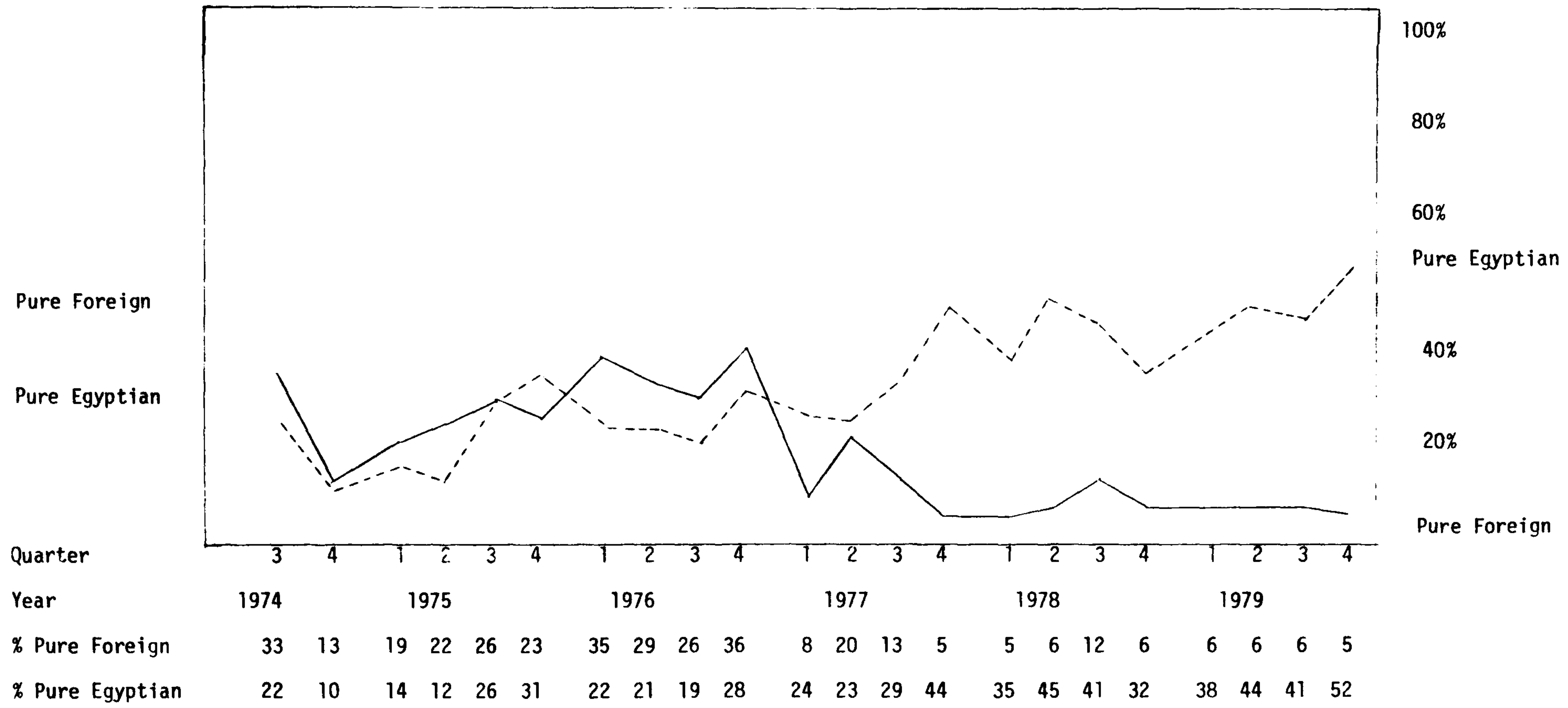
> When one wonders, will one see once again anything so glorious as the Great Bank Misr; when shall we see our Egyptian banks begin to work again, and to invite Egyptian shareholders to join in the execution of projects ahead of any other investors?[27]

Indeed the rhetoric appears to have had some effect on the Investment Authority. While in theory joint ventures were preferred under Law 43, foreign investors could establish projects without a local partner in most cases by acquiring the approval of the Investment Authority via a two-thirds majority vote by its board of directors.[28] Prior to 1977, a significant portion of project approvals were totally foreign, and the number of totally foreign approvals nearly always outnumbered the approvals of wholly-owned Egyptian projects. (See Table 6:2.)

TABLE 6:2

Wholly Foreign and Wholly Egyptian Projects as a Percentage

Of Total Law 43 Projects Over Time



Year	1974		1975				1976				1977				1978				1979			
Quarter	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
% Pure Foreign	33	13	19	22	26	23	35	29	26	36	8	20	13	5	5	6	12	6	6	6	6	5
% Pure Egyptian	22	10	14	12	26	31	22	21	19	28	24	23	29	44	35	45	41	32	38	44	41	52

Sources: Tables B:10 and B:19

Beginning in 1977, however, the pattern of approvals of these two types of projects diverge. While wholly-owned Egyptian projects come to dominate, the proportion of purely foreign projects fall to nearly nothing. The ability for foreign investors to by-pass having local investors as partners in Law 43 projects appears to have been severely eroded, while the trend for Egyptian investors similarly to by-pass foreigners was clearly rising.

Besides seeing foreign investors excluded from an increasing proportion of Law 43 projects, local private investors were apparently succeeding in excluding new foreign capital investment from at least two of the more lucrative markets in Egypt; i.e., soft drinks and banking.

The business of soft drinks production in Egypt was perceived as a very lucrative one, and one which local investors may not have wished to share, any more than necessary, with foreign investors.[29] The British company Cadbury-Schweppes originally planned a joint venture in Egypt but in February 1980 it signed an agreement with Al-Mohandes Foods, a private Egyptian company, to provide technological assistance for the local production of a range of products including soft drinks but without capital participation in the venture.[30]

The director of the Arab Contractors Investment Fund, which participated in numerous Law 43 projects including Al-Mohandes Foods, stated in 1981 that several years earlier his organization had agreeably accepted majority ownership by the foreign partner in their joint ventures. However, they had acquired more confidence and were currently insisting that the foreign partner take a

minority position, and, in the case of Cadbury-Schweppes, to simply provide technological assistance.[31,32] It was reported at about the same time that the Egyptian government was anxious to improve the quality of food products but agreed that the need was more for technology transfer from abroad than for capital investment.[33]

In addition, new foreign investors were being excluded from the lucrative private banking industry in Egypt. In the autumn of 1978, the government announced that no more permits would be granted to foreign banks to establish ventures in Egypt.[34] Egyptian investors, however, continued to establish a total of thirteen banks during the second half of the 1970s.[35]

Conclusion

While foreign investors and local private investors may unite to promote the cause of capitalism as a whole, the two parties are likely to experience conflicts of interest, primarily as competitors. As local private investors perceive an increase in their position in the eyes of their own government, these investors are likely to promote a nationalist coalition between themselves and their government resulting in adverse discrimination against foreign investors. There is evidence in Egypt during the latter 1970s and early 1980s that such a coalition was beginning to emerge.

Although this course of events promised to be beneficial to local private investors, these investors were not totally secure in their new elevated position. Other segments in Egyptian

society did not perceive that such a position was beneficial to the country as a whole and succeeded in making the position of local private investors unsettled to say the least. As background to better understand this phenomenon, Chapter Seven explores more thoroughly the composition and investment patterns of Egypt's local private investors under Law 43--patterns which could be said to engender political controversy. Chapter Eight in turn explores the repercussions this controversy had on both local and foreign investors during Egypt's Economic Opening.

Notes to Chapter 6

1. Middle East Economic Digest (MEED): 22, 15 December 1978, p. 9.

2. In 1976, Wilkinson, aware that changes were in the offing concerning the exchange rate by which foreign capital would be evaluated under Law 43, stalled in signing a final agreement. When the changes did materialize, Wilkinson's public partner did not receive authorization to raise its part of the joint-venture capital to conform with the new rate. In December 1977, both parties claimed to be ready to pull out of negotiations. The Wilkinson manager in charge of negotiations finally met with the Egyptian Minister of Industry, Oil, and Mining who allegedly "fixed it in fifteen minutes." (MEED: 22, 15 December 1978, pp. 9, 10.)

3. Ibid., p. 9.

4. MEED: 22, 10 November 1978, p. 28.

5. The joint venture in Egypt was to represent the first time the Wilkinson Sword blades had been produced in a developing country, and British management worried that they would have to overcome consumer resistance to accepting a product not produced in the company's country of origin. (Ibid., p. 28; and MEED: 22, 15 December 1978, p. 10.)

6. MEED: 23, 20 April 1979, p. 28.

7. Personal Interview, USAID, Cairo, Cairo, 1 April 1981; and MEED: 24, 4 July 1980, p. 3.

8. MEED: 24, 4 July 1980, p. 3.

9. MEED: 21, 14 January 1977, p. 4.

10. "Special Report: Egypt," MEED, May 1978, p. 12.

11. Ministry of the Economy, Foreign Trade and Economic Cooperation, Study on Law 43 Investment Policies, (Cairo: Economic Studies Unit, 1979), p. 33.

12. MEED: 25, 12 March 1981, p. 12.

13. The nature of Arab Contractors and the relatively important part it played in Egypt's Economic Opening will be elaborated on later in the chapter.

14. MEED: 22, 18 August 1978, p. 10; and MEED: 22, 20 October 1978, p. 10.

15. Berry, John, "Hell Paved With Good Intentions," Forbes: 120, 15 November 1977, p. 40.

16. MEED: 21, 22 July 1977, p. 4.

17. Waterbury, Egypt: Burdens and Options, p. 225.

18. MEED: 21, 13 May 1977, p. 21.

19. MEED: 22, 9 June 1978, p. 25.

20. MEED: 22, 25 June 1978, p. 24.

21. MEED: 24, 6 June 1980, p. 29.

22. Company Records, Cairo Barclays International Bank. (Compiled from Annual Reports of Egyptian banks.)

23. MEED: 25, 5 March 1981, p. 10.

24. Ibid.

25. Personal Interview, Egyptian-foreign joint-venture bank, Cairo, 24 February 1981.

26. Waterbury, Egypt: Burdens and Options, p. 317.

27. Ibid., p. 298.

28. See Appendix A, Article 4.

29. The soft drinks industry is discussed further in Chapter 8.

30. MEED: 24, 29 February 1980, p. 23; and Personal Interview, Cadbury-Schweppes, London, 13 May 1981.

31. Personal Interview, Arab Contractors Investment Fund, Cairo, 25 March 1981.

32. In analysis of the study's survey of joint-stock companies, there appeared to be an increase in the majority position of local investors between the period prior to 1978 and the period of 1978 and 1979. This increase, however, could not be established as statistically significant.

33. MEED: 24, 29 February 1980, p. 23.

34. MEED: 22, 1 September 1978, p. 17.

35. See Table B:18.

Chapter 7

LOCAL PRIVATE INVESTORS IN EGYPT: FURTHER OBSERVATIONS

A nationalist coalition favors local investors while it discriminates against foreign investors. The rationale for such behavior is nationalism. Yet these steps taken in the name of nationalism may not directly translate into what is beneficial to the country as a whole. By its nature--that is, favoring local investors--a nationalist coalition is likely to benefit those citizens or national companies in a position to invest at the time. Benefits of a nationalist coalition, on the other hand, need not accrue particularly to other segments of society; e.g., employees or consumers. Any discrimination against investors--in this case, foreign--might decrease the potential of new jobs creation, and protectionist measures for the benefit of local industry have been known to increase domestic prices for products in those protected industries.

It is a contention of this thesis that even a nationalist coalition after it has evolved is unstable due to conflicts of interest within a country. Political interest groups other than local private investors seek an end to a nationalist coalition which in their view benefits only a segment of society--and, perhaps to a greater degree in developing countries, only a very small segment--to the relative disadvantage not only of foreign investors but of the host country as a whole.

While it will be the purpose of the next chapter to trace the steps leading to an apparent political downfall of the emerging nationalist coalition in Egypt at the beginning of the 1980s,

it is the aim of this chapter to elaborate on certain aspects of local private investment under Egypt's Law 43 which could be said to have contributed to the political controversy between the new "haves" and "have-nots," or, under the circumstances, the local private investors and non-investors during the Economic Opening.

The chapter begins with an examination of the composition of local private investors under Law 43. Who were these private Egyptian investors who emerged after an interim socialist period of fifteen years--a period in which all major industry had been nationalized? Furthermore, what attitudes towards investment did these investors have which might be interpreted from the patterns of their investments?

The first section of the chapter concludes that the new investors came from a variety of backgrounds. Some had operated businesses in Egypt prior to the Economic Opening, and others had not. Despite a variety of backgrounds, certain overall trends in investment were apparent. When one refers to local private investment under Law 43, one is indeed speaking of an extremely limited number of Egyptians in relation to the country's population as a whole. Investment was predominantly made by individuals, not companies. These individuals on the whole preferred personal enterprises and partnerships to joint-stock companies; and in only a small proportion of investments involving Egyptian private investors were more than a handful of investors involved. Even in the cases of joint-stock companies, ownership tended to be close and not widespread. While private Egyptian investment appeared in all industries, heavy industrial projects were generally by-passed

in favor of projects requiring lower capital investments and/or presenting shorter payback periods such as warehousing or luxury real-estate development. All of the above could well irritate opponents to the Economic Opening who could argue with some justification that the new policies were presenting a few Egyptians with the opportunity to become rich quickly while doing relatively little to promote economic development in Egypt.

The second section of the chapter examines "privatization" during the Economic Opening and the part private Egyptian investors played in this process. One of the alleged reasons for introducing the Economic Opening had been the disappointing performance of publicly owned companies, and some Egyptians believed by selling off part of the public sector to private investors industrial performance could be improved. These private investors could, of course, be foreign companies. Several examples of joint ventures between public Egyptian companies and foreign companies have been referred to in earlier chapters. Another proposed form of "privatization," however, was to allow Egyptians to purchase shares in public companies.

An examination of the progress of privatization in Egypt in the 1970s reveals the subject to have been a politically sensitive one. Probably for this reason, the actual selling to the public of shares in public companies failed to materialize. Nonetheless, a considerable amount of public-company investment was taking place under Law 43, and in a significant number of projects private Egyptian investment was present alongside public investment. In the majority of cases, however, this private Egyptian investment appears to involve only a few individuals per project. This pattern

of public-private investment might well further controversy over the benefits to society as a whole accruing from the Economic Opening, since only a privileged few seem to have been able to participate in Egyptian privatization.

No chapter dealing with the patterns of Egyptian private investment and privatization under Law 43--and the potential political controversy arising from these patterns--would be complete without a discussion of the role Osman Ahmed Osman and his "public-private" company, Arab Contractors, played in the Economic Opening. Arab Contractors undertook most major construction works in Egypt, including the Aswan Dam, and the company grew to be the Arab World's largest construction company. During the Sadat administration, Mr. Osman held important cabinet posts, and his power and personality earned him the title "Mr. Egypt." Mr. Osman and his company were in a position to exert significant influence both commercially and politically during the Economic Opening. Thus the third section of this chapter provides a discussion of the role Arab Contractors played in the Opening.

The overall purpose of this interim chapter is to provide background facts which may help to explain why a certain degree of local discontent could be expected to arise towards the progress of the Economic Opening even when a "nationalist" coalition had begun to emerge. By looking first at the limited number and potentially controversial investment patterns of local private investors; second at the part a few, select private individuals played in Egypt's privatization; and third at the potentially controversial part of the directors of one of Egypt's most prominent public companies played in redirecting their company's funds into the

private sector, this chapter presents a foundation to the next chapter which traces Egyptian opposition to the rise of their own local private investors.

It is important to note that those comprising this opposition in Egypt were unlikely to have access at the time to all the facts and analysis presented here. Their opposition was more likely based on impressions of what was occurring around them; and their attitude towards the new private investment might well be summarized by the adage, "Where there's smoke there's fire." The sections below present a somewhat clearer vision of that fire.

The Composition of Local Private Investors

While Egyptian local investors were emerging with a new-found strength, the questions remained as to who they were and where they were coming from and, also, what exactly where their attitudes towards investment. Since the participation of private Egyptian investors had become widespread in the Economic Opening, an understanding of these issues is necessary to understand the path which the Economic Opening came to follow.

As related in Chapter Three, Egypt's private sector had been subject to sequestrations and even imprisonments under the Nasser regime. All major industries were incorporated into a state system under a socialist order; and what was left of the private sector had retrenched into small, closely held, investor-manager enterprises, highly suspicious of the government. Still, certain entrepreneurs survived, even flourished despite the new socialism, and later surfaced as private partners in Law 43 joint ventures.[1]

Many of these entrepreneurs were in distribution rather than production.[2] In the instance of a foreign zipper manufacturer who wished to protect its position in the Egyptian market--which, similar to the Wilkinson Company, was suffering from contraband competition--the foreign manufacturer formed a joint venture under Law 43 to produce zippers locally with the Egyptian clothing distributor with whom the foreign company had previously been dealing.[3]

Some Egyptian businesses had fled overseas during the Nasser era, and some of these apparently returned under President Sadat's term of office. Kamena Products Corporation, a producer of food flavorings, received its approval to establish a manufacturing company under Law 43 from the Investment Authority in 1975. Its founder had operated a similar business in the early 1960's. During the Nasser period, however, he had moved his operation abroad to Lebanon. The concurrence of the Economic Opening and the Lebanese Civil War had inspired him to return to Egypt.[4]

Other Egyptian private investment came from the approximately 750,000 expatriate Egyptians working in the oil-rich Arab countries.[5] Remittances from these expatriates had soared under the Economic Opening, providing by 1978 three times the foreign exchange earnings of either tourism or the Suez Canal. (See Table 7:1.) While remittances were often used for consumption, some found their way into investment. As early as May 1976, the Egyptian press reported that the Egyptian government was investigating ways of encouraging Egyptians abroad to invest their hard currency savings in Egypt,[6] and in January the following year a $200 million foreign-currency bond issue was launched to try and attract these funds.[7]

TABLE 7:1

Foreign Exchange Earnings From Non-Traditional Sources
(in millions of U.S. dollars)

	1974	1975	1976	1977	1978
Remittances	217.6	342	559.1	885.2	1773.2
Petroleum	186.4	315.1	643.3	724.7	880.5
Tourism	100.5	102.2	208.8	339.6	570.4
Suez Canal	-----	84.6	310.3	426.8	512.6
Total	504.5	843.9	1721.5	2375.8	3727.8

SOURCE: National Bank of Egypt Statistics

In March 1978, an Egyptian economic delegation toured the Gulf states to meet expatriates and promote investment back home.[8]

There is little doubt that overseas savings/earnings played a significant role in local private investment under Law 43--either as capital brought back by returning Egyptians such as the investor-manager of Kamena Foods, or as capital sent home by expatriates remaining abroad as an investment in one of the new joint-stock companies such as the Ramadan City project or the Delta International Bank.[9, 10] Furthermore, some of the new expatriate investors were professionals and not entrepreneurs of long standing. Such was the case when a number of Egyptian doctors in Kuwait contributed $20 million to establish a medical service project under Law 43.[11, 12]

All funds returning to Egypt may not have been made in honest endeavor. Dr. Fu'ad Mursi, one of the founders of the Egyptian Community Party in the late 1940's, claimed that the Economic Opening was allowing persons, who by the corruption of the Nasser era had siphoned off personal fortunes from public funds and then smuggled these fortunes abroad, to return funds to Egypt and invest them at an attractive return.[13] While this scenario need not apply to all emerging private investment, a decree such as the one in 1976 permitting Egyptians to open bank accounts in foreign currencies without questions being asked concerning the source of the money deposited may lend some credence to the suspicions of Dr. Mursi.

The local private investors under Law 43 represented a variety of people from different backgrounds and presumably with different motives for investment. Nonetheless, certain generalizations can be observed concerning their overall investment behavior. To begin with, most local private investors were individuals, not established

Egyptian private companies. This can be determined by high percentage of investment in personal enterprises and partnerships[14] and the relatively small participation of private Egyptian companies in the study's survey of joint-stock companies, in 69 percent of projects involving Egyptian individuals, only ten or fewer individuals participated. (See Table 7:2.)[16]

These investment patterns could well be indicative of a continuation of certain attitudes among local private investors. Many such investors appear to have preferred to manage the companies they owned. There are possibly two reasons for this--first, the investors' distrust of professional management, and second, their distrust of the government.

Owners viewed managers with suspicion. To begin with, it is an apparently widespread attitude in Egypt that being in the employ of someone else leads to exploitation and no chance of acquiring wealth.[17] With an apparent lack of expected attractive remuneration, managers might be expected to try and cheat the owners. At least one interviewed entrepreneur-manager agreed, stating "I keep three sets of books--one for the government, another for the owners, and a third for myself."[18] As mentioned in Chapter Three, one purpose for the original development of a code for joint-stock companies in Egypt was to attempt to control renegade managers and thereby encourage investors who were unable or unwilling to manage their own investments. While the number of joint-stock companies was growing under Law 43, the high preference for personal enterprises and partnerships suggests that problems surrounding joint-stock companies in Egypt persisted.

TABLE 7:2

Number of Egyptian Individuals Participating in Surveyed Joint-Stock Companies Involving Egyptian Individuals

Number of Participating Egyptian Individuals	Pre-1978	1978/1979	Total
0 - 5	20 (49%)	28 (57%)	48 (53%)
6 - 10	7 (17%)	7 (15%)	14 (16%)
11 - 99	10 (24%)	12 (24%)	22 (24%)
100+	4 (10%)	2 (4%)	6 (7%)
TOTAL	41 (100%)	49 (100%)	90 (100%)

Source: Author's Survey of Law 43 joint-stock companies.

Similarly, investor distrust of the government may have been an even more important factor favoring investment in personal enterprises and partnerships over joint-stock companies. The reports required of joint-stock companies for their investors might provide the government with a better idea of a company's actual income for tax assessment. Also, in personal enterprises or partnerships, personal expenses could more easily be merged with company expenses allowing the owner-managers to enjoy a relatively higher life-style. Furthermore, the owner-managers could misrepresent income figures to the government without non-managing stockholders questioning the income figures.

For its part, the government's tax policies may have encouraged private investors to behave in a clandestine manner; for example, the government imposed a 95 percent tax rate on incomes over £E 10,000 (approximately $15,500).[19] Tax evasion appears to have been relatively widespread in Egypt. In 1978 the Egyptian government announced its hope to recover £E 12 million from 12 tax evaders alone and announced that 10,000 tax dodgers had been discovered in Cairo itself.[20] Despite its talk about rejuvenating the stock market, the government imposed a tax rate which could amount to sixty percent of profits. This tax was credited with the virtual stagnation of efforts in promoting the stock market.[21]

Egyptian private investors also appear to have continued in their inclination not to tie up very much capital for very long in an investment. As related in Chapter Three, this tendency, which was based again on private investors distrust of future government actions, prevailed prior to the nationalization of the Nasser era. It might be expected, therefore, that such distrust

could persist after a period in which the worst fears of private investors had indeed been confirmed by the government. One Arab banker with experience in the Economic Opening confirmed this prevailing attitude among private investors, remarking that "Egyptian money is very cowardly."[22] Looking at the distribution of Law 43 projects by form and capital, one sees that the number of personal enterprises and partnerships companies, the form of investment preferred by Egyptian private investors, is proportionately greater in the category of capital investments of under £E 1 million while joint-stock companies predominantly fall in the category of £E 1 million to £E 4,999,000.[23]

Also, many private local investors still appeared to avoid investing in heavy industrial projects. A major reason proposed for this was the desire to avoid the losses such projects can often incur in the first three to four years in production.[24] On the other hand, warehousing[25] and real-estate projects were popular among local private investors, especially the development of luxury real-estate projects which fell outside the jurisdiction of rent control. Private investment in housing increased from £E 25 million in 1969-1970 to £E 102.5 million in 1977.[26] Similarly, Arab investors shared their Egyptian counterparts' attraction to luxury real-estate in Egypt.[27] An astronomical rise in land and house prices between 1975 and 1978 was attributed to the desire of local and Arab investors to invest in such real estate.[28] An official of the Investment Authority speaking of investment trends, noted the Authority's desire to attract Arab money, running at about twenty percent of investment in 1978, out of real estate

and into industry and agro-industry or as he astutely noted "traditionally areas which do not interest the Arab entrepreneurs."[29] This situation in the late 1970s is reminiscent of earlier in the century when Egyptian money sought real estate as a haven in uncertain times.[30]

One Egyptian observer and participator in the Economic Opening remarked of the local private investors, "They're just like monkeys. They want quick money. One day everyone is investing in citrus production. If citrus doesn't pay immediately, everyone switches at once."[31]

What has been called the "chaotic state" of hotel licensing bears credence to his statement. It was announced in 1979 that licenses had been granted for building about 10,000 hotel rooms in Cairo alone, all to be opened by 1983 when it was projected only 8,500 rooms would be needed.[32, 33]

In summary, local private investors in Egypt's Economic Opening comprised a variety of backgrounds. Investment behavior, however, still suggested that these investors were generally suspicious of the government, and therefore, investment found its way into projects which might provide relatively quick and safe returns to their investors but hardly represented a contribution to the resurgence of Egyptian industry envisaged by some at the outset of the Economic Opening. This dichotomy between the country's development goals and the wants and needs of local private investors, though repressed for a time under the capitalist and subsequent nationalist coalitions, always remained a threat to the position of the local private investors in the Economic Opening. Opponents from segments of society other than local

private investors could well be expected to call the nation's attention to this dichotomy.

Local Private Investors and the Privatization of Egypt's Public Sector

Another area of potential controversy involving local private investors was the part they played in the "privatization" of Egypt's public sector. As stated earlier, a major impetus for the Economic Opening was the disappointing performance of Egypt's economy under its domination by the public sector. A variety of reforms in the public sector was undertaken in the 1970's to try and improve productivity; e.g., the four public banks--Banque du Caire, Bank of Alxandria, Banque Misr, and the National Bank of Egypt--were once again allowed to compete against each other;[34] and in early 1978 Egypt's parliament approved a plan to allow public-sector companies to take only the number of university graduates they needed instead of being burdened with a previous quota system which had led to costly over-staffing.[35] Nonetheless, the most important and consequently the most controversial "reform" of the public sector was destined to be the degree to which public companies, in one way or another, were transformed into private companies.

The idea of privatization may be said to have been associated with the Economic Opening from its conception. The problem remained, however, of how to implement the idea. For instance, a public company could enter a joint venture with a foreign company under Law 43 and the joint venture would consequently become part of the private sector. On the other hand, privatization could also

be accomplished by simply selling shares of public companies to private investors--foreign or domestic.

This latter alternative received considerable attention. In 1974, the Budget and Plan Committee of the parliament severely criticized the public sector and suggested selling up to 49 percent of public company shares to foreign, Arab, and Egyptian private investors.[36] It was announced that Egyptians would be allowed to own shares of public companies, with a limit of £E 10,000 per individual buying into a public concern.[37] In September 1977, it was announced that shares in 35 public companies were to be offered to the public;[38] and the following January the Egyptian cabinet was reported to be discussing measures for selling 49 percent of seven specifically named public companies to private investors.[39]

Still, a major dilemma surrounded the question of how to sell off part of a public company--and specifically to whom it was to be sold. Possibly to assuage socialist sentiment, an announcement in early 1978 assured that first priority in the buying of public company shares would be given to the staff of the company involved. Indeed, involving employees in the ownership of their company was expected to stimulate productivity.[40] To what degree relatively low salaried workers would in fact be able to invest money in a company remained to be seen.

Despite the momentum of the privatization movement, opposition to it was able to effectively stall the actual selling off of public companies. One Egyptian economist and consultant to the Investment Authority interviewed by the author remarked that

the public sector had been at first "taken by surprise" by the privatization movement.[41] Those in opposition, however, were quick to counter moves in the direction of privatization. Even as announcements of the sale of public companies were being made, Law 111 of 1975 was passed through parliament stating that the percentage participation of the state in the equity of a public-sector company could not be decreased.[42] This contradiction to the whole privatization movement resulted in a situation bereft of any clear guidelines of how to proceed. Essentially, in order for privatization of a public company to occur a special Presidential Decree was necessary to by-pass Law 111 unless a public company took the presumably easier step of merging part of its assets into a joint venture under Law 43.[43]

A government study reported that by the end of 1978 about 55 percent of all capital authorized under Law 43 was Egyptian, the bulk of which had been supplied by Egypt's public sector.[44] The public sector was reportedly involved in 70 inland non-financial projects alone, with a capital investment totalling £E 232 million.[45] All new investments made by the public sector under Law 43 if they included any subscription in foreign currency were nonetheless considered part of the private sector and thus freed of public sector constraints as stated by the law:

> Companies enjoying the provisions of this Law shall be deemed to belong to the private sector of the economy, irrespective of the legal nature of the indigenous capital participating therein. Legislation, regulations, and statutes applicable to the public sector of the economy and its employees shall not apply to said companies.[46]

Most of the Law 43 projects undertaken by Egypt's public sector were joint ventures with foreign companies and were attempts to rejuvenate the public sector by bringing in foreign know-how and capital.[47] This was in essence the original envisaged development coalition operating in its micro setting. It is important to note, however, the role local private investors played in Egyptian privatization through Law 43, for the role could well be deemed controversial.

Egyptian individuals or private Egyptian non-financial companies[48] were involved in 17 of 60 projects involving the public sector in the study's survey of joint-stock companies. This represents approximately 28 percent of the total surveyed projects with public participation. Of these 17 cases, ten involved ten or less individuals; six involved more than ten individuals, and one involved a private Egyptian company. Of the six projects involving more than ten individuals, three were banks; i.e., the Alexandria Kuwait International Bank, the Delta International Bank, and the Suez Canal Bank.[49]

The projects with the few individuals, however, present possibly the most controversial issue. In all but one case, the projects involved foreign companies or individuals as well. In two cases they involved Saudi Arabian royalty. In all but one case, the total capital participation of all Egyptian individuals involved amounted to less than ten percent.[50] This pattern seems to suggest that these individuals were in a privileged position of being included in minority positions in larger deals. Possibly they acted as middlemen, helping to establish the joint ventures.

It is perhaps an irony of the Economic Opening that the sale of portions of public companies via some manner of open market had become too controversial to proceed, yet the transfer of portions of public companies into the private sector under Law 43 occurred with the not infrequent participation of a handful of private Egyptian individuals in what appears to be a far less public manner and a far less "open" market.

This finding supplements that of the previous section; i.e., the re-emergence of local private investors under Law 43 appears to have involved a very limited number of individuals. Their subsequent calls for "nationalist" measures, therefore, might well be expected to generate opposition from other segments of Egyptian society who might perceive such measures as far more beneficial to a certain restricted class than to Egypt as a whole.

Privatization and Arab Contractors

An examination of the part Egypt's major construction company, Arab Contractors, and its founder and life honorary chairman, Osman Ahmed Osman, played in the Economic Opening and privatization of the Egyptian public sector is again significant as a background to potential controversy arising from the dichotomy between the perceived good for a select group of Egyptians and what others might perceive as good for the country as a whole.

After graduating from Cairo University Faculty of Engineering Civil Section in 1942, Mr. Osman joined his two brothers in establishing Arab Contractors. By 1981, the company had extended its operations to many other Arab countries including Saudi Arabia, Kuwait, Libya, Abu Dhabi, Lebanon, Jordan, Iraq, and Sudan.[51]

Arab Contractors is often referred to in the Western press as a "public-private" company. Its eminence as the Arab world's largest engineering and construction company[52] can be credited largely to the public works it undertook as a public company during the Nasser era.[53] Despite the company's nationalization, Mr. Osman received a ten-year moratorium to run his company as he wished. This concession is attributed to President Nasser's desire to have Mr. Osman and his company build the Aswan Dam. Arab Contractors' special position among public companies allowed it to flourish while its Egyptian competitors were descimated by a fixed price system and under-capitalization.[54]

Nonetheless, Mr. Osman declared himself a proponent of free enterprise, remarking, "A free economy, liberty of the individual, brings competition. Competition is everything. If you want to develop an area you must have competition."[55] On occasions he claimed to welcome the introduction of foreign firms to the Egyptian construction market, because competition was good for the industry.[58]

Certain evidence, however, suggests that this admiration of competition on the part of Mr. Osman and Arab Contractors may have existed more in principle than in practice. Since the 1960s, Mr. Osman enjoyed a close personal relationship with President Sadat.[57] In the autumn of 1973, Mr. Osman was appointed to head a new government department, the Ministry of Reconstruction.[58] He held this post from the beginning of the Economic Opening until the formation of a new cabinet in October 1977.[59] The ostensible reason reported by the Cairo press for Mr. Osman's exclusion from the new cabinet was his health. It was also rumored that complaints concerning Arab Contractors' attempts to exclude competition from the construction

market had prompted his removal.[60]

There appears to be some justification for such a rumor. While Mr. Osman held his cabinet post, no contracting project was approved under Law 43 until the third quarter of 1975. This project was the Misr Iran Contracting Company, owned 75 percent by Arab Contractors Investment Fund and 25 percent by Iranian interest. During the nearly four years Mr. Osman presided over the Ministry of Reconstruction, only eight contracting projects were approved in total. Following his exclusion from the cabinet, however, seven contracting projects were approved in the last quarter of 1977 alone. In the two and a quarter years, from the fourth quarter of 1977 through the end of 1979, 69 contracting projects were approved. Of these, only one involved Arab Contractors; i.e., the Industrial Engineering Company for Construction and Development (ICON) which was 100 percent owned by Arab Contractors' Employees Fund.[61]

In fact, the Economic Opening had presented a problem to Arab Contractors as far as their traditional line of business was concerned. A considerable portion of the money for major construction projects was no longer coming directly from the Egyptian government but from foreign and international sources such as the United States Agency for International Development (USAID) and the World Bank. These sources required international competitive bidding for projects utilizing their funds.[62] Arab Contractors apparently was held in less esteem by some of these agencies than by Presidents Nasser and Sadat. One USAID official in Egypt remarked:

> We give Arab Contractors low marks. They want to be a private company when it's good for them and a public company when it's good for them. In our opinion, they are just another inefficient public company which wants to stay the same under the guises of being private.[63]

While the Egyptian construction/contracting market had trebled between 1975 and 1981, Arab Contractors was having difficulty maintaining its share of market.[64] To secure contracts such as the one for the first construction phase of the Pyramids Oasis project, Arab Contractors had to underbid new foreign competition.[65] The new competition was hurting profit margins. Arab Contractors' Annual Report in 1979 explained:

> Despite the increase in business during 1979 we were faced with a decrease in net profit because we had to confront difficult problems such as... the determined and strong foreign companies who flocked into the Egyptian market. We have sacrificed a part of the net profit to ensure that the Company's position and capacity is maintained.[66]

Perhaps as a partial response to tougher competition in the construction market, Arab Contractors embarked on what it described as "a vast diversification process in direct response to the open door policy..."[67] By 1979 this diversification included 31 projects approved under Law 43 and another three under formation.[68, 69] Only seven of these projects were contracting companies,[70] although the growth of private "wings" of larger Egyptian construction companies were a subject of controversy in themselves. They were accused of capturing the lucrative prestige projects, leaving the less attractive ones to the public sector.[71]

This process of skimming off the profitable business while leaving the public sector to contend with the rest appears to reflect Mr. Osman's own economic philosophy, as he remarked:

> If the public sector does not compete with quality goods and reasonable prices it will close. However, heavy industry should stay in the public sector because their companies lose money.[72]

Nonetheless, Mr. Osman apparently identified numerous profitable private opportunities for investment. Besides construction and engineering services, Arab Contractors invested in manufacturing, food production, tourism and hotels, medical care, transportation, banking, and insurance.[73] An executive at Arab Contractors responsible for evaluating investment opportunities summarized his company's attitude towards new projects, stating, "We have no policies actually; especially as to which industries to enter. Potential partners come to us. We don't go after them. In fact, many people trust Mr. Osman to invest their money even if he doesn't know the industry.[74]

Throughout Arab Contractors' diversification into private projects, the Investment Authority appears to have rendered little opposition. If it did, it was ineffectual. Arab Contractors, however, may have taken certain steps to avoid countering directly what may have been unwritten laws of the Authority. Arab Contractors' diversification was achieved on what it called "three main foundations"--Arab Contractors, Arab Contractors Investment Fund, and Arab Contractors Employees Fund. Arab Contractors Employees Fund was a pre-Law 43 private company established to improve the pensions of the approximately forty thousand employees of the parent company. Arab Contractors Investment Fund was a holding company established with a capital of £E 12 million, 95 percent of which was supplied by Arab Contractors and five percent by Arab Contractors Employees Fund.[75] When the author inquired of the director of the Arab Contractors Investment Fund concerning this particular division of stockholders, he replied it was necessary "because you can't form a Law 43 company with just one party."[76, 77] Having two related private companies may have facilitated Arab Contractors' establishing other Law 43 projects.

Of its 31 projects, Arab Contractors only undertook seven without the participation of one or both of its related private companies.[78] Still, opposition could well question whether Arab Contractors, technically a public company, could have redirected such considerable money and management time into the private sector without Mr. Osman's political influence.

Another area of potential controversy surrounding Arab Contractors' participation in the Economic Opening concerned the degree to which its various projects interrelated, and the extent to which this resulted in far from "free" enterprise or competition. For example, Arab Contractors Employees Fund invested in the Suez Canal Bank, along with private Egyptian individuals, including Mr. Osman.[79] The Financial Times later reported that the Suez Canal Bank had made use of its influential shareholder, Arab Contractors, to "carve out a good business."[80] The Suez Canal Bank also joined the Egyptian Syndicate of Engineers, headed by Mr. Osman,[81] in a soft drinks venture with Cadbury-Schweppes.[82] Arab Contractors was already involved in a joint venture with Pepsi Cola, and it may be no coincidence that Cadbury-Schweppes was not supplying a cola line.[83]

Perhaps even more controversial was the way Arab Contractors' new private projects left the line between public and private business unclear. A number of these projects were manufacturers of construction supplies; i.e., the Arabian Company for Assembly and Manufacturing Construction Equipment, Arab Contractors Electrical Industries, Arab Complex for Wooden Products, The Egyptian Company for Aluminum Products, Acrow Misr Metallic Scaffolding and Formworks, and Ismalia Clay Bricks and Building Materials.[84] Local contractors were reportedly having difficulties securing guaranteed supplies of building materials,[85]

and Arab Contractors was apparently establishing these projects primarily to supply its own needs.[86] A problem arising from this relationship, however, is the setting of transfer prices between the private companies and the public one. This particular aspect of Arab Contractors and its related suppliers annoyed USAID officials whose job it was to oversee contracts for the agency's funded construction projects. One such official remarked, "We have strict rules dealing with interlocking companies, which is a real problem as far as Arab Contractors is concerned."[87] Mr. Osman was also known to try to obtain lower fuel prices from public energy companies for the benefit of his private projects.[88]

Also, the controversial issue of privatization for the benefit of the few arises again in the case of Arab Contractors and the Suez Canal Bank. The Suez Canal Bank was another instance in which public companies, this time a bank and an insurance company, joined a limited number of Egyptian individuals in establishing a highly profitable project. In this case, the individuals comprised Mr. Osman and twenty others, including eight names bearing the Arabic title for "engineer."[89]

In summary, Mr.Osman and Arab Contractors played a prominent role in Egypt's Economic Opening. While Mr. Osman may have presented himself as a proponent of the free enterprise Egypt desperately needed, his actions could be seen by critics as possibly opportunist and defiantly conflicting public and private interest. In a country where many remained skeptical of the new policy to revive capitalism, Mr. Osman in his forefront position in business and politics, may well have offered the skeptic little reassurance.

Conclusion

By the late 1970s in Egypt local private investors were enjoying the advantages of a capitalist coalition and stood to benefit further by the emergence of a nationalist coalition. Local private investors under Law 43, however, represented a small percentage of total Egyptians, and some of their investment policies along with a controversial privatization program could lead critics to question whether benefits accruing to relatively few citizens might be occurring with no real contribution to the country's development in return.

Indeed, critics did question the behavior of local private investors and the way the Economic Opening was progressing. The next chapter presents this controversy and the effects it had on both local and foreign investors.

Notes to Chapter 7

1. For example, the Daoud family of Egyptian entrepreneurs held twelve percent of the capital of Arab Aluminum. (Personal Interview, Arab Aluminum, Cairo, 18 February 1981).

2. Personal Interview, Director of Egyptian investment company, Cairo, 12 February 1982.

3. Personal Interview, Foreign-private-Egyptian manufacturing joint venture, Cairo, 29 April 1981.

4. Allen, Muriel, "Kamena Flavors: Catering to the Egyptian Taste Bud," Cairo Today: 2, 15 April 1982, p. 13.

5. Middle East Economic Digest (MEED): 21, 13 May 1977, p. 6.

6. MEED: 20, 28 May 1976, p. 16.

7. MEED: 21, 14 January 1977, p. 4.

8. MEED: 22, 14 March 1978, p. 22.

9. MEED: 21, 27 May 1977, p. 20; and MEED: 21, 24 June 1977, p. 19.

10. While expatriate remittances had become a major source of foreign exchange, they could be a very unsure source. The announcement of a mere proposal in early 1978 to impose a ten percent tax on remittances caused remittances to fall 75 percent. The proposal was dropped. (MEED: 22, 17 February 1978, p. 21.)

11. MEED: 21, 4 March 1977, p. 18.

12. Similar investment occurred by professionals resident in Egypt. Thirty-six leading doctors at Cairo University formed a syndicate to build a $41 million private hospital. (MEED: 22, 29 September 1978, p. 10.)

13. Waterbury, John, Egypt: Burdens of the Past, Options for the Future, (London: Indiana University Press, 1978), pp. 210-211.

14. See Table B:12.

15. See Table B:16.

16. In the study's survey of joint-stock companies under Law 43, women were among those participating in approximately 28 percent of projects involving Egyptian individuals. In only one case was a woman on the board of directors.

17. This was the concensus of a number of interviewed Egyptians employed as managers and entrepreneurs.

18. Personal Interview, Egyptian entrepreneur, Cairo, 20 March 1981.

19. "Special Report:Egypt," MEED, May 1978, p. 6.

20. MEED: 22, 25 August 1978, p. 19.

21. MEED: 22, 10 November 1978, p. 29.

22. Personal Interview, British multinational bank, London, 26 January 1981.

23. See Table B:20.

24. This proposed reason for investor behavior was mentioned by two independent sources; i.e. (1) a manager of a US-Egyptian-Arab joint venture, Cairo, 5 April 1981; and (2) a director of a private Egyptian investment fund, Cairo, 12 February 1981.

25. See Table B:18.

26. Fiani and Partners, Egypt Investment Directory (Cairo), 1980, p. 26.

27. Ministry of the Economy, Foreign Trade Econoimc Cooperation, Study on Law 43 Investment Policies, (Cairo: Economic Studies Unit, 1979), p. 7.

28. "Special Report: Egypt," MEED, p. 12.

29. MEED: 22, 18 August 1978, p. 9.

30. Ministry of the Economy, Study on Law 43, p. 7.

31. Personal Interview, Director of US-Egyptian-Arab joint venture, Cairo, 5 April 1981.

32. MEED: 23, 20 July 1979, p. 21.

33. Most of the projects listed under "Investment Companies" were in fact involved either in real-estate development or tourism. (Ministry of the Economy, Study on Law 43, p. 46; and own analysis of listings in Fiani and Partners, Egypt Investment Directory.

34. "Special Report: Egypt," MEED, p. 16.

35. MEED: 22, 17 February 1978, p. 6.

36. Waterbury, Egypt: Burdens and Options, p. 209; and MEED: 18, 22 February 1974, p. 200.

37. Ministry of the Economy, Study of Law 43, p. 23; and MEED: 19, 30 May 1975, p. 11.

38. MEED: 21, 30 September 1977, p. 18.

39. The companies named were National Company for Cement Production, the Eastern Company for Cotton, Nasr Company for Spinning and Weaving, Misr Company for Dairy Food Products, Dakhalia Company for Spinning and Weaving, United Arab Company for Spinning and Weaving, and the General Company for Pottery and Ceramics. (MEED: 22, 27 January 1978, p. 18.)

40. MEED: 22, 10 February 1978, p. 24.

41. Personal Interview, Economic Consultant to the Investment Authority, Cairo, 30 April 1981.

42. Ministry of the Economy, Study on Law 43, p. 23.

43. Ibid.

44. Ibid., p. 7.

45. Ibid., p. 22.

46. See Appendix A, Article 9.

47. MEED: 22, 20 October 1978, p. 11.

48. Private Egyptian financial companies were predominately Law 43 projects themselves, thus often representing foreign and/or public Egyptian investment.

49. See Table B:21.

50. Own survey of Law 43 joint-stock companies.

51. Personal Interview, Arab Contractors, Cairo, 21 March 1981.

52. The company's turnover in 1979 was nearly £E 285 million in Egypt with an additional £E 23 million earned outside Egypt. (Arab Contractors: Osman Ahmed Osman and Company, "Annual Report: 1979," p. 9.)

53. Waterbury, Egypt: Burdens and Options, p. 276.

54. Financial Times, 23 July 1980, p. XI.

55. Ibid.

56. Ibid.; MEED: 21, 12 August 1977, p. 11; and Arab Contractors Annual Report: 1979, p. 7.

57. Financial Times, 23 July 1980, p. XI.

58. MEED: 17, 2 November 1973, p. 1281.

59. MEED: 21, 11 November 1977, p. 8.

60. Ibid.

61. Fiani Directory (Own calculations); and Arab Contractors' Annual Report: 1979, pp. 4, 5.

62. Personal Interview, Arab Contractors, Cairo, 21 March 1981; and Personal Interview, USAID, Cairo, 1 April 1981.

63. Personal Interview, USAID, Cairo, 1 April 1981.

64. Personal Interview, Arab Contractors, Cairo, 21 March 1981.

65. *MEED*: 21, 12 August 1977, p. 11.

66. Arab Contractors' Annual Report: 1979, p. 8.

67. Ibid., p. 4.

68. Ibid., pp. 4, 5.

69. A complete list of projects including Arab Contractors was unavailable past this date. Nonetheless, diversification did not continue. It was reported in early 1981 that the Groppi group, famous for its ice cream and coffee shops, had been taken over by Arab Contractors at a cost of around $20 million. (*MEED*: 25, 16 April 1981, p. 14.)

70. Arab Contractors' Annual Report: 1979, pp. 4, 5.

71. *MEED*, "Special Report Egypt," May 1978, p. 26.

72. *MEED*: 25, 9 April 1981, p. 6.

73. Arab Contractors' Annual Report: 1979, pp. 4, 5.

74. Personal Interview, Arab Contractors Investment Fund, Cairo, 25 March 1981.

75. Arab Contractors' Annual Report: 1979, p. 4.

76. Personal Interview, Arab Contractors Investment Fund, Cairo, 31 March 1981.

77. This requirement might have referred to public companies in particular, since the Law 43 project, Industrial Engineering Company for Construction and Development, was 100 percent owned by Arab Contractors Employees Fund. (Arab Contractors' Annual Report: 1979, p. 4.)

78. Ibid., pp. 4, 5.

79. Articles of Incorporation, Suez Canal Bank.

80. Financial Times, 23 July 1980, p. VIII.

81. MEED: 23, 23 March 1979, p. 25.

82. MEED: 23, 10 August 1979, p. 18.

83. Personal Interview, Cadbury-Schweppes, London, 13 May 1981.

84. Arab Contractors' Annual Report: 1979, pp. 4, 5.

85. MEED, "Special Report: Egypt," May 1978, p. 26.

86. Personal Interview, Arab Aluminum, Cairo, 4 April 1981.

87. Personal Interview, USAID, Cairo, 16 April 1981.

88. MEED: 24, 9 May 1980, p. 23.

89. Articles of Incorporation, Suez Canal Bank.

Chapter 8

OPPOSITION TO THE ECONOMIC OPENING AND ITS REPERCUSSIONS ON INVESTORS

It has been shown in earlier chapters that Egypt's local private investors were successful in replacing a development coalition, originally the coalition envisaged by the Egyptian government, with a capitalist coalition. Local private investors, therefore, received privileges similar to those first offered to attract foreign investment. Local private investors were also succeeding in convincing the government to discriminate against foreign investors in certain cases. Thus a nationalist coalition had begun to emerge. From the point of view of local private investors who were benefitting from these developments, Egypt's Economic Opening was proceeding as it should.

It is a contention of this thesis, however, that local private investors are not necessarily able to perpetuate indefinitely coalitions favorable to themselves. This is due to political pressure from other local interest groups who do not perceive that they too share in the benefits accruing from the capitalist or nationalist coalition.

In a developing country such as Egypt, these interest groups may in total represent the majority of the population. As shown in Chapter Seven, the local private investors in Egypt who established projects under Law 43 represented a limited number of individuals, a thin layer of society. While a government may sympathize or even empathize with its local private investors, it is unlikely

to withstand all pressure to censor them or withdraw incentives, especially as the power of these investors increases and their participation in the nation's economy becomes more apparent to those who would oppose them.

This chapter proceeds to elaborate on the controversial nature of Egypt's Economic Opening. First, it examines major interest groups which presented opposition to the Economic Opening, especially the way it was unfolding under the increased dominance of local private investors. Second, it explores various repercussions this opposition had on investors, both local and foreign.

Four major interest groups presented growing oppostion to the Economic Opening. Egypt's poor comprised one such group. The rich were becoming more conspicuous while the poor on the whole remained poor. Social tensions were apparently increasing. The "food riots" in Cairo in early 1977 were vibrant with class antagonism. Another interest group included certain managements and defenders of Egypt's public companies who believed that the Economic Opening was not revitalizing these companies but destroying them. Related to the interests of public companies were those of organized labor. Investment under Law 43 may have created new jobs, but many prior jobs, particularly in public companies, were threatened by the very efficiency the Economic Opening was expected to deliver. Finally, the Economic Opening faced political opposition in Egypt's parliament and press as a result of freer political debate.

Opposition to the way Egypt's Economic Opening was progressing succeeded in producing repercussions which were restraining, even harmful, to many local private investors. In a limited

number of cases the government reneged on promises, but such direct breach of contract was shunned in general. This may have resulted from a government fear that such blatant measures might reflect adversely on Egypt while the country was still attempting to attract investment. Nonetheless, companies could find themselves besieged with newly created taxes or legal requirements.

These repercussions could also be harmful to certain foreign investors, especially those who had joined local investors in controversial projects which later came under attack. In theory, other foreign investors stood to gain, particularly as calls mounted for a return to the earlier envisaged development coalitions favoring investments such as projects capable of producing exports.

President Sadat's assassination in October 1981, and the subsequent inauguration of his vice-president Hosni Mubarak as head of state, brought to an end a regime steeped in political and economic controversy. President Murbarak's first major address to the Egyptian parliament attacked the "exploitation" of Egypt by a "privileged minority" in the country and promised to stem the growth of the rich-consumer market. President Mubarak's new avowed policies represented a break from those of President Sadat. Nonetheless, given the increasing opposition within Egypt to many of those policies, President Mubarak's address could hardly be considered totally surprising.

Sources of Local Opposition

Any major change in a country's economic policy is likely to arouse opposition as well as support from various sectors.

Egypt's Economic Opening was no exception. This section deals with four basic sources of such opposition: (1) Egypt's poor, (2) supporters of Egypt's public companies, (3) organized labor, and (4) political opposition.

While the Economic Opening was supposed to help Egypt's economy and consequently help alleviate the problem of poverty in the country, it appears to have alienated many of the poor. The reason for this may lie in Karl Deutsch's model of "mobilization" which attributes many of the instabilities of developing countries to the promise of development itself.[1] The poor are promised a better standard of living, and they come to expect it. When a government fails to deliver this better living, discontent arises. As stated in Chapter Four, Egypt's Economic Opening commanded considerable publicity, and, as predicted by the Deutsch model, the Egyptian government faced discontent from the poor when the Economic Opening failed to improve their condition significantly. Instead, the Economic Opening increased the discontent of the poor by making even more evident the gap between them and Egypt's upper and even middle classes. The antagonism between Egypt's classes which President Nasser had attempted to eliminate was resurfacing under President Sadat.

Indeed, it appeared that the poor were getting poorer while the rich were becoming more conspicuous. Twice, once in 1975 and again in 1977, "food riots" broke out in Cairo, in which the capital's poor took to the streets to protest the cost of basic commodities.[2] The housing situation for the poor had also become critical, amounting to an estimated 1.1 million unit shortage. Nonetheless, it was often remarked that the

government was not addressing itself to the problem of low-cost housing.[3] On the other hand, the consumer demands of wealthier citizens were no longer repressed, and private importers used the parallel money markets to supply Egypt's urban markets with such luxury goods as cosmetics, electrical appliances, and foreign speciality foods.[4] The initial consequence of this luxury consumption until the end of 1976 was an enormous increase in Egypt's imports without a corresponding rise in its hard currency earnings.[5] In fact, some opponents to the Economic Opening did not center their opposition on foreign investment but on what they believed was an excessive expenditure on consumer goods which had accompanied the Opening.[6] Still, by late 1981 the government continued to have difficulties discouraging such conspicuous consumption. After all, the conspicuous consumption was largely paid for by worker remittances--moreover, it attracted them--and the government apparently shied away from discouraging the growth in these remittances.[7]

Nonetheless, the increasingly obvious dichotomy between rich and poor presented a threat to the government and its Economic Opening. In January 1975, thousands of workers demonstrated against high prices of a number of basic commodities, a crowd of 30,000 defied troops to loot shops and set fire to buses. The official count indicated that 79 persons died in the rioting, and the damage was estimated in the millions of Egyptian pounds.[9]

Not only were the 1977 riots more violent than the previous ones, they reflected greater social tensions. Students and workers chanted, "Nasser, Nasser" and, "No liberalization without

food."[10] They also shouted disparaging remarks about President Sadat, accusing him and his family of extravagent living.[11] Observers of the 1977 riots reported that it was commonly believed that the Economic Opening had produced "several hundred new millionaries at the expense of Egypt's poor,"[12] and the remark, "the door is open for a very few" was often heard.[13]

President Sadat had been absent from the capital at the outbreak of the riots. He immediately flew back from the southern resort town of Aswan to take personal control of the situation. He recinded the price rises which had touched off the riots.[14] Nonetheless, the underlying discontent of the poor, aroused by unfulfilled promises of the Economic Opening and aggravated by the conspicuous consumption of the rich, had been made violently apparent to the government.

Another source of opposition to the new economic trends were supporters of Egypt's public companies who believed that the Economic Opening was undermining public companies not rejuvenating them. One of the objectives of the Economic Opening had been to introduce competition to some markets in order to inspire public companies to greater efficiency. In its report on the progress of the Economic Opening published in 1979, the Ministry of the Economy reaffirmed this objective, stating:

> As to new competition from domestic sales of Law 43 companies, this is a healthy situation which should help to remedy the shortcomings of existing public sector companies in markets where demand has almost always exceeded supply.[15]

Defenders of public companies, however, could argue that competition was one thing, but unfair competition quite another. In December 1978, the Cairo newspaper Al-Ahram reported that foreign competition was the main reason why 16 out of 116 public companies would fail to make a profit that year. It also credited certain duty exemptions granted to the private sector as being responsible for some public manufacturers having to decrease production and stockpile products.[16] Also, unlike private companies, many public companies were required by price control to sell products at a lower than profitable price. One example of this was the King Fertilizer Company who was required to sell ammonium nitrate to Egyptian farmers at $64 a ton, while a Law 43 company sold a similar product abroad at $185 a ton.[17] Another example was in the "profitable" soft drinks industry, where by 1981 a major public producer was reported to have applied to close production, claiming it could not make a profit on a fixed price of seven piastres (about ten cents) a bottle. Private manufacturers were selling their products for about three times that price.[18]

Some of the supporters of the public companies were not without influence in high places, including Dr. Abdel-Razaq Abdel-Meguid, the deputy prime minister in charge of the economy. In May 1981, Dr. Abdel-Meguid declared that the public industries would definitely not be offered for sale to private interests, remarking that the public sector was "in the first place a social and economic philosophy which the state believes in under its socialist system."[19] It is not surprising that Ismail Ibrahim Osman, a director of Arab Contractors, described Dr. Abdel-Meguid as "anti-business."[20]

Organized labor in the public companies also opposed certain aspects of the Economic Opening which affected workers in these companies. In fact, the General Confederation of Egyptian Trade Unions went as far as to state its "hostility" to the Economic Opening.[21] The new investment created some jobs, but it threatened others.

In 1978 it was announced that applications by university graduates for jobs in the government and pubic sector companies had fallen by thirty percent the previous year because of the rise in the private sector.[22] Nonetheless, the new, relatively small private companies did not employ the numbers of workers that the large public companies did. By 1980 only 143 Law 43 industrial projects were in operation and these companies only employed 15,723 people.[23] In its 1979 report on Law 43 companies, the Ministry of the Economy voiced its concern over the small weight given employment considerations in the approval process of proposed projects, stating:

> To absorb the growing labor force, the great bulk of employment expansion must be in less capital intensive activities than average for Law 43 companies... We therefore feel that the Investment Authority should give priority whenever possible to projects with low capital intensity per employee.[24]

One of the problems besetting public companies, however, was low productivity aggravated by excess labor. In certain joint ventures between public companies and private foreign ones, the joint venture took only the number of workers from the public company that was required to make the project economically efficient. What remained of the public company could be worse

off than before in terms of excess labor.[25]

A joint venture between the British multinational Chloride and Egypt's General Company for Batteries (GENBAT) to build a new lead-acid battery factory actually brought on a law suit by the labor union at GENBAT. The joint venture proposed to hire only seventy percent of the staff from the existing GENBAT lead-acid battery factory. Strikes being forbidden under Egyptian law, the union was forced to bring a law suit in order to protect the jobs at stake. The suit was brought against Chloride and the Ministry of Economy, but the courts ruled in favor of the joint venture.[26]

Investors involved with the privatization of public companies were not, indeed should not have been, reassured by the decision in the Chloride case. Another joint venture between Fiat and a public company faced problems over manning levels as well.[27] Fuad Sultan, the chief executive at Misr Iran Development Bank was quoted in 1979 as saying that workers' approval was an important step in the privatization of the public sector.[28] In December 1980, the government announced that existing public sector enterprises could no longer be replaced by Law 43 projects, as had been the case with the Chloride joint venture; instead only totally new ventures would be considered for project approval.[29]

Besides threatening jobs, the new investment was also causing division between workers in private projects and those remaining in public companies. Many of the best skilled workers in Egypt's public sector were leaving for the private sector. The Ministry of Economy referred to the situation as a "reverse transfer of technology."[30] Al-Ahram reported the banking sector to be in chaos in 1975 as employees hurried to join 26 new banks at twice their

public salaries. Four hundred employees at the National Bank of Egypt were reported as having handed in their notice.[31] An official at the El Nasr Auto Company also complained that a major problem facing his company was the loss of skilled workers attracted by higher wages elsewhere.[32] Furthermore, public-sector workers were displeased with remaining in a position behind workers in the private sector. In May 1980, President Sadat announced a retrospective payment to the 3.5 million public-sector employees whose pay had fallen behind the private sector. This move was expected to cost the government an additional £E 200 million a year.[33]

While discontent existed among the poor and among those who would preserve a more socialist order, a new political liberty in Egypt was allowing this discontent to be vented in parliament and the press. Besides inaugurating an economic opening, President Sadat experimented with a political "opening" as well. The experiment began well, but as criticism of the administration increased, President Sadat retrenched and attempted to suppress opposition. By that time, however, both political opposition and the press had done a moderate share of muckraking among the controversial issues of the Economic Opening.

Egypt's general election in November 1976 was widely regarded as the most democratic one since the 1952 Revolution.[34] In the same month, parliament announced the allowal of the creation of new parties for the first time in 24 years.[35] The food riots in 1977 threatened the continuation of democratic reforms, although President Sadat at the time of the riots denied that he would abandon democratic principals.[36] A public referendum was held in February

1977 on new, strict "law and order" decrees signed by the president and including life sentences at hard labor for anyone participating in a strike or demonstration.[37] Official count gave the president a sweeping vote of confidence. The referendum attracted a turnout of96.69 percent of eligible voters, and of those, 99.42 percent approved the new measures. The foreign press was skeptical, noting that these figures contradicted the intensity of the rioting a month earlier; and spot checks by foreign diplomats reportedly revealed a high level of absention from voting.[38,39]

Despite President Sadat's new wariness about political reform, public opinion appears to have forced him not to renege on the allowal of new parties.[40] As a consequence, a new Wafd party acquired the twenty parliament members needed to form a new party and did so despite the tacit disapproval of the president.[41] The new Wafd party, like its predecessor of 1919 through 1952, represented civilian government as opposed to the essentially military governments of Presidents Nasser and Sadat. In fact, the new Wafds claimed to be anti-military and pledged to expose government incompetence and corruption.[42] The party's manifesto called for an independent press and judiciary system. It also called for a considerable limitation of the presidential powers.[43]

The new Wafds wasted little time in attacking the status quo in government. In February 1978, a Wafd member, Mumtaz Nusar, raised the controversial issue of the Pyramids Oasis tourist project, revealing a number of irregularities in the government's approval of the project.[44] The project was eventually stopped. (See Chapter Four.)

Another political threat to the Economic Opening came from traditionalists, members of an Islamic fundamentalist revival. The movement, similar in values as the one which ousted the Shah of Iran in 1979, called for a return of Egypt from a secular state to an Islamic one, shedding on the way the trappings of a decadent Western culture such as the conspicuous consumption associated with the Economic Opening. The fundamentalists also opposed the Camp David peace treaty with Israel.[45] Therefore, the high profile of the United States in Cairo, also associated with the Economic Opening, likely irritated them as well. Six thousand United States citizens were reported living in Egypt by 1980. American government officials and dependents in Cairo alone numbered nearly 900.[46]

Emerging political opposition found an ally in an increasingly free press--at least temporarily. The press assisted in broadcasting government scandals such as the one surrounding the Pyramids Oasis project.[47] Ironically, President Sadat began the liberalization of the press which eventually turned on his administration. The president claimed that the main enemy to Egypt's progress was the self-seeking bureaucracy. He appointed Ali Amin to head the major Cairo newspaper, Al-Ahram, and Mr. Amin soon produced a column exposing incompetency in government and educating the public to its rights.[48] This process of liberalization, however, was soon deemed to be out of hand. A leftist weekly, Al-Ahli, found its May 17, 1978 issue confiscated for failure to moderate criticism of the government.[49] In June 1978, five prominent writers for Al-Ahram itself, including the newspaper's former editor, Mohammed Heykal, were ordered to appear in court for "sowing dissension" and "threatening social peace."[50]

Repercussions of Opposition on Local and Foreign Investors

Despite attempts by President Sadat to suppress opposition, he, and consequently his administration, were not immune to pressure for change. In order to assuage discontent with the Economic Opening, the government took conciliatory steps which affected both local and foreign investors. Some of these government actions have been mentioned in the previous section; e.g., the cancellation of the Pyramids Oasis project and the disallowal of any new joint ventures similar to the controversial Chloride-GENBAT one. However, repercussions of the political controversy reached far beyond single projects, affecting, in some instances, whole industries.

Governments retain the right to change their minds. Whatever original understanding may exist between a government and foreign investors or a government and local investors, those understandings are liable to reassessment. Such reassessment occurs when a development coalition is replaced by a capitalist coalition and when a capitalist coalition is replaced by a nationalist one. In both of these cases, government reassessment is the result of pressure from local private investors. A government, on the other hand, can be pressured from other local interest groups such as the ones mentioned in the previous section whose interests differ from those of the local private investors.

Barnet and Müller noted in their book Global Reach that the option to "buy social peace by taxing a well-heeled foreign guest" was becoming more and more tempting to host governments.[51]

A "re-evaluation" by Chile in 1969 declared that the twenty year investment guarantees made to foreign investors no longer applied because "conditions had changed."[52] When a Marxist president, Dr. Salvador Allende was elected and certain foreign investments were nationalized, compensation was determined to be off-set by the "excessive profits" the projects had accrued under the terms of Chile's previous open-door policy.[53] Dealing with changes of government minds is an integral part of international business.

However, if turning on well-heeled foreigners is becoming more common, turning on well-heeled locals has often been a tempting possibility as well. Directly following the January riots in Cairo in 1977, a new budget was announced which raised the customs duties on imported cars, electrical appliances and other luxury items. Duties were also raised on soft drinks and alcohol.[54] The new budget and following legislation also singled out certain favorite investments of local Egyptians for special attention. The budget planned to tax land and brokerage deals which were previously exempt from taxes.[55] A year later, an "establishment" tax of twenty percent of costs was levied on new hotel and tourism projects.[56] A few months after that, it was announced that the high profits from luxury apartment buildings would no longer benefit from the tax-exemption clause in Law 43.[57]

Although the middle classes and the rich were considered to represent much of his popular political base,[58] President Sadat supported, in rhetoric at least a new tax bill to "milk

the rich."[59] Tax evasion was endemic to Egypt. It was reported that less than thirty percent of Egypt's 933,000 businessmen and traders had filed tax returns for 1978. According to these returns only 5,300 people earned profits of more than £E 10,000, including only 37 engineers, nine doctors, seven lawyers, and one film actor.[60] A spot check in the rich Cairo suburb of Maadi uncovered that 2,750 people out of 11,000 had evaded taxes. Owners of furnished apartments, stores, and workshops were reported to be among the main offenders.[61] Some believed that President Sadat's new tax bill did not adequately address the problems of implementation.[62] Nonetheless, the attention the president gave the bill signified his political concern to be seen as representing the poor as well as the rich.

Repercussions resulting from opposition to the Economic Opening affected Law 43 investments as well as personal incomes and luxury consumption patterns. These repercussions were especially felt in certain industries in which local private investors had recently succeeded in obtaining government discrimination against foreign investment via an incipient nationalist coalition. After all, to obtain discrimination against foreigners, local private investors had argued that foreign investment was not necessary. If so, opposition could ask why incentives originally designed to attract foreign investment were still necessary? Furthermore, industries with special appeal to local private investors in Egypt and thus particular targets for local private protection were ones providing relatively high profits and fast paybacks such as the banking and soft drinks industries. Opposition

could again question the need for special incentives to attract investment to industries with high profits and fast paybacks.

While local investors had succeeded in 1978 in having foreign investors officially excluded from new Law 43 banking projects, this industry soon became a target for opposition and subsequently government reassessment. When Law 43 was first debated in the Egyptian parliament in early 1974, the issue of private banking and foreign involvement in the banking system had been an especially controversial one, possibly because Egypt's dependence on foreign trade caused the banking system to be viewed as a symbol of economic sovereignty.[63] When Law 43 was promulgated, it particularly stated that the purpose of Law 43 banks was to attract foreign capital and to participate in development projects in Egypt.[64] In these two purposes, Law 43 banks were to encapsulate the original envisaged development coalition.

By 1978, however, certain government officials believed that Law 43 banks had thoroughly failed to live up to government expectations. Most banking activities had been confined to short-term credit, despite government appeals to the banks to enter medium and long-term financing of development projects.[65] The new banks, on the other hand, flourished, largely due to a thriving letter of credit business, much of which financed the import of luxury goods for Egypt's upper and middle classes.[66] Egypt's Central Bank also criticized the lack of success by Law 43 banks in attracting foreign capital to the country, stating in a 1977 report, "It has become clear that a year and a half after some banks commenced activities in Egypt, they have not had any significant results in attracting foreign capital from the international money markets."[67] Law 43 banks were also accused

of taking money deposited locally and investing it overseas at a significant profit.[68]

Certain Law 43 banks in an attempt to stem criticism, began to make some modest "development" investments. Chase National Bank was reportedly "making a killing" in Egypt,[69] its profits having risen ninety percent in 1977 alone primarily due to large increase in letters of credit and transfers.[70] In late 1977, Chase National, embarrassed by government criticism, agreed to take $2,000,000 in government bonds and lend $6,000,000 to Egypt's public sector.[71] Cairo Barclays International Bank also announced in early 1978 that it was committing $10,000,000 to longer-term loans.[72] Whatever their intentions, banks faced the reality that more money could be made financing luxury imports than investing in development projects. Even finding attractive development projects to help finance apparently proved a problem for Law 43 banks.[73]

In 1980, the Egyptian government began steps to penalize Law 43 banks for their failure to contribute to the country's development. In May, the new banks were told that they would soon be required to deposit up to 15 percent of their foreign currency with the Central Bank.[74] In mid-June, a directive from the Central Bank appeared to limit all letters of credit to Egypt's four public banks.[75] A week later, Law 43 banks were told that they could continue to issue letters of credit in return for depositing 15 percent of their foreign currency with the Central Bank.[76] An article appearing in the *Financial Times* in September explained the confusion and government backtracking, stating that the government realized after its first announcement

concerning letters of credit that the public sector banks would not be able to cope with all the new business.[77] The incident, nonetheless, underlined government's desire to reassess the Economic Opening and its attempt at least to restrict "excess profits" by Law 43 companies. It is also interesting to note that the continued insistence of the Central Bank that Law 43 banks limit some of their remittance business so that more would be channelled through public banks was expected to particularly affect the Suez Canal Bank and the Delta Bank, two of the new, wholly Egyptian private banks.[78]

Another industry which experienced government reassessment and corrective action was the soft drinks industry in Egypt. Local private investors had also been successful in securing discrimination against foreign investment in the soft drinks industry. Claiming that the relatively limited technology of soft drinks production and bottling did not warrant the need of foreign equity participation, local producers, including Arab Contractors, limited foreign participation in later ventures primarily to the supply of basic syrups. (See Chapter Six.)

Although soft drinks had been produced in Egypt by public companies prior to the Economic Opening, the quality of these products were considered to be very low; and the new consumption patterns of the urban upper and middle classes favored the introduction of western soft drinks, such as Pepsi and 7-Up produced by new, Law 43 companies. In 1977, the production of public and private companies combined equaled fifty million cases of 24 bottles each. This amount was estimated to supply only half the current demand.[79] When the Cairo Beverages Company wished to double

its production capacity, it procurred the largest syndicated loan to date offered to the private sector.[80]

The success of the soft drinks industry threatened to be its downfall. The industry was perceived by many to be a very profitable one of little social value. In early 1981, a "production" tax was levied on soft drinks. Some observers interpreted this tax as an attempt to restrict consumption, modifying in some way the over-consumption of the rich; or, failing that, at least taxing that consumption.[81] On the other hand, the production tax was not a direct sales tax. Manufacturers had to pay the tax on each bottle produced whether or not it was ever sold. Furthermore, the cost accrued to the manufacturer who in turn had to decide whether to try to pass it on to the consumer. In this way, one might interpret the production tax as an attempt to offset the "big profits" that the soft drinks manufacturers were perceived as making.[82] Under Law 43 these projects were exempt from income tax for five years. They were not exempt from a new, production tax.

Another form of government reassessment affected one major company in the soft drinks industry. When Cairo Beverages reapplied to the Investment Authority to increase its capital base in proportion to each shareholder's original subscription, the Investment Authority refused, demanding that the company offer shares to public subscription. The company in turn refused. One shareholder indignantly asked, "Why should we offer a piece of the action to every taxi driver in town?" The situation, nonetheless, put the company under uneasy financial constraints.[83] The incident with Cairo Beverages was apparently indicative

of a larger trend. In early 1979, a government report proposing changes in Law 43 suggested that small investors be allowed to buy shares in new companies instead of allowing this right to be limited to the company's founders.[84] As shown in Chapter Seven, such an action would be in direct contrast to the pattern of closely-held companies preferred by local private investors under Law 43.

Many Law 43 projects were threatened by yet another government reassessment concerning the price these companies paid for publicly supplied energy. This reassessment was likely initiated by defenders of the public sector who disagreed with private sector companies receiving energy at subsidized public prices. Numerous aluminum products manufacturers under Law 43 were affected by an increase in the price of electricity, abundantly used in the production of aluminum. The managing director of one aluminum products company remarked, "They can take back their Law 43 tax exemptions if they would let us buy metal at the prices public companies can."[85] Not everyone was sympathetic to these manufacturers, however. A consultant to the Investment Authority claimed that most of these manufacturers were producing products primarily for the luxury building industry,[86] and were thus undeserving of public subsidy.[87] A proposed increase in the price of diesel fuel supplied to Law 43 projects threatened many of these companies, some of which attributed thirty percent of their costs to diesel fuel. Furthermore, there was some indication that the increase might even be retroactive to the date any individual project began production in Egypt.[88] Again, an increase

in fuel prices did not directly rescind tax incentives granted under Law 43. Nonetheless, it had the same effect of diminishing after-tax profits.

If the repercussions that opposition to the Economic Opening had on investors appeared to be somewhat piecemeal and disorganized, a clearly avowed change in government policy was expounded on November 8, 1981, when Egypt's new president Hosni Mubarak presented his first major address to parliament. A month earlier President Sadat had been assassinated by men in Egyptian army uniforms who opened fire on the presidential box during a military parade.[89] Mr. Mubarak, his vice-president and former air force commander, succeeded him.[90]

In his address to parliament, President Mubarak attacked class differences and the exploitation of the country by a privileged minority. While supporting the continuation of the Economic Opening under Law 43, he promised a change in direction from that of the past few years, stating, "The projects which we accept within the framework of this policy should be directed to produce the basic necessities for the toiling classes and not luxury goods which are used by an opulent minority,"[91]; otherwise, Law 43 projects should aim at providing exports. He elaborated, remarking that "Our aim should be to serve the interest of the masses, our ultimate aim should be to set up a society of purity and justice and not a society of privileges and class differences and exploitation."[92]

While President Murbarak's speech may well have reflected the personal ideals of a man renowned for a lifestyle of austerity, the new president had reportedly within one month garnered a wide

popularity among the majority of Egyptians who felt excluded from the benefits of the Economic Opening.[93] Almost immediately the president's attitudes were reflected elsewhere in government statements. An editorial in the state-owned newspaper Akhbar al-Yom, remarked:

> The Economic Opening was never intended to let certain people get rich as quickly and unscrupulously as possible. The fist of the state must not stand idle in the face of corrupt elements, who have now become a class arousing anger and disgust everywhere.[94]

For Egypt's local private investors, who had so recently been successful in securing themselves a position in a capitalist coalition and in beginning to establish a nationalist coalition, it was now time to keep a low profile and await the probable arrival of more government reassessments of their position.

Conclusion

In a developing country such as Egypt in which the number of people in a position to take advantage of an opportunity such as Law 43 is particularly limited, the "haves" who profit from such an Economic Opening are likely to arouse the indignation of the "have-nots" who far out-number them. Furthermore, privatization of a public sector is intrinsically controversial and destined to arouse opposition from supporters of public companies, whether politicans, management, or labor. A government, such as that of President Sadat, may disagree with the rising opposition, but few governments would judge themselves in a position to totally ignore it.

To assuage opposition, government can be expected to take steps to readjust, in fact decrease, the benefits originally offered to investors. Industries which are seen as offering little to the nation's development yet providing high profits to investors can be singled out as particular targets. Such industries may well be favorites of local private investors, and if so, these investors may bear the brunt of opposition as the rhetoric following President Sadat's assassination suggests. Nonetheless, foreign investors in such industries, who have either entered before nationalist restrictions excluding foreigners came into effect or who have accepted a secondary position in a venture with local partners, stand to lose as well, as these industries or projects come under attack. Other foreign investors or potential investors may actually stand to gain from these developments if they represent development projects more in line with the government's reassessed policies. Barring a total ideological change in government, these foreign investors should at least retain their position while the position of local private investors declines. In this sense, a policy speech such as President Mubarak's first address to the Egyptian parliament may herald the return of the country to a development coalition in which investment incentives are only offered to those investors, more likely foreign investors, who are perceived to possess advantages such as access to export markets which are deemed helpful to national development.

Notes to Chapter 8

1. Moran, Theodore H., Multinational Companies and the Politics of Dependence: Copper in Chile, (Princeton, New Jersey: Princeton University Press, 1977), pp. 220.

2. The need to import food to support its population continued to plague Egypt. Despite its growth in foreign-exchange earnings, the country was expected to show a balance-of-payments deficit of $500 million in 1981 primarily due to a growth in food imports. (Middle East Economic Digest [MEED]: 25, 6 November 1981, p. 12.)

3. "Special Report: Egypt," MEED, May 1978, p. 25.

4. Waterbury, John, Egypt: Burdens of the Past, Options for the Future, (London: Indiana University Press, 1978), p. 231.

5. "Special Report: Egypt," MEED, May 1978, p. 4.

6. MEED: 23, 11 May 1979, p. 26.

7. MEED, 25, 6 November 1981, p. 14.

8. MEED: 19, 3 January 1975, p. 10.

9. MEED: 21, 21 January 1977, p. 18; and MEED: 21, 28 January 1977, p. 5.

10. MEED: 21, 21 January 1977, p. 18.

11. MEED: 21, 28 January 1977, p. 5.

12. Baker, Raymond W., Egypt's Uncertain Revolution Under Nasser and Sadat, (Cambridge, Massachusetts: Harvard University Press, 1978), p. 166.

13. MEED: 22, 26 May 1978, p. 14.

14. MEED: 21, 28 January 1977, p. 5.

15. Ministry of the Economy, Foreign Trade and Economic Cooperation, Study on Law 43 Investment Policies, (Cairo: Economic Studies Unit, 1979), p. 24.

16. MEED: 22, 8 December 1978, p. 29.

17. MEED: 24, August 1980, p. 18.

18. Personal Interview, Arab Aluminum, Cairo, 5 April 1981.

19. MEED: 25, 8 May 1981, p. 12.

20. Personal Interview, Arab Contractors, Cairo, 21 March 1981.

21. Waterbury, Egypt: Burdens and Options, p. 219.

22. MEED: 22, 14 July 1978, p. 25.

23. MEED: 24, 10 October 1980, p. 30.

24. Ministry of the Economy, Study on Law 43, p. 12.

25. Ibid., p. 23.

26. Personal Interview, Management Consultant, Cairo, 13 April 1981.

27. MEED: 23, 27 July 1979, p. 21.

28. Ibid.

29. MEED: 24, 12 December 1980, p. 24.

30. Ministry of the Economy, Study on Law 43, p. 24.

31. MEED: 19, 27 June 1975, p. 13.

32. MEED: 25, 15 January 1975, p. 18.

33. MEED: 24, 9 May 1980, p. 23.

34. "Special Report: Egypt," MEED, May 1978, p. 57.

35. MEED: 20, 19 November 1976, p. 11.

36. MEED: 21, 28 January 1977, p. 13.

37. MEED: 21, 11 February 1977, p. 16.

38. MEED: 21, 18 February 1977, p. 18.

39. The February 1977 referendum marked the return of Egypt to questionable elections and referendums. President Sadat received a 98.29 percent "yes" vote in a referendum on May 21, 1978 to curb his critics. (MEED: 22, 26 May 1978, p. 33.) There were allegations of intimidation and vote-rigging in the June 1979 election. The only notable independent representative to be returned to parliament in that election was Mumtax Nassar. His success was alledgedly due to supporters with submachine guns patrolling voting boths in his constituency in Upper Egypt. (MEED: 23, 15 June 1979, p. 21.)

40. "Special Report: Egypt, MEED, May 1978, p. 57.

41. MEED: 22, 24 February 1978, p. 3.

42. "Special Report: Egypt, MEED: May 1978, p. 58.

43. MEED: 22, 24 February 1978, p. 3.

44. MEED: 22, 24 February 1978, p. 3.

45. "The Threat to Sadat From Islam," The Guardian, London, 4 September 1981, p. 13.

46. MEED: 24, 4 April 1980, p. 24.

47. MEED: 22, 12 May 1978, p. 5.

48. MEED: 20, 23 April 1976, p. 3.

49. MEED: 22, 19 May 1978, p. 23.

50. MEED: 22, 2 June 1978, p. 25.

51. Barnet, Richard J. and Ronald E. Müller, Global Reach: The Power of the Multinational Corporations, (London: Jonathan Cape, Limited, 1974), p. 193.

52. Moran, Politics of Dependence, p. 145.

53. Ibid., p. 147.

54. MEED: 21, 11 February 1977, p. 17.

55. Ibid.

56. MEED: 22, 16 June 1978, p. 32.

57. MEED: 22, 22 September 1978, p. 26.

58. MEED: 21, 28 January 1977, p. 13.

59. MEED: 22, 25 June 1978, p. 7.

60. MEED: 23, 17 August 1979, p. 20.

61. *MEED*: 23, 12 October 1979, p. 36.

62. *MEED*: 22, 25 June 1978, p. 7.

63. Waterbury, *Egypt: Burdens and Options*, p. 225.

64. *Arab Economist*: 10, July 1978, p. 18.

65. *MEED*: 22, 7 April 1978, p. 4.

66. *Financial Times*, 22 September 1980, p. XIII.

67. *MEED*: 21, 22 July 1977, p. 4; and *Arab Economist*: 10, July 1978, p. 18.

68. *Arab Economist*: 10, July 1978, pp. 18, 19.

69. "Special Report: Egypt," *MEED*, May 1978, p. 14.

70. *MEED*: 22, 17 March 1978, p. 20.

71. *MEED*: 21, 11 November 1977, p. 8.

72. "Special Report: Egypt," *MEED*, May 1978, p. 13.

73. Personal Interview, Cairo Barclays International Bank, Cairo, 15 February 1981; and *MEED*: 21, 22 July 1977, p. 14.

74. *MEED* 24, 30 May 1980, p. 22.

75. *MEED*: 24, 13 June 1980, p. 23.

76. *MEED* 24, 20 June 1980, p. 25.

77. *Financial Times*, 22 September 1980, p. XIII.

78. *MEED*: 24, 1 August 1980, p. 19.

79. <u>MEED</u>: 22, 11 August 1978, p. 25.

80. <u>MEED</u>: 23, 18 May 1979, p. 27.

81. Personal Interview, Consultant to the Investment Authority, Cairo, 30 April 1981.

82. Personal Interview, Arab Aluminum, Cairo, 5 April 1981.

83. Personal Interview, Cairo Beverages Shareholder, Cairo, 15 April 1981.

84. <u>MEED</u>: 23, 2 February 1979, p. 20.

85. Personal Interview, Arab Aluminum, Cairo, 5 April 1981.

86. The author confirmed this by checking the business description of these companies in Fiani and Partners, <u>Egypt Investment Directory</u>, (Cairo: 1980).

87. Personal Interview, Consultant to the Investment Authority, Cairo, 30 April 1981.

88. <u>MEED</u>: 24, 2 May 1980, p. 23.

89. <u>International Herald Tribune</u>, No. 30, 679, 7 October 1981, p. 1.

90. Ibid., p. 2.

91. <u>The Guardian</u>, 9 November 1981, p. 6.

92. Ibid.

93. Ibid.

94. <u>MEED</u>: 25, 6 November 1981, p. 14.

PART III:

CONCLUSIONS

Chapter 9

CONCLUSIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

The analysis of the tripartite relationship among foreign investors, government and local private investors during Egypt's Economic Opening in the 1970s and early 1980s provides indications of the way these three parties interact with each other which can be of use to students and practitioners of international business in examining and predicting other situations. Of the findings, some may lend themselves to more general extrapolation than do others. The most general are likely to be the broad patterns of relationships among foreign investors, government, and local private investors, particularly under open-door policies in developing countries.

The Egyptian case can be viewed as an example of how the three parties may tend to form bipartite coalitions--development, capitalist and nationalist--which have been observed in various countries at various times. The thesis contends from the Egyptian example that these coalitions do not arise in an arbitrary fashion but are formed and dissolved in a predictable manner. Under an open-door policy a government attempts to build a development coalition with foreign investors. Foreign investor response, nonetheless, may fall short of government expectations. This in combination with goal conflict between the two parties can cause the development coalition to erode and be replaced by a new coalition. Local private investors, desirous of the special

concessions their government is making foreign investors under a development coalition, will likely lobby for a capitalist coalition which raises them to equal status with foreign investors in the eyes of the government. At this time, foreign investors on the whole are likely to welcome or be neutral towards an emerging capitalist coalition and view the increasing power of local private investors as supporting not threatening to themselves. After securing a capitalist coalition, however, local private investors will likely strive to replace the capitalist coalition with a nationalist one in which they receive preferential treatment over foreign investors.

Extrapolating From the Egyptian Case

A concern with any research which is predominantly a case study is the degree to which it can be extrapolated to other cases. Each situation will have its own particular features. Nevertheless, the three parties with similar individual motivations will find themselves in very similar positions in other countries resulting in essentially similar patterns of coalition formation and erosion.

Thus, in the late 1970s when rumors in Cairo suggested that Syria might embark on an Economic Opening towards foreign investment, one could draw close parallels between the two countries which would suggest the good possibility, if not the probability, that a Syrian Economic Opening might follow similar patterns as the Egyptian one. To begin with, Syria

resembled Egypt before its Economic Opening in that the state was predominantly socialist, with major industry nationalized in the 1960s and even local private enterprise relegated to an extremely minor position.

Were Syria to attempt to improve its economic performance via a development coalition, this coalition could well founder, as did Egypt's. Syria might well be viewed by potential foreign investors as a less attractive market by virtue of its size alone. Also, Syria, like Egypt, would likely be viewed as politically risky, even more so. The country's continued "confrontation" status with Israel could make potential foreign investors wary as might the intermittent, albeit to date unsuccessful, insurgencies against a relatively long-lived though minority-based administration.

If Syria were to overestimate positive foreign investor response and mis-plan accordingly as did Egypt, the government might be influenced by potential local investors or expatriate Syrians to allow a capitalist coalition to replace the original development one and to permit lower investment, faster-payback, and less development-oriented projects in order to at least provide some of the new investment the government seeks. It is likely that such local investors would also attempt to protect their favored investment areas from foreign competition and thus, in turn, sponsor the emergence of a nationalist coalition.

An emergence of a new monied class in Syria could prove as socially and politically destabilizing as in Egypt, especially if this new class were allowed to be as conspicuous as it had become in Egypt. The Syrian government faces political opposition from Muslim fundamentalists. These fundamentalists, in addition to left-wing sympathizers which would remain abundant in a hitherto socialist state, would likely pressure the government eventually to circumscribe the growing power of the local private investors--again, in accordance with the Egyptian pattern.

Of course, the Syrian government could, by considering the Egyptian case, avoid certain of the pitfalls to which the Egyptian government succumbed. Less optimistic expectations for foreign investment or more control over the rise of local private investors might well slow, if not change, the cycle of coalitions and lend the process and consequently the host nation more stability. Learning from the mistakes of others, however, is not a limitation to extrapolation, rather a purpose for it.

Looking further afield than the Middle East, one can still cite an example of a developing nation whose history of the tripartite relationship among government, foreign investors and local private investors resembles that of Egypt and lends support to the potentiality of extrapolation from the Egyptian case. That country is the Philippines.

In the early twentieth century, the Philippines experienced primarily export-led economic growth. As for Egypt during the same period, exports consisted primarily of agricultural

products. After World War I, industrialization received more encouragement, firstly by the growth in local consumer demand and later by the enactment of certain protective tariffs.[1] After World War II, the Philippines experienced a succession of bipartite coalitions among government, foreign investors, and local private investors very similar to the coalition cycle observed in Egypt.

Directly following the war, the government of the Philippines can be described as pursuing a development coalition. First it extended preferential treatment to United States investors. The laws offering tax exemptions and credits to foreign investors in general were promulgated in 1946.[2] In the early 1950s, the Philippines sought discretion as far as foreign investment was concerned. It sought only investment which was "necessary" or "conducive to sound economic development", although the definition of these terms subsequently came to include any project whose imported material content did not exceed fifty percent of gross value of output and which could operate at a profitable scale after the expiration of the initial incentives. This relatively relaxed interpretation may have partially evolved as a result of the initially low response from foreign investors.[3] As the 1950s progressed, however, a new local industrial class was increasing in political power, primarily in relation to the older landowning elite. Thus, in the 1950s, a capitalist coalition and subsequent nationalist coalition can be discerned.

Perhaps again as a result of disappointing response from foreign investors, new protective tariffs were enacted which were used to encourage import substitution by both local and

foreign investors. These protectionist measures are credited with having a particularly significant effect on local private investors, however. Local entrepreneurs traditionally operated in the areas of commerce, finance and trade. In the fifties, however, many were quick to move into new areas of production which under the new measures looked "relatively, even artificially, profitable."[4] Certain favorite areas for local investment were precursors of Egypt in the 1970s; e.g., cigarettes, food products, and beverages.[5]

Initially, local investment joined with foreign investment to exploit the new opportunities. Eventually, however, local private investors, aided by Filipino nationalism, succeeded in establishing a subsequent nationalist coalition which curtailed foreign investment in certain areas of primary interest to the local investors, as well as Filipinizing the retail trade.[6] John Power and Geraldo Sicat, writing about the mounting strain between the two partners of the capitalist coalition, remarked, "Moreover, the market-sharing conflict of domestic with foreign enterprises within the narrow protected market tended to strengthen the anti-foreign-investment element in the ideology of economic nationalism."[7]

The local private investors associated with the new nationalist coalition also appeared to have behaved in ways so to generate social agitation similar to that which resulted from Egypt's Economic Opening. Again, this new class represented a very small proportion of the population in a country where income was very unequally distributed. Tax evasion was also

widespread, and members of the new business class were reported to receive favors from the government for their support of the current administration.[8]

While the social agitation of the 1960s was to culminate in martial law in 1972, its ostensible purpose being the removal of corruption and the chastising of the wealthy,[9] as an interim measure a new foreign investment law was promulgated in 1967 after several years of debate and opposition from certain quarters in the Philippines Congress. The new law heralded a move back to a development coalition. Concluding that import-substitution development failed to offer much future growth, the Philippines once again sought the particular attributes of potential foreign investment to stimulate export-oriented industry, despite certain opposition from local private investors who sought to "throw their political weight" behind a concurrent exchange policy which would discourage exports while protecting their own interests.[10]

One may cite, therefore, examples such as Syria whose similar situation to Egypt suggests extrapolation from the Egyptian case or the Philippines whose history sustains such extrapolation. However, a question remains as to the limits of such extrapolation. One may postulate that the greater the similarity between the situation in Egypt and that in another country, the more likely more detailed extrapolation will hold true. Therefore, it may be fitting to question just how peculiar were certain key factors which influenced the pattern the tripartite relationship followed during Egypt's Economic Opening.

For example, if a nation failed to discern a need for foreign investment to aid in economic development or a need for discrimination between foreign investors and local private investors, would not a development coalition fail to appear? Also, if initial foreign investment response was deemed adequate, would this not forestall a move to a capitalist or subsequent nationalist coalition? In turn, if nationalism were not an issue, would this not prevent a nationalist coalition from ever assuming such prominence? Or finally, if local investors could or would provide that which was originally sought from foreign investors, would this not prevent an eventual return to a development coalition?

Indeed, under circumstances which vary widely from the Egyptian situation, the subsequent Egyptian experience is not likely to re-occur. Looking at these potential variations from the Egyptian situation, one may even note actual examples that indicate limitations to extrapolation. Just as important, however, are numerous examples which resemble the Egyptian situation. No case may be extrapolated to all situations. Nonetheless, a value in understanding the tripartite relationship in Egypt during its Economic Opening is the similarity the Egyptian situation has with many others in developing countries.

Let us first explore situations in which a development coalition is unlikely to emerge. To begin with, one could project a situation in which a government remained closed to foreign investment along the style of Egypt under President Nasser. Such a nation might decide to proceed indefinitely without those benefits foreign investment might offer. Indeed,

the thesis of Richard Robinson's book, National Control of Foreign Business Entry, suggests that many host countries have become more wary and constraining of potential foreign investors.[11] However, numerous countries in the past twenty or even past ten years--Brazil, Chile, Malaysia, South Korea, and Singapore to mention but a few--have undertaken policies of actively soliciting foreign investment for the purpose of stimulating economic development.[12] In fact, the foreign investment laws resulting from such solicitation of foreign investment reflect each nation's realization that in order to compete against other potential investment options, incentives to foreign investors may be required.

Nonetheless, the question still remains as to the necessity of offering such incentives only to foreign investors instead of foreign and local investors alike, thus bypassing a development coalition in favor of a capitalist one of equal investor treatment. One might particularly note cases of developed, Western nations which do not generally pursue development coalitions. In the cases of such nations, however, local private investors may well offer similar benefits as foreign investors; for example, advanced technology and access to international markets. The governments of such nations, therefore, may not perceive any advantage to promoting foreign investment over local investment.

In many developing nations this is not the case. When a host nation seeks to develop export-oriented industry, as did Egypt at the onset of its Economic Opening, a government is particularly likely to discriminate in favor of foreign investors. Two Asian examples of such development coalitions are Taiwan and Singapore.

Prior to the 1960s, Taiwan pursued economic development via import substitution. Local private enterprise consisted of predominately small, family-run, unincorporated businesses. These businesses tended to forego large-scale production in order to keep control of the business within the family. A stock exchange established in 1960 was still in its infancy over ten years later. Taiwanese industrialists also tended to shy away from any venture entailing much risk or new technologies.[13]

Just as did the government of the Philippines, the Taiwanese government projected limited growth if the country continued to rely on import substitution. Also, faced with the stoppage of significant United States aid in 1965, the Taiwanese government began in the late 1950s and early 1960s to encourage export-oriented industry and to improve the investment climate for foreign investment, progressively to the disadvantage of local enterprise and over the objections of influential local industrialists.[14]

Similarly in Singapore, ownership of a business enterprise was largely confined to one or a few families who stressed family control and distrusted outsiders. They avoided acquiring outside capital with its consequent additional partners. Singapore originally encouraged local investors who were inclined to produce local consumer goods by means of protective tariffs and financial assistance. By the mid-1960s, however, Singapore was beginning to promote an export-oriented development policy.[15] In 1965 it left its federation with Malaysia and began courting the large, international firms

who possessed the "requisite technological and market capacities to successfully compete in the world market."[16]

Frederico Deyo, writing on Singapore's change of policy conlcuded, "While government industrial policy has not explicitly favored foreign over local investors, it has nevertheless had this effect."[17] Indeed, local manufacturers were severely hurt by their nation's withdrawal from Malaysia as well as the withdrawal of government financial assistance and protective policies. The Economic Development Board, the major government agency for investment promotion, primarily concentrated on attracting foreign investment. Furthermore, the major investment incentives were available for enterprises with over one million dollars of equity and producing in high-priority, export-oriented industries. This resulted in few native Singapore enterprises benefitting from the incentives.[18]

Therefore, while some nations may indefinitely pursue policies which put foreign investors at a disadvantage--and many more intermittently pursue such policies--many nations do at one time or another encourage development coalitions in which foreign investors are put in an explicit or implicit position of advantage over local investors. Furthermore, in situations in which the host government wishes to attract benefits which foreign investors are more likely to possess than do the nation's own local private investors, specifically when host governments wish to promote export-oriented growth, the emergence of a development coalition is likely.

Having determined that the emergence of development coalitions, if not a universal occurrence, is at least a relatively widespread phenomenon, we turn to the second question raised concerning the possible peculiarity of the Egyptian case; e.g., if initial foreign investment response is deemed adequate, does this not forestall a move to a capitalist or subsequent nationalist coalition?

There is some evidence to suggest the more successful a development coalition the longer its dominance within a host nation. South Korea promoted a development coalition along similar lines to Singapore beginning in the mid-1960s. By the mid-1970s, foreign investment dominated South Korea's manufacturing, while it was reported that "relative stagnation in domestically and privately capitalized indigenous enterprise has forestalled the emergence of an independent business class."[19]

Other cases suggest, however, that even relatively successful development coalitions are not perpetual. Despite a flow of foreign direct investment described as "spectacular", Malaysia in the mid-1970s introduced regulations supporting Malay ownership in all commercial enterprises.[20] At the same time, Mexico, also the recipient of positive interest from foreign investors, enacted similar laws, its Commerce Minister remarking, "We must learn to protect Mexican producers because we don't want foreigners replacing Mexican industrialists."[21] Brazil is another case in which relatively relaxed control over direct foreign investment, the "Brazilian model", was eventually replaced by measures more encouraging to local private investors despite good response from foreign investors. Particularly,

in 1967 certain sectors of the economy were reserved for locals only. In other sectors, foreign participation was limited.[22] Even in Singapore, the Singapore Manufacturers Association began successfully lobbying for more government financing of smaller local enterprises. Recognizing the problem of stagnation in its own private domestic sector, the Singapore government expanded its local industries section of the Economic Development Board, relaxed somewhat the one million dollar equity requirement for incentives, and initiated a number of direct assistance schemes to promote local businesses.[23] Therefore, some development coalitions may prove stronger than others and consequently dominate within a host country longer, but considerable evidence tends to support their eventual waning.

This waning of development coalitions is indeed promoted by an apparently universal sense of nationalism within host nations--albeit a sentiment which may vary in intensity from country to country. Member states of the Organization for Economic Cooperation and Development (OECD) agree not to discriminate against foreign investment from other member states. Such states disclaim discriminatory measures against others in order to avoid discrimination themselves. This sense of reciprocity nonetheless fails to prevent some American citizens cringing at the thought of Europeans buying up California's vineyards or Arabs purchasing large tracts of the country's southeast coastline; nor does it prevent a nationalistic Japan dragging its feet in implementing its OECD obligations.[24]

Moreover, developing countries are unlikely to feel that they stand to benefit from such reciprocity. Despite the existence of some "third-world multinationals", most businesses in the developing world--as witnessed in Egypt, Singapore, Korea, and Taiwan--tend to be small enterprises unlikely to participate in extensive foreign investment. Furthermore, many developing countries have histories of colonial rule, as did Egypt, or of post-colonial economic domination from abroad, as did Chile. Such memories can make even "international" Singapore begin to worry about the welfare of indigenous business vis-à-vis the resident foreigners.

Finally, we address the question of the peculiarity of the Egyptian case regarding the rise of its local private investors and the subsequent social agitation and call to return to a development coalition. In theory, increasing incentives or protection offered to local private investors need not result in social or political upheaval. Nonetheless, we see such upheaval occur in the Philippines as well as in Egypt.

Furthermore, as noted earlier there are certain attributes of local private investors which appear to transcend national boundaries in the developing world; e.g., private businesses tend to be small, family-owned and controlled, and possibly as a result, such businesses tend to seek ventures with relatively low perceived risk, relatively low capital investment requirements, and relatively fast paybacks. In manufacturing, such businesses tend to produce consumer goods for import substitution preferably with the advantage of government protection. Such local investors

can grow rich under such protection while doing little to promote widespread development in their country. The disparity between rich and poor in developing countries often leads to social tension. This tension may increase if the rich are perceived as growing richer on government policies. As long as local private investors in developing countries tend to employ government incentives to produce products or services primarily purchased from one another within their proportionately small class, the greater the possibility of other interest groups within the nation becoming disenchanted with local investors' contribution to the nation as a whole. Consequently, the government, under pressure from these other interest groups, may well seek again the perceived benefits of foreign investors for more substantial development or for export-led growth.

Thus the peculiarities of Egypt during the 1970s do not preclude extrapolation to other cases in the developing world. As stated earlier, no case situation will exactly repeat itself. Nonetheless, the patterns emerging from the Egyptian case appear to be identifiable in a number of other countries, and the lessons to be learned from Egypt's Economic Opening may well be applicable time and again to similar cases.

Implications for Host Governments, Foreign Investors and Local Private Investors

While Egypt's Economic Opening may have followed a succession of shifting coalitions among government, foreign investors, and local private investors which is not unique, the Egyptian

government could be judged to have allowed matters to get out of hand.

To begin with, the coalitions and their concurrent government policies no doubt changed too quickly for many potential foreign investors. Indeed, the Malaysian government noted that it regarded its own policy toward foreign investment as a "developing one, though it [the government] would avoid any sharp discontinuities."[25] It was just such "discontinuities" which worried potential foreign investors in Egypt. As noted earlier, most potential, institutional foreign investors have a great aversion for situations involving uncertainty. To watch pioneer foreign investment projects encounter negative changes in government policy before some of the projects even came into operation, likely filled these wary decision makers with foreboding and consequently discouraged potential investment.

Similarly, the Egyptian government's near panic in foregoing the original development goals of the Economic Opening in favor of the interests of local private investors allowed the Opening to acquire quickly an image of one great get-rich-quick scheme for the limited few. In the view of the increasing local opposition to Egypt's Economic Opening, any contribution to the nation's economic development which the new policy in fact provided paled in the light of increasing social tension. The government was therefore remiss in allowing the Opening to become so controversial and thus providing the impetus for its own increasing unpopularity. Governments of other developing nations should consider Egypt's experience and be prepared for the turn of events which apparently caught Egypt by surprise.

Understanding the tripartite relationship and its succession of coalitions can also be important to foreign investors and potential foreign investors. First, their preferential treatment from a government under an open-door policy is not perpetual. The increasing position of local private investors, even in a previously socialist state, need not prove beneficial for them in the longer run. Even those who invest in a country while a development coalition is dominant may find their projects adversely affected by the emergence of a capitalist or a nationalist coalition in the country. It can be important for foreign investors to consider the strengths and goals of local private investors in a host country and try to project what concessions they will attempt to attain politically and their chances of obtaining those concessions. Of course, the degree to which a foreign investor is involved in an area to which local private investors can not or do not aspire to compete, the safer the foreign investor is from local encroachment. Thus, a foreign investor in a highly technical export-oriented project or an industry which requires substantial investment is less likely to face competing local interests than the foreign investor involved in a consumer-product, import-substitution project. In any case, foreign investors should be aware of likely changes whatever the current status quo. The phenomenon of being "stabbed in the back" by previous friends and partners, though possibly lamentable, should be expected.

Local private investors, on the other hand, are vulnerable to political action which can impede or revoke their increasing power position. Within a developing country, local private investors with funds enough to invest in even moderate sized enterprise are likely to represent a very limited segment of society. As they become more prominent and begin pursuing their own goals more vigorously other interest groups within the country may try and may succeed in once again limiting the power and flexibility of the local investors. It would be prudent to expect that the greater the degree to which the behavior of local private investors alienates or offends other interest groups, the greater the chance of their falling prey to opposition from these groups. Making fast money and flaunting it seldom endears private investors to their fellow citizens. Also, certain foreign investors who have opted to join local private partners in potentially controversial ventures should note the possibility of finding themselves targets of reactionary moves as well.

Recommendations for Further Research

This study emphasizes the importance of studying the tripartite relationship among foreign investors, government, and local private investors as an integral part of international investment. As explained in Chapter One, extensive work has been done on the bipartite relationship between foreign investors and government. These studies, if they address local private investors at all, relegate them to a very subservient position in relation to the other two parties. This study of Egypt's

Economic Opening, on the other hand, demonstrates the important role local private investors play in influencing both foreign investors and the relationship between foreign investors and their host government.

Research opportunities are abundant for increasing our knowledge of the tripartite relationship among foreign investors, government, and local private investors. More in-depth studies of these relationships as they apply in other countries could help to clarify better the extent the Egyptian experience can be extrapolated to other cases. More specifically, further comparisons could be made between Egypt's Economic Opening and open-door policies and their outcomes in other developing countries, thereby adding not only to our understanding of the tripartite relationship but to our understanding of the politics of open-door policies as well. Also, a study on the differences and similarities between tripartite relationships as they unfold in developed countries as opposed to developing ones could be enlightening.

Furthermore, the purpose of this thesis was to show a pattern of coalition building and erosion, identifiable in an historical setting, not to quantify this pattern. In order for others to do so, however, certain characteristics of the coalition pattern would need to be taken into account.

To begin with, no coalition should be regarded as representing the absolute state of affairs wihin a host country at a particular time. For example, to state that one coalition replaces another is to identify a shift in the trend of <u>general</u>

policies. A capitalist coalition is designated to have replaced a development coalition when general policies and conditions associated with a capitalist coalition replace those of a development coalition.

The model, therefore, cannot be expected to explain each particular case of foreign investment within a host country under observation. A clear example of this would be the case of host countries identifying protected sectors of the economy, such as retail trade, in which foreign investment is excluded.[26] This particular nationalist policy may well remain constant while the nation moves in terms of other general policies through a succession of development, capitalist, and nationalist coalitions.

Also coalitions must not be viewed as discrete. They tend to build, erode, and overlap one another. As one coalition erodes another is acquiring strength. At any particular time, an observer may note that while one coalition could be said to be "dominant", evidence could be cited of a lingering or emerging alternative coalition.

To actually quantify the building and erosion of coalitions in relation to one another, three factors would need to be considered and consequently plotted. These factors are direction, force, and time.

The factors of direction and force could be used to chart the pattern of coalitions on the vertical axis which might be designated "level of dominance." The direction factor identifies the coalition which is emerging as well as the one which is eroding. If the direction of policies is away from a nationalist coalition and toward a development one, the nationalist coalition

is seen to decrease while the development coalition increases. The force factor identifies the level of increase or decrease and reflects the depth of an increase or decrease in incentives as they apply to each of the coalitions.

The time factor could be charted, as is traditional, on the horizontal axis. The time factor not only depicts the duration of a particular coalition but, in concert with the factors of direction and force, it depicts the speed of a coalition's ascent or descent.

Whether future studies are historical or quantitative, they can, nonetheless, enlarge our understanding of the tripartite relationship among government, foreign investors, and local private investors and, consequently, enhance our understanding of international business.

Notes to Chapter 9

1. Power, John H. and Geraldo P. Sicat, The Philippines: Industrialization and Trade Policies, (London: Oxford University Press), 1971, p. 60.
2. Ibid., pp. 30. 79.
3. Ibid., p. 79.
4. Ibid., p. 71.
5. Ibid.
6. Ibid., pp. 68, 77.
7. Ibid., p. 103.
8. Ibid., pp. 64, 67; and Robinson, Richard, National Control of Foreign Business Entry: A Survey of Fifteen Countries, (New York: Praeger Publishers), 1976, p. 113.
9. Robinson, Foreign Business Entry, p. 113.
10. Power and Sicat, The Philippines, p. 103.
11. Robinson, Foreign Business Entry, p. 320.
12. Ibid., pp. 19, 33, 202; Deyo, Frederic C., Dependent Development and Industrial Order: An Asian Case Study, (New York: Praeger Publishers), 1981, p. 53; and Moran, Theodore H., Multinational Companies and the Politics of Dependence: Copper in Chile, (Princeton, New Jersey: Princeton University Press), 1977, pp. 55, 56.
13. Hsing, Mo-huan, Taiwan: Industrialization and Trade Policies, (London: Oxford University Press), 1971, pp. 175, 182, 183.

14. Ibid., pp. 183, 189, 217.

15. Deyo, Dependent Development, pp. 35, 36, 53.

16. Ibid., p. 56.

17. Ibid., p. 65.

18. Ibid., pp. 58, 65, 67.

19. Ibid., p. 20.

20. Robinson, Foreign Business Entry, pp. 333, 38, 42.

21. Ibid., p. 170.

22. Ibid., pp. 202, 222.

23. Deyo, Dependent Development, pp. 71, 73.

24. Litvak, Isaiah A. and Christopher J. Maule, eds., Foreign Investment: The Experience of Host Countries, (New York: Praeger Publishers), 1970, p. 129.

25. Robinson, Foreign Business Entry, p.47.

26. Ibid., p. 321.

APPENDIX A

THE ARAB REPUBLIC OF EGYPT

The General Authority for Investment and Free Zones

LAW NO. 43 OF 1974 CONCERNING THE INVESTMENT OF ARAB AND FOREIGN FUNDS AND THE FREE ZONES AS AMENDED BY LAW NO. 32 OF 1977[1]

1977

Decree of the President of the Arab Republic enacting Law No. 43 of 1974, concerning Arab and Foreign Capital Investment and Free Zones.

In the Name Of The People

The President Of The Republic

The People's Assembly has approved the following law, and it has been issued:

Art. 1. Arab and foreign investments and free zones are governed by the attached law.

Art. 2. Matters not covered by this Law are subject to applicable laws and regulations.

Art. 3. <u>The Minister of Economy and Economic Cooperation shall issue, upon recommendation of the Board of Directors of the General Authority for Investment and the Free Zones, the executive regulations implementing this law within three months of its enactment</u>.

Art. 4. Law No. 65 of 1971 on Arab Capital Investment and Free Zones is hereby repealed. Any other provision contrary to what is stated in the present law is also repealed. Projects approved under said law shall continue to enjoy the rights and privileges specified thereunder. Projects approved prior to the implementation of Law No. 65 of 1971 shall continue to enjoy the privileges and guarantees granted to such projects prior to the coming into force of said law.

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[1]The following text of Law 43 incorporates all changes made by Articles 1-4 of Law No. 32 of 1977, which changes are underlined. Articles 5, 6, 7 and 8 of Law No. 32 do not effect changes in the text of Law 43 and are set forth in Annex A.

This text is in accordance with the official version appearing in National Bank of Egypt, <u>Economic Bulletin</u>, No. 2, 1977.

Art. 5. This Law shall be published in the Official Gazette and shall come into force from the date of its publication.

Signature of the President
19 June, 1974.

CHAPTER ONE

Investment of Arab and Foreign Capital

Art. 1. The term "Project" in the application of the provisions of this Law shall mean any activity within any of the spheres therein specified and approved by the Board of Directors of the General Authority for Investment and Free Zones.

Art. 2. The term "Invested Capital" in the application of the provisions of this Law shall be deemed to mean the following:
i) Free foreign currency duly transferred to the Arab Republic of Egypt through a bank registered at the Central Bank of Egypt for utilization in the execution or expansion of a project.
ii) Machinery, equipment, transportation equipment, raw materials and commodity requirements imported from abroad and necessary for the establishment or expansion of the project, provided that such are compatible with modern technological developments and have not been previously used, unless the Authority's Board of Directors grants exemption from such condition. iii) Intangible assets, such as patents and trade marks registered with member states of the International Convention for the Protection of Industrial Property, or in accordance with the rules of international conventions concluded in this respect and held by residents abroad and pertaining to the projects. iv) The free foreign currency spent on preliminary studies, research, and incorporation and assumed by the investor within the limits approved by the Authority's Board of Directors. v) Profits realized by the project if utilized in increasing its capital or if invested in another project, conditional on the approval of the Authority's Board of Directors in both cases. vi) The free foreign currency transferred to the Arab Republic of Egypt through a bank registered at the Central Bank of Egypt and

utilized to subscribe to Egyptian stock or to purchase same from the stock exchange in the Arab Republic of Egypt in accordance with the rules adopted by the Authority's Board of Directors.
vii) The free foreign currency transferred to the Arab Republic of Egypt through a bank registered at the Central Bank of Egypt and utilized in purchasing land whether vacant or not, for the construction of buildings thereon pursuant to the provisions of this Law, even if purchased before obtaining the Board of Directors' approval as long as the act of purchase was effected according to the prevailing Laws and on a date subsequent to the entering into force of Law No. 65 of 1971.

The valuation of the invested capital referred to in items 2, 3 and 4 shall be subject to the approval of the Authority's Board of Directors and shall be made in accordance with the rules and procedures which shall be specified in the executive regulations.

Art. 2 bis. Invested capital shall be transferred to, and exported from, the Arab Republic of Egypt, and profits generated therefrom shall be transferred in foreign currency abroad in accordance with the provisions of this Law, at the highest rate prevailing and declared for free foreign currency by the competent Egyptian authorities.

The provisions of the preceding paragraph shall apply to land and property that represent an integral part of the capital assets of the projects approved by the General Authority for Investment and the Free Zones.

Art. 3. The investment of Arab and Foreign capital in the Arab Republic of Egypt shall be for the purpose of realising the objectives of economic and social development within the framework of the State's general policy and national plan, provided that the investment is made in projects in need of international expertise in the spheres of modern development or in projects requiring foreign capital. The projects, contained in the lists to be prepared by the Authority and approved by the Council of Ministers, shall be in the following fields: i) industrialization, mining, energy, tourism, transportation, and other fields. ii) Reclamation

of barren land and cultivation thereof under long-term tenancy not exceeding 50 years, with a possible renewal on the proposal of the Authority and approval of the Council of Ministers for an additional 50 years, and projects for developing animal production and water wealth. iii) Projects for housing and for urban development, by which is meant investment in the division of land into parcels and the construction of new buildings together with public utilities connected therewith.

The purchase of a building already in existence or of vacant land is not to be deemed to be a "project" in the context of the provisions of this Law unless intended for construction or for rebuilding and not for the purpose of resale in order to benefit from an increase in market value, without prejudice however to the regulations governing the disposal and re-export of invested capital contained in this Law. The building has to be completed within the period specified by the Authority's Board of Directors, with no obligation on the part of the State to vacate such real property. iv) Investment companies which aim at utilizing funds in the fields enumerated in this Law. v) Investment banks and merchant banks and reinsurance companies whose activities shall be confined to transactions effected in free currencies. The aforementioned banks and companies are entitled to directly undertake financing and investment operations, whether they are in projects in the free zones or for local, joint or foreign projects established within the Arab Republic of Egypt. They may also finance Egyptian trade transactions. vi) Banks engaging in local currency transactions, so long as they are in the form of joint ventures in which local Egyptian capital holds at least 51%. vii) Construction activities in regions outside the agricultural area and the perimeters of existing cities. viii) Construction contracting activities undertaken by Joint Stock Companies in which there is a 50% minimum Egyptian capital participation. ix) Technical consultant activities in the form of Joint Stock Companies in partnership with foreign international consultant firms subject to their being related to any projects in the project areas mentioned herein, their activity being essential to the project and to the approval of the Authority's Board

of Directors. Each operation is to have a special account in conformity with the system defined by the Minister of Economy and Economic Cooperation and approved by the Board of Directors of the Authority.

Special priority shall be given to those projects which are designed to generate exports, encourage tourism, or reduce the need to import basic commodities, as well as to projects which require advanced technical expertise or which make use of patents or trade marks of worldwide reputation.

Art. 4. The capital invested in the Arab Republic of Egypt under the provisions of this Law shall take the form of participation with public or private Egyptian capital in such fields and under such terms and conditions as are set forth in Articles 2 and 3 of the present law. By way of exception from the above: a) Housing projects, constructed for the purpose of investment, may be undertaken only by Arab capital; foreign capital may not undertake housing projects even in participation with Egyptian capital.

The term "Arab invested capital" shall mean such capital as is owned by a natural person having the nationality of an Arab country, or a juridical person, provided that the majority of its capital shall be held by citizens of one or more Arab countries. b) Arab or foreign capital may not operate without local participation in investment banks and merchant banks whose activities are confined to transactions effected in free currencies so long as they take the form of branches of firms the principal offices of which are situated abroad. c) The authority's Board of Directors, by a two thirds majority vote of its members, may approve the investment of Arab or foreign capital without local participation in the other fields specified in Article 3.

Art. 5. Real estate may not be expropriated for the purpose of building investment projects unless such is deemed to be a public utility pursuant to the Law.

Art. 6. Irrespective of the nationality or domicile of their owners, projects in the Arab Republic of Egypt approved under the provisions of this Law shall enjoy the guarantees and

privileges set forth in this Law.

Subject to the Authority's approval according to its rules and regulations, projects established in any area of the areas set forth in Article 3 entirely with Egyptian capital and owned by Egyptian nationals shall enjoy the privileges and exemptions set forth in Articles 9, 14, 15, 16, 17 and 18.

Subject to the Authority's approval, such exemptions shall apply to Joint Stock companies existing at the time of the enactment of this law within the limit of new expansion in fields approved in the Law through an increase in capital by cash subscription.

Art. 7. Projects may not be nationalized or confiscated.

The assets of such projects cannot be seized, blocked, confiscated or sequestrated except by judicial procedures.

Art. 8. Investment disputes in respect of the implementation of the provisions of this Law shall be settled in a manner to be agreed upon with the investor, or within the framework of the agreements in force between the Arab Republic of Egypt and the investor's home country, or within the framework of the Convention for the Settlement of Investment Disputes between the State and the nationals of other countries to which Egypt has adhered by virtue of Law No. 90 of 1971, where such Law applies.

Disputes may be settled through arbitration. An Arbitration Board shall be constituted, comprising a member on behalf of each disputing party and a third member acting as chairman to be jointly named by the said two members. Failing agreement on the nomination of the third member within thirty days of the appointment of the second member, the chairman shall be chosen, at the request of either party, by the Supreme Council of Judicial Bodies from among counsellors of the judiciary in the Arab Republic of Egypt.

The Arbitration Board shall lay down its rules of procedure unrestricted by the rules contained in the Civil and Commercial Code of Procedures, save the rules which relate to the basic guarantees and principles of litigation. The Board shall see to it that the dispute is expediently resolved. Awards shall be rendered by majority vote and shall be final and binding on both

parties and enforceable as any other final judgment.

The Arbitration Board shall decide on the costs of Arbitration and shall determine who shall bear such costs.

Art. 9. Companies enjoying the provisions of this Law shall be deemed to belong to the private sector of the economy, irrespective of the legal nature of the indigenous capital participating therein. Legislation, regulations, and statutes applicable to the public sector of the economy and its employees shall not apply to said companies.

Art. 10. Projects enjoying the provisions of this Law shall not be subject to Law No. 73 of 1973, in connection with the conditions and procedures for electing labor representatives to the Board of Directors of public sector organizations, joint stock companies, and private associations and establishments.

The statutes of the company shall show the method to be applied for labor participation in the management of the project.

Art. 11. Provisions applicable to laborers and employees provided for in Law No. 26 for the year 1954, concerning certain provisions on Joint Stock Companies, Partnerships and Limited Liability Companies, shall apply to the projects irrespective of their legal form. The employees of said projects shall be subject to the Social Insurance Law unless the project provides a better insurance scheme approved by the General Organization for Social Insurance.

Employees of projects shall be exempted from the provisions of Law No. 113 of 1958, and Article 21 of the Labor Law No. 91 of 1959. Employees and members of Boards of Directors of projects shall also be exempted from the provisions of Law No. 113 of 1961, limiting the remuneration of the chairman and members of Boards of Directors or seconded members to a maximum of £E 5000.

Art. 11 (bis). The projects referred to in the first paragraph of the previous article are subject to the restrictions pertaining to employees of Government and representative bodies set forth in Articles 95 to 98 of Law No. 26 of 1954, and to the prohibitions

set forth in Article 28 of Law No. 38 of 1972, with regard to members of the People's Assembly.

Prohibited activities in accordance with the provisions referred to in the previous article include undertaking any activity, directly or through an intermediary, including consultant activities, if during the year prior to leaving office or employment, the Minister or public official was involved in licensing the establishment of these projects or supervising their activity.

In the application of the provisions of this Law, the term "Minister" shall refer to the Prime Minister, Deputy Prime Ministers, Ministers and Deputy Ministers.

Art. 12. Vompanies enjoying the provisions of this Law shall be exempted from the provisions of Article 14 paragraph 5, of Law No. 26 of 1954, concerning certain provisions on Joint Stock Companies, Partnerships and Companies with Limited Liability, provided a percentageof the net profits of such companies is to be distributed annually among employees and labor in accordance with the rules proposed by the Company's Board of Directors and approved by the General Assembly.

These companies shall also be exempted from the provisions of ARticle 2 paragraph (1), Article 11, Article 15 paragraph (1), Article 21 paragraphs (1) and (4), Article 24 paragraph (2), Articles 28, 30, 33 and 33 (bix), Article 41 paragraph (4), Article 66 paragraph (1) of Law No. 26 of 1954. Representatives of foreign natural or juridical persons shall be exempted from the provisions of Article 29 of such Law and non Egyptian individuals shall be exempt from Article 31 thereof. Shares, including founders' shares, man not be transferred during the first two years of of the project unless approved by the Board of Directors of the Authority. These companies shall also be exempted from the provisions of Law No. 137 of 1961, concerning the formation of Boards of Directors of Joint Stock Companies.

Art. 13. Without prejudice to the provisions of item 6 of Article 3, the banks benefiting from the provisions of this law shall be excepted from the requirement that Egyptians should own

all of its shares contained in paragraph (a) of Article 21 of the Law on Banks and Credit issued by Law No. 163 for 1957. Said banks shall also be excepted from paragraph (c) of the same article.

Likewise, investment and merchant banks and reinsurance companies, referred to in Article 3, paragraph 5, hereof, shall be exempted from the provisions of the laws, regulations, and resolutions regulating control of exchange transactions.

Art. 14. By way of exception from the provisions of Law No. 97 of 1976, regulating transactions in foreign currency, projects shall have the right to maintain a foreign currency account or accounts with banks registered at the Central Bank of Egypt in the Arab Republic of Egypt. On the credit side of such account or accounts shall be entered the balance of the capital paid in foreign currencies, loans and any other funds of the project so long as they shall be in free currencies, funds purchased by the project from local banks at the highest rate prevailing and declared for foreign currency, the proceeds of the visible and invisible exports of the enterprise and the proceeds of sales to the local market in foreign currency.

The project shall have the right without special permit or authorization, to utilize the said account in transferring the amounts authorized under the provisions of this Law for payments for imports of commodities and investment goods necessary for the operation of the project, for meeting invisible expenses in connection with such imports, for the payment of interest and principal on foreign currency loans, for settling any other expenses necessary for the project, and for purchases of local currency at the highest rate prevailing and declared for foreign currency. The project shall undertake to submit to the Authority, at the end of each fiscal year, a statement indicating the movement in this account, together with such documents and details as the Authority may request to ascertain that the utilization has been in compliance with the purposes set forth in this Law. The statement shall be certified by a certified public accountant.

Art. 15. By way of exception from the provisions of the laws, regulations, and resolutions governing imports, enterprises enjoying the provisions of this Law shall be allowed to import, on condition of inspection but without a license, whether by themselves or through a third party, the production facilities, material, machinery, equipment, spare parts, and transportation equipment required for the installation and operation of the project, that are compatible with the nature of their activities. Such operations shall be excepted from the procedure requiring submission to a committee for the purpose of selecting the best tender, but there shall be no obligation on the part of the Government to provide the foreign currency necessary for the importing operations beyond the bank accounts mentioned in the preceding Article.

Projects shall be authorized to export their products whether by themselves or through an intermediary without a license, and without such projects having to be registered in the Registry of Exporters.

Art. 16. Without prejudice to more favourable tax exemptions provided for in any other law, projects shall be exempted from the tax on commercial and industrial profits and the taxes appendent thereto; likewise the profits distributed shall be exempted from the tax on the revenues from moveable capital and the taxes appendent thereto, and, as the case may be, from the tax on commercial and industrial profits and the taxes appendent thereto, as well as from the general tax on income, relative to the taxable proportion of such profits as set forth in this provision, such exemption to be for a period of five years from the first fiscal year following commencement of production or engagement in activities, as the case may be. Such exemptions shall apply for the same period to the proceeds of the profits which are reinvested in the enterprise and for special reserves that are debited to the distribution account after deduction of net profits and allocated to consolidate the company's financial position and undistributed profits earned during the exemption period and distributed after such period has elapsed. The shares shall be exempted from the annual proportional stamp duty for five years following the date

duties are legally due for the first time.

The exemption from the general tax on income is conditioned upon such income not being subject to similar taxation in the investor's home country or in the country to which income is transferred, as the case may be.

On the proposal of the Authority's Board of Directors, with the approval of the Council of Ministers, the period of exemption shall be eight years, provided such period is required by consideration of public interest in view of the nature of the project, its geographical location, its importance to economic development, the volume of its capital, and the extent to which it participates in exploiting natural resources and increasing exports.

Exemptions for projects involving reconstruction, establishment of new cities outside the agricultural area and the perimeters of existing cities, and land reclamation shall be for a ten year period that may be extended to fifteen years with the approval of the President of the Republic upon recommendation of the Authority's Board of Directors.

Also, with the approval of the President of the Republic, upon recommendation of the Authority's Board of Directors, all capital assets and imported construction material and components necessary for founding projects approved under this Law may be exempted from, or granted the privileges of deferred payment or installment payments for, all or part of the customs duties and any other taxes or dues provided that, in the case of exemption, if such items are locally disposed of within five years from the date of import, all such taxes and duties previously exempted shall be paid. In the case of deferred or installment payments, if such items are locally disposed of within five years, or within the deferred or installment payments period if such period exceeds five years, all such taxes and duties shall be paid.

Art. 17. After the expiration of the tax exemption period established under Article 16, and without prejudice to the provisions of such Article, the profits distributed by a project shall be exempted from the general tax on income up to a maximum of 5% of the original amount of the taxpayer's share in the invested capital.

Art. 18. Interest due on loans in foreign currency concluded by the project even if in the form of a deposit shall be exempted from all taxes and dues. Such exemptions shall apply as well to the interest on foreign currency loans concluded by the Egyptian participant to finance his share in the project.

Art. 19. Buildings utilized for administrative purposes, and above the average housing, constructed under the provisions of this Law shall not be subject to the rules limiting rents as stipulated in the laws governing rental of premises.

Art. 20. Foreign experts and employees brought from abroad to work in any of the projects enjoying the provisions of this Law shall be permitted to transfer from Egypt a portion of the wages, salaries, and compensations which they receive in the Republic of Egypt, provided the percentage shall not exceed fifty percent of their gross earnings.

All payments subject to the Employment Earnings tax, such as wages, salaries, bonuses or other similar payments made to foreign employees by projects established according to the provisions of this Law shall be exempt from the General Tax on Income.

Art. 21. The party concerned may request the re-exportation or disposal of the invested capital after obtaining the approval of the Authority's Board of Directors, provided that five years shall have elapsed from the date of importation of the capital fixed in the registration certificate (the Authority's Board of Directors may waive this condition if it is evident that the accepted project, for which funds have been transferred, cannot be implemented or continued for reasons beyond the control of the investor or for other exceptional circumstances to be considered by the Authority's Board of Directors) in accordance with the following:
i) Invested capital may be transferred abroad at the highest rate prevailing and declared for foreign currency in five equal annual installments. By way of exception, the invested capital, calculated under the provisions of this article, shall be transferable in full to the extent of the credit balance in the foreign exchange account referred to in Article 14 or if the investors had disposed of such

invested capital in exchange for free foreign currency, provided that the Authority is notified of this action. ii) If the invested capital was brought in kind, it may, with the approval of the Authority's Board of Directors, be re-exported in kind. iii) The invested capital registered with the Authority may be disposed of for free foreign currency after informing the Authority. Nevertheless the investor may with the approval of the Authority's Board of Directors dispose of his funds as registered with the Authority or dispose of part thereof in favor of another party in local currency in which case the party in favor of which such disposal has taken place shall not enjoy the right to transfer set forth in this Law. In both cases, however, the party in favor of which such transfer has taken place shall replace the original investor in enjoying the provisions of this Law.

Shares offered in free foreign currency may in all cases be sold at the Egyptian Stock Exchange in which case the proceeds of sales shall be transferable to the seller's account abroad.

Art. 22. The Authority's approval of a project shall include specifying the rules for transferring the return on invested capital abroad, if so requested by the investor, in accordance with the following: i) Projects realizing self sufficiency in their foreign currency needs, whose earnings from visible exports cover all their requirements of imports of machinery, equipment, production inputs and materials, and pay for all foreign currency loans and interest thereon, shall be permitted to transfer their annual net profits determined at the highest rate prevailing and declared for foreign currency within the limits of the credit balance of the foreign currency account authorized by the provisions of Article 14 of this Law. ii) Projects that are basically not export oriented, and that limit the country's need for imports, shall be permitted to transfer, in whole or in part, their net profits at the highest rate prevailing and declared for foreign currency within the limits approved by the Authority and subject to the currency regulations in force. iii) Net revenue on housing, the rentals of which are paid in free foreign currency, shall be transferable in full. Net revenue on housing the rentals of which are payable in local currency shall be

transferable up to 8% per annum of invested capital. Popular housing, and housing in new cities and outside the agricultural areas and the perimeters of existing cities shall be allowed to transfer net revenues up to 14% of invested capital. Reinvestment of revenue not transferable shall be permitted within an additional 8% per annum of invested capital, and the funds reinvested upon this provision in approved fields shall be considered as invested capital in the sense of the provisions of this Law.

CHAPTER TWO

Joint Ventures

Art. 23. Joint ventures established under the provisions of this Law in the form of joint stock or limited liability companies shall specify in their Articles of Incorporation the names of their respective contracting parties, the legal form of the company, its name, purpose of activities, duration, capital, percentage of participation by Egyptian, Arab, and foreign parties, and methods of subscriptions.

Statutes of the company shall be patterned after the model adopted by resolution of the Council of Ministers on the basis of a proposal by the Board of Directors of the General Authority for Investment and Free Zones, taking into consideration the privileges, guarantees, and exemptions laid down in this Law.

In all joint ventures the General Authority for Investment and Free Zones shall have sole competence to review and approve, in compliance with the provisions of the present law, the Articles of Incorporation.

The signatures of all partners or shareholders on contracts relating to all projects whatever their legal status shall be endorsed against an Endorsement Fee of one quarter of one percent of the capital of the project to a maximum not exceeding one thousand pounds (£E 1000) or its equivalent in foreign currency, as the case may be, whether such endorsement be carried out in

Egypt or at an Egyptian representational office abroad. Contracts establishing a project and all contracts relating to a project including loan agreements, mortgages, purchases of real estate and machinery, construction contracting and other contracts shall be exempt from stamp duties, registration and publication fees until one year following the commencement of operations.

This provision shall also apply to projects established in the Free Zone.

Art. 24. The statutes of joint stock companies formed under the provisions of this Law shall be promulgated by decree of the President of the Republic. Such companies shall enjoy a juridicial personality as from the date of publication of their statutes and Articles of Incorporation pursuant to the Executive Regulations of this Law. The foregoing provisions shall apply to any amendment of the company's statutes.

CHAPTER THREE

General Authority for Arab and Foreign Investment and Free Zones

Art. 25. A General Authority, whose Board of Directors shall be under the Chairmanship of the Minister of Economy and Economic Cooperation shall be created with the name "The General Authority for Investment and Free Zones" (herein referred to in this Law as "the Authority"). Its principal offices shall be in the city of Cairo and it may maintain offices outside the Arab Republic of Egypt.

The Authority shall enjoy juridical personality, and shall have a Board of Directors to be constituted by Decree of the President of the Republic.

The Board of Directors shall be the prevailing authority in all matters of the Authority, shall discharge its duties, and lay down the general policy that shall be pursued. It may adopt any resolution deemed to be conducive to the achievement of the objectives for which the Authority was created.

By Decree of the President of the Republic, a Deputy Chairman of the Board of Directors of the Authority shall be appointed, who shall act as its Managing Director, and preside over the executive body of the Authority consisting of technical and administrative staff appointed in accordance with the organisational structure approved by the Board of Directors.

The Deputy Chairman of the Board of Directors shall direct the Authority, conduct its business, represent it in litigation and before third parties, and preside over the Board in the Chairman's absence.

The Board of Directors may delegate to the Chairman or to the Deputy Chairman of the Authority part of its duties. The Chairman, Deputy Chairman and principal officers, approved by the Board, shall have the right of signature on behalf of the Authority.

Art. 26. The Authority shall be competent to implement the provisions of this Law, more specifically, to perform the following: i) Study the laws, regulations and resolutions in connection with Arab and foreign investment in the Arab Republic of Egypt and the Free Zones created therein, and submit such proposals as are deemed appropriate in this regard. ii) Prepare lists covering types of activities and projects in the participation of which Arab and foreign captial may be invited. Such lists shall be ratified by the Council of Ministers upon approval by the Authority's Board of Directors. iii) Offer projects for investment by Arab and foreign capital and render advice in connection therewith, familiarize international capital markets and capital exporting countries with the approved lists and the projects offered for Arab and foreign investments plus the conditions and privileges enjoyed by incoming capital when invested within the country and the free zones to be established. iv) Review applications submitted by investors and present the outcome to the Authority's Board of Directors for action thereupon. v) Register incoming capital in terms of the original currency units, if in cash, if in the form of intangible assets in the light of documents submitted, world prices, and opinion of specialized experts, and to

review the valuation of the invested capital at the time of disposal thereof, or liquidation for the purpose of re-exportation or transference abroad. vi) Approve remittance of net profits following examination of the documents which reflect the project's financial position and ascertain, in particular, that all reserves and allocations have been set aside pursuant to laws and standard accounting principles, and also that taxes have been paid upon the expiration of the period of exemption provided in this Law. vii) Facilitate procurement of permits necessary for executing Arab and foreign capital investment projects, including all necessary administrative permits, especially residence permits for businessmen, experts, and foremen recruited overseas for working in projects enjoying the provisions of this Law.

Executive regulations shall determine the rules and procedures under which the Authority shall perform its duties as described in this Law. viii) <u>To approve projects established with Egyptian capital and owned by Egyptian nationals in accordance with paragraphs (2) and (3) of Article 6 of this Law</u>.

Art. 27. Applications for investment shall be submitted to the Authority. An application shall specify the amount of capital to be invested, the nature thereof and any other such particulars as shall be required to indicate the structure of the project covered by the application. The Board of Directors of the Authority shall have the authority to approve applications for investment submitted. Such approval shall lapse if the investor shall fail to take serious steps to carry out the project within six months of approval, <u>unless the Board shall grant renewed approval for such further period as it shall deem fit</u>.

Art. 28. The Authority shall have a separate budget prepared according to the rules customary in commercial enterprises, unrestricted by the provisions governing the budgets of public authorities and public corporations.

Art. 29. The revenues of the Authority shall consist of the following: i) Credits allocated by the state, ii) Revenues derived from its activities, iii) Charges for services rendered by the

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specifically, as concerns the rules applicable to companies and projects operating within the free zones, and also the rules governing ingress and egress and registration of goods, examination of documents, auditing and controlling, and also policing the zone and collection of leviable dues.

Art. 33. Each public free zone shall be directed by a Board of Directors which shall be constituted and its Chairman shall be appointed by resolution of the Authority's Board of Directors.

The Board of Directors of the public free zone shall be competent to implement the provisions of this Law and its executive regulations in all matters pertaining to such zone, more specifically the following: i) It shall authorize occupation of lands and real property or rental of real property owned by a third party in the free zone. ii) It shall decide on offers submitted by Arab and foreign investors according to the rules laid down by the Authority's Board of Directors. iii) It shall establish, operate, and exploit stores, warehouses, and areas for shipping, unloading, and warehousing operations. iv) It shall provide instruments and equipment necessary for facilitating operations and projects created within the free zone. v) It shall provide such services as may be needed by the projects created in the free zone in return for charges to be fixed by the Board, and vi) It shall supervise the private free zones affiliated thereto by resolution of the Authority's Board of Directors.

Art. 34. Permits for the occupation of free zones or part thereof shall specify the purposes for which they were granted, the validity thereof, and the financial guarantee paid by the licencee. Exemptions and privileges stipulated in this chapter may not be enjoyed except within the limits of the purposes indicated in such licence.

A licence for the occupation of a free zone shall be of a personal nature. The person in whose name a licence is issued may not assign all or part thereof or invite participation by a third party therein unless such is approved by the authority granting the licence.

Art. 35. Licences in the free zones may be granted for the performance of the following: i) Storage of transit goods, of indigenous goods on which taxes have been paid and destined for export and foreign goods arriving without import duties, all without prejudice to the law and regulations in force in the Arab Republic of Egypt in connection with goods the circulation of which are prohibited. ii) Sorting, cleaning, mixing, and blending, even with local goods, repacking and similar operations which adapt the condition of goods warehoused in the free zones to the requirements of trade, and possessing such goods to meet market requirements. iii) Any manufacturing, assembling, mounting, processing, renewing, or any other operations which need the advantage of a free zone to benefit from the country's geographical position, and iv) Engaging in any trade warranted by the activities within the free zone or intended for the comfort of the employees in the zone.

Art. 36. With due regard to provisions in laws and regulations regarding the ban on the circulation of certain goods or materials, goods exported from, or imported into the free zone, shall not be subject to the normal customs procedures applicable to imports and exports nor to customs duties and other taxes and dues, save insofar as is provided for in this Law. Likewise all instruments, machinery, equipment <u>and transportation equipment</u> necessary to establishments authorized within such zone shall be exempted from customs duties and other taxes and dues.

The executive regulations of the free zones shall specify the procedures for moving goods from the moment they are unloaded until their arrival at the free zones and vice-versa.

Export and other taxes and duties shall be levied on local goods and materials upon entering the free zone after completion of the export formalities.

The Deputy Chairman of the Board of the Authority or any authorized Chairman of the Board of the public free zones may permit temporary entry of local goods into the free zone for repair or complementary operations thereon, provided that a customs tax shall be exacted in respect of the repair or complementary operation in compliance with customs regulations.

Likewise, the Authority's Deputy Chairman of the Board or any authorized Chairman of the Board of the public free zones may permit temporary entry of free zone goods into the country for repair or complementary operations thereon.

Art. 37. Customs duties and taxes shall be payable in respect of goods withdrawn from the free zone for local consumption, as though such were imported from abroad and in accordance with their condition after manufacturing, with due regard to rules and procedures governing imports. Such customs duties and taxes shall be payable on goods containing local components, in proportion to the *ad valorem* value of foreign components contained in the manufactured products. Notwithstanding any of the foregoing, in the event that local components constitute 40% or more of the manufactured product, such dues as shall be payable in accordance with the provisions of of this Article shall be reduced by 50%.

By way of exception from import procedures, the Authority's Deputy Chairman of the Board, or any authorized Chairman of the Board of the public free zones, may permit withdrawal into the country of leftovers, ordinary containers, and empty receptacles after paying the customs duties and taxes due thereon.

He shall have the right to dispose of the above items at the expense of the party concerned should their continued presence in the free zone result in harmful effects on the health or on discipline within the zone.

The Authority's Chairman of the Board or any authorized Chairman of the Board of the public free zones may authorize entry into the country of products not fit for export or scraps resulting from the manufacturing operations within the free zone, provided that the taxes and custom duties are paid thereon, on condition that no competition with national industries results.

Art. 38. Goods entering the free zone shall be subject to no restriction as to the duration of their stay therein, nor shall imports into or exports from the free zone be subject to any import or export restriction.

Art. 39. Employees of the Authority and free zones appointed by resolution of the Minister of Justice on the basis of a request from the Authority's Chairman of the Board shall possess the capacity of judicial officers within the limits of their functions. The Authority's Deputy Chairman of the Board, or any person so authorized, may request the Public Prosecutor to authorize the judicial officers to inspect any part of the free zone or conduct investigations, whenever such is warranted.

Art. 40. By exception to the provisions of Law No. 66 of 1963, enacting the Customs Code, the Customs Administration shall advise the Chairman of the Board of the free zone of any cases of unaccounted shortage or surplus in the goods manifested in the bills of lading, whether in the number of packages or their contents or packed or loose goods if consigned to the free zone.

Responsibility for the cases specified in the preceding paragraph and percentages of allowances shall be regulated by resolution of the Authority's Board of Directors.

Art. 41. Those authorized to operate under the provisions of this Chapter shall be liable for procuring insurance coverage for buildings, equipment, and machinery against all hazards. They shall also be bound to remove same at their own expense within such period as may be fixed by the Chairman of the Board of the free zone calculated from the date of expiration of their licences, unless the Board of the free zone elects to purchase same therefrom.

Art. 42. Entry into and residence in the free zones, as well as the introduction of Egyptian currency into and its withdrawal from the free zones, shall be in conformity with the conditions and terms to be set forth in the executive regulations.

The regulations shall also fix the charges for occupying areas in which goods are deposited.

Art. 43. Marine transport projects established in the free zones shall be exempted from the conditions concerning the nationality of the ship owner and crew stipulated in the Merchant Marine code and in Law No. 84 of 1949, in connection with the registration of vessels. Likewise, they will be exempted from the provisions of Law No. 12 for 1964, establishing the Egyptian General Cooperation for Maritime Transport.

Art. 44. The free zones shall be subject to the provisions of Egyptian legislation where no special provision is made in this Law, more particularly the legislation governing health quarantine procedures, health fees, and protection of plants against epidemics and parasites. The Authority's Board of Directors shall lay down the implementing rules for the application of the provisions of such legislation within the free zone.

Art. 45. Disputes arising between projects established in free zones, or arising between such projects and the Authority or any other authorities or administrative bodies connected with the business activities within the zone, may be submitted, by agreement, to arbitration.

An Arbitration Board shall be constituted to decide on the dispute in accordance with the rules and pursuant to the measures stipulated in Article 8 hereof.

The Arbitration Board may also examine disputes arising between projects existing in the free zone and natural or juridical persons, whether indigenous or alien, if such persons agree to refer the dispute to the Arbitration Board before or after it arises.

Art. 46. Without prejudice to the provisions of this Law, projects established in the free zone, and dividends thereof, shall be exempted from the provisions of tax and duty laws in the Arab Republic of Egypt. Arab and foreign funds invested in the free zones shall likewise be exempted from inheritance taxes and death duties.

Nevertheless, such projects shall be subject to dues payable for services and to an annual duty <u>not exceeding one percent (1%)</u> of the value of goods entering or leaving the free zone for the account of the project. Such annual duty shall be determined by resolution of the Authority's Board of Directors. Trade in transit goods shall be exempt from such a fee.

Likewise, projects, the main activities of which do not require ingress or egress of commodities, shall be subject to an annual duty determined by the Board of Directors of the Authority, with due consideration for the nature and volume of activities and not exceeding three percent (3%) of the annual value added of the project.

Art. 47. Payments subject to tax on income, such as wages, salaries, compensation and the like, paid by projects existing within the free zones to their expatriate employees shall be exempted from the general tax on income.

Art. 48. Provisions of Articles 6 and 7 of this Law shall apply to the capital authorized to operate in the free zone.

Art. 49. Transactions carried out in the free zone or between such zones and other countries shall not be subject to the provisions of exchange control Laws.

Art. 50. Companies with activities in the free zones shall not be subject to the rules stipulated in Laws No. 26 of 1954 and No. 73 of 1973 referred to above. Statutes of the companies created in the free zones shall be patterned after the model formulated by the Council of Ministers on the basis of a proposal by the Authority's Board of Directors. The statutes of such companies shall be enacted by decree of the President of the Republic and shall enjoy a juridical personality from the date of publication of their statutes and Articles of Incorporation.

The above provision shall apply to any amendment in company statutes.

Art. 51. Provisions of Law No. 173 of 1958, requiring an Egyptian to obtain a permit from the competent authorities prior to taking up employment with foreign organisations shall not apply to Egyptian employees engaged by projects and establishments enjoying the provisions of this Chapter.

Art. 52. No employment may be taken up in the free zone except after obtaining a permit from the zone's Chairman of the Board under such terms and conditions as are specified in the executive regulation of the free zones and upon payment of a fee to be fixed in such regulation with a maximum of five hundred Egyptian pounds annually.

Art. 53. Contracts of Employment concluded with employees of Egyptian nationality shall be drawn in triplicate in the Arabic language, each party retaining a copy thereof and the third copy to be deposited with the Administration of the free zone. Contracts shall specify the type of work, duration thereof, and agreed wage.

A translation of said Contract may be appended in a foreign language.

The employer shall file with the Administration of the free zone a copy translated into English or French of the contracts of employment concluded with expatriate employees within one week from the date the employee takes up employment.

Art. 54. Projects established in the free zone shall develop opportunities and prepare appropriate training programs for the training of employees having Egyptian nationality in order that they may become skilled labor.

Art. 55. The Executive Regulations shall lay down, as the minimum level required, the rules applying to employees in the projects authorized to operate in the free zones, more specifically the following: i) Fixing the proportion of employees having Egyptian nationality. ii) Fixing the minimum wages provided they do not fall below the minimum wages applicable in the Arab Republic of Egypt. iii) Fixing daily hours of work and weekly holidays, provided the hours of work may not exceed 42 hours per week. iv) Fixing overtime

and dues therefor. v) Specifying the social and medical services rendered by the enterprises to their employees and the necessary precautions to protect them during the work. vi) Specifying the length of all kinds of vacations and wages payable in lieu thereof. vii) Specifying the general principles of discipline, discharge, and compensation of employees.

Art. 56. Employees in projects performing activities in the free zones and with Egyptian nationality shall be subject to the provisions of the social insurance laws, unless the enterprise guarantees a superior insurance system approved by the General Organization for Social Insurance.

Art. 57. Without prejudice to any more severe penalty provided in any other Law, violation of Article 42 and 52 of the provisions of this Law shall be punishable by imprisonment for a term not exceeding six months or a fine not less than five pounds and not exceeding two hundred pounds or both penalties.

Any person violating any other provisions contained in this Law or in the Supplementary Regulation of the free zones shall be liable to a fine of not less than five pounds and not exceeding one hundred pounds.

No legal action may be brought in respect of the violations referred to in the preceding two paragraphs except upon request of the Authority's Chairman of the Board or any person authorized thereby. The Authority's Board of Directors or any authorized person appointed thereby may, in the course of litigation, effect conciliation as regards fines prescribed in this Law.

All fines ruled by a court in respect of offences against the provisions of this Law or paid by the violator by way of conciliation shall revert to the Authority.

ANNEX A

Law No. 32 of 1977 Amending Certain Provisions of Law No. 43 of 1974 Concerning the Investment of Arab and Foreign Funds and the Free Zones.

In The Name Of The People

The President Of The Republic

The People's Assembly has approved and issued the following law: The provisions of Articles 1-4 have been incorporated in the preceding revised text of Law No. 43 of 1974, as amended by Law No. 32 of 1977.

Art. 5. In the event that invested capital has already been transferred in part or in full to the Arab Republic of Egypt at the official rate according to the provisions of Law No. 43 of 1974, such capital may either, upon the agreement of the partners representing three fourths of the invested capital, or by a decision of a special shareholders' meeting, to the extent of the amount so transferred, be revalued within the limits of the amounts transferred according to the provisions of Article 2 bis of the said Law; in such case the project may increase the value of its shares or issue non-voting bonus shares in an amount equivalent to the difference resulting from the revaluation. Any such revaluation and issuance of shares shall be accomplished free of any taxes or fees. In the event that revaluation does not take place as authorized above, the value of the shares or the value of the amount that has been transferred, as the case may be, shall remain calculated at the official rate of exchange at which the transfer took place. Thus, the proportion of participation in the profits as determined by that value when the project was approved shall remain the same without change thereon. Profits resulting from these shares, or from the amount that has been transferred thereof, as the case may be, shall be distributed in accordance with the proportion of participation based on such original valuation.

Art. 6. The Minister of Economy and Economic Cooperation shall issue, upon proposal of the Board of Directors of the Authority, Model Articles of Incorporation for Joint Stock Companies and Limited Liability Companies for joint ventures established according to the provisions of this Law whether inland or in Free Zones. Project owners are not obliged to follow such Model Articles, insofar as their provisions do not relate to Egyptian public policy. Also, the principal Bylaws of Joint Stock Companies established, whether in-land or in Free Zones, under the provisions of this Law, shall be issued by decree of the Minister of Economy and Economic Cooperation.

Art. 7. All provisions of any law conflicting with the provisions of the said Law No. 43 of 1974 shall be repealed.

Art. 8. This Law shall be published in the Official Gazette and shall come into force from the date of its publication.

This Law is stamped with the State Seal and is executed as one of its Laws.

Signature of the President
5 June, 1977.

APPENDIX B

TABLE B: 1

Project Approvals by Date

1972: 7

Qtr. 1: 0

Qtr: 2: 0

Qtr: 3: 0

Qtr. 4: 7

1973: 25

Qtr. 1: 4

Qtr. 2: 9

Qtr. 3: 3

Qtr. 4: 9

1974: 63

Qtr. 1: 1

Qtr. 2: 13

Qtr. 3: 18

Qtr. 4: 31

1975: 150

Qtr. 1: 21

Qtr. 2: 24

Qtr. 3: 43

Qtr. 4: 62

1976: 140

Qtr. 1: 54

Qtr. 2: 34

Qtr. 3: 27

Qtr. 4: 25

1977: 208

Qtr. 1: 70

Qtr. 2: 47

Qtr. 3: 52

Qtr. 4: 39

1978: 216

Qtr. 1: 81

Qtr. 2: 53

Qtr. 3: 32

Qtr. 4: 50

1979: 255

Qtr. 1: 63

Qtr. 2: 63

Qtr. 3: 69

Qtr. 4: 60

Missing observations: 10

Sources: Fiani Directory; Author's Calculations

TABLE B: 2

Inland and Free Zone Project Approvals

by Date

Year	Quarter	Inland	Free Zone
1972	1		
	2		
	3		
	4	5	2
1973	1	4	0
	2	5	4
	3	3	0
	4	8	1
1974	1	1	0
	2	16	2
	3	16	2
	4	28	3
1975	1	16	5
	2	22	2
	3	22	21
	4	35	27
1976	1	21	33
	2	19	15
	3	11	16
	4	11	14
1977	1	57	13
	2	38	9
	3	35	17
	4	30	10
1978	1	61	20
	2	37	16
	3	23	9
	4	40	10
1979	1	51	12
	2	46	17
	3	53	16
	4	53	7
TOTAL		767	303

Missing observations: 10

Sources: Fiani Directory; Author's Calculations

TABLE B: 3

Approved Capital of Inland and Free Zone Projects

CAPITAL (£E)*	INLAND	FREE ZONE
≤99,000	29	29
100,000-499,000	193	131
500,000-999,000	135	54
1,000,000-4,999,000	282	61
5,000,000-14,999,000	83	6
≥15,000,000	22	3

* Rounded to nearest £E1,000

Missing observations: 46

Sources: Fiani Directory; Author's Calculations

TABLE B: 4

Inland and Free Zone Project Approvals by Industry

Industry	Inland	Free Zone
Agriculture	38	1
Mineral Resources	4	0
Oil and Gas	6	26
Building Materials	36	14
Chemical	91	19
Engineering-Mechanical	44	10
Food	54	11
Metalurgical	25	7
Pharmaceutical	9	2
Textile	37	14
Woodworking	12	1
Banking	44	14
Contracting	73	0
Consultancy	21	0
Health Care	17	0
Housing	42	0
Insurance	0	3
Investment	84	0
Tourism	96	0
Transport	12	0
Warehouses-Depots	0	155
Other Services	22	30

Sources: Fiani Directory; Author's Calculations

TABLE B: 5

Project Approvals by Industry by Date

INDUSTRY	1972				1973				1974				1975				1976				1977				1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	2	1	0	2	0	5	2	2	2	5	5	2	1	1	3	0	4
Mineral Resources	0	0	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0
Oil and Gas	0	0	0	0	0	1	0	1	0	0	0	1	2	3	3	3	2	4	2	1	1	0	1	0	1	1	1	1	1	0	1	1
Building Materials	0	0	0	0	0	0	0	1	0	0	1	1	0	1	0	0	0	3	1	1	2	1	2	0	6	4	2	6	4	5	2	5
Chemical	0	0	0	2	3	1	1	4	1	1	1	11	5	4	3	12	3	1	0	3	10	3	4	0	2	3	1	2	8	4	7	10
Engineering-Mechanical	0	0	0	1	0	0	0	1	0	0	1	1	1	2	1	6	3	4	1	0	5	2	5	1	4	4	0	4	2	0	4	1
Food	0	0	0	2	0	0	0	0	0	3	1	1	0	0	2	0	3	0	0	1	6	0	1	2	5	2	6	3	5	8	6	8
Metalurgical	0	0	0	0	0	0	0	1	0	0	0	0	0	3	1	2	5	1	2	0	1	1	1	2	3	0	1	1	2	4	0	1
Pharmaceutical	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	2	1	0	1	1	0	1	2	0	0	0	0
Textile	0	0	0	0	0	3	0	0	0	1	2	3	1	1	8	2	2	0	1	0	3	3	3	2	2	1	1	4	2	3	2	1
Woodworking	0	0	0	0	1	0	0	0	0	1	0	0	0	0	2	2	0	0	0	0	0	2	0	1	1	0	0	1	1	0	1	0
Banking	0	0	0	0	0	0	0	0	0	0	7	4	3	0	4	2	2	5	1	5	1	3	5	1	2	1	1	0	1	2	2	2
Contracting	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	1	2	3	7	13	7	4	4	8	1	10	10
Consultancy	0	0	0	0	0	0	0	0	0	0	1	0	0	1	2	1	0	0	1	0	3	0	1	0	0	0	0	1	2	1	2	4
Health Care	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	2	0	2	2	1	1	1	1	1	1	2	1
Housing	0	0	1	1	0	2	0	1	0	0	1	1	1	0	0	2	0	0	0	2	4	3	2	0	3	1	0	6	8	4	0	0
Insurance	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0
Investment	0	0	0	0	0	0	0	0	0	0	1	4	0	2	2	1	0	6	2	2	3	5	4	4	7	3	4	6	8	4	10	6
Tourism	0	0	0	1	0	0	2	0	0	4	1	2	3	4	2	4	6	3	2	2	9	8	4	4	6	5	2	1	3	9	7	2
Transport	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	0	1	0	2	0	3	0	1	0	0	1	2	0
Warehouses-Depots	0	0	0	0	0	0	0	0	0	2	1	0	1	0	10	18	24	6	11	6	4	5	8	7	11	11	3	3	5	10	7	2
Other Services	0	0	0	0	0	1	0	0	0	0	0	0	1	1	2	5	2	0	0	2	6	6	2	3	5	3	0	3	1	2	4	2

Missing observations: 10

Sources: Fiani Directory; Author's Calculations

TABLE B: 6

Number of Approved Projects With

U.S. Participation by Date

1973: 3

Qtr. 1: 0

Qtr. 2: 3

Qtr. 3: 0

Qtr. 4: 0

1974: 10

Qtr. 1: 0

Qtr. 2: 1

Qtr. 3: 5

Qtr. 4: 4

1975: 11

Qtr. 1: 2

Qtr. 2: 3

Qtr. 3: 4

Qtr. 4: 2

1976: 14

Qtr. 1: 1

Qtr. 2: 6

Qtr. 3: 6

Qtr. 4: 1

1977: 21

Qtr. 1: 9

Qtr. 2: 5

Qtr. 3: 4

Qtr. 4: 3

1978: 14

Qtr. 1: 6

Qtr. 2: 3

Qtr. 3: 1

Qtr. 4: 4

1979: 21

Qtr. 1: 4

Qtr. 2: 5

Qtr. 3: 6

Qtr. 4: 6

Missing observations: 13

Sources: Fiani Directory; Author's Calculations

TABLE B: 7

Number of Approved Projects With Arab Participation by Date

Year / Quarter	Number
1972	4
Qtr. 1	0
Qtr. 2	0
Qtr. 3	0
Qtr. 4	4
1973	12
Qtr. 1	4
Qtr. 2	2
Qtr. 3	2
Qtr. 4	4
1974	35
Qtr. 1	0
Qtr. 2	8
Qtr. 3	5
Qtr. 4	22
1975	70
Qtr. 1	10
Qtr. 2	12
Qtr. 3	20
Qtr. 4	28
1976	59
Qtr. 1	26
Qtr. 2	11
Qtr. 3	13
Qtr. 4	9
1977	70
Qtr. 1	28
Qtr. 2	18
Qtr. 3	16
Qtr. 4	8
1978	64
Qtr. 1	27
Qtr. 2	11
Qtr. 3	11
Qtr. 4	15
1979	60
Qtr. 1	17
Qtr. 2	11
Qtr. 3	19
Qtr. 4	13

Missing observations: 13

Sources: Fiani Directory; Author's Calculations

TABLE B: 8

Number of Approved Projects With Western Participation by Date

Year / Quarter	Number
1972	2
Qtr. 1	0
Qtr. 2	0
Qtr. 3	0
Qtr. 4	2
1973	5
Qtr. 1	1
Qtr. 2	3
Qtr. 3	0
Qtr. 4	1
1974	19
Qtr. 1	0
Qtr. 2	2
Qtr. 3	10
Qtr. 4	7
1975	51
Qtr. 1	11
Qtr. 2	12
Qtr. 3	8
Qtr. 4	20
1976	57
Qtr. 1	21
Qtr. 2	17
Qtr. 3	13
Qtr. 4	6
1977	68
Qtr. 1	25
Qtr. 2	7
Qtr. 3	21
Qtr. 4	15
1978	70
Qtr. 1	26
Qtr. 2	19
Qtr. 3	7
Qtr. 4	18
1979	84
Qtr. 1	20
Qtr. 2	22
Qtr. 3	24
Qtr. 4	18

Missing observations: 13

Sources: Fiani Directory; Author's Calculations

TABLE B: 9

Number of Approved Projects, Each Including Western, Egyptian and Arab Participation, by Date

1974: 2

- Qtr. 1: 0
- Qtr. 2: 0
- Qtr. 3: 1
- Qtr. 4: 1

1975: 14

- Qtr. 1: 4
- Qtr. 2: 3
- Qtr. 3: 1
- Qtr. 4: 6

1976: 11

- Qtr. 1: 5
- Qtr. 2: 3
- Qtr. 3: 3
- Qtr. 4: 0

1977: 15

- Qtr. 1: 5
- Qtr. 2: 2
- Qtr. 3: 6
- Qtr. 4: 2

1978: 15

- Qtr. 1: 6
- Qtr. 2: 4
- Qtr. 3: 1
- Qtr. 4: 4

1979: 11

- Qtr. 1: 3
- Qtr. 2: 2
- Qtr. 3: 5
- Qtr. 4: 1

Missing observations: 13

Source: Fiani Directory; Author's Calculations

TABLE B: 10

Pure Egyptian Approved Projects and Approved Projects With Foreign Participation by Date

Date	Pure Egyptian Projects		Projects with Foreign Participation	
1972:	0		7	
Qtr. 1:		0		0
Qtr. 2:		0		0
Qtr. 3:		0		0
Qtr. 4:		0		7
1973:	9		16	
Qtr. 1:		0		4
Qtr. 2:		4		5
Qtr. 3:		1		2
Qtr. 4:		4		5
1974:	11		52	
Qtr. 1:		1		0
Qtr. 2:		3		10
Qtr. 3:		4		14
Qtr. 4:		3		28
1975:	36		114	
Qtr. 1:		3		18
Qtr. 2:		3		21
Qtr. 3:		11		32
Qtr. 4:		19		43

continued

TABLE B: 10
(continued)

Pure Egyptian Approved Projects and Approved Projects With Foreign Participation by Date

Date	Pure Egyptian Projects		Projects with Foreign Participation	
1976:	31		109	
Qtr. 1:		12		42
Qtr. 2:		7		27
Qtr. 3:		5		22
Qtr. 4:		7		18
1977:	60		148	
Qtr. 1:		17		53
Qtr. 2:		11		36
Qtr. 3:		15		37
Qtr. 4:		17		22
1978:	81		135	
Qtr. 1:		28		53
Qtr. 2:		24		29
Qtr. 3:		13		19
Qtr. 4:		16		34
1979:	111		144	
Qtr. 1:		24		39
Qtr. 2:		28		35
Qtr. 3:		28		41
Qtr. 4:		31		29

Missing observations: 13

Sources: Fiani Directory; Author's Calculations

TABLE B: 11

Percentage Subscription to Capital Made in Foreign Exchange in Surveyed Wholly-Owned Egyptian Projects Under Law 43

Foreign Exchange Percentage	Number of Projects
0	1
Less than 10%	17
10% $\leq$ x < 25%	9
25% $\leq$ x < 50%	0
50%	0
Greater than 50%	0

Source: Own survey of Law 43 joint-stock companies.

TABLE B: 12

National Participation in Various Project Forms

National Participation	Personal Enterprise	General Partnership	Limited Partnership	Total
Pure Egyptian	84	76	35	195
Pure Foreign	38	8	21	67
Pure Arab	30	7	15	52
Pure Western	7	0	2	9
Pure European	2	0	2	4
Pure American	5	0	0	5
Arab and Western	0	0	2	2
Arab and European	0	0	1	1
Arab and American	0	0	1	1
Egyptian Participation	89	173	98	360
Arab Participation	33	78	68	179
Saudi Participation	15	16	0	31
Western Participation	8	45	10	63
European Participation	2	34	13	49
American Participation	6	12	5	23
Egypt and Arab Only	3	48	45	96
Egypt and Western only	1	39	10	50
Egypt and European only	0	28	6	34
Egypt and American only	1	10	4	15
Egypt, Arab, and Western Participation	0	4	5	9
"Other" Participation	1	3	5	9

continued

TABLE B: 12
(continued)

National Participation in Various Project Forms

National Participation	Limited Liability	Stock	Partnership Ltd. by shares	Branch
Pure Egyptian	18	90	0	38
Pure Foreign	11	5	0	66
Pure Arab	8	2	0	13
Pure Western	3	2	0	42
Pure European	0	1	0	29
Pure American	0	1	0	13
Arab and Western	0	0	0	0
Arab and European	0	0	0	0
Arab and American	0	0	0	0
Egyptian Participation	57	454	1	46
Arab Participation	30	166	1	16
Saudi Participation	10	80	0	3
Western Participation	25	225	0	47
European Participation	22	165	0	32
American Participation	3	58	0	16
Egypt and Arab only	15	93	0	2
Egypt and Western only	15	171	0	4
Egypt and European only	13	130	0	2
Egypt and American only	2	34	0	2
Egypt, Arab, and Western Participation	5	35	0	0
"Other" Participation	3	38	0	12

Missing observations: 16

Sources: Fiani Directory; Author's Calculations

TABLE B: 13

Project Forms of Approved Wholly-Owned Egyptian Projects by Date

FORM	1972				1973				1974				1975				1976				1977				1978				1979			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Personal Enterprise	0	0	0	0	0	3	1	2	1	0	0	0	0	2	2	3	5	0	2	1	3	4	6	4	8	7	0	4	3	6	9	8
General Partnership	0	0	0	0	0	0	0	0	0	1	0	3	1	0	4	4	4	0	0	0	5	3	3	8	7	3	5	4	3	7	4	7
Limited Partnership	0	0	0	0	0	0	0	0	0	0	3	0	0	0	3	4	2	0	0	0	1	1	1	0	3	4	2	2	4	2	2	1
Total	0	0	0	0	0	3	1	2	1	1	3	3	1	2	9	11	11	0	2	1	9	8	10	12	18	14	7	10	10	15	15	16
Limited Liability Company	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	2	1	0	0	0	0	0	0	0	2	3	2	0	2	1	2	1
Joint-Stock Company	0	0	0	0	0	1	0	0	0	1	0	0	0	1	1	1	0	3	0	3	6	1	4	3	8	6	4	6	9	10	9	12
Partnership Limited by Shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Branch	0	0	0	0	0	0	0	1	0	0	1	0	2	0	1	5	0	4	3	2	2	2	1	1	0	1	0	0	3	2	2	1

Miss observations: 16

Sources: Fiani Directory; Author's Calculations

TABLE B: 14

Participation of Parties in Surveyed Wholly-Owned Egyptian Joint-Stock Projects Under Law 43

Number of Projects

Egyptian Parties	Pre-1978	1978/1979	Total
Individuals	3	10	13
Private Non-Financial Companies/Partnerships	1	2	3
Private Financial Companies	3	8	11
Public Non-Financial Companies	2	6	8
Public Financial Companies	1	4	5
Total Wholly-Owned Egyptian Projects	4	23	27

Source: Own survey of Law 43 joint-stock companies.

TABLE B: 15

Project Forms of Approved Projects by Date

FORM	1972				1973				1974				1975				1976				1977				1978				1979			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Personal Enterprise	0	0	0	2	1	3	2	2	1	1	0	3	1	2	6	3	11	2	4	4	4	8	10	4	9	8	0	5	4	8	9	9
General Partnership	0	0	0	0	1	1	1	1	0	6	1	7	4	6	7	13	12	3	4	1	14	6	10	11	12	7	7	7	7	11	10	11
Limited Partnership	0	0	0	1	1	0	0	2	0	1	4	8	3	1	8	14	6	4	3	1	9	6	3	3	7	6	2	6	8	4	6	2
Total	0	0	0	3	3	4	3	5	1	8	5	18	8	9	21	30	29	9	11	6	27	20	23	18	28	21	9	18	19	23	25	22
Limited Liability Company	0	0	0	2	1	1	0	2	0	1	0	1	1	1	3	4	5	0	1	3	5	0	1	4	4	4	2	3	6	2	7	3
Joint-Stock Company	0	0	0	1	0	1	0	1	0	4	7	9	6	11	13	15	13	15	10	10	34	19	24	16	45	25	17	27	33	33	34	32
Partnership Limited by Shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0
Branch	0	0	0	0	0	3	0	1	0	0	6	3	5	3	6	13	7	10	5	5	4	7	4	1	3	3	4	1	5	5	3	2

Missing Observations: 16

Sources: Fiani Directory; Author's Calculations

TABLE B: 16

Participation of Parties in Surveyed Joint-Stock Projects Under Law 43

Number of Projects

Parties	Pre-1978	1978/1979	Total
Egyptian Individuals	41	49	90
Egyptian Private Non-Financial Companies/ Partnerships	7	8	15
Egyptian Private Financial Companies	19	16	35
Egyptian Public Non-Financial Companies	17	17	34
Egyptian Public Financial Companies	27	11	38
Foreign Individuals	20	20	40
Foreign Companies	59	41	100
Total Projects Surveyed	76	78	154

Source: Own survey of Law 43 joint-stock companies.

TABLE B: 17

Number of Projects to Which Parties Contributed Foreign-Exchange Capital and the Corresponding Proportion to Total Projects in Which the Parties Participated in Surveyed Law 43 Joint-Stock Companies

	Pre-1978	1978/1979
Public Non-Financial Companies	3 (18%)	9 (53%)
Public Financial Companies	11 (41%)	10 (91%)
Private Financial Companies	10 (53%)	13 (81%)
Egyptian Individuals and Private Non-Financial Companies/Partnerships	31 (63%)	42 (74%)
Foreign Companies	59 (100%)	41 (100%)
Foreign Individuals	20 (100%)	20 (100%)

Source: Own survey of Law 43 joint stock companies.

TABLE B: 18

Number of Wholly-Owned Egyptian Projects by Industry

Industry	Number
Agriculture	14
Mineral Resources	1
Oil and Gas	3
	18
Building Materials	17
Chemical	27
Engineering/Mechanical	9
Food	30
Metalurgical	9
Pharmaceutical	2
Textile	11
Woodworking	2
	107
Banking	13
Contracting	14
Consultancy	2
Health Care	11
Housing	21
Insurance	0
Investment	18
Tourism	29
Transport	3
Warehouses/Depots	88
Other Services	14
	213

Missing observations: 13

Sources: Fiani Directory; Author's Calculations

TABLE B: 19

Number of Pure Foreign Projects by Date

1974

Qtr. 3: 6

Qtr. 4: 4

1975

Qtr. 1: 4

Qrt. 2: 3

Qtr. 3: 11

Qtr. 4: 14

1976

Qtr. 1: 19

Qtr. 2: 10

Qtr. 3: 7

Qtr. 4: 9

1977

Qtr. 1: 6

Qtr. 2: 9

Qtr. 3: 7

Qtr. 4: 2

1978

Qtr. 1: 4

Qtr. 2: 3

Qtr. 3: 4

Qtr. 4: 3

1979

Qtr. 1: 4

Qtr. 2: 4

Qtr. 3: 4

Qtr. 4: 3

Sources: Fiani Directory; Author's Calculations

TABLE B: 20

Distribution of Law 43 Projects by Form and Capital

Form	≤ 99,000	100,000-499,000	500,000-999,000	1,000,000-4,999,000	5,000,000-14,999,000	≥ 15,000,000
Personal Enterprises	16	55	21	27	5	2
General Partnerships	11	77	49	40	5	0
Limited Partnerships	10	64	26	18	1	0
Total	37	196	96	85	11	2
Limited Liability Companies	11	22	11	21	3	0
Joint-Stock Companies	9	84	66	211	68	18
Partnerships Limited by Shares	0	0	0	1	0	0
Branches	1	21	15	24	6	4

*Rounded to nearest £E 000.
Missing observations: 46
Sources: Fiani Directory; Author's Calculations

TABLE B: 21

Patterns of Participation Among Public and Private Egyptian Investors in Surveyed Joint-Stock Companies Under Law 43

No. of Projects with Public Participation and:	Prior to 1978	1978/1979	Total
Less than or equal to ten Egyptian individuals	5	5	10
More than ten Egyptian individuals	6	0	6
Private Egyptian non-financial company(s)	1	0	1
Private Egyptian financial company(s)	9	9	18
Total Projects with Public Participation	37	23	60

Source: Own survey of Law 43 joint-stock companies.

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