CHAPTER THREE

THE ECONOMIC DETERMINANT
Despite Egypt's defeat at the hands of Israel in 1948, Nasser was primarily interested in the economic advancement of Egypt than in settling scores with Tel Aviv. But the Israeli military challenge pushed him to work for a strong military machine. This led to diversion of scarce resources to defence. This together with Nasser's progressive commitment to Pan-Arabism and his military intervention in Yemen brought him into head-on clash with both Israel and the US. The result was Egypt's defeat in the 1967 war which also crippled its economy.

Sadat decided to put an end to Egypt's ruinous wars with Israel and opted for peace under US auspices. His relative success in the 1973 October war made him proclaim the infitah policy linked to a peaceful resolution of dispute with Israel. The economic prosperity expected under infitah continued to elude him. But he remained convinced of the efficacy of his policy which propelled him to visit Jerusalem. The military burden, the compulsions and implications of infitah and the other economic factors which pushed him to end the armed confrontation with Israel form the theme of this chapter.

The overthrow of the monarchy in 1952 by Nasser and his officers could be linked to the 1948 defeat at the hands of Israel. Nasser wished to concentrate on the economic and social development and make Egypt strong and influential. This development was seen by Israel as a threat to its security. A militarily and economically strong Egypt could soon mobilize the Arab world and question the legitimacy of Israel. This was the perception at least of the
Israeli leader David Ben Gurion.¹

Ben-Gurion in order to force the new Egyptian government to a direct confrontation, which he perceived as the best road to peace on Israel's terms appears to have launched the Gaza raid on February 28, 1955.² To face the military challenge from Israel Nasser concluded an arms deal with Moscow the same year. This compelled Egypt to divert a large proportion of its scarce resources on the development and maintenance of a large military machine. The resources of a poor and backward Arab country with a rising population being diverted to an arms race with Israel affected its long term economic development. Of course, Nasser got weapons from Moscow at a concessional rate but was acutely aware of the drain on Egyptian resources.

1. Christian Pineau, French Foreign Minister during the Suez War, tells us that when he met Ben Gurion before the war, he said he had good news for him: He had met Nasser who told him that problems with Israel would be resolved in time and that he was mainly concerned with internal development and raising the living standards in Egypt. Ben Gurion is reported to have answered: "No, this is bad news", cited in Mohamoud Riad, The Struggle for peace in the Middle East (London: Quartet, 1981), p. 77.

2. Among other reasons, Ben Gurion in order to force a peace settlement on Nasser on Israeli terms launched the Gaza raid. According to Kennett Love there is contemporary support for the belief that Ben Gurion, if not actually seeking war, was ready to welcome it from the time he ordered the Gaza Raid. In a speech given wide publicity on September 4, 1955, Moshe Dayan disclosed that Israel had contemplated war as Egypt's reaction to Gaza. Israel made ready for war before every raid. The major border operations against Egypt in 1955 were preceded by partial mobilization of reserves and their deployment as a mass of maneuver ready for any escalation of the fighting. Kenneth Love, Suez: The Twice Fought War (London: Longman, 1969, p. 32 & 86.)
After the 1956 Suez war Nasser realized that a state of armed confrontation with Israel and Egypt's economic development, with its own meagre resources are incompatible. From the very outset, Nasser was aware that Egypt's economic development was linked to its regional and global position, mainly due to the shortage of internal resources.

At the regional level Nasser used the Israeli military challenge to Egypt to pursue a Pan-Arab nationalist policy under Egyptian leadership. He may have also concluded that Egypt's gigantic economic problems could be solved only in the context of Arab unity and cooperation with at least the oil rich Arab states. Egypt had to lead the Arab world in its fight against Israel. He also saw the Arab world as a large market for Egyptian goods and labour.3

At home large scale nationalizations and a new economic policy aimed at creating a strong public sector was inaugurated. Internal resources were mobilized coupled with foreign aid and Soviet technical assistance which played an important role in the industrialization process. By 1963, Egypt was on its way to a period of sustained economic growth, but this process was given a severe jolt when Nasser intervened in Yemen. This decision soon put the Egyptian economy out of gear and slowed its overall growth rate. Moreover, Nasser's military plunge into the Yemen provoked the opposition of Saudi Arabia and the US took the Saudi side which led to a steady deterioration in Egyptian-US ties. The result was

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the US stopped its wheat deliveries under the PL 480 programme.4

The US wanted Nasser to bring about financial reforms (agree to IMF terms basically) and Egyptian military withdrawal from Yemen for continuation of its support. In view of Nasser's doubts and suspicious about the benefits of an eventual reconciliation with the US, he was unwilling to bow to US pressure. Thus, by 1967 Egypt faced chronic balance of payments deficit mainly due to three reasons: (1) rising imports of foodgrains; (2) imports of capital goods and raw materials to sustain its industrial development; and (3) the arms purchases due to Israeli threat and Egypt's intervention in Yemen.5

Egypt's crushing defeat at the hands of Israel in the 1967 war led to the canal cities being badly damaged and production stopped in factories located near the canal zone, revenues from the Suez Canal stopped as the canal remained closed and due to the Israeli occupation of Sinai, oil revenues also stopped from the


Sinai oil fields. All these factors struck a blow to Nasser's Arab socialism. The war efforts led to a rising foreign debt. The military had to be rearmed completely and the defense burden which was 5.5% of GNP in 1960-62 rose to 10% after 1967. Luckily the Soviet Union agreed to replace the arms lost free of cost.6

After the war Nasser had to swallow his wounded pride and accept aid from his former rival King Feisal of Saudi Arabia. At the Khartoum summit three oil rich Arab states combined to compensate Egypt partially for Egypt's lost revenue.

Thus, the consequences of the 1967 war, then accelerated a trend already under way to abandon earlier expansionist economic policies and forced Nasser to move towards both economic orthodoxy and economic retrenchment domestically. At the global level Egypt moved towards greater moderation as indicated by acceptance of UN Resolution 242 and guarded signals towards eventual recognition of Israel in return for its withdrawal from Arab lands. Both Israel and US continued to reject all peaceful overtures made by Nasser with the result he decided to launch the war of attrition. But this brought terrible Israeli retaliation and undermined the already battered infrastructure. To combat the new and serious threat, he turned to Moscow. Disillusioned with lack of effective Arab support to Egypt's war effort, Nasser accepted the Rogers Plan proposed by US in July 1970.

Sadat's Compulsions to Resolve Conflict

Sadat inherited an economy beset with enormous problems. Above all, the strain of war on Egypt's already strained resources was having a very negative impact. This together with a host of other problems compelled Sadat to seek resolution of the conflict with Israel soon. Most important was the military expenditure which was absorbing nearly a third of national income despite low prices charged by Moscow for weapons. The national debt was huge—over 8000 million US dollars abroad. Re-allocation of labor from agriculture to industrial sector had not benefitted economic recovery but instead led to expansion of bureaucracy and services. The bureaucracy had bloated from four lakh in 1952 to over a million by 1967. There was heavy brain-drain with consequent deterioration in educational system as most teachers left for oil rich Arab states. Economic planning—crucially important in view of Egypt's large public sector—had broken down as a result of the 1967 war. On top of all these problems, the population of Egypt was rising at a rate of 2.5% a year—one of the highest in the world. The most acute and immediate effect of population growth was felt in the field of food supplies. Food production had fallen in the 1950s and 1960s and Egypt had been forced into dependence on foreign wheat supplies to feed its rapidly growing population which far exceeded its disposable resources. Agricultural credit had slumped because of the demands of war.

Against this backdrop Sadat launched a peace initiative on February 4, 1971. The US and Israel turned a blind eye to Sadat's bold peace overture.

On the domestic front there were growing calls for the opening of hostilities with Israel. Student demonstrations became common in the universities and outside demanding an end to the stalemate of "no war no peace", as thousands of them were drafted into the military which affected their career. The government of course, suppressed, the strike and many students were arrested. To Sadat's surprise the students were supported by three biggest and most influential professional unions of the Press, the lawyers and the teachers. Moreover, the intellectuals also sided with the students.

It was this domestic pressure which pushed Sadat to visit Moscow twice in 1971 in search of arms and to know Soviet position on war and peace. Sadat found the Soviets, thanks to detente, lukewarm to his war option. This made him increasingly critical of Moscow and blamed it for the continuation of the 'no war no peace' situation. He also talked about the presence of Soviet advisers as a burden on Egypt. "This is quite a sacrifice for us, because we agreed that all Soviet officers and men be paid in hard currency ... we are paying through the nose for the maintenance of these Soviet SAM crews in Egypt". Soon in July 1972, Sadat decided to terminate the services of the Soviet advisers in Egypt. The ASU brought out its famous Dialogue Paper of August 1973 in which the need to tap

Arab surplus oil money along with western technology was emphasized for Egyptian economic development. This was called infitah. The term was first given official blessing by Abdal Aziz Hegazi who was promoted from Minister of Finance to Deputy Premier for the Economy in March 1973. In his presentation of the government's economic program to the People's Assembly on April 21, 1973 he elaborated the meaning of infitah. He advocated greater equilibrium in Egypt's trade between socialist and capitalist countries.

We cannot deny the role played by the agreement countries in Egypt's economic growth, especially that of the Eastern bloc countries which advanced as long-term credits at a time when the West refused to advance us anything. No Egyptian can deny the results achieved as a result of technical and economic cooperation with the Eastern bloc, led by the USSR. There are the giant projects such as the High Dam and the Iron and steel complex, etc. which are undoubtedly the foundation of the Egyptian economy. However, our foreign trade in the next phase must be redistributed. 50 per cent of our imports are from agreement countries while they take 70 per cent of our exports. This has created a disequilibrium in our foreign trade balance with other countries. This in turn requires a broader infitah to the world so that we can put our foreign trade on a footing that achieves the greater economies possible.

Sadat's declaration of "all for battle" and the gearing of the economy for the coming battle was accompanied by wide publicity to the defence expenditure incurred and its impact on the economic development. Sadat in his May Day speech in 1973 highlighted the link between Egypt's dire economic situation and the burden of military expenditure.

We are all wounded souls and we are all guilty of mistakes. Many defaulters can be found in our country, in the services, and no one denies this ... these mishaps are due to that during these past six years we have been spending 700 million E.L. yearly for our armed forces, in addition to other appropriations ... It may be that defaults in our telephone system, in our communications and housing are there ... and that our sewer system has overflooded ... Are we living under normal conditions? ... In other words, 450 million E.L which should have been devoted every year to housing and development ... are sunk into the Armed forces. 11

Sadat in his Revolution Day speech in July 1973, again emphasised that from 1967 to 1973 Egypt's military expenditure including arms acquisitions amounted to 4,254 million E.L. More importantly he stressed that during the same period Egypt's population increased by four more million people. This was an additional burden because the government had to provide housing, health services education and other supplies for the additional number. 12 According to Heikal,

By 1973 the economy of Egypt was under an almost intolerable strain. Industrial development, the High Dam and the burden of war in Yemen had made the early and middle 60's a period of extreme difficulty. Then had come the 1967 defeat and the need for an almost complete rebuilding and re-equipping of the army. In five years between 1968-73 Egypt spent $8-9000 million on the war effort. For the Egyptian people it had been a decade of sacrifice and austerity, such as no people could be expected to put up with indefinitely. 13

11. Israeli, n. 9, p. 356; Sadat said: "... I am saying defeat, and I admit it we are defeated in 1967 but we shall use it as a spring board to rebuild the state and liberate the land as well as build our citizenry that the next generations might need to live in a Homeland that is free glorious, proud, respectable". Ibid., p. 363.


As the domestic situation, especially the economy, was crumbling, Sadat could not really carry on the confrontation with Israel any longer. Since war lay on the horizon and due to the unsettled situation, western and Arab investors were hesitant to come forward with investments in Egypt. It could be speculated that Sadat apart from defreezing the military stalemate and reactivating peace diplomacy and bargaining from a less helpless position also went to war in October 1973 mainly to prepare the ground for cooperation with the US and to make Egypt safe for infitah so that the economic development which needed urgent attention could be attended. A year after the war, Sadat conceded the link between Egypt's grave economic situation and the war while frankly admitting that the pay-off had been meagre.

So that I can give you an idea of what the opening is all about, I must go back to the fourth of Ramadan of last year (October 1, 1973), six days before the battle. I invited to this same house in which we are now seated the members of the National Security Council ... and I laid before them the situation and asked them to advance their own opinions ... we debated for a long time. There were some, who advocated fighting, and others who said we were not ready ... At the end I said that I wanted to tell them one thing only, that as of that day we had reached the "zero state" economically (marhalat al-sifr) in every sense of the term. What this meant in concrete terms was that I could not have paid a penny toward our debt instalments falling due on January 1 (1974); nor could I have brought a grain of wheat in 1974. There wouldn't have been bread for the people, that's the least one can say ... 14

Elsewhere Sadat spoke of the grim economic situation which prevailed in Egypt before the October war:

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Before the October war our economic situation was terrible, we could not even guarantee bread for the year of 1974. We had no foreign currency to pay our debts or purchase our necessities. Had we entered 1974 in this condition, Israel would not have even had to fire one shot ... our domestic front was terribly torn ... without economic resistance there could be no military resistance. The army cost £ E 100 million a month and all our tax receipts in one year were £ E200 million, just two months expense for the armed forces. 15

Sadat used the political capital made in the October war and the opportunities created by it to reorient Egypt's foreign and economic policies. In the economic field infitah was proclaimed. The results of the war are well summarized 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 oil embargo to the US, Sadat was able to draw Washington directly into the process of looking for a rapid settlement to the AIC. To bring about a negotiated settlement in light of Egypt's 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 rapprochment with the West in general and the US in particular. Part of that rapprochment would certainly consist in renewed and expanded trade relations and the opening of the Egyptian economy to western technology and investment. 16

15. Israeli, n. 9; p. 645; Sadat said, "... Our people has made unlimited efforts and sacrifices and shown unlimited consciousness ... I cannot deny that we have faced many genuine difficulties in our public services, supplies, production and political activity. I knew the whole truth, I was not in a position to make it public ... We tried to be comfortable and at the same time plan for the future". Ibid, p. 427.

Just as the October war had brought partial victory for Egypt in the military field, he envisaged a similar thing which would bring prosperity on the domestic economic front in the form of higher standard of living and over all economic progress. Sadat said, "I am now envisaging another crossing towards hope ... our top priority is economic fence - mending, namely the open door policy - Arab and foreign capital is flowing in abundance ..." He also spoke about the Egyptians "steadfastness, endurance, Sweat, blood sacrifices" and said "This people ... has deprived himself for many years of vital necessities in order to provide money and arms to his armies. This is proud people, who endured food stamps, standing in lines and suffering day in and day out." 17 Sadat defined his new economic policy in the October Working paper his blueprint for post-war economic recovery, before the people's Assembly on April 4, 1974.

We realize that the burden of progress and construction falls essentially upon the shoulders of the Egyptian people. But whatever the extent of the resources we are able to mobilize locally, we are still in dire need of foreign resources, and the circumstances of the world today permit us to have access to these resources in a way that strengthens our economy and promotes growth. It is on this basis that we call for the economic open door and it is a call based on the one hand on Egypt's economic needs and, on the other, on available external financing. 18

Infitah, it was hoped, would bring with it technological know-how, rapid industrialization, the promotion of exports and the raising

of living standards. Free trade zones were to be set up that would attract new industries. Sayyid Marei, one of the architects of Infitah very well described it in succinct mathematical equation. "Arab capital plus western technology plus Egypt's labor, market and population equals economic growth."  

It was mainly the internal factors which pushed Sadat to adopt the Infitah policy but the external dimension is equally significant because:

When a ruling elite decides to pursue a development strategy based on foreign aid and capital, it follows that all necessary steps will be taken to assure and entice its creditors. And the more dependent on others, the more vulnerable to their pressures a country becomes ... In the case of Egypt, the initial vagueness of the ODEP's goals and the lack of consensus on its content among the ruling elite allowed external factors to play a more crucial role.  

Since the proclamation of the Open Door Economic Policy (ODEP) many officials associated with western financial institutions visited Egypt. Most prominent among them are David Rockefeller, Chairman of the American Chase Manhattan Bank which was active in Egypt. Robert McNamara, President of the World Bank and former

19. Akhbar al Yom, April 19, 1975 in Mahmoud Abdel Fadil, et.al., The Transition of the Egyptian Economy under the New Open Door Policy, 1975-83 (Tokyo: 1984), p.2; Sayyid Marei pointed this out in a report as President of the Peoples Assembly assessing the economic open door policy. See also Amira Abdel Wahab el Ghandour, "Egypt's new investment strategy between planning and Implementation", M.A. Thesis, (Cairo: AUC, 1982).

Defence Secretary under President Johnson and William Simon - US Secretary of Treasury visited Cairo and met Sadat. Commenting on his visit to Cairo, Rockefeller said:

I think that Egypt has come to realize that socialism and extreme Arab nationalism ... have not helped the lot of the 37 million people they have in Egypt. And if President Sadat wants to help them, he has got to look to private enterprise and to assistance.21

Soon after his meeting with the US Treasury Secretary Sadat told newspapers that he and Simon "agree 100 per cent on a broad view of Egypt's economic needs".22 The West and the conservative Arab oil countries began to provide aid to Egypt just enough to stay afloat, which reinforced Egypt's dependency on external forces which had direct bearing on foreign policy. Continuing aid and investment could only be expected in the context of a diplomatic and economic opening to the West. The logical outcome of this policy was that it depended on ending the conflict with Israel. Once Egypt started getting foreign economic assistance, it rapidly became even more dependent on it and an enormous increase in imports after the war quadrupled her balance of payments deficit in 1975-76 and subsequently a huge deficit covered by Western and Arab aid became a permanent feature of the economy. Sadat viewed infitah as closely linked to his pro-West foreign policy. He believed that the kind of US commitment needed to recover Arab territories from Israel was predicated on Egypt's integration into the global capitalist system and that the greater the economic

22. Ibid.
opportunities opened to US investors, the more forthcoming the US government would be. Thus, a peaceful settlement with Israel was an important part of Sadat's strategy to guarantee the success of infitah. Infact, the external factors began to operate even before the October war, during the no war no peace period. Egypt's major creditors like Saudi Arabia, Kuwait, UAE and others sent a number of emissaries to Cairo bringing messages from Washington to the effect that an economic opening to Western capital and IMF orthodoxy would make easier any future role for US in bringing its weight to bear in the peaceful settlement with Israel. In other words, the US was using the Israeli occupation of Arab lands to bring about not only political and strategic changes but economic transformation of Egypt as well so that US MNC's could make Egypt a regional base for their operations in the area.

By launching his second crossing Sadat had generated rising expectations among the people who after long years of sufferings were looking forward for happier days. These hopeful signs generated its own momentum among all sections of the people. Soon after Sinai-I was signed in January 1974 with Israel, Sadat


24. Waterbury, n. 5, p. 324; In emphasizing the role of external factors in infitah it is important not to forget that the demand for the introduction of such measures was welcomed by a considerable body of domestic opinion. People like Zakariya Moheiddin, economist Dr. Abdel Munim Kaissouny, Mahmud Abu Wafia, Sadat's brother-in-law and many others. See R. Michael Burrell and Abbas R. Kelidar, Egypt: The Dilemmas of a Nation: 1970-1977 (London: 1977), p. 30.
said "Now that disengagement was completed and the cease-fire has been stabilized we are duty-bound to turn whole heartedly to reconstruction in order to make our people happy, after the pain and obscurity he has suffered for the past six years". He also said "... our people has suffered a great deal, and our work of reconstruction will last for a long time".

Infitah, Sadat reminded the Egyptians was the key to the better life they were looking for. In this new optimistic atmosphere Sadat repeatedly talked about the burden of military expenditure on the Egyptian economy and how it has retarded the overall economic advancement of Egypt.

The Egyptian economy has been burdened, since 1967 with direct military expenditures amounting to 5 billion E.L, in addition to a matching figure in damages and in income we were deprived from, due to the aggression. In other words the Egyptian people has incurred the expenditure amounting to 10 billion E.L. The burden of military expenditure has lowered the rate of development in Egypt from 6.7% during the year 1956-65 to 5% annually. The most serious economic disruption in this period was marked in the field of public services and in new production and service units. The restoration of areas directly hit by aggression alone, would amount to 3 billion E.L.

Soon after the October war prices of not only oil but of all commodities increased manyfold. There was an "unprecedented price rise of unparalleled magnitude", as Sadat put it. Sadat had by

25. Israeli, n. 9, p. 477.
now positively given up the military option against Israel - due to his complete shift from friendship with USSR to US, and also due to his infitah policy which meant foreign investment which could come only if peace prevailed. His basic concentration now was on economic development "let us start first the rebuilding and construction. I am not in a hurry now for more arms for me, but I am in a hurry for reconstruction."  

Because of the way in which the Egyptian budget is presented it is very difficult indeed to see just how much money is spent on the military. Despite the October war and Sinai-I the defence budget continued to rise as the huge military machine had to be maintained due to the still uncertain external situation. Prime Minister Higazi was quite explicit that the confrontation with Israel was an impossible strain on Egypt's resources. Egypt's military expenditure in 1967-68 which was about $690 million had by 1973-74 swollen to $2.56 billion. "We spend" Higazi complained "33 percent of our national income on the armed forces". Moreover, Egypt continued to lose the Suez Canal and Sinai oil revenues. Egypt's national debt was also mounting and had become alarming. 

In June 1975, it was estimated that Egypt's debt position was like

this: $2.56 billion for non-military goods owed to the socialist countries: about $5.11 billion for military goods to the USSR; and approximately $2.56 billion for military and non-military goods owed to the West. According to another estimate Egypt's national debt stood at £E 1,250 in 1973 (excluding the military debt of some £ E 2000 million to the Soviet Union) being augmented by an annual deficit of £ E 249.8 million in 1975. Egypt was borrowing to repay earlier borrowings at a crippling interest rates of 18 or 19 per cent. Moreover, thirty two percent of 1974 Egyptian export income was required simply to cover the cost of servicing its external public debt.

In 1975 Sadat reported to the ASU Congress a balance of payments deficit of $ 3 billion. In 1976 it was estimated that the deficit for that year would be as high as $ 5 billion. Sadat himself acknowledged that war was proving to be a strain and that economic compulsions were behind his search for a peaceful settlement. He said "to a certain extent, this is true that we desperately need a peaceful settlement to save our economy".


32. Baker, n. 1, p. 139.

Elsewhere, Sadat was more explicit when he said that "peace should now be our permanent concern, for under peaceful conditions we shall be able to develop our country".34

The above statements underline the sacrifices the Egyptians have made for the sake of the war effort against Israel.

Sadat's Peace Strategy

On the diplomatic side Sadat sent his new foreign minister Ismail Fahmy to Washington to prepare the ground for Kissinger's visit in early November 1973. Kissinger successfully persuaded Sadat of his step-by-step diplomacy. Thus, on January 17, 1974, Sinai-I was signed and on March 18, 1974, the oil embargo was lifted. Sadat who declared his infitah policy officially in May 1974 followed it up in June with the enactment of Law 43, the backbone of infitah. Soon, the US President Nixon visited Cairo on June 14, 1974, so soon after the war clearly showed Sadat's preferences and conviction that 99% of the cards in the AIC are with the US. Nixon and Sadat issued a joint communique that forecast an era of cooperation and prosperity:

The US regards with favour and supports the ventures of American enterprises in Egypt. It is noted that such ventures currently being negotiated, are in the field of petro-chemicals, transportation, food and agricultural machinery, land development, power, tourism, banking and a host of other economic sectors. The estimated value of projects under serious consideration

exceeds $2 billion.\textsuperscript{35}

Sadat in his speech at the dinner banquet given in honour of President Nixon said on June 12, 1974: "We in Egypt are dedicated ... to work for peace and mobilise our efforts and potentialities for construction rather than destruction, for advancement rather than regression, for progress rather than stagnation". Sadat called his post-war peace strategy as "gamble on the future"\textsuperscript{36} which involved a moderate foreign policy, reconciliation with the West, and infitah at home. But it must be stressed there was no assurance that Sadat's moderation would in fact yield the Israeli reciprocation necessary to bring regional peace.\textsuperscript{37}

To meet the rising demand for food Sadat had to import substantial quantities of foodgrains whose prices had now jumped sharply. Besides the government also subsidized several commodities whose share in 1973-74 rose from 7.6 to 23.3% of the total current expenditures of the government. But the imports and

\textsuperscript{35} Waterbury, n. 12, p. 401; New York Times, June 15, 1975 For full text see Shukri, n. 10, p. 160; The Joint Declaration noted that an Egyptian-American working group had studied joint economic projects worth "more than $2 billion". Al Akhbar seized this figure and gave it three inch headline. From that point on, from both the popular and government perspectives, the fate of infitah was indissolubly linked to the US and great expectations of diplomatic and economic rescue were raised. Infact, Egypt looked for nothing short of national salvation with its US connexion, Waterbury, n. 16, pp. 357-58.

\textsuperscript{36} Sadat's speech at the dinner banquet given in honour of President Nixon on June 12, 1974. President Sadat on Peace (Cairo: 1980), p. 12.

subsidies were not improving the lot of the masses and Sadat kept repeating his promise of a golden era. He said: "I wish to tell our people that the days of hardship are over, and from now on we expect only victories". Clearly Sadat had also realized that inflation was eating away much of the peoples wages. He took several measures like raising the minimum wages, exempting certain farmers from all agricultural taxes, raised the tax exemption ceiling, raised minimum pension payments and finally gave one month's salary every year as bonus.38

Despite Sadat's newly-gained legitimacy due to the October war and the new bases of support resulting from the de-Nasserization campaign and from the several economic reliefs granted to the people he was under growing pressure on account of the adverse effects of infitah. For those at the bottom of the economic ladder life was becoming difficult. The laissez-faire mechanism pushed up prices of all items. Inflation ran so high that very soon infitah became massively unpopular. The runaway 30% annual inflation was causing havoc which only worsened the unemployment problem. The new policy was making the poor poorer and the rich became richer. The infitah policy was mainly beneficial to the bourgeoisie who became the main supporters of Sadat and his ODEP. What was shocking to the people was at this very period there was an explosion in luxury imported goods and conspicuous consumption of the upper classes. For instance,

importation of cars jumped from about 5000 a year before 1967 to 25,000 in 1973-74. It was estimated that there were now more millionaries in Egypt than before the 1952 revolution. The misery, poverty and sufferings of the poor intensified especially when the promised life of comfort and prosperity did not materialize. Opposition to infitah was not only confined to poor and among the working class, but the intelligentsia and state bureaucracy and other sectors of society also attacked its negative effects.

One result of the infitah was widespread food riots on January 1st 1975. In Helwan workers were accompanied by students in these strikes. People shouted "O'Hero of the crossing where is our Breakfast"? "Nasser, where are you?" "Out with Higazi". Groups of students supported the worker protests, defended Nasserism and denounced the "selling of the country to the imperialists and the infitah".

Since the aftermath of 1967, these were the first serious demonstrations due entirely to internal (economic) reasons. It was a clear signal to Sadat that economic problems had now replaced politics, war, liberation as the most burning problems affecting the people. Surely infitah and Sadat's exaggerated hopes through it for an economic crossing had been responsible.

Even after the 1975 riots, Sadat remained convinced that his strategy of peace and infitah through US/Western cooperation was correct and that it was only at the implementation stage things went wrong. After putting Mamduh Salem as new Premier incharge of
implementing infitah, Sadat intensified his search for peace with Israel as he felt the military was still consuming bulk of the revenues, foreign investors were reluctant to invest in Egypt due to the uncertain situation with Israel. Thus, Sadat believed that his policy of peace plus infitah equals prosperity had shown insufficient results and that he should work harder towards a peaceful settlement with Israel. More than anything else, it was the precarious nature of the economy which pushed Sadat further and faster down Kissinger's step-by-step road than he had probably originally intended. Despite his declaration that he would never reopen the Suez Canal until the Israelis had vacated Sinai, he reopened it in June 1975, after Kissinger's shuttle diplomacy had collapsed in March 1975, for Sinai-II due to Israeli demand for an end to belligerency from Egypt. In May 1975 Sadat declared that another war was inevitable if his upcoming talks with US President Ford were unsuccessful, but Soviet stoppage of arms supplies together with his investment in peace with Israel through US and infitah, the call for war was for public consumption and lacked credibility, with the result Sadat virtually accepted Israeli conditions for functional non-belligerency and signed Sinai-II in September 1975. Hence, Sadat's compromise with reality partly stemmed from Egypt's dire economic needs at home. The prospective revenues from the oil wells of Abu Rudeis at a time of high oil prices - surely played a role in his calculations. The same may be said of the reopening of the Suez Canal, when he

acknowledged that "the economic significance of reopening the canal is reflected in the passage fees we will be cashing." Sadat also said that the "final consideration" in reopening the canal was that the revenue from the canal will "contribute to our prosperity".

Hard-pressed by his economic needs, Sadat yielded to the Israelis in view of the promising prospects of high income from both the sources. Sadat calculated that by making concessions to Israel, he would get peace which he hoped would, in turn, build business confidence for the success of infitah. The hard currency earnings from Suez canal and from oil fields would ease Egypt's chronic balance of payments crisis in the immediate turn. In fact, soon after the collapse of Kissinger's shuttle diplomacy in March 1975 Sadat had begun to speak of his willingness to conclude peace with Israel. He told that he "was ready for peace" and that "I will reopen the Suez Canal and I have already started the rehabilitation of the country. He asked "what does all this denote?" and answered, "it essentially points out that I am peace oriented". Elsewhere he said:


41. Ibid, p. 903; After Sinai-2 Egypt received a US pledge of $650 million in economic assistance in 1975-76.


Our first commitment is towards the cause of peace. There were several wars we had to wage during our legitimate struggle for the liberation of our land and the restoration of the rights of our Palestinian brothers. We wish to put an end to human sufferings, and misery, as we are also keen on relieving the burden of defence budgets and military expenditures on our economy. This is because we are badly in need of our resources in order to carry out the enormous reconstruction process.

In several of his speeches, Sadat talked about the close linkage between domestic economic reconstruction and his peace policy. He said:

What has been on my mind now is the question of peace, for failing peace, we shall not be able to proceed to the gigantic construction projects that we have planned for our country and that we have already begun implementing ... we are actually planning for the year 2000 ... I am emphasizing that our efforts are directed to peace in this area ... He was more explicit when he acknowledged that "there is no point to build when at any moment a threat might be posed to everything. Hence, my paramount desire in peace." Further, in an interview to the BBC, Sadat was asked in June 1975 whether even if there is peace now, another war is not inevitable. Sadat replied "not at all on the contrary I am saying that the main lesson that should be learnt from the October war is that the Arab-Israeli conflict will never be solved by war or by power. This


45. Israeli, n. 9, pp. 977-78; See also Waterbury, n. 60, pp. 275-300.

46. Ibid, p. 982.
was proved last October. I am totally committed to peace."\(^{47}\)

**Egypt's Economic Situation Deteriorates**

The economic situation continued to deteriorate and Sadat while continuing to promise eventual plenty conceded that it would have to be deferred. By early 1976 he was forecasting that Egypt would now need "five more years of sweat and toil to improve (its) economy". Sadat reasoned that by 1980, he would have secured his agreement with Israel and the "infitah" market solution would begin to bring relief.\(^{48}\)

Sadat was again awakened to the dire economic problems afflicting the Egyptian economy when on New Years Day 1976 workers went on strike. The workers smashed trains and marched through Cairo taunting and ridiculing Sadat for the inflation, food shortages and corruption that had tarnished his image as the "Hero of the Crossing". Subsequently in March, September and November there were strikes and demonstrations. These disturbances took place despite the fact that Sadat had announced bonus and other benefits in May 1975 and 1976.\(^{49}\)

By early 1976 Egypt's economic problems had become severe despite revenues from Suez Canal and Sinai oil and aid from Arab/Western sources. Now Sadat attacked the oil rich Arab states for the problems ailing the Egyptian economy. He said

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49. Waterbury, n. 6, p. 229. But in March 1976 Sadat warned Egyptians that they needed "five more hard years of sweat and toil to improve our economy", Armesto, n. 7, p. 105.
was a surprise to the Israelis, Americans and also to Sadat himself. 50

The war broke the pernicious 'no war no peace' circle, just as it also broke the myth of Israeli invincibility. The stigma of 1967 defeat was erased by the Egyptian success in the early part of the war. In the process, Sadat's perception of the Israeli military threat underwent a radical change. Moreover, he concluded that Israel itself did not pose as formidable a threat to his country's security as the American military support to Israel did. Sadat used the October war as a catalyst and quickly switched over to diplomacy as he concluded that peaceful co-existence with Israel alone could form the basis for resolving AIC. As he said: "The AIC will never be resolved by force, and no one can impose one's conditions any longer. All we can do is negotiate". 51 Thus, Sadat concluded that peace with Israel through US good offices could offer the prospect of enhanced security as well as return of the occupied lands.

Soon after the acceptance of the ceasefire Sadat sent his new foreign minister Ismail Fahmy to Washington to work out details of the future peace plans and also to work for a visit to

Even though the Egyptian government gave large incentives, guarantees and a potential market but this did not attract foreign investments. The steady stream of Western company representatives and Arab delegations in and out of Cairo yielded projects shockingly few in number and relatively unattractive in developmental field. It was suggested that the potential foreign investors could have been nervous about the fluid political situation in the area. Some Western investors pointed to the uncertain political situation in the region as the most important constraint on their entering Egypt. The Deputy head of the General Authority for Arab and foreign investment and the Free Zones remarked that the slow pace of peace negotiations between his country and Israel was undoubtedly contributing to the disappointing response by foreign investors. Thus, Sadat's infitah became closely intertwined with his attempts to establish peace with Israel with US mediation. Despite growing domestic opposition and poor response by foreign investors Sadat was determined to pursue his infitah policy. He continued to believe that a peaceful settlement would bring stability, which would in turn will allow foreign investors to invest in Egypt. 52

Faced with a dismal response under infitah the Egyptian government in order to further promote infitah organized a series of seminars and conferences in March and October 1975 highlighting the new investment environment in Egypt. The global dimension of

influence and indirect pressure came from Western governments and by the international financial institutions like IMF and World Bank. It is common knowledge that the US and the Western countries with their enormous economic clout use these institutions as a cover for what they really want other countries to do. Apart from the reforms which IMF wanted Egypt to implement to enable it to get fresh loans, the US persuaded the OAPEC also to support IMF-wanted changes in the Egyptian economy. Besides the US, West, IMF, OAPEC, foreign banks also joined to put pressure on Egypt to implement these reforms.\textsuperscript{53}

Thus, Egypt's growing dependency on the West led to a rising pressure to conform to the West's economic policies. This pressure from the West on Egypt had by 1976 produced\textsuperscript{\textsuperscript{in}} modern history what John Waterbury called "as momentous for the country as any development since 1952 and 'fairly momentous for the US, in that Sadat now depended on it for his survival economically as well as politically'.\textsuperscript{54}

The 1977 Food Riots

In December 1976 the IMF and GOIDE agreed to provide Egypt with loans and financial support facilities on condition that the subsidies would be reduced in the coming budget. Sadat had so far

\textsuperscript{53} Dessouki, n. 20, pp. 22-3.

\textsuperscript{54} Waterbury, n. 39, p. 302 cited in Hirst, n. 31, pp. 236-7; One Egyptian Banker put it nicely "Every twenty-four hours we spend two million pounds repaying accumulated loans and the interest on them, for every three million we spend on importing the basic needs of our people and factories", Ibid, p. 237; see also Ali Gritli, Twenty Five Years: An Analytical Study of Egypt's Economic Policies, 1952-1977 (Cairo:1977), (In Arabic).
maintained the welfare system (which meant allowing a high level of subsidies); but true development had eluded him. Now thanks to external pressure Sadat was obliged to take some tough political decisions. He slashed the subsidies which had risen from $175 million in 1972 to $1.7 billion in 1976. As unexpected gift for New Year the government announced an increase in prices ranging from 16 to 45% of a number of basic commodities. The reaction shook Sadat's regime. On January 18 and 19, 1977 riots broke out, the most serious since the 1952 revolution and the army was called to restore law and order. The death toll was heavy. The demonstrators mostly young men shouted "Down with Sadat", and "Nasser, Nasser, Nasser". One of the most popular chants was "O' Hero of the crossing where is our Breakfast", "Theives of the Infitah, the people are Famished", "Tell him who lives in Abidin that people go hungry to Bed", "Jihan, Jihan, the people are Hungry" and "with blood and lives we will bring prices down". Surely Sadat's much trumpeted infitah had brought this disaster and gravest challenge to his regime. Sadat's economic policies had widened the social cleavages in Egypt producing several hundred new millionaries known popularly as "fat cats" at the expense of the poor masses. Nasser's welfare concessions of price controls and direct subsidies were recalled and reminded to the government. The demonstrators anger was directed towards symbols of the new wealth such as the large expensive imported cars that were stoned and burned. Several night clubs on the "golden strip" leading to the Pyramids - Sharia al Harm - (anathema to the religious right) were burnt and ransacked. Sadat had to rescind the subsidy cut decisions but it clearly showed how vulnerable he was to domestic opposition and how important and politically explosive the issue of subsidies had become. It clearly exposed Sadat's shallow understanding of social and economic problems. In his determination to push infitah
policy he accepted the advice, pressure, terms, conditions by foreign economic experts and rejected his own minister's advice who presented and argued with impressive data on growing internal discontent. The Western pressure which Sadat succumbed to was denounced by Nasser as "collective colonialism". David Rockefeller, Robert MacNamara, William Simon had told Sadat that Egypt "simply could not afford such socialist welfare measures". Meanwhile, the government used the mass media to put the blame for Egypt's economic crisis on the wars with Israel since 1948.

Through the cut in subsidies the new economic team (which Sadat brought under IMF pressure in November 1976) intended to save

55. Baker, n. 1, pp. 166-67; The demonstrators also shouted slogans venting their discontent "You live in seven palaces, while we live seven to a room", "You change your clothes three times a day, we change once a year". Marin Indyk, To the Ends of the Earth: Sadat's Jerusalem Initiative (Harvard: 1984) p. 7. In the 1975 riots the demonstrators had shouted slogans "we do not need a Pasha but a President", in 1977 the message was still "Fain al Folur, Ya Skin al Qusur?" (where is our breakfast, Oh, Dweller in Palaces?) This clearly identified Sadat with the rich and privileged for the first time. One eyewitness observer of 1977 riots remarked: "the police and the soldiers are, after all, only the poor in uniform". Burrell, n.24, p. 72, 74; The demonstrators marched under the following slogans also: "They dressed us in Jute, now they are taking our money. The government of the Centre and the dance of the stomach, a Kilo of meat is on credit. They drink whisky and eat chicken while the people die of starvation. The Zionist is on my land and the secret police at my door. America: take your money away, the Arab people will crush you, students and workers against the Government of exploitation. Nasser always said "Take care of the workers". Shukri, n. 10, p. 323; Dr. Abdel Monaim Kissouny in 1965 had recommended the same subsidy cut proposals to Nasser which he did to Sadat in 1977 and tried to implement, but Nasser had categorically rejected them; Ghali Shukri, Egypt: Portrait of a President 1971-81 (New Delhi: 1981), p. 329; see also R.W. Bakor, "Sadat's open door: Opposition from within", Social Problems, vol. 28, no. 4, April 1981, pp. 379-84.
$ 600 million and contribute towards a budget deficit of $3.250 billion. One Minister explained:

Last Year (1976) we had a budget deficit of over $2 billion. When we came into the cabinet, we decided this must be reduced. Of the four key budget items - military, investment, subsidies and debt services - it was decided that the subsidies were the expendable item.56

It's obvious that while the others had powerful international or elite supporters, subsidies were the concern of the poor who were living in an authoritarian regime. The violent reaction from the masses starkly revealed that Sadat miscalculated the likely reaction of the masses, as he was convinced that the October war, de-Nasserization process and infitah had consolidated his legitimacy. The food riots had shaken Sadat so much that it was to remain in his calculations in all future decision making.

The reaction from the people was particularly violent compared to 1975 and 1976 riots because since the 1977 New Year's Day the government mass media had launched a massive press campaign assuring the salaried people that salaries would be increased and that there would be no price increases. For instance Al Ahram on January 1, 1977 said: "The stabilisation of all prices in 1977 and an

improvement in the conditions of all the workers in the state".

On January 3, 1977 Al-Jumhuriyah asserted that prices would not increase. Similarly Al-Akhbar of January 10 and 16 assured Egyptians of no price increases.57

Thus, people were assured of better living conditions until the last moment and the price increases was expectedly deeply resented. In fact the process of assurance of a better life had started in the aftermath of October war when the Egyptians were told by Sadat of the coming economic crossing to peace and prosperity. Earlier he had used the threat of Israel and people accepted the sufferings as the price of struggle against Israel. But after the October war Sadat had assured the people that their long-standing sufferings and agony would be quickly alleviated and that their pains would end due to his infitah policy. The primary reason why people reacted so violently was the fact that Sadat had raised after the war widespread expectations that he eventually failed to fulfil. The reality was that for a large number of people life had become unbearable due to inflation. In particular rents had soared, basic goods had not only become expensive but also were in short supply. Overall their living standards had declined. Many Egyptians felt that slowly but gradually they are becoming more impoverished at a time when the affluence of a small number of Egyptians has been made ever more apparent.

Opposition to the concentration of wealth and corruption in high places was highlighted in a feature film, entitled "The Guilty Ones". The script was written by Neguib Mahfouz. The film was awarded a major prize as the best Egyptian film in the 1976

Cairo International Film Fair, but under government orders the film was later withdrawn from export distribution.  

In the eyes of the educated Egyptians IMF was identified with the US in its demands for reforms and hence resented. But what shocked them was the lining up of Arab oil states with IMF and the West. The IMF's influence on Third World Countries and the consequences of its recommendations are well summarized in a report for the US Senate's Foreign Relations Committee:

The difficulty with these (IMF recommended) policies is that while they may be the most effective way of rapidly bringing a deficit country's external accounts into balance, they may also lead to higher unemployment, cuts in social welfare programs and a generally lower standard of living for the people at least over the short term. And in desperately poor countries, where the majority of the population may already be living at a bare subsistence level, a decision by the government to impose a program of stiff economic austerity can create social and political turmoil. The requirement that government spending be reduced and the private sector expanded may also conflict with the long term social and economic goals of a government or of certain political factions within a country. If the IMF and the other creditors are not sufficiently responsive to these internal constraints they may push a government into a position of having to choose between acceptance of the foreign creditors terms - and perhaps having to use political repression to carry them through - or repudiation of the IMF, the banks and possibly its debts.

Thus the above analysis shows the numerous ways through which international financial institutions influenced Sadat and his government. From Sadat's perspective the adoption of such a policy was encouraged by his desire for rapprochement with the US.

As Ajami rightly put it, "The post-October 1973 Egyptian order exaggerated what others would and could do for Egypt: it underestimated what the donors will ask for in return."60

The American Factor

The external pressure as amplified through the IMF reforms and the demand/conditions of the consultative Group were basically one side of the picture. Undoubtedly the main actor behind these two agencies, private banks and other foreign investors/creditors was the United States. The US was using these agencies as a cover to achieve what it really wanted in Egypt. In view of its desire not to be in the forefront calling for these reforms and thereby undermine a developing relationship with Egypt, the US very effectively used these tools. Of course, the US itself directly intervened at times to insist on changes it desired but its intervention was much less until 1977, but as the US economic aid crossed a billion dollar mark the US AID mechanism was used to steer Egypt fully into the US/Western economic orbit. As Waterbury points out, in accordance with the 1973 congressional directive to foster private initiative, AID has been "a direct actor in the open door policy". According to Waterbury:

The US and other Western countries actively encouraged private investment in order to consolidate Egypt's return to the Western camp and to underwrite Sadat's peace effort. There is little doubt that the IBRD has been a tacit ally in this process. The IBRD has made loans to public sector companies contingent on their entering joint ventures under ODEP law 43, and AID has supplied the foreign exchange component of at least one Law 43 project, the Egyptian Cement

Company. In essence foreign investors have sought to limit their equity commitments by taking advantage of abundant public and private financing, or by assigning equity value to their technology and know-how. 61

Likewise the resumption of food aid to Egypt after a five years hiatus was no doubt a "reward for being more reasonable". 62

Contrary to Kissinger's claim that US food assistance to Egypt was the ultimate in "humanitarian aid, it is evident that US food deliveries, which were resumed in 1974, were conditional upon Egypt's readiness to cooperate and participate in Kissinger's peace plan". As Agribusiness analysts Burback and Flynna have indicated:

Egypt in particular has become a favored recipient of US food aid ever since Kissinger launched his Middle East tour de force ... During its years of militant support for the Palestinian cause Egypt had been entirely excluded from the PL 480 program. Egypt's extreme dependence on food imports ... gave the US a powerful bargaining chip ... In 1975, true to Kissinger's promise, Title I credits to Egypt jumped from $0 to $120 million, and the level of credits never dropped below $100 m. over the next 5 years. Today (1980) the Sadat government is the world's largest recipient of PL 480 credits, receiving twice as much as all of Latin America combined for a total of $206 million in fiscal year 1979. 63

In an interview outlining A.I.D.'s plans for Egypt's economy Joseph Wheeler, AID Deputy administrator dismissed as "outrageous" Egypt's efforts to build up steel and aluminium industries. "They have no business trying to jump into heavy industry", he declared:

61. Waterbury, n. 6, p. 156 and 403.


They should move into the lower-intensity markets that Hong Kong and others are now vacating ... They subsidize everything, and what we're saying to them is, this has to stop ... We're saying we won't pay for this forever ... that they have to move to a market system ... We want the Egyptian pound devalued. We want interest rates ... raised to world market level ... We want the food subsidy program phased out ... We want an end to general cheap food. 64

The 1977 food riots were thus an eye opener to Sadat. They convinced him of the urgent need to concentrate on the domestic economic problems. The solution to Egypt's problems, Sadat believed, was the same as what he was doing since the October war: infitah and peace with Israel and on both Sadat was convinced the US alone would be of help. Now with the grim economic situation underscored by the food riots, Sadat became all the more determined to pursue his infitah policy and continued to place his hopes on a peace settlement with Israel that would bring stability. For infitah this stability was essential because the much needed foreign investments into Egypt would come. According to M.C. Aulas, "Sadat, who was counting on his policy of openness towards the West to provide a solution to his economic, military and political problems, found himself more and more dependent on the US but without achieving the hoped for results". 65

Thus, despite US unwillingness to help Sadat either in infitah or peace he continued to move on the same path. After the


October war, Sadat had hoped for a quick salvation of Egypt's problems. Now he realized that the road to these solutions was proving to be much longer and more arduous that he had imagined. Now he needed more time to show his results. In his 1977 May Day address to Egyptian workers and Union leaders, Sadat responded to their pleas "to relieve the workers of the pressures of life and living conditions" with the reply: "Wait until 1980" Sadat calculated that by 1980 the resolution of conflict with Israel will be achieved and his infitah policy would have brought the promised economic recovery. 66 Thus, Sadat, kept himself "always more pre-occupied with Egypt's external affairs, unavoidably driven from stratagem to stratagem to secure the regional stabilization that would reassure the foreign investor in Egypt." 67 The coming to power of the likud bloc in Israel in May 1977 headed by Begin and other hawks like Dayan, Sharon, Shamir and Weizman was all the more disturbing for Sadat, who now called for early resolution of the conflict with Israel. Sadat was beginning to have doubts over a solution being negotiated at the Geneva Peace Conference. Sadat's worsening domestic situation, coupled with the emergence of Likud government and impasse over GPC had turned him by late 1977 into a man in a hurry. He believed that only a quickly concluded settlement of the Arab-Israeli conflict could ameliorate Egypt's economic burdens in the process resolve his own political predicament. He also believed that only US involvement in pressuring Israel to withdraw from occupied Arab territories could make such


a settlement possible. Sadat had spent three years building Egypt's strategic relationship with the US with this purpose in mind, now, under adverse circumstances, Sadat had to turn that relationship to Egypt's advantages. 68 He spoke about the close linkage between Egypt's economic problems and the conflict with Israel. He said:

If we could attain the termination of the state of belligerency with official guarantees to Israel and Arabs ... we could then pave the way for a permanent peace agreement, and the termination of the state of war will be recognized by the entire world. Then my budget will no longer be burdened by the military expenditures that weigh on us now. 69

Elsewhere he said:

... Our difficult economic situation is due inter alia, to the four wars we have waged in defense of the Arab and Palestinian rights that entailed huge military and economic expenditures. We were unable to develop our services, to make them commensurate with the population growth and we took immense loans abroad to meet our armament and defence burden .... 70

Sadat had become convinced of the fact that only a quick settlement with Israel will give peace and enable Egypt to solve its mounting economic problems. In actual terms Egypt was on the verge of insolvency despite aid from various quarters. The need for survival demanded that reconstruction of the national economy must take precedence over confrontation with Israel. Sadat now in his speeches began emphasizing that nothing will "stop our peace

68. Indyk, n. 55, p. 11.
69. Israeli, n. 9, p. 1291. Emphasis added.
momentum", "we shall continue to lend momentum to peace, because peace is imperative for us for the reconstruction of our country". 71 He further said:

I believe that our main front is the domestic one. We must reshape our life in Egypt ... when one speaks Egypt's domestic problems, the political issues are actually economic ones ... Economy, that is developing, and future subsistence are Egypt's problem No. 1, we can say that Economy is our crucial problem at this stage. 72

Egypt's military strength relative to Israel had diminished enormously and a military venture like that of the October war was out of the question. In fact, the threat of an Israeli pre-emptive strike increased since Begin came to power. 73 Despite Carter's effort to convene the Geneva Conference, Sadat concluded after Israeli success in neutralizing the joint US-Soviet communique of October 1, 1977, that Israel is the main party. 74 His visit to Jerusalem was in fact an acceptance of the fundamental error which Sadat committed by saying and believing that 99% of the cards in the conflict are with the US. He also concluded that not much would come from Geneva Conference. Egypt's infitah policy designed to improve its economic situation had brought little success and the progress in future appeared bleak in view of the possibility of war.

71. Ibid, p. 1300.
72. Ibid, p. 648; Sadat in an address at the University of Alexandria to mark the 20th Anniversary of July Revolution said "one day will come ... when our war will be completed and our land liberated and we shall go back to that industrial complex and restore it rapidly to the producing capacity it used to have". Ibid, p. 247.
with Israel still at hand and Sadat's domestic situation deteriorated rapidly as defence expenditures consumed large part of the resources.


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<tbody>
<tr>
<td>Gross Domestic Product</td>
<td>4,197</td>
<td>4,886</td>
<td>6,276</td>
<td>7,341</td>
</tr>
<tr>
<td>Defense expenditure from Ordinary Budget</td>
<td>304</td>
<td>302</td>
<td>457</td>
<td>342</td>
</tr>
<tr>
<td>Defense expenditure from Emergency Budget</td>
<td>507</td>
<td>730</td>
<td>385</td>
<td>764</td>
</tr>
<tr>
<td>Total - defense from Ordinary and emergency budget</td>
<td>811</td>
<td>1,032</td>
<td>842</td>
<td>1,106</td>
</tr>
<tr>
<td>Foreign financed part of emergency budget</td>
<td>471</td>
<td>446</td>
<td>82</td>
<td>459</td>
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**Summary:**

Total defense budget from Egyptian resources as percent of gross domestic product

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<tr>
<td>Total defense budget as percent of gross domestic product</td>
<td>8</td>
<td>12</td>
<td>12.1</td>
<td>9</td>
</tr>
<tr>
<td>Additional Military not reflected in budget estimate</td>
<td>414</td>
<td>1,068</td>
<td>1,408</td>
<td>N.A.</td>
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**Source:** Egyptian Ministry of Finance, SIPRI Year book 1978.
For 1977-78 the parallel exchange rate of $1.4 1£E is used here.

**Peace at any cost**

It was under such circumstances that Sadat decided to visit Israel with the aim of a comprehensive peace settlement despite criticism and isolation from the Arab world. Of course, Sadat denied that it is Egypt's economic plight that propelled him to visit Israel.
We do suffer from the economic situation (he conceded), but we are now doing splendidly ... our Arab brothers are helping us with billions of dollars this year and we have paid all our debts. Even great countries like Britain are far worse off than us ... We are not seeking peace at any price. Not at all, you don't know my people.75

But while in Israel Sadat told the Israeli Defence Minister Ezer Weizman:

We ... have fundamental problems and that's why I decided to come to Jerusalem. You must get to know the Egyptian people. I know my people. They are a good people. If you convince them, they will follow you all the way. They have a sense of humor - but they also have fundamental problems of poverty and education. I hope that, together, we shall inaugurate a new era with new possibilities.76

Dr. Butros Ghali, the then Acting Foreign minister who accompanied Sadat to Jerusalem pointed a grim picture to the Israelis of Egypt's chronic social and economic problems. He said, "We're like Bangladesh, and Cairo is like Calcutta. Every year a million people are added to our population". Mustafa Khalil, former Prime Minister added: "And there are a million Egyptians working abroad. In Kuwait, Saudi Arabia, in Bahrain, we supply everything - from professors to plumbers."77 Begin and other Israeli leaders realized Sadat's

75. Al Akhbar, November 17, 1977 cited in Hirst, n. 31, p. 282


77. Ibid, p. 60, Eitan Haber, et. al., The Year of the Dove, (New York: Bantam Books, 1974) Dr. Ghali is quoted in the above book as having said "Did you know that every year one million babies are born in our country and that today one million Egyptians - from professors to prostitutes - are working in other Arab countries?" p. 73; E.Saba, "Economic Aspects of a Peaceful Settlement in the Middle East", Dirasat Arabiya, vol.12, no.2, December 1975, pp.30-37.
severe economic problems and his desire for a peaceful settlement. Sadat militarily vulnerable due to stoppage of Soviet arms, economically desperate due to food riots and severe budget deficits and debt problems talked to the Israelis from extreme weakness. The Israeli Defence Minister concluded:

I had a number of good reasons to believe him (Sadat). I knew he hadn't come to Jerusalem for our good looks. First, he'd to reach a very difficult decision - even more difficult than his decision to go to war in October 1973. At that time, the Arab World was solidly behind him, whereas his current visit to Jerusalem had begun to isolate him. In the entire Arab world he was being denounced as a traitor and burned in effigy, while his ambassadors were given marching orders.

Ezer Weizman believed that it was the economic burden of warfare with Israel which pushed Sadat to visit Jerusalem.

And

in spite of all that, he had taken the fateful step - and taken it clear headedly - it was for the good of his country. The burden of war was tottering. The high birthrate was dragging it down in internal strangulation. Rebuilding Egypt's economy and salvaging its social structure called for all available resources and all the nation's energies to be diverted into those channels. 78

78. Ibid, pp. 70-71; Weizman during his visit to Egypt found the Egyptian Defence Minister General Gamassy deeply troubled by economic and social developments. Gamassy referred to problems of food and housing and to the polarization of classes. And his principal concern was over the future of the Younger generation. Ibid, p. 105. Weizman also wrote that the Americans, Europeans or any other foreign investors will not put a penny in to Egypt if war is liable to break out at any moment. Areas such as the Suez Canal zone would be devastated in the event of a new eruption of violence; only peace could make it possible to develop them. With the region about to enter the nuclear age, the threat of physical destruction provides the final logical rationale for Sadat's choice of the road of peace, Ibid, p. 335. Ismail Fahmy ridiculed the economic factor which led Sadat to visit Israel. Negotiating for Peace in the Middle East, p. 282.
After fruitless negotiations with the Israelis since his trip to Jerusalem up to the end of August 1978 in which Israel maintained its uncompromising attitude on key issues, Sadat agreed to Carter's suggestion to attend a summit at Camp David in September 1978.

At the Camp David talks when the Egyptian foreign Minister M.I. Kamel wanted confirmation that Sadat was not seeking a separate peace with Israel. Sadat replied that it "was out of question".

When Kamel protested to Sadat that the agreements he has agreed to sign at Camp David will not lead to a comprehensive solution but surely to a separate peace with Israel, Sadat replied:

You're talking like this because you know nothing of the internal situation in Egypt. Nasser left me a heritage encumbered with worries and problems. Our economic and social conditions are extremely bad and the public utilities are in a state of collapse. Egypt will be unable to deal with the deteriorating situation unless it achieves peace and devotes all its resources to development. Egypt will then be in a stronger position to assist the Palestinians in solving their problems.

Kamel suggested Sadat that if he considers the internal conditions in Egypt as compelling him to reach an immediate interim solution, then to announce it openly. He suggested:

You could issue a communique to the effect that Egypt had borne the burnt of human, financial and economic sacrifices as a result of its confrontation of Israeli aggression on the Arab States in four wars. It had exhausted all its efforts, energy and power. Say that its economic and social conditions have deteriorated to such a degree that it cannot continue to live in a state of no war-no peace, and that Egypt has therefore, decided to conclude an interim agreement with Israel, thereby ending the state of war with Israel.

Sadat angrily interrupted Kamel and said:

What's the matter? Do you want the Soviet Union, Hafiz el Assad and Gaddafi to gloat over me? Do you want them to say that what they had claimed
from the start of my initiative was true?
That I was aiming at a separate agreement all along.79

When Sadat rejected Kamel's ideas, the latter became the third Egyptian foreign minister to resign over Sadat's peace policy towards Israel after Ismail Fahmy and Mohamed Riad.

In the end Sadat signed a separate peace treaty with Israel in March 1979 having no legal linkage with the autonomy plan for West Bank and Gaza. After the event Sadat confirmed that, in his desperate search for peace with Israel, he was persuaded by economic compulsions. On the Revolution Day, 1979, he said: "Wars with Israel have been the biggest impediment in the way of development and progress. The beginning of the phase of peace means the termination of the phase of war and saving billions of pounds previously wasted in consecutive wars".80 He also said,


80. Sadat speaking on the July Revolution Day, 1979 in Sadat, n. 36; p. 12; According to Shazly since 1967 Egypt had spent £4125 million and if one counts the material losses it will be about £4500 million. Egypt lost 2882 soldiers and civilians. Egypt's GNP was only 26% of the Arab World GNP but it paid 50% of the total defence bill. Yet according to him Saudi Arabia, Kuwait and Libya combined only £566.2 million - one eighth of what Egypt had spent "without putting a value on the loss of life".

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<thead>
<tr>
<th>Year</th>
<th>defence Expenditure of Egypt</th>
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<tr>
<td></td>
<td>In millions of $</td>
</tr>
<tr>
<td>1973</td>
<td>2757</td>
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<tr>
<td>1978</td>
<td>1586</td>
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<tr>
<td>1983</td>
<td>2100</td>
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According to him Egypt with its per capita income a mere $203 a year was pouring 21.2% of its GNP into defence.

"with the signing of the peace treaty, the last of the burdens on our shoulders and on the shoulders of future generations has been lifted. We had to find a solution and a means to relieve this burden and set forth with vehemence to reconstruct Egypt". 81

To cap it all he said: "This treaty put an end to thirty years of bitterness and hatred, of the drain on our resources and the blood of our sons. There will be no war after the October war, no more pain, no more destruction, and no more annihilation of our youth and our wealth." 82

To sum up, Nasser wished to concentrate on the economic and social development of Egypt. Israel saw this development as a threat to its security and soon launched the Gaza raid. Nasser was compelled to seek arms from Moscow and the diversion of scarce resources affected its economic advancement. In addition, Nasser in order to face Israeli threat mobilized Arab countries under the banner of Arab nationalism. This was disliked by the West particularly the US which coordinated its policies with Israel to contain Nasser. The result was Egypt's crushing defeat in the 1967 war. This led to the closure of Suez Canal, loss of Sinai oil fields and canal cities/factories being destroyed. More significantly Egypt had to divert additional share of her GNP to defence. All this dealt a savage blow to Egypt's economy and Nasser's Arab socialism.

Even though the oil-rich Arab countries gave economic aid to Egypt Sadat realized that the strain of war on Egypt's limited

resources which was having a very negative impact. By 1973 the economy was crumbling and Sadat could not really carry the armed confrontation with Israel any longer.

Sadat used the political capital made in the Oct war and the opportunities created by it to reorient Egypt political and economic policies and proclaimed infitah an rapprochement with the US. This he calculated would not lead to Israeli withdrawal from Arab lands but also bring aid to tide over Egypt's mounting economic problems. Infitah hoped would lead to the raising of living standards. Sadat believed that the kind of US commitment needed to recover territories from Israel was predicated on Egypt's integration the global capitalist system and that the greater the economic opportunities opened to US investors, the more forthcoming would be. Thus, a peaceful settlement with Israel was a part of Sadat's strategy to guarantee the success of infitah.

Sadat reminded the Egyptians that infitah was the better life they were looking for. He repeatedly talked about the burden of military expenditure on the Egyptian economy; it had retarded the overall economic progress of Egypt.

But the reality was that infitah instead of solving Egypt’s economic problems compounded them. Sadat then came under growing pressure from the people. Very soon infitah was massively unpopular and food riots occurred in 1975, 1976
massive scale in 1977. Even after this, Sadat remained convinced that his strategy of peace and infitah through US, Western cooperation was correct. He redoubled his efforts to work for peace with Israel as he felt the military was still consuming bulk of the revenues, foreign investors were reluctant to invest in Egypt due to the uncertain situation with Israel. That paved the way for his visit to Jerusalem in November 1977 and subsequently to the conclusion of a bilateral peace treaty with Israel. Despite Egypt's decision to end armed confrontation with Israel, its economic problems still remain unresolved. Only its dependence on the US increased.