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ECONOMIC RESTRUCTURING AND THE DILEMMAS OF MANUFACTURING IN EGYPT. BUSINESS INTERESTS AND THE POLITICAL ECONOMY OF THE QUALIFYING INDUSTRIAL ZONES (QIZS) UNDER MUBARAK

by
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AN ABSTRACT OF THE THESIS OF

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Title: Economic Restructuring and Manufacturing Dilemmas in Egypt. Business Interests and the Political Economy of the Qualifying Industrial Zones (QIZs) under Mubarak

The signing of the Qualifying Industrial Zones agreement by Ahmed Nazif's government in 2004 was more than just another episode in the US campaign to impose normalization between Egypt and Israel against popular opposition. The agreement not only would compel the cooperation between businessmen of both countries, but also aimed to perpetuate its own existence by securing its indispensability for the Egyptian economy, particularly with regards to the garment sector. In the Import Substitution Industrialization phase since the 1950s, the advancement of the manufacturing sector was actively sought. Although the rhetorical primacy of industry was later on retained, the subsequent economic opening of "Infitah" and the taking up of the Structural Adjustment Program drew a very different picture, signifying a move away from manufacturing development. In the latter phases, particular state-connected businessmen reaped substantial economic benefits. However, the economy itself became vulnerable to changes such as the termination of the Multi Fiber Agreement in 2005. This economic "calamity" was an opportunity that the QIZ project could grasp.

The thesis charts the emergence of the QIZs in Egypt against the long run transformation in the Egyptian economy and its manufacturing sector in particular. It investigates the economic justifications for the QIZ agreement and the story of its implementation, through identifying the role of particular businessmen in the project. This latter element in specific is illuminated through a study of the project's official consultation processes, which were kept under wraps until they were made public through WikiLeaks. The big businessmen who mostly benefited from the QIZ agreement were active in the low-cost garment sector, bringing about an unpromising trend in the Egyptian economy.

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For Mario

CHAPTER I

INTRODUCTION

The signing of the Egyptian Qualifying Industrial Zone (QIZ) agreement in 2004, allowing duty-free access to the U.S. for Egyptian products on the condition that these include Israeli input, was a negative surprise for the Egyptian people. To them, it was presented as a move to save the Egyptian textile and garment industries. Though paying lip service to the Arab boycott of Israel, the Egyptian government had also been reluctant to reach the agreement. But the public, especially, expressed its disdain for the cooperation with Israel due to the country's longstanding occupation of the Palestinian Territories and its domineering role in the region. Moreover, this opposition was intensified with the outbreak of the second Palestinian Intifada in 2000. The present case study seeks to look at the creation of QIZs with historical hindsight. It presents an account of how the QIZ agreement was embedded in the long running transformation of the Egyptian economy since the initiation of Infitah in the 1970s, while charting the changing relations of the Egyptian regime with business circles, and the impact of constant U.S. pressure for the normalization of Egypt's relations with Israel.

This account also includes a review of the move from import substitution to the domination of neoliberal economics in the first decade of the 21st century, in order to describe the transformation of the manufacturing export problem and the role of the business sector in contemporary Egypt, as well as to demonstrate the crucial role of these factors in the eventual acceptance of QIZs by the Egyptian government. Finally, it presents the role of business networks in the QIZ project operation. In order to fulfill its overarching aim of comprehending how the QIZ normalization venture went through, this study uses the manufacturing industry deficit in Egypt as a starting point. The latter has been an important component of what Galal Amin (1995) describes as «Egypt's economic predicament».

Developing the manufacturing sector was a core aim of the import substitution Industrialization (ISI) policy initiated by Gamal Abd al-Nasser in the 1950s as well as a core component of his policy of developmental independence. Although the advancement of the manufacturing sector was necessary in order to promote employment and counter the balance of payments deficit, with Sadat's Infitah since the 1970s, the economy was heading in an opposite direction. By the 1980s, the Egyptian regime could employ the strategic rent; the option to use the country's strategic importance in order to attain aid from the U.S. and loans from the International Monetary Fund; while only very slowly and selectively proceeding with the demanded economic reform (Richards 1991). Richards (1991) attributes this watering down of agreed policy to the fact that, though businessmen in Egypt were too weak to press in any preferred direction, they were however strong enough to block reforms and maintain industry protection.

While a commitment to ISI was officially abandoned by the "new business elite", which rose alongside in the 1970s, the group in reality benefited from state connections (Owen 2004); "openness" was merely a façade for doing business within a closely-knit, politically connected circle. The textile and garment sectors retained a prime position in the economy and were heavily subsidized (Richards 1991, 1723). Certainly the textile sector held a central importance in the Egyptian economy and acquired political significance as the main employer in the country. Public textile sector workers had a long history of mobilization for their rights (Beinin 2001, 156). However the private garment sector steadily gained momentum in the 1990s. It was during this decade that Egypt undertook the IMF Structural Adjustment Program (SAP), still selectively but more decisively than had been the case with previous reforms.

The peace treaty between Egypt and Israel in 1979 did not forge a normal bilateral relationship between the two countries, despite the presence of official relations the public's rejection of the normalization of relations prevailed. The Oslo accords between Israel and the Palestinian Liberation Organization in 1993 introduced a new phase of peace driven cooperation in the Middle East. In that period, which followed the fall of the Soviet Union and the final defeat of Nasser style Arabism with the U.S. victory in the 1990-91 war for Kuwait, 'modernization enthusiasts' raised high expectations when it came to the role of business and cooperation among entrepreneurs from different countries, hoping that they would bring about peace, prosperity, and development (Moore and Schrank 2003).

The QIZ project, which had been previously implemented in Jordan, followed the termination of the Multi Fiber Agreement (MFA) in Egypt. The MFA agreement permitted a specific quantity of textile products and byproducts from particular developing countries, including Egypt, to enter the U.S. duty free. The termination of the MFA in 2005 was presented as the leading economic reason for the initiation of QIZs. The QIZ agreement between the U.S., Israel, and Egypt was reached in 2004, proclaiming business leadership in the project. It was supposed to substitute for the MFA, saving jobs in Egyptian factories. A Joint Committee, consisting of Israeli and Egyptian representatives as well as observers from the U.S. embassies in Cairo and Tel Aviv, held regular meetings to manage the project, the content of which remained secret. As we will see, the majority of QIZ exports were garments, and the main justification for introducing QIZs was the need to save the Egyptian textile and garment industry. For this reason, in reviewing the economic issues at hand, particular reference will be made to the textile and garment sector.

A. Why a Study on the Egyptian QIZs

My interest in QIZs stems from the dilemmas they posed for an alternative policy orientation for Egypt, the most populous and influential Arab country. The public denunciation of the project for imposing normalization with Israel was justifiable given the meagre results of decades of peace diplomacy and three Arab Israeli treaties. Yet, in practice, as employment positions in QIZ factories became inexorably connected to the project, it became increasingly difficult for progressive political activists who wished to resist it to actually do so.

There are several intriguing points regarding the QIZ project in Egypt. Such an imposing measure of normalization became both necessary and possible against the backdrop of a hostile public and a regime which, the latter for its own reasons and as a bargaining chip with the U.S. alike, preferred to maintain “cold peace” relations with Israel (Hamdy 2000). On the economic policy front, the project came about after several phases of the SAP program in Egypt. The SAP was supposed to bring export promotion, and its implementation was facilitated by the appointment of the government headed by Prime Minister Ahmed Nazif in Egypt in 2004, just ahead of the finalization of the QIZ agreement. Hence, the export problem which SAP was presumed to relieve was the project’s starting point.

The U.S. Trade representative Robert Zoellick characterized the QIZ “the most significant economic agreement between Egypt and Israel in twenty years.” (USTR

2004). Gradually, the project became an important economic component of U.S.-Egypt trade relations. From 2005 until 2009, 95 per cent of the Egyptian textile and garment exports to the U.S. were channeled through QIZs (Ghoneim and Awad 2009).

As a neoliberal project, the QIZ agreement provided businesses with special privileges that shaped the economy, all the time proclaiming the principle of common good before social and moral considerations. Particularly the project claimed to save the economy from severe economic threat. Therefore, its examination may offer insight into how "financial weakness became as much a strategy of rule in the neoliberal era as its consequence" (Moore 2013, 3). The close connection of the Egyptian state with parts of the business sector was also at the root of the Egyptian uprising in 2011; as such, it is even more crucial to gain a better understanding of this relationship and its repercussions. (Cammett et al. 2015, 425). There is another important reason for examining QIZs: Economic normalization has been seen as integral to the process of forging secure relations with Israel, the continuation of Palestine's military occupation by the Israeli state notwithstanding. For this reason, I believe that the QIZ agreement should be viewed as one among the many contributing factors in the perpetuation of the Palestinian issue.

The study aims to offer a historical overview of the factors that made the Egyptian QIZs possible, as well as the project's implementation and the role of businessmen within it up to the Egyptian uprising of 2011. Founded on the basis of Egypt's economic problems and the goal of normalization, the project faced challenges that threatened its continuation. Yet, instead of examining the competitive forces of the QIZ agreement in a linear way, this study will endeavor to explore how the economic and political disputes amongst involved parties were resolved in order to manage the threats to the project. Finally, the study will seek to reflect on what these resolutions reveal about the role of businessmen in the development of QIZs.

The present study is neither a thorough economic evaluation of the QIZ project nor a presentation of optimal industrial policy. However, an implicit case is made that tariff protection should not be unconditionally defended by those seeking a more socially inclusive economy.

B. Literature Review

Studies on QIZs are scarce, and this is particularly true for Egypt. Two economic studies conducted in Jordan and Egypt (Ghoneim and Awad 2009; Nugent and Abdel-Latif 2010) focus on the direct output and export outcomes of QIZs, with the goal to evaluate the short- and middle-term economic effects of the project. Both studies conclude that QIZs failed to bring about industrial transformation, whilst acknowledging the political character of the agreement. They also point out the limited economic benefits of QIZs to the Egyptian economy as a whole, because they did not establish forward and backward linkages to the rest of the economy and they concentrated overwhelmingly on practically one sole product category: ready-made garments, at the lower end of the garment value-added scale.

In a political economy study on Egyptian QIZs, Yadav (2007) concurs with the conclusions of the aforementioned studies. However, he emphasizes the role of particular Israeli businessmen in the salvation of the Israeli textile industry.[1] Thus, the study assents to the argument that businesses initiated the project, and criticizes QIZs

[1] See also (Azmeh 2014) on this point.

for not going far enough in establishing business and social links between Egypt and Israel.

A more concise presentation of the political concept behind QIZs is offered by Pete Moore (2003; 2005). Moore examines the Jordanian QIZ experience through the lens of the U.S. rationale for initiating the project, and supports the argument that it was the state-connected business elite who benefited. Moore and Schrank (2003) further elaborate on this idea. They construe the project as part and parcel of U.S. efforts to promote free trade based on the argument that external trade will empower social groups ("new business"), consequently leading to democratization and normalization of relations with Israel. The authors find, as expected, quite the reverse effect, since "businessmen capitalize upon foreign trade by exploiting, rather than transforming, their preexisting social and political institutions" (112).

Their conclusion is supported by Bouillon (2004), who inquires into the role that Palestinian, Jordanian, and Israeli businessmen played in the peace process. For Bouillon, the QIZ agreement is rooted in the unsuccessful efforts of political and economic elites in these three countries to impose ideological hegemony upon the society, in the Gramscian sense through the economic components of the peace process. Bouillon finds that it was the elites that profited from economic peace initiatives such as the QIZ agreement. Through their actions, however, they exacerbated inequality in their respective societies, thus fueling social outrage against the peace process (167). The author tentatively posits that a more equal distribution of economic benefits could have generated more popular support for the normalization of relations with Israel (169).

The most important study on the political underpinnings of the Egyptian QIZs was conducted by Shama (2014). For Shama, QIZs constituted a significant component of the efforts by Egyptian President Hosni Mubarak to secure the survival of his regime by capitalizing on the notion of national interest. He finds that, through the project, Mubarak exploited Egypt's regional importance in order to relieve U.S. pressure regarding human rights protection, democracy, and the promotion of economic liberalization in Egypt (153). While it is debatable whether U.S. pressure was indeed threatening for the regime, the study offers an important political insight; however, it also tells us little about the Egyptian economic and social configuration which allowed the project to take place.

Moore and Schrank's and Bouillon's works are important in countering the U.S. rhetoric on trade and peace promotion. However, they do not analyze the progression of the QIZ project and the role of business in perpetuating it, save for documenting the fact that businessmen profited from it. The economic studies provide useful data and even econometric verification of the diversion of trade resulting from the project (Nugent and Abdel-Latif 2010). Nevertheless, they do not offer a longer-term view of the origins of the economic deadlock which QIZ promoters were able to exploit.

There remains a gap in the literature regarding the economic problem the QIZ agreement sought to address and the role that businessmen played in its continuation. The present study endeavors to offer a more coherent presentation of the QIZ project as it unfolded within the economic and political context of the contemporary Egypt.

C. Study Framework

The political economy approach of this thesis follows the framework presented by an influential book on the political economy of the Middle East by Cammett et al.

(2015). The authors maintain that we must view economic arrangements as the outcome of political struggles, in which many social groups have a marked influence but elites in particular play a pivotal role. In the interplay of economics and politics, the state shapes (or even creates) social actors, who in turn influence policy and the economy, while themselves being reshaped in the process (10-13). A depiction of the economic manufacturing deficit as a mere failure of the import substitution strategy (Gelvin 2012) fails to account for the fact that the authoritarian regime's survival strategy was co-constituted with the U.S. (Brownlee 2012). Additionally, the regime's connections to the business class that emerged in the 1990s were consolidated with the aid of outside powers who were promoting SAP (Heydemann 2007).

Rent-seeking theories maintain that pre-existing relations between state and business hold captive the process of economic development, bringing about negative returns.[2] Sfakianakis (2004) underlines that the existence of close state-business relations does not in itself explain the outcome of economic reform; rather, we should examine how networks of businessmen and bureaucrats or former bureaucrats reorganize in order to capture the benefits of economic reform. To get his point across, Sfakianakis (2004) takes the example of the privatization of state companies in Egypt during the 1990s. He demonstrates how, in a framework of non-transparency, newly emerging networks comprising state officials and former bureaucrats benefitted from reform, and then repositioned themselves to ensure that further reforms would serve their own interests. Based on this analysis we will examine what role the state connection of particular businessmen played in the Egyptian QIZ project and its outcomes.

[2] See (Cammett 2016) for a presentation of the rent seeking paradigm in contrast to modernization theory.

D. Outline of the Study

This thesis is divided in two parts. Part I recounts the economic and political transition from ISI to selective liberalization through Infitah, in order to illustrate how the manufacturing export problem was transformed and how issues of normalization with Israel were inserted into Egypt's economic predicament. It is hoped that an economic history of the transition from ISI to Infitah can help shed light on selected businessmen's eager involvement in QIZs. Part II focuses specifically on the QIZ project since its introduction along with U.S. regional economic integration efforts in the Middle East. The project's first implementation in Jordan in 1997 and its initiation, after repeated rejections, and operation in Egypt highlights the way in which businessmen were included in QIZs. The consultations on the QIZ project being secret, the examination of the project's initiation and development is primarily based on QIZ Joint Committee session reports as they are found in U.S. State Department cables published on the WikiLeaks website.[3]

The study seeks to offer a comprehensive presentation of the QIZ project in Egypt, including its economic background and political underpinning as well as its implementation, proceedings, and outcome. In this capacity, it can serve as a foundation for a more elaborate examination of these topics in the future. Examples of areas for further research include a thorough study of QIZ businesses and the diversion of production from other sectors that occurred as a result of the project. As stated earlier, there is little published work on Egyptian QIZs, and even less when it comes to a comprehensive overview of the political economy of their creation and development. Ultimately, the aim of this thesis is to throw some light on these areas.

[3] My original goal was to undertake field research in Egypt regarding the QIZ project; however, events following the Egyptian uprising of 2011 (and particularly in 2013) prevented me from visiting the country.

PART I

CHAPTER II

IMPORT SUBSTITUTION INDUSTRIALIZATION AND ARAB NATIONALISM

The political events that took place between 1952 and 1970 determinedly influenced the economic developments of that period, whilst also shaping Egypt's relations with Israel and its stance on the Palestinian question. The Free Officers coup in Egypt in 1952, also known as the June revolution, initiated a drive to move away from British colonialism. Indeed, the 1954 British-Egyptian Agreement for the gradual evacuation of British troops from the Suez military base was a first milestone in the creation of a free and independent nation as envisaged by Gamal Abdel Nasser, recently elevated as uncontested leader of the Free Officers (Tignor 2012, 261). The agreement also marked a success for the new regime's Pan-Arab nationalism. However, the central component in achieving Egypt's aspirations for economic development and asserting its role in the world was the development of the manufacturing sector. This chapter offers a brief review of state-led industrialization in Nasser's Egypt, and tries to illustrate how its predominance in efforts to promote manufacturing was established.

A. Import Substitution Industrialization (ISI)

As the wave of national independence movements flowed across the Global South after the Second World War, it brought with it broad support for industry development. The ISI concept gained ground as a common ideology for Third World developing countries in the 1950s (Harris 1987, 12). In his influential 1950 manifesto on ISI, "The economic development of Latin America and its principal problems", Argentine Raúl Prebisch, director of the UN Economic Commission for Latin America, proffered the view that the basic requirement for overcoming economic backwardness is the tackling of fiscal dependence on raw material exports. This could come to fruition through the development of the manufacturing sector, with the infusion of capital investment and the application of trade policy (Prashad 2007, 104). In other words, ISI was an economic policy intended to bring about domestic economic transformation towards manufacturing industry. The transformation would be accomplished through the substitution of imported industrial products with locally produced ones, by imposing high import tariffs on products that could soon be replaced with a domestic equivalent. To a large extent, ISI followers aspired to replicate the policies which industrial states had implemented in their early development. Manufacturing industry advancement, even in our days, entails that developing countries defy comparative advantage and support promising industrial sectors over an extended time span (of perhaps several decades) until they become internationally competitive (Chang 2008, 15).[4] Despite ISI policy assigning a major role to the state, it did not necessarily imply a state-dominated policy.

Given the anti-colonialist sentiment In Egypt at the time, the Free Officers grasped at the chance for an economic break with colonialism (Amin 1995, 120). The importance of industrialization for the Free Officers (both as an assertion of

[4] Additionally, the belief in state-led industrialization in the 1950s was inspired by the Soviet Union's industrialization success and dependency theory; according to the latter, unfair inclusion in the world economy of raw material-exporting countries, fashioned by colonial powers, is the reason for their underdevelopment.

independence and for improving the standard of living) cannot be overemphasized, and bore profound long-term consequences (Baker 1978, 17).[5]

Eliminating the backwardness that resulted from colonialism demanded, from the outset, a divergence from the "lopsided development" that had been associated with the monoculture of long-staple cotton (Issawi 1961, 1). Egypt's economic overreliance on cotton exports originated in the Egyptian debt crises of the 19th century (Issawi 1961, 10-11).[6] The social impact of cotton monoculture, however, was fundamental in the rise of Bank Misr, a national project of "Egyptian" industrial development and a notable precedent for ISI in Egypt (Davis 1983, 192, 200).[7] Bank Misr, which was founded in 1920, established a series of enterprises aimed at creating framework for national development.[8]

The textile sector is a case in point. The effort to overcome lopsided development meant that cotton would now be processed instead of being exported in raw form (as had been the case in Egypt since the 19th century in accordance with the principles of comparative advantage) (Farah 2009, 31). In 1927, Bank Misr established Misr Spinning and Weaving Company, its flagship enterprise, also known as El-Ghazl

5 See Nasser's speech on the significance of industry for the new regime at the inauguration of the Helwan Iron and Steel complex in 1958 (Owen 1991, 370).

6 The debt reached almost half of Egypt's budget at the time. The cotton monoculture was encouraged by the high prices for cotton due to the drop in production in America as a result of the American Civil War (1861-1865). Subsequently, the cultivation of cotton rose significantly in Egypt, largely at the cost of wheat production, and both government infrastructure and private activity were redirected predominantly to cotton cultivation and export (see Owen 1969; Rifaat 1947, 102; Osman 2010, 30; Tignor 1989).

7 Bank Misr was based on the drive for "Egyptianization", which implied a distinction between Egyptian national capital versus comprador capital. Vitalis rejects the distinction between national and comprador capital, as all major businesses had connections with foreign companies and advancing local manufacturing necessitated cooperation with foreign capital (Vitalis 1995).

8 Another influential precursor of industry development in Egypt was the Anglo-American Middle East Supply Center established in Cairo in 1941 for WWII needs. The Center engaged in local industrial development in order to reduce nonmilitary imports into the region. It also raised expectations for industrialization from the many thousands of workers who were left unemployed on the eve of the war (Vitalis and Heydemann 2000).

al Mahalla for its location in Mahalla al Kubra city. After the Second World War, the business employed 25,000 workers and was the largest company in the Middle East and North Africa (Beinin 2015, 11).

Egypt had been adopting tariff policies since the 1930s. Raising import tariffs up to 50% for products which were also locally manufactured resulted in more than a tenfold increase in local textile production by the end of the 1930s (El-Tarouty 2015, 39). The protection continued in the following years and was supplemented with import bans on cotton yarn as well as on textiles and garments (Sakr and Abdel-Latif, 2000). In the years between 1952 and 1960, Egyptian textile and cotton yarn exports exhibited significant growth, assisted by the barter agreements with Eastern European countries (El-Haddad 2005, 30; Mabro 1975).[9] One grave challenge that Nasser's regime had to overcome (as did Sadat's and Mubarak's regimes in the decades to come) was workers' mobilizations in these vast textile industries (Beinin and El-Hamalawy 2007).

At the inception of the Free Officers' regime, industrialization would be pursued through a "mixed system" comprising central planning and the participation of Egyptian businessmen (Tignor 1998, 87). While heavy industry development would be undertaken by the government, light industry was confined to the private sector (O'Brien 1966, ix). Accordingly, the regime cultivated close relations with businessmen and introduced a series of investment incentive laws (Baker 1978, 49). Until 1956, there was no indication that the Egyptian ISI would be completely state dominated.

B. Pan-Arab Nationalism

[9] Nasser's regime also supported the textile industry by assuring the provision of cheap cotton inputs (Waterbury 1983, 86).

Despite Nasser's stand against foreign imposition, both the U.S. and the Soviet Union supported Egypt's industrial plans up to 1955, as the country required foreign assistance in order to proceed with industrialization. The U.S. was content with the new regime's stance on domestic issues and the fact that it was hampering the spread of communist influence (Hahn 1991, 180). Moreover, although the U.S. had been consistently promoting free trade after the Second World War, it was also accommodating national economic development in several parts of the world. On his part, Nasser pursued the diversification of economic assistance as a hallmark of the country's independence (Dessouki 1991). Egypt was also important to the U.S. for its key role in the Arab-Israeli conflict and in attempts to contain it.

On the international front, Nasser materialized his quest for independence through participation in the Bandung Conference in 1955 and subsequently in the Non-Aligned Movement. Egypt's leading role in the Non-Aligned Movement (NAM), as well as its neutralist stance with regards to the cold war, reaffirmed Nasser's local and regional prestige (Prashad 2007, 87). However, this pivotal role that the country played in the Movement soon alarmed the U.S. (Hahn 1991, 189; Prashad 2007, 169).[10]

The promotion of Pan-Arab nationalism was instrumental for Nasser's regime and greatly determined the shape of its economic plans. In 1948, the Declaration of the Establishment of the State of Israel had fuelled Pan-Arab nationalism. (Ayubi 1995, 142).[11] Using its considerable appeal and the spread of its message through the 'Voice of the Arabs' radio, the Egyptian regime was able to set the tone against Israel in the Arab world (Talhami 2007, 202). This elevated Egypt's political importance in the

[10] The Eisenhower doctrine in January 1957 was an effort not only to stop Soviet expansion in the Arab world but to also halt Nasser's primacy (Yaqub 2004, 27).

[11] The 1948 war was a formative experience for the Free Officers (Kazziha 1985).

Arab-Israeli conflict even further. Secret talks for the resolution of the Palestinian issue were initiated by Britain and the U.S. in 1955, on the basis of land concessions and compensations but not repatriation for Palestinian refugees. Although Israel and Egypt pursued the talks as a way to attract U.S. assistance, the plan, known as project Alpha, was aborted in the beginning of 1956 (Yahel 2016). The failure of the project was to a large extent the result of British determination to bring about Nasser's fall, because British economic interests were being undermined by the regime's policies (Shamir 1991).[12] The Gaza raids (an Israeli military attack on the Gaza strip in early 1955) at a time when the 'Bagdad Pact', i.e. the military alliance between Britain, Iran, and Pakistan, was forming, resulted in shifting Egyptian priorities from the economy towards a military buildup (Cook 2011, 67).[13]

The events that followed are well known. Under the impending military threat, Egypt reached the "Czech arms deal" in 1955. The main reason for this marked turn to the Soviet Block was the fact that purchasing armament from the U.S. or Britain required Egyptian membership in the Baghdad pact (Mabro 1975). The arms deal was followed by the lifting of U.S. finance for the High Dam of Aswan in July 1956, a project that was paramount to the regime's aspirations for both agricultural sector development and generation of power for industrial use.[14] This retraction of U.S. financial support in June 1956 was seen as a deliberate blow to Nasser's neutralism and

[12] Shamir (1991) also asserts that any agreement would have taken a heavy toll on Nasser's prestige, hence the falling through of project Alpha. Moreover, the Israeli side was insisting on direct and publicized talks (Bar-On, 1994, 132-33).

[13] Another effect of the Gaza raids was that the Egyptian regime started to openly support Palestinian militant attacks on Israel (Shlaim 1983, 188-189).

[14] Following the US's retraction of financing, Britain and the International Bank of Reconstruction and Development withdrew their offers to finance the Dam. For a discussion on the benefits of the High Dam and its eventual construction with Soviet financing and expertise, see Tignor (2012, 260-72) and Alterman (2002, 98-100).

his leadership position in the Arab world (Dessouki 1991). As a response, the Egyptian leader announced that the Dam would be financed through revenues generated from the recently nationalized Suez Canal. The Tripartite Aggression (by France, Britain, and Israel) that followed was halted by U.S. and Soviet intervention, but the crisis resolution was credited as a victory for Nasser's Pan-Arab nationalism (Yaqub 2004, 38).

C. Nationalizations and Land Reform

Nasser's regime intensified central planning after the Suez war. Nationalizations were the result of both the confidence the regime acquired and the mounting economic influence of the Eastern Block and China (Owen 1991). The economic turn to the communist countries was also owing to the exclusion of Britain as a trading partner, particularly after the Suez war (Mabro 1975). Communist Eastern Europe and China were receiving increasing Egyptian exports (which reached almost fifty percent of the total sum of Egyptian exports in 1958), mainly within the framework of barter agreements (Mabro and Radwan 1976, 227).[15] In January 1957, the Egyptian regime undertook the nationalizations of British and French banks and industrial and commercial companies as part of a drive towards "Egyptianization"; however, the regime was in reality capturing the moment in order to engage foreign financial institutions in its industrialization plans (Vitalis 1995, 217).[16] Thus, contrary to the regime's pledge to transfer the nationalized assets to private Egyptian businessmen, the

[15] Although Egypt exported manufactured products to the Soviet Block, as part of the barter agreements it also exported lightly transformed products (such as cotton yarn) in exchange for manufactured products (Mabro 1975).

[16] The quest for industrialization followed the dictates of the theory and practice of the time. State control of the banking system was a way for a government to provide access to resources for hand-picked upcoming industrialists and to facilitate state direction of the industrialization process. Particularly for the case of South Korea, see Amsden (1989).

Economic Organization (which was created to manage resources and investment) retained the assets and formed the basis of an all-encompassing public sector (O'Brien 1966, 95).[17-] The nationalizations were justified on the basis of economic necessity, as the regime believed that businessmen could not make the necessary investments (Hansen and Marzouk 1965).[18]

The prelude to the sweeping nationalizations of 1961 took place in 1960, with the nationalization of the National Bank of Egypt and Bank Misr and its enterprises. The latter had remained in strict accordance with the state's plans since its inception (Davis 1983, 204-205); nevertheless, the regime's rationale was to fully incorporate the Bank's assets in government economic plans, just ahead of the implementation of a comprehensive five-year plan (Hansen and Marzouk 1965, 20).

With the "socialist" laws of June and July 1961**,** the state appropriated (in part or in whole) all joint stock companies except for a few large foreign firms, and prohibited investors from owning more than a set amount of stocks. In many cases, however, the existing managers remained on the nationalized company's board (Mabro and Radwan 1976, 68).[19] This sweeping wave of nationalizations ensued following the dissolution of the short-lived United Arab Republic (UAR) with Syria (1958-1961).[20] The regime's fear of political enmity from businesses (which Nasser believed to be the reason behind the dissolution of the UAR) may be one way of interpreting these

[17] Increasingly from 1955 onwards, the regime employed a rhetoric that attacked and disparaged private business as incompetent "monopolistic capital" (Vitalis 1995, 208).

[18] Just before the 1956 war, the government created the Ministry of Investment and appointed Aziz Sidqi, a strong supporter of central planning, as its head.

[19] However, managers and appointed directors likewise retained limited room for managerial initiative, which constituted a severe impediment to the companies' productivity (Baker 1978, 175-180).

[20] For more information on the UAR dissolution, see Kerr (1971, 1-13).

sequestrations (Hottinger 1968, 119). Although the regime presented private investment deficiency as the reason for the nationalizations, investment failure was, to some extent, the result of the suspicion raised within the private sector from the first wave of nationalizations (Tignor 1998, 94, 175).[21] The political persecution of businessmen, that had started a while earlier, intensified with the collapse of the UAR. The sequestrations continued until 1964 with the nationalization of parts of firms that had remained private and companies in sectors such as pharmaceuticals which had not been previously affected (Beattie 1994, 175). In the effective dissolution of the private industry, one striking exception was that of 'Arab Contractors', a company owned by Osman Ahmad Osman, which (although nationalized in 1961) was allowed to function as a private firm (Baker 1990, 18). Space was also allowed for private business in the import sector. In 1957, Law 24 stipulated that commercial agents in the import-export trade must be Egyptian nationals; a large number of wealthy local entrepreneurs where thus motivated to become import agents (Abdel Malek 1968, 108). This group of businessmen could amass immense wealth, at a time when industrial programs necessitated imports (El-Tarouty 2015, 4). In industry space for private business endured only in land ownership and very small manufacturing.

Since the Second World War, land reform was a pressing issue in several countries including Egypt, closely associated with the urgency to both alleviate rural poverty and transfer the agricultural surplus to industry.[22] The first wave of Egyptian land reform that began in September 1952 offered the new regime ample legitimization.

[21] By 1961, all large spinning and weaving companies and even smaller garment facilities had been nationalized, while only some manufacturing entities in garments finishing remained private (Tignor 1998, 187).

[22] Limiting the power of rich landowners was imperative on an anti-colonial premise. Big landowners were allied with the colonial forces and obstructed rural and industrial development (Gerber 1987).

The most important of the provisions it introduced was the prohibition of ownership of more than 200 feddans per person (Beinin 2001, 132).[23] In 1961, the maximum allowed ownership was lowered to 100 feddans. However, the land reform effected limited land redistribution to poor farmers (Bush 2002). On the contrary, the major beneficiaries of the reform were middle and rich peasants who bought excess land from rich landowners (Abdel-Fadil 1975, 49).[24] A series of imposed measures, such as promoting supervised farmers' cooperatives and forced deliveries in order to create an agricultural surplus that would be channeled to the industry, foundered, as rich peasants mainly increased consumption (Abdel-Fadil 1975).

The land reform exemplifies the inconsistent social impact of the economic reforms. The regime's commitment to advancing living conditions and to detach Egypt from foreign dependence won over the poorest classes as the main source of support for the new regime (Amin 1995, 121). The improvements made substantial headway in terms of education and health provisions. However, the failure to promote the political participation of the rural poor underlined the limits of this social transformation, as showcased in the Khamshes affair. In 1965, the peasants of the Khamshes village in the Nile Delta rose up against the power of big landlords, but they were hindered and let down by the Authorities (Ansari 1986).[25] In both rural and urban areas, improved living conditions were provided to the population in exchange for abandoning political

[23] One feddan equals 1038 acres.

[24] Rural poverty rates fell from 56 .1 percent in 1950 to 23.8 percent in 1965; however, poor and landless farmers benefited the least, and mainly from health and education provisions (El-Ghonemy 1999, 11). Poor peasants saw their income condition worsen in the years that followed because of the limited land distribution, which was very far from keeping pace with population growth (Abdel Fadil 1975, 117).

[25] This case also demonstrates the conflicting public perceptions of the Nasserist regime and the expectations shared by peasants and several members of the ruling party that it would serve as an uncontested protector of the poor. See also Binder (1978).

participation (Shenker 2016). “Emergency Law”, declaring a constant state of emergency and thus granting the government extraordinary powers, was introduced in 1958. The regime had previously blocked efforts to establish a national labor federation, partly because of the continuing appeal of the left in existing textile unions (Beinin 2015, 18). A workers’ confederation was established in 1957 under the relentless control of the regime (Posusney 1997, 58-64). The limited land reform and the creation of a new middle class alongside the vastly expanding public sector and bureaucracy created a setting in which such a wide project of social transformation, where poor farmers and workers would participate more actively in the political and economic spheres was impossible to achieve.[26]

D. A Mixed Picture of Performance

Examining late development in Latin America between 1940 and 1960, Gulliermo O’Donnell (1973) found an intrinsic link between ISI and the rise of authoritarian rule. He argued that late developers, beyond a first phase of undertaking “easy” import substitution by producing consumer goods, needed high rates of investment in order to proceed with the establishment of the input industrial sector (what he calls “deepening"). In alliance with the upper ranks of rich and foreign capital, these late developers accumulated capital by employing authoritarian measures against society in order to suppress labor demands. O’Donnell’s thesis has been widely debated due to the link it draws between late development efforts and authoritarianism. In response to O’Donnell’s work, Hirschman (1979) argued that an “exuberant” phase of import substitution is indeed associated with ISI where newly independent states are

[26] The lack of social transformation during the Nasserist regime is analyzed by Samir Amin in a book he wrote under an alias (Riad 1964). He particularly emphasizes that, with the expansion of the public sector, the bureaucratic petite bourgeois became the new ruling class.

concerned. In the "exuberant" phase, developing states find that "all is possible", thus placing very high goals for the development of all sectors (67). This phase results in imbalances, such as balance of payments deficits, and the state subsequently suppresses social demands for wage and welfare increases. Hence, political repression can occur in the process of economic reform, without necessarily being associated to "deepening."[27]

Applying the Hirschman/O'Donnell framework to the case of Egypt, Waterbury (1983) finds that the "easy" phase of ISI took place from 1930 to 1952; after 1956, accumulation was carried out through Nasser's nationalizations (10). While to some degree the regime pursued a redistribution of wealth, its authoritarianism resulted from the incompatibility between investment increase and the continuation of its redistribution effort. In particular, this incompatibility created a balance of payments deficit which fostered dependence on outside forces (Ibid.11).[28] Indeed, the Egyptian external deficit was financed through concessional loans from the U.S. until 1965 and from the Soviet Union from 1965 until 1972 (Korany and Dessouki 2010). Alongside developmental and military aid, the U.S. also had a crucial leverage over Egypt in the form of providing wheat on concessionary terms from 1954 to 1965.[29] As a result, the withholding of this aid in 1965, as a response to Egypt's support of the Yemen Revolution, was a severe blow to the country's economy (Hahn 2005, 44).

The first five-year plan (1960-1965) set high goals which were declared successful, with GDP growth of 5.5 % per year and a significant rise in manufacturing

[27] Another central argument in Hirshman (1979) concerns the existence of multiple causes of authoritarianism. For example, authoritarianism in Latin America was backed by the US after the Cuban revolution in 1958.

[28] See also Vitalis (1996) on the connection between ISI policy and external dependence.

[29] Between 1954 and 1963, the US exported part of its grain surplus (amounting to $643 million) to Egypt, largely covering the grain needs of Egypt's urban population. This was done on concessionary tems, as part of the "food for peace" program (Wickwar 1965, 189).

exports (Waterbury 1983, 89).[30] However, GDP growth collapsed in the following four years. The second five-year plan was cut short because of Egypt's participation in the Yemen civil war (1962-1967) and the 1967 Arab-Israeli war debacle. The Yemen war became "Nasser's Vietnam" as Nasser's regime was held captive between the need to maintain its prestige and its anticipation of imminent victory in Yemen (Rogan and Aclimandros 2012, 149).[31]

In the 1967 war with Israel, Egypt along with Jordan and Syria were subjected to a devastating defeat with an enduring economic and political impact. Among the immediate economic effects for Egypt, the closure of Suez Canal and the loss of the Sinai oil fields were particularly consequential (James 2012, 78). Not only was the financial burden of the war extraordinary, but the onset of détente between the main rivals of the cold war meant that Soviet aid was diminishing (Baker 1978, 88-89). The war constituted a means of pressure for direct negotiation and normalization of relations with Israel (Quandt 1992, 198) although it also crystallized the rhetorical solidarity to the Palestinian cause by Arab regimes (Cook 2001, 96).

Defeat in the 1967 war dealt a heavy blow to Nasser's Pan-Arab nationalism, but fostered Arab resentment in the long term (Prashad 2007, 188). [32] Following the 1967 war, the Egyptian regime was intent on reclaiming Sinai and in March 1969, the "war of attrition" broke out. Egyptian strikes on the Sinai were intended to make Israel pay a high cost for the Sinai occupation and to force a political intervention, particularly

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[30] A non-comprehensive industrial plan was announced in 1957, according to which the private sector was expected to contribute three fourths of the investment (Tignor 1998, 181).

[31] Nasser agreed to withdraw his troops from Yemen in November 1967 in exchange for Saudi aid (Ferris 2012, 298).

[32] Arab nationalism continued to set parameters that Arab regimes would be "loath to transgress" (Dawisha 2009, 282).

from the U.S. (Hahn 2005, 55). However in the wake of the June War, Egypt also agreed in effect to recognize Israel within its 1967 borders and accepted the UN led peace diplomacy of Swedish diplomat Gunnar Jarring, followed by that of American Secretary of State William Rogers. While the resolution of the Arab summit on 1 September 1967 in Khartoum declared the "Three No's" towards Israel (regarding negotiations, peace, and recognition), in November 1967 the Arab states accepted UN resolution 242, which stipulated for the recognition of Israel to follow Israel's withdrawal from the territories captured in the 1967 war.

Egypt's peace strategy deepened the regime's alienation from the Palestine Liberation Organization (PLO), not only because the PLO put forward the goal to reverse the 1948 displacement of the Palestinian people, but also because, by then, it had adopted a military approach (Khalidi 2012, 274). In the 1960s, Fatah presented a competing claim of representing the Palestinian cause, the latter gaining increasing legitimacy amongst Palestinians and the Arab world due to its militancy and its insistence on "independent Palestinian decision" (Khalidi 2006, 141; Pearlman 2012).[33]

In Egypt, the 1967 war accelerated a tendency to resolve economic hindrances through a renewed accommodation of business, as opposed to deepening social transformation (Halliday 1987). As early as 1965, the need for policy reorientation was evident, particularly due to the balance of payments deficits. The policy change was however taken up decisively only after the 1967 defeat (Baker 1978, 89).[34] The 30

[33] Although the majority of Palestinians held out hope that Nasser's anti-imperialism would be the force that could liberate them, the Palestinian population in Gaza and Egypt who were more in touch with the Egyptian regime could comprehend the limitations of this approach (Brand 1988). For the divergence between the Movement of Arab Nationalism (that supported the Egyptian sponsoring of the Palestinian cause) and Fatah, see Baumgarten(2005).

[34] In 1970, the current account deficit was 6% of GDP; however, this lowers to 0.5% when official assistance is taken into account (Ikram 2006, 119).

March 1968 program was a remarkable departure from socialist laws, providing a broad scope for private activity (Cooper 2013, 44-46, 56).

E. Conclusion

In discussing the economic achievements of Nasser's regime, a basic distinction can be drawn between the significant efforts for industrialization and the inefficiencies of the vastly expanded public sector. Accomplishments in the areas of economic development and foreign policy (particularly the 1954 agreement with the British and the nationalization of the Suez Canal) are at he heart of Nasser's continuing legacy.

The public sector displayed severe dysfunctions and was overburdened, consuming a large portion of government expenditure (Ayubi 1980). On the positive side, Nasser's ISI vigorously pursued transformation towards the manufacturing industrial sector (Amin 1995, 122; Hinnebusch 1985, 27). The share of manufacturing in GDP increased from 14% in the late 1940s to 35% by the time of Nasser's death in 1970 (Osman 2010, 48). The first five-year plan was an effort to advance all manufacturing sectors and included attempts at export promotion; indeed, the industry grew by 9% annually and employment rose by 22% between 1960 and 1965 (Farah 2009, 34).

Nasser's regime placed a high priority on the manufacturing industry, in a time when foreign assistance was largely available; however, it is also during this period that the foundation was laid for the emergence of future problems. The vast public sector and balance of payments deficits, which had to be financed by external assistance, accentuated the country's economic dependency. Furthermore, the nationalizations failed to promote industry transformation. By excluding foreign and local manufacturers through the first wave of nationalizations, the state created voids of economic activity to be filled, instead of directing investments to new manufacturing sectors (Owen 1991, 374). Subsequently, the Economic Organization continued focusing on the textile sector instead of investing in innovative industries (Mabro and Radwan 1976).

One of the most consequential features of this period was the exclusion of businessmen from the manufacturing scene. The extensiveness of the nationalizations not only placed substantial pressure on the public sector but, in view of the need for reorientation, affected the Egyptian businesses’ ability to bounce back in the following years.

CHAPTER III

INFITAH

The change of economic course that had begun in 1968 for Egypt from state-led import substitution, continued after Anwar Sadat was confirmed as president in 1971. The change was however only consolidated after the 1973 war with Israel, which also served to restore Egypt's relations with the U.S.. In these times of economic opening (Infitah), the manufacturing sector continued to be a declared priority; however, the manufacturing export problem now centered on the comeback of private business and the nature of business-state relations and of foreign investment. The Peace Treaty between Egypt and Israel in 1979 constituted a separate peace and for this reason endeavored to satisfy the demand for normalization by attempting to establish closer and more stable relations on an official and social level between the two countries.

With the Rogers Plan in 1969 Nasser in practice began to adhere to U.S. led peace policy. For many Egyptians, the Plan was an effort to pressure Egypt into a separate peace, while from the U.S. side it was perceived as an attempt to establish the U.S. as an impartial mediator in the Arab-Israeli conflict (Daigle 2012, 49). Because the plan was based on UN Resolution 242 and demanded return to the 1967 borders, it was rejected by the Israelis (Stein 2002, 60). By Israeli standards, the returning of any land to Egypt could only be attached to full peace and normalization (Quandt 2005, 65).

It was the October 1973 Yom Kippur war sparked more ambitious U.S. efforts to take the reins in the peace process. In fact, according to the most influential narrative regarding this military engagement, the war was primarily intended to invite U.S. involvement and break the stalemate between Israel and Egypt (Stein 1997, 299). Prior to the conflict, the Gulf States had taken ownership of oil sources; thus, they occupied a prime position in meeting the expanding oil demand of the 1970s and generated enormous revenues (Hanieh 2010a, 43). In the wake of the Yom Kippur war, a temporary boycott by the Gulf countries against western countries raised the price of oil. This launched the era when oil wealth would play a substantial role in the Middle East.

A. Economic Opening and Turn to the U.S.

In October 1973, Anwar Sadat convened the Egyptian Security Council and explained that the economy had reached "point zero", declaring a severe economic crisis (Hinnebusch 1985, 61).[35] The solution promoted by Sadat was Law 43 of 1974 (also known as the Infitah law), which aimed to help overcome the economic deadlock and enhance the manufacturing industry. The law liberalized imports to a large extent and encouraged private sector investment of a preferably self-sustained and export-promoting nature, providing advanced investment incentives (such as tax exemptions) for a considerable period as well as guarantees against future nationalization (Waterbury 1983, 127).[36] Arguably the law implied the replacement of state-directed development and import substitution policies with a more capitalist-friendly approach.

Infitah was directly linked to a political alliance with the U.S..[37] Some of the interpretations regarding Sadat's decisive turn to the U.S. center on his prioritizing the

[35] The proclamation of an economic crisis in itself raises the demand for greater private sector participation (Moore 2004, 10).

[36] Anwar Sadat justified his policy on the basis of the Free Officers' original principles, wherein the private sector maintained a central role (Cook 2011, 35).

[37] Egypt's turn to the US under Sadat's rule was preceded by the ousting of soviet Experts in 1972. It was, however, mainly with the cancellation of the Friendship and Cooperation treaty in 1976 that the

liberation of the Sinai peninsula and his acknowledging that only the U.S. was able to mediate territorial disputes (Stein 2002, 631). In the framework of détente, inviting U.S. mediation required a complete political turn to the U.S. Waterbury, on the other hand, interprets the turn primarily based on the economic dilemmas at hand and the need to attract investment (Waterbury 1983, 127). Another explanation underlines the Egyptian regime's need to reinforce business as a base of power in a "post-populist alliance", at a time when the economic redistribution that had been undertaken by Nasser was no longer feasible (Hinnebusch 1985).[38] Egypt was in any case a pivotal state in the Middle East, but its importance had been particularly elevated during Nasser's era, predominantly due to his regional appeal. Sadat's willingness to negotiate with Israel crystallized the strategic importance of Egypt for the U.S. because of its sharp contrast to Nasser's position of Egyptian led Pan Arabism (Shama 2014, 156).

Sadat's determination to turn to the U.S. was emboldened by the fact that neither this alliance nor his will to achieve a separate peace with Israel resulted in Egypt's complete isolation from the other Arab states. This was especially favorable for Egypt, as one of Infitah's objectives was to profit from the "panacea" of oil wealth (Ayubi 1982, 350). Although Arab assistance diminished as a result of the peace treaty with Israel, this loss was compensated not only by U.S. financial aid but also from Saudi and Kuwaiti real estate and construction investment (Weinbaum 1985, 214) Most importantly there was a considerable immigration wave to the Gulf States and Iraq of both unskilled and educated Egyptian workers; the migration of the latter, in particular,

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discontinuation of economic relations with the Soviet Union became more definite. This rupture constituted a precondition laid down by the Golf Organization for the deployment of economic aid to Egypt (Hanieh 2013, 31).

[38] Moreover, Kazziha (1979, 87) underlines Sadat's decisiveness to base foreign policy on the economic interests and social aspirations of the rising bourgeoisie.

had a negative effect on the Egyptian industry where soon a lack of skilled employees became apparent (Hansen and Radwan 1982, 141).

B. Regime-Business Relations

The businessmen who benefited from the economic opening became the main source of support for Sadat's regime. The Infitah law introduced joint ventures with the public sector and proliferated state contracts. The channels that were created for the acquisition of contracts and for import opportunities brought great wealth to a restricted number of businessmen within a short period of time. (Hinnebusch 1985, 144-145). Consequently, the new upper class that emerged was dependent upon the regime and its contacts in order to increase their fortune (Richards 1984, 332). In other words, the economic opening did not alter the reality of a state-controlled economy while creating a class of rent-seekers and regime cronies who fattened on it (Kirk 2000, 141).

The way in which business returned to the economy and the incentives provided by Infitah were crucial factors in the subsequent appearance of the manufacturing deficit. New businessmen as well as repatriated ones (who had fled during the Nasser era) primarily invested in the trade, real estate, and banking sectors, in addition to acting as commercial representatives of foreign companies and importers of luxury consumer goods (Gillespie 1984, 118). Since the law required that imports to Egypt be channeled through locals, there was significant room for profit for Egyptian commercial agents. (Zaalouk 1989, 11-12). The expatriate capital from Egyptians working in the Gulf countries was also predominantly funneled into the same activities in the hopes of quick gain (Gillespie 1984, 119). Moreover, private banks were ill-inclined to make loans to manufacturing industries (Henry.1986, 641). At the same time, the economic assistance that reached Egypt provided channels of benefiting the commercial undertakings of particular businessmen as opposed to the manufacturing business (Weinbaum 1985).[39] Finally, Arab investors shied away from long-term investment and sought quick profit in such sectors as tourism and real estate (Gillespie and Stoever 1988).

Businessmen acquired the power to lobby through institutionalized channels. The Federation of Industries attained an important institutional role and was able to set, together with the state, the economic framework for business operation (Aoude 1994, 3). Alarmed by the hike in the import of luxury items by the end of the 1970s, the Federation of Industries allied with public sector managers and lobbied for tax exemptions and the maintenance of import tariffs on particular items as a necessary step for investment mobilization (Hinnebusch 1985, 145-48).[40]

Despite the enhanced role of the wider business sector, it was primarily a small number of big entrepreneurs in Sadat's close circle whose interests were ultimately served. Most notable here was Osman Osman who had already increased his fortune substantially and acquired immense influence during Nasser's rule. He systematically blurred the lines between public and private, for example through undertaking public projects which directly benefited his companies over other private firms (Baker 1990, 18).

C. Peace Treaty, "Cold Peace", and Normalization

[39] US economic aid to Egypt resumed in 1975. For the most part, it was channeled through the Commodity Import Program (CIP), which sought to finance commodity imports to Egypt from the US. This program facilitated the establishment of strong links between the private bourgeoisie and foreign capital, to which the CIP acted as a strong incentive to export to Egypt and appoint commercial and marketing representatives (Zaalouk 1989, 80-81).

[40] While on the whole most state company managers were alarmed by the competition from the new private sector, several of the state sector's higher officers moved to the private sector while some others benefited through facilitating private sector dealings with state companies (Kirk 2000, 76).

The 1979 Peace Treaty between Egypt and Israel was essentially a separate peace and therefore dictated a normalization of relations. Sadat's regime had actively promoted the idea of a peace agreement with Israel in the aftermath of the 1973 war; this had taken the form of a public campaign that connected Egypt's economic problems with its involvement in the Palestinian cause and espoused Egyptian nationalism versus "Nasserite Arab identification" (Talhami 2007, 234). The lead-up to the Peace Treaty marked the first ever official bilateral negotiations between Egypt and Israel. The groundwork for a separate peace agreement was laid through the step-by-step diplomacy dictated by the U.S. Secretary of State Henry Kissinger immediately after the October 1973 war (Hinnenbusch 2002, 105). In November 1977, when a multilateral peace conference was being prepared, Sadat made his historic visit to Jerusalem and addressed the Israeli Parliament (Stein 2002, 8, 264) Up to this point in history, Egypt had been in a conflict with Israel in the context of anticolonial struggle; now, and though in his speech Sadat referred to the need for justice for the Palestinians, the processes of the Peace Treaty marked a transition to the «land for peace» principle, whereby peace would be granted on the condition that occupied land would be returned to Egypt. The Peace Treaty also signified the monopolizing role of the U.S. in Arab-Israeli peace negotiations in the years to come (Lesch D. 2001, 91).

The issue of normalization of relations with Israel became pressing because it was a term of the separate peace. In his personal account of the Peace Treaty negotiations, the Minister States for Foreign Affairs at the time Boutros Boutros-Ghali describes Sadat's painstaking attempts to achieve a face-saving formula on the Palestinian issue to avert a public reactions disaster (1997, 161). However, Israeli negotiators took fro granted Sadat's potential for going against Egyptian popular will

(Ibid. 207).[41] The Treaty included a clause of "starting talks on the Palestinian autonomy" that rang hollow: On the one hand, it was clear that any demand for a commitment from the Israeli side to Palestinian rights was an obstacle for Israeli disengagement from Egyptian land (Nemchenok 2009, 604). On the other hand, when the peace treaty was concluded, Israel lacked the motivation to address the Palestinian question (Quandt 2005, 242). On the eve of the agreement, Israeli Prime Minister Menachem Begin declared that Israel would intensify the construction of settlements in the Occupied Palestinian Territories and would not accept autonomy for the Palestinians in any way (Ibid. 208).[42] Consequently, it was clear by this time that the Israeli and U.S. side was pursuing a partial (as opposed to comprehensive) peace.

Remarkably, normalization was expected to continue in the face of increased aggression from the Israeli side. In the aftermath of the agreement, Israel escalated its settlement construction in the Occupied Territories, and proceeded with the bombardment of the Iraqi nuclear plant of Tamuz in 1981. Furthermore, Israel's annexation of the Golan Heights and East Jerusalem in 1980 and, most importantly, its invasion of Lebanon in 1982 were clear signs that the Peace Treaty encouraged Israeli aggression (Lesch D. 2001, 86). On the contrary, if the Egyptian side did not go forward with the normalization, this would be understood as a breach of the agreement (Aulas 1983, 221). As a result, the regime resorted to a political maneuver, keeping official

[41] There was another important reason for the willingness to go against the popular will that denabded justice for the Palestinians. The struggle for Palestinian independence presented a serious problem for Arab regimes and Egypt, mainly because it greatly appealed to the people (Owen 2004, 68).

[42] A few months before the Peace Treaty, Prime Minister Yitzhak Rabin had also stressed the importance of the settlements to Israel's security, particularly since they could be used as leverage during the peace negotiations (Lesch A.M. 1983, 34).

contacts to a minimum while on the surface abiding by the peace agreement (Stein 1997, 317).

The Treaty compelled Egypt to abandon the Arab boycott against Israel. The boycott in its primary as well as its secondary and tertiary forms (i.e., against companies that have dealings with Israel) had been persistently opposed by both Israel and the U.S. (Feiler 2011, 130-155). After the Camp David Accords, Egypt had to cope with the political boycott imposed by the other Arab states at the 1979 Baghdad Summit in response to the Treaty; however, this exclusion was not absolute in economic terms.

As stipulated in the Peace Treaty, the Trade and Commerce Agreement between Egypt and Israel (which was signed in May 1980) would open Egyptian public sector contracts to Israeli companies; the two countries had to grant each other Most Favored Nation status (Arad Hirsh, and Tovias, 1983, 145). In what became the most stable economic arrangement between Egypt and Israel, the Treaty states that Egypt should provide oil to Israel for one year at a reduced price and at world prices thereafter. For Israel, the advancement of economic relations amounted to a political fixation. Economic cooperation was mainly an attempt to use Egypt as a catalyst for the regional acceptance of the Jewish state and for its "ideological legitimization" by the whole of the Arab World (Beinin 1985, 6).[43] Arguments that promoted economic cooperation as a means of solidifying peace excluded the demand for a regional settlement. For example, in an early idea that resembles the notion of QIZs, Arad, Hirsh, and Tovias (1983, 155) proposed the establishment of Israeli textile free zones in Egypt for enhancing cooperation and peace, using the initial form of the European Union Steel and Coal as an exemplar.

[43] Muhammad Sayyid Ahmad has been the most renowned Egyptian writer to support the economic cooperation as a conduit to stabilize peace with his book 'When the Guns Fall Silent' (1976).

The Egyptian regime tried to create the impression that they were minimizing relations with Israel. An Israeli diplomat recounted that in the years following the peace Treaty “the only Egyptians who were interested in maintaining normal relations with the Israelis were the businessmen and industrialists . . . however their plans were hindered by the Egyptian authorities” (Dowek 2001, 75).

D. Economic Outcomes

Within a short period of time, the incongruity of Infitah became obvious. By 1978, nominal growth was 8%; however, the fiscal and employment deficits lingered (Abdel-Khalek 1981, 407; Owen and Pamuk 1998, 135)**.** Between 1974 and 1990, Law 43 projects contributed a mere 1.5% of total employment (Farah 2009, 40). Industry did not take the lead - as had been planned - in the country's economic expansion; much of the rapid growth of GDP related to the banking and service sectors. The loss of public investment in manufacturing was not offset by private investment. Manufacturing received only a fourth of the total investments and its share in total investments fell from 28% in 1974 to 22.7 % in the 1980s (Amin 1995, 92, 97). Foreign direct Investment (including U.S. investment) was scarce and concentrated in petroleum exploration and banking (Gillespie and Stoever 1988). The high inflation, averaging an annual 25-30%, was connected with the hike in imports, and the trade deficit almost doubled in the years between 1975 and 1985 (Farah 2009, 39-40). The increase in inflation bred frustration over economic and political choices and played a significant role in the escalation of social protests during that period.

Import liberalization proved detrimental for the Egyptian textile companies because they limited their internal market at a time when exports of textiles had become stagnant by the end of the 1980s (Amin 1995, 88). After 1966 (and particularly from 1970 to 1974), the export of textiles to the Eastern Bloc had increased (Mabro 1975). Thus, after the abrogation of agreements with the Eastern Bloc countries, textile firms were threatening to close down (Waterbury 1983, 398). The Egyptian textile sector produced 27% of industrial value added in the early 1970s, but it was underperforming as it was using subsidized high-quality Egyptian cotton for low-quality woven goods (Owen and Pamuk 1998, 141). Also Egyptian textile production scarcely utilized foreign inputs; and there was a limited international market for the final products due to rising protectionism in Europe and the U.S. in the end of 1970s decade (Amin 1995, 99). This was an important factor behind the continued protection of the textile sector. We can juxtapose this policy to the developments in the food sector, where, in the name of food security, goods were imported duty free; this was on top of the food aid which was flowing into the country (Owen and Pamuk 1998, 181).

E. Social reactions

The growing inflation and social disparities which were connected with Infitah as well as the Peace Treaty with Israel gave rise to significant social unrest during this period. Key events included the Mahalla al Kubra public textile factory strike in 1975, where textile workers raised economic demands and expressed their distress over the economic shift away from the public sector (Beinin 2001, 157). But the majority of people also found their situation deteriorating, which predisposed them to oppose Sadat's new political direction, whether it concerned increasingly liberal economic policies or initiatives for peace with Israel. This opposition culminated in the massive January 1977 bread riots (Haykal 1983). The riots were sparked by the removal of subsidies on a number of basic goods as demanded by the IMF. The threat posed to the regime by a popular mobilization of this magnitude prompted greater caution in the implementation of economic reforms thereafter. In contrast to what took place in other developing countries, the Egyptian regime was able to slow peddle on austerity measures without serious repercussions by the IMF (Harrigan, Wang, and El-Said 2006). It was in the context of "dilatory reform" that the Egyptian regime was allowed certain flexibility in meeting economic liberalization demands (Richards 1991)

The popular reactions against the Peace Treaty with Israel were overwhelming. Particularly during the Israeli invasion of Lebanon in 1982, Israeli actions "crystallized a hostile Egyptian national consensus around the peace treaty", and daily demonstrations took place against the U.S. and Israel (Beinin 1985, 6).[44] When Hosni Mubarak became president after Sadat's assassination in 1981, there was for some time a sense that his regime was working to achieve a discontinuation of normalization and a return to the rhetoric of Pan-Arabism; however, soon enough it became obvious that nothing had changed in either internal or external affairs (Amin 2011, 5).

The Peace Treaty with Israel was a vital part of Egypt's efforts to overcome its economic problems, because it precluded the possibility of war and ensured economic and political support on behalf of the U.S.. Official and social normalization was something that the Treaty demanded but which the Egyptian regime could appear to resist, exercising a "cold peace". The Treaty and its normalization requirement was intended not only to promote the legitimization of Israel but also to relieve it of pressure to secure Palestinian rights, due to the fact that it was a separate peace This development was key in raising Egypt's profile with the U.S. particularly because it

[44] The Muslim Brotherhood was becoming prominent in the rallies that took place, which (with the exception of street demonstrations particularly in the Rafah area close to the Gaza border) were generally well-tolerated by the regime (Ibrahim 1988, 37).

indicated a disengagement from Nasser's nationalist policies. This political importance was in turn consequential in enabling the dilatory reform which resulted in Egypt's manufacturing deficit. The nature of the new regime, which continued under Hosni Mubarak with a narrowed power base, was interested in stabilizing and protecting the privileges of the beneficiaries of Infitah (Hinnebusch 1985), although social reaction also had to be taken into account for fear of a wide protest which could threaten the regime.

CHAPTER IV

SELECTIVE ECONOMIC LIBERALIZATION

While Egypt took up SAP reforms more decisively in the 1990s than in the 1980s, it still implemented them selectively. Although, in any case, neoliberalism was proceeding with remarkable divergence among different countries, and though political selectivity should indeed be a part of a country's industrial policy, in Egypt the application of the SAP was subject to the political interests of those in charge, as part of a broad range of policies that have subsequently been called "authoritarian upgrading" phase (Heydemann 2007, 1). Specifically, this term refers to the combination of accelerating neoliberalization and political measures aimed at securing regime stability that was dominant throughout the first decade of the 21st century. It is common knowledge that this period saw the political rise of big business in Egypt; what is less known is the assimilation of smaller industrialists into the ruling coalition mainly through trade protection. These processes became more pronounced with the taking over of economic policy by Gamal Mubarak and the appointment of Ahmed Nazif's government in 2004.

A. The Economic Problem in the 1990s

Egypt sided with the U.S. in the war waged against Iraq following the latter's invasion of Kuweit in 1990. In stark contrast to Hosni Mubarak's decision to align himself with the U.S. and Saudi Arabia, popular anger erupted over participation in the war (Lesch A.M. 1991, 39). The repatriation of migrant workers from mainly poor rural areas meant decreasing workers' remittances and exacerbated unemployment, even though some workers were offered jobs in Saudi Arabia (Henry and Springborg 2010, 36).

The war was a catalyst for the acceptance of the SAP by the Egyptian regime, particularly because it coincided with a substantial debt relief (amounting to $37 billion) from the U.S. and other donors. In the late 1980s, pressure had mounted for the acceptance of IMF guidelines, owing to the total public external debt that rose from $5billion in 1970 to $47.6 billion in 1990 (Amin 1995, 19). The astronomical debt relief granted in 1991 in return to joining the U.S. led coalition was to be granted in three phases, the last two connected with meeting IMF prescriptions; these conditions, however, were only partially met (Ibid. 20-21). Thus, in order to obtain the relief, Egypt was compelled to implement the International Financial Institutions (IFIs) program more steadily than in the previous years, albeit still with discretion due to the option of 'dilatory reform' and political maneuvering, i.e. the employment of the country's strategic importance in order to be granted concessionary terms (Richards 1991).

In the 1990s, a barrage of attacks from Islamist insurgents were dealt with by the regime through the use of military force combined with mass arrests and repression towards society as a whole (Ibrahim 1998). The regime's overall oppressive stance was an effort to secure the economic reforms against reactions from parts of society that had been negatively affected by them (Kienle 2001, 145). The goal of the Islamist insurgency was to undermine the Mubarak regime and its effort for economic development in particular, through spectacular acts of terror aimed at driving off foreign tourists (Kepel 1985, xi). The regime's ultimate success against the insurgents at the end of the decade resulted from a combination of military crackdown, international assistance, and the social isolation of militant groups (Gerges 2000). At the same time, the regime achieved a truce with the left, which prioritized an end to the bloody insurgency (Soliman 2011, 158).[45] As expected, the insurgency challenged economic development and the option to attract Foreign Direct Investment (FDI).

This period was characterized by the Egyptian regime’s effort to boost its importance in the Arab world by re-asserting the country’s independence and playing down its connections with Israel. Egypt’s reliance on foreign assistance (including food and military aid) increased, however a complete departure from supporting the Palestinian cause was impossible given popular public sentiment, which was further excited by Saddam Hussein's radical rhetoric (Lesch A.M. 1991, 49). The Egyptian regime aspired to play a leading role in the peace process that followed the Iraq war (Aftandilian 1993, 33-34). In 1994, Egypt launched a diplomatic confrontation, in the form of pressing Israel to sign the non-proliferation of nuclear weapons treaty (Hamdy 2000, 68). The Israeli government perceived this as an outright effort to halt Israel’s normalization (Rabinovich 2012, 211). Nevertheless, the Egyptian regime's commitments for closer collaboration with Israel were implemented gradually and diligently (Amin 2011, 144). The MIDOR oil refinery (the first joint venture with Israel in 1996) constituted a state initiative that featured highly connected businessmen, intelligence, and military officers (Rees 2014).[46]

In the 1990s, collaborations between Egyptian and Israeli businessmen were limited, though there existed a more indirect and concealed trade flow through third countries (Dowek 2001, 196). However, with the collapse of the peace process at the

[45] The official parties Tagammu and Wafd became attached to the regime in the early 1990s, and did not challenge it in any serious way in the following period (Albrecht 2013, 46; Trager 2013, 172).

[46] The project was a financial failure, since the prioritizing of political factors meant that economic viability was not properly accounted for; however, the prominent crony and MIDOR co-owner Hussein Salem was appointed to run the EMG project for exporting gas to Israel in 2000 (El-Tarouty 2015, 108).

end of the 1990s and Israel's threat to abstain from the meeting with Arab foreign ministers in Cairo in late March 1997 (Feiler 2011, 292), open business cooperation ceased, reflecting how business had been following regime choices all along (Shama 2014, 92).

B. The SAP Failure

The SAPs agreed between indebted countries and the IFIs in the 1990s were based on the Washington Consensus policy, which consisted of a set of economic liberalization and stabilization prescriptions professing to generate solutions for a variety of economic problems.[47] Adjustment policies were implemented in Egypt (as in other countries of geostrategic importance for the U.S.) with discretion, and from the onset the U.S. intervened affecting conditionality, despite the IMF's strict technocratic assurances (Momani 2004).[48] The program included a combination of macroeconomic stabilization and market liberalization measures, with particular emphasis on attaining economic growth and export advancement. More specifically, lowering trade protection was assumed to advance exports through resource reallocation, as the protected sectors would face increased competition and attract FDI (Cammett et al. 2015, 297).[49]

Inside the ruling NDP, the acceptance of the program raised controversy, which was resolved after assurances for security considerations, namely prohibiting

[47] The SAPs were associated with increased poverty and food insecurity (Bush and Martinelo 2017; Chossudovsky 2003).

[48] Harrigan, Wang and El-Said (2006) substantiated that geopolitical determinants (and not economic hindrances) weighed in on the conclusion of the agreement with IFIs in each specific country they studied.

[49] The financial crisis persuaded countries to embark on SAPs on the premise of emulating the South East Asia "tiger" export success; however, the prescriptions' combined set had little relevance to this case or indeed to other cases of successful exporters (Harvey 2005, 88).

Israeli companies from acquiring assets and obviating sudden changes which would trigger a social unrest reminiscent of the 1977 'bread riots' (Soliman 2011, 149). The process was also influenced by the regime's effort to eschew shock reform, which had brought on a near collapse of economies in Eastern Europe (Hinnebusch 1993, 164).

In Egypt, the SAP of the 1990s accomplished stabilization but failed to advance exports of manufactured products. The government claimed to have surpassed the goal for the budget deficit, which decreased from 20% of GDP in 1990-91 to 1.5% in 1995-6 (Abdel-Khalek 2001, 157). However, the remarkable deficit decline was mainly due to the imposition of a sales tax, which – along with the fluctuating price of the pound from 1992 onwards - increased general consumer prices significantly, if gradually (Soliman 2011, 155).[50]

On the structural part, the SAP led to a manufacturing export failure in the 1990s. Egyptian manufactured exports declined from 4% of GDP in 1990-91 to 3.3% in 1999-2000 (Galal and Fawzy 2003, 39). Substantial non-tariff barriers, such as import inspections or import bans, were partially abolished. However, trade protection was channeled into tariffs, a process that intensified when Egypt joined the WTO in 1995; in reality, this altered the form and not the level of protection (Ikram 2006, 143).[51] After 1991, traditional industries (such as textiles, clothing, and leather products) enjoyed the highest trade protection, impeding investment in new sectors (Galal 2008, 23).

Certainly, the export failure was related to demand factors. The global commodities demand in the 1990s was not only curtailed but already dominated by

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[50] On the national budget expenses side, the financing of security-important ministries remained undiminished; thus, the welfare component of the budget was severely hit (Soliman 2011, 45-47).

[51] Export promotion measures introduced in the 1990s included duty drawback, tax rebate, temporary admission schemes, and simplification of custom procedures; however, these proved to be inadequate for export motivation (Galal and Fawzy 2003, 38).

successful exporters in South East Asia and China, while Eastern European companies took over the European market with their export of textiles (Amin 1995, 95). At the same time, Egypt's interregional exports remained exceptionally low, at less than $188 million in 1992 (Handoussa and Kheir-El-Din 1998, 61).[52]

The manufacturing failure, however, can largely be ascribed to low investment. The interest rate increase that was prescribed by the IMF and the real appreciation of the pound indeed attracted funds but also discouraged manufacturing investment (Abdel-Khalek 2001, 158).[53] With bank liberalization and capital market reactivation, lending to the private sector increased; however, this was disproportionally directed to well-connected firms (Ikram 2006, 208; Roll 2010, 352).[54] An IFI-assisted bank bailout in the mid-1990s motivated the diversion of funds to real estate, away from other activities (Mitchell 2002, 275).[55]

The structural adjustment failure derived from (and was reflected in) the inefficiency of private investment to offset public investment decline. "Getting prices right", in IFI terminology, meant cutting subsidies and privileges from public sector

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[52] Ikram (2006, 102-22) finds that the non-oil manufacturing deficit has been Egypt's main economic problem, considering Egypt's exports did not keep pace with global trends and had low income elasticity, while imports had been growing since 1974 as a result of foreign aid.

[53] The global intensification of financial transactions constituted one of the main factors in the uneven spread of neoliberalism through the IFIs (Harvey 2005, 92).

[54] The case of Ahmed Ezz illustrates the significance of political access to finance for the transformation of a public monopoly to a private one. When the steel industry opened to the private sector, the amount of loans Ezz acquired through his political connections enabled his conglomerate, El-Ezz Steel Rebars, to control the majority of the steel market. This political connection and financial power elevated him to head of the NDP's political secretariat. He also effectively pressed for import restriction on steel, which was imperative in creating and maintaining his monopoly (Abdel-Khalek 2001, 319; El-Naggar 2009, 40).

[55] Harrigan, Wang and El-Said (2006) found that manufacturing depression and the move to non-tradables were the effects of the SAP in all Arab countries that applied it in the 1990s, with the exception of Tunisia, which marked some advances in manufacturing.

factories, while privatization and budget curtailment lowered public investment (Amin 1995, 93). The private sector, however, did not live up to expectations. Private investment declined from 17% of GDP in 1990 to 12% in 1997 (Henry and Springborg 2010, 142).[56] As in other countries, decreased public investment carried the weight of stabilization, leading to the devastating social consequences (such as escalating poverty and inequality) with which IMF programs have been associated (Bird 1996, 498). At the same time, it was businessmen in the protected sectors who were undertaking the relatively meager manufacturing investment, and the regime felt compelled not to abandon them (Hinnebusch 1993, 167).

While manufacturing exports were in decline in Egypt, privatizations were multiplying; the regime was praised by the IFIs and rewarded with extra finance, in an effort to ease social reactions (Pfeifer 1999).[57] The regime could exercise discretion on the pace of privatizations, which evolved into one of the main ways of extending patronage to selected businesses.[58] The "whales on the Nile", the top business elite of 32 individuals who built their empires in the 1990s through the forming of networks with bureaucrats, had privileged access to the sales of public assets associated with Egypt's privatizations, once the sales took place this was combined with lucrative monopoly or oligopoly market positions through import tariffs, or through limiting the licensing of new businesses (Sfakianakis 2004).

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[56] Gross capital formation in the MENA region showed a distinct downward trend while in East and South East Asia, public investment had been the drive to export success in the previous thirty years (Achcar 2013, 46).

[57] The number of workers in privatized public-sector companies was halved from 1994 to 2001 (Hanieh2011, 13).

[58] At the same time, a similar process was taking place in Russia and Eastern Europe, in the form of massive privatizations (Klein 2007).

According to Galal (2008, 15), in the period between 1980 and 2000 there was an increasing de-diversification of investment, through its concentration on fewer commodities within the manufacturing sector (petroleum products, textiles and clothing, and iron and steel). As a result, the financial effect on the structural transformation of the economy in Egypt was a drive away from manufacturing.

In discussing Egypt's economic problem, it is important to speak of the developments in the agricultural sector. In 1992, Law 96 reversed Nasser's agricultural reform and led to the eviction of small farmers from their land. By the time it became fully effective in 1997, the reform constituted the main cause of rural poverty (Bush 2012, 64). More than 700,000 jobs were lost in agriculture, due to a reform which only became possible with the use of brutal state violence and repression in the 1990s (Bush 2007, 96). At a time when the exact opposite strategy (i.e., the inclusion of small farmers) would be required in order to enhance the agricultural sector, the reform was intended to underline property rights protection and therefore to raise investor confidence (Hinnebusch 1993, 161). Even worse, the IFI's representatives and Egyptian policymakers openly stipulated the subsequent higher unemployment rates and real wages decline as a desired outcome for the enhancement of the economy's competitiveness (Mitchell 2002, 266).

SAP failures in several countries (where the results were not the ones anticipated by the program) prompted criticism against the Washington Consensus.[59] The purported link between prescriptions and expected outcomes amounted to systematic over-optimism that the program would make FDI flow to tradable sectors

[59] Ha Joon Chang asserts that tariff abolition automatically distributing investment to competitive sectors is an eventuality we can only find in neoclassical theory models; the author also points out that industrial countries themselves had not followed the prescribed rules (Chang 2008).

(Rodrik 2006). Stated differently, the Washington Consensus was an “overstatement of emerging markets” (Krugman 1995). The issue of systematic over-optimism as a selling point for SAPs was raised by a series of countries in financial crisis**,** most notably Mexico in 1995.[60]

This led to amendments being made in the Washington Consensus, which now outlined additional prescriptions for institutional reform, but confined the critique within the same paradigm: that of privileging the private over the public sector as a panacea for all development problems (Lesay 2012). For example, the World Bank’s World Development Report in 1997 ascribed past restructuring failures in several countries to a misguided sequencing of the reforms; it also emphasized the need for a liberalized business environment which will reproduce reform in its own right, creating a “virtuous spiral” and countering resistance to reform (World Bank 1997, 63). Finally, the report outlined ‘good examples’ of capable, autonomous central agencies, emphasizing, however, that they should work with transparency (81).The IFIs attributed the failures to lack of “good governance”, meaning the proper sequence and procedures of reforms. Despite implying democratization for other observers, the suggested reform pattern of “good governance” put forwards by the IFIs remained fully compatible with lack of political liberalization (Kohstall 2006, 40).

In Egypt, the SAP of the 1990s generated unemployment and perpetuated economic fiscal dependency on funds generated from the Suez Canal and (now falling) workers' remittances (Cammett et al. 2015, 317). Selective sector protection and

[60] Mexico was the first country to which a conditional IFI loan was granted in 1984, to be followed by a program of deeper neoliberalization measures in 1989. The country’s 1995 financial collapse thus represented a black page in the history of SAPs. The collapse led to a widespread sellout of public assets to foreign investors and local billionaires (MacLeod 2004, 90-94).

uncompetitive privatizations translated into the making of regime-connected tycoons, and incentivized smaller businesses to move into protected rather than new sectors.

C. Accelerated Selective Economic Liberalization in the 2000s

In the beginning of the 21st century, the ascendance of Gamal Mubarak, Hosni Mubarak's son, in the ruling NDP party was undoubtedly linked to the idea of hereditary succession. This prospect soon unfolded as a calculated effort to accelerate the selective economic reform and advance the link with the U.S., both with the aim of assuring U.S. backing for the coming presidency of Gamal Mubarak.

Gamal Mubarak led a campaign inside the ruling NDP for the promotion of an ostensible renewal trend, carrying the slogan "New Thinking", antagonizing the "old guard" of the party with excessive rhetoric on reform in all fields, but without any genuine concern for democratization (El-Ghobashy 2003; Kassem 2006).[61] His rise in the party combined regime stability with a differentiation from the old guard of the NDP and the incorporation of a wider circle of businessmen. The manifest token of his differentiation and likely succession in the presidency was his placement as head of the newly created Policies Secretariat in 2003, which became the main body of policy production for the ruling party (Brownlee 2008).[62] In the same year, the Secretariat presented a policy document proclaiming its decisiveness to accelerate economic reform by allowing a greater role for IFIs, attracting FDI, reducing import tariffs and taxes and,

[61] Certainly, the pressure by the US for democratization played a role in the need for NDP embellishment. Additionally, the recreation of the image of the party was urgent in view of the poor 2000 election results (Dunne 2006, 5).

[62] Similarly as in other autocracies, this position of responsibility was meant to accredit him as the best candidate for the presidency (Brownlee 2008). He later became Assistant Secretary General of the ruling party. Contrary to Hosni Mubarak's assurances, the constitutional reform in 2005 would also facilitate Gamal Mubarak's election (Stacher 2008).

importantly, enhancing its appeal to the public (Abdelrahman 2014, 8). Clearly, a message was being sent out that Gamal Mubarak controlled economic policy.[63]

As in the case of Bashar Al Assad taking over the presidency from his father in Syria in 2000, the prospect of hereditary succession divided Egyptian society and created an atmosphere of insecurity (Owen 2012, 139). The rejection of this prospect prevailed in the independent press, particularly in the Nasserist-affiliated Al-'Arabi newspaper, where Mubarak's foreign policy and links to the business elite were decried (Arafat 2011, 126; El-Ghobashy 2003).

In view of the country's economic and political attachment to the U.S., Mubarak's rise involved persuading the U.S. that the succession would promote their interests (Amin 2011, 154). His connection with the U.S. was crafted early on through his first official appointment to the Egypt-U.S. Presidential Council in 1997 (Rutherford 2008, 211).[64] The U.S. connection was paramount to the entwined ideological and commercial interests of Gamal's business circle.[65] Apart from the Presidential council, the American Chamber (Amcham), the Egyptian Center for Economic Studies (ECES), and youth organizations such as Future were important forums attached to the neoliberal

[63] Later on, Gamal Mubarak embarked on a sustained effort to prove his indispensability in comparison to the Egyptian Intelligence Service Chief Omar Suleiman. George W. Bush advisors preferred Suleiman as Hosni Mubarak's successor, because he had proven his efficiency through the extraordinary rendition program (Brownlee 2012, 98). In an effort to further consolidate his connection with the US, Gamal visited the US standing committee high-level meeting twice in 2003 (Shama 2014, 82). After 2006, Egypt assumed a central role in policing the Gaza border and destroying Gaza tunnels, which had been built in order to circumvent the Gaza blockade. Both were consistently used in the negotiations with the US regarding the Presidency succession (Brownlee 2012, 107-10).

[64] The Egypt-US private sector President's Council, established in 1994 in the framework of gradually diminishing aid and the move to trade, and based on the U.S.-Egyptian Partnership for Economic Growth and Development, became a very influential policy forum (Momani 2003).

[65] Gamal's education and business experience in London also played a crucial role in the forging of his connections with a circle of businessmen which mostly comprised of western-educated children of high ranking bureaucrats and state connected businessmen (Rutherford 2008, 201)

agenda, particularly since business associations were controlled by the state and were associated with the old guard (Rutherford 2008, 211-218). These organizations were of crucial importance in Gamal Mubarak’s effort to put his network in place (Zahid 2010, 129).

Gamal Mubarak’s trademark was his business-friendly rhetoric; he portrayed himself as the carrier of reform who would transform the economy from government-driven to business-friendly, although it remained “still in transition” (Trofimov 2009). However, he was cautious when referring to the Arab causes and especially the Palestinian issue. On the contrary, people from his circle did not feel obliged to abide by this restriction. For example, the Chairman of Parliament's Economic Affairs Committee Mustafa El-Said made the following comment with regards to the 2006 war in Lebanon: "The existing generation of Egyptian businessmen and politicians in the [ruling] National Democratic Party no longer accept that business be governed by politics, even if it involves a war between an Arab country and Israel" (El-Din 2006).[66]

The new social alliance of the early 21st century, forged by the regime in order to preserve its power, was reflected in businessmen’s rise to formal political positions.67 This trend goes back to 1995 and is explained by Samer Soliman (2011, 144-145) as a development linked to the declining distributive capacity of the state, whereby the regime obligated businessmen to donate funds and then compensated them with political power. By using and containing the rising political force of business, it

[66] Osman (2010, 205) stresses that the lauding of economic development under Gamal Mubarak was part of the regime’s popular containment strategy, which included, amongst other things, simplifying the message that population growth obscured the visibility of development.

[67] In 2005, the elections culminated in a battle between businessmen, who ultimately represented 22% of the parliament (El-Din 2005). This process had started in 1995, with the gradual advancement of businessmen in the parliamentary body (from 12% of seats in 1995 to 17% of seats in 2000). In the 2005 elections, the Muslim Brotherhood also won 20% of seats.

was hoped that the perpetuation of the regime without democratic processes (and Gamal's ascendance in particular) would be ensured. (Albrecht and Schlumberger 2004; Paczynska 2010).

While Gamal Mubarak's circle comprised monopoly capitalists and neoliberal technocrats (his closest partner was indeed the steel tycoon Ahmad Ezz), he sought to extend his influence and reached out to a wider circle of businessmen who had emerged in the 1990s. By attaching himself to outward-looking industrialists whose interests had been adversely affected by the privileges of big industrialists, not only was he trying to reaffirm their support for the regime (Owen 2003, 159), but also to bolster his legitimacy and image in Egypt and abroad as a supporter of externally-oriented economic development (Wurzel 2009, 114, 120). This endeavor was part of the wider effort by the Mubaraks to secure regime stability, selective economic reform, and their desired foreign policy.

D. Ahmed Nazif's Government

A direct outcome of Gamal Mubarak's domination of economic policy was the appointment of a government headed by Ahmad Nazif in July 2004. The new cabinet included businessmen and technocrats carrying international business connection credentials, despite the fact that for several of them these amounted to a blatant conflict of interest.[68] The government's "technocratization" was in accordance with the deals they had made with the IFIs and conformed to the dominant rhetoric of pushing reforms and promoting the private sector (Albrecht and Schlumberger 2004, 379).

[68] For example, Mohamed Mansour, one of the biggest car importers, became Minister of Transport and tourist industry tycoon Zoheir Garraneh became Minister of Tourism.

The main task of the new government was to bring about economic shocks (which had been avoided in the 1990s), through following supposed 'economic orthodoxy' and claiming to forego political considerations (Armbrust 2012, 121). Their proclamations of pursuing economic development goals through empowering business were in reality efforts to theorize social issues as issues of economic indexes (Mitchell 2002, 230). Therefore, their reading of the economic problem and their vision for society and the economy marginalized the opposition as an adversary to economic development (Wurzel 2009, 105).[69]

Another task undertaken by the technocratic government was to circumvent bureaucracy. Nazif's government relied on parallel structures (situated mainly in the offices of the Ministry of Trade and Industry and the Ministry of Investment, or MOI), which assumed extensive authorities against conventional levels of bureaucracy (Adly 2015). In this way, the regime could claim to be dissociated from the policies that were implemented. For example, a cable from the U.S. Embassy in Cairo indicates that in the midst of rapid privatizations, the public perception was that the MOI acted on its own.[70]

The most powerful vehicle for obtaining U.S. praise and at the same time advancing the economic interests of state-connected businessmen were privatizations, the signature characteristic of the technocratic government. While 200 companies were privatized in whole or partially in the decade between 1993 and 2003, within only two years (2004 -2006), 130 public companies were privatized and 53 public companies

[69] Technocrats cannot be perceived as a force outside the social classes, although they claim to be. Silva (1996) studies the technocratic government under Augusto Pinochet's Chilean neoliberal authoritarianism in 1974 and underlines the decisive role played by a coalition of local business and landowning elites, which gained control over the pace of economic opening after the coup.
[70] Wikileaks Cable. "Nazif slows down Egypt's privatization program." US Embassy Cairo. June 15, 2006.

entered into joint ventures with private companies (OECD 2010, 10).[71] A U.S. embassy in Cairo communication applauded the implementation of privatizations (and minister of Investment Mahmoud Mohieldin personally) for opening the process to foreign investors and even for including companies of a strategic or economic importance to the state.[72]

In the textile sector, the loss of jobs in the companies that had been incorporated in the privatization program led to the shrinking of production, while private companies did not compensate for this production loss (El-Haddad 2012, 2). Remarkably, textile companies were privatized at very low prices. Examples include the Qalyub Spinning Factory (Farah 2009, 50) and the Tanta Linien Textile Company, which was sold to a Saudi investor for 8% of the value of the land on which it was located (El-Naggar 2014).

Several companies in other sectors were also sold to foreign investors (such as Suez Cement, which was sold to La Farge Titan and Michelin). However, the government mostly abstained from the privatization of particular companies (e.g., fertilizer industries) ahead of the 2005 elections, for fear of economic repercussions and adverse public reaction, according to a cable from the U.S. embassy in Cairo.[73]

From 2006 onwards, Nazif's cabinet was increasingly accused of corruption and the use of inside information for personal gain (Kandil 2011, 18). In the same

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[71] A total of 59 companies were privatized in the fiscal year 2005-6 alone, yielding privatization revenues of $2.6 billion, though most of these were accrued through the Bank of Alexandria and Egypt Telecom privatizations (OECD 2010, 11).

[72] Wikileaks Cable. "Update on Egypt's privatization program." US Embassy Cairo. May 7, 2005.

[73] Wikileaks Cable. "GOE Privatizes 'Strategic' Firms, Within Limits" US Embassy Cairo. October 5, 2005.

period, the government not only was praised by the IFIs for the rapid privatizations, but was awarded a $2.8 billion loan over four years by the World Bank, just ahead of the crucial 2005 elections ("Egypt economy: World Bank lends a hand").

The degree to which the prospect of Gamal Mubarak's succession and the acceleration of neoliberal politics raised controversy within the Egyptian military is equivocal. The military generals were running a multitude of enterprises and served as middlemen in the substantial U.S. military aid contracts (Harb 2003).[74] Since the 2011 uprising, extensive (though not exhaustive) information has surfaced on the Egyptian military's multifaceted economic production activities. Evidently, higher-ranked military officials opposed the post-2004 intensive privatization program not because of an ideological attachment to the remnants of the Nasserist economy, but for fear that this process would ultimately challenge the wide-ranging enterprises they controlled or disrupt their lucrative international joint ventures (Marshall and Stacher 2012). The technocratic government extended profitable options to some officials who were appointed to the management of privatized firms, but did not involve any army companies in the privatization program. Nonetheless, the army officials were disquieted by the continued monopolization of the economy (Abul-Magd 2011). Hazem Kandil (2012, 5) puts forward a different perspective, which is important to consider in view of the army's stance in the days of the 2011 uprising (when they did not step in to save the regime) and especially during their seizing of power from the Muslim Brotherhood government in 2013. According to Kandil's analysis, the military felt marginalized in the buildup to 2011, due to its antagonism towards the intelligence and security services, its diminished economic power, and the state's economic collaboration with

[74] Military officials had managed several companies since 1952, and from 1979 onwards the economic activity of retired generals multiplied (Abul-Magd 2011).

the U.S.. In effect, the military's dissatisfaction and its disengagement from the regime paved the way for the latter's downfall, as soon as the scene for the 2011 uprising was set.

E. Economic Outcomes in the 2000s Decade

The economic successes of the technocratic government made the lingering manufacturing export problem even more evident. FDI was facilitated by the privatizations and the new opening of the economy. This growth, however, is attributed to the FDI flow from Gulf Cooperation Council (GCC) countries, which found an outlet for their increased capital as a result of the steady increase in oil prices (which peaked in 2008) as a result of the U.S. occupation of Iraq in 2003 (Hanieh 2010b, 65).[75] Between the financial years 2005-6 and 2006-7, total FDI in Egypt increased by 82%, but this was primarily directed to privatizations and speculative financial transaction as opposed to new investment (Pfeifer 2012, 30). It was also channeled to tourism and real estate. All the while, unemployment was on the rise (Achcar 2009).

Regarding exports, Egypt became increasingly dependent on hydrocarbons for export earnings and government revenue. From 1995 to 2007, the percentage of oil and gas in the total merchandise trade grew from 37% to 52% of GDP (Springborg 2012, 295).[76] The revenues' influx in combination with the free floating of the Egyptian pound led to an overvaluation of the currency around 2010. This case of the "Dutch disease" resulted in manufacturing exports of diminished quantity (from 40% of total

[75] Indeed, GCC capital insertion in the whole of the Middle East was remarkable; GCC-originating FDI made up 13 % of GDPs in the rest of the Middle Eastern countries between 2002 and 2006 (Hanieh 2010b, 65).
[76] From 2001, gas surpassed oil production

exports in 1995 to 19% in 2007) as well as of lower quality (Springborg 2012, 296-99). In an effort to attract FDI in manufacturing, Law 83/2002 established Special Economic Zones with more substantial tax and tariff concessions than existed in the free industrial zone (GAFI n.d., Investment Regimes).

Egyptian GDP increased from 3.2% in 2000 to 5% in 2009, coinciding, however, with rising unemployment. The IMF 2007 regional report deemed Egypt “an emerging success story”, although acknowledging that FDI had given cause to a loss of competitiveness and a vulnerability to crisis that was devastating for manufacturing; moreover, it conceded that the budget deficit curtailment was due to big privatizations, particularly that of Mobinil telecommunications (Achcar 2009, 29). There was also an expansion of the informal sector, and the percentage of people living below the poverty line was officially 47%; this was believed to be an underestimation, especially when considered alongside the substantial fall in social spending between 2003 and 2007. While expenditure on defense and security rose, unemployment reached 13% and youth unemployment, in particular, amounted to 26% (Bush 2012, 66-67).

These developments were particularly relevant to the textile and garment sectors. The import restrictions and high tariffs on textiles and garments were first applied in the 1930s. These had to be lifted in 1998 for textiles and in 2002 for garments on account of WTO regulations. However, import restrictions were replaced by specific tariffs (Magder 2005, 7). Specific tariffs amounted to an equivalent extraordinary tariff of 627% for garments and 38.4% on textiles (Galal and Lawrence 2004, 306). These tariffs were even more restrictive for imports, since in those cases they were combined with exacting technical inspections (Pigato et al. 2006, 24).[77] As a result of pressure

[77] It is important to note that the WTO (2005) report on Egypt does not make any reference to QIZs.

from the EU and U.S. and of disputes within the WTO, these high tariffs were lowered in January 2004 to 40% for garments, 35% for home textiles, and 22% for fabric (Pigato and Ghoneim 2006, 14). By the same year, private garment production constituted 70% of all garment production in Egypt, thus surpassing the public production by far (Ibid.).

In analyzing impediments to production, Diwan, Keefer, and Schiffbauer (2015) focused on the devastating effects of a number of companies' close state connections. They found that, between 2000 and 2010, politically connected firms[78] in Egypt concentrated in sectors where they benefited from energy subsidies, access to land (including access to industrial zones), and protection from foreign trade (11). This protection which proved ineffective in terms of industrial policy coincided initially with the control of economic policy by businessmen in the ruling party and later on increasingly with measures introduced by the Minister of Trade and Industry, Rachid Rachid (12).[79] As noted above, this process of pushing economic liberalization in a selective way so as to perpetuate particular businessmen's attachment to the regime has been described as "authoritarian upgrading" (Hinnebusch 2015, 18). Smaller industrialists received regime patronage through continuing sector protection or arbitrary measures such as tax or tariff exemptions, although they profited significantly less from selective reform than big state-connected businessmen (Heydemann 2007, 15).

Before the Egyptian uprising of 2011, the IFIs regarded corruption as either a pattern inherited from the previous period or a regrettable cultural feature (Pfeifer 2015,

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[78] They identified politically connected firms in two ways: through creating a record of firms whose stock market values declined after the 2011 uprising and through interviews with people that had knowledge of the market.

[79] For Tunisia, a similar study titled "All in the family" (Rijkers, Freund, and Nucifor 2014) found a more direct control of regime-favored firms by the Ben Ali family.

10).[80] The implementation of the SAP program was praised, as evidenced by the heralding of Egypt as top reformer for the year 2008. After the 2011 uprising, the IFIs embarked on a revision of the structural program in Egypt, trying to attribute its flaws to the privileges enjoyed by state-connected firms, and relying on the same evidence as in Diwan, Keefer, and Schiffbauer (2015) and particularly as in Sahnoun et al. (2014). While offering useful insight into the detrimental role of state-business relations, these analyses overlook the IFIs' own role in condoning corruption (Hanieh 2012).

After the 2011 uprising, more intelligence emerged regarding the circumstances of the privatizations and how they enabled particular individuals to accrue immense profits. Several cases concerned the assignment of industrial land by the General Authority for Investment (GAFI). In other cases, and despite its being allocated at a subsidized price (or for free) in order to advance production, investors turned agricultural land into luxury real estate with complete impunity (Armbrust 2012, 118; El-Naggar 2014).

After the Uprising of 2011 in Egypt the two ministers closely associated with the QIZ project (and Gamal Mubarak's faction of the NDP) were implicated in corruption cases. Rachid Rachid, was found guilty of using insider information for personal profit (Leigh et al. 2015; "Former trade minister and daughter sentenced to 15 years in prison"), this related to the sale of EFG Hermes, a financial institution sale that generated immense profit for one specific Saudi investor (Hanieh 2010b, 64). Yousef

[80] For example, see IMF (2013).

Boutros Ghali was also found guilty of squandering public funds ("Mubarak-era finance minister arrested in France").[81]

The intensive popular mobilizations at the turn of the century, which formed the prelude for the Egyptian 2011 uprising, were connected to political-national and economic issues. The Ahmed Nazif's government can be seen as a response to the former (political) aspect of the uprising and a cause of the latter (economic) one.

F. Responses to the Social Movement

The enduring public rejection of cooperation with Israel was perceived as the only means of pressure the people possessed against Israeli aggression in Palestine (Hamdy 2000, 70). In response, Hosni Mubarak's regime endeavored to restrict press coverage and censor public debate on the Palestinian issue (Talhami 2007, 348). However, at various times during the second Intifada, the press attacked the regime for not taking a political stance in support of the Palestinian cause (Ibid.). The resentment against collaboration with Israel was congruent with the way the public viewed Egypt's role in the world, a perception so strong that even Mubarak's regime felt bound by it for many years (Tripp 1989). With the outbreak of the Second Palestinian Intifada in 2000, Nasserist and leftist activists established the Popular Committee in Solidarity with the Palestinian Intifada and were soon joined by many grouxps and individuals, including Muslim Brotherhood members. They organized large demonstrations that were

[81] The close connection of Ahmed Nazif's government government to the IFIs is also demonstrated by the fact that two of its most prominent ministers occupied high-ranked IFI positions during their tenure: Mahmoud Mohieldin was appointed Senior Vice President of the World Bank Group's 2030 Development Agenda in 2010, and Yousef Ghali was elected chair of the IMF's policy-setting committee in 2008. Also Illustrative of how Yousef Ghali justified the policy of the technocratic government is a US university speech he gave in 2016, where he stated "We almost made it. . . For those seven years, the politics might not have been working, but we were growing the economy, we had inflation under control, our reserve was expanding" ("Youssef Boutros Ghali").

followed up by massive protests against the war in Iraq in 2003 (Howeidy 2005).[82] The wide mobilizations were delegitimizing for the regime, not only because they targeted its complicity in the war and Palestinian oppression, but because issues such as this also created some degree of controversy within it. (Sedgwick 2010, 262-64). Popular perception also held that the regime and its business connections were profiting from the country's dependency on the U.S. and the foreign policy approach with Israel. This lack of legitimacy was thwarting the neoliberalization process, as the people felt that it "squandered the nationalist legitimacy of Nasser" (Hinnebusch 2015, 23).Springing to a large extend from the Popular Committee, the Kifaya movement in 2004 disputed Gamal Mubarak's succession plan and theorized the link between business domination over the economy and the foreign policy that was followed (El-Mahdi 2009, 102).[83]

After 2004, the workers went on strikes in order to protest layoffs in a number of public factories that were being prepared for privatization, such as the ESCO spinning and Indorama plant (Beinin and Duboc 2013, 217). In the same period, other sectors mobilized, the real estate tax collectors staging the largest demonstration. These protests were neither nationally coordinated nor organized by opposition parties or by the official workers' confederation (ETUF), which was controlled by the state (216).

Viewing the technocratic government as indifferent to the nationalist and leftist opposition (Wurzel 2009) is not accurate. As a cable from the U.S. embassy in Cairo reveals, the Egyptian government was increasingly alarmed by the popular resonance of

[82] This reaction of the people compelled the regime to be reserved in its support of the US during the Iraq war (Benantar 2007).

[83] Albrecht interprets Kifaya as a part of the middle class identifying with Nasserism politically and ideologically, thus contesting Mubarak's monopoly of power (2013, 75).

several independent press articles disparaging the unfolding privatization as a sell-off of public property to foreigners[84]

In the most emblematic workers' mobilization of the decade in the Mahalla al Kubra Misr Spinning and Weaving Company in 2006, the regime did not violently intervene until 2008. As with the political protests, the government's goal was not to prohibit mobilizations, but to hamper the coordination of different groups for common causes (El-Ghobashy 2011, 39).The technocratic government needed to differentiate itself from the regime and to put on a good face, under the spotlight of increasing international scrutiny regarding human rights abuses (Abdelrahman 2014, 59). Minister Mohieldin went to Mahalla al Kubra in 2007 to negotiate with the protesters (Beinin and Duboc 2013, 220). Additionally, Ahmed Nazif's government was able to satisfy several of the wage demands on account of the windfall revenue from privatizations and gas sales. Offering lucrative early pension schemes for the dismissed workers in a number of privatized companies was the main means of stemming workers' opposition, according to a cable from the U.S. embassy in Cairo.[85]

Many more mobilizations marked the decade, particularly as economic conditions for the majority of the population deteriorated. Clearly, the Egyptian regime was anything but indifferent to the prospect of mobilizations against escalating corruption and unpopular foreign policy choices; on the contrary, it was working painstakingly hard to curb them.

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[84] Wikileaks Cable. "Nazif slows down Egypt's privatization program." US Embassy Cairo. June 15, 2006.

[85] Wikileaks Cable. "Update on Egypt's privatization program" US Embassy Cairo. May 7, 2005.

G. Conclusion

The 1991 SAP in Egypt was defined by the failure of its declarations. With a reform record consisting of privatizations instead of industry restructuring, the technocratic government could nevertheless claim to adhere to the IFIs' post-Washington Consensus prescriptions of detaching itself from popular pressures. Big business was able to take over large production sectors, with detrimental results for the economy. Meanwhile, trade protection became the mode of attaching smaller industrialists to the regime. In the textile and garment industry, however, trade protections were only available for the private garment sector, despite the fact that the workforce of large public textile companies (with their powerful mass mobilizations) posed a threat to the regime. In the 1990s and increasingly in the 2000s, the technocratic government's relations with Israel deepened in parallel to the regime's deepening bonds with the U.S.. The Egyptian regime claimed to keep the collaboration to a minimum, especially since popular rejection of this foreign policy mounted with the second Palestinian Intifada. However, Gamal Mubarak saw social mobilizations as incompatible with economic development and his succession plan needed U.S. acceptance. This was the economic context within which QIZs were realized and shaped by the U.S. initiatives for Middle East Economic Cooperation, which we will examine in the next chapter.

PART II

CHAPTER V

MIDDLE EAST ECONOMIC INTEGRATION PLANS AND BEGINNING OF THE QIZ PROJECT

U.S. efforts for economic integration in the Middle East since the 1990s were propelled by the fervor and prospects opened by the Oslo Accords and the subsequent Peace Treaty between Jordan and Israel in 1994, as well as the idea that business empowerment can bring about peace and economic development. The current chapter presents a portrait of the background for the QIZ project in Egypt, charting the evolution of policies for peace and regional integration from the MENA conferences in the 1990s to the Jordanian QIZs and the MEFTA process.

Several of the Arab partners in the 1991 Gulf War were keen to see an advancement of the peace process with Israel, and hence participated in the Madrid Conference, the launching pad for a multilateral process of peace negotiations (Quandt 2004, 70). Although the conference did not produce tangible results, the emerging pattern of combining multilateral and bilateral tracks of negotiation proved decisive for economic normalization schemes thereafter.[86] While the key political negotiations occurred in the bilateral track between Israel and the PLO, economic consultations were multilateral among Middle Eastern countries (Bouillon 2004, 2).[87] In the next round of multilateral talks which took place in Moscow in 1992 the process itself was more

[86] According to Dennis Ross, an official in the Bush administration during the peace process, the Madrid Conference was significant in forging the two-track approach (Bentsur 2001, 166).

[87] Previously bilateral negotiations were taking place between Jordan and Israel.but these again aimed at convening a multilateral peace conference.

important than the results. Negotiations included discussions on the topics of arms control, economic development, water, refugees, and the environment (Kaye 2001, 110).[88] On the political front, the negotiations continued between Israel and the PLO, leading to the Declaration of Principles and the signing of the Oslo Accords between the two sides in the autumn of 1993. The carrying out of these talks under a veil of secrecy has been credited with their success (Quandt 2005, 310).[89] Since the Oslo Accords were considered a historic breakthrough by both the counterparts and the U.S., they created an atmosphere of optimism for multilateral economic cooperation in the Middle East (Momani 2007, 1683). In this framework, the normalization of relations with Israel acquired a double significance, firstly by establishing normal bilateral relations between nations, and secondly by securing Israel's integration in the regional meetings (Rabinovich 2012, 269).[90]

The end goal of peace and prosperity in the Middle East via multilateral collaboration was described with the term 'New Middle East', introduced by Shimon Peres, then Israel's foreign minister. His vision was described in his book the "New Middle East" as a political project where economic cooperation would pave the way for a political settlement between adversaries. This encompassed the achievement of anticipated common benefits through economic complementarily; specifically, it included the combination of Israeli technology with manual labor in Arab countries, and

[88] It is also worth noting that the Israeli state insisted on the regional character of the multilateral process and rejected a United Nations or international framework (UNISPAL 1992).

[89] The Paris protocol (the economic component of the Oslo Accords which has regulated the economic status of the Occupied Palestinian Territories) resulted in the furthering of Israeli domination over the Palestinian market (Bouillon 2004, 92). The agreement also inhibited Palestinian external trade and allowed the practice of withholding taxes, which Israel has been implementing as a means of collective pressure ever since (Konrad Adenauer Stiftung, n.d.).

[90] For some observers, it appeared at the time that the boycott against Israel had already ended (Gerges 1995).

the existence of common trade areas on the borders.[91] Peres underlined the importance of crafting an economic reality which is difficult to reverse (Peres and Naor 1993, 319).[92] In essence, he asserted that Arab states could not overcome their economic woes unless they collaborated with Israel (Rabinovich 2012, 261).[93]

The New Middle East vision provided ammunition for policymakers and businessmen, who found that economic cooperation with Israel could work to their economic and political advantage: By putting in place a “web of apolitical interaction” that would ease cooperation and sideline political misgivings, it favored the precedence of economics over politics (Peters 1994). At the same time, the New Middle East’s promising prospects offered the U.S. a framework in which to proclaim their equal support for the interests of both the Arab countries and Israel (Hazbun 2008, 103).

A. MENA Conferences

The Clinton Administration initiated a series of annual Middle East and North Africa (MENA) conferences, intended to facilitate economic integration between Israel and the Arab countries and to feed back the economic prospects resulting from this process to the international community. In these meetings, the U.S. put forward their assertion that business would play a central role in promoting economic cooperation

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[91] Many other areas of potential economic cooperation were also described in the book, such as those of cross-national infrastructure, agricultural projects, and the eliciting of foreign aid (Peres and Naor 1993)
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[92] A functional, step-by-step confidence-building approach of progressing by solving practical issues was also an expressed Israeli preference (Quandt 2005, 227).

[93] At the time, the New Middle East was not seen as a political project but as an effort to envisage future development. For example, see Hadar (1994).

and, subsequently, peace (Christopher 1994).[94] At the first economic summit in Casablanca in 1994, sponsored by the U.S. Council of Foreign Relations and the World Economic Forum, a total of sixty-one countries and hundreds of businessmen participated, recognizing in the Summit Declaration "the responsibility of the private sector to apply its new international influence to advance the diplomacy of peace" (Kaye 2001, 211). The vital importance of the conference for Israel was evinced by the presence of the Israeli Prime Minister and Foreign Minister, eight other ministers, and one hundred and thirty businessmen (Feiler 2011, 293). In the same conference, two U.S. initiatives – the MENA Bank and the Regional Business Council, a form of regional business chamber – were laid out, though they were never realized. The GCC states also declared the cancellation of their tertiary boycott of Israel (Kaye 2001, 210).

In the Amman conference, which was held the following year, seventy states participated and actual projects were proposed. As the conference took place just one year after the conclusion of the peace treaty between Jordan and Israel it provided the Jordanian government and business with a common platform in which to promote their country to foreign private investors and international lending bodies; some businessmen, however, opposed the process (Moore 2004, 167).

In 1996, the Cairo conference took place in the midst of a decline of the momentum that had hitherto driven the peace process and increasing Egyptian concerns about the prospect of an Israeli led MENA economy. The deterioration of the peace process escalated with Likud's election in Israel and Prime Minister Benjamin Netanyahu's rejection of the peace negotiations (Drake 2000). Since the Oslo process and multilateral tracks of negotiation were built on gradual confidence-building, the

[94] In his speech during the first Casablanca conference in 1994, US Secretary of State Warren Christopher stated that "only the private sector can produce a peace that will endure", by bringing about economic development (Christopher 1994).

continued construction of Israeli settlements in occupied territory wholly undermined the conception of gradualism (Kurtzer 2013, 51). In order to conceal its political character, the summit's name was changed to "the Middle East and North Africa Business Conference". Hosni Mubarak was explicitly interested in foreign investment; thus, industrialists were invited to the Conference while ministers were excluded (Hamdy 2000, 77). Nevertheless, the first Egyptian-Israeli public projects (the Alexandria refinery and Delta Galil) continued their operation (Feiler 2011, 291).

Israel's outspokenness regarding its aspirations for economic domination challenged the Egyptian regime and exacerbated public opposition to normalization within the country. The Doha conference in 1997 was boycotted by Egypt, Saudi Arabia, and the Palestinian Authority, although businessmen from these countries were among the eight hundred participants.[95] This boycott could claim to be in compliance with the Arab League resolution to suspend normalization with Israel (Hamdy 2000, 69). The resolution had been passed in an Arab League conference in Cairo that had clearly been an effort to reinstate Egypt's leadership position; it publicized the participating countries' intention to form an Arab Free Trade Area that was competitive to the MENA process (Roth 1996).[96] With both states and popular opinion hostile to rapid economic normalization with Israel, it had become apparent by this stage that business interests could not constitute the sole driving force behind the U.S.-led Middle East cooperation, and that the MENA process had stalled.

B. From the QIZ Project's Inception to the Activating Proclamation

[95] Syria and Lebanon did not participate in the MENA conferences, but businessmen from the latter attended.

[96] The resolution of the Arab Summit in Cairo 1996 proclaimed a desire to advance regional economic cooperation as a counterweight to the MENA process, which was referred to as "the recent international developments that have prompted the creation of larger economic groupings" (Final communiqué).

Since the MENA conferences' goal was to promote economic cooperation and Israel's normalization, the QIZ project can be best approached as an outcome of the MENA process's failure to live up to Shimon Peres over optimistic vision. In 1995, discussions on QIZs had begun between U.S. and Arab representatives at Blair House, the U.S. president's guesthouse in Washington D.C. The meeting attempted to extend the U.S.-Israel free trade agreement to Israel's Arab neighbors. However, Amr Mousa, the Egyptian foreign minister, rejected the initiative (Shama 2014, 190).

The U.S. National Security Strategy of 1996 linked free trade and democracy in the employment of commercial diplomacy, where U.S. economic power would be used to promote foreign policy objectives. Business was seen as a highly promising means of making the policy "demand-driven" (National Security Strategy 1996, 33). In this vein, the Proclamation 'To Provide Duty-Free Treatment to Products of the West Bank and the Gaza Strip and Qualifying Industrial Zones' was voted in U.S. Congress as Law 6955 on 13 November 1996 (Proclamation 6955). The Proclamation activated the extension of the Free Trade Area Implementation Act of 1985 with Israel to Palestinian territory or Qualifying Industrial Zones in other countries. [97] Although the Proclamation referred primarily to the West Bank and Gaza, the project never materialized in these areas.[98]

Pete Moore identifies the origin of QIZs in prior U.S. initiatives that had been inspired by a "Cold War logic" (Moore 2005). During the 1950s and 1960s, free-trade zones were established in Puerto Rico, and subsequently in Taiwan, South Korea, and the Dominical Republic, with the intention of both yielding economic gains through

[97] The expansion option already existed in the Free Trade Act of 1985.
[98] Industrial zones were created in the Occupied Territories in 2008 with foreign funding and Israeli cooperation. They resulted in a profound dependency of the Palestinian economy on Israel (Bahour 2010).

export promotion and rolling back communism (Moore 2005). Another precedent of U.S. free trade zones was the Maquillas on the U.S.-Mexico border, which were established in 1965.[99]

C. Jordanian QIZs

The Israeli-Jordanian Peace Treaty in 1994 drew widespread criticism. Many of the expectations that were raised by the peace agreement (such as Jordan's trade access to the West Bank market) were soon diminished. Thus, the Jordanian government was now under pressure to substantiate the merits of the peace process (Carroll 2003, 65). Once the MENA conferences failed and the Arab boycott of Israel was reinstated, Jordan signed its QIZ agreement. The Jordanian QIZ project, which was first mooted during the 1997 Doha conference, granted duty-free status to products originating from Jordanian QIZ areas and destined for the U.S., on the provision that they include a minimum of 11.7% Israeli input.[100] The first QIZ was established in the Al Hassan industrial estate near Irbid. The Jordanian QIZs were privately managed, apart from the three original QIZs which were operated by the Jordan Industrial Estates Corporation, an autonomous public entity created for industrial estate development (Amara 2009, 345).

Economic and political considerations were combined in the conception of Jordan's QIZs. After the 1991 Iraq war, the influx to Jordan of (mainly Palestinian) businessmen driven out of Kuwait, and of Iraqis fleeing the rigors of the sanction regime, led to a spurt of investment mostly in construction. This triggered a mini-boom

[99] The Maquillas expanded rapidly under the Mexican SAP in the 1980s and shrank in the 2000s, particularly because of China's rise as a leading source of low-wage production (Harvey 2005, 98-103).
[100] In 1999, the minimum Israeli input was lowered to 8 percent, with the exception of 7 percent for high-tech products. In 2004, Jordan and Israel also concluded a Free Trade Agreement (Carroll 2004, 65).

but also further exacerbated an existing trend of business failing to facilitate long-term development or create adequate job opportunities (Moore 2004, 160). Meanwhile, as Jordan had not supported the coalition against Iraq in 1991, the MENA conferences and cooperation with Israel offered the country a means by which to restore its relations with the U.S. and to establish its importance in accelerating the U.S. regional plan (Hazbun 2008, 101). Regional economic cooperation involving Israel (for example, in the tourism industry) shaped the «geopolitical imaginary» of promising economic prospects; however, it is also important to note that the cooperation between Israel and Jordan was first and foremost intended to cement the ‹New Middle East›, above and beyond any economic consideration (Hazbun 2008, 130).[101]

QIZs became the main economic component of the Jordanian-Israeli relations and had a disproportionate impact on Jordan's economy via exports and FDI. Exports from QIZs consisted almost entirely of apparel – a previously undeveloped sector in Jordan (Kardoosh and Al-Khouri 2005, 19).[102] Although U.S. policymakers had alleged that new, dynamic, and independent businesses would benefit from the QIZ project, in reality a new circle of young businessmen connected to the Jordanian monarchy prospered from it (Moore 2005).[103]

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[101] From a long list of proposed common Israeli-Jordanian tourism projects in the MENA conferences, none materialized (Ezrahi 2004, 7).

[102] The total exports from QIZs amounted to $586.6 million dollars in 2003 (Kardoosh and Khouri 2005, 19).

[103] Several studies emphasize the role of particular individuals in the development of QIZs. Israeli businessman Dov Lautman and Jordanian businessman Omar Salah both played an initiating role. For Lautman, the QIZ project was a necessary structural development for the Israeli industry to withstand competition from China. The underlying political dimension of the project is demonstrated by the fact that he later became an economic envoy for Israel (Bouillon 2004, 107). Omar Salah is a Jordanian of Palestinian origin who found profitable prospects in the process of cooperation with Israel and established Century, the first joint venture with Israel in 1997 (Carroll 2003, 69).

The initiation of QIZs ran counter to anti-normalization activities in Jordan and the post 1996 deterioration of relations with Israel. For example, the 1997 Israeli trade fair in Amman was cancelled due to the intervention of opposition groups and of the Amman Chamber of Industry (Lucas 2004). However, a new circle of businessmen thrown up by the 1990s boom outspokenly endorsed cooperation with Israel through QIZs and "opened up the path to pragmatic cooperation" (Bouillon 2004, 136, 152).Through their professed pragmatism, these businessmen tried to blunt public opposition to the collaboration with Israel while currying favor with the Palace where Kings Hussein and his inner circle were committed to a 'warm' peace.

Although its supporters preached economic prudence, in Jordan the promotion of the project completely overlooked the country's economic needs and potential (Kandeel 2008, 29). Exports from QIZs, which constituted 5% of total exports in 2001, skyrocketed to 25% by 2005, incorporating packaging as the main form of Israeli input (Nugent and Adbel-Latif 2010, 8). The QIZ agreement became the core of Jordan's economic relations with the U.S.; in the year 2000, approximately 40 %of Jordanian exports to the U.S. originated from the ten designated QIZs (2001 U.S.-Jordan FTA Implementation Act, 10). However, the suitability of apparel production for the Jordanian economy -whose labor force was marked by high wages and educational attainments - was highly questionable. A recent study conducted in Jordan advocates the country's transition to more complex production and export, that would incorporate existing productive knowledge whilst also affecting industrial upgrading (Bustos and Yildirim 2017).The researchers found that the focus on apparel industry development since the end of the 1990s explains to a large extent why the country has not developed its potential for more complex products (Bustos and Yildirim 2017, 5).[104] Although the study stops short of identifying the QIZ agreement as responsible for the productive and export pattern that emerged in Jordan, it is clear that the apparel sector developed in response to the benefits of the QIZ agreement.

Since the project's primary goal was to forge closer relations between Israeli and Jordanian business communities, the public rejection of normalization was galvanized by QIZs (Lucas 2004). The publication of a 'black list' of companies participating in the project was met with repression by the state (Moore and Schrank 2003, 117).[105] As emphasized in a cable from the U.S. embassy in Amman, reversing public animosity towards the QIZs constituted one of the main objectives of the project, whose workings were unaffected by popular reactions since the second Palestinian Intifada in 2000.[106] In the same cable, the Jordanian government is applauded for its campaigns to promote QIZs. However, the outbreak of the second Palestinian Intifada impelled the government to present itself as uninvolved in the project. For example, Jordanian officials abstained from a meeting with QIZ producers which had been organized by the Israeli-Jordanian Chamber of Commerce with the assistance of the Israeli Ministry of Foreign Affairs in 2002. Behind the scenes however there seems to be little doubt that the government encouraged businessmen to participate.[107]

One noteworthy fact about the Jordanian QIZs is that 88 percent of the factories were owned by non-Jordanian (mainly Asian) businessmen by 2003; similarly,

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[104] The study uses the word "textiles" to refer to "apparel" product categories.

[105] The need to contain reactions against the peace treaty with Israel was a key factor in the restriction of political freedoms after a brief period of their expansion in 2000 (Schwedler 2002).

[106] Wikileaks Cable. "Jordan and the QIZ experience." US Embassy Amman. 24 September 2002

[107] Wikileaks Cable. "Jordan QIZ investors bring concerns to Israeli officials." US Embassy Amman. 22 August 2002.

43 percent of all QIZ workers in the same year were Asian immigrants (Kardoosh and Khouri 2005, 23).[108] While foreign ownership was initially seen in a favorable light for its capacity to generate speedy FDI and output successes, serious violations of workers' rights soon started emerging from inside the QIZ factories (Hazaimeh 2008). The efforts of the Jordanian government to impose restrictions on the number of foreign workers failed, since this could be perceived as "forced normalization" and against the principles of free access of FDI, but predominantly because it raised business opposition (Carroll 2003, 65). [109] A cable from the U.S. Embassy in Amman reported that QIZ businessmen were threatening to close down operations in response to the government's deliberations about raising foreign workers' fees.[110] According to the same cable, QIZ owners were also demanding government benefits, such as free transportation and housing for the workers, in order to encourage the employment of locals in their factories.[111]

The fear that the Jordanian economy would incur heavy economic losses during the 2003 war in Iraq gave rise to the idea of extending the Jordanian QIZs' access to the EU market.[112] A U.S. embassy report underlined that this development could further advance the acceptance of a collaboration between Israel and Jordan,

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[108] The percentage of foreign workers in QIZ factories reached 75 percent in 2009 (Ghoneim Awad 2009, 21).

[109] Additionally, QIZ workers were excluded from a rise in the minimum wage (Ghoneim and Awad 2009, 22).

[110] Wikileaks Cable. "QIZ managers complain about GOJ labor crackdown" US Embassy Amman. November 8, 2006.

[111] The Jordanian Government undertook an accommodation project, called the "Village Program", for workers in the Tajamouat QIZ. As reported by the US embassy in Amman, which was monitoring the project, female workers were provided with subsidies in order to reside in the Tajamouat village (Wikileaks Cable. "QIZ Garment Factories in Jordan: Stitching a new social fabric" US Embassy Amman. August 18, 2004).

[112] The argument of economic hindrance due to the war in reality run against the reality of economic investment flows to Jordan from Iraq as a result of the 2003 war.

stating that “Appropriate U.S. support with the EU could help move the process along, recognizing that this is - refreshingly - a Jordanian-Israeli project”.[113] The European QIZs were not realized, as the Euro-Mediterranean agreement, which encouraged trade among Mediterranean countries, including Israel, came into effect in 2005 (EU Trade Jordan).

There are a number of reasons why the Jordanian QIZ project could be considered a failure, since it constituted a “cooperation with lack of depth”, was unsuccessful in promoting local employment, and left public opinion “still wish[ing] a comprehensive solution” (Moore and Schrank 2003, 116). It is rather the conclusion of the U.S.-Jordanian Foreign Trade Agreement (FTA) in 2000 (towards which QIZs had constituted an essential step) that has been deemed a success (Amara 2009, 346).[114] From the outset, a combination of New Middle East optimism, awareness of U.S. dominance, and the reality of economic hardships had been crucial in the decision to initiate the QIZ project in Jordan. Ultimately, however, the sole success of the project was its ongoing existence, as it would have been politically and economically costly to reverse. Once more, the political process forged economic reality. Therefore, the continuation of the project proved to be the actual benchmark of its success.

D. MEFTA

After the September 11 attacks in New York and Washington in 2001, the U.S. declared the War on Terror, prioritizing military operations while purporting to promote economic growth and democracy through the advancement of trade (Looney 2005;

[113] Wikileaks Cable. “Jordan and Israel seeking EU "QIZ" Arrangement.” US Embassy Amman.. 29 September 2003.

[114] The US-Jordan FTA includes the gradual phasing out of duties over a ten-year period, with rules of origin demanding a greater Jordanian input than QIZ and workers’ rights provisions (Bolle 2003).

Zoellick 2001). Once again, U.S. strategy epitomized the theoretical enthusiasm that free trade (and particularly the empowerment of the private sector) would be able to generate political transformation towards democracy and peace (Moore and Schrank 2003); it essentially assimilated the neoliberal view that economic cooperation can create transnational elite coalitions, which base their interests in trade and peace (Copeland 1996).[115]

This strategy both facilitated the spread of free trade - a core U.S. aim - and accommodated the diminished availability of financial aid which was to be engaged for promoting U.S. political influence (Momani 2007).[116] In 2003, the war in Iraq unfolded, wreaking havoc. The basic justifications for the Iraq invasion (the existence of weapons of mass destruction and the promotion of democracy) soon lost their power; the main argument now rested upon the drive for economic development (Achcar 2004). In his speech at the June 2003 World Economic Forum in Amman, U.S. Trade Representative Robert Zoellick located the economic problems of the Arab countries in "autarky policies", as the primary reason why they refused the "opportunity" for free trade in post-invasion Iraq (Zoellick 2003).

The U.S. initiative for a Middle East Free Trade Area (MEFTA) was announced by U.S. President George W. Bush in May 9, 2003. It comprised individual FTAs with Middle Eastern countries which would culminate in the creation of a Free Trade area by 2013. George W. Bush began his announcement by relaying the adverse

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[115] Historical evidence does not point to a correlation between trade and peace, especially when contentious issues are not considered in the carving out of trade policy (Barbieri 2002, 126).

[116] These intentions were explained in the September 2002 US National Security Strategy, which notoriously linked preemptive military action abroad with the promotion of democracy (The National security strategy 2002). It was also presented as a uniform global strategy for promoting free trade (Zoellick 2001).

economic situation in the Middle East, particularly with regards to unemployment (Bush G.W. 2003). For each individual country, the process towards FTA required WTO membership and the signing of Trade and Investment Framework Agreements (TIFAs). The latter incorporated core U.S. demands concerning investment access and the existence of relevant legal frameworks, and offered free trade access for particular products through the Generalized System of Preferences (USTR 2003).

The pressure to comply with these demands was compounded by the advancement of individual FTAs which presumed the enforcement of normalization with Israel. Thus, the promotion of MEFTA was based on "aggressive unilateralism", a form of "competitive liberalization" – a term outlining the use of FTA process for rewarding or punishing a country according to political criteria (Candland 2005, 6). While selectivity was presented as a means to accelerate the MEFTA goal ("Arab and U.S. officials discuss establishment of MEFTA"), it effectively translated into a greater variety of means with which to compel individual countries to abide by the set criteria. This added to the pressure caused by the political domination of the U.S., and particularly the deterrent that the Iraq war represented (Hinnebusch 2006, 391).[117] Therefore**,** the individual processes towards FTA were a way of extracting concessions in both economic and foreign policy, not through cooperation (as neoliberalism asserted) but through compliance to U.S. imposition (Momani 2007, 1698). This was especially the case for regimes that responded to neoliberal globalization by finding new ways of making themselves even more unaccountable to the people, as for example in Egypt with the appointment of the technocratic government in 2004 (Guazzone and Pioppi 2007, 521).

[117] Another reason for the US promoting individual FTAs is the resistance it encountered to regional trade area initiatives, particularly NAFTA (Doran 2012, 180).

The Greater Middle East Initiative, announced in 2004, comprised the MEFTA plan in combination with the U.S. Middle East Partnership Initiative (MEPI), a program for promoting civil society and democratization.[118] An instrumental link between these projects was private sector empowerment, which constituted the main instrument for the promotion of democracy, albeit without posing any challenge to authoritarianism (Carothers 2007, 5).

MEFTA was clearly in contrast – if not in direct competition – with the EU Barcelona process because of the economic and foreign policy attached to it, as well as the efforts that were made in its context to build overlapping institutions, such as a regional bank (Achcar 2004).[119] Yet the MEFTA regional bank scheme represented an initiative which had previously failed in the process of the MENA conferences.

E. Conclusion

For all their pledges to forge peace through economic cooperation, the MENA conferences and the MEFTA (in the aftermath of the first and second Iraq war respectively) "have been seen in the Arab world as putting the cart before the horse" (Ehteshami 2009, 87). Not only did the process fall short of promoting Middle Eastern integration, but the selective and individual processes rather created increased pressure for economic policy alignment to U.S. objectives.

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[118] The Greater Middle East Initiative was presented by US Vice President Dick Cheney in the Davos World Economic Forum in January 2004 as a G8 initiative. One year prior, Saudi Arabia had presented the 'Arab Charter', calling for 'internal reform and enhanced political participation in the Arab states' (Ehteshami 2009, 85). The Arab Charter was re-launched as the Alexandria charter in March 2004. Because of the criticism the Greater Middle East Initiative incurred as an externally imposed plan, the US pledged to consider recommendations from the two Arab Human Development Reports. The initiative was re-launched as the Broader Middle East Initiative at the Sea Island, Georgia (USA) G8 summit in June 2004 (Ibid.).

[119] The EU Barcelona process which led up to the Agadir Agreement in 2004 with Egypt, Morocco, Tunisia, and Jordan established bilateral association agreements. The Agreement also pledged considerable funds for industrial restructuring (Adly 2013, 225).

The QIZ project resulted from the political developments in the second half of the 1990s. With the failure of the multilateral MENA process, the pursuit of normalization with Israel shifted onto the bilateral track of negotiations with U.S. intermediation. QIZs were launched with a view of both promoting Israel's normalization and addressing the participating countries' economic challenges in equal measure. The hope was that the project would stand the test of time, future political developments notwithstanding. However, as the case of the Jordanian QIZs illustrates, the political considerations behind the agreement also allowed QIZ businessmen significant room for making economic demands, directing the economy towards QIZ production irrespective of its suitability to long term development.

CHAPTER VI

QIZ HISTORY IN EGYPT

The plans to establish QIZs in Egypt were revived in the beginning of the 2000s, after the Oslo process and the MENA regional economic conferences had already appeared to fail. When the agreement was signed in 2004, the U.S. Trade Representative (USTR) deemed it the "the most significant economic agreement between Egypt and Israel in twenty years" (USTR 2004, par 18). Indeed, the agreement's terms were a far cry from the weak trade relations that had followed the 1978 Camp David Accords between Egypt and Israel. In reviewing the history of the negotiations for the initiation of the Egyptian QIZs, we will see how the concerned parties contended with the challenges presented by the project. Our examination will attempt to unravel its conflated economic and political aspects, based primarily on the reports of the U.S. embassies in Cairo and Tel Aviv. Since the QIZ joint committee proceedings were shrouded in secrecy, WikiLeaks cables have been a valuable source of information on the topic in general and the main concerns of the participants specifically.

A. Towards the QIZ Agreement

In June 2003, the Foreign Trade Agreement (FTA) negotiations were suspended by the U.S. after Egypt decided to side with the EU in a WTO dispute over genetically modified goods (El-Ghobashy 2003; Saleh 2003; "Cairo's bruising year"). From that point on, the discussions on QIZs carried on in secret. The U.S. imposed the achievement of an FTA as a condition for striking a deal on QIZs. However, these discussions also fell through (Yadav 2007). While the Israelis were openly keen on promoting the idea of QIZs, and particularly its business side, Egyptian officials refused to publicly confirm their participation in these negotiations (Allam 2004). In reality, government officials had been continuously involved in the discussions from 2003 until January 2004, when formal (albeit confidential) negotiations on the project began. Reports from the U.S. embassies in Cairo and Tel Aviv reveal constant official involvement in the business discussions over the initiation of QIZs.[120] The first two official meetings on the project took place in Jerusalem and Cairo in the beginning of 2004 without reaching an agreement; therefore, a third meeting was arranged on March 17 in Jerusalem. The head negotiators were Sayed Elbous, senior advisor in the Egyptian Ministry of Industry and Foreign Trade, and Gabby Bar, Deputy Director General in the Israeli Ministry of Industry, Trade, and Labor. U.S. embassy officials also participated and reported back.[121]

Disagreement on the minimum Israeli content and the way in which the project would be publicly announced (two enduringly contentious issues since 2003) were the main reasons for the stalemate in negotiations. When the confidential official negotiations first began, there was a huge gap in the two sides' demands for minimum content. In the third official meeting on March 17th, the two sides converged, but once more did not reach an agreement. The Israeli side was insisting on a 14.5% minimum input that would come down to 11.7% after four years, although the minimum Israeli input in Jordanian QIZs was by that time only 8%. The Israeli negotiators asserted that

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[120] Wikileaks Cable. QIZ talks: Getting closer but Israeli, Egyptian negotiators defer contentious input issue to their ministers." US Embassy Tel Aviv. 18 March 2004.

[121] Ibid.

Israeli industry would suffer as a result of the agreement and “thousands” of jobs would be lost; therefore, a substantial input was necessary in order to avoid the backlash.[122] However, both the U.S. and Egyptian participants found the concern exaggerated. Privately, the U.S. representatives urged the Israeli negotiators to accept a compromise. A case in point is what transpired during a meeting between U.S. Under Secretary of State Alan Larson with Israeli Ministry of Foreign Affairs director general Yoav Biran, in which they reviewed the Greater Middle East project and particularly the QIZ agreement as one of its most important economic components; Larson prompted Biran to concede the issue of content and accelerate the process in order to take advantage of an eventual acceptance of the project by the Egyptian regime.[123] Apparently, the Israeli negotiators were primarily anxious that if the Egyptians succeed in lowering the input requirement, the cooperation would become merely symbolic; in their view, any economic cooperation should include a significant content prerequisite.[124]

The negotiators decided that the stalemate stipulated a compromise on a high political level and accordingly forwarded the issue to the responsible ministers, i.e. Ehud Olmert (the Israeli Vice Prime Minister and Minister of Industry Trade and Labor) and Yousef Boutros Ghali (the Egyptian Minister of Foreign Trade), urging them to reach a compromise by the beginning of April 2004. The negotiators believed that with

[122] Ibid.

[123] Wikileaks cable. “Larson discusses ‘Greater Middle East,’ an Israel-Egypt QIZ and OECD expansion with Israel’s Ministry of Foreign Affairs.” US Embassy Tel Aviv. 4 March 2004.

[124] During a Jordanian QIZ joint committee meeting in 2002, Israeli Deputy Director General in the Ministry of Industry, Trade, and Labor Gari Bar eloquently replied to demands for lowering the minimum Israel content even further saying that “Israeli input was the key philosophical and political basis of the QIZ initiative. . . QIZ companies should be willing to pay even more for duty and quota free access to the US market.” Wikileaks cable “Jordan QIZ investors bring concerns to Israeli officials” US Embassy Amman. 22 August 2002.

ministerial involvement “larger political imperatives would prevail”.[125] The deadline was meant to precede Hosni Mubarak’s and Ariel Sharon’s visits to the U.S. in April 2004. Finally, the controversy regarding content was resolved on March 30th between the two ministers. A minimum Israeli input of 11.7% was decided upon on a permanent basis. Nonetheless, both counterparts were aware that the Egyptian side would soon press for a reduction.[126]

At that point, the form of the public announcement of the project and matters surrounding publicity were elevated to core issues. In an effort to preserve the trilateral character of the agreement, the Israeli negotiators pressed for a written public announcement (signed by Egyptian, Israeli, and U.S. officials) to be made preferably at the World Economic Forum in Amman in May 2004. They stated that, in any case, they would not accept the creation of two separate bilateral tracks with the U.S.. In the previous meeting, director for Middle East Economic Affairs in the Israeli Ministry of Foreign Affairs, Ilan Baruch, had emphasized that a joint letter presenting the project was imperative, as it would manifest the two governments’ willingness to work for closer relations. Sayed Elbous, on the other hand, insisted on the issuing of two separate letters, but also noted that he would discuss the suggestion with the political leadership. [127] The handling of both controversial subjects by the envoys indicates that, though they approached the QIZ project as a technical matter, they deferred to political authority whenever faced with an impasse.

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[125] Wikileaks Cable. “QIZ talks: Getting closer but Israeli, Egyptian negotiators defer contentious input issue to their ministers.” US Embassy Tel Aviv. March 18, 2004.

[126] Wikileaks Cable. “GOI discusses next steps on Israel-Egypt QIZ” US Embassy Tel Aviv. April 2, 2004.

[127] Wikileaks Cable. QIZ talks: Getting closer but Israeli, Egyptian negotiators defer contentious input issue to their ministers.” US Embassy Tel Aviv. 18 March 2004.

Whether or not the QIZ initiation came as a result of U.S. pressure on the Egyptian regime against human rights violations in Egypt is a bone of contention.[128] Two recent publications on U.S.-Egypt relations present slightly differing points of view. According to the first, the pressure regarding human rights issues resulted from the Freedom Agenda, compelling Hosni Mubarak to develop closer relations with Israel and accept QIZs (Shama 2014, 184, 196). Brownlee (2012) refutes the idea that the real pressure on Hosni Mubarak concerned the democratization of Egypt, focusing instead on the issue of his son Gamal's planned succession to the presidency.[129] He also finds that the visit to Washington in April 2004 served as a means of pressuring Mubarak into accepting the content of Bush's April 14th letter of assurances to Ariel Sharon, namely U.S. concessions that some West Bank settlements will be preserved and that the refugees will not return to the 1967 boarders (Bush G.W. 2004); this constituted a major embarrassment for Hosni Mubarak (Brownlee 2012, 84-86). Nonetheless, both views explain how Mubarak's visit to the U.S. deferred the QIZ project initiation to the upcoming technocratic government.

The Minister of Industry and Foreign Trade in the newly appointed government of Rachid Mohamed Rachid openly announced QIZ discussions for the first time during his official visit to Washington in November 2004, where he presented the agreement as driven by economic concerns (Shelby 2004). The inclination of Nazif's governemnt to present the agreement as business-led was a calculated move. QIZ

[128] For example, Dunne (2008) states that "the April [2004] 12 meeting in Washington with George Bush turned a new page in its bilateral relationship with Egypt—one on which the issue of political reform is clearly inscribed." (par.6)

[129] In the press conference that followed the meeting, George Bush praised Egypt for its security coordination, particularly in Gaza and Iraq, and made reference to its advancement of democracy and commitment to reform (Remarks by President Bush and President Hosni Mubarak 2004).

supporters made a connection between supporting the private sector and economic development, conceptually juxtaposing Egypt's potential for productive development and the public's unwillingness for normalization of relations with Israel (Moore and Schrank 2003, 117). While upholding core Egyptian regime choices, the new government contrasted "rational administration" against "idealism" and felt free to publicly defend their new economic cooperation with Israel (El-Ghobashy 2005).

B. Reaching the Agreement

The QIZ agreement was signed on December 14th 2004 by Egyptian Minister Rachid, Israeli Minister Olmert, and USTR Zoellick, in a ceremony held in the Egyptian cabinet office. The first geographical zones appointed were Greater Cairo, Alexandria, and the Suez Canal.[130] A total of seven industrial zones where designated within these geographical areas (Protocol 2004, Annex A).[131] With regards to QIZ export eligibility, the agreement specified a minimum Israeli content of 11.7% out of the 35% of input that should come either from Egypt, Israel, or the U.S..[132]

In the Press Conference following the signing ceremony, USTR Zoellick remarked that the agreement will promote the peace process by setting an example for other countries in the Middle East by "moving beyond conflict and destruction", and "create an opportunity" for the average person (USTR 2004 par. 36). Minister Rachid

130 QIZ Egypt n.d. http://www.qizegypt.gov.eg/images/Statistics%20_Q1_Feb_2005.pdf

131 The first step was to designate administrative Governorates, then industrial zones within them, to be followed by company selection. (Protocol 2004).

132 In order to encourage the use of Israeli consulting research and marketing services, the protocol provided the option to use 20% of Israeli and resting the other rules of origin if the Israeli inputs were intangible (Protocol 2004 Article II D1.b).

after signing the agreement stressed that it would be the first time that Egypt would see concrete benefits from the Camp David peace agreement (Wallis 2005).[133]

Numerous Egyptian journalists noted the surprising nature of the announcement, in view of the non-existent economic relations between the countries and the suspension of diplomatic relations with Israel in 2000 in protest at Israel's brutal response to the second Palestinian Intifada (Shama 2014, 189). The sudden news that followed the protracted secret negotiations as well as the fact that the agreement did not require ratification from parliament served to minimize the debate.[134] They also reflected a sense of relief, just before the expiration of the Multi Fiber Agreement (MFA). The reaching of the agreement coincided with further efforts to mend relations with Israel, such as the release of Azamm Azamm (Yadav 2007)[135] and the plan for the 2005 Israeli evacuation from Gaza ("New QIZ on the block"). Lastly, the outcome of the QIZ negotiations could appear to benefit Egyptian workers far more than the recently signed gas deal, which had been announced in the Israeli parliament in June 2004. The provisions of the latter specified that Egypt would provide Israel with natural

[133] The multitude of goals attached to QIZs in US embassy communications is striking. In some cases, the QIZ agreement is referred to as a reward to Egypt for its support to the Middle East Peace Process (Wikileaks Cable. "Sceensetter for U/S Hormat's meeting with Minister Rachid" US Embassy Cairo 19 November 2009). In other communications, the main goal of "strengthening the Egyptian-Israeli political relationship through closer economic ties" is lumped together with aims such as "promoting stability within Egypt through the creation of jobs and economic opportunity" (Wikileaks Cable. "Update of US-Egypt Strategic Economic Dialogue" US Embassy Cairo. 25 February 2010.

[134] The diplomatic relations were reinstated in 2005.

[135] Azamm Azamm was an Israeli Druze working in an Israeli textile industry in Egypt, who was convicted for espionage in 1996. He was released in December 2004, before serving his full term, in return for the release of six Egyptian students that had been jailed in Israel. The release was an important precondition for the public announcement of the relations between the two business sectors (Alon and Benn 2004).

gas for fifteen years at a low fixed price (El-Ghobashy 2005). This prospect had exasperated the Egyptian opposition (Antreasyan 2013).[136]

At that time, the fundamental economic arguments in Egyptian public discourse revolved around the termination of the MFA and the promotion of the FTA. The employment projection constituted the material base upon which public consent for the project could be built. In a series of interviews, Minister Rachid stated that more than 250,000 jobs would be created by QIZs, whilst 150,000 people would lose their jobs without the agreement (El-Ghobashy 2005; Wahish 2004). These numbers implied that new jobs would be created due to the agreement. For lack of a better option and in light of the impending termination of the MFA, it was hoped that the threat of increased unemployment would turn the tide of public opinion in favor of QIZs and economic normalization with Israel.

C. QIZ Joint Committee

The managing entity of the project was the QIZ joint committee, which comprised Egyptian and Israeli representatives, as well as U.S. observers. The committee's mandate was to designate eligible Egyptian companies; this would be done by "identifying those manufacturers located within the Qualifying Industrial Zones, which involve substantial economic cooperation between Israel and Egypt" (Protocol 2004, Annex B). According to the QIZ protocol, the committee meetings were to take place alternately in Cairo and Jerusalem once every three months (or at the request of

[136] The Memorandum of Understanding on the Gas Agreement was signed in July 2005 ("Egypt, Israel finally sign gas deal").

the contracting parties).[137] In Egypt, the project was regulated through the QIZ authority, which is located within the Ministry of Trade and Industry.

The main task of the joint committee meetings was to verify companies' compliance with the minimum Israeli input. Each joint committee would routinely discover no more than two or three exporting firms that were not fulfilling Israeli quotas. Seldom was the compliance of Israeli companies put in question. For example, Israeli company Politisur tried to import Turkish products as QIZ input. When Egyptian businessmen complained that they could not verify the origin of the products, the Israelis rejected the request to provide a list of eligible Israeli companies; instead, they advocated the intensification of business contacts and moreover offered to facilitate such meetings.[138]

D. MFA Termination and FTA Goal

In Egypt, QIZs were essentially justified as the only available tool for overcoming the termination of the MFA and the devastating impact that this would have on the textile sector, particularly on employment rates (Shama 2014, 190). The prospect of MFA termination was indeed alarming, given the textile sector's vital importance for Egypt. The MFA, which had been introduced in 1974, constituted a structure of quotas for imports to developed countries of textiles and garments originating from particular developing countries. The agreement would expire at the end of 2004, posing a considerable economic challenge for all participating developing countries, since they

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[137] An uncharitable reading of the agreement would see this clause as in effect acknowledging Jerusalem as Israel's capital.
[138] Wikileaks Cable. "Second Meeting of the Egypt-Israel QIZ Committee" US Embassy Tel Aviv. August 16, 2005.

would be unable to survive Asian (and particularly Chinese) competition (Cammett et al. 2007, 304).

Textile exports to the U.S. would thereafter face duties ranging from 15 to 36%. With the MFA's termination, Chinese exports to the U.S. were projected to increase by 50% (Magder 2005, 25). In reality, however, Egypt never really filled the quotas to the U.S. market during the MFA period (Henry and Springborg 2010, 179-180). More importantly, after a while the QIZ would be rendered trivial as a countermeasure against the MFA termination, due to the proliferation of parallel agreements. While both the U.S. and the EU alike implemented a series of safeguard measures against Chinese imports (Magder 2005, 27; Ghori 2011), the U.S. pursued Foreign Trade Agreements with several other countries. In addition to an FTA with Jordan in 2000, FTAs were concluded with Bahrain and Morocco in 2004, and later on with Oman in 2006 (Pigato and Ghoneim 2006, 16). Nevertheless, the wider picture was that the termination of the MFA would increase export costs for the companies which were already trading with the U.S..

The initiation of QIZs brought out the urgent need for the reconstruction of the textile and garment sector in Egypt. The main economic criticism leveled against the QIZ project was that it promoted trade diversion and therefore indirect protectionism, thus impeding the necessary upgrading of the Egyptian textile sector which was long overdue given that the impending termination of MFA agreement was known from long before (El-Amrousi 2005; Shama 2014, 192). Additionally, the EU had become a larger trade partner to Egypt for textiles and garments than the U.S. by 2004, and Egyptian industrial products would gradually enjoy duty free access to the EU market with the EU Egypt Association Agreement (EU Egypt Association Agreement 2004). Even in

2005 (i.e. on the eve of the QIZ project's initiation), Egyptian textile exports to EU experienced a decrease of only 1% (Pigato et al. 2006, vi). Hence, the MFA termination argument does not explain why no efforts were made on behalf of Egypt to increase exports to other markets, including the EU.

The connection between the QIZ agreement and a U.S.-Egypt FTA featured as one of the core public justifications for the project; in a move inspired by the experience of Jordan (which, as seen above, had signed an FTA with the U.S. in 2000, just a few years after introducing QIZs), Minister Rachid contended that the QIZ agreement would set in motion the FTA negotiations (USTR 2004, par. 6). The prospect of concluding an FTA with the U.S. was introduced in the Trade and Investment Partnership Agreement (TIFA) between the two countries in 1999, and was stipulated through the creation of the 2003 U.S.-Middle East Free Trade Area (Schott and Kotschwar 2010, 23). Although Egypt would be an ideal candidate for an FTA both in terms of political importance and economic potential (Galal and Lawrence 2004, 301), this was nonetheless never in the intentions of the U.S., as U.S. Ambassador David Welch attested (Brownlee 2012, 221 note 58) Instead, what became known in 2005 was that the FTA negotiations ceased in view of U.S. objections to the mishandling of democracy issues by the Egyptian government (Schott and Kotschwar 2010, 2).[139] Gamal Mubarak had previously paid lip service to the promotion of the FTA agreement (El-Ghobashy 2003). However, since the Egyptian government did not wish the liberalization of tariffs that this development would entail, QIZs were the only option available for allowing Egyptian products duty-free access to the U.S. (Nugent 2014, 7). Therefore, U.S. concerns regarding democracy

[139] One interpretation for the standstill in the FTA negotiations focuses on the "Ayman Nour case" (Sharp 2005). Ayman Nour was one of the most popular candidates in the 2005 presidential elections with the Ghad party (91). He was arrested by the Egyptian authorities in January 2005 ("Profile: Ayman Nour").

issues in Egypt did not halt the development of QIZs; on the contrary, they rendered the agreement more indispensable than ever.

E. Confronting Anti-Normalization

The widespread resentment in Egyptian society over the cooperation with Israel was a factor which not only was taken into account, but was in fact central in the carving out of the project. Early in the new century, after the gradual abandonment of the Oslo process and the cessation of regional economic conferences, normalization appeared to lack a pragmatic foundation. The Egyptian mobilizations in support of the Palestinian Intifada from 2000 onwards constituted the most powerful mass movement seen in decades and were highly consequential in bringing together new networks of activists who played an important role in the 2011 uprising (Abdelrahman 2014, 31; Abou-El-Fadl 2012).

The QIZ project came up against a climate that was non-conductive to open normalization. Its supporters aspired not only to withstand it, but to change it. In their efforts, they appeared to rely on the apparent predominance of anti-neoliberal movements (with a focus on privatizations and the dismantling of public welfare) over Palestine solidarity movements in the mid-2000s (Abou-El-Fadl 2012). The initiation of the QIZs was a useful crash test for gauging social response to the project. In a coverage of the agreement’s signing, Al Ahram Weekly presented divergent opinions on the agreement. Its first article characterized the project as the “latest American recipe for imposing economic normalization between Egypt and Israel” against the will of the people (El-Naggar 2004). Contrastingly, the newspaper’s editor Ibrahim Nafie (2004) justified the agreement by framing it within the necessity to abandon anti-normalization in order to “face the country’s economic problem” and “adapt to international developments.” On the day of the QIZ protocol signing in December 2004, a demonstration organized by political parties, journalists, and anti-globalization activists took place in Cairo (Roushdy 2007, 49). The Anti-Globalization Egyptian Group demonstrated with the claim that only a few regime-allied businessmen would benefit from the agreement, and the group “Boycott” threatened to issue blacklists of participating companies (Mekay 2004). On the same day, workers in the Mahalla al Kubra factories protested against the agreement (Roushdy 2007, 49). These reactions were portrayed by Robert Zoellick as only three hundred “intellectuals” protesting against the project, versus a much larger demonstration of workers who wished they had been included (Davis 2007).

The agreement circumvented the process of ratification by parliament. However, the Muslim Brotherhood parliamentary group condemned the agreement, branded it a “serious threat to national security”, and refuted the government’s arguments regarding employment projections (Gamal 2013). A heated debate was also triggered in parliament, with multiple demands for official answers on the project. The uproar ceased after Hosni Mubarak intervened to support the agreement and Egypt’s mufti, Ali Jum’a, endorsed the agreement according to Islamic law (Yadav 2007).

A U.S. embassy report cited “murmurs of resistance” as the main impediment to the QIZ project.[140] As expected, anti-normalization activities multiplied when Israeli aggression mounted. The Committee for the Defense of the Palestinian Intifada issued numerous communiqués opposing QIZs (Jadallah 2014, 383). In trying to ultimately insulate Egyptian-Israeli relations against political events, the project was in reality

[140] Wikileaks Cable. “Egyptian QIZ exports continue to rise, labor market tightens” US Embassy Cairo. December 21, 2006.

highly politically vulnerable. [141] It operated in fear of a wide popular and political outburst that could be directed against the regime. During the war in Lebanon in the summer of 2006, the head of the QIZ Unit Ali Awni removed the "QIZ" sign from the Ministry of Trade for a few days, and a quarterly meeting was postponed for fear of public protests.[142]

In 2007, the U.S. Embassy in Cairo was alarmed by the fact that over 140 members of parliament had demanded information on the economic performance of the project, particularly since 33 of them came from the ruling party.[143] Ali Awni, described such reactions as "routine". Another joint committee report took notice of an appeal by 35 opposition parliamentarians on May 19th 2008 for the QIZ program to halt. Ali Awni replied by announcing a campaign to attract investment from Eastern Europe.[144] The plan never materialized, and it appears that the sole purpose of the campaign announcement had been to paint the reactions of the opposition as damaging and hostile to investment.

In another instance, public criticism focused on the number of Israeli experts working in QIZ factories ("Egyptian paper reports"). When relevant information was

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[141] A lot of weight was given by US officials to the goal of rendering the economic interaction independent and unaffected by the war in the Occupied Territories. This is exemplified in a 2002 report from the US embassy in Amman regarding Jordanian QIZs, which underlines how important it was that "None of the spikes in violence resulted in lost production or sustained lost access to Israeli inputs or the port of Haifa" Wikileaks Cable. "Jordan and the QIZ experience" US Embassy Amman. 24 September 2002.

[142] Wikileaks Cable. "Egyptian QIZ exports continue to rise, labor market tightens" US Embassy Cairo. 21 December 2006.

[143] Wikileaks Cable. "Egyptian Parliamentarians question QIZ program." US Embassy Cairo. June 14, 2007.

[144] Wikileaks Cable. "Egyptian QIZ exports level off in first quarter of 2008." US Embassy Cairo. May 22, 2008.

requested from the Minister of Manpower in Parliament, he reported half the actual number.[145]

In the public pronouncements of the Egyptian government, the economic benefits of the project were emphasized. On the contrary, it was the normalization arguments that monopolized the discussion within the joint committee and in communications with the U.S. administration. This was the case, for example, in the request for the project's first expansion in July 2005. Just a few months after the project's initiation, and although at that time only 70 out of 397 designated QIZ companies were active in the project, Minister Rachid Rachid grounded the request in the normalization narrative. As he stated in a disclosed letter addressed to U.S. Deputy Secretary of State Robert Zoellick:

> "(T)he fact that the QIZ is the first trade agreement signed by the U.S., Israel and Egypt gives all its economic benefits great political ramifications for the Middle East. Trickling down the benefits of the QIZ to the people on the street in Egypt means a change in the mindset of the Egyptians with respect to Israel. The extension of the QIZ to more zones ensures that more people will be affected by this change. And we cannot underline the importance of such a mindset change for Middle East peace enough. To say the least, it is key to allow Egypt, as a regional leader, to play an active role in the normalization of Arab-Israeli relations.[146]

This abstract inherently ties the project to a "mindset change", which in turn is elevated to a core element in the promotion of the peace process. Ultimately, the project was extended to include a new zone, the Central Delta QIZ, while the Greater Cairo and Suez Canal QIZs were also expanded to encompass two other areas of industrial

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[145] Wikileaks Cable. "Israelis not upbeat on prospects for bilateral trade with Egypt." US Embassy Cairo. December 17, 2009.

[146] Wikileaks Cable. "Egyptian Trade Minister Justifies Expansion of QIZ Program." US Embassy Cairo. July 31, 2005.

concentration, Mahalla al Kubra and Ismaylia. However, public factories were never included in the project (QIZ Egypt n.d., QIZ data).

Later on, and most obviously in the period after the 2011 uprising, the government's defiance of opposition reactions was rationalized on the basis of a potential surge in unemployment if the project were to be discontinued ("QIZ in question"). In effect, construing QIZs as an economic reality which would be hard to reverse constituted the main agent of normalization.

As was obvious from the inception of the project and as demonstrated by the classified workings of the QIZ joint committee, wariness of public reactions led to a lack of transparency (Nugent 2014, 113). In turn, this secrecy secured an advantageous position for the businessmen involved in the project.

F. The Role of Businessmen

In elucidating the role of businessmen in the project, we must examine who benefited from QIZs, what role particular businessmen were expected to play, how this, in turn, affected the project, and the ways in which they participated in its promotion. Firstly, it is important to consider how businessmen transformed their interests, given the heavy protection that the garment sector had been subject to in Egypt. The extended protections for the textile and apparel sectors in Egypt are to be expected, as they can be attributed to the social importance of public textile factories such as Mahalla Al Kubra. However, the garment sector (70% of which consisted of private companies by 2004) was disproportionately protected compared to the other industries.

As we have seen in chapter V, protectionism in the textile and garment sectors had diminished by the time QIZs were introduced, parallel to the termination of the

MFA. Obviously, this posed a threat to the businesses which were active in exporting and had operated within a protected environment up to now. For example, Swiss Garments (a company owned by Alaa Arafa, the largest QIZ exporter), had been one of the biggest suppliers in the local market, with significant exports prior to 2004 (Arafa Holding n.d.).

The QIZ idea was undertaken (initially in Jordan and later in Egypt) not by the business community in its entirety, but by a pair of businessmen who already had a business partnership between them and were close to the respective political leadership of their countries. The collaboration between Omar Salah and Dov Lautman of Delta Galil industries is considered the point of origin of the QIZ idea in Jordan (Bouillon 2004, 155). In Egypt, chairman of Nile Clothing and President of the Egyptian Federation of Industries Galal El-Zorba, a businessman with close ties to the regime, became actively involved in and was one of the main beneficiaries of the project (Nugent 2014, 108).[147] A question worth examining is whether the project was initiated mainly through the pressure of Israeli textile business, in order for it to overcome its structural problems and global competition by subcontracting the low-cost labor part of production (Azmeh 2014). However, the categories of Israeli input used in QIZs (mainly dyes, zippers, and packaging) (USAID 2008, 13) appear unrelated to the structural problems of the Israeli industry.[148]. As noted earlier, although the project was presented as an outcome of business encounters, in reality these meetings had been, to a large extent, state-mediated and were kept under wraps until the launching of the project.

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[147] Gala al Zorba had been the president of Egyptian Federation of Industries since 2004, and remained in this position until 2013 even though he had been appointed by the Mubarak regime.

According to the Cairo and Tel Aviv U.S. embassy communications reporting on the QIZ project, the businessmen involved did not partake in the joint committee, but the embassy officers frequently met and consulted with them. For many of the participating businessmen, there was explicit reference to their close connection to Minister Rashid Rashid.[149]

Looking into the inception of each of the companies owned by major QIZ businessmen, we observe that they were established in the 1980s and early 1990s (Table). As discussed in chapter IV and V, since the Infitah and increasingly in the 1990s with the selective implementation of the SAP in Egypt, businesses were drawn to the garment sector by virtue of continued trade protection, and businessmen were increasingly obliged to comply with the regime in return for the privileges they enjoyed (Owen 2004, 234). According to Galal Amin, the lack of political commitment on behalf of an easily amenable business class was also decisive in fulfilling QIZ goals (Roushdy 2007, 49).[150] For the technocratic government, the QIZ project provided an opportunity to showcase their close coordination with the business community (Reed 2005). In this way, the U.S.-led project presented a new road to riches for regime connected businessmen, driving them closer to the regime.[151]

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[149] Wikileaks Cable. " "Anger and different explanations over QIZ implementation delay." US Embassy Cairo. October 11, 2009.

[150] However, some businessmen were distancing themselves from the regime for political and ideological reasons (El Tarouty 2015).

[151] An incident which illustrates that the technocratic government wished to present businessmen as responsible for the project is described in a cable from the US embassy in Cairo (Wikileaks Cable. "Is the Egyptian garment industry headed for failure?" US Embassy Cairo. January 27, 2010). In a press conference soon after the signing of the QIZ protocol, Minister Rashid Rashid left the panel and expected Magdy Tolba, the Chairman of Cairo Cotton Center (one of Egypt's largest garment exporters), to answer questions from "angry journalists". Tolba believed that the minister was worried the "anti-Israel" reactions would focus on him personally. He accused the government of shying away from promoting QIZs to more businesses in order to avoid accusations of advancing normalization. In reality, Magdy

A number of Egyptian businessmen responded to the economic incentive provided by the project and undertook the required collaboration with Israeli suppliers. However, both for fear of social condemnation and for economic reasons (e.g., they found Israeli inputs very expensive), they minimized contacts with their Israeli counterparts. In the second meeting of the QIZ joint committee on August 14th 2005 in Jerusalem, Israeli co-chair Gabby Bar complained about Egyptian businessmen's efforts to minimize the input and their non-abiding by the agreement clause that the input should be "direct and relevant".[152] Bar cited the case of a QIZ garment company that only incorporated detergent powder as Israeli input, actually amounting to the agreed 11.7% of the product value; however, he pointed out, such an amount could be used to wash "millions of pants". Bar requested action against this practice. Egyptian co-chair of the meeting Sayyed Elbous replied that the issue should not be touched, as there were already inquiries in the Egyptian parliament about the cost of Israeli inputs. The incident suggests that business relations and interchange were not proceeding as expected. In fact, as long as Egyptian industrialists could exploit the profit margin, they tried to minimize economic interaction and publicized contacts. A 2008 USAID report found that, although there was some increase in the dealings between Israeli and Egyptian businessmen, the project was falling strikingly behind on the goal of enhancing interaction among businessmen (USAID 2008, 24).

Because the Israeli side was particularly interested in advancing business contacts, they used the emergence of any problem in the implementation of the project

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Tolba was a main beneficiary of the project and would support the endeavor in the press (Abo Alabass 2011).

[152] Wikileaks Cable. "Second Meeting of the Egypt-Israel QIZ Committee." US Embassy Tel Aviv. August 16, 2005.

as an opportunity to propose or demand facilitation of meetings between the business communities. This was, for instance, the case when Egyptian businessmen complained that the Israeli inputs were too expensive, and even when some Israeli companies were caught re-exporting goods from China.[153] The public display of intensifying business meetings was regarded as the project's main vehicle for the promotion of normalization. The idea was that political concerns inhibited the strengthening of relations between businessmen and that the government's active encouragement and facilitation was needed.

As a rule, business contacts would become more infrequent in times of escalating violence in Palestine. Despite the reluctance of the participants, visits between business groups from the two countries did not completely discontinue. Still, the intensity and the openness of these meetings were affected by events in the Israeli-Palestinian conflict. Officers in the Israeli embassy complained that after the December 2008-January 2009 war in Gaza, politics (as opposed to economics) "has become the most dominant element in the consideration of Egyptian businessmen" as they had stopped traveling to Israel in fear of public reactions.[154] As another result of the war, the provision of Israeli inputs ceased and QIZ companies could not meet their orders (Ghoneim and Awad 2009, 16). Nonetheless, the idea that businessmen could exert influence to ensure the continuation of the process held ground. The 16th quarterly Joint Committee on February 19th 2009 was postponed by the Egyptian government in response to the breakdown of ceasefire negotiations in the aftermath of the Gaza war.

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[153] US Embassy Tel Aviv. "Readout of 14th quarterly meeting of Israel/Egypt QIZ." August 11, 2008.

[154] Wikileaks Cable."Israelis not upbeat on prospects for bilateral trade with Egypt." US Embassy Cairo.December 17, 2009.

The industrialists complained, as the non-renewal of QIZ certificates would hinder their operation. Subsequently, the committee resumed a few days later. [155]

The large number of inactive firms was a common issue of concern in the consultations. Few businesses had been able to take advantage of the project. From the 255 garment companies qualified in September 2005, only 70 exported to the U.S. in the same year (Awni and Shafei 2012). In 2008, 223 out of 717 QIZ-eligible companies were exporting (USAID 2008, 3). Among them, the majority of exports came from a just a handful of firms, which were located in the first designated zones (Nugent and Abdel-Latif 2010, 25). By 2010, "the same zones and companies that started off making the majority of exports from QIZs remain the same big players with very few new comers" (Ibid.). Thus, among the exporting firms, the project increasingly benefited the larger companies that were already exporting and had grown further in order to cope with the demands of their increased exporting activity (El-Megharbel 2007, 186). The reasons cited by qualified firms for not exporting through QIZs were problems with the promotion of their products and the high price of Israeli inputs, which were roughly 20% costlier than alternative sources (Refaat 2006).156 In effect, small firms did not profit from the project. Though no official data on company exports exist, according to the sources ("The QIZ: A Faustian Deal"; Wikileaks Cable "AUSTR Stickler reassures GOE, business on QIZ." US Embassy Cairo. December 12, 2009.) the five biggest

[155] Wikileaks Cable.. "Egypt/Israel: Readout of 16th quarterly meeting of the qualified industrial zones (QIZ)." US Embassy Tel Aviv. March 3, 2009. In the same cable, it is mentioned that the Egyptian government publically attributed the postponement to technical reasons.

[156] Certainly, issues of production magnitude also played a role in the concentration of exports in a small number of firms. The biggest companies which had established networks in the US could take advantage of these privileges in order to expand their operation and to also acquire discounts by Israeli companies (Ghoneim 2013, 15).

exporters were Galal El-Zorba, Mohamed Qassem, Magdi Tolba, Alaa Arafa and Fadel Marzouq (see Table).

The prominent QIZ businessmen who were close to the regime and part of Gamal Mubarak’s circle wanted to preserve their privileges and exploit new opportunities. Our findings concur with Sfakianakis's (2004) conclusions. Major textile businessmen in coordination with regime official were eager to embark on the project and became a moving force. Later on, the businessmen would lobby for their interests, by virtue of their already established position within the project and the inside information that they could amass. As a result, they benefited from the secrecy of the QIZ consultations, and were therefore invested in preserving the non-transparency of the decision making. This will become evident in the example of QIZ expansion to Upper Egypt, which we will present at the end of this chapter.

G. Employment Issues

Employment expansion and the protection of existing work positions were the main pledges made in the promotion of the QIZ project. As had also been observed in the case of the Jordanian QIZs, the participating businessmen took advantage of their privileges and tried to profit with the tools “at hand”, namely cheap labor (Moore Shrank 2003, 118). Noticeably, the QIZ agreement did not include labor standard clauses. However, the need to prevent a repetition in Egypt of the workers’ rights violations that had taken place in Jordan was a pressing concern for U.S. Embassy officials, particularly in view of Egyptian businessmen’s demands to employ more foreign workers. [157]

[157] In Jordan, foreign workers comprised 30% of QIZ workers in 2001 and more than 75% in 2009. In 2004, foreign workers constituted at least 40% of the QIZ workforce, (Moore 2005). Violations of rights

The textile and garment sector (alongside the food sector) has, and seen above, long been the largest manufacturing employer in Egypt. In 2004, approximately 30% of Egyptian manual laborers were employed in the textile and garment industry, corresponding to a workforce of between 400.000 and 1.2 million people and representing 26% of the wages in the industrial sector (Pigato and Ghomeim 2006).[158]

Egyptian salaries - particularly in the textile sector - were globally competitive, with an average of 100$ per worker per month (Henry Springborg 2010, 180). Compared to wages in other parts of the region, textile workers in Egypt earned much less than those in Jordan; more remarkably, their salaries amounted to approximately half of Tunisian and one third of Moroccan or Turkish workers' salaries (Solidarity Center 2010, 113). A more in-depth examination on Egypt's competitive advantage would go beyond the scope of this study. However, it is important to note here that, despite the low wages, the main factor in the competitiveness of the Egyptian textile and garment industry was the low cost of gas, which was subsidized by the state. Combined with the low price of water and electricity, this offered Egypt an edge over other countries in the region (Ghoneim and Awad 2009, 33).[159] Given the low employment rates and the substantial benefits QIZ businesses were receiving in order to enhance local employment, the businessmen's constant demand to employ more foreign workers posed a great challenge to the project

in Jordanian QIZs (particularly against foreign workers) were commonly reported for several years. In 2006, the AFL-CIO (the largest trade union confederation in the US) and the National Textile Association submitted a complaint to the USTR concerning workers' rights violations in the Jordanian QIZs, amounting to "human trafficking" and "involuntary servitude". The complaint was based on the FTA with Jordan labor standards clauses (Mekay 2006)

[158] Ghoneim (2013) stresses that employment statistics such as these are problematic. The problem lies in both the lack of official data on QIZ employment (and the textile sector in general) and the lack of consensus as to which industries are included in the textile sector.

[159] The cost of gas in Egypt was a quarter of the cost of gas in Turkey. Water was also half as expensive as in Turkey, while electricity was much cheaper than in India or Tunisia (Ghoneim and Awad 2009, 33).

QIZ businessmen demanded permission to exceed the 10% legal limit that had been imposed by Ministerial Decree 136/2003 for the employment of foreign workers.[160] The businessmen claimed they needed to lower the labor cost and tackle the “low labor discipline” of Egyptian workers (Azmeh 2014, par. 12). They also contended that foreign workers were more productive (USAID 2008, 17). Their request was put in a 2007 letter by Egypt’s Ready-Made Garment Exports Council to the Minister of Industry and Trade , but was rejected (Azmeh 2014, par. 14). This was a recurring issue in the QIZ consultations, and the efforts to raise the percentage of foreign workers were monitored closely by the U.S. embassy.[161] On the one hand, there was apprehension that the employment of more foreign workers would lead to violations of workers rights, as occurred in Jordan. On the other hand, QIZ businessmen portrayed the meeting of their demands as essential for the continuation of operation.[162]

Preventing illegal practices against workers was a core concern, pertaining to the reputation of the U.S.-led project, particularly because such violations could offer a valid area of criticism against the project. For this reason, labor practices in QIZs were closely monitored by the U.S. embassy in Cairo. U.S. Embassy officials visited production sites regularly and spoke with some of the biggest QIZ businessmen, who were complaining about the low productivity of Egyptian workers (England 2007).[163] In

[160] The restriction could be waved for oil and gas companies and in other cases with government approval (Bureau of Economic and Business Affairs 2012).

[161] In a report of the US embassy in Cairo regarding the QIZ project, it was stated: “We are keenly aware of Washington's interest in foreign labor in Egypt's QIZ factories and are aggressively investigating the issue.” Wikileaks Cable. “No evidence of extensive use of abuse of foreign workers in Egypt’s QIZs.” US Embassy Cairo.”. December 12, 2008.

162. Wikileaks Cable. “Is the Egyptian garment industry headed for failure?” US Embassy Cairo. January 27, 2010.

[163] Wikileaks Cable. “Egyptian QIZ exports continue to rise, labor market tightens.” US Embassy Cairo. December 21, 2006.

addition, the officials communicated with NGOs which undertook ethical business practice audits. These audits were part of compliance projects with importers' factory operation standards.[164] The importers were in a position to organize such programs because the vast majority of all QIZ production was directed to four U.S. importers (Walmart, Jones International, Levi Strauss, and Gap) (Gamal 2013; Tucker 2006). Thus, meeting the working standard demands of particular importers aimed at giving the impression that labor conditions in the large QIZ exporting factories were improving (Solidarity Center 2010, 54).

A different picture emerges from the U.S. embassy reports. In February 2010, the U.S. embassy Economic Officer visited the Kazareen factory which exported through QIZs. The owner, Oussama Aboud, freely admitted that the factory's management was withholding the passports of its sixty Bangladeshi workers. Additionally, he confessed that in April 2009 the factory workers decided to organize a strike, which he stopped by firing the person he believed to be the strike's leader. The Egyptian Ministry of Manpower informed the U.S. Economic officer that they were not aware of these violations.[165] However, such practices were common in the private textile factories (Beinin and Al Hamalawy 2007). It is important to note that the regime-controlled Egyptian Trade Union Federation (ETUF) did not try to organize workers in the private sector and was completely absent in the QIZs as well as in other free economic zones (Beinin 2015, 74).

Although there is no reliable information on QIZ employment statistics, one conclusion that has been drawn is that the project managed to "save" the textile industry

164 Wikileaks Cable. "No Evidence of up-front resignations in Egypt's QIZ factories." US Embassy Cairo.November 24, 2008

165 Wikileaks Cable.. "Foreign worker and labor problems in QIZ factory." US Embassy in Cairo. February 11, 2010.

(England 2007), but was far from creating the projected numbers of new jobs. Yearly QIZ exports rose from 288.6 million dollars in 2005 to 858.2 in 2010 and the total value of imports had been rising proportionally, reaching 90,4 million dollars in 2010.[166]

Moreover, the effects of backward linkages and Foreign Direct Investment (FDI) did not advance employment as had been hoped. While the FDI projection forecast five billion in five years, the zones attracted very little FDI, mainly from Turkey in 2006. Indeed, a few Turkish firms moved to Egypt in order to take advantage of QIZs after the Egyptian-Turkish FTA in 2005 enabled duty-free Turkish imports, but the pace of investment ceased afterwards (Nugent and Abdel Latif 2010, 27). The high percentage of imported inputs in Egypt's QIZ exports indicated a lack of employment advancement in related sectors (Nugent 2014, 109). Thus, one of the most important drawbacks of the project was the lack of backward linkages within the Egyptian economy.

The employment numbers that were reported refer to the total number of registered QIZ companies. In 2010, approximately 100,000 people were working in 507 QIZ factories (Abo Alabass 2011). However only a fraction of the designated companies were exporting through the project and moreover only part of the exporting companies' production fell under the QIZ agreement.

QIZ factories relied on low-cost labor and subsidized gas. Their only marked contribution to employment appears to have been through compliance projects which tried to minimize outright violations against workers in order to avoid accusations which could blatantly disparage the QIZ project.

[166] QIZ Egypt, n.d., QIZ data-Imports/Exports.
http://www.qizegypt.gov.eg/QIZ_Data.aspx
In the QIZ Unit import statistics, the proportion of Israeli imports in total imports is not specified.

H. Expansion to Upper Egypt

The lack of QIZ product diversification presented a real concern in the consultations, as it manifested the failure of the project to create closer business or social interaction in an increasing number of sectors. The expansion of the project to Upper Egypt was expected to engender product diversification. These expectations were challenged by a conflict between Egyptian businessmen and the U.S. negotiators over which factories would be designated. Practically, the only product category exported through QIZs was garments. Processed food constituted well below 1% of total QIZ exports; for example, it was only 0,20% in 2006.[167] Moreover, only six garment product categories comprised 82% of QIZ exports in 2010 and within these categories exports were dominated by a small number of products, mainly pants and T-shirts (Nugent and Abdel-Latif 2010, 26). The food indU.S.try (the largest industrial employer in Egypt), was also expected to benefit from QIZs. However, this did not happen because U.S. import tariffs for processed food were already low. Consequently, the motivation to export through the project was limited.[168]

Moreover, producers could not find relevant Israeli inputs. According to conventional economic theory, the combination of Israeli technology and Egyptian low-cost labor would lead to increased value. However, such expectations were not realized because technological cooperation requires long-term and intensive collaboration (Ghoneim and Awad 2009, 15). Several active efforts were made to encourage the food industry to participate in the project. For example, the Modernization Center, a technical advocacy center financed by the EU and the U.S., embarked on an "awareness raising"

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[167] Calculated from QIZ Unit n.d., QIZ Data-Imports/Exports. http://www.qizegypt.gov.eg/QIZ_Data.aspx. (Nugent and Abdelatif 2010, 26).

[168] US import tariffs for processed food were on average 5%.

campaign in 2006, targeting three hundred food processing firms with the aim to persuade them to embark on QIZ exports ("300 Food Companies join QIZ").

A constant Egyptian demand in the QIZ joint committee was the reduction of the required Israeli input, with the argument that it was hindering the diversification of production. As the Israelis wished to maximize the publicity of the project, they were able to hold the signing of the agreement on lowering the minimum Israeli input from 11.7% to 10.5%, by Israeli Minister of Industry Trade and Labor Eliyahu Yishai and Rachid Rachid, in October 2007 in Cairo.[169] On this occasion, the two ministers announced that they would submit a common request for QIZ expansion to eight areas in Upper Egypt ("QIZ agreement revised").[170] In the press conference following the agreement, replying to a journalist's question regarding the Israeli stance in the impending Annapolis peace conference, Yishai stated that Israel will undertake no commitment ("Egyptian paper reports on trade agreement with Israel."). This statement provided additional unequivocal proof of the disconnection of QIZ advancement from Israeli concessions in the peace process.

Combined with the lack of product diversification, a decrease in QIZ exports in the fourth quarter of 2007 (compared to both the preceding quarter and the fourth quarter of 2006) motivated the expansion to Upper Egypt.[171] U.S. ambassador in Cairo Francis Ricciardone stressed in an embassy communication that he supported the

[169] Eli Yishai, of the ultra-religious Shas Party, was also serving as Deputy Prime Minister and was received by Hosni Mubarak during his visit.

[170] Egyptian businessmen were pressing for the lowering of input to 8%, to equal the requirement in the Jordanian QIZ agreement (England 2007). The Israeli side declined because they found that the project was already profitable for the Egyptian businessmen, who were expanding their operations. Wikileaks Cable."Egyptian QIZ exports continue to rise, labor market tightens." US Embassy Cairo. December 21, 2006.

[171] However, the declining exports to the US are also attributable to the slide in the value of the dollar against the euro in 2006, which made exports to Europe more lucrative.

expansion request, despite the scarcity of trained labor and infrastructure in Upper Egypt as compared to the rest of the country: He found that Egyptian industrialists' interest in the expansion revolved around lowering labor and investment costs, and, most of all, taking advantage of relocation incentives. He concluded that the expansion would strengthen official relations between the governments of Israel and Egypt.[172]

On top of export subsidies, Egyptian law 155/2002 offered additional benefits to businesses relocating to Upper Egypt. According to its provisions, the Egyptian Export Development Fund would remunerate 10% of added value in textile, garments, and food processing exports. The government would distribute land in Upper Egypt for industrial use free of charge, and developers would be granted full ownership after three years. Moreover, the government provided water, electricity, and gas connections (Bureau of Economic and Business Affairs 2012). This was an element in the preferential incentives used for the cooptation of business (Cammett and Diwan 2013, 13).[173]

Time and again, Egyptian officials underlined the link between the expansion to Upper Egypt and normalization. Senior advisor to Minister Rachid, Sayyed Elbous told the USTR that an expansion would not only advance the normalization of relations with Israel in a conservative region, but would also stabilize the political and social situation in the area.[174]

[172] Wikileaks Cable."QIZ export drop reinforces Egyptian-Israeli expansion request." US Embassy Cairo. February 25, 2008.

[173] In 2011, energy subsidies consumed 41% of government revenues and mostly benefited entrepreneurs (Cammett and Diwan 2013, 14).

[174] Wikileaks Cable."NEA/ELA director discusses QIZ expansion with Ministry of Trade." US Embassy Cairo. November 24, 2008.

The expansion request was accepted by the USTR in January 2009 for two out of the seven requested areas in Upper Egypt, Minya and Beni Suef. The Israeli side wished to maximize the publicity of the new expansion and to announce it during the upcoming visit of Minister Rachid to Tel Aviv, while the Egyptian side was reluctant to publicize it.175 The U.S. embassy remarked that, for the Egyptian officials, the period after the Gaza war was not appropriate for announcing the expansion.[176]

More importantly, the announcement was delayed due to the fact that the expansion implementation and subsequent QIZ factory designation was conditional upon a U.S. demand for providing a list of companies operating in Upper Egypt .[177] Minister Rachid strove to ensure the relocation of firms operating in other QIZ areas, which had been a solid demand of major QIZ businessmen. In particular, the biggest QIZ producers wanted to expand or move their production to Upper Egypt so as to benefit from the lower labor cost in the area. However, they were reluctant to do so without previously securing their companies' designation.[178] The controversy lingered into 2010, and Egyptian officials and businessmen expressed frustration, reiterating to U.S. Embassy officials that the list condition was a violation of the QIZ protocol.[179] Businessman Alaa Arafa, who owned one of the biggest QIZ factories, had already built

[175]Wikileaks Cable. "Egypt's QIZ: No agreement on reduction in Israeli content requirement." US Embassy Cairo. May 27, 2009.

[176] Wikileaks Cable. "Anger and different explanations over QIZ implementation delay." US Embassy Cairo. October 11, 2009.

[177] Ibid. According to the QIZ protocol, US approval was required for zone designation but not for company qualification (Protocol 2004).
[178] Wikileaks Cable "AUSTR Stickler reassures GOE, business on QIZ." US Embassy Cairo. December 12, 2009

[179] Wikileaks Cable."GOE unwilling to budge on QIZ approval." US Embassy Cairo. January 12, 2010.

a factory in Beni Suef. In embassy communications, he is explicitly described as "known to be close to trade minister and other policymakers."[180]

The U.S. officials' reluctance to allow the relocation of firms to Upper Egypt stemmed from pressures by U.S. textile producers, who were worried that the move would exponentially increase Egyptian textile exports to the U.S.. Indeed, in a meeting between the Egyptian branch of the American Chamber of Commerce with the president of the U.S. National Council of Textile Organizations in 2008, the latter declared that they would not contest QIZ expansion to Upper Egypt provided that textile industries did not comprise the majority of the newly designated industries (Amcham 2008).

Before his visit to Washington in November 2009, Minister Rachid had reiterated his demand for the project's expansion to Upper Egypt as a reward for Egypt's role in the peace process.[181] In an undisclosed communication to USTR Kirk on August 23, 2009, Rachid criticized the prohibition of QIZ factory relocation because it "negates completely the objectives for which we requested the inclusion of Upper Egypt" (09CAIRO1793, 2009-09-15).[182] Publicly, the expansion to Upper Egypt with U.S. approval was mentioned as a future plan, and minister Rachid affirmed that it would not concern textile industries ("Egypt to add three areas"). The issue remained unresolved, and the expansion to Minya and Beni Suef was only announced in 2013 ("Two new governorates added"). Contrary to Minister Rachid's statement , at least one company owned by one of the five major QIZ exporters, Swiss Cotton Garments (part

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[180] Wikileaks Cable."Anger and different explanations over QIZ implementation delay." US Embassy Cairo. October 11, 2009.

[181] Wikileaks Cable. "Scenesetter for U/S Hormats meeting with Minister Rachid." US Embassy Cairo. November 11, 2009.

[182] Wikileaks Cable."Trade Minister intent on expanding US-Egypt trade ties." US Embassy Cairo. September 15, 2009.

of Alaa Arafa companies) is currently located in Beni Suef.[183] The Egyptian government did not confirm the project's expansion to Upper Egypt, not only because it was disinclined to showcase the advancement of the project shortly after the Gaza war, but also in the hope of ensuring the desired designation of large relocated QIZ businesses.

I. Conclusion

During the period of time examined in this thesis, QIZ exports constituted 2% of Egypt's overall world exports. QIZ products represented 13% of Egyptian exports to the U.S. in 2005 and 30% in 2008, constituting the majority of non-oil and non-mineral exports (Schott and Kotchwar 2010, 20-25). The tariffs for apparel in the U.S. generally ranged from 3% to 30%, but U.S. import tariffs on low-value-added garments (in which Egyptian QIZ businesses specialized) were as low as 16%. Although Egyptian exports did not grow as anticipated or proclaimed, this was a significant incentive that directed the interests of big businessmen towards QIZs. Employment rates remained static, the exaggerated employment projections having served mostly as a selling point for the agreement. The zones had open-ended validity, but this could be reversed for either economic or political reasons. Thus, once QIZs were in place, the businessmen involved were in an even more advantageous position to assert their demands. Pursuing QIZs as the only alternative to the manufacturing deficit and the MFA termination not only empowered the main beneficiaries, but also worked

[183] QIZ Egypt n.d., QIZ data-Qualified Companies. http://www.qizegypt.gov.eg/images/QIZ%20Companies%20List_12-02-2017.pdf. Remarkably, according to Arafa's company's web site (http://www.arafaholding.com/production-facilities/), the Beni Suef facility produces affordable trousers for the US market, while the two facilities in the 10th of Ramadan zone produce high-cost garments mainly for the European market.

to frame social opposition to normalization as dangerous for the project and therefore for the economy.

CHAPTER VII

CONCLUSION

The QIZ project in Egypt gave momentum to the drive for normalization of relations between Egyptian and Israeli business by associating normalization with a state project marketed as a means of saving the Egyptian textile and garment industry from imminent disaster. By creating an export privilege which predominantly benefited the garments sector, QIZs countered the widespread social indignation at an open and institutionalized cooperation with Israel. In 2004, when the Egyptian QIZ agreement was reached, the project complemented recurrent U.S. attempts to push Egypt towards normalization. The present study has tried to outline the story of the initiation and development of QIZs in Egypt and to show how the QIZ project was predicated upon Egypt's longstanding manufacturing problem as inherited from Nasser’s drive for state led development and the subsequent disappointment associated with the transition from Import Substitution Industrialization (ISI) to selective liberalization.

Furthermore, this thesis attempted to highlight how the regime used this problem to promote QIZs, and, in doing so, further empowered a part of the Egyptian business sector which had benefitted from previous trade protections and regime connections.

The transition from a mono crop economy connected with colonialism to ISI, followed by export promotion and structural adjustment is not unique to Egypt. In fact, it took place in a number of developing countries that had analogous trajectories

(Prashad 2007). In Egypt, ISI was embedded in Nasser's Arab nationalism from 1954 to 1965, launching a significant and very dynamic phase of industrial advancement but dissolving the private business sector. Since the 1930s, the textile sector had been at the epicenter of industrialization efforts aimed at overcoming lopsided development and economic overreliance on cotton exports. Infitah, since 1974, after Sadat succeeded Nasser in September 1970, was closely linked with Egypt's controversial turn towards the alliance with the U.S. that was eventually cemented by the 1979 Camp David Agreement. Infitah was adopted as the only solution to the economic stalemate and the balance of payments problem which had been inherited from the contradictions of ISI and the disastrous wars of the 1960s. In the Infitah period, the manufacturing sector as a whole was disadvantaged by the abrupt surge in imports and was pushed to the margin by other sectors (mainly construction and later on gas and oil), which were receiving the bulk of the investment. However, the textile and garment industries remained protected, incentivizing middle-class business to move to the garment sector. This protection remained throughout the Structural Adjustment Program in the 1990s and was supplemented with export incentives as well as preferential trade agreements with the U.S. and the EU. On the whole, the manufacturing crisis intensified as International Monetary Fund and World Bank policies led the Egyptian regime to use its "strategic rent" for selective liberalization, while at the same time oil (and later on gas) replaced cotton as the main Egyptian export (Richards 1999; Amin 1995, 88).

The QIZ project aimed at accelerating normalization of relations between Egypt and Israel on a social level, and the project cannot be understood without considering the pressure brought to bear to this effect. From Nasser's' engagement with Plan Alpha during the high tide of Arab nationalism in the 1950s through the peace treaty in 1979, the U.S. was constantly pressing Egypt to normalize its economic and political relations with Israel. While a large majority of the population resisted this potential outcome, the regime used lip service to a "cold peace" as leverage over the U.S., notwithstanding its quiet establishment of official relations with Israel in several fields, most notably gas exports and military cooperation. The pursuit of normalization concerned both the popular and official spheres, as its goal was open and publicized contacts and resistance to it intensified from 2000 onwards with the increased social rejection of normalization due to the second Palestinian Intifada. As in the previous years, Egyptian social opposition towards an rapprochement with Israel mounted during times of Israeli attacks on the Palestinian Territories or on other Arab countries. Consequently, more overt measures of normalization tried to link it to the overcoming of Egyptian economic problems. As contemporary advocates of normalization emphasize, "Economic considerations have softened the traditional Egyptian aversion to closer relations with Israel and eased the development of a utilitarian and pragmatic outlook, even if not always accompanied by the spirit of reconciliation" (Winter and Razy-Yanuv 2017, 83).

In the wake of the Oslo Accords in 1993 and up to the MEFTA process, the U.S. efforts for normalization between Israel and the Arab countries focused on multilateral economic cooperation, in contrast to bilateral political peace processes between Israel and Egypt, Jordan, or the PLO separately. However even as the 2003 war in Iraq presented new opportunities for the U.S. to impose its goals, multilateral normalization was not proceeding as expected. The 2004 Egyptian QIZ protocol was a result of the failure of a multilateral economic integration process which included Israel. Moreover, the original QIZ conception concerned primarily the Palestinian territories, however this part of the agreement was never realized. The project became a means of normalization with Jordan and later Egypt, underlying the normalization demand that a separate peace with each of these countries stipulated.

In 1997, the Jordanian government inaugurated their policy of establishing QIZs three years after signing a peace treaty with Israel. This was not only because a "peace dividend" was urgently needed in order to promote the treaty to the Jordanian public, but also because economic cooperation was in accordance with the optimism about wider regional peace which was inspired by the signing of the Oslo Accords. Despite QIZs reinvigorating popular resistance against normalization (hence Jordanian businessmen's abstinence from the endeavor), the project went ahead. Prior to the QIZ agreement, the garments sector in Jordan had been underdeveloped. Therefore, the entry of foreign garment companies into the Jordanian economy as a result of QIZs reaffirmed the idea that the project would present an important incentive for clothing industries. The Jordanian QIZ experience influenced the Egyptian QIZ project, particularly with regards to restricting migrant workers' employment. Severe violations against workers' rights were reported in the Jordanian QIZs, in which predominately Asian workers were hired. These reports contradicted the agreement's main justification, which concerned the creation of posts for jobless locals, thus discrediting the project and its public image. The Egyptian authorities prohibited the employment of additional non-Egyptian workers, notwithstanding QIZ businessmen's demands to increase their number in excess of the 10 % legal limit.

In 2004, the impending termination of the Multi Fiber Agreement placed the exports of active MFA companies in peril. The Ahmed Nazif's government saw this as an opportunity to entice affected businessmen and, in this way, push through the QIZ project despite the anti-normalization sentiments of the vast majority of the population.

Nazif's cabinet publicly differentiated between economic and political considerations, thus concealing the political nature of their own decisions (e.g. accelerated privatizations). The immediate danger of employment loss created a framework in which the QIZ project both was immune from political backlash (relevant to its implications for regional peace) and had an edge over other options for advancing the industrial sector. The QIZ agreement had nothing to do with market liberalization; rather, it was the product of political calculations specifically to increase U.S. support for the planned succession of Gamal Mubarak to the presidency. As such, it constituted a political manipulation of an economic calamity.

The proceedings concerning the launching and, later on, the management of the QIZs were held in secret. As indicated in the cables of the U.S. embassies, the project was not business-initiated but state-led. Particular individuals impacted on the creation of the project; however, the initiative sprang primarily from the official level of the three countries involved in the negotiations: the U.S., Israel, and Egypt.

A small number of businessmen benefited from the project, predominately through their being consulted during its implementation and their access to inside information. Consequently, these same businessmen had a vested interest in perpetuating the non-transparency of the QIZ consultations. Equally, secrecy was essential in concealing the Egyptian regime's direct involvement in the project, since the regime purported to keep contacts with Israel to a minimum. The companies of the five most powerful QIZ businessmen were established in the 1980s and benefited both from the extraordinary high protections in the garment sector for selling to the internal market as well as from export incentives. According to the U.S. cables, these businessmen were connected to the Egyptian regime, and particularly to Gamal Mubarak's close circle.

QIZ initiators rightly counted on the fact that profiting businessmen could become the moving force behind the project. The five garment industrialists who most prospered from QIZs were expected by the regime to act as the face and voice of the project. In return, the regime lobbied on their behalf, as, for example, in the case of securing their option to move their companies to Upper Egypt against U.S. refusal to allow QIZ qualification for firms wanting to expand or move there. Participating businessmen could press for the continuation of the project even when the regime was reluctant, in times of intensified popular opposition against Israel: Since businessmen could always argue that employment positions were at stake, the Egyptian regime lost its leverage over controlling the intensity of business contacts between Egyptian and Israeli businessmen. In accordance with Sfakianakis’s (2004) findings, a network of particular businessmen and technocrats had appropriated the process and the benefits of the project’s expansion. This also explains why the major QIZ businessmen were the first to embark on the project and continued to be the dominant profiteers of the project, as Nugent and Abdelatif (2010) found.

Contrary to the project’s promotional arguments, neither diversification of exports nor industry transformation was propelled by Egyptian QIZs; if anything, the protocol reinforced a shift towards low-value-added garment products. Exports of these products benefited more from the U.S. tariff waver offered through the project, leading Egyptian QIZ exports to disproportionately concentrate in cheap clothing.

Although the present study examines the developments up to 2011, this reality still holds today, and low-cost garment export constitutes approximately 90 percent of QIZ exports.[184] However, in the longer run competition with the cheap clothing exports from East Asia and China to the U.S. market is not sustainable; therefore, the viability of Egyptian exports to the U.S. is inextricably linked to the favoritism towards Egyptian products that the QIZ protocol represents.[185] The QIZ project also discriminated against public sector companies (which were not included in the agreement) and diverted investment away from sectors that were not afforded the same incentives for access to the U.S. market. Furthermore, the economic arguments underpinning cooperation with Israel (such as technology transfer and economic complementarity) were only rhetorical, and it was for the most part overpriced zippers and packaging that covered the minimum Israeli input requirement. The adoption of the QIZ project was in reality symptomatic of a rent-seeking pattern that was established since the Infitah in the 1970s. Therefore, the detrimental effect of forced normalization on industry advancement can be seen as the fallout of a political agreement that perpetuates existing economic problems in order to promote the interests of the few.

The WikiLeaks cables of U.S. embassy reports on the QIZ project reveal that U.S. officials have been carefully monitoring opposition to the project. Further study of Egyptian QIZs in connection to other efforts for social normalization with Israel could help produce a more detailed understanding about the nature of normalization projects.

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184 See http://www.qizegypt.gov.eg/QIZ_Data.aspx.

185 The safeguard measures against Chinese imports to the US persisted for several years; however, they are gradually fading out, and Chinese exports are currently substantial (Ghori 2011). In 2015, for example, apparel imports to the US from Egypt amounted to 849,651 US dollars, while from China 30,540,941 US dollars See http://otexa.trade.gov/msrcty/v7290.htm and http://otexa.trade.gov/msrcty/v5700.html.

This study covers the historical period up to 2011, when the Tharir Revolution brought about a new reality. The uprising raised expectations for democratic and economic change and highlighted the eagerness of large segments of society to engage with issues of economic and social injustice. For the reasons presented in the study, I conclude that the QIZ project must be counted among the policy failures which triggered the uprising, and the project's continuation is included among the indications of lack on change. The present analysis does not ignore the industry transformation problems that Egypt faced, nor does it underestimate the serious pressures that the textile and garment sectors across the globe have experienced since the 1970s. While it is true that thousands of people in Egypt have been employed in QIZ production, it is also true that competition from Chinese and East Asian exports will not cease in the foreseeable future. Overlooking the need for industrial policy in sectors with high value-added potential as Chang (2008) emphasizes, only highlights how far the QIZs experience in Egypt has piled up problems for the future. Although this study does not offer alternative solutions, it points out that the QIZ project exemplifies a longstanding pattern that emerged with the initiation of Infitah, of the regime allocating benefits to favored business networks. It is not only that a small number of regime-connected businessmen profited and therefore that the economic results of the project remained limited, but the economic predicament exploited by the project was so powerful precisely because it was connected with the wider manufacturing deficit. The QIZ project was touted as one that would break the social barrier of anti-normalization, but in practice it led to an increasing dependence on the lower value-added chain of the garments sector. Since it became a reality, this politically motivated agreement has become an obstacle to a more profound normalization based on the prevalence of justice in Palestine as economic circumstances in Egypt compel its perpetuation, not least because its cancelation would exacerbate unemployment in an already overburdened and unstable economic situation.

TABLE

Major Egyptian QIZ Exporters

	Company		**Year of establishment (Garment Component)**	**Institutional Position in 2004**
Galal El-Zorba	Nile Clothing Company SAE	http://www.rmgec-egypt.com/manufacturer/55/Nile-Clothing-Company-%28NCC%29/	1986	President of the Egyptian Federation of Industries
Mohammed Kassem	World Trading Company	http://www.wtctextiles.com/	1984	President of the QIZ Council
Magdi Tolba	Cairo Cotton center	http://cairocotton.com/	1990	Former Chairman of the Ready-Made Garments Exports Council
Alaa Arafa	Swiss Garments Factory, Arafa Holding Company	www.arafaholding.com	1989	Member of the Board Egyptian Center for Economic Studies (ECES)
Fadel Marzouq	Giza Spinning and Weaving	www.gizaspin.com/	1980	

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