ABSTRACT

MYTHOLOGIES OF A DEVELOPMENTAL STATE:
AMBITION AND ACTION IN NASSER’S EGYPT

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This paper uses an historical analysis of state intervention in the Egyptian economy during the Nasser period (1952-1970) to show how an activist state can help a late-industrializing economy “catch up” to industrialized economies in the global market. The Egyptian case is compared and contrasted with the case of South Korea during the fifties and sixties. The absence of growth-promoting relationships between business and state actors in the Egyptian case was rooted in the suspicion toward businesspeople that characterized the developmental myth of the Nasser government. A case study of the Arab Contractors Corporation further illustrates the importance of such “policy networks”. The developmental myths of the two governments also played into their policy strategies. The Egyptian government espoused an import substitution strategy in line with its emphasis on independence as the hallmark of development, whereas South Korea favored a strategy emphasizing exports.
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CHAPTER ONE

GLOBAL COMPETITIVENESS AND STATE INSTITUTIONS: THEORETICAL BACKGROUND AND METHODS FOR ANALYSIS

“The Arab Contractors Corporation couldn’t be privatized,” Zeineb of the Osman Group in Cairo stated, “it won’t be privatized.” The founder of the company, Osman Ahmed Osman was called a “private sector crusader” by some (International Management, 1983), promoting Anwar Sadat’s drive in the seventies to privatize Egypt’s state-owned enterprises, many of which were nationalized by Nasser. It seemed natural that the company under his leadership would be one of the first to benefit from Sadat’s new experiment. Present and former employees of the Arab Contractors Corporation insisted that it was a competitive company. They stated that they were looking forward to the new opportunities promised by the opening of trade barriers when the GATT comes into effect in 2005. “It is too risky to ask private companies to do big projects,” Zeineb explained, expressing the sense, common among many Egyptians that the government is the backbone of the economy, the only provider of stability and security. This is a strange perspective for a woman working for a private firm in a country legendary almost as much for its sprawling and inefficient bureaucracy as it is for its ancient grandeur. Indeed, as one professor at the American University in Cairo put it, probably the greatest triumph of the presidency of Hosni Mubarak has been in convincing the Egyptian public that without him there would be complete chaos. This perspective has come out of a long history of experiences with different ideas of progress and attempts to promote it, and a variety of state strategies to promote competitiveness in the changing fortunes of the global market.

This chapter will set the theoretical background for a discussion of the mythologies of the state in development that prevailed in Egypt during this period. It will argue that these mythologies had, and continue to have, a real impact on the character of state institutions, the strategies formulated through these institutions, and the outcomes of these strategies in terms of corporate competitiveness in the world capitalist system or global market. This discussion will begin by sketching the underpinnings of the liberal definition of development. Within the liberal paradigm, the term development roughly refers to the productivity and competitiveness of national industries in the global economy or world capitalist system. From the liberal perspective, industrialization is seen as synonymous to development. This perspective is based on the belief that greater total wealth, and therefore greater total welfare result from industrialization. Thus, this perspective emphasizes corporate competitiveness as a measure of development.

This chapter will discuss some of the many theories as to what institutions promote or inhibit corporate competitiveness. It will discuss the liberal emphasis on the division of state and economy, and contrast that perspective with the ideas of those who
see state intervention as having been a positive force in promoting corporate competitiveness.

The second part of this chapter will address the problem of defining the state. The theoretical perspective that will guide the analysis in the following chapters will be outlined. Specifically, the state, as experienced through its institutions, will be understood as the product of social systems for teaching and guidance that are used to discipline the thoughts and actions of individuals. Institutions are treated as a reflection of the historically rooted worldview and beliefs of the groups and individuals of which they are composed. It is from this view of the modern state that the idea of development as the main component of the national interest becomes essential to understanding the institutional characteristics of Nasser’s Egypt. The term developmental myth will be used to refer to any system of preferences and ideas that focus on development as the center of the national interest. It is through the institutionalization of these beliefs, or their manifestation in terms of institutional characteristics, that they have a real impact on developmental outcomes in general, and corporate competitiveness specifically. The institutional characteristics that will be observed as most central to the developmental goal of corporate competitiveness are the pathways of communication between those with the expertise to run a competitive business in the world capitalist system, and those responsible for the national interest in general. These networks between business and bureaucracy, for the sake of this discussion, are termed “policy networks.”

Finally, a discussion of the methods to be used in the paper will explain the approach to understanding the relationship between these concepts as they vary between the cases of Egypt and Korea. In the coming chapters, it will be shown, by comparison of these cases, that the understanding of developmental goals and the appropriate means to achieving them (the developmental myth) which dominates state institutions determines to some degree the characteristics of those institutions. These in turn have certain systematic and material outcomes in terms of global competitiveness in the world capitalist system.

The Liberal Model: Minimal State Interference for Corporate Competitiveness

Most students of development in the industrialized West are exposed to a specific brand of macroeconomic theory based on classical economic theory. This approach emphasizes a laissez faire role for the state in the economy, limiting its intervention to the development of human capital through education and anti-trust functions to ensure competition in the market. According to this neo-liberal economic theory, the many attempts of states in developing countries to accelerate industrialization through state guidance or ownership of industry has only inhibited efficiency and growth. This is based on the neoclassical understanding of the relationship of states to markets. In this conception, the state impedes economic efficiency in at least two ways. They argue that political systems, when taking the role of economic actors, encourage 1) corruption because of rent-seeking opportunities and encourage 2) inefficiency because normal capitalist incentive structures are based on managers’ personal financial gain from productivity. When managers do not benefit from the fruits of their hard work, they do not exert themselves. Both rents and ineffective incentive structures, it is argued, are inherent to economies managed by states. Where the market rewards only the most
efficient enterprises, which fulfill a real demand, political institutions reward those who are best at taking advantage of the system, i.e. the most corrupt individuals.

Certain specific reforms are recommended for countries with such a legacy. These include divesting, or selling public companies to private buyers, liberalizing trade and lifting entry restrictions to investment. Also recommended are the strengthening of supervision in the financial sector as well as the relaxation of interest rate controls, reduction of direct credit and the privatization of banks. To reform state enterprises, recommendations include the reduction of subsidies and the lifting of price controls and hidden subsidies (The World Bank, 1995, p. 4-5).

The counterpart to this conception of the function or impact of state intervention in the market is a specific conception of the state as an institution. This conception is what Peter Evans calls a “neoutilitarian” understanding of how political and economic systems function (Evans, 1995), and is a relative of “rational choice theory.” This conception is based on the understanding of how market forces function. From this perspective, “the elementary unit of social life is the individual human action” (Elster 1989, 13). Thus, businesspeople, bureaucrats, and members of any other type of association, use that association for their own individual utility, or to further their own rational interests. Thus, rational choice, and neoutilitarian theorists see all social institutions as the result of the sum of all individual, interested behaviors that make them up. These theories are the application of economic logic to political and social events (Scott, 1999, p. 129). For this reason, it is generally taken up by theorists impressed by the ability of economics to measure, predict and explain the buying and selling habits of individual market actors. Some problems with the assumptions that underpin this conception of the state, and the implications of this perception for designing policies that promote corporate competitiveness are discussed below.

**Critiques of the Liberal Model**

Skeptics have criticized the predominant liberal ideology and its prescriptions for economic growth on many levels. One is by challenging the assumption that development defined as economic growth actually leads to real welfare improvements. In many cases, economic growth as measured by standard economic indicators has corresponded to a decrease in welfare for the greater part of the population. Critics argue that real development should be measured in terms of the achievement of societal goals and ideals, rather than by national income.

An even more devastating critique comes out of the reality of the failure of countries following the prescriptions of minimal state intervention that come out of the liberal intellectual tradition to achieve development even defined as narrowly as increasing capital accumulation. Even in the late 1980’s, experts in the liberal “orthodox” organizations like the World Bank began to emphasize the importance of institution building (Evans, 1995). Still, the more traditional perspective, emphasizing a laissez-faire approach has continued to hold sway, in part because of the lack of a more convincing (or equally elegant) theory to replace it.

Emmanuel Wallerstein in his “The Rise and Future Demise of the World Capitalist System” (2000) offers an explanation for the failures of economies whose leaders attempt to follow neoliberal prescriptions. He challenges the possibility of growth through
competition for those economies transformed into capitalist economies after the West was industrialized (late-industrializers). In recent history, the terms of trade that such economies face have been dominated by the colonial context of disproportionate power relationships, and a global division of labor. Former colonies are stuck in the position of “peripheral” economies, meaning that they produce low value-added products and import processed goods from the industrialized West, which he calls the “core.” These terms of trade are unfavorable to the peripheral countries, meaning that they export cheap products and import expensive ones. The wealthier countries of the core are able to support stronger state apparatuses, which, in turn, are used to maintain the imbalance in the terms of trade. Thus, peripheral countries lack the political clout to negotiate terms of trade favorable to their local products, and lack the capital to break into well-established capital intensive markets on an international level. These asymmetries further impoverish them in comparison to the economies of former colonist countries, leading to an unbreakable cycle of underdevelopment.

By this analysis, it is not the absence of state intervention that has led to growth in the dominant economies. On the contrary, the power of these states politically has enabled them to maintain trade relationships favorable to their national products and capitalists.

**The East Asian Anomaly: Static Versus Dynamic Allocative Efficiency**

The reality of the East Asian economies has been presented by some as proof that the world systems understanding of the way the world functions is false. These economies came from a peripheral place in the international division of labor and managed to become competitive in some of the most high tech and high capital returns industries in the world market. The proliferation of cases seemed to be so phenomenal, that the World Bank issued a special report entitled “The East Asian Miracle” in order to show that through careful adherence to the rules of the liberal orthodoxy, corporations in late-industrializing countries could catch up to the industrialized West (The World Bank, 1993, p. 3). They argued in this report that it was the principals advocated by the World Bank that contributed to the success of corporations originating in these countries, and that their growth could have been even more remarkable in the absence of certain hampering state interventions.

Some authors see the East Asian anomalies as a challenge more to liberalism than to world systems theory. Contrary to the findings of the World Bank report, argue these theorists, it was the persistent intervention of the state in the Economy, not its *laissez-faire* approach, which enabled the growth witnessed in the latter half of the Twentieth Century.

Ha-Joon Chang (in Woo-Cummings, 1999, p. 198) argues that the cases of the East Asian economies suggest many problems with neoliberalism in theory and in practice, which can be addressed through state structures. He addresses two issues in particular. The first is that classical conceptions of efficiency have been based on a *static* rather than a *dynamic* or developmental model of efficiency. In an unmanaged market, investors will tend to invest efficiently in the static sense: seeking the greatest returns in the short run. Investors send their money where they foresee the highest immediate returns, and do not plan for long-term growth. Without guidance, vested interests tend to use resources such
that they will yield the best result for them as individuals without changing the status quo. This resistance to change is antithetical to development, which involves structural transformation as well as capital accumulation. States can encourage dynamic allocative efficiency, guiding investment in anticipation of, and to encourage, positive changes in the status quo in the long run. The second problem with neoliberal theory is market failure, or situations in which individual, decentralized decisions made in response to market pressures lead to negative outcomes for the whole, even in the short-term. While this is a common element of liberal markets, states can act to offset market failure with incentives.

Solving the Development Dilemmas of Late Industrializing Countries

David Waldner (1998) argues that market failures are not just glitches in an otherwise sound market system. He sees them as indicative of fundamental dilemmas in the development process. He comes to this conclusion through his redefinition of development, and his analysis of what is required for this development to take place. He defines development as the degree to which certain processes of industrial structural change are taking place. These are 1) accumulation and investment, 2) the creation of linkages, 3) increase in productivity and 4) innovation. Each of these structural changes represents a dilemma for business in late developing countries because they operate in an environment of scarcity relative to the rest of their global competitors. Businesspeople may be aware that these structural changes are necessary for long-term growth, but scarcity makes the risks of making such changes unbearably high. He separates these dilemmas into two types. He calls the first type of dilemma, the “gerschenkronian dilemma” after Alexander Gerschenkron. Gerschenkron’s look at the late-industrializing states in Europe led him to believe that these states were characterized by insufficient quantity of economic activity and capitalist networks. This led to hesitancy on the part of local capitalists to take risks with their available capital. He argued that states could contribute to economic growth in late industrializing countries by investing in new industries (Gerschenkron, 1962). With state guidance and assurance, individual actors had a better chance of being able to supply the huge amount of resources needed to break into established economies of scale existing in the contemporary world market. States can help to solve gerschenkronian dilemmas by taxing the collective and investing in industry on their behalf, so that no one actor has to take such a risk.

The second type of collective dilemma is the kaldorian collective dilemma, named after Nicolas Kaldor. He pointed out several important elements of development that individual actors in a “free market” environment might not be willing to undertake. These include creating linkages between companies, or specialization, and increasing productivity through technological and organizational development, and innovation. These are all undermined by the tendency of individuals in a free market situation to avoid risks that aren’t going to be shared by the collective. This is true in every economy, but is especially true in cases of late industrialization where scarcity increases the likelihood of default in any cooperative venture. Kaldor’s discussion is similar to that of Hirschman, who addressed the problem of investors and entrepreneurs simply lacking the sense of what kinds of changes or investments needed to be made (Hirschman, 1958, p. 36). Both of these theorists suggest that the state can and should intervene not only to
provide capital for high-risk investment, but also to actively participate in and direct the particular investment decisions of entrepreneurs. Specifically, the state can create incentives that encourage investment in directions that entrepreneurs might not find interesting, but which are in line with better long-term growth. Walden argues that the developmental success of the East Asian economies lies in political institutions that facilitate an activist state role in resolving kaldorian dilemmas.

Such theoretical propositions, along with the reality of East Asian success stories, represent a strong argument that, contrary to the established liberal model, the state is a potentially positive force in development. From this perspective, the question of whether state planning in the economy promotes or hinders development is less significant than the question of what type of state intervention promotes and what type hinders development. That is, what type of state is able to address the gershenkronian dilemmas of capital investment and the kaldorian dilemmas of structural change without undermining the incentive structures of the free market or encouraging rent-seeking? Many analysts who focus on the East Asian economies have contributed to a substantial literature seeking to isolate those specific characteristics of the East Asian economies that have enabled them to address these dilemmas without experiencing the problems that liberal theorists have observed.

State Institutions, the Developmental Myth and Policy Networks

Defining the State

The framing of the research question as one of specific types of states suggests the need for an institutional analysis. This means investigating the state as an institution rather than looking at policies as individual decontextualized choices. Unlike the analysis of policy typical of neoutilitarian or rational choice models, studying the institutions through which decisions are made requires avoiding reductionism, and understanding the state not as “an aggregation of the interests of individual office holders, or the vector sum of political forces, or the condensed form of some logic of economic necessity. States are the historical products of their societies [which] … must be dealt with as institutions and social actors in their own right, influencing the course of economic change even as they are shaped by it” (Evans, 1995, p. 18). Also, it precludes the conclusion that long-term negative economic trends arise from uninformed decisions or stupidity, from deliberately sacrificing development for short-term goals, or from the corrupt sacrifice of developmental goals for personal gain. More careful analyses of how policies come to be are often dismissed in favor of just such conclusions (Waldner, 1998).

To begin looking at the types of states that promote corporate competitiveness in the world capitalist system, it is necessary to attempt first to define the state itself. There is an enormous amount of disagreement among theorists and historians in their definitions and use of the term state. The following section will begin with a discussion of what the state is not, by looking at certain problems in the definitions and arguments of other theorists focusing on the state. It will then explain the approach to thinking about institutions in general, and the modern state in particular, which will be applied in the case studies in later chapters.
The State-Society Divide

Theorists focusing on the state as the key political actor in politics have consistently struggled with “the border question,” or defining precisely where the state ends and society begins, and the related variables of state autonomy and capacity. While Weber’s definition of the state as that entity with the monopoly over the legitimate use of violence still holds currency, the problem of defining the borders of the state remains. This arises from the apparent permeability of the state to social forces. Theorists continually comment on the need to distinguish between those actors internal to the state, and those external to it that are still able to have some impact on its policy. This definition centers on the concept of state autonomy, which is defined as the ability for a state to pursue goals that do not necessarily reflect the desires of groups within society (Skocpol, 1985, p. 11-12). According to Theda Skocpol, states behave autonomously depending upon their external orientation, their need to maintain social order and their organizational possibilities to pursue their own objectives. The related concept of capacity is defined as the ability of the state to achieve these goals even in the face of popular objection. Capacity, by her definition, is based upon sovereign integrity, stable control of a territory, loyal and skilled officials and financial resources (Skocpol, 1985 p. 15-16). The measurement of any these variables depends upon a clear definition of the state.

Several schools of thought exist that challenge the usefulness of the concept of the state as the center of a political analysis. Marxist analysis, for example, treats the state as an instrument of class struggles in society. Because Marxist scholars understand the accumulation of financial capital as the driving force behind social and political behavior in the modern capitalist context, modern state apparatuses are long since captured by dominant classes and used to further their economic interests. From this perspective, policies ranging from property and labor laws to international political dealings that create favorable environments for investment or consumption all serve corporate interests. Furthermore, any official statements of national interests or political necessity are mere guises for the corporate interests served by the policies they advocate. This is a direct challenge to the concept of an autonomous state with its own policy preferences.

Another major challenger is systems theory. From the perspective of systems theory, the state is only a part of a larger political system from which it cannot be sufficiently extracted to be a useful unit of analysis. Systems theorists argue for an approach investigating all manner of political activity, rather than official political institutions only. Political activity is defined as all those activities referring to the authoritative allocation of values (Easton, 1965, p. 29-33). Authoritative again suggests the legitimate use of force to enforce those allocations. By this approach, such societal actors as lobbies, interest groups and businesses can be included in studies of political behavior insofar as their activities fall within the definition of political activity. System theorists, however, have run into some of the same difficulties as those facing state theorists. Erring on the side of a loose definition of political activity, the political system can be expanded to include almost all elements of social life. The more stringent definition of state theorists poses the opposite problem: the definition of what can justifiably be the subject of inquiry in political science is limited to the formal structures and policy of government.
The consistency of the problem of defining the political realm by distinguishing it from the social realm has led Timothy Mitchell (1991) to suggest that the need to make such a separation itself should be investigated. In his critique of three prominent state theorists, Mitchell characterizes the vision of the state underpinning these analyses as “voluntarist,” in that the state is depicted as having a will similar to that associated with a person. He characterizes their formulation of the state as “anthropomorphic” in that the state is depicted as formulating goals and choosing the means to achieve them through a set of coherent preferences and logical thinking similar to that associated with a human. Finally, their vision of the state is “ideological” in that it requires the attribution of any policy incoherence to ideology. In the worst cases, ideology is discussed not as a coherent and historically rooted view of the world, but as a synonym for human-like irrational thinking on the part of the state. Again this is anthropomorphic in that it refers to the state as having those opinions and views that we associate with a human being.

The State as “Effect” Created Through Discipline

Mitchell argues that contradictory policies are a symptom of the non-existence of the state as an object that stands apart from reality. Rather, he argues, the state is an “effect” created through the discipline of each individual (Mitchell, 1991, p. 93-95). This effect is a novelty of the modern social order and is visible in every aspect of the lives of modern individuals. One very powerful example of the concept of “effect” is the institution of the modern army. Before the institution of modern military techniques, troops sent to battle were indeed organized, in the sense that strategies were attempted to achieve group goals. What was novel about the modern army was that every individual was assigned his place in a pre-conceived ordering of troops. Such uniformity was created through the consistent clothes that troops wore, the weapons they carried, the cut of their hair, the spaces between each individual and the coordination of even the smallest movement. All of this, when viewed from the outside, gave the troops the effect of being a single structure or machine. Like the modern state, the modern military is made up of individuals. The illusion of the modern state, like that of the modern military is that each has the appearance of being something so coherent, the edges of which can be clearly seen, that it appears to be a separate entity in and of itself. This leads a person to speak of it as something that has a will of its own, as might be attributed to a person. In this sense, just as a school of fish swimming in almost perfect unison create the effect of a huge fish when seen from above, the discipline of people into carefully spaced and coordinated patterns of activity gives the effect of the machine that we understand as the military or the machine that we understand as the state.

The problem is that with only a stroke, the school of fish can be divided into uneven groups going in different directions. At this point, the onlooker who believed they were one might be very confused. This is precisely what confounds state analyses when careful historical work is done. The reality is that the state, like the military, is made up of every individual in society. The process by which these individuals become ordered into a modern structure like the state is called discipline. Discipline is the process of being taught where in an institution one fits, down to even the most minute social task to be as efficient as imaginable by architects of institutions (Foucault, 1979). The end results are structures that are so well ordered that they appear to be something coherent.
onto themselves. The end result in the case of the state is that power relationships appear to be external to the people that make them up.

**Ideology as Irrationality verses Ideology as the Linchpin of Institutions**

The neoutilitarian theories mentioned above can be seen in some ways as a critique of the “voluntarist” or “subjectivist” vision (Mitchell, 1991, p. 86-87) in that they see any outcomes in the state as the result of individual actions, ideas and inspirations. This demands that any government and its institutions be broken down into its component parts, each of which are also a piece of society itself, and be understood in terms of those. The idea of rational choice approach, however, conforms very much to the voluntarist vision in that they see certain goals as being “rational” or profitable from some objective standards. This is similar to the voluntarist state in that “ideology” from this perspective is equated with irrationality and anomaly, or with rhetoric, which is cynically used to convince the masses to accept certain individually profitable policies.

This analysis will address ideology insofar as it is defined as historically rooted patterns of viewing the world, one’s place in it, and what is desirable and undesirable in it. Societies are made up of a variety of overlapping and often contradictory sets of ideas and concepts that can be called ideologies. For the purposes of understanding the modern nation state as an institution, the most important of these is the idea of “the national interest” in general.

**The Function of the National Interest**

Pierre Bourdieu (1998) situates the origins of the concept of the national interest at the earliest days of the modern nation-state in Europe, at the moment of greatest strife between competing lords in the vassal system. As conflicts between different powers in the region escalated, the expense of hiring mercenary troops to defend land holdings, the source of their income, became prohibitive. Those lords who would eventually carry the day were those able to draft cheap or free fighters from the population inhabiting and working their lands. What enabled them to mobilize these disparate, exploited peasants to fight was the evolution of a myth of national security. The Lords came to be seen in this context, less as those able to exploit the riches of the land to whatever degree they could defend it, but as the protectors of all those who inhabited the land—their nation. Thus, according to Bourdieu, the idea of national interest arose in the context of specific economic interests, challenged militarily, being reframed into the then novel discourse of collective security and national interest (Bourdieu, 1998, p. 44-45).

In the contemporary context, this idea of the national interest has expanded in a variety of ways among different social groupings. Depending upon the world view and ideas of a given group, it can be understood to include not only security in terms of collective defense, but some mixture of economic security in terms of opportunity and welfare, and personal security in terms of the guarantee of health care and education, and protection of one’s person and property, and even national and personal pride. What all of these diverse elements of contemporary visions of national interest share, is that they are considered to be universal goods which transcend any and all of the particular actors in society and their particular desires. Thus, out of this period of military conflict and
out of the efforts of lords to maintain their source of income, were born the modern concepts of national interests and the nation state. That which, in its ideal form, is separate from, and transcends social forces and represents and promotes universal values on behalf of all of its citizens. It does this, in its ideal form, by mediating all of the self-interested interactions of its citizens objectively so as to promote the universal values of its nation as a whole.

This ideal is, however, a myth. It is a myth whose validity is closely related to Mitchell’s “effect” of a state separate from society. The power of these myths lies in the effect of transcendence of the state and its goals above all of the contradictory and selfish demands of its population in favor of a universal common good. It is through this effect of transcendence and objectivity that the state maintains the faith and obedience of its population. The reality is that all social actors participate in the state through its institutions. Through their participation they form and are formed by the institutions of which it is made up. Because access to these institutions is unequal, the values of varying social groups will be represented unequally in the mythology of the “national interest.” Thus, dominant social groups do not seize the state, as suggested by Marx, but rather determine what it means to be stately by universalizing their interests into a set of values, priorities and practices which become configured through state institutions as ensuring the universal national interest. For the Republic of Korea and The Arab Republic of Egypt, the historical contexts from which those whose interest would become the foundation for the mythology of the national interest varied in specific ways which were then manifested in the goals of each regime and in the practices considered to be acceptable to achieve those goals. Thus, “although the language of prohibition was always universal, it prohibited practices and economies that were quite particular in scope” (Colla, 2000, p. 127).

The Developmental Myth

In his analysis of the social understanding of the relationship of the French state to French society and to the French “national interest,” Michel Lorieau coins a term for the specific variety of national interests which hold development as the key social value which the state is charged with defending. This mythology is powered by the nationalist drive that Meredith Woo-Cumings points to as the social “mobilizer” (Woo-Cumings, 1999, p. 8) which was present in all of the fast-growing East Asian economies. This mythology is the world-view or understanding of what is desirable and possible in the world, in the context of an imperative to “catch-up” or develop in the mode of the modern industrialized West. The governments of both Egypt and Korea were run by individuals whose daily functions and decisions reflected the different developmental mythologies by which they functioned. Lorieau counts this as one of the key qualities of a state that manages to create high growth producing economies from a late industrializing society. Some other key elements of this type of state termed “the developmental state” by Chalmers Johnson are expanded below.

The Developmental State
Chalmers Johnson is most famous for his institutional analysis of what he termed the development state in Japan. This has come to be the central concept for understanding the type of state intervention that was successful in encouraging development in the East Asian economies (in Woo-Cummings 1999, p. 1-2). He distinguishes the developmental state from a “regulatory,” or “market-rational” state such as the US and from the “plan irrational” equality or welfare states such as the command economic models. The former set the rules of competition but do not plan or direct economic matters towards autonomous state priorities and the latter control all elements of the economy, allowing nothing to respond directly to the market. The developmental state, described as “plan rational” falls somewhere between these two extremes. It is market responsive, but does not control all aspects of the economy. Johnson and other theorists have struggled to identify those characteristics most central to the success of the developmental model. This study will focus on a few central characteristics of this ideal type.

**Autonomy**

One of the most important is the presence of a highly autonomous state bureaucracy. Autonomy is generally understood to be the degree to which a bureaucracy is able to make decisions based on national objectives without being bought out by any specific interests in society (Skocpol, 1985). While policies selected and implemented by any bureaucracy creates winners and losers in different social groupings depending upon their interests, an autonomous bureaucracy selects those winners and losers based upon national goals, rather than based upon the ability of those groups to lobby or otherwise extract favoritism from bureaucrats. As will be shown below, from this perspective, Egypt during the Nasser period was indeed an autonomous regime.

**State-Business Relations and Policy Networks**

One phenomenon, which inhibits the effectiveness of state industrial policies in both export oriented and import substitution policies, is the tendency toward rent-seeking. Bhagwati defines this as engaging in “directly unproductive activities” that undermine general developmental goals (as cited in Biddle, 1997, p. 278). In the presence of differential treatment of industries through subsidies, preferential access to credit and various types of trade protection, there is always the opportunity for bureaucrats and business elites to use state policy for their own individual gain at the expense of national goals. Jesse Biddle, in his study of economic governance in Turkey, remarks that most analyses have thus concluded that insulating bureaucrats from business can reduce such behavior. He warns that the over insulation of bureaucrats can be equally problematic (Biddle, 1997, p. 280). Too much insulation from business can lead planning bureaucrats to be out of touch with the real economic situation in which business elites function.

Rather, he argues for a more careful analysis of the nature of state-business relations, which he terms “policy networks” (Biddle 1997, p. 282). These include both formal and informal communications and the terms of the relationship between the two parties. He argues that growth-oriented economies succeed in minimizing rent-seeking behavior not only through an insulated Weberian bureaucracy, but also by simultaneously establishing policy networks in which there is a two-way flow of information.
Bureaucrats must be free to enact the policies in line with the national interest, while still drawing upon the expertise of private sector actors. It is the cooperative, mutual dependence between business and bureaucracy in cases of growth oriented policy networks that Peter Evans refers to as embedded autonomy in his book by the same title (Evans, 1995). This definition of policy networks is central to the structure of a successful developmental state.

Case Study: Egypt as a Developmental State

Many of these structural characteristics were also present in the Egyptian state during the Nasser regime. The bureaucracy was autonomous, according to the above definition, in that it had free reign to enact policies that serve no particular interest in society at large, but rather the practical and national visions they represent. This characteristic of the Nasser regime became evident through time as initiatives were passed despite the desires of different groups in society to whom the earlier, arguably more instrumental regime of Farouk had pandered placidly. For example, land reform virtually eliminated the old landowning elite, and the July Decrees of 1961 hit hard many of the corporate elites of the time.

The developmental myth emphasized by Lorieau was visible in the Arab Nationalist movement of Pan-Arabism, which was a movement to unite all Arab peoples against colonial exploitation in economics, and second-class citizenship in global politics. Its focus was on restoring the dignity of the Arab people. Although the term “Nasserism” is often used as a synonym for this sentiment and the movement which sprung from it, many authors are quick to point out that the movement is as old as the confrontation between the Arab world and the modern West. In other words, “Nasserism is not the creation of a single man but the expression of the aspirations of forty million Arabs in the Middle East” (Wynn, 1959, p. 205). It is from the nationalistic belief in the reality of injustice against the Arab people as a population, and the moral imperative to restore the lost dignity of the Arab world which Nasserism derived its legitimacy.

Finally, Egypt is widely criticized for its oppressive bureaucracy, which is seen as unwieldy in size and economically over-politicized and irrational. Still, in certain cases and in relation to some private sector actors, the policy networks in place resemble more closely the embedded autonomy of Korea than the soviet style economic planning with which Nasser’s “Arab socialism” is most often associated. The case of the Arab Contractors (Osman Ahmed Osman Co.) is a particularly interesting example, and will be used as the basis for the subsequent discussion. The Arab Contractors kept intact their structures of incentives for owners and workers based on profit, and were able to autonomously manage their firms based on market pressures within the bounds of the state’s developmental myth. In the formulation and implementation of policy, The Arab Contractors relationship with the Egyptian bureaucracy has been characterized as a “two-way articulation of demands” (Dajani, 1982, p. 52). From the perspective of the state theorists, The Arab Contractors and the Egyptian bureaucracy appear to be mutually dependent and relate to each other through growth-oriented policy networks.
Research Question

The research question is specific, but will, I hope, lead to some tentative theoretical conclusions in terms of the general question of the impact of the state on corporate competitiveness. The specific question is: how was a harmonious and growth-promoting relationship between the Arab Contractors Corporation of Egypt and bureaucratic elements of the Nasser regime established, and why did this differ from the experience of so many other private companies in a similar position at the time? This question will be addressed by viewing the Egyptian experience through the lens of analyses of the Korean chaebol. This question is driven by an interest in a more general theoretical question: Which of the differences between Egypt during the Nasser period and Korea during the Park Chung Hee period were decisive of the trajectory of development defined as the overall competitiveness of national corporations in the world capitalist system? In the context of the suggestion that the state can in some cases act as a positive force in promoting corporate competitiveness, this should be interesting in terms of what it may suggest generally about which characteristics of state institutions promote development defined as those structural changes which allow enterprises to be globally competitive.

Strategies for Approaching this Question

The specific question about Nasser’s Egypt will be approached with an historical comparative approach. The approach is historical not only because the period under consideration is passed, but also because it assumes that some variables, which have led to the results interesting to this study, are completely unique to that historical moment which was the Nasser period in Egypt, and are thus not reducible to universal typologies. This does not mean that the conclusions could not be applicable to other times and places, but that they are based upon the specifics of the Egyptian case. This is in keeping with Wallerstein’s argument that “the only road to nomothetic propositions is through the historically concrete” (Wallerstein, 2000, p. 76). These analyses, therefore, seek to explain which factors were most important in the specific course of history, without attempting to ascribe a universal relationship between any of those factors. The explanation will still be useful in approaches to understanding other moments and places in history.

The approach is comparative because the case of Egypt during the Nasser era will be viewed through the lens of the theoretical framework by which the experience of the Korea during the Park Chung Hee regime has been understood by historians. The real subject of my analysis is thus Egypt, and not Korea. Because of the recent popularity of state centered approaches, and the particular interest in East Asia as a region of powerful success stories, much careful historical analysis on the case for Korea as a developmental state is available. As will be seen, that literature has much to offer to an understanding of the history of Egypt during the same period. For the case of Egypt, I will use evidence from primary sources including interviews with key individuals, and from primary and secondary historical literature.

Finally, the approach to gathering data is both inductive and deductive. It is inductive in that the phenomena that will be observed have been chosen based upon the
theoretical ideal types of Johnson and others discussed above. That is, it is by theoretical analysis that the factors to be discussed here have been chosen as decisive in development defined as corporate competitiveness in the world capitalist system.

The first point of history that will be discussed is the progression of the definition of the “national interest” in both milieus. In Korea and Egypt, development, and an end to their colonial legacies, were the predominant values driving policies in these countries.

Other situational factors often cited as key variables in economic development include (in order of discussion) the claim of regional cultural homogeneity, the Confucian ethic of hard work, the small “manageable” size of countries in East Asia, and the exceptional and culturally rooted management practices in this diverse region. The case of Korea is interesting in this discussion because despite the fact that it has so much in common with the Egyptian economy in terms of these features, in the time period under consideration, the two started on very different trajectories in terms of overall corporate competitiveness. Also in chapter three, strategies employed by the developmental governments on a macroeconomic level will be compared and contrasted. The analysis of strategies will be qualitative and historical, using secondary sources, concluding with a summary of how the differences between the strategies employed in each case correspond to certain key differences between the developmental mythologies of each regime.

Finally, the means by which individuals with the “feel for the game” of international capital in each context, i.e. businesspeople, can make their preferences known by those shaping state institutions, and can see those preferences implemented will be examined using Biddle’s concept of “policy networks.” For the case of Korea, the conclusions of second-hand sources as to the nature of the relationship between the Korean bureaucracy and the chaebol will be used. Because of the apparently growth-promoting policy networks present in the case of the Arab Contractors Corporation of Egypt, the particular relationship between members of this company and various arms of the Nasser government will be used as a case study for understanding the nature of policy networks in the Egyptian context. The Egyptian experience will be compared and contrasted with that of the Korean chaebol.

A Note on Sources in Cairo

Before beginning this project, I was very critical of the speculative style of analyses of Nasser’s Egypt and the tendency to make generalizations about trends, attitudes and habits of political actors at this time. One of the best elements that studies of the East Asian economies seemed to offer in the way of guiding a different style of analyzing the Egyptian experience was the preference for specificity in their histories. The analyses of business-bureaucrat relations focused on individual people and firms, rather than broad typologies and trends. This historical approach seemed to produce much more powerful and convincing explanations of the way that these different social entities functioned, and what the outcomes of those functions were. For this reason, I began my research in Cairo by looking for primary documents which would describe the interaction between the actors in my study: from proceedings of meetings to mission statements and forecasts of companies to personal memoirs; anything that would give a sense of the process of planning would suffice. As I discovered in Egypt, such documentation is absolutely not available, even to those with “kosa,” or connections. The daughter of Gamal Abdel
Nasser herself is a professor of political science at the American University in Cairo. She has been unable to access the same types of documents that I was requesting for my research. Apparently, Anwar Sadat, near the end of his presidency began to compile files on the experience of the Nasser era. He ordered that interviews be conducted, transcripts compiled, and documents organized to facilitate research. After his assassination, the country switched into an emergency posture, placing greater restrictions on civil liberties and sensitive information. These files were locked away somewhere under the category of sensitive materials. Indeed, during Nasser’s time, economic intelligence was considered to be as sensitive and strategically important as military intelligence (Ezz El Arab, 2000). To this day, just as restricted civil liberties have continued under the infamous “Emergency Laws,” so have these materials continued inaccessible.

For this reason, I turned with a much greater appreciation to the analyses that I had critiqued as I began my work. For more detailed information, I depend heavily on key informant interviews. Like the historical documentation, access to key informants is given only through “kosa,” and even then, with some suspicion. Even after having spoken with several members of upper management in the Arab Contractors Corporation, I was denied access to the archives for lack of a stamped letter. By whom it should have been stamped and what the content of the letter should be was unclear. What was clear was that the head of any given office is very wary of giving out information unless it is clear that someone else has authorized it and is taking responsibility for any negative fallout that might potentially result from its dispensation. This view toward the function of information as a potentially dangerous force, which needs to be carefully constrained, is a component of the defensive stance of the present regime in Egypt. It explains something not only about why analyses of Egypt conclude largely with generalizations, but, more importantly, why improvement of institutional characteristics in Egypt that inhibit the achievement of social goals is very difficult at this time.
CHAPTER TWO

SYMBOLIC CAPITAL AND THE DEVELOPMENTAL MYTH

Many historians see the main stumbling point of the Nasser regime as its emphasis on symbolic rather than rational pursuits. A great illustration of this emphasis on symbolism is the Cairo Tower. It is a huge cement structure that stands on an island close to downtown. Today, it serves mainly as a place for young couples to gaze out at the city from above, and for tourists to take pictures and get a Stella beer or tea in the revolving restaurant. It has acquired an almost mythical significance among the remaining present-day Nasserists in Egypt as a symbol of defiance to the West. As the story goes, the US, soon after the Revolution, looked to Nasser as a potential ally. They made a gift of some millions of dollars, which was supposed to go toward his personal consumption in return for future cooperation. Nasser chose to use this bribe to build the completely non-functional structure in the middle of the city as a symbol of resistance to foreign corruption. Whatever the exact details of the event, many people in Cairo see this as a valuable symbol in their city. Some historians might point to this as a perfect example of the type of irrational political culture that has led to the failure of the Egyptian government to produce an environment in which globally competitive industry can flourish.

Barnett, in his analysis of Arab nationalism sees this type of action, along with some other policies of Arab regimes which have been labeled “irrational” as being just as important at times as concerns such as finance and military strength. He draws on Pierre Bourdieu’s concept of “symbolic capital” to discuss Nasser’s investment in his public image and popularity. Barnett understands symbolic capital as roughly equivalent to political legitimacy. Indeed, Nasser’s legitimacy extended far beyond his overwhelming domestic constituency and out to the farthest end of the Arab world that his broadcast, Sout Al Arab reached. This forced other Arab leaders, King Hussein in Jordan being a prime example, to follow his lead for fear of public protest to any denial of Nasser’s “symbolic capital” (Barnett, 1998, p. 36-37).

Bourdieu’s definition of symbolic capital expands the idea of real value to include non-material capital, such as financial capital, military capital and other industrial products, as well as the infrastructure that produces them. This chapter will outline Bourdieu’s concept of symbolic capital to help understand the way that the set of ideas, which I will call the “developmental myth”, functions in shaping state intervention in the economy. The discussion begins with an extensive explanation of the concept of symbolic capital and its relationship to the modern nation state. It will address the common assumption that the pursuit of certain values is objectively rational (ideology free), because of something essentially valuable in those things; as well as the corresponding assumption that the pursuit of others things can be termed irrational because they are only seen as valuable through the distorted lens of “ideology.” The
terms “symbolic capital” and “symbolic value” will be used in the broadest sense to suggest that socially accepted hierarchies of value are always conceived in a cognitive context of ideology, mythology, and worldview. In the cases of Egypt and Korea, “development,” this nebulous concept, and the state, were at the center of these hierarchies or frameworks of value.

These hierarchies will be termed “developmental myths,” drawing on Lorieau’s discussion of the societal “moral ambition” to develop present in developmental states, and the mythological construction of the world that underpins it (Lorieau, 1999 p. 252). This theoretical discussion is followed by a look at the historical situation from which the mythologies in question arose, which should elucidate some of their main tenets. The important similarities and differences between these two developmental myths: that of Nasser’s Egypt and that of Park’s Korea, as well as the way that they developed through the tenures of Nasser and Park, will be outlined. Finally, an introduction to chapters three and four will suggest three possible ways in which the developmental myths of these two regimes led to real outcomes in terms of corporate competitiveness in the world capitalist system, or global market.

Symbolic Capital and State Institutions

Symbolic capital, for the purposes of this paper, will be understood as all of those things whose value rests upon some kind of agreement (articulated or not) between the parties who exchange them. This is distinct from the use value of something, which depends entirely on the situation in which the thing is consumed. For instance, a glass of water at the end of a hot day would be worth far more than a sweater in the same situation, although their symbolic value in relation to each other is quite the contrary; everyone knows that clothing costs more than water. By this definition, financial, cultural, political, human, and military capital are all different varieties of symbolic capital. Consider the US dollar as an example of symbolic capital. The value of the US dollar has changed throughout history, as determined by “the market” which is a summary of real exchanges. The dollar, at any point in history, has been worth approximately what the average person will pay for it. What an individual is willing to pay is based upon their interest in American products and their confidence in the continued growth of American industry, services and government among other considerations. Thus, through individual exchanges, the symbolic value of the dollar is determined. These exchanges are not only currency exchanges. Dollars can be exchanged for other forms of symbolic capital. The Cairo Tower is a good example. Nasser took his stock in the US dollar and invested it all in defiance of the US, whose value is also symbolic. Continuing the discussion in financial terms, Nasser’s very public investment in defiance to the US increased consumer confidence in that product. Everyone who held stock in defiance to the US (including those who identified themselves as Ba’athists, Islamicists, or even socialists and other revolutionaries) saw it become more valuable with this public and very pricey exchange of the symbolic capital of foreign currency for the symbolic capital of defiance to the West.

In the liberal ideal, these exchanges should be allowed without state intervention. As discussed in chapter one, liberal theorists argue that economic actors have not only the know-how, but also the incentive to set prices that reflect the sum of real exchanges...
taking place, or “demand” and to increase their productivity in order to meet it. In this model, entrepreneurs and consumers are the only significant actors in determining the value of things. When value is ascribed this way, it is called “market value.” Liberals see this system of ascribing value as being the most democratic because every consumer and producer’s values are registered by their participation in economic life. In this ideal form, the less state participation, the greater the good achieved. As discussed previously, in reality, in even the most liberalized economies, state institutions perform a variety of important functions for industry. These include antitrust functions, and mediation of disputes through the legal system. State institutions also address “market failure,” where the “market value” is perceived to imperfectly represent the real values of consumers. These are cases where entrepreneurs under-invest in essential inputs such as infrastructure and education, and where they over-invest in hazardous or unproductive activities such as pollution or the destruction of natural resources.

Thus, whether or not one agrees with the assertion that the liberal ideal would in fact represent the greatest social good, a careful look reveals that the ideal does not exist perfectly. Bourdieu’s discussion of the state in industrialized societies suggests that, contrary to what we may imagine to observe of liberal markets, the state in its modern incarnation mediates almost every exchange of symbolic capital. The most visible mechanism of this mediation is the printing of money and the management of its rate of exchange with other forms of capital, including products, services, wages and currency printed by other states. Another central institution of the state that mediates exchanges between non-financial social values is the educational system. For example in the US, with whose system I am most familiar, even outside of the public school system, the state limits the functions of private and even home schooling through legislation, and manages curricula through accreditation and standardized testing. This can be classified as the mediation of exchanges of symbolic capital in two ways. One is that through the educational system the value of specific nonmaterial types of symbolic capital is authoritatively established in reference to others. Bourdieu refers to this process as the “bureaucratization” of certain values (Bourdieu 1998). The values are bureaucratized in that they are accepted as state values and guaranteed authoritatively through state institutions. Thus, it is through the study of history, literature and other subjects that people develop an officially sanctioned understanding, not only of how the world is, but of what is most valuable in it. For example, in my schooling, I was made to understand that pulling oneself up by one’s bootstraps is more valuable than having a distinguished lineage, that valuing difference is more valuable than maintaining pure ideals or racial “stock,” that being dominant is more valuable than being peaceful, and that being masculine is more valuable than being feminine, among others. These very basic hierarchies and frameworks of the value of material as well as non-material things in respect for each other (the rates of exchange between things) is precisely what Evans describes as the “culturally shared understandings” which are required for “the smooth operation of exchange over the long run” (Evans, 1995, p. 26). Such norms and social understandings have been produced through a variety of social institutions throughout history, but it is one distinct feature of the modern industrial order that these be produced by the state. Again, as was explained in the Chapter One summary of Timothy Mitchell’s understanding of the state as an institution, the state is considered to be the appropriate institution for the representation of these hierarchies of value through discipline because
it is imagined to be the only institution separate enough from society “insulated enough” to represent the sum of all “interests,” or the “national interest” (Mitchell, 1991, p.84-86).

Education represents the mediation of exchanges of symbolic capital in a second way. It is through schooling that people learn the authoritatively accepted signs of credentials in each of these fields of value. That is, no matter how smart one believes oneself to be, if no investment of time, energy and money is made in the achievement specifically of accredited pursuits, such as a diploma, or standardized tests, one’s own perception has no symbolic value. Thus it is also through state institutions that certain marks of the symbolic capital of intelligence become accredited as bona fide. Unofficial marks of intelligence can also be symbolic—a certain way of speaking or even something as superficial as glasses, but no matter how much one values one’s own intellect, or even how much it is valued by friends and loved ones, it does not achieve the status of symbolic capital except through rubber stamps and symbols which are generally accepted as socially accredited. The state thus functions as a “bank,” as Bourdieu puts it, not only of the symbolic capital of money through the treasury, of novelty through copyrights, or of quality in physical things through official product standards. The state is the bank of the symbolic capital of non-material social values.

The Developmental Myths in Egypt and Korea

It may be cliché to state that money isn’t everything. However, it is a cliché that addresses a fundamental assumption underpinning the definition of development as corporate competitiveness. This is not the only possible understanding of what is valuable in the world. In the Nasser era, several different social values besides corporate competitiveness vied for priority in the social understanding of the national interest, the appropriate means for its realization, and the marks of its achievement. As the Free Officers’ mythology developed and became institutionalized, or “bureaucratized,” in Bourdieu’s terms, it was manifested in policy, with certain concrete outcomes. These will be contrasted with the corresponding elements of mythology in Park’s Korea.

The term “developmental myth” is drawn from Lorieau’s discussion of the developmental state in France (1999). The adjective “developmental” is central because it summarizes the key concern of these two eras under these two regimes. The concept of “mythology” is particularly useful because it implies a story that may very well be based upon actual events, but which is imbued with a universal, even mystical significance in terms of what is and is not valuable in society. For lack of a better analogy, the developmental myth may be seen as the ever-changing “market” for all types of symbolic capital related to independence and progress. Like product and currency markets, it is rooted in historical events, and in the worldview and interests of those with most access to political and economic institutions. This formulation is interesting because, just as Peter Evans (1995, p. 10) emphasizes a move away from the question of more state verses less state in favor of an analysis of the different qualities and characteristics of states, this analysis of the developmental myth moves the focus away from whether or not a myth existed (i.e. whether or not leaders were “ideological” and therein “irrational”) to the characteristics of that myth. That is, what was the view of the world, and what is valuable and what is possible within it that shaped the policies and organizations under consideration?
Imperialism and the Origins of the 1952 Coup

A great deal of Nasser’s vision for what the revolution meant for Egypt was shaped during the losses of 1948. The Egyptian troops returned from the Sinai humiliated by Israeli might, and betrayed by leaders who had thrust them into the conflict unprepared and with inferior arms. Nasser was among these troops, as were the rest of the Free Officers. It was a time when these men realized that Egypt’s main problem lay not abroad, but back home. Owing to this loss, the Free Officers at this time framed their ambition largely in terms of improving the military strength of Egypt. Modernization of what they saw as their backward country was largely a means to this end. Although Nasser is often remembered as the leader of Pan-Arabism and the ideal of Arab unity, at the time of the military coup, on July 26, 1952 he and his compatriots were much more focused on Egypt itself than on the rest of the Arab world, which was a secondary concern (Dawisha, 2003, p. 135).

Besides the impact of these failures, the Officers were very familiar with the imperial presence in their country, which was visible in Egypt in a very immediate political form before the 1952 coup. Economic policy in the country was run almost entirely by British agents, and British interests selected even the Prime Minister of the country in 1941 because he was sympathetic. More visibly, British troops continued to occupy the Citadel, an important holy and historical site right in the middle of the city, until 1946. By 1951, 75,000 British troops were stationed in the country (Dawisha, 2003, p. 137). After the 1952 coup, anti-imperialism also took very visible, often forceful forms.

The British and general European imperial legacy also had a very visible economic dimension. The monarchy of King Farouk was tied to an old landed aristocracy which benefited from a relationship with European interests based upon the exportation of raw goods, especially cotton, and importation of processed goods. This was a regime upheld by Lord Cromer, Egypt’s main economic policy maker before the Revolution. Foreign financial institutions dominated investment in Egypt. The primary presence was British, made up of the National Bank of Egypt, among other financial institutions. Egyptians played little role in the management of British firms in Egypt. In fact, out of 24 British companies existing in the 1920’s; 16 were administered by managers who did not even reside in Egypt. The Anglo-Egyptian Oilfields was one of the most multinational companies, and was affiliated with Shell Oil (Tignor 1984, p. 21). The French also had significant investments in the Sugar Company, the Suez Canal Company and several banks including Crédit Lyonnais, Crédit Nationale d’Escompte and Crédit Foncier Égyptien. Finally, Belgian interests dominated public works and infrastructure before the Revolution. These included electricity and other utilities and railways through the Société Générale des Chemins de Fer. They also ran financial institutions like the Bak Sino-Belge and Belge Pour l’Étranger (Tignor 1984, p. 19-20).

Competing Developmental Mythologies

Despite the general agreement in Egypt and the Middle East that imperialism and its neo-colonial legacy was the problem, there was much disagreement about what
exactly imperialism was, and what it meant for imperialism to be undone. That is, there were differences among political leaders and anti-imperialist activists regarding what the authoritative marks of decolonization were. As mentioned in the Chapter One summary of Mitchell’s conception of the state, different groups of people have differential access to those institutions used to universalize hierarchies of value. The following discussion of the developmental myth that prevailed in Egypt during the Nasser era will focus on the competition between groups attempting to define those developmental myths that would shape state institutions and policy at the time.

Nonalignment in the Cold War

In 1955, Gamal Abdel Nasser, along with the leaders of 28 other African and Asian nations met for a meeting in Bandung, Indonesia. Leaders in attendance at this conference discussed possibilities for economic and cultural cooperation among those countries falling outside of the spheres of influence of either of the Cold War powers. This meeting laid the groundwork for the establishment of both the Nonaligned Movement (NAM) in 1961, and the Group of 77 (G77) in 1962. The orientation and emphasis of this conference, and later these organizations is visible in the speeches of the Chairman and other delegates to the organization, as well as its Final Communiqué. One of the main concerns of the group was imperialism. The chairman, Indonesian President Sukarno, stated in his opening address: “do not think of colonialism only in the classic form …wherever, whenever and however it appears, colonialism is an evil thing, and one which must be eradicated from the earth” (Sukarno, 1955, p. 24). The mechanisms for decolonization upon which the conference focused were very much economically oriented. The Communiqué of the Conference called for attending countries to share technological and managerial expertise, and establish regional training institutes. It also called for collective action in stabilizing prices, enhancing primary commodity markets, while focusing on the diversification of exports into processed goods, and the establishment of national and regional banks. This economic emphasis was crystallized in November of 1963 with the passing of the Joint Declaration at the 18th Session of the General Assembly. This declaration called for cooperation for what it called “collective economic security” (UNESCO, 2005).

Modernization and industrialization were key themes discussed. Leaders inevitably focused in their speeches on the productive yet dangerous nature of modern technology with warnings that “the political skill of man has been far outstripped by technical skill, and what he has made he cannot be sure of controlling. The result of this is fear. And man gasps for safety and morality” (Sukarno, 1955, p. 26). Several speakers at the Conference underlined the importance of the political will of the newly independent nations in the face of the superpower dynamics. They emphasized not only ideological independence in terms of nonalignment toward Communism or Capitalism, but also independence in terms of being able to back up a sovereign decision. In the words of Prime Minister Nehru of India, “if we rely on others, whatever great powers they might be if we look to them for sustenance, then we are weak indeed” (reprinted in Kahin, 1956, p. 74).

The themes of nonalignment with the West, solidarity among late industrializing nations, and the importance of political will to enact sovereign decisions against the
preferences of the superpowers, became key values in the Nasser regime. It was through symbolic political acts that ownership of these values would be established. It needs reiterating again here that these acts were no more symbolic of political power than is industrialization symbolic of economic prosperity. Similarly, the symbolic capital accumulated through acts of boldness was no less “real” in its rhetorical impact than is the accumulation of those kinds of symbolic capital given preference within a liberal political framework—namely, financial, industrial and military.

Pan-Arab Cooperation

The symbolic value of solidarity in the form of Arab Nationalism as a type of decolonization was undeniable during this period in the Middle East. Various Arab leaders attempted to define exactly what constituted symbolic capital in this domain. That is, being an Arab nationalist was a *sine qua non* for leaders at the time, what constituted *bona fide* proof of one’s commitment to Arab nationalism changed at several points, even during the short period under consideration. Again, this should not be understood as proof that Arab nationalism is not a “real” social value for the actors involved. To compare the social good of Arab nationalism to that of economic development once again, note that the definition of the wealth of nations has also changed throughout the ages. For instance, wealth defined as bullion went out of style long before the gold standard was abandoned for floating currencies. Similarly, heavy industrialization was once a sign of development, but has come to be seen as a sign of *underdevelopment*, light industries and services now being preferred as proof of an advanced economy. Depending on their vision of the Arab predicament and the appropriate means of addressing these problems, Arab politicians invested in different types of symbolic capital of Arab nationalism. For some, their personal career of speaking out for Arab nationalism was of utmost importance. For others, the key issue was the Arab-Israeli conflict and their demonstrations of commitment to this cause. Also important was the ability to forego the handouts of colonial powers in order to maintain clarity of purpose and action.

Controversy over the Baghdad Pact inextricably linked decolonization to the Ba’athist version of pan Arabism. The Baghdad Pact was a collective security agreement of “Mutual Cooperation Between the Kingdom of Iraq, the Republic of Turkey, the United Kingdom, the Dominion of Pakistan, and the Kingdom of Iran” (Baghdad Pact, 1955). It was part of the United States “Northern Tier Policy” at the time, which aimed to create a barrier along the South side of the Soviet Union (Persson, 1998, p. 12). The controversy over the Baghdad Pact led to a standoff between the Iraqi nationalist Nuri el Said and Gamel Abdel Nasser. Nuri, a weathered Arab nationalist was in favor of siding with the Western powers in order to unify militarily against what he saw as the greatest threats to Arabs: Communism and Zionism. Nasser supported an independent Arab Collective Security Pact, which called merely for cooperation, while emphasizing state sovereignty. This would include nonviolence between states, and efforts to integrate the foreign policies of various Arab states. Such an agreement was signed by the so-called Tripartite Alliance of Egypt, Syria, and Saudi Arabia (Barnett, 1998, p. 86-87). Many Arab leaders faced a dilemma in this defining moment in Arab nationalism. The vision of Arab unity underpinning the Baghdad Pact allowed for the possibility of continuing to
gain needed resources from the Western powers, without sacrificing their credentials as nationalists.

Arguably the event that sealed Nasser’s victory in defining Arab nationalism against the vision of Nuri was his arms deal with Czechoslovakia. His decision in September of 1955 to buy arms from this country within the Soviet sphere of influence was a clear slap in the face to potential American support. Leaders and people in the Arab world alike, most notably Syria, were impressed by the boldness of this move (Barnett, 1998, p. 116). In this situation again, Nasser managed to secure the symbolic capital of independent action against neocolonial powers. While the Bandung conference, the arms deal with Czechoslovakia, and the idea of the possibility of development and security without the interference of colonial and neocolonial powers were inspiring to people all over the Middle East, it precluded certain types of action which would be visible in Nasser’s economic policy. With the symbolic capital of independence being authoritatively marked by breaking off relations with global powers, certain types of economic policy choices were precluded. Namely, those requiring large amounts of foreign exchange, direct foreign investment, or increased levels of trade. This disdain for close-knit relationships with foreign powers led logically to the increasing consensus on substitution of imports with locally produced goods. Import substitution industrialization (ISI) came to be seen as a value in and of itself, despite its cost in terms of opportunities for accumulation of financial capital. This perspective precluded an emphasis on export-oriented strategies, which, despite what they may produce in terms of financial capital, were rejected in part because of their costs in terms of the symbolic capital of self-sufficiency. The latter type of symbolic capital had become linked to more general categories of decolonization, dignity and nationalism that were of primary importance within the general hierarchy of values that made up the developmental myth of the time.

**Independence means Modernization : Clashes with the Muslim Brotherhood**

The Society of the Muslim Brothers or the Muslim Brotherhood was among the most popular political groups in Egypt at the time of the coup. Their peak popularity was in the 1940’s. They shared the Free Officer and Wafd interest in eliminating British control of the country, they were deeply opposed to the left, but held as part of their mission the alleviation of the hardships of capitalism. They were committed to stemming the tide of Zionism and to uniting Egyptian society on religious grounds (Gilsenan 1988, p. 175).

The Muslim Brotherhood had also been marginalized by the British presence, and presented themselves as an anti colonial movement. Their suppression after the revolution reveals something of the Nasser regime. They were not a threat so much in terms of being a potential rival power, but because they were “identified in part as a force against the development of the society in modern terms” (Gilsenan 1988, p. 172). This emphasis on modernization accompanied with a mistrust for all things “backward” or traditional was a central element of Nasser’s developmental myth. The centrality of the ethic of modernization to the Free Officers is suggested by the force and speed with which the Society was curbed then outlawed only two years after the revolution (1954) and even more strongly in 1965.
Metropolitan Capital

Social forces perceived to be cool to modernization were not the only ones to be labeled reactionary. While an end to imperialism and modernization were both among the most highly valued goals of the developmental myth of the Free Officers government, exactly what types of symbolic capital were the authoritative marks of the achievement of these goals was determined through historical events. The history of the development of the Free Officer relationship with metropolitan capital was particularly significant in defining what it meant to end imperialism. Soon after the Coup, the nationalist and anti-imperialist sentiment for which the Nasser regime would become famous did not take the form of a desire to eliminate foreign participation in the Egyptian economy. In fact, some analysts suggest that the early policies of the Free Officers were very much an extension of the “husbandry” (Evans, 1995, p. 13) role that the Egyptian government had played under the leadership of the Wafd party since its nominal independence in 1918 (see Wahba, 1994, p. 24-69). In some cases, policies limiting foreign presence in the country were actually diminished. For example, the revolutionary regime, in a not-so-revolutionary manner, rolled back Public Law 28, which called for native Egyptian capital to comprise 51% of any joint stock company functioning in the country. The Revolutionary Command Council decreased this percentage to 49% (Tignor, 1998, p. 188-194).

Until 1956, there were two opposing camps in the government on the issue of whether the ultimate developmental goal of independence could be best achieved through courting and exploiting more foreign capital and expertise, or through nationalizing and controlling it with a state development plan. It is difficult to say which of these camps would have won out had it not been for a dramatic event that permanently changed Egypt’s relationship to private capital.

The “Suez Crisis” of 1956, became a symbol of Nasser’s boldness, defiance to the traditional imperial order, and military might. It also provided an enormous amount of financial capital to the government, which enabled it in part to finally achieve the dream of a new dam at Aswan to harness the waters of the Nile. Both the nationalization of the Suez Canal Company in Egypt and the subsequent construction of the Aswan High Dam accrued to the Nasser government an enormous account of legitimacy in Egypt and all over the Arab world. The Suez Canal Company in Egypt was a symbol for Egyptian nationalism before the revolution. It was established under a set of laws called the Concessions. These applied to foreign joint stock companies to whom the state gave special economic privileges in the interest of attracting foreign currency. These concessionaires were given access to special markets, including government contracts and territorial grants, were free from any taxes not approved by their home countries, and, most importantly, were protected from any competition. Concessions granted to the Suez Canal Company in 1854 and 1856 included a ninety-nine year lease, and the freedom from any responsibility to the Egyptian population except a small annual payment. The suspicious relationship between the Company managers and the Egyptian government actually predates the 1952 coup, and talk of its nationalization had been on the table in earlier governments (Tignor, 1998, p. 100).

Some characteristics of the Suez Canal Company management, however, put
them very much at odds with the Free Officers. The concession of the Suez Canal Company was set to expire in 1968, at which point it could potentially be reclaimed and brought under Egyptian management, in compliance with the Egyptianization laws. The intensely conservative, old-school “Comité de Direction” of the Canal company insisted that Egyptian managers would be unable to run the Company when its lease expired, much to the distaste of the Free Officers. These young nationalists also noticed with irritation that the company was using its substantial profits (which grew exponentially during the war due to the shipping of oil) to invest in lucrative markets in Europe as early as the 1940’s. These activities were defended on the basis that the Canal Company was an international firm, which should not be subject to the preferences of Egyptian policy. However, it became clear to the Officers that “the firms and the state had completely different perspectives on the role of business in Egypt. The business concerns used the traditional criteria of profitability and safety…the military men felt a desperate urge, motivated by their desire to stay in power, to jolt the Egyptian economy into forward motion” (Tignor, 1998, p. 113). When negotiations with American Secretary of State Dulles for funding of the High Dam at Aswan, the economic motive for nationalization of the Canal Company fell into place with the political one, and the beginning of state economic dominance began (Tignor, 1998, p. 108-09).

Thus, the nationalization of the Suez Canal linked the values of independence and decolonization inextricably to the ousting of foreign influence and capital inside Egypt. In order to continue accruing the symbolic capital of anti colonialism, Nasser’s government was compelled to complete the job of ousting foreign interests in Egypt. Again, there were also good technical arguments for why this would be better for the Egyptian economy. It was historical events, however, which decided which of these visions of independence would take the day. Once the myth of nationalization as the means to independence was established, subsequent policies in line with this logic can be seen as following the same trajectory of the nationalization of the Suez Canal Company.

One such policy is the passage of Law 20 of 1957, which established the Economic Organization, which would be responsible for raising internal and external loans, making mixed enterprises with private capital and starting new enterprises. At the time, government representatives claimed that it was to be only a means of expanding and strengthening the private sector. However, the state took an active role in controlling many British and French firms, including the Industrial Bank, the Egyptian Sugar Company, the Iron and Steel Company, and the Egyptian Chemical Industries among others in textile and manufacturing. Its capital moved from 17 million Egyptian Pounds (LE) at its inception to LE 63 million by the end of 1959. By 1960, it oversaw companies with a total capital of LE 506 million (Tignor, 1998, p. 137).

**The Wafd Party or “National Bourgeoisie”**

Another strong national group that had the potential to act in alliance with the regime, but was instead forced underground, and almost out of existence, was the Wafd Party in Egypt. Representing the “national bourgeoisie”, the party was established in 1918 and participated in development projects as early as the 1920’s. Among these was the establishment of Bank Misr, the first Egyptian-owned bank. The Wafd Party included a bundle of interests such as landed elites and some industrial and commercial
elites (Gilsenan, 1988, p. 167). A few entrepreneurs before the revolution, most of them members of the liberal nationalist Wafd Party, were very successful during this time. The most celebrated among these was Talaat Harb, founder of Bank Misr. Many Egyptians today, looking back on the last century might even argue that this was a better period for Egyptian business than has existed since, despite the colonial presence (Bishara, 2001). Industrialists during this period formed syndicates and other political organizations to promote their interests.

Still, these industrialists, like the Nasser regime, framed their interests in terms of Egyptian nationalism and freedom from the legacy of imperialism. What they saw as one of the biggest problems with British control in the form of Lord Cromer, was the allocation of public funds. Firstly, education was neglected in the public budget, stifling the growth of future managers and leaders. Without Egyptians schooled to compete as managers in global capitalism, it was much less likely that anyone would be prepared to take advantage of the relatively entrepreneur-friendly environment. Resources that could have been put towards public education were used (some would say squandered) in the financing of hydroelectric projects meant to divert and use the waters of the Nile River (Tignor 1984, p. 92). It was in fact these very industrialists who clamored for a more activist state to work in creating and stabilizing domestic markets, protecting infant industries and establishing a strong central bank for investment (Wahba, 1994, p. 28-30).

It was perhaps for this reason that, at the time of the coup, the presence of this nationalist entrepreneurial element as economic actors was not seen as a threat to the revolutionary regime. In fact, they seem to have seen local entrepreneurs, as well as metropolitan capital, as key actors in the growth, and modernization of the Egyptian economy. This process was seen as fundamental to the development of a strong Egyptian military to defend an independent Egypt. This perspective changed through the course of Nasser’s presidency.

The eventual tension between the Free Officers and the Wafd is also connected to the different places in Egyptian society from which their members sprung. Nasser’s father was a civil servant (a postman) in the old colonial government. Nasser himself, like all of the Free Officers, was a military officer. These were Egyptians who had access to state institutions and to the Western ideals of progress and modernization, but were not benefiting materially to the same degree as their commercial contemporaries. The poverty visible in Egypt was considered to be one of the marks of the British imperial legacy. The improvement of the lot of poor Egyptians, and the opportunities available to them in terms of employment and education was swiftly taken up as a key mark of breaking with the colonial legacy of exploitation. In his writings, published under the title *Philosophy of the Revolution*, Nasser proclaims that however vital the need to catch up in terms of industrialization, it would never come at the expense of “sacrificing this generation for the next” (as quoted by Ezz El Arab, 2001). This emphasis on the responsibility of the state for the welfare of its population was deeply at odds with the recent history of these nationalist entrepreneurs. They were less concerned with the immediate and apparently impossible goal of restoring a dignified livelihood to impoverished Egyptians. Colonialism, to them, was most visible in laws such as the Concessions, which made it difficult for local capital to compete in international and domestic markets. As will be shown, the clash between the Free Officers and the nationalist entrepreneurs was closely linked to Nasser’s disillusionment with foreign
capital, however, it served to bureaucratize the symbolic capital of state control and distribution as an authoritative mark of decolonization. This trend in Nasser’s developmental myth would have certain concrete outcomes in terms of policy (discussed in chapter two) and institutional characteristics (discussed in chapter four).

The first concrete move against the local portion of the private sector was a series of laws passed in the late fifties that limited dividends and salaries for management, and created government income by requiring that a certain percentage of profits be used to buy government bonds. While this aroused much criticism from Egyptian businesspeople, the real turning point in state policy toward indigenous capital was the nationalization of Bank Misr and the National Bank of Egypt in 1960. The Minister of Finance justified this takeover with the argument that banks driven by a profit incentive cannot be forced to make choices based on developmental goals. The nationalization of Bank Misr was particularly meaningful in the consciousness of the Egyptian Bourgeoisie. Not only was this bank substantial in its deposits (if not in its equity capital), it was a symbol of native Egyptian indigenous entrepreneurship.

Talaat Harb, the founder of Bank Misr is one of the most famous Egyptian nationalists besides Nasser himself. The initial capital needed to establish the bank was collected by the sale of stocks in the company to small-scale investors all over the country (Davis, 1983, p. 108-19). While much of this capital came from landowning elements in the Egyptian economy, which are usually associated with complicity with colonial interests, all of the shareholders and directors of the bank were, by design, Egyptian. Furthermore, the Misr Group, which included several different joint stock companies working in various kinds of manufacturing, had been very supportive of the developmental efforts of Nasser’s government. They provided substantial financial assistance to a variety of government projects. The nationalization of this symbol of Egyptian national entrepreneurship thus signaled the end to private enterprise in Egypt (Tignor, 1998, 161-62).

The final blow to the local private sector in Egypt was the passage of the socialist laws in 1961. Law 117 nationalized the cement, steel, fertilizer and hotel sectors. Law 118 nationalized half of a variety of firms, and Law 119 nationalized a group of well-established Egyptian companies including many of the Misr group and others that had earlier been Egyptianized. These were put under the control of specialized government organizations. These laws were ostensibly necessary in order to mobilize state resources toward the kind of accelerated development that it was believed could only be achieved through central planning. By this time, the private sector was perceived to be made up of “large and arrogant entities that were constantly colluding to fix prices and curtail services,” they were seen as “wasteful of limited resources and incapable of mobilizing the large amounts of capital required for Egyptian development projects” (Tignor, 1998, p. 162). Furthermore, it was stated in the National Charter of 1962 that “capital in its natural development is no longer able to lead the economic drive” (Charter, 1962).

To further illustrate this sense that the private sector in Egypt was to blame for the disappointing pace of industrialization and economic growth in the country, a series of arrests rounded up many of the most established private sector players. These were reported in the form of lists in the newspapers, giving the clear impression that the government saw these business people as responsible for Egypt’s failure to meet its economic goals (Tignor, 1998, p. 165). When the government did work with business
people, they were inevitably people who also believed in the necessity of state intervention for real economic transformation. These included Sidqi, Nusayr and Barrawi, or as the case study in chapter four will show, the Arab Contractors Corporation.

**Summary: The Development of Nasser’s Enemy**

Nasser’s feats of daring in defiance of the imperial status quo amazed people all over the Arab world. These included the 1955 arms deal with then Czechoslovakia, and the nationalization of the Suez Canal on the anniversary of the Revolution in 1956. Still, early in his presidency, the nationalist and anti-imperialist sentiment for which the Nasser regime would become famous did not take the form of a desire to eliminate foreign participation in the Egyptian economy. Rather, certain events led to his change of heart toward the private sector. At some point he lost faith in the ability or willingness of entrepreneurs to bring about the speed and magnitude of industrialization that he envisioned. Muhammad Haykal, who was the mouthpiece of the Nasser government, wrote regularly in the newspaper *Al Ahram* about the goals and vision of the regime. He is paraphrased as explaining the new “Arab socialism as 'state-controlled economic progress, based on rigorous planning, state ownership of the vital sectors of production, and an attentiveness to the welfare of the entire population’” (Tignor, 1998).

Barnett argues convincingly that once Nasser had defined the rules of the game, and what were and were not *bona fide* nationalist policies, he became not only “creator,” but also “a creature” of his own standards, meaning that he had to continue accumulating that type of symbolic capital that he had promoted. He points to several cases in which the cost of these political investments were especially high in terms of financial, military, and other forms of symbolic capital. I cannot overstate that these are not more “real” or objectively more valuable forms of capital. In the case of Nasser, as will be shown, however, his investment in Arab nationalism was particularly costly.

**The Developmental Myth in Korea: Clifford’s “Economic Warrior”**

Park Chung Hee was born to a poor family in Japanese occupied Korea. He was able to improve his lot by his success in school, winning one of 90 places in the Taegu normal school, which is the Korean equivalent of a high school. Despite his later fame for his nationalist ideas, he managed to move up through the ranks of Korean society by his participation in the Japanese military (Clifford, 1994, p. 34-36). He joined the Japanese Manchukuo Academy for military training at the age of twenty-three, and graduated two years later at the top of his class. The military establishments were home to many communist thinkers, as well as rightist ideas about economic development. In 1934, the Army Ministry had made pronouncements against the “classes that lived by unearned profit. Later, the academy at Manchukuo became a training ground for the state’s involvement in economic development, as the military began planning and implementing projects such as dams, factories and power stations (Clifford, 1994, p. 37).

In this time of intense political conflict in the region, Park’s exposure to state-led economic initiatives as well as communist politics shaped his political outlook. In the interwar years, Park became the leader of a communist cell in the Korean military, and in
1948 he was involved in the failed Yosu Rebellion of the military against the government. Much like Nasser, Park promised to spur economic development, to free the country from the corruption that had plagued its national history, and to re-instill a sense of pride (Clifford, 1994, p. 40).

At the beginning of his tenure, he envisioned the communist path as appropriate to this goal. Indeed, early in his political career, Park was more sympathetic to communist ideals in his words and action than had been Nasser and the Free Officers at the beginning of theirs. He is cited as having stated that “economics precedes politics or culture,” (Clifford, 1994, p. 36). When he took office, one of his first moves in cleaning up the corruption left from the days of Singman Rhee was to jail so-called “profiteers,” businessmen, as well as to march them through the streets with slogans pinned to their clothes such as “I am a parasite” (Clifford, 1994, p. 37). One government publication reported these actions as “criminal punishment, through the revolutionary trial, of those involved in illegal amassment of wealth so as to meet and alleviate the people’s [indignation] against such hated millionaires and former high-ranking government officials and generals” (Clifford, 1994, p. 39).

Like Nasser, Park’s consolidation of state power involved an attack not only on business interests, but also on other elements of social organization. This included the dismissal of two thousand military officers, and the banning of a range of civilian political activities. Also, he began a social morality campaign attacking such businesses as the sale of foreign cigarettes and other “luxury goods” as well as smuggling.

Inclusion of Businesspeople

Like Egyptian entrepreneurs, businessmen in Korea, “needed Park to provide the money and stability necessary for development” (Clifford, 1994, p. 40). The first businessperson whom Park decided to include in his development strategy was Lee Byong Chull, founder of Samsung, and one of the country’s wealthiest businessmen, soon after the coup. Still, this was on the condition that he “voluntarily” donate all of his holdings to the government. This was followed by the same donation on the part of eight other Korean businessmen (Clifford, 1994, p. 40). Later, he offered most businesspeople arrested after the coup exemption in return for their cooperation. Despite the strong stand taken directly following the coup, most businesspeople were only moderately penalized. This set the stage for a more trusting business-bureaucrat relationship, in which business interests felt, not that they had been betrayed by an initially friendly regime, but that by these minor penalties they had been spared from the possible disastrous conclusion of Park’s very popular threats to destroy the private sector for their exploitation of the country (Clifford, 1994, p. 41).

The Ideal of Democracy

Military men like Park had learned much about organizing capitalism from their experiences with the fascist-corporate state from working under the Japanese military. Although he got a lot of mileage out of his humble origins, it was clear that economic and political democracy, one of the key components of the liberal developmental myth described in chapter one, were considered to be marginal at best and dangerous at worst
in terms of the nationalist goals of the regime. He came to this conclusion by contrasting the lessons he had learned in the Japanese army with his perspective on Korea under the regime of Syngman Rhee: The Japanese administration of its development projects and of the army had emphasized the top-down order typical of military logic, and was relatively free of the corruption that plagued Rhee’s government. The presence of corruption in the Rhee government was seen by many as a direct result of the lack of coordination that characterized it. This may have convinced Park that the liberal ideal of individual freedom was a means of diverting the public attention from the more pressing issue of national development for dignity to frivolous or selfish concerns. He “contrast[ed] his plans for development with the poverty and chaos of the 1960-61 experiment with democracy” (Clifford, 1994, p. 41). Also, he blamed the invasion by North Korea in part on his comparatively liberal predecessor, arguing that “freedom of expression and freedom of the press had led to social unrest, creating an opportunity for North Korea to invade” (Kim, 1997). Thus he found it necessary to “suspend the political activities of students, the press, labor unions and other social and political organizations, which had caused the political crisis and social unrest during the rule of the democratic party regime” (Park, 1971). This military-like emphasis on order, discipline and individual effort for the whole over decentralized profit-seeking and personal freedom and comfort was the essence of Clifford’s characterization of Park’s Korea as an “Economic Warrior” (1994, p. 33).

A National Dignity Dependent on the Global Market

Cold War politics had a very different meaning in Park's Korea. The island, which had been considered the home of an ethnically pure nation (Cumings, 1984), had been divided by Cold War politics along the 38th Parallel. The Republic of South Korea that was established in 1948, was in many ways a production of these cold War rivalries. When the Korean War erupted in 1950, it was the United States' intervention, under the auspices of the United Nations that kept the country from falling into the sphere of influence of the Soviet Union. Forces from South Korea fought with American troops against Chinese and Russian support in the North. This confrontation placed South Korea squarely within the sphere of American influence. Not only did this lead to great benefits in terms of US aid, but it also disassociated close-knit relations with the US and the rest of the Western world from the issue of national dignity defined as independence from colonial legacy. Thus, the symbolic capital of independence from imperialism never precluded close relations with the US and the Western world within the Korean developmental myth, even when Park rejected liberalism, and the political preferences of his predecessor. This not only allowed for the possibility of close trade relations and an openness to foreign direct investment and aid, but as events unfolded, Korea's relationship with the Western world encouraged this relationship in every way.
Trends in Developmental Mythology:  
Democracy and Policy, Businessmen and Policy Networks

One of the key differences between the developmental myths of the Park and Nasser regimes was their idea of what national development meant. Park’s definition was formed by his experiences in the Japanese Military where he was trained under the fascist ethic of sacrifice for national greatness. In this context, any personal consumption and profit seen as wasteful in terms of national development goals was strictly prohibited. Nasser’s idea of development as a distributive process, whose benefits should go first to those Egyptians who were most disadvantaged by the old capitalist order, differed sharply from the Park ideal. Ironically, this myth of the possibility of equality, and of the realization of this ideal as being the responsibility of the state is at least in part a product of the liberal tradition brought to Egypt by its British colonizers. An emphasis on equal opportunity for all Egyptians, concern for individual welfare manifested in subsidizing consumption, and belief in the importance of self-actualization through higher education are thus some of the key themes that distinguish the policies produced by the Nasser regime from those preferred by Park. Chapter three will outline the policies produced by these two regimes as a result of this key difference in their developmental mythologies. It will show the impact on corporate competitiveness of preferring the profitability of industries in terms of financial capital as opposed to those types of symbolic capital that were important to Nasser.

A second element of the developmental myth, which grew out of Nasser’s affiliation with the Non-Aligned Movement, was the high value placed on independence defined as economic and political isolation from colonial and neocolonial powers. Korea’s close affiliation with the United States, which resulted in part from the experience of the Korean War, was not considered to be a continuation of their colonial history with Japan. For this reason, policies courting the US as a trading partner, an aid donor and an investor did not carry the same cost in terms of the symbolic capital of independence as they did in the Egyptian case. These differences had certain concrete impacts in terms of policy, which will be discussed in the coming chapter.

The third important difference between these two developmental myths was the understanding of the nature of entrepreneurial groups in the two societies. The changes in the orientations of these two leaders suggests that historical events, as well as their specific experiences working with businesspeople, shaped their developmental mythologies.

Nasser originally sympathized with the liberal nationalism of the Wafd party who preceded him, showing a willingness to cooperate with the sources of government revenue and much needed foreign currency at the beginning of his presidency. His was a story of disillusionment with a capitalist class who seemed unwilling or unable to implement the kind of large-scale reforms he wished to see. It was his very dealings with Egyptian and foreign entrepreneurs that seemed to have exacerbated his suspicion of the Egyptian industrial elite, to the point of eliminating them almost entirely from any economic decisions to be made in Egypt by the sixties. For businesspeople in Egypt, the change in Nasser’s attitude toward their position in society can best be characterized as a betrayal.

On the contrary, when Park came to power, his suspicion of Korean
businesspeople themselves seems to have been even more pronounced than that of Nasser toward their counterparts in Egypt. His bold communist bent softened, however, as his experiences with businesspeople, and his eye to the Japanese mode of government, convinced him that they were in fact indispensable to the country’s ultimate goal of a dignified, competitive economy. Because of his strong anti-capital sentiments at the time of the coup, businesspeople saw the mercy that was shown to them later on as a relief. The result of these changes of opinion is manifested in certain concrete ways in state bureaucratic structures. Specifically, they defined the relationship of businesspeople to the bureaucracy, or the policy networks in place in each regime. As discussed in chapter one, these differences in policy networks would have an enduring impact on real outcomes in the world capitalist system. The nature of these networks, with special attention to the case of the Arab Contractor Corporation in Egypt, will be discussed in Chapter Four.
CHAPTER THREE

SITUATIONAL FACTORS AND STRATEGIES FOR DEVELOPMENT

This chapter investigates some of the situational similarities and differences between the Egyptian and Korean environments in the mid-Twentieth Century that might have had an impact on the competitiveness of the enterprises initiated by local entrepreneurs. Considering the difference in their trajectories of industrial growth and competitiveness, the similarities are striking from the contemporary perspective. This section will be followed by a discussion of the strategies undertaken by the highly centralized and popular regimes of Park Chung Hee and Gamal Abdel Nasser respectively. This discussion will suggest that the significant differences in the competitiveness of the enterprises which grew up in these two environments is one centering around the mythology of the regimes and the impact that those distinct mythologies had upon the relationship of government players with their national entrepreneurs.

Situational Factors and Corporate Competitiveness

Many authors dismiss the comparability of the East Asian economies to other modern economies, claiming that the factors that produce them are unique. Some of these factors are delineated in Said et al. (1997). None of these arguments precludes Korea’s comparison to Egypt. Firstly, although the Confucian ethic has been understood as promoting hard work and respect for authority that has often been pointed to as aiding East Asian development, it also includes a disdain for commercial activity, which is at least as important (Said et al., 1997). Also, Confucianism as an ideological form existed for centuries before the beginning of East Asian industrialization. If this were the driving force behind the striking growth of the recent past, one should expect that its inherently developmental effect would have had an impact earlier in its history.

Furthermore, some scholars on Islam see it as having a potential as an industrializing ideological force similar to that of Protestantism. For instance, contemporary Islamicists emphasize the potential of the state to act in the interest of what they see as the Islamic ideal of collective duty. They also emphasize industriousness as a part of piousness and associate public interests with muslaha, or God’s will. Modern Islamicists oppose the domination of politics by traditional elites and emphasize individual choice of the righteous path (Utivk, 2000). Said argues that the important question in the impact of culture on a society’s development is whether or not it is able to “reconstruct” its culture in a way that encourages the beneficial elements and suppresses the harmful” (Said et al., 1997).

The homogeneity argument is also problematic. Not only is there a strong sense of national identity in East Asian countries, and, in Japan, of racial identity in particular, but
economies of the Middle East are also populated with groups that share linguistic and religious similarities. The similarity of certain religious cultural or least of all physical features does not preclude great divisions on economic and ideological questions in the Middle East.

There are several situational similarities between the countries during the period under investigation. Both had scarce natural resources, specifically, the quantity of arable land per population (Egypt has 20,000 square km and Korea has 19,000) (CIA World Factbook, 2000). During the period under investigation they also shared similar sized populations. Egypt and Korea also shared a similar geopolitical position during the Cold War. Both were seen as frontier states. Korea stood as a bridge between the Japanese island and the northeastern region of Asia (Park 1971, p. 20); Egypt’s Suez Canal had long been seen as the European link to the East, and in the time of Nasser, Cairo became the center of hegemony over the Arab world. For these reasons, both stood to gain much aid from abroad. This is often seen as a great benefit, providing foreign exchange with which to fuel the economy. However, because of their political importance, both countries’ aid was “tied,” meaning that it had a certain purpose predetermined by donors. In the case of Korea, much of the aid was military, or was given with a requirement for a certain amount of military or other expenditures; in the case of Egypt, restrictions on the use of aid often limited its potential developmental role (Said et al., 1997).

Another characteristic which has been held up as a possible reason for differences between development trajectories are culturally rooted styles of bureaucratic and private sector management. Egyptian management in public enterprises and Egyptian public administration has often been criticized by those characteristics that distinguish it from Western bureaucracies. Youssef’s study falls in this category. He defines management as “using scientifically derived principals to describe and improve collective production” (Youssef, 1993, p. 370). He argues that modern Egyptian management styles differ from modern Western styles of management in their rationality. Specifically, the latter is characterized by a “management attitude” (Youssef, 1993, p. 374) that involves a whole range of characteristics understood to be necessary for efficient functioning. Similarly, Morroe Berger attempts to define a proper bureaucratic essence with reference to public administration in Western bureaucracies (Berger, 1967, p. 526). Their definitions of “scientific” or “rational” in the former and “professional” in the latter are seen as absent in the Egyptian case. This is seen as the main source of administrative and managerial shortcomings that have inhibited development.

Many of the supposed shortcomings of Egyptian managerial characteristics are also present in the often-praised Korean management and public administration. The most commonly noted characteristic of Korean business conglomerates, the chaebol, is the strictly disciplined hierarchy. Lee describes this structure as “tall” in that there are many hierarchical levels. For functions that might be filled by assistants in a Western corporate structure, entirely separate levels exist in the Korean hierarchy (Lee, 1989, p. 154). Such centralization of decision making, termed kyul-Jae in Korean is one of the elements that Morroe Berger argues was most detrimental to good decision making in the Egyptian Bureaucracy.

Also, different positions in the Korean corporation do not have strict job descriptions. Rather, superiors assign duties. According to Lee, while this leads to
increased inefficiencies because of duplications, it also gives supervisors greater flexibility, as they aren’t constrained by as many rules. Complete submission to the authority of supervisors is essential to the proper functioning of the chaebol. Shifting roles in Egyptian bureaucracy has also been cited as a source of inefficiency (Youssef, 1983, p. 12-18). Finally, the emphasis on personal networks in the Egyptian bureaucracy is seen by Youssef as a holdover from a time before a “bureaucratic mentality” evolved in Egypt. It is cited as the source of corruption and inefficiency by the World Bank. In the Korean chaebol, each business is family owned. The owner is the chair, who presides over member companies usually owned by his sons and brothers. In this patrimonial system, piety and loyalty are important mechanisms of control. Kim argues that these emotional ties between family members promote cooperation, leading to greater flexibility and therein productivity (Kim, 1997, p. 55-66).

Indeed, one of Egypt’s most successful corporations of the Nasser period, The Arab Contractors, stated in an interview that it “considers itself a family capitalist company and define [sic] the company as a family-style unit that governs itself by itself” (Dajani, 1982, p. 102). This unit is further described as headed by the “father-figure” of Osman A. Osman, whose workers are in turn seen as “children.” Within this framework the company has comfortably diversified into industries ranging from foodstuffs to land reclamation to steel and construction. Such wide diversification, it could be argued, defies classical conceptions of efficiency through specialization. In the case of the Korean chaebol, however, diversification has been cited as one of the great powers of the conglomerates. Briefly, if world markets for a particular product become unfavorable, or if the state selects away from an industry in which a chaebol is heavily invested, the presence of such a broad portfolio enables easy shifting of assets to more competitive industries. Thus, it can be concluded that neither the cultural affinity for certain management structures, nor the deviation from classical ideals of bureaucratic or management practices can be held as the key variable for the divergence in the histories of these two economies.

Strategies for Intervention in the mid Twentieth Century

The time period under discussion is the mid Twentieth Century. The strategies and policies of the following discussions do not match up year to year. They are meant to cover similar policy periods in state development, rather than the exact same chronological periods. For Egypt this includes the years of the Nasser regime, 1952-1970 and for Korea, 1948-1971.

Strategies for Intervention in the Egyptian Economy 1952-1970

The intervention of the bureaucracy established by the Free Officers can be divided roughly into four periods. 1952-56 was a period of consolidation of power and the establishment of reform policies in the context of free enterprise. During 1956-60, a period of guided capitalism began in which the bureaucracy became concerned with national prosperity. It turned its efforts to the “Egyptianization” of foreign interests in the region, land reform and support of capital for industrialization. 1960-67 was a period of socio-economic transformation with increasing centralization of control of the
1952-56: Consolidation of Power

The Agrarian Reform Law, passed in 1952, was one of the first actions of the Free Officers after the coup. It can be seen as a part of the regime’s consolidation of power in that it was meant to offset the influence of the approximately 2000 big landowners who had profited from, and who wanted a return to the colonial order.

Land reform was also an important part of the developmental plan because it forced the agrarian elite, whose expanses of land afforded them enough wealth that they did not participate in the industrial economy, to invest in industry. Also, it was a tactic for redistribution of resources to landless peasants. The amount of land confiscated and redistributed was not so sizable. After the first passage of the law, which limited ownership to 200 feddans (a feddan is approximately equal to one acre), 695,000 feddans were confiscated, representing 12% of the land arable at that time. 180,000 of these came from the royal family exiled to France, 130,000 were held by the government, 145,000 were sold privately by the owners, leaving 420,000 to be distributed to Egyptian families (Waterbury, 1983, p. 67).

Another element of land reform was the government’s investment in productivity. Although yields per acre of cultivable land in Egypt were among the highest in the world in 1952, only 4% of the country’s land could be classified as such, most of which was in the Nile valley. Because of the high population density and many available workers, improving production was not a matter of using industrial farming techniques to replace labor with machinery. Rather, investment in agriculture focused on extending total usable acreage with irrigation, improving cultivation techniques with fertilizers, insecticides and crop rotation, and allowing more of the profits of agriculture to flow to peasants by streamlining the marketing system. Also, efforts were made to improve living conditions in the rural areas by piping in clean water and installing electricity produced by the Aswan High Dam. Another element of agrarian reform was the establishment of agricultural cooperatives. These were meant to coordinate the use of land and production (Waterbury, 1983, p. 286-87).

In 1952, only 13% of GDP came from the public sector. Throughout this period, the government began to encourage closer relationships between business and members of the bureaucracy by creating the Permanent Council for the Development of National Production in 1953. The Council planned specific projects dealing with issues of budget and public works, and included representatives from the private and public sectors. The gap between public and private was further narrowed when in 1954 the government took an equity stake in two private companies.

1956-60: Guided Capitalism

During the period of guided capitalism, the bureaucracy focused on the Egyptianization of industry. The goal was not to bring corporations into the public sphere, but to write into law that Egyptian nationals be the primary private owners of
necessary industries. While addressing the developmental goals of the Egyptian nation, the shifting of business interests to supporters of the regime also facilitated a closer relationship between the bureaucracy and the business elites.

During this period, the bureaucracy looked to the building of the High Aswan Dam as a project with the potential to generate much needed income. In 1956, the US offered to contribute as much as $200 million to the project through the World Bank. When they retracted their offer in response to growing Egyptian ties with the Soviet Union, Nasser nationalized the Suez Canal on July 20. He expected tolls collected for passage would enable the financing of the Aswan Dam in five years. The British and French attempted to reclaim the Canal by enlisting Israel, whose own sights were set chiefly on the Straits of Tiran. On October 29, the Israelis invaded, and the British and French demanded a cease-fire and the entry of UN troops. They then occupied the canal zone on November 5. Eventually, in the face of international opposition, they were forced to leave. This was seen as a great victory to nationalists.

After this victory, 24 more French, British and Belgian corporations involved in banking, insurance and foreign trade were Egyptianized. Many of these corporations remained in the private sector, or were jointly public and private. The important change was in the national identity of their owners. Namely, a private sector that had been dominated by “non-Egyptian” private ownership fell to the new nationalist elite. The government did take into public ownership all special banks and seven commercial banks in 1958, and required that all of the main companies become joint stock companies. In January of 1957, the National Planning Committee was established to work on the technical elements of a long-term plan.

Laws 23 and 24 were passed in January of 1957 stating that all such companies should come under Egyptian control. Law 114, passed in August of 1958 decreed that a majority of company directors must be Egyptian and Law 115 that Arabic was to be used in all business transactions.

1960-67: Control and Centralization

By 1959, the public sector represented 74% of gross capital investment, up from 28% in 1952 (Ikram, 1980, p. 19). By 1961, with the declaration of a new “socialist revolution,” central planning was in full swing. The integration of the public and private sectors was considerable by 1960. During this period, policy teetered between intensive capitalist planning and downright market-distorting bureaucratic dominance.

In 1960 The Five Year Plan was published. It was an ambitious framework of goals and guidelines for the economy as a whole. It included a set of goals for government revenue and reinvestment. LE 1.7 billion was to be invested in the country. This included LE 579 million in agriculture, LE 579 million in industry and electricity, LE million in transportation and communications and LE 175 million in housing. Implementation of the plan required an increase in national income of LE 1.79 billion by 1965, which would involve an annual increase of 7.4%. This was a very optimistic plan (Waterbury, 1983, p. 72-79, 85-86).

In 1960, the Bank Misr was taken into public ownership along with almost all remaining banks and insurance companies, 44 companies in basic industries such as cement, electric and copper, and individual holdings were limited by law to LE 10,000,
the rest to become publicly owned. The State Cotton Authority was established in 1961 with exclusive rights to import and export cotton. In 1962, the National Charter further delineated the bureaucracy’s goals for the economy.

1967-70: Egypt at War

On June fifth, Egypt went to war with Israel in the Six Days War. Nasser hoped a victory would lead to a rollback of Israeli borders to the pre 1948 borders. Instead he suffered a defeat that was politically damaging and destructive to his industrial developments on the Suez Canal (Perlmutter, 1974, p. 177-181). Compounding the negative effects of this defeat on the economy, Egypt engaged, from 1969-70, in a war along the Egyptian-Israeli border in an effort to erode Israeli strength through repeated artillery barrages. Israel retaliated with raids into Egyptian territory. A cease-fire was reached in August 1970.

As far as Egypt’s economic policy, very few domestic measures were taken during this period of war. There was significant continuation and enlargements of policies followed throughout Nasser’s time in office. One is the enlargement of the bureaucracy. By 1970, it included some 50,000 high level bureaucrats (Waterbury, 1983). Also, industry fell increasingly under the control of the state. During this period, the porous relationship between state and economic elements in society was developing into a relationship of dominance of the former and subordinate of the latter.

South Korean Strategies of Intervention

What differentiated the developmental state established by Park Chung Hee from that of his predecessors, Rhee Syngman and Chang Myon was the relationship between business and the state. Where the latter two leaders had created a situation where state support of industry led to rent-seeking behavior and corruption, Park’s complete dominance of the financial sector and streamlining of the bureaucracy allowed him more autonomy in formulating an industrial plan and more control over its implementation.

Rhee Syngman and Chang Myon: 1948-61

The economic policy of the regime of Rhee Syngman, the first democratically elected leader of South Korea, was one of Import Substitution Industrialization. However, because of inefficiencies and political corruption, the regime failed to achieve prosperity. Capitalists were mainly engaged in commerce, which was made profitable by state support. Chang was ousted soon after the student revolt of 1960 that demanded democracy and economic development. The next regime, that of Chang Myon took these ideals as his goal, but failed as well. During this period, the South Korean economy was highly dependent on US aid. In fact, 52% of the budget was supplied in aid, loans and agricultural products (Kim, 1997, p. 108-109). The Chang regime stood against the rent-seeking which continued in the private sector, but was not able to prosecute offenders effectively enough to make any real difference.
Park Chung Hee and the Establishment of the Developmental State

Park Chung Hee, a military man by training, took control of the Korean government on May 16, 1961. Because of the sense of the ineptitude of the previous regimes, he met little resistance from the public. He promised order and, above all, framed his goals in economic terms rather than making any pretensions of standing for democracy (Kim 1997, p. 100).

While he was not trained in economic matters, Park proposed two strategies for government intervention for development. One was the elimination of government corruption and the other was economic development. Economic ministries were restructured and a close working relationship between government and business was established. According to Kim, the imperative to develop was espoused in the interest of eradicating poverty and of justifying the military coup to the public. Park argued that from a history of corruption the military was the only body capable of restoring social stability (Kim 1997, p. 101).

Three ministries were created to deal with economic matters. The first of these was the Economic Planning Board (EPB). It was formed only months after the coup from several ministries scattered throughout the government, and made responsible for creating comprehensive plans for the economy. Upon its merger with the bureau of supply, it was also put in charge of all foreign capital and goods. Also created soon thereafter were the Ministry of Finance and the Ministry of Trade and Industry (Kim 1997, p. 102).

In order to establish control over the management of the private sector, Park nationalized the entire Korean financial sector and set up several specialized state banks. These banks disciplined businesses by alternately withholding capital and providing it at below market interest rates. Furthermore, the state took control of all foreign capital through the establishment of the Bureau of Foreign Capital, which was later named the bureau of Economic Cooperation. In the interest of state autonomy from international actors, Foreign Direct Investment (FDI), which allows greater power to the lender, was discouraged through informal means (Kim 1997, p. 107-108).

The relationship between business and the state changes during this period. The state and business formed a newly formalized partnership for development in which the state was decidedly the dominant (sometimes authoritarian) actor. While the closeness of the business-state relationship had existed under Rhee, Kim argues that because the new regime was from a military class instead of from the elites in the Rhee regime, the relationship was more distant (Kim 1997, p. 111-12). Also, after the coup, the Park regime jailed many capitalists charged with corruption. This authoritarian stance of the military state allowed Park to enact drastic restructuring autonomously.

The First Five-Year Plan (1962-1966)

The first Five Year Plan had as its goal laying the foundation for industry. It was based on the promotion of industry through Import Substitution Industrialization, in the sense of limiting the consumption of foreign goods. It also followed in the footsteps of Japan by promoting the development of light manufacturing for export. Six development strategies in specific were chosen. These included correcting the structural imbalance
toward agriculture; accumulating resources, supplies and energy; expanding basic 
industry and overhead capital; using idle resources; improving the balance of payments 
and promoting technology.

South Korea actively sought, during this period, to attract the kind of foreign 
investment that would allow it to control its use—namely loans. For this reason, FDI was 
discouraged, and in order to promote foreign capital inflows, the state promised to repay 
loans for private sector companies who defaulted. As a result, between 1962 and 1971, 
foreign loan capital both public and commercial comprised 96% of all foreign capital 
entering South Korea. Much of this was from the US, who saw a strategic interest in the 
country.

In 1963, new amendments concerning labor were passed, severely limiting the rights 
of labor unions and making it more difficult for them to organize. The result was that 
government unions acting as the mouthpiece for management replaced real labor unions. 
Terrible work conditions proliferated, and when rare protests did arise, they were put 
down violently. Even those laws that did protect workers were not followed, and 
vioaltors were not punished. During this period, Koreans worked the longest hours in the 
world, and despite economic growth their wages decreased.

The Second Five-Year Plan (1967-1971)

The Second Five Year Plan involved an even greater emphasis on exports for self-
sufficiency, as well as the modernization of the industrial sector. The goals of the plan 
included self-sufficiency in food and development of water resources, establishment of 
the foundation of rapid development of chemical, iron, steel and machine industries and a 
gain of $700 million of exports. Also the diversification of agriculture and the promotion 
of science and management were objectives. In order to achieve these goals, the Park 
regime continues to work closely in a disciplinary role with business, promoting exports 
and controlling consumption through monopolies on foreign exchange.

Significant Differences and Similarities in Strategies

In conclusion, the strategies of both regimes were similar in that they had a 
developmental myth focused on autonomy from domination by industrialized countries. 
Both autonomously disciplined the private sector in accordance with a central state plan 
for development. Both regimes recognized the centrality of capital for finance in 
implementing a comprehensive development plan. Finally, both seized the power to 
address Waldner’s gerschenkronian dilemmas by nationalizing the financial sector and 
taking it completely into the realm of the state.

The difference between the two sets of strategies most often cited by theorists is the 
question of openness verses closedness to the global economy. Specifically, Egypt 
pursued a policy of Import Substitution Industrialization (ISI), while Korea worked 
toward export-led growth through Export Oriented Industrialization (EOI). Both 
strategies are similar in that they use a variety of subsidies, quotas and tariffs to protect 
target industries according to a national plan, and to limit the inflow of competing 
products. They are different in that the objective of ISI policy is to create and encourage 
industries producing domestic equivalents for all or most of industrial products that have
traditionally been imported. The hope was that once these industries achieved economies of scale, they could all reach comparable competitiveness with other world markets leading eventually to near complete autonomy from an unjust world capitalist system. EOI differs in that the pursuit of autonomy is defined not as the ability to disconnect from the world capitalist system, but to create a few key products with high value added which world consumers want to buy. This strategy focuses on beating the early industrializers at their own game rather than separating from the unjust world capitalist system. By exporting for foreign exchange, and producing a few high value-added products late industrializers attempted to gain the leverage to participate in the setting of rules of the international economic regime. In practice, these strategies differ almost exclusively in the selection of industries to be promoted.

Another difference existed in policy toward labor and the lower classes. In Egypt, a great emphasis was placed on the guarantee of respectable employment for all Egyptians. Although labor opposition was domesticated and brought under the control of the state in both cases, Egypt’s policy of bureaucratic expansion was created to answer the demands of labor for more employment opportunity. The Park regime, on the other hand, suppressed labor as much as possible in the interests of increasing profits for capital accumulation for investment. Similarly, many of the subsidies that strained the Egyptian budget during the Nasser era were consumer subsidies meant to alleviate the hardship of the poor. In the Park regime, this democratic ethic was foregone in the interest of boosting savings for investment. Luxury consumption was all but banned, and budget allocations favored boosting production rather than promoting general welfare. In general, the Korean government, by forcing companies to sell exports at unprofitable prices and, and by diverting production from domestic markets, forced domestic consumers to subsidize exports. This organization of society for national development benefited companies, not consumers (Amsden, 1989, p. 69-70). It is this advantage that the democratic ethics of liberalism ironically clash with the goals of national production. In some ways it is such egalitarian ethics that create pressure for budget allocations toward consumption rather than savings such as those to which Nasser responded (Sorensen, 1990, p. 32-34).

Outcomes in the Capitalist World System

Whether or not one believes that the transformation of the diverse societies of the globe in the conscious effort to emulate modern industrialized societies of Europe actually represents progress, this has become the accepted measure of progress. Whether or not one agrees that development should thus be defined as the industrialization of the economy and the modernization of social structures, these have become the accepted processes by which this emulation should occur. Whether or not one accepts the corresponding measurement of the greatness of a country by the competitiveness of corporations as opposed to the other possible definitions discussed in the Introduction, the fact remains that this replaced earlier forms of greatness such as military strength, the grandeur of palaces or stores of bullion as the world measuring stick.

In terms of statistics that correspond to this measuring stick, Korea clearly came out on top during this period. By 1970, GNP per capita rose to $266.72 from $82 in 1961, an average annual growth rate of 12.6 percent since 1961. GNP increased nearly
fourfold from $2.33 billion in 1961 to $8.60 billion in 1970. Over 13 percent of the labor force was working in the industrial sector by 1970 (Kim, 1997, p. 136). Egypt’s per capita GNP also increased from LE 65 in 1960, but only to LE 91 per capita in 1975. This represents a growth from 1.7 billion pounds in 1960 to 3.4 billion in 1975 (as calculated from Waterbury, 1983). This is clearly a much smaller change than that which Korea witnessed. Even more telling of these different trajectories is the fact that in the present day, Korea participates in the most high tech and high returns industries in the world.

The many apparent similarities in the two regimes beg the question, how were such different policies produced? The next two variables will compare the state characteristics that led to these different outcomes in terms of strategy and policy.
CHAPTER FOUR

POLICY NETWORKS: THE ARAB CONTRACTORS CORPORATION AND EGYPTIAN ENTREPRENEURS

A legendary story illustrates the relationship between Nasser and Osman Ahmed Osman. During the building of the High Aswan Dam, The Arab Contractors Corporation, Osman Ahmed Osman, had purchased British construction equipment, which he found appropriate quality for the task at hand. Because of Nasser’s strained relations with the so-called “Free World” following the Suez Crisis, and because of the Soviet sponsorship of the project, Nasser insisted that Osman use the Soviet technologies available for the same tasks. Osman responded that the British goods were of a far higher quality, and that if he wished to see the Dam finished on schedule, within budget and correctly, he had best allow him to use the necessary equipment, despite the requirements of political diplomacy. Nasser, with a strong incentive for pragmatism in the construction of this monument to industrialization and progress in Egypt, agreed that the products of these unfriendly countries could be used as long as they were hidden when the Soviet inspectors were on site (Osman, 2002). The push and pull of political verses economic necessity is one of tensions defining politics in late industrializing countries, since “development” defined as corporate competitiveness became the measure not only of a country’s importance in the world, but of its maturity in terms of modern social structures.

This story illustrates that the final decisions on all matters during the 50s and 60s were not exclusively in the hands of Nasser, despite his incredible popularity and autonomy. It suggests that a closer look should be taken at the business-bureaucrat relations that underpinned production decisions at the time. These decisions were taken in the context of a world capitalist system of production characterized by both systematic inequalities and asymmetries and incredible opportunities for profit and technological advancement. In both Egypt and Korea, as discussed in chapter two, development in terms of corporate competitiveness was at the center of the mythological national interest, yet the state was believed to be the key institution in promoting that competitiveness. Before fleshing out the concept of policy networks, this chapter will first address the issue of identifying the actors who produced and reproduced them by problematizing the concept of the public-private divide. These actors include state institutions responsible for planning, and those responsible for implementing development plans. This theoretical discussion will be followed by a description of the Egyptian bureaucracy in general, its intervention in the construction industry, and the specific case of the Arab Contractors Corporation. Finally, a brief look at the relationship between the Korean bureaucracy and the chaebol, or family-owned enterprises will bring out some conclusions about what types of policy networks are growth-promoting.
Policy Networks: Linking the game of international capital to the national interest

The World Bank describes Egypt’s economic situation in this period as one of “bureaucrats in business” (World Bank, 1995, p. 3) whereas in Korea, the bureaucracy has been described as “Korea, Inc.” (Evans, 1995, p. 53) suggesting that corporate interests run the bureaucracy. In both cases, governmental and productive functions have been shared between these two groups, which have been understood in liberal thinking as essentially separate in form and function.

The distinction between private and public spheres of activity is a fundamental element of institutional analysis in the liberal tradition of political economy. In its ideal form, the public sector includes all of those social functions that are managed by the government. These activities should not be driven by profit, but by the “national interest,” or what is good for the collectivity. Public sector actors should be forced to act in the public good by democratic structures which make them accountable to their constituencies: if they fail to act in the national interest, they will not be reelected. Thus the degree to which government actors fulfill their duties depends upon the institution in which they function. The science of improving these institutions is called public administration.

The private sector, however, again in its ideal form, is understood to include all of those who seek personal gain through their individual effort or voluntary association with private organization or business. In the liberal tradition of economics, as long as these individual drives for personal gain are regulated through minimum wage and the maintenance of a competitive environment for all products, these individual selfinterested efforts will naturally bring about the greatest good for all consumers and producers. Thus, by liberal economic theory, for private sector actors to contribute to the greatest good for all, this natural system of incentives called the free market must be allowed to reward those who are productive and eliminate those who waste. It is this free-but-regulated institution called a free market that determines the behavior of private sector actors. The science of running a productive business in this environment is called management.

The perspective, upon which institutional analysis in the liberal tradition is based, rests upon the belief that the incentives that drive these sets of actors, and therefore their behaviors, are determined by their position in the social institutions of the state and the free market respectively. The implication is that these incentives and behaviors are generalizable to any actor, in any period, who finds his or herself in the private and public sectors respectively. Thus, the behavior of those whose work is subject to the scrutiny of the voting public is driven by a fundamentally different set of values than the work of those who are answerable to the free market; the former earns legitimacy, the latter profit; the proper function of the former requires democracy, and of the latter, free exchange.

The reality of this divide, as will be shown, is challenged by the case of the Arab Contractors Corporation. Although Ahmed Osman was officially a bureaucrat, he functioned as a private sector actor in the sense that he ran his company based upon profit incentive and market logic (Ouf, 2002). The discussion of his management style below suggests that his position in the bureaucracy never led him to think like, or run his company like a bureaucrat. This suggests a problem with institutional approaches
stressing structural determinism. Namely, the attempt to understand institutions as a framework of incentives and expectations to which any human would respond approximately the same fails to explain how this public sector enterprise continued to be managed profitably by Osman (who had officially become a bureaucrat) while in the same circumstances other public sector enterprises instituted the “command” style of management generally associated with Soviet management.

There is certainly a noticeable difference between the behaviors of bureaucrats and entrepreneurs. In Cairo in particular, the difference between the behaviors considered to be appropriate, and the general way that people approach their work in private or informal verses government environments is almost tangible. What the case of the Arab Contractors Corporation problematizes is the thesis that this difference results strictly from the universalizable place of a given person in those institutions. A better explanation for why a bureaucratic may be behave like a private sector actor may be extrapolated from Bourdieu’s concept of the “feel for the game” (1999). He argues that, much as individuals internalize their place in a given modern social structure through discipline, along with the values by which that placement may appear logical, so is it through practice that individuals learn which are the appropriate actions and strategies by which a predefined set of goals can be reached. He compares the kind of skill and knowledge that an entrepreneur might have of management within his or her cultural context, or of markets in the world capitalist system to the skill of a tennis player. Learning the rules of the game of tennis is taken for granted as a prerequisite for excellent skill to such a degree that once one has played the game for a while, the rules come to appear completely natural and second nature. Through even more extensive practice, yet more strategies, if they work repeatedly, also become second nature. Just so, the practice of any social “game” (in this case, profitable management in the world capitalist system), becomes second nature through practice (Bourdieu, 1999). This “feel for the game” of international capital is the same reality that is described with such whimsical, yet often-used terms as “entrepreneurial spirit”. Osman and other entrepreneurs, who remained on to run their corporations after nationalization, retained a deep understanding of the practice of international business in the world capitalist system of the mid Twentieth Century. The successful execution of their activities required a certain perspective on the world, and what was possible and desirable within it.

Policy Networks

The concept of policy networks used in Jesse Biddle’s analysis of Businessmen’s associations in Turkey (discussed in Chapter One) refers to the means of communication between businesspeople and bureaucrats. The characterization of close business-bureaucrat relations as growth-promoting represents a break with the liberal tradition in which close relationships between bureaucrats and businesspeople are generally associated with corruption. The most famous discussion of the problems that arise from these relationships is Max Weber’s analysis of the need for bureaucratic insulation. Again, the idea of the normative value of insulation is based upon the belief in an objective national good that bureaucrats should promote. If one accepts the possibility of such objectivity, special relationships with certain social actors can be understood as
leading to favoring the individual interests of those actors at the expense of national goals.

The detrimental nature of business-bureaucrat relations is witnessed in governments everywhere as rent-seeking behavior. Bhagwati defines this as engaging in “directly unproductive activities” that undermine general developmental goals (as cited in Biddle, 1997, p. 278). In the presence of differential treatment of industries through subsidies, preferential access to credit and various types of trade protection, there is always the opportunity for bureaucrats and business elites to use state policy for their own individual gain at the expense of national goals. Jesse Biddle (1997, p. 280), in his study of economic governance in Turkey, remarks that most analyses have thus emphasized the importance of avoiding such behavior by insulating bureaucrats from business. He warns that the overinsulation of bureaucrats can be equally problematic. Too much insulation from business can lead planning bureaucrats to be out of touch with the real economic situation in which business elites function.

For this reason Biddle calls for a closer analysis of the nature of state-business relations, which he terms policy networks. These include both formal and informal communications and the terms of the relationship between the two parties. He argues that growth-oriented economies succeed in minimizing rent-seeking behavior not only through an insulated Weberian bureaucracy, but also by simultaneously establishing policy networks in which there is a two way flow of information. Bureaucrats must be free to enact the policies in line with national goals, while still drawing upon the expertise of private sector actors. It is the cooperative, mutual dependence between business and bureaucracy in cases of growth-oriented policy networks that Peter Evans refers to as “embedded autonomy” (Evans, 1995, p. 12). This definition of policy networks is central to the structure of a successful developmental state.

What are the factors, then, that lead to this close-working relationship that Biddle calls “growth-promoting policy networks?” O’Donnell (1997) views collusion between state and economic actors as based upon the different interests of actors. From his perspective, when the state finds that its interests are better served by supporting economic actors, those will become the right hand of the state. By this analysis, because the Arab Contractors had large capital holdings and was a successful company, it was in the interest of state actors to co-opt them. One problem with this analysis in the case of Egypt is that many economic actors far stronger than the Arab Contractors Corporation before the building of the High Dam at Aswan existed during the early Nasser period and before. The power bases of many of these were swiftly and completely destroyed by the regime. For example, the landowning elite was destroyed almost entirely as described in Migdal’s analysis (1988, p. 184-86). The Cairo Tower and the Suez Crisis are good examples of Nasser’s disinterest in co-operating much with foreign capital. Also, plenty of strong entrepreneurs, most notably those in the Misr Group companies were taken under strict control, and were unable to maintain the autonomy that the Arab Contractor’s Corporation enjoyed (Tignor, 1998, p. 166).

The following analysis of policy networks between the Arab Contractors Corporation (which is technically a public institution) and the planning arms of the Egyptian state will address the question of why certain social actors were incorporated as autonomous actors (creating growth-promoting networks) while others were simply destroyed. This will suggest, first, a shift away from this strictly structural definition of
the concepts of “state actors” and “business” suggested by Bourdieu’s conception of the “feel for the game” explained above. Policy networks, from this perspective, will be the interactions of those whose primary functions are management in the “game” of profit in the world capitalist system, with those whose primary function is in planning for the general “national interest.”

Second, it will suggest that the Arab Contractors may have been left to continue working autonomously because of the corporate mythology on which his company was founded and which continues to the present. As will be elaborated below, Nasser and his partisans shared with Osman the belief that modernization, industrialization and worker’s welfare were universal social goods for the Egyptian population. Because Nasser and his partisans came to see the configuration of values suggested by Egyptian entrepreneurs as a potential competitor with the configuration of value, which I have described as the Nasserist developmental myth, he worked to limit their claim to the universalization of those values into the national interest by alienating them from corporate institutions whose profit had, before 1961, accrued to private individuals, and by alienating them from the state institutions which these corporations became. His “collusion” with the Arab Contractors and therein co-optation of the practices associated with the managerial “feel” of its founder was possible because Osman’s own configuration of value was compatible with the Nasserist developmental myth.

State Institutions : Trust and Mobilization, Expertise and Implementation

The Revolutionary Command Council (RCC) was established directly after the coup. It was made up of several military officers who had organized the coup, including Gamal Abdel Nasser. As the bureaucracy matured, it became the Presidential Council, which was established in 1962. Ten of those who were involved in the coup itself eventually made up this council, along with two civilians described as “professional administrators” (Kerr, 1963, p. 14). The RCC and later the Presidential Council act as what Johnson calls the “pilot organization” because they unilaterally selected policies and long-term goals to be implemented by the rest of the administration. Like MITI, it was reportedly internally democratic in character, in that its members had long closely associated as equals. In fact, most of them had graduated from the Military Academy together along with Nasser in 1938, and had joined the Free Officers’ group at its inception in 1949. This group was popularly called “the people of trust” (Ayubi, 1980, p. 176) because their positions were earned through long-time commitment to the national, “revolutionary” cause rather than through their skill or knowledge. The people of trust were thus those who had taken risks for their beliefs before, and could be counted on not to sacrifice the revolutionary cause. The lower level of the elite bureaucracy is the Executive Council or the council of ministers. This is composed of 21 professional experts and only eight former officers, each of whom was individually responsible for the administration of the different bureaucratic departments.

Although the Egyptian Bureaucracy during this period was by no means small or inexpensive, as in Johnson’s ideal type of the developmental state (1999), it was structurally a meritocracy. Displaying the distaste for politics and corruption typical of military men, Nasser emphasized the “technical” nature of the science of administration over any ideological tendencies on the part of bureaucrats that could lead to factional
division. For instance, officials were not allowed to participate in politics relating to their post or intervene on each other’s behalf. Attempts were made to select strategies by allowing opinions to be expressed openly within the bureaucracy, although the actual selection of policies was left exclusively to the Revolutionary Command Council. Also, factions were not tolerated. Appointments were made depending upon technical skill as determined by scores in examinations. A Civil Service Commission was appointed to eliminate unnecessary posts, classify and grade them, assign personnel to them, distribute work, designate training and strengthen and enlarge itself (Ayubi, 1980, p. 303).

As discussed in chapter one, an autonomous bureaucracy is central to Johnson’s ideal type of the developmental state. The bureaucracy he envisioned must have free reign to enact whatever policies they believe necessary in the pursuit of those developmental goals they represent. This characteristic of the Nasser regime became evident through time as initiatives were passed despite the desires of different groups in society to whom the earlier, instrumental regime of Farouk had pandered placidly. For example, land reform virtually eliminated the old landowning elite and the July Decrees of 1961 hit hard many of the corporate elites of the time. Many of Nasser’s acts of daring discussed in chapter two were also seen as the marks of autonomy.

That the Nasser regime was autonomous is less a subject of debate than is the reason for that autonomy. Essentialist or culturalist explanations such as the theory of oriental despotism are popular. By such formulations, highly autonomous rule such as that of Nasser is seen as specific to “hydraulic societies” in which water is controlled by governing authorities and is the central determinant of welfare and survival (Ayubi, 1980, p. 25). Alternatively, some argue that the autonomy of the regime was due in part to the colonial bureaucracies that were in place before the coup. These can be seen as having enhanced state autonomy on two levels. First, it was the very colonial legacy that Nasser claimed to challenge that had initially placed the bureaucracy of the Egyptian state in the position of linking the Egyptian economy and the “core” of the world economy, bolstering this “peripheral” regime against possible domestic influence in the Cold War context. Second, the core concept of colonial rule is the enactment of an empirical vision upon the masses against their will. Therefore, structures intended to facilitate actions in the face of local opposition were already well established in Egypt. Karl Marx’s concept of “Bonapartism” was proposed as another explanation. This is a situation in which the various classes or other interests in society arrive by chance at a moment of relative equilibrium which allows the state, usually forced into a purely instrumental role in his formulation, to act autonomously in favor of the aggregated interest of its choosing (Ayubi, 1980).

Despite the many explanations for the high level of autonomy that the Nasser regime enjoyed, Waterbury finds the “passivity” of the Egyptian people inexplicable, considering the regime’s distaste for employing harsher means of quelling public protest to its policies (Waterbury, 1983, p. 14). Within the developmental state framework, what Waterbury terms passivity may be as easily understood as popular support of a bureaucracy that represents a developmental mythology in which the public believes. In fact, the conventional wisdom among Nasser’s present day supporters and critics alike is that he enjoyed overwhelming popularity in Egypt during the course of his time in office.

The resentment toward Farouk’s regime and the high levels of economic disparity in the incomes of elite and poor Egyptians, as well as the disparity in land distribution
created what Huntington calls a typical situation in which a middle class military elite becomes the mobilizer for reform and social and economic development in the face of an exclusive and small monarchical elite and reactionary social forces such as the Muslim Brethren (Huntington, 1968). This nationalistic mobilization by the military set the stage for the establishment of a hierarchical structure, infused with the vigor of self-sacrifice for the “national interest” as defined in the developmental mythology, and built with a goal-oriented structure. Egyptian mobilization thus took place under the “logic of war,” which Octavio Paz distinguishes from the soft pluralism of economic logic (Paz, 1985, p. 390). This mobilization required a leader like Nasser to inspire the nation’s trust in his personal ability to direct them. His function as the holder of the nation’s trust was articulated by the nickname of the pilot organization, the RCC: “the people of trust” (Kerr, 1963). This concept is contrasted with “the people of expertise” who represented the technical knowledge needed to implement policies. Lorieaux (1999, p. 238-39) stresses the strategic and practical achievements necessary for a mythology to maintain its credibility. Legitimacy requires results that can be understood as successes within its own mythology. In Egypt, the appropriate results were defined by the moral imperative to industrialize, and the necessity of state intervention to that end, as discussed in chapter two. Thus, besides the nationalist vision, the developmental state is based upon a practical vision, or the day-to-day decisions for managing the economy as a whole. This planning for development was embodied in the Executive Council or the Council of Ministers, also known as “the people of expertise.”

From Nasser’s perspective, it was important that these two functions be distinguished. He intended for the selection of goals to be exclusively the realm of the RCC, and for their implementation to be, to use his terminology, scientific and technical in nature. This distinction is articulated in The Charter drafted in 1960. It was this separation of goal selection and goal implementation that was to distinguish Egyptian planning from communist planning. The former was seen by Egyptian elites as ideological, and focused on the socio-political elements of economic organization. They attempted to formulate a vision based upon the apparent neutrality of administration (Ayubi, 1980). This shows a respect for expertise that should lead an administration to incorporate rather than alienate those with a feel for the game of international capital.

**State Intervention in the Construction industry in Egypt**

The construction industry is a good place to start in understanding the overall vision of the Nasser regime as well as the role it played in promoting its key goals. The policies relating to the construction industry reflect in many ways the overall economic strategy (Moavenzadeh, 1984, p. 12). Before Nasser began nationalizing the construction industry, it represented approximately 1,780 firms, employing 15,190 people. The total value of these companies is estimated at 115 million (Moavenzadeh, 1984, p. 4). The industry was heavily influenced during this period by the Nasserist emphasis on new large, industrial construction, and the bias against the production of housing and other low-scale projects that are more likely to be privately financed. This led to a situation in which the government in Egypt was the biggest consumer by far of construction and contracting activities. By 1970 and 1971, private consumers accounted for only 4 percent of the total construction being undertaken in Egypt. The same preference for pushing the
construction of new industrial projects can also be seen in the small percentage of total work that constitutes the maintenance and repair of existing structures. The government emphasis on industry can also be seen in the domination of the industrial building industry by public sector companies.

The construction of a facility includes a variety of different contributors: the owners and investors put forth the capital for the project and oversee its completion. Architects and engineers work on design and construction, and contractors or *muqawalun* like the Osmans coordinate and manage these activities and the materials necessary to complete them. In Egypt, contractors also deal with the various government codes and licenses that have to be met in order to do construction work. Because contractors were considered a vital part of the production of modern facilities, they became a key target for nationalizations. Thus, huge public conglomerates carried out most contracting during the Nasser period. While a few large contracting companies continued to dominate into the late seventies, many small private companies entered the contracting market as a result of Sadat’s policy of *infitah*. Still, in 1977 the Arab Contractors Corporation was responsible for approximately 32 percent of the output of the top twenty-nine companies under the Ministry of Housing (Moavenzadeh, 1984, p. 2).

This sector of the Egyptian economy was a key element of Nasser’s developmental plan, in part because it represented from 40 to 60 percent of total fixed capital investment in the two decades after the nationalization of the Arab Contractors Corporation (Moavenzadeh, 1984). Also, the infrastructure that it provided was considered indispensable for long term development goals. Construction projects such as the High Aswan Dam bolstered morale and national feelings. The centrality of the construction industry can be seen in the high esteem given to those receiving degrees in engineering. The title “*mohandis*” meaning Engineer, precedes the name of those obtaining such a degree in Egypt, which carries a similar prestige associated with the title of medical doctors. Because these industries were seen as so critical to the regime’s development agenda, they began to be nationalized in 1961 by the “Socialist Laws” passed in July of 1961, which included laws number 117,118 and 119. These set a ceiling of LE 100,000 on private firms dealing in construction and contracting. Any company with a greater turnover than this was to be nationalized (Osman, 2002). Law number 156 of September 1961 allowed companies to nationalize half of the capital holdings of their company instead. These nationalized companies fell under the control of the General Organizations dealing with infrastructure and public works, which changed several times by presidential decree in terms of their names, size and responsibility. At this time, companies bid for government contracts for projects. The resentment that many owners felt after the usurpation of their property by Nasser manifested itself in a refusal by some companies to bid on government projects. In response to this resistance, Nasser issued presidential decree 147 in 1962, which authorized the Ministry of Housing and Utilities to command work from public sector contractors (Moavenzadeh, 1984, p. 6). The entire sector (including 120 companies) was nationalized by a final set of laws passed in 1964, and smaller companies were grouped into conglomerates, which were reshuffled several times by presidential decree.

These nationalized companies functioned on a separate budget, and, as will be shown, functioned autonomously to varying degrees. Still, there were several institutional pathways by which the central planners in Nasser’s government were able to
control the activities of these organizations. The first step in the interaction between the
government and contractor enterprises in Egypt was registration of the company with the
Commercial Registry of the Chamber of Commerce, which issues registration numbers to
private and public firms alike, upon confirming the professional certification of its
management. A second registration was required of private firms in the Office of Private
Contractors in the Ministry of Housing. This step was significant to public sector firms,
as any contract signed between a public and private firm required approval from this
office. Also, all contractors were required to register with any government agencies that
might need their services.

Soon after nationalizations, any officially established enterprise could seek work
through competition for contracts, or tenders. This system was eventually eliminated, in
favor of the assigning of contracts by executive order based upon government
calculations of cost, overhead and profit (Moavenzadeh, 1984, p. 6). Thus, during most
of the sixties, state-owned contracting companies in Egypt faced little competition.

Another mechanism of top-down control was the Unified Accounting System,
which set the taxes for both private and public contracting companies. Companies were,
and still are, required to have their profits calculated and certified by an accountant.
After calculation, they were, and are, taxed at the industrial tax rate of 32%
(Moavenzadeh, 1984, p. 9). The use to which the remaining profits can be put is left to
company heads, but is constrained through several complicated options, again through
the Unified Accounting System.

Besides these systems of certification and taxation, constraints were placed on the
conceptualization and choice of projects to be undertaken by these companies. This
control has been exerted largely through investment planning in successive Five-Year
Plans, and annual budgets put forth by the Ministry of Planning, with help from the
Ministry of Finance and the Ministry of the Economy. These offices outline the general
plan for the economy, which must be approved by the maglis ash-shab or the Parliament.
Because construction is such a huge part of the Egyptian economy, and because of its
centrality in terms of Nasser’s and his successors’ understanding of development, the
sector planning for construction mirrors the overall plan for the economy quite closely
(Moavenzadeh, 1984, p. 1). Besides these general ministries, each project required, and
still requires, input from the specific ministries involved in the outcome. That is, the
Ministry of Housing oversees housing projects, the Ministry of Transportation
infrastructure projects, and the Ministry of Public Works, projects addressing sewage,
waste management and other utilities.

This discussion points toward a few elements of the formal policy networks
between contracting companies and the bureaucratic organs with which they worked
which limit entrepreneurs ability to use their expertise and to make their preferences
manifested in state policy. Again, the ability to use business expertise to make
independent decisions and to make policy suggestions is key to policy networks that
promote growth. 1) One of these non growth-promoting elements is the diffusion of state
control of these industries throughout the Egyptian bureaucracy. This diffusion or
decentralization makes the kind of fast and flexible decision-making typical of Korea
impossible in the Egyptian case. Closely related to this phenomenon is 2) the tendency to
discipline corporate behavior through overarching legislation, rather than specific
strategic incentives.
Osman Ahmed Osman and the Arab Contractors

Osman Ahmed Osman is a legend in his own right, and is known in Cairo almost as widely as Gamal Abdel Nasser himself. The story of the small upstart company winning the contract for the Aswan High Dam, is well known among employees of the company. In 2002 the company had claimed 70% of the Egyptian market share in construction (Sami, 2002). As the story goes, in 1957, Engineer Ahmed Osman was bidding alone in the tender for the project against a strong conglomerate of construction companies, having refused to join it himself. The estimate of the costs of the enormous High Dam project that he submitted to the government came out to LE 11 million less than the next closest conglomerate. When the competition saw his figures they laughed, saying that the project was impossible for that price. “The reason for the price difference was simple,” his nephew and inheritor of the company’s chairmanship stated (Osman, 2002). Osman demanded LE one million for himself. In the big conglomerates, each of the former independent owners wanted one million for himself. With the same costs for a twelve-company conglomerate, he could easily win the bid. This project was decisive in the growth of the company.

Few would argue, especially upon seeing steel construction arms behind plaques inscribed with the name Osman Ahmed Osman everywhere in Cairo, that he is an Egyptian institution. He founded the Arab Contractors in 1941 with the goal of establishing of a set of locally based and owned companies capable of carrying out important projects in the Middle East and in the Arab World at a cost and quality competitive with other international firms (Dajani 1982). Osman Ahmed Osman was an engineering student from Ismailia. He started the company as a contracting firm, whose meager capital reportedly came from his original contract to build two small garages (International Management, 1983). In cooperation with his more experienced brother Ismail Osman and several technical experts from the wealthy Gulf states, and with capital gathered from investors outside of Egypt, the contracting company grew into several companies, including the General Enterprises Engineering Company, later called the Arab Contractors company. The Arab Contractors eventually divided into several branches including The Saudi Contractors, OAO and Co. in Saudi Arabia, the Kuwait Engineering Company, OAO and Co. in Kuwait, and the Libyan Co. for Contracting and Development, OAO and Co. in Libya, as well as Osman Ahmed Osman Co. in Abu Dhabi, among others (Dajani, 1982).

The most famous projects of the company were the Ahmed Hamdy Tunnel, which runs under the Suez Canal, and the Aswan High Dam. Both projects were high profile symbolic projects, but the High Aswan Dam was particularly important in terms of national consciousness. It was proposed as a means of harnessing the Nile’s flow for hydroelectric power, for irrigation purposes, and to completely stop the Nile from overflowing its banks in flood seasons. Considerable controversy surrounded the funding and construction of the High Dam. The United States, represented by Secretary of State Dulles, had expressed interest in funding the project as a means of courting Nasser and, through him, the strategic zone of Egypt. Nasser had been willing to accept the US offer, but attempted to up the ante by forcing the Secretary to bargain with Soviet representatives. Tired of courting a borderline hostile Nasser, Dulles abandoned the
dealings, and the Dam was financed through the shocking nationalization of the Suez Canal, and with the support of the Soviets (Ayubi, 1991, p. 168). Thus, the circumstances under which it was created and its economic importance have imbued the dam with a special significance in the Egyptian national consciousness. The company’s participation in this project was seen by many Egyptians, by the regime, and by the company itself as “sharing in Egypt’s national development and reconstruction” (Dajani, 1982).

This project thus represented a great opportunity for the company in terms of its public image and expansion, as it was a small company, at best medium, before the winning of this contract (Ouf, 2002). It also represented new concessions to its new “boss,” the government (Osman, 2002). One of the conditions for taking the tender for the Aswan High Dam was the nationalization of 50 percent of the corporation. While this enabled government planners to make suggestions on the running of the company both during the High Dam project, and in all operations thereafter, the company was still run “ninety-nine percent on an economical or profit basis … not politically” (Ouf, 2002).

The continuity in the autonomy of the Arab Contractors after nationalization can be seen in the maintenance of the original board. The set of engineers, all family and friends of Ahmed Osman himself, continued to run the company, though they no longer claimed all of its profits. After 1961, with the completion of nationalization, they became salaried government employees. Many chairmen whose assets were taken in this most widespread set of nationalizations resigned from their posts, or were asked to resign.

“One day my grandfather was giving Nasser a tour of the company, showing him how they were making the jeeps just as he had asked, and the next day it was all gone” explained Karim Bishara of the nationalization of Ramses Auto in 1961. This sense of betrayal was the more typical experience.

Osman, however, continued on as chairman despite the fact that he would no longer be personally benefiting from the profits of the company. Osman stated that, “for my 70% shareholding in the company, that I valued at about US $8 million, the government paid me about US $24,000 in bonds that matured over 10 years. It didn’t matter. This is socialism” (as quoted in International Management, 1983, p. 63).

However, Osman argues that he was able to demand of Nasser that he be allowed complete autonomy in his management of the company. Thus, after nationalization the government did not take a direct role in administration. Rather, the company was just generally accountable to government agents, especially ministers.

In most cases, the relations with these ministers was good. The RCC made an effort to appoint not only trusted people, but skilled and knowledgeable individuals, supported by the company leadership. On the Dam project, for example, a minister was appointed specifically to oversee construction. This man, by the name of Ahmed Sidqi was an experienced engineer and a dedicated individual. Like most young men with “technical” skills, he had worked in the Military, but was not one of the “people of trust” per se. In fact, Sidqi was chosen by Osman and merely approved by the RCC (Ouf, 2002). This situation was not unusual for contracting work, in which it is typical to have a representative of project owners present to set the parameters for the job, in terms of the nature of the project and the time period. Like in any project, the contractor coordinated operations and the site engineer or project manager was present.
Osman’s autonomy continued into the Sadat era. Because of his close relationship to the late president, he was rarely forced to assert this autonomy, but in some cases he did. One such case was when the then Prime Minister forced the appointment of a board member who he knew Osman did not prefer. Although Osman was not even officially working in the company at the time, he still maintained the prerogative to override certain company decisions. Although he could not block the appointment of this individual, he fired him after two days in office, and he was not placed again. “It was a complete political power play … Osman won this time” (Ouf, 2002).

Still, some elements of the corporation’s “sharing” were not necessarily voluntary on the part of Osman. His distaste for public affairs was visible in his refusal of a cabinet position offered to him by Gamel Abdel Nasser. “I declined because I did not like Nasser’s socialist policies, which had killed off the private sector,” he stated in an interview (International Management, 1983). After 1961, the firm was largely nationalized. Osman did become politically active when the policies of Nasser’s successor, Anwar Sadat were shown to be more in keeping with his ideal of private ownership. He participated in Sadat’s infitah, or “open-door” policy as deputy premier in the Sadat government. His main job was selling the idea of privatization to a skeptical group of bureaucrats whose experience was largely in the context of Nasser’s Arab socialism. His belief in private ownership is also reflected in his emphasis on employee-owned firms. The most successful among these is ICON, which was established in 1977. The idea was inspired by Osman at his 1974 annual meeting which included the company’s top 2,000 executives. The company began as a trading firm, dealing with international blue chip companies such as General Electric, Euclid and John Deer among others, and eventually expanded into manufacturing operations in 1979. These included the production of aluminum doors, windows, prefabricated homes and gypsum blocks. The Chairman Mohsen Mohamed Abo-Gebba claims that Osman encouraged employees to subsidize their government-controlled salaries by establishing their own companies (International Management, 1983, p. 63).

In keeping with the nationalist sentiment which was the trend among the native bourgeoisie of the liberal colonial era proceeding the Nasser era, Osman, in his early years, articulated concern about the dependent situation of Egyptian industry created by a lack of native industrial institutions and know-how. He therefore envisioned a construction company which would specifically service and profit the Arab world. In enacting this vision even before nationalization, the company did a variety of projects including the reconstruction and development of the city of Suez after the Suez War in 1956, work on the ports in Port Said in 1958, the establishment of an industrial plant in Helwan, installing new agricultural technologies in Salhiya, along with the construction of military, industrial and civilian infrastructure in Egypt, including bridges, airports, highways, industrial plants and military bases (Dajani, 1982).

This commitment to Egyptian and general Arab industrialization and modernization is also reflected in the mission statement of the company, and continues to color the values of board members through the present day. Interview data collected from the board members by a masters degree student at the American University in Cairo in the 1980’s revealed a continuation of this emphasis on Egyptian development, as industrialization, modernization and service to the community as a whole. Board
members ranked the following elements of the Arab Contractors’ mission by importance (quoted in full from Dajani, 1982, p. 102):

1. Providing service to society
2. Aiding the Egyptian economy by engaging in large economic projects that would yield income for the economy and allow for more investment
3. Helping in establishing a number of new companies that would assume their role in both enhancing the contracting business and promoting the “green revolution” project started by the late president Sadat, through sharing in Al-Amn Al-Chithnaee [environmental security] Projects
4. Boosting the private sector to increase competition
5. Caring for the workers’ welfare in all and any ways
6. Employing new technology

Thus, despite differences in Nasser’s and Osman’s visions in terms of to whom profits of national capital should accrue, they shared the most fundamental element of the pervasive developmental mythology of the day: the national interest is development; this means industrialization, modernization—especially in its aesthetic forms—as well as a concern for the welfare of workers; and independence and national dignity rest upon these.

Another similarity in Nasser and Osman’s style was their view toward the function of employment. Just as Nasser’s policies and statements reflected a sense of responsibility toward his countrymen in terms of providing them with employment, a strong taboo exists in the Arab Contractor’s Corporation against the firing of employees. Just as jobs with decreasingly defined responsibilities proliferated in the Egyptian bureaucracy as a result of the effort to create job security (Youssef, 1983, p. 95-120), “thalaga” proliferated in the Arab Contractor’s Corporation. This Arabic word, meaning literally, “refrigerator” is used in common company parlance to refer to the kinds of positions to which company members were moved when they failed to please upper management (Ouf, 2002). Rather than simply firing an employee whose performance was not up to standards, the company would replace him or her and assign them to an invented position with little or no responsibility. While this practice makes for good diplomacy in a business in which every member to whom I have spoken feels like a member of the family. These policies have increased redundancy in the corporation, which does have an impact on operating costs. The practice of providing safe employment is such a strong element of the corporation’s tradition and mythology that, even in the face of their present financial crisis, this is one policy that does not risk being changed (Sami, 2002).

Implications of the Case of the Arab Contractors Corporation of Egypt

The case of Osman Ahmed Osman challenges two myths upon which liberal doctrine rests: The first myth is the assumption that financial capital is the only type of symbolic capital which drives those involved in the production process. On the contrary, as shown in Chapter Three, within the framework of developmental myth prominent in state institutions during the Nasser period financial capital was secondary, or a means to
the end of the more important symbolic forms of industrialism, modernism, improved
general welfare and military force. Similarly, in the case of the Arab Contractors,
achievement was also measured in terms of the production itself, as well as service to
society.

Furthermore, this analysis suggests that the Arab Contractors Corporation was
able to form growth-promoting policy networks because of its founder’s ability to
articulate his aspirations and mission in the language of the prominent mythology of the
time. At its inception, this was the ideal of nationalism in the form of Egyptianization
(but not nationalization) of the private sector, and the rejection of foreign privilege.
During the Nasser period, the mission of the corporation was articulated as one of
development defined as the modernization of Egypt and industrialization of the Egyptian
economy with fair employment and a concern for the general welfare of workers.
Whereas during the Sadat period, the founder, Osman Ahmed Osman, was a proponent of
opening up to global markets in support of Sadat’s *infitah*.

The feature which sets the Arab Contractors apart from less successful Egyptian
businesses which were nationalized by the Nasser regime is that the former were able to
universalize the goal of the success of their corporation into an element of the overall
Egyptian national interest. This harmony with the mythology of the day allowed Osman
to maintain his autonomy as an experienced manager (with the technical knowledge to
run a successful business) and as one committed to achieving the very same goals called
“socialist” by the Nasser regime though liberal style competition and growth, even after
his firm was nationalized, at which point almost all profits to accrued to the state.

The second and related myth is that of the natural or essential division between
the public and private sectors. Challenging this myth is not only interesting analytically,
but normatively. In the liberal tradition, this division served as a powerful rationale for
why business elites must be allowed to win the lion’s share of company profits in order to
function competitively. Osman’s actions cannot be sufficiently explained in terms of
market rationality and profit as is attempted in class analysis. The nationalizations meant
the end of profits to the company owners as in the liberal ideal. Furthermore, the line
between public and private incentives was crossed when Osman’s work in support of
*infitah* took the form of a government post. Bourdieu’s analysis suggests that Osman’s
management of the Arab Contractors Corporation as a private company resulted from a
“feel for the game” of management in the capitalist world system.

The unpacking of these two myths suggests that the failure of other Egyptian
companies to continue to grow after nationalization lies not solely in the lack of profit as
an incentive (also absent in the case of the Arab Contractors), but, at least in part, in the
fact that this class of company managers was seen by the regime as an enemy rather than
an asset to the people. This led, during the Nasser period to the alienation of these
entrepreneurs from the very state institutions that they themselves had called upon for
support in the earlier part of the century. The alienation of Egypt’s managerial experts
from the new “socialist” economic system eventually led to the failure of the new
Egyptian capitalist bureaucracy to function successfully as corporate actors, as was
discussed in chapter three. Except in the case of the Arab Contractors and a few others,
Egyptian businesspeople who had developed a “feel for the game” of international
capitalism were replaced by individuals who functioned on the logic of public
administration.
Korean Networks of Control and Guidance

Park Chung Hee of Korea made the final decisions on almost any issue, no matter how much advice he might seek from knowledgeable people. One way in which this control was exercised was through the nationalization of the entire financial sector. This took place almost immediately after Park came to power, beginning with the Bank of Korea. After nationalization, loans were granted based upon the priority of the sector in the overall development plan (Kim, 1997, p. 106-107).

The next move to institute control was the establishment of the Economic Planning Council, which would later be called the Economic Planning Board (EPB). This centralized the once separate tasks of the Ministries of Reconstruction, Finance, and Home Affairs, especially in terms of information collection. All of the other ministers, including the Prime Minister were to report to this organization. The goals and plans of this organization were implemented largely through the Ministry of Commerce, later called the Ministry of Trade and Industry (MTI) and the Ministry of Finance (MoF) who dealt on a daily basis with businesspeople. The nature of the relationship between these businesspeople and the Economic Planning Board was impacted by the fact that the EPB itself was headed by former businessman and deputy prime minister Chang Ki Yong. The appointment of Chang a “defender of the rights of private enterprise and a defender of market forces” (Clifford, 1994, p. 59), represented a break with the tendency to place military people in places which required a high degree of trust. This appointment thus reflected the more trusting relationship that Park had for business expertise and created closer ties between foreigners and Western-educated Koreans, generally supportive of liberal policies on the one hand, and those bureaucrats who supported Park’s original, more isolationist vision on the other. Chang was an important step toward creating growth-promoting policy networks between business and the bureaucracy.

Another interesting organization which was created in the heat of Korea’s export push was an agency called the Korean Trade Promotion Association, or Kotra, under the Ministry of Commerce and Industry. This organization was strictly charged with a “husbandry” role of investigating possible markets abroad for Korean Products and training small businesspeople to break into these markets (Clifford, 1994, p. 63).

Using Managerial Expertise

One of the areas in which the situation of Korean corporation was similar to that of the Arab Contactors Corporation, but differed from general trends in Egyptian industry in this period, was in the influence that businesspeople were allowed to have on policy and the management of individual companies. The expertise of those with a “feel for the game” of management in the global context continued to influence the policy of individual companies and the overall vision for the economy. In Egypt, with only few exceptions, suspicion of businesspeople dominated the relationship between government and business, whereas in Korea, policymakers believed that private initiative was necessary for both capital and professional management. Those businessmen who were co-opted by the Park regime formed a group called the Federation of Korean Industries...
(FKI) in 1961. This organization became a key organ for the aggregation and communication to the government for businesspeople (Clifford, 1994, p. 40).

Park also insisted that all corporations join business associations established for each industry. These are not the counterparts of such groups in the US which lobby for what corporate heads perceive as their interests; rather, they were assigned to those ministries corresponding to the industry, to assure that corporate behavior remained in line with developmental goals. Park thus saw these associations as a means of enhancing government control more than of aggregating and communicating business needs to the government. Also, much as the Arab Contractors Corporation blurred the line between public and private by acting as an autonomous, profit seeking body despite its officially public status, the administration of these business associations behaved very much as arms of the Park bureaucracy. Although companies set up the leadership of these associations, and they were, therefore, officially private sector actors, in many ways they functioned as a part of Park’s apparatus of control. Furthermore, associations considered to play a particularly vital role in national development were staffed with former military officers (Clifford, 1994, p. 37). So although officially the associations were private in practice they were geared more toward the defense of a universal “national interest,” generally associated with the public sector.

The overall picture of “Korea Inc.” was of government management of the big picture with businesspeople and laborers dealing with the details of running Korean companies (Clifford, 1994, p. 61-62).

The Chaebol and the State

The chaebol of South Korea are family-owned business conglomerates. The four main chaebol in Korea are Hyundai, Samsung, Luck-Gold Star, or Lucky Group, and the newer Daewoo, though many smaller ones exist. During the 1970’s, these companies displayed an incredible amount of growth, averaging 27.7 percent in the 1970’s. As discussed in chapter two, these conglomerates display a similar management style as the Arab Contractors Corporation in terms of the family style commitment and highly hierarchical logic of organization. Domestically, the chaebol maintain an oligopoly in many of the most technical and capital intensive industries (Kim, 1997, p. 52). In terms of organization, the tendency to recruit managers based upon family or personal ties, creates an environment of cooperation and trust very similar to that described by employees of the Arab Contractors Corporation. Professional managers hired on are engaged only if they have thick enough ties to the centers of control, and family members are reared to take over management of the company. In this way, professionals are like family, and family members are trained to act like professionals (Kim, 1997, p. 64).

Where these types of practices have been seen as archaic and detrimental to productivity and efficiency in the Western context, the developmental state in Korea “actively promoted the ownership and management practices of the chaebol” (Kim, 1997, p. 65) through loans, inheritance laws, and the lack of antitrust legislation.

In relating to the chaebol, elements of the Korean developmental myth sketch in chapter one materialized in the policy networks between these family conglomerates and the Korean bureaucracy. These close relationships became the means by which policy could be informed by business expertise and by which proper implementation of
plans could thereby be achieved. The state institutions discussed above which were established under Park managed to have a close working relationship with business elites for economic development, with the state as the more dominant partner. Later, these close relationships became consolidated into formal institutional structures. The outcome of these relationships, in terms of growth, were incredible.

**Summary of Significant Differences and Similarities**

Policy networks are the mechanisms for incorporating those people in society who have a “feel for the game” of international capital into a comprehensive development plan which represents some conception of the national interest. When those networks promote the competitiveness of firms belonging to that country, these networks are called growth-promoting. The above discussion showed how, despite the lack of a profit orientation of the developmental myth popular during the Nasser era, and a general suspicion towards capitalists prevalent in the bureaucratic milieu, state institutions still allowed the Arab Contractors’ Corporation autonomy in running the company. This relationship of both autonomy and state planning was possible because of the resonance between the corporate mythology of the Arab Contractors’ Corporation and the developmental mythology of the Nasserist vision. These harmonious ways of understanding the world and what is good in it created a relationship of trust between the “people of trust” in the regime and Osman and others with a “feel” for the market.
CHAPTER FIVE

CONCLUSION

The Egyptian experience of development during the Nasser period is generally understood as one of a socialist state attempting to tinker with market logic, thereby creating a monstrous bureaucracy and alienating its entrepreneurial class. This understanding of how Egypt became “underdeveloped” is not altogether false, but simplifies a much more complicated history. More importantly, it is an understanding that has led to a variety of beliefs about what role the Egyptian government should take in promoting development of national industries today. My purpose in writing this thesis was to reassess the Egyptian experience of development, (and perhaps absolve Nasser’s government from some of the blame for Egypt’s contemporary economic problems), and make the case for the potential for, and even necessity of, an active government to positively direct Egypt’s economy today.

This reassessment was done on a theoretical level—looking at the function of the state in the economy differently by using Johnson’s ideal type of the developmental state, and looking at the state as an institution differently by drawing upon the work of Mitchel and Bourdieu. A reassessment was also done on the historical level. Instead of assuming that the Egypt’s weak economic performance at the end of Nasser’s tenure on was a result of too much state intervention, I tried to isolate growth-promoting and growth-inhibiting characteristics of the state by comparing it to one of the East Asian “miracles”—South Korea. This historical reassessment led me to focus on the developmental myth that shaped the government’s policy as well as the policy networks that linked it to Egypt’s entrepreneurs. These were investigated in detail through the case of the Arab Contractors Corporation. I hoped that, by shifting the focus of my analysis in this way, I would arrive at a new way of understanding Egypt’s economic history that might lead to different prescriptions for future policy than those presently advocated by decision makers in Egypt’s political and business milieus. Following are some of the conclusions that I reached.

Egypt was a developmental state

I hoped to escape the tautological assertion that a state is “developmental” only if the economy is developing by focusing instead on certain features identified as key components of the ideal type of the developmental state. These included structural and ideological components.

Although it did not experience the same economic results as did South Korea, the Egyptian government during the Nasser period was, indeed, a “developmental state” with features similar to those explored by authors examining the successful East Asian economies. Several such features were discussed in chapter four, two of which were
most important. First, a developmental myth, that almost mystical belief in the imperative to develop that mobilizes populations to strive for economic prosperity as a national imperative, electrified the Egyptian population during this period. This is the area in which the Egyptian case is most similar to the East Asian ones that inspired Johnson’s concept of the developmental state.

The second feature that was investigated in detail is the policy networks that linked Nasser’s government to entrepreneurs. An attempt to demonstrate that growth-promoting policy networks existed between the Nasser government and the leadership of the Arab Contractor’s Corporation required a definition of “entrepreneur” as an individual with a “feel for the game” of international capital rather than a strictly private sector actor. With this broader definition, it was possible to see the Arab Contractors Corporation as an example of growth-promoting policy networks. Still, even with this broader definition, it is clear that in most cases economic decisions were indeed made from the top down, in a command economy style, and entrepreneurial talents and interests were systematically and purposefully alienated from the process of guiding the economy.

It is important to remember that policymaking is an imperfect business in the company of even the most competent of policy experts. For this reason, it is conceivable that a developmental state could fail in producing sustained development due simply to unexpected turns of events in world markets and politics.

**Both policy and structure contributed to the differences between Egypt’s and Korea’s developmental trajectories**

The comparison of Egypt to South Korea, a “successful” developmental state with so many similarities, was a means for understanding why the growth experienced in some sectors of the Egyptian economy during the period under consideration did not yield the same sustained and widespread development as did the East Asian economies. This was perhaps the most informative part of the study, as it crystallized which structural features and policy choices are most important in promoting development in a global economy.

On a structural level, strong policy networks between business and the state are key. In the case of Nasser’s government, a persistent mistrust of big business was the main obstruction to the establishment of such networks. I concluded that trust based upon a sense of a shared myth of development is central to the construction of growth-promoting policy networks in late-industrializing economies. I also found that there was some truth in the conventional wisdom that a bureaucratic style inhibited development. In the case of the Arab Contractors Corporation, in which a close and trusting relationship existed between the market-oriented expertise of Osman Ahmed Osman and the central planning elements of the Nasser government, other constraints posed by the rigid and legalistic style of that bureaucracy inhibited the profitability of this corporation.

On a policy level, the promotion of exports rather than the elimination of dependency on imports was the most important difference. It is difficult to attribute this policy difference to any characteristic of the state itself. Rather, different definitions of economic success led to different goals. The Nasser government was seeking to break a dependent relationship by substituting imports; the Korean government attempted to catch up by producing competitive exports.
Ideas have an impact on institutions and their policies

Looking at the developmental myth as a feature of a successful developmental state challenges the view that ideology is a set of ideas outside reality that gives those who have it a skewed perspective on the world. The idea that a developmental myth is necessary for formulating goals suggests that, on the contrary, it is impossible to make good decisions without a set of values that by which a policy’s quality can be judged. The history of Egyptian development that has been put forth here suggests that the particular nature of the ideologies that formed the developmental myth of the Nasser government affected the state on several levels.

The first of these is probably the least unconventional: the developmental mythology that captured the Egyptian population had an impact on the policy choices. In terms of those policies which most impacted corporate competitiveness, the choice of policies that would promote the substitution of imports with locally produced products (ISI) was most important. The choice to cut off access to foreign products was based on an ideal of national pride expressed through independence from former colonial entities. These policies resulted in an intense acceleration of industrialization in the short run, but also crippled Egypt’s ability to participate actively in an increasingly fast-paced and profitable international market based on fluidity of international trade.

The belief in the importance of financial wellbeing, coupled with a belief that the poverty of the general population of Egyptians was the result of the greed of the country’s entrepreneurial class, is the hallmark of socialist dogma, and an important component of the developmental myth during the Nasser era. It led to the nationalist policies that would eventually disenfranchise Egyptian entrepreneurs.

Ideas also have an impact on the shape of institutions. This was visible in the Egyptian state in two of its structural features: the absence of trusting, growth-promoting policy networks, and the bureaucratic style in which policies were implemented. The same mistrust of big business that led to nationalization policies also hampered communication between state actors and those elements of society that had a “feel the game” of international capital. This meant that military men took it upon themselves to formulate economic policy, and that most networks that would allow the expertise of entrepreneurs to bear upon those policies were cut off.

The case of the Arab Contractors’ Corporation is important because it shows that an ideological harmony between state and business actors is necessary for the production of growth-promoting networks. Policy networks can thus be seen both as one structural characteristic of the state (as discussed in Chapter Four), and as an indication of the willingness and capacity of national entrepreneurs to cooperate with the state to coordinate their interest with long term national developmental goals.

The bureaucratic style of implementation, which developed into a structural feature of the Egyptian state, has its root in ideas of what is good for the nation. It is not a coincidence that socialist bureaucracies are complex and unwieldy. This springs from the desire to assure that access to scarce resources is granted based on need, rather than on purchasing power. Bureaucracy grew, in the case of the Egyptian government, as official procedures multiplied to assure that resources were allocated fairly, and that recipients were blocked from cheating the system to take more than their share.
Nasser’s government was not a failure in all respects

I hoped to challenge the conventional wisdom that Nasser’s government was a failure by assessing its success with a different measuring stick, drawn from the goals suggested by the developmental myth at the developmental if the goal of the Nasser government was distribution and industrialization and not global corporate competitiveness, then the policies pursued by that government can be said to have succeeded.

It is important to mention that, despite the frustration of contemporary Egyptian entrepreneurs at the lack of opportunities that they see as the legacy of Nasser’s economic overhaul, one should not conclude that development has not happened in Egypt. In fact, as discussed in previous chapters, during the Nasser era, by other measures, many structural changes associated with modernity were successfully undertaken. Education was significantly expanded to include many sectors of society that had been excluded before the revolution. Growth rates spiked during periods of ISI and nationalization of private companies. Advances in infrastructure were noticeable, including projects such as the High Dam, and other projects undertaken by the Arab Contractors Corporation among others.

The state is a sticky concept

I had hoped to use a different conception of the state in thinking about Nasser’s government in order to frame my analysis in a unique way that might lead to new and more interesting conclusions. This was the most difficult point for me because I was using a lot of second-hand data. Since the data was already processed, the questions were already framed. This made it difficult to escape the authors’ formulations. I did gain a new appreciation for the pitfalls that state theorists encounter, as the traditional modes of discussing modern institutions are deeply ingrained in the way we think about all political phenomena.

Areas for Further research

It would be interesting to choose a case study that is not from the contracting sector of the economy. This sector was not an ideal choice for several reasons. Construction companies deal in services and non-tradable products. This means that there were a limited number of suppliers who had control over a limited market. Furthermore, construction companies were largely state-owned during this period, and enjoyed special licenses. It would be worth looking into the relationship between the state and entrepreneurs dealing in manufactured, tradable items that involve mass sales and price competition.

It would have also been useful to look at the Hyundai chaebol specifically in comparison with the Arab Contractors Corporation. This Korean firm also began primarily in construction work at the same time as the Egyptian group (in the fifties and sixties). It also began with local government contracts and eventually spread into the immediate international market for construction. Both of these companies worked to
diversify their activities into other types of manufacturing. Hyundai has become an internationally recognized name, whereas the Arab Contractors Corporation, though well known in the Middle East, has failed to expand into more high-profile and high-returns industries such as high-technology manufacturing. It would be interesting to track the different developments of these two corporations, and the main differences in terms of their internal functioning and their relationship with respective governments.

Another interesting question is: what are the traits or skills that entrepreneurs must have to produce growth-promoting policy networks? One such skill is touched upon in the case of the Arab Contractors Corporation. That is the ability of entrepreneurs in a given economy to articulate their own profit incentives as part of the national interest. It would be interesting to work towards a description of “the developmental entrepreneur”. Some traits might include lack of corruption, or corporate discipline, since a developmental entrepreneur is necessarily operating in an environment of increased rents and potential for destructive rent-seeking behavior. An interesting approach to this question would be to look at those entrepreneurs who took part in building state capacities and promoting a nationalist agenda.

Implications for policy today

The way a society understands its history shapes policy preferences in the present. For Egypt’s elite, the main lesson that has been taken from their understanding of the history of this century, and particularly of the Nasser era, is that governments corrupt markets and impoverish nations; they waste resources due to lack of expertise on the level of policymaking, and inefficiency on the level of implementation. For this reason, it is typical for Egyptian elites to speak out in support of infitah, or liberalization of the Egyptian market. Under the tutelage of international economic organizations and donors of aid, this has taken the form of privatizing state owned industries, opening borders to foreign products, and making foreign investment the priority that drives the direction of the development of the Egyptian economy. These recommendations have been understood as sensible through a critique of the pitfalls of the Egyptian government against an ideal of pure capitalism that has never really existed.

By understanding the pitfalls of the Nasser government as opposed to an economy guided by strong activist states that succeeded in transforming unindustrialized economies into competitive late industrializing economies, a different set of recommendations arises. Rather than courting international investment, the Egyptian state must encourage its local entrepreneurs by facilitating their access to local resources, including labor and capital. Rather than recklessly divesting itself of state enterprises, the Egyptian state must actively identify, guide and support national industries that may later export competitively without government support. The state must seek to limit the power of foreign investment to shape economic policies, and encourage national entrepreneurs to invest in Egypt rather than investing abroad, by creating a good investing environment. This would include supplying physical infrastructure and technical services. At the same time, state policy can be used to curb the misallocation of foreign currency earnings towards consumption of luxury items, and investments outside of the country.

In order for the state to take this activist role, Egyptian entrepreneurs must effectively work with and even within state institutions to formulate and implement
economic policy. This will require not only that the state view entrepreneurs as an important political resource, but also that entrepreneurs work to establish their own legitimacy as political actors. They must believe in and promote the developmental myth of the state; they must work to convince the public that corporate interests are national interests.

Thus, the concept of the developmental myth is a challenge to the concept of an apolitical, technocratic governance that serves some self-evident interests of the nation. Ironically, this latter ideal model for a model state is often put forth by the same voices who emphasize the importance of competition for individual profit and gain in the economic sphere. The concept of a national myth of what is good for the nation presents the possibility that different individuals or groups in society could have different, equally “rational” beliefs about what is good for the nation; development is only one of them. Similarly, development itself could be defined in a number of equally rational ways by different elements within society. This is pertinent to Egyptian policy today, because it proposes the need for a unifying ideology around which to coordinate developmental goals. Such an ideology also provides the force that mobilizes the population on all levels to make the changes that are required to meet those goals. The present regime has, instead, pursued contradictory policies, always making small concessions to domestic and international interests. As a response to the fear of “ideological” governance, the Mubarak government has resigned itself to crisis management, in which the primary goal of the state is to protect the status quo, resisting change in order to hold on to power for one more day.
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