2-1-2008

The evolving social contract: appraising the Egyptian experience in the context of Malaysia`s "Miracle"

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The Evolving Social Contract:
Appraising the Egyptian Experience
in the Context of Malaysia's "Miracle"

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To The Department of Economics

November 2007

In partial fulfillment of the requirements for

The Degree of Master of Arts

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ACKNOWLEDGEMENTS

I am grateful to have pursued and completed my Economics M.A. which I have embarked on in the fall of 1980 after graduating with Highest Honors from AUC. My gratitude is first and foremost to Allah Almighty for giving me the opportunity, potential and perseverance to regain the theories of Economics after such a long pause. In pursuing my Masters I strived to follow the teachings of Prophet Mohamed (peace be upon him) of seeking knowledge even in China. I am indebted to my dear professor Dr. Adel Beshai, who never faltered in believing in my abilities both as an undergraduate and graduate student and who graciously accepted me back into the Economics Department. My appreciation also goes to my dear professor Dr. Galal Amin who appointed me as his Teaching Assistant and from whom I learnt a great deal academically, intellectually and ethically. I would also like to deeply thank Dr. John Salevurakis my Thesis Supervisor, for greatly aiding me in my Thesis journey and who together with the rest of my distinguished panel members, Dr. Tarek Selim and Dr. Mona Said have all shown immense support, input and flexibility until I completed my Dissertation in accordance with the Department's high academic standards. I would also like to thank Drs. Mawaziny, Kamaly and Seda who allowed me to attend their classes to refresh my memory. I am grateful to Mrs. Sonia Victor, Mrs. Abla Osman and Mrs. Flora for their support and flexibility which permitted me to complete my Masters in a timely fashion. Last but not least my greatest appreciation after Allah Almighty goes to my dear family: my kind parents Effat Khalil and Ahmed Olama, my dearest husband Hussein El-Gueretly and my wonderful children Karim, Farida and Omar El-Gueretly, God bless them all, who have patiently tolerated my busy schedule and who never ceased to believe in me and were proud of my pursuits which greatly motivated me and helped me expand my potential and achieve my goals. In the end I can only say **Alhamdulillah**.

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ABSTRACT

The emergence of the Newly Industrializing Economies (NIEs) of East Asia and other South East Asian economies offers an optimistic reality in the face of dismal economic and social conditions prevailing in the rest of the developing world. More importantly, they provide their own model of development which, while best suited to their intrinsic circumstances, might serve as a role model for success that other developing countries, such as Egypt, could emulate. This thesis examines that premise in relation to Malaysia's social contract with the ethnic Malays in comparison to Egypt's declared adherence to its own social contract seeking higher levels of equity and welfare for its citizens.

Malaysia was chosen as a subject of comparative analysis because among the success stories within South East Asia it was deemed the closest in circumstances to Egypt. These similarities are explored within the thesis and contrasted with the several existing and important differences. The dominant economic literature lacks any serious, in-depth comparative analysis between the two countries discussed here, especially as the economic development of each is reflective of the viability of their social contracts. The purpose of this thesis therefore is to analyze both countries' social contracts, explore their implementation, determine the relationship between the government and the citizens, examine the benefits from such contracts and establish whether the Egyptian and Malaysian governments were able to adhere to their contractual commitments. Implicitly there is also an analysis of the degree to which the social contracts being discussed are historically determined by geopolitical circumstance.

While Egypt was overwhelmed by adverse political and economic circumstances preventing it from the effective pursuit of sustained development and the fulfillment of social contracts, Malaysia relatively advanced ahead and realized relative success on both fronts. Until its financial crisis of 1997, Malaysia was considered to be an economic

miracle and envied by many developing countries that regarded it as their vision of a success story. However the crisis exposed the weaknesses within the Malaysian economy and that its increasing rates of growth, while impressive, did not necessarily indicate sustained development. Malaysia is therefore not considered a benchmark for Egypt but rather as a useful experience from which to deduce lessons and learn from its shortcomings vis-à-vis Egypt's own distinctive circumstances. The fundamental differences in social, political, technological, economic and historical contexts between Egypt and Malaysia imply that Egypt must seek to identify its own path toward development reflected in an appropriate social contract which best fits its needs as well as its resources. While it is appropriate to look elsewhere for inspiration, Egyptian reform must be motivated by a contractual arrangement that is unique and specialized with respect to its needs and history. A reappraisal of Egypt's outdated social contract is therefore a necessity and should readdress its social commitments with regards to education, health, employment and subsidies to ensure both the empowerment and active contribution of the whole population in the process and not limit it to a free handout system as is currently the case.

The need for a long term sustained development strategy is of paramount importance. However the government should endeavor to ensure adherence to such a strategy so it does not end as a mere intellectual exercise. The government should reclaim its crucial developmental role and not succumb it to the private sector forces which only pursues its personal gains with little regard to the social context. It is ironic that, although the prevailing Egyptian social contract has entailed a relinquishing of political rights in exchange for subsistence and despite the government's softening of its commitments, Egyptians still did not regain these previously relinquished rights within a democratic context. A truly participatory democratic system and a simultaneously stable and predictable institutional environment is therefore an integral prerequisite for Egypt to advance ahead on its belated path towards sustained growth and development.

INTRODUCTION

The onset of the industrial revolution that started in Britain in the late Eighteenth and early Nineteenth Centuries not only paved the way for a move from the feudal system to an industrialized one, but it also caused significant social changes. This coincided with a wealth of philosophical and social ideas emanating from the Age of Enlightenment, which together brought about not only an economic revolution but a more profound social revolution as well.

The evolution of any society, no matter how primitive, entails the evolution of a social code of conduct that governs the relationships of its members. With the development of larger settlements the need for a legal enforcement body was necessary to ensure law and order and prohibit the encroachment on private property rights and liberties. In the earlier times it was the feudal lord who was the supreme lawmaker and enforcer. However, with the progress in human thought, emancipation from the old system became the order of the day. The intellects of Sheikh Al Islam Ibn Taymiyah, Ibn Khaldun, Hobbes, Jean Jacques Rousseau, Locke, laid the foundation for what became known as the Social Contract. This ethereal agreement at its best is between the state and its citizens, and symmetrically voluntarily. Each party voluntarily relinquishes a degree of control in the interest of stability and, while not consistent with the early language of the dialogue, development. The Eighteenth and Nineteenth Century development of many countries not only improved their living standards but also served to strengthen their respective social contracts. Further, the more a country is developed and democratic, though the preceding concepts are not necessarily parallel, the more theoretically sophisticated and socially beneficial is its social contract. The pursuit of “development” therefore became an urgent objective for the rest of the developing world which until the end of World War

II was under colonial rule by the prevailing super powers. With this quest for development came a parallel quest for more democracy; according to Crouch and Morley,

> A central issue is whether a direct correlation can be established between the rate of economic growth and the type of government in power, with the most consistently successful cases being those moving to liberal democratic regimes and, at the other extreme, authoritarian ones attaining least success. A paradigm for a shift from authoritarian rule towards liberal democracy is that economic growth brings more complex structures which the bureaucracy by itself becomes less able to manage efficiently to maintain that growth. New social groups, notably a middle class, emerge which press for a more liberal regime through which they can exert more influence. Decision-making power has to be devolved increasingly to private interest whose actions are based 'at least in part, [on] the determination of the market'.

The great advantages brought about by the Western model of development therefore urged the rest of the World to follow it as a prime model. However as many countries gained their independence during the second half of the Twentieth Century, this model could not be easily copied due to institutional circumstances in the developing countries and the absence of analogous intellectual and economic conditions that prevailed in the West and which instigated its development process. The emergence of the Newly Industrializing Economies (NIEs) of East Asia and other South East Asian economies was the silver lining to the cloud of dismal conditions prevailing in the rest of the developing world. Their impressive rise and improvement of standards of living was an example to be followed. They provided a role model for success that other developing countries, such as Egypt, could emulate and offered hope that they might prosper under their own special conditions.

Of all the East Asian economies, Malaysia is deemed to be the closest in circumstances to Egypt for various reasons. Both countries were under British colonial rule, both were granted their independence in the same period, both were led by autocratic leaders for long periods of time, both have strong political, economic and social weight in their respective regions, both have large Muslim populations, both followed five year plans, both adopted import substitution and protectionist policies for their infant industries, both opened up their economies and invited foreign direct investments, both received aid and both strive for economic growth and development. There are however some differences between the two countries. Malaysia is one of the richest countries in the world in terms of natural resources. Its tropical environment which was suitable for the cultivation of rubber and the evolution of the timber and palm oil industry as a by-product of its tropical jungle, coupled by its natural tin resources made Malaysia one of the world's major exporters of these primary products. Malaysia also attracted considerable FDI from countries like Japan and the NIEs. Malaysia also has a different ethnic mix of Malays, Chinese and Indians, whereas Egypt's social strata are more homogeneous and their difference is not largely racial but rather more religious in nature. Further, Egypt has been known as a tourist attraction for its Pharaonic monuments, the diving attractions of the Red Sea and natural beaches. Egypt also has the Suez Canal and the overseas workers' remittances as assets which constitute a sizable portion of its Balance of Payments. Of course, Egypt is also one of the main recipients of American foreign aid in the world, second only to Israel. Curiously, although Egypt and Malaysia started their development path at around the same time, Malaysia appears to have succeeded while Egypt did not.

Both countries showed a strong commitment to their respective social contract but with varying degrees of success. However the prevailing economic literature lacks any serious, in-depth comparative analysis between the two countries, especially as the economic development of each is reflective of the viability of their social contracts. The purpose of this thesis therefore is to analyze both countries' social contracts and explore the relative success or failure in Egypt and Malaysia during the second half of the Twentieth Century. The reason this period was chosen is due to it being immediately after independence from British colonial rule and the establishment of the first independent governments whose declared commitment was the improvement of the welfare of their respective citizens.

The methodology applied in this thesis is a qualitative comparative approach while utilizing some descriptive quantitative content. The concept of a social contract as it evolved in human thought is explored while Malaysia's ethnic mix is explained along with both countries' government policies and economic performance during the period under question. The thesis will analyze the evolution of the social contract in both countries and explore how it took different forms during the period under study and whether its objectives were realized. Statistical data pertaining to social contract dependents will be analyzed for both Malaysia and Egypt to provide a comparative analysis as well as assess the successes and shortcomings of the economic policies during the period in question and within the extraneously imposed historical circumstances

LITERATURE REVIEW

Socio-political frameworks were always the subject of intellectual thought and date back as early as Aristotle and the early Greek philosophers. However, the concept of a social contract between the government and the governed was not fully contemplated until Muslim scholars explored it in the Thirteenth Century. The European Enlightenment philosophers further developed this idea during the Seventeenth and Eighteenth Centuries. Ahmed Ibn Taymiyah (1971) was one of the first Muslim scholars to broach the social contract in his book *The Lawful Politics in the Reform of the Ruler and the Ruled*. He stated that God created mankind and delegated rulers to govern them in God's name and under God's rules. At the same time, these rulers were the agents of their subjects and attended to all their worldly affairs through the just collection of alms and equitable distribution of welfare to those in need. The ruler is entrusted with the financial and juridical responsibilities and he should endeavor to rule justly among his subjects by strictly abiding by the Holy Quran and the Sunna of Prophet Mohammad (peace be upon him). He should also seek the counsel of trustworthy and pious Muslim scholars according to the principle of *"Shurra"* (consensus) in all his rulings and strive to protect lives and properties according to *"Share'a"* (Islamic Law) as well as to endorse piety and worship. He stated that the conditions in choosing a ruler are strength, integrity and justice. However Ibn Taymiyah noted that if it was difficult to find a ruler who is both strong and honest then the people should choose one whose traits best fit the situation at hand. In times of war it was best to choose a strong warrior over a more pious but weaker ruler, whereas in times of peace a more pious ruler would be preferred to a stronger less pious one. The social contract therefore is such that the people elect a ruler based on competence and ability and obey him as long as he follows the Quran and Sunna. He would rule with justice and equality among the subjects and enforce law and order to ensure that lives and properties are well protected. The only point that is missing in Ibn Taymiyah's writing is that he did not mention what the Muslims should do to remove the ruler if he deviates from the right path; he merely mentions that he who deviates should be corrected even by the sword.

Abdel Rahman Ibn Khaldun, another Muslim intellectual and the father of Sociology outlined in his lengthy and detailed *Muqaddimat Ibn Khaldun* (1867) or *The Introduction of Ibn Khaldun* the basis for rule to ensure security to all citizens. Ibn Khaldun stated that societies were either urban or nomadic, the former being more sophisticated and enjoyed more luxuries than the latter. So that citizens might live in peace and security within their society, a pledge of allegiance or *"bey'ea"* between the king and his subjects should be formulated and honored to protect the citizens and their properties. To him the early Caliphs represented the best possible system of rule. Ibn Khaldun also stated that societies were dynamic and experienced a continuous evolutionary process changing from nomadic to urban and, if they become decadent, they would be weakened and replaced by other societies which would invade them and obliterate them.

Thomas Hobbes, the English philosopher of the Eighteenth Century, had a macabre view of human society which he believed needed an authoritarian figure to keep its "restless desire of power after power" in check. In his book *The Leviathan* (1958) Hobbes stated that, if left unchecked without a ruler, man would live in a state of nature . . . one of violence against one another. The conflict according to Hobbes would be "of every man against every man" thus creating "continual fear and danger of violent death; and the life of man solitary, poor, nasty, brutish, and short." To avoid this dismal state of affairs, a social contract is made between the social group and their ruler or king, whereby they give up their freedom in exchange for enforcement of law and protection of their lives to avoid anarchy and violent death. Hobbes proclaimed this contract to be a solemn pledge and cannot be breached, even if it was exhorted under duress or fear. Another major flaw in Hobbes' theory was that he denied the subjects the right to revolt against their ruler, who was to rule supreme and not to be questioned. Although Hobbes denounces the idea of a divine king, in essence he is preaching the same and refers to the state as the kingdom of God. To support his ideas within Christendom, Hobbes went to great lengths to prove them by citing from the Old and New Testaments. Ironically, his ideas created a stir in the intellectual circles and he was accused of blasphemy and atheism, hence denying him credibility and acceptance during his lifetime. It is worth mentioning that Hobbes wrote his book at a time of turmoil when England was in the midst of a civil war so it is understandable that he endeavored to offer a social structure in an attempt to end this anarchy which he believed necessitated a ruthless and powerful king.

Subsequent philosophers modified and elaborated on Hobbes' theories. Among these were Englishman John Locke and Swiss Jean Jacques Rousseau. Although Locke started from the same point as Hobbes, that is the state of nature, he proceeded to describe a more civil relationship between the ruler and the ruled. Society enters into a social contract whereby the ruled choose a ruler to protect them but this contract is not permanent and could be revoked if the ruler was deemed unfit.

Jean Jacques Rousseau in *Contrat Social ou Principes du Droit Politique or Principles of Political Right,* while moving away from Hobbes' pessimistic view of human nature and instead calling it 'primitive independence', also develops the social contract and admirably articulates it beyond the intellectual realm of the earlier European philosophers. He declared however that for society to live in harmony, its members enter into a collective social contract where they all abide by law and choose their leader. Under this social framework although the individual relinquishes his freedom, he gains his liberty and with it equality with other citizens. He also perceived successful governance as being represented by the journey that individual contributions to the state make until they are returned to the contributors in the form of the contractual benefits. It is as if there is a pool of benefits in which all citizens participate, and from which they all benefit. Rousseau further asserts that if the cycle is efficient and systematic the citizens will then be rich under this social umbrella. Imbalances of that social contract would result in a poor nation or a "people of beggars". Rousseau also accepted that under certain circumstances, a need might arise for the ruler to become a dictator, but this should only be resorted to very briefly and not subject to renewal for fear that the dictator would become attached to his new found status and might refuse to relinquish it. After exploring the evolution of the social contract, the developing East Asian economies and the development process of Egypt and Malaysia and their social commitments are studied here.

Anis Choudhury and Iyanatul Islam's book: *The Newly Industrialising Economies of East Asia* explains in detail what is meant by the term Newly Industrialising Economies (NIE) and the rise of the East Asian NIEs of Hong Kong, Korea, Singapore and Taiwan. The authors explain the triangle of poverty, inequality and economic development and how they are closely related and intertwined. However the book was also written in 1993 before Malaysia's 1997 crisis and hence did not include any of the crisis related issues.

A historical preview of Malaysia is addressed. John H. Drabble in *An Economic History of Malaysia, c. 1800-1990, The Transition to Modern Economic Growth* provides a history of Malaysia under the British colonization, during the First and Second World Wars, and its independence until the year 1990. He offers a valuable insight of the economic situation under British colonial rule and the historical background of the Malaysian peninsula, its Eastern territories and its relations with Singapore and other neighboring countries, and explains the roots of the Chinese and Indian migration to

Malaysia. After independence, the predominantly Malay (ethnic Malaysian) majority strived to restore the rights of the Bumiputeras (Malays and other indigenous people) through a series of affirmative action rules that favored them in relation to other ethnic groups: the capitalist and wealthy Chinese and the government-employed and plantation Indians. This led to inter-ethnic conflicts that continue till the present day. The work explains how Malaysia evolved through the years and attempts to throw light on the different Industrial Plans that put the country on the road to the unprecedented growth of the 1970s and 1980s.

However, to gain more insight into the Malaysian economy and not just its historical background, the books of K. S. Jomo are valuable resources. Jomo has done extensive economic research and acquired information first-hand through his extensive contacts with high level Malaysian politicians. In his books, especially those written after 1997, he does not hide his disrespect of Mahathir and believes that the latter's crony politics and public statements have accentuated Malaysia's notorious economic crisis that hit it in 1997 along with the other-crisis countries of Thailand, Indonesia and South Korea. Jomo's book with E.T. Gomez titled, *Malaysia's Political Economy: Politics, Patronage and Profits*, was written before the 1997 crisis and in it Jomo gives an extensive description of Malaysia's political economy and the emergence of the "tainted" connection between politics and economics under a system which, in striving to correct a historical wrong, created another. The government's patronage of the Bumiputeras through its affirmative action, led to the emergence of a rentier class of ethnic Malays who collaborated with the business-savvy Chinese and fostered a system of political patronage. The book also gives case studies of corrupt companies with names and details of their wrongdoings and downfall or salvation due to their political links. The book also explains Malaysia's New Economic Policy, its industrialization plans and privatization schemes. Because the book was written just before Malaysia's 1997 economic crisis, it is understandable why it is optimistic about the country's future.

Another of Jomo's books is *Industrialising Malaysia* which he edited in 1993. It focuses upon Malaysia's industrial sector and gives the historical background of the country and its industry. It then examines the existing linkages in the Malaysian industrial sector and its rural industrialization strategies. The book also explains Malaysia's state interventionist policies and how they have influenced its growth and development. Until that date, Jomo looked upon Malaysia as an economic "miracle".

However, after 1997, Jomo's stand changes drastically, as can be seen in his book which he edited in 2001 titled: *Malaysian Eclipse, Economic Crisis and Recovery*. This book offers a wealth of articles by different writers, each focusing on Malaysia's 1997 economic crisis. It explains with great depth the possible reasons for the crisis and how a currency crisis became a financial crisis before growing into a full-fledged economic recession. Jomo does not hide his distrust and irreverence for Mahathir Mohamad and his twisted politically authoritarian rule and sheds possible light on Malaysia not being the economic miracle that it was thought to be.

Jomo also presented a paper was presented to the UN's Identities, Conflict and Cohesion forum titled *The New Economic Policy and Interethnic Relations in Malaysia*. He analyzes Malaysia's New Economic Policy and how it affected interethnic relations, redistribution of wealth and poverty eradication. The New Economic Policy was mainly a government introduced plan that aimed at improving the economic standing of the Bumiputeras in an effort to equate them with the affluent Chinese. This created ethnic sensitivity among Malaysia's other ethnic groups.

This interethnic pressure is depicted in the paper *Ethnic Structure, Inequality and Governance in the Public Sector, Malaysian Experiences* which was presented by K. B.

Teik in 2005 to the United Nations Forum of Democracy, Governance and Human Rights. The paper analyzes Malaysia's ethnic imbalances and their evolution through time and how the New Economic Policy attempted to redistribute wealth and eradicate poverty among Malaysia's races. It is more of a political science paper as it goes deep into power sharing structure, but is beneficial as it explains the inter-racial connections and struggles.

Malaysian interethnic relations are further considered from another angle in K. Young, and W.C.F. Bussink and P. Hasan's book: *Malaysia Growth and Equity in a Multiracial Society*. The book explains the roots of this problem and how the different races in Malaysia were historically divided among employment and economic specialization. Malaysia's New Economic Policy was also analyzed on and its long term development targets and issues outlined. Because this book was written before Malaysia's serious crisis, it failed to detect the problems that were lurking in the horizon and hence did not foresee the crisis that occurred.

It is therefore important to view post-1997 books as they place the Malaysian experience in its correct prospective and attempt to analyze the factors that led to the crisis. The book *Modern Malaysia in the Global Economy: Political and Social Change into the 21st Century* which was edited by Colin Barlow in 2001, explores Malaysia's 40 year span since its independence in the 1960s and its emergence from being an underdeveloped country to being on the threshold of becoming a successfully evolving economy. The book then examines the 1997 crisis and the subsequent recovery schemes undertaken by the government to put Malaysia on the road to recovery.

An interesting case of pre- and post-1997 Malaysia is that of HSBC Bank Canada, which started a series of articles in 1995 as part of the Bank's introduction to East Asian economies as trade partners with Canadian entities. However after the 1997 crisis, the articles were expanded to examine East Asia following the crisis and the expected implications both regionally and internationally. These articles were edited by A.E. Safarian and Wendy Dobson in 2002 and titled: *East Asia in Transition: Economic and Security Challenges.* The articles state that the East Asian model of growth was a success model until the 1997 crisis, but thereafter it was put under a new light, with lessons to be learnt and conclusions to be drawn, that may enlighten other developing countries in their path towards growth and development. Because the articles and subsequent research were undertaken by HSBC Canada, it is interesting to note that the book stresses that institutions should play an integral role in economic growth.

In the absence of comparative literature between Malaysia's and Egypt's social contracts, both economies were analyzed under different rulers and political structures and a comparative study was then conducted in this thesis. The literature that was consulted for Egypt includes Khalid Ikram's *The Egyptian Economy, 1952-2000, Performance, Policies and Issues*. The book is one of the most recent economic analyses as it was published in 2006 and gives a detailed analysis of the Egyptian economy throughout the years under consideration. It fits perfectly with our study because it conveniently divides Egypt's post-revolutionary years into three periods: Nasser (1952-1971), Sadat (1971-1981) and Mubarak (1981 till present). The book further highlights the change in Egypt's political ideology from socialism (1952-1973) towards capitalism (1974 till present). However the book merely offers a critique of Egypt's policies and does not offer a long term strategy for sustainable growth nor does it delve deeper in the issue of social contract.

Another work which further sheds light on Egypt's past economic history is Mark C. Kennedy's *Twenty Years of Development in Egypt (1977-1997)*. Kennedy focuses on Egypt's move towards capitalism and open-door policy that occurred since 1974 and serves as a descriptive tool. While he attempts to diagnose the problems that plague the

Egyptian economy, he does not offer a future strategy or lessons learnt from past experience. It is most interesting to note that the years under study end in 1997, the year of Malaysia's financial crisis, yet the author does not attempt any comparative analysis between the two economies.

The same approach is largely repeated in the book edited by M. Riad El Ghonemy: *Egypt in the 21st Century – Challenges for Development*. The different writers give a historical review of Egypt and its level of development at the turn of the Century. They then outline Egypt's previous development strategies from 1950 to 2001 and address the issues of adult literacy, poverty, income inequality and productivity. And although the book throws light on Egypt's progress and challenges in the Twenty First Century, it does not give a concrete strategy or plan that could help Egypt to achieve sustainable growth. The literature does not even attempt to compare Egypt with successful developing countries in an attempt to learn from their experiences.

Existing comparative literature between Egypt and other developing countries was found to be either shallow or did not serve its purpose in terms of suggesting future plans. Jeffrey Sachs' paper: *Achieving Rapid Growth: The Road Ahead for Egypt* although compares Egypt to relatively successful developing countries of Chile, Hong Kong, Indonesia, Korea, Malaysia, Singapore and Thailand, limits itself to broad statistical comparison without offering any in-depth analysis. The paper states that Egypt's lagging economic performance is due to its previous economic strategy of state-led industrialization which has been adopted since independence in 1952.

Egypt's path towards growth and development is not unobstructed especially in that there are many trade-offs along the way and equality could be compromised. This trade-off is explained by Francois Bourguignon, in his paper titled *The Poverty-Growth-Inequality Triangle: With Some Reflections on Egypt*. Bourguignon attempts to examine whether the main focus in a country's drive towards development should be addressing poverty, growth, inequality, or a combination thereof. The paper states that there should not be any tradeoff between these three issues and that eradication of poverty could only be achieved through long term growth plans coupled by income redistribution.

Galal Amin explores the adverse effects of globalization on Egypt in his Working Paper (1999) *Globalization, Consumption Patterns and Human Development in Egypt*, however he only focuses on consumption, investment and income growth, distribution and unemployment, education and health. While he gives valuable insight into the socio-economic changes within the Egyptian society and is justifiably critical of the post-1974 Open Door Policy repercussions, he does not probe too deeply into the post-1952 era. In an earlier book, *Whatever Happened to Egyptians?*, which was published in 1998 and translated in 2000, Amin addresses recent negative aspects of the Egyptian society like conspicuous spending, misallocation of resources, corruption, violence, moral decadence and a general deterioration in morals and work ethics, inferior quality of life from rising pollution levels, disenchantment and a lack of respect, to name but a few. While Amin acknowledges that the Open Door Policy may have contributed in part to the creation of these problems with the emergence of rentier-mentality businessmen who acted as middlemen in the import business instead of engaging in more productive activities, and then spent their new wealth on speculative real estate investments or, worse still, on conspicuous consumption. However Amin stated that the root of Egypt’s economic, social and cultural problems went beyond that, and was mainly due to a change in Egypt’s social framework, as well as to the high rate of social mobility.

Over the years many economists have written their own recommendations regarding Egypt's economic growth. Finance was advocated as an important vehicle for growth in the paper prepared by Gerard Caprio Jr. and Stijn Claessens (1997), *The Importance of* *the Financial System for Development: Implications for Egypt*. Although finance is often overlooked by policy makers who confine it simply to being a policy tool, it is a powerful tool that should be employed. The paper also acknowledges that financial reform is not easy and examines some of the implications for Egypt.

Egypt's urgent need for reform requires a reappraisal of its outdated social contract in order for the country to move forward and realize its anticipated targets. One of the advocates of such an appraisal has been Heba Handoussa who presented several reports all calling for reform and the formulation of a new social contract. In her paper *Employment, Budget Priorities and Microenterprises* (2002) she highlights the need for a reassessment of the current social contract which did not adequately meet its targets and addresses the employment issue in Egypt stressing on the importance of micro and small enterprise (MSE) as one of the most important vehicles for sustained growth generation and equity. Handoussa also co-authored a second report *Egypt Human Development Report (EHDR) of 2005* which was a combined effort between the UNDP and the Egyptian Ministry of Planning and Local Development. The EHDR proposes that Egypt should enter into a new social contract which not only would ensure a more efficient welfare system but would also firmly place Egypt on its development path without adverse distributional effects.

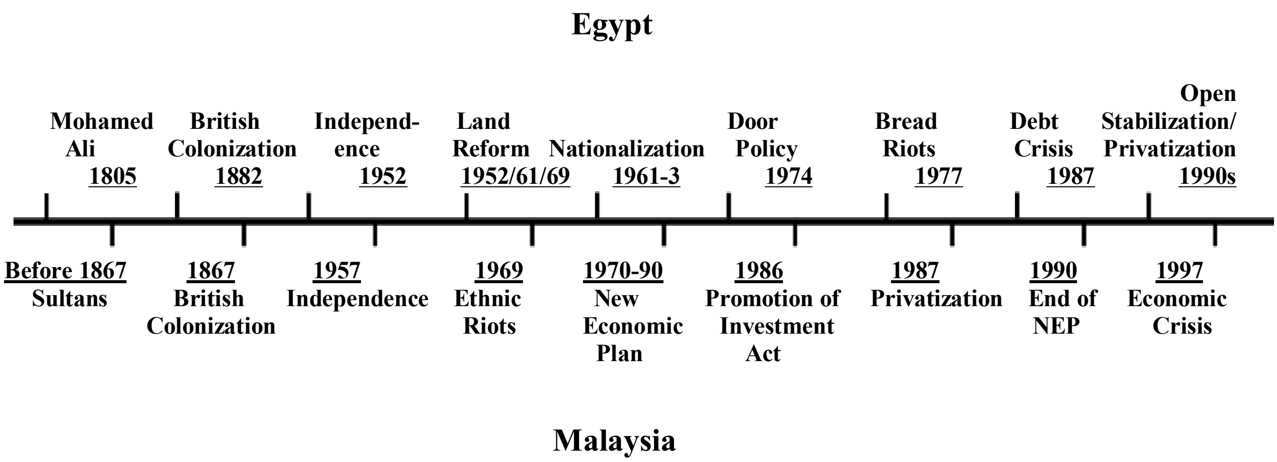
HISTORY OF EGYPT AND MALAYSIA'S SOCIAL CONTRACTS

Throughout their respective histories both Egypt and Malaysia experienced a social contract between the governing body or individual ruler and the masses. In the case of Egypt most of the time this contract was politically enforced either due to colonization or authoritarian rule. Malaysia also experienced colonization but since its independence from the British in 1957 and despite experiencing long authoritarian rule, its political climate was freer than that of Egypt. The different social contracts of both Egypt and Malaysia will therefore be addressed.

Egypt and Malaysia Comparative Social Contract Timeline

The following timeline displays the most important events in the history of Egypt and Malaysia which were closely related to their social contracts. It is interesting to note that both countries shared British colonization, independence and Open Door Policy which in Malaysia's case was the Promotion of Investment Act of 1986. Like Malaysia, Egypt also experienced privatization in the late 1990s, at a much later date than Malaysia. A timeline illustrating the above is to be found in Figure 1 below.

Figure 1 – A Timeline of Egyptian and Malaysian History



If we study the timelines of Egypt and Malaysia to compare the different social contracts of the two countries we would notice that for Egypt there were two periods of an almost Hobbesian social contract with the political body enforcing an exploitative system for their benefit on the submissive masses. These were the reign of Mohamed Ali and the British colonization. In the case of Malaysia this also happened twice, during the British colonization and the Japanese occupation in World War II. Prior to that, both Egypt and Malaysia were ruled by fragmented Princes or Sultans and there was no formal government to speak of and the social contract that prevailed at the time was political protection by the Prince or Sultan in return for political power and control of the micro economy. Both countries were occupied by Britain during the second half of the Nineteenth Century, and both gained their independence in the mid 1950s. It is interesting to note that both countries also started their first five year industrial plans targeting import substitution industrialization in the early 1960s. The main difference between Egypt and Malaysia is that in the late 1950s and early 1960s Egypt started to follow a socialist ideology and moved towards a command economy, while Malaysia on the other hand practiced a capitalist system, privatization and an open economy. Further, Malaysia never nationalized private or foreign capital or threatened private ownership in any way, whereas Egypt started in 1952 by the Land Reform Laws which were followed by additional restrictions on agricultural land ceilings in 1961 and 1969. In addition, Egypt nationalized major private foreign and Egyptian investments and properties during 1961 and 1963. Egypt later changed direction after the 1973 War victory against Israel with the Open Door Policy, moving more towards capitalism while still maintaining its social commitments. Egypt and Malaysia experienced wide public riots albeit for different reasons. In 1977 widespread riots occurred in Egypt when the government announced that it would reduce or eliminate subsidies on some basic goods. To pacify the masses, the government later retracted these decisions. In Malaysia ethnic riots erupted in 1969 between the Malays and Chinese when the latter unexpectedly realized substantial gains in the elections. Following these riots, the Malaysian government formulated the New Economic Plan (NEP). These issues will be addressed at more detail later in the thesis.

Egypt and Malaysia's Hobbesian Social Contracts under Mohamed Ali and the Sultans

Mohamed Ali, an Albanian of Turkish origin, was installed in 1805 as Ottoman viceroy of Egypt by the Sultan in Istanbul, and he proceeded to rule Egypt with an iron fist. His expansionist ambitions and military dream instigated the establishment of a modern army based on European standards. He then pursued the development of any industry or sector that would serve the army. To that end he created schools and specialized colleges, sent many students on educational missions to Europe, established an instructive hospital, roads, an irrigation system, factories and a shipbuilding foundry, and forced a state of serfdom on Egyptian peasants to work for such entities. He established a military college where the French trained Ottoman officers and conscripted Egyptian peasants to form the troops. He raised funds to finance his military ambitions by introducing long staple cotton as an export cash crop targeting the British textile industry, and forced its cultivation on all Egyptian farmers. He then monopolized the purchase of the cotton and exported it at a margin, thus realizing exorbitant profits.

This thesis is designed to illustrate the rule of Mohamed Ali as a Hobbesian social contract. Although there was initial consensus among the Egyptian clergy on the rule of Mohamed Ali, the population submitted to him out of fear for their lives. He almost enslaved the whole Egyptian population to achieve his political agenda and broke them into submission and did not directly give them anything in return, all to realize his own ambitions. It is ironic though that Egyptians did benefit, albeit indirectly, from his development projects as they had better and specialized schools, a hospital, a more modern army and naval fleet, startup of industrial projects, major infrastructure projects like roads and irrigation canals and the introduction of long staple cotton in which Egypt realized a competitive advantage and became a price leader in the oligopolistic market of this premium cotton variety. But whatever benefits Egyptians reaped during the Nineteenth Century, they got not by virtue of the social contract but as a lucky windfall or a byproduct from Mohamed Ali's own personal agenda. While Mohamed Ali is often described as the creator of modern Egypt, and this is true to a large extent, his intentions were purely in pursuit of his own personal glory. He looked condescendingly on Egyptians and conveniently used them as objects or slaves to achieve his economic dreams and expand his empire. Rodney Wilson (1995) noted that Mohamed Ali tried to establish a mechanized textile industry in Egypt but the British prevented him from levying tariffs on imported British textiles to protect his nascent industry, and strived to thwart it at its roots for fear of its future competition with its British counterpart. Further, Britain relied heavily on Egyptian raw cotton imports which grew in importance especially during the American Civil War which literally stopped American cotton production. However Mohamed Ali became too powerful a menace and he was targeted by the prevailing European super powers and his naval fleet was annihilated during the Independence War of Greece. Following his military defeat his expansionary dreams were shattered and with them his modernization scheme. Mohamed Ali finally succeeded in brokering a deal whereby he and his descendants would enjoy hereditary rule over Egypt. Mohamed Ali died with none of his descendents had his dreams or vision. His grandson Khedive Ismail had similar dreams of making Egypt a piece of Europe but to that effect he literally bankrupted the Egyptian treasury and Egypt became hostage to its main creditors Britain and France who controlled Egypt's finances to safeguard their debts; this culminated in Britain's colonization of Egypt in 1882.

Malaysia experienced similar circumstances. John H. Drabble (2000) explained that in the Tenth Century Malaysia experienced a strong Islamic influence due to the conversion of the majority of the Malay and Indonesian territories to Islam, and was broken into smaller sultanates ruled by Sultans. The Sultans ruled like feudal lords and usually fought amongst each other. There was no formal government, just fragmented sultanates and the Malay population was predominantly rural concentrated in river valleys and mainly engaged in rice cultivation, the staple food, and hunting activities. They were also involved in part-time mining to supplement their seasonal agriculture income. Although the liberal trade environment stimulated demand for new goods and products mainly tin, pepper, spices, forest related industries like rattan and aromatic woods, and marine goods like pearls, corals and the like, all such activities were at the subsistence level and primitive in nature. The basic socio-economic structure of ethnic Malays at the beginning of the Fifteenth Century, while not essentially feudal in nature because it was not tied to the land, was one of subservience and allegiance to the ruling class of wealthy royals and rulers, and bordered on "…slavery, debt-bondage and forced labour" (Drabble).

Malaysia’s strategic location along the major trading routes on the South China Sea and the Indian Ocean route led to the emergence of the Strait Settlements as trading hubs. During the Nineteenth Century Straits trade “increasingly stimulated export production in adjacent areas developing a dynamic which drew in more investment and immigration, leading to infrastructural growth (roads, railways). But whilst a distinctive pattern of export-oriented activity and multi-ethnic society was emerging, the Malaysian region remained politically fragmented right up to 1941" (Drabble). Southeast Asia became a barter point characterized by booming trade, however the boom attracted many entrants into the market, and the ensuing glut of Straits’ products led to bankruptcies. Drabble also noted that by 1840 the Straits' trading activity lost much of its vigor, and a move towards production for export was vital to ensure commercial livelihood. The Straits further developed from mere distribution centers into processing units for primary products like tin, rubber, petroleum and coal. It is interesting to note that this evolution was the result of the operation of the Suez Canal in 1869 and the demand for new products in Europe and North America.

The Straits' trade in turn encouraged production of export goods in neighboring areas to feed the flourishing commercial activity. This attracted increased immigration, both intra- and extra-regional, mainly from China and India. Trade was therefore an integral factor which led to the evolution of the early Malaysian economy. Malaysia was already a thriving export oriented economy well before the European colonialists. It was further consolidated by the European traders and Chinese immigrants who pioneered planned cultivation and improved mining activities.

Sultans were endlessly engaged in petty warfare and did not implement planned development or well structured administrative system. Even their ruling status was eventually lost when Malaysia came under British colonial rule in 1867. This resulted in the deterioration of the economic situation of the vast majority of ethnic Malays. And with the influx of Chinese and Indian immigrants, Malays as "children of the soil" or bumiputera, felt threatened in their own country. Since most ethnic Malays were predominantly peasants and only involved in mining activity on a seasonal basis, they failed to exploit their tin resources which were discovered in the late Nineteenth Century and which attracted foreign investments, especially from British investors, followed by the Chinese. The latter excelled in trade and schematically directed their attention towards specialized agriculture in the growing of rubber and spices, and mining. Chinese miners eventually replaced ethnic Malays, who as mentioned earlier took on mining as a seasonal occupation, and amassed great wealth and power. The Chinese also collaborated with the British colonial rulers due to their excellent administrative skills and strong control on the labor market. They were also strengthened, both financially and politically, by the revenue farming practice, whereby an individual purchases from the state the right to collect taxes on money lending, liquor, gambling and opium. This system continued well into the early Twentieth Century until it was abolished by the

British. Although the majority of the rubber plantations were in the hands of Europeans, the Chinese still managed to create a niche for themselves and benefit from the rising boom in rubber, and add to their financial affluence. By 1875 Malaysia produced 25 per cent of total world tin production (Drabble). The expansion in tin mining during the second half of the Nineteenth Century, and its development into a cash export commodity constituted a turning point in Malaysian economic history.

Further, due to the increasing demand from the automobile industry in the late Nineteenth Century, many planters quickly started to cultivate rubber in large scale estates in addition to the small holdings held by small scale farmers. By 1921, Malaysia constituted over 50 per cent of the total rubber production in the Southeast Asian region, and emerged as the world's largest rubber producer and the bulk of the production was export oriented. It should be noted that most of the investments in that sector were European or Chinese (Drabble). This again fostered Malaysia's focus on exports of these two primary commodities, tin and rubber, which were conveniently demanded by the Newly Industrialized Economies in the West. Malaysia became the world’s leading tin and rubber exporter and led to substantial export earnings. However, due to the high incidence of foreign investments, a considerable portion of the profits were repatriated. Nevertheless, the Malaysian economy flourished and there was a prevalence of investment, employment, and expansion in infrastructure. Unfortunately, since rubber and tin production were tied to the international markets, the Malaysian economy and its growth were extremely vulnerable to international price fluctuations. Further, since most of the commercial activity was controlled by the Chinese, they amassed large fortunes unlike the ethnic Malays who despite their political dominance did not benefit from their country’s rich natural resources to achieve prosperity and affluence. It is important to note here that this was the root of the problems that would later surface within the Malaysian social network.

At the turn of the Twentieth Century, Malaysia was the British Empire's most lucrative colony and thanks to its export earnings, provided Britain with foreign currency more than any of its other colonies (E.T. Gomez and K.S. Jomo, 1997). The British exploited the country's natural resources by virtue of their colonization in return for granting pseudo political autonomy to the Sultans. The prevailing social contract therefore could be described as one of Hobbesian proportions of relinquished freedom and enslaved exploitation in return for becoming a British protectorate granting on the one hand special political status for the ethnic Malays and on the other economic freedom for other ethnic races especially the Chinese. The Malay masses at large hardly benefited for they were granted political dominance while the Chinese were left to take care of business and achieve economic wealth. This further accentuated the division of race according to economic activity when the British encouraged Chinese involvement in the tin mines and brought in the Indians to cater to the rubber estates. The two lucrative cash generating resources were thus not within reach of the Malay population.

Further, the refusal of immigrants to assimilate in the Malaysian society, although they permanently settled in the country, and retaining their distinct ethnicity in the form of their own language, religion, culture, and their domination of economic interest and financial affluence, especially the Chinese, further fuelled conflict. The population mix was disturbed with the proportion of ethnic Malays falling from around 84 per cent in 1835 to around 53 per cent in 1911, while that of the Chinese increased from 9 to 35 per cent and the Indians from 3 to 10 per cent (Drabble). Ethnic Malays were not privileged in their own country and, although they still constituted a thin majority, striking income inequality was major feature of their environment. In order to safeguard their economic interests, the British took a greater political role to control the region against possible turmoil. They reinforced Malay aristocracy and gave the Sultans authority, but not autonomy. This led to the emergence of a native privileged and influential class with political power. And to ensure that their orders would be carried out efficiently, the British further furnished the sultans with the necessary administrative systems (Robert W. Hefner, 2001). These ensured the British strategy of divide and conquer by segregating ethnic groups while at the same time strictly holding the reins of power. The British also introduced policies to protect Malay land ownership, which ironically have been the seed for the affirmative action policies introduced later by the Malaysian government (Ariffin Omar, 2005). The prevailing social contract therefore could again be described as one of Hobbesian proportions.

By the beginning of the Twentieth Century both Egypt and Malaysia were under British colonial rule and although Egypt lacked Malaysia's trading and export vigor, it was more advanced intellectually and there were strong calls for independence from Britain. The Egyptian economy was one of free trade, private ownership and entrepreneurship. Khalid Ikram (2006) wrote that the "… period of free trade and laissez faire reached its apex from the 1880s to the 1930s. The government still played a major role in economic development because of its special responsibilities for irrigation, but economic activity was overwhelmingly conducted by the private sector." However the economy was largely controlled by European settlers in Egypt and a few Egyptian entrepreneurs like Talaat Harb, Abboud and Abu Regeila, as most of the Egyptian high-income stratum was feudal with ownership of large agricultural estates. The political system was pseudo democratic with parliamentary elections deciding the majority party whose leader would then be formally requested by the King to form the government. This was done in the presence of an omnipotent British occupation which interfered and controlled Egypt's affairs, which antagonized the Egyptian nationalists whose main objective was to end the British occupation.

Despite Egypt's indistinct political climate during the first half of the Twentieth Century, the Egyptian government's social contract was somewhat indiscriminate. Egyptians had no choice of their ruler who was a king from the Mohamed Ali dynasty, nor did they have a choice in the British occupation which resulted from the financial bankruptcy that started with Khedive Ismail extravagant projects. The successive Egyptian governments from the 1919 Revolution onwards were mainly Wafd Party politicians, and shared the main objective of independence from the British colonization. They did not have a clear vision or overall plan for sustained development and were simply interested in the general smooth operation of the economy. Nevertheless as Elie Podeh and Onn Winckler (2004) noted Egypt's social obligations were in place before Nasser and date back to the Egyptian intellectual climate during the first half of the Twentieth Century which witnessed calls for social reform. It should be mentioned that during World War II the government offered wider educational access and health services to the Egyptian population and introduced price and rent controls. However there was no clear application of social welfare programs on the part of the Egyptian government. It should be mentioned however that during that period an important source of welfare funding came from "Islamic Waqf" practice whereby benevolent rich individuals donated a property and dedicated its revenue to the poor.

The Free Officers' movement in Egypt was the direct result of the faulty weapon debacle during Egypt's 1948 war against Israel. The loss of Palestine and the defeat of the Arab armies left a feeling of widespread dissatisfaction in the ranks of the Egyptian army which felt betrayed by its own monarch and puppet government. There was a perpetual tug of war among this political triangle which continued until the 1952 Free Officer's movement which put an end to Mohamed Ali's dynastic rule, decreed Egypt a republic and ended the British Occupation of Egypt.

Malaysia's Hobbesian Social Contract under the Japanese Occupation in 1941

Although by virtue of the social contract Britain was the protector of Malaysia, it failed to do so against the Japanese invasion in World War II. Drabble pointed out that the British were conquered by the Japanese in 1941 when they occupied Malaysia and replaced the British as Malaysia's colonial rulers. It was a reign of terror and a true Hobbesian social contract that was entered under extreme fear of persecution and death, especially towards the Chinese in Malaysia. Malaysia was now virtually annexed to Japan, satisfying the latter's needs and denied its own and the previous Malaysian international trade system of exports financing imports disintegrated. The Japanese economy determined Malaysia's exports, and imports were literally stopped and self reliance was the order of the day particularly with regard to Malaysia's food requirements. This period witnessed an overall worsening of standards of living, goods' shortages, price distortions, inflation, all amidst a harsh environment of Japanese occupation which was also marked by extortion of profits and their expropriation. There was growing resentment among the Chinese because the Japanese favored the Malays and tried to elevate their position to undermine the Chinese. This political marginalization of the Chinese community encouraged some of them to join a communist rebellious movement against the government, which led to 12 years of emergency rule, and further widened the rift between the Chinese and Malays (Asma Abdullah and Paul B. Pedersen, 2003). When the Japanese were evicted, they left the Malaysian economy in a state of disorder.

Egypt's and Malaysia's Social Contracts after Independence

After World War II there was an upsurge in the national forces within several British colonies which started to demand independence from British colonial rule. Among the first to gain independence was India in the late 1940s; Egypt followed in 1952 and Malaysia in 1957.

Egypt's Move towards Socialism

The Free Officers' movement came into being in Egypt in 1952, albeit with no clear political goal except to overthrow the current king and end the British occupation of Egypt. It was only after the officers discovered their real power that they pursued a different path. A. Roussillon highlights this when he says "It has often been said that the officers forming the Revolutionary Command Council had no program, almost no ideology, and barely any 'philosophy'" (1998). This lack of direction is characteristic of Egyptian economic development since the revolution.

After the revolution, the government continued with the free enterprise spirit. However it soon changed direction and started with a spate of nationalization, commencing with the initial land reform of 1952 which was directed at the pre-1952 aristocracy in an attempt to weaken their economic position. Gamal Abdel Nasser, the strong man behind the Free Officers movement, had a strong personality and charisma and affected all those around him. Gradually he started to marginalize the other officers either amicably by offering them cabinet posts or ambassadorial missions, or even ruthlessly absent other alternatives.

The confrontation with the west for the financing of the Aswan High Dam was the turning point in Egypt's economic and political ideology. Nasser had initially approached Western governments namely the United States and Britain, as well as international finance entities like the World Bank, to finance the High Dam. However approval for finance was tied to a list of conditions that Egypt felt were degrading, and the United States and Britain withdrew their finance offers, followed by the World Bank. This left Nasser with only one choice: to nationalize the Suez Canal. The West's retaliation was military aggression against Egypt by Britain, France and Israel in 1956. Withdrawal of the aggressors was considered an ultimate victory and made a hero of Nasser and there was a widespread increase in Egyptian nationalism and anti-imperialism. The new ideology was in motion. Nasser continued his emergence as a formidable leader within the developing World, and took advantage of the Cold War by seeking a close ally in the Soviet Union. It could be stated that the late 1950s signaled the conceptualization of the social contract in Egypt. The government portrayed itself as pro-poor and promised to improve the welfare of the low and middle-income classes which constituted the majority of the Egyptian population.

After the Suez Canal War, Ikram noted that the Egyptian government heightened its intervention in the economy and became the main vehicle of development and planning. This took four main forms: first, a new framework for the operation of the private sector was outlined in the new Constitution of 1956; second, the Egyptian government sequestrated massive British and French assets in the banking and insurance sectors; third, Egyptianization of key sectors was pursued with full force; and fourth the introduction of a comprehensive economic plan.

The move towards socialism became apparent in early 1960 when the government nationalized the Egyptian owned Banque Misr and the National Bank. This was followed in 1961 by a spate of aggressive nationalization of private enterprise, thus signaling the beginning of the Egyptian "Socialist Revolution" that was later dubbed "Arab Socialism" (Ikram). Arab Socialism was the brainchild of the secular Syrian Baath Party and entailed uniting all the Arabs of the Middle East in the name of Pan-Arabism under the ideological umbrella of Socialism. It should be noted that Arab Socialism is distinctly different from Arab Nationalism which is a cultural ideology, rather than a socio-economic one.

Ikram stated that at this point, the state had largely taken over completely and it was decided that Egypt's economic development should not be based on the capitalist model and instigated by private profit but rather on socialist ideology. Public ownership of infrastructure, heavy and medium industrial projects as well as mining were dictated as an integral part of the Egyptian National Charter. Further, the banking and insurance sector would be completely nationalized and owned and operated by the public sector. Moreover, the government would be the main trading entity and in charge of imports as well as 75 per cent of exports, with the remaining 25 per cent left to the private sector. Although domestic trade was superficially left to the private sector, the government was in total control of the pricing system and fixed prices of all goods and services in the economy. The government heavily publicized its strategy as being a bid to stop the previous exploitation by the private (and foreign) capitalists in the economy. In addition, private ownership was restricted and limited to strict ceilings through land reform, rent controls and taxes. The government clearly promised a social contract whereby Egyptian citizens will enjoy a respectable level of social welfare and security that covered free education, guaranteed employment, minimum wages, free medical services and pensions. In return Egyptians would accept the lack of democratic practices, one-party system and unequivocally follow their authoritarian leader who tolerated no opposition.

Nasser's rule is considered the epitome of authoritarianism and was marked by ruthless crackdown on opposition, which mainly came from the Muslim Brotherhood and Communists. However in all fairness a similar attitude prevailed in Egypt prior to 1952. The Ministry of Interior's secret police service worked closely with the king and at times resorted to physical elimination of political adversaries. It was during Nasser's reign that Egypt experienced detention prisons where political adversaries and activists were systematically tortured to suppress their opposition, with any means possible no matter how inhumane. Nevertheless, before independence Egypt had a pluralist party system and as mentioned earlier the majority winning party in the elections was assigned the formation of government, whereas after 1952 Egypt became a one-party system.

The social contract therefore was not based on choice but on coercion by the state; and while the government endeavored to control prices to supply basic needs to its citizens, it was reminiscent of Hobbes' interpretation of the social contract being submission to the state to avoid persecution. Podeh eloquently explained how Nasser's social contract ensured that Egyptians were induced to submit to the government and in so doing relinquished their democratic rights of free choice, rule and opposition. Podeh stated that,

> Egyptians are held to have traded (or been compelled to trade) their political rights for welfare gains during the Nasserite period, with talk of a "social contract" widespread in many circles. Egyptians were guaranteed jobs, cheap food, free education and medical care, and low rents (both in urban housing and rural farming), for which they forfeited their political voice.

After Independence, and as is typical of most aspiring recently independent developing countries, the policy of import-substitution was heavily promoted with its protective measures of infant industries. To that end the government pursued an ambitious industrialization plan targeting import substitution (ISI) in heavy industries and other prestigious projects at all cost irrespective of their financial or economic viability. Factories in the chosen strategic sectors were established with no synchronization between their installed capacity and the local market's absorptive capacity; their production was heavily tariff protected and they relied primarily on the local market to dispose of their production. This is typical of developing countries which in their desperate efforts towards rapid industrialization leap into financially and economically unfeasible projects that involve substantial funding. Governments do not hesitate to seek foreign indebtedness in order to carry out such politically prestigious projects, irrespective of their viability, but it should be noted that this also occurred in Malaysia when it pursued its third stage of ISI in the early 1980s. Since penetration into export markets was not an objective within the government plan, with all production was directed to the domestic market, quality control was not a priority. The population explosion that occurred during the second half of the Twentieth Century only served to accentuate the government's social obligations as the numbers of those eligible to receive free education and guaranteed employment increased. With this, so increased Egypt's financial burdens. The mounting price differentials between the domestic and international prices coupled with the non-availability of foreign exchange led to an almost chronic balance of payments deficit. Unfortunately the Egyptian economy did not have the necessary resources to support its ambitious economic policies and its social contract. Instead of becoming proactive and amending its social contract to better correspond to its resources and circumstances, the Egyptian government still continued with its reactive attitude, which only added to its troubles. By 1966 all Western foreign aid to Egypt was discontinued due to Nasser's antagonistic political stand towards the West, his nationalization of foreign interests without adequate compensation and his pro-Soviet Union stand at the height of the Cold War.

Further, Nasser involved Egypt in costly independence wars in Yemen and Algeria that unfortunately diverted funds away from much needed development and social welfare schemes in the Egyptian economy. Perhaps not surprisingly, the socialist and nationalist dreams lost their direction as Egypt became plagued with a new corrupt class of beneficiaries who replaced the previous aristocratic and feudal classes they swore to eradicate. It should be noted that this was not for lack of competent or highly educated professionals, but rather due to favoritism that placed army personnel in key positions based on their loyalty to Nasser irrespective of their competence. Towards the end of the

1960s the prevalent atmosphere in Egypt was that of slogans of Arab nationalism against a backdrop of intimidation. The 1967 War defeat led to further disillusionment and a collapse in Egyptian morale.

Helen Chapin Metz (1990) noted that during the two decades from 1955 to 1975 Egypt's GDP witnessed a growth rate of around 4.2 per cent per annum, whereas population increased by 2.5 per cent per annum. This was primarily due to the government's heavy investments especially in the first decade after independence. However a closer look from the 1967 War and until the Open Door Policy of 1974 indicates that the economy showed a general sluggishness due to the effects of the War and the stagnation of the agricultural and industrial sectors. The publicized social commitments to growth and development took a backseat to the national crisis and all efforts and funds were channeled towards rearming the army and there was a drastic decline in investments.

During the period of 1952 to 1974 the Egyptian government's commitment to a welfare system as outlined by the Constitution was the core of its social contract. As mentioned above it centered on several paths namely the land reform, price controls and subsidies, nationalization, labor regulations, employment, health and education. It should be noted however that land reform was more of a penalty to the large landowners than a bonus to the peasants who did not previously own land due to land scarcity. Ikram stated that only 16 per cent of Egypt's cultivated land was subject to land reform and only 13 per cent of that was distributed to 10 per cent of rural households. However the nationalization of huge industrial projects improved equity as it "reduced the concentration at the upper end of the spectrum, opened up opportunities for promotion, and allowed wider participation by those who had hitherto been excluded. Nationalization also enabled the government to legislate substantial benefits to workers" (Ikram). As for labor regulations, the 1952 Revolution strived to improve the working conditions of workers like for example by doubling the minimum wage to L.E. 0.25/day, enforcing workers' insurance, pension plans and security, among other things. In the sphere of health the government increased its expenditure on the health sector and it increased from 0.5 per cent of GDP in 1953 to 1.9 per cent in 1975. There was a big improvement in hospital capacity with hospital beds more than doubling from 36,000 in 1952 to 77,000 in 1975. Medicine was subsidized and there was an emphasis on the creation of health centers around the country. The government also directed its attention to free public education and it increased its expenditure on that sector from 3 per cent of GDP in 1952 to 5 per cent in 1975. Investment in education also rose from 2 per cent of aggregate investment to 6 per cent in 1952 an 1975 respectively. This had a positive effect on student enrollment and within 20 years, primary and preparatory students increased by around 300 per cent whereas the number of secondary students rose by 165 per cent and university enrollment increased by more than 400 per cent. Unfortunately the explosion of the high enrollment rates was not adequately satisfied by a similar expansion in teachers or classroom capacity as there was more emphasis on quantity rather than quality. This led to an extremely high student to teacher ratio, overcrowding of classrooms and prevalence of private tutoring to support the ailing educational system. This ultimately had the combined effect of a deterioration and mediocrity of educational standards. Further, the government's policy of free education and guaranteed employment of university graduates, to the exclusion of other educational pursuits, released a subconscious signal that technical education was substandard or not as important. This not only led to high rates of university students who pursued their degree, irrespective of their inclinations, mental capabilities or academic achievement, but it also deprived the Egyptian labor force of a cadre of workers with technical skills that would have been instrumental in improving the productivity levels of its stagnating industrial sector.

Egypt lacked Malaysia's strict adherence to a long term and overall vision or specific strategy with clear objectives to achieve sustained growth and development. Its planning strategies were more reactive than proactive, responding to the dynamic economic and geopolitical situations as they arise rather than embracing change in the interest of progress. Despite the Egyptian government's heavy-handed role in the economy, it did not comprehend its imperative role in development strategy. Although both Egypt and Malaysia started from the same point in the 1960's, when both countries advocated import substitution industrialization (ISI), the 1967 War and its repercussions forced Egypt to abandon its industrialization strategy to focus on the more urgent armament requirements of the army. While Egypt faltered, Malaysia proceeded on to the following stage of export oriented industrialization (EOI), an objective that Egypt did not pursue with diligence.

Egypt's Open Door Policy – 1974

Sadat came to power after the death of Nasser being his vice president and not through a democratic electoral process. He lacked Nasser's charisma and possibly did not share his vehement socialist and nationalist beliefs however he continued the prevailing social contract of providing subsidized basic needs to Egyptians in exchange for submission to authoritarian rule. In October 1973 when Egypt won its war against Israel, Sadat's popularity soared. Thereafter the Egyptian government still maintained its social commitments, although it clearly started to steer away from the political agenda enforced by Nasser. The economy was heavily controlled by the government in all sectors with its setting of both input and output prices; the welfare policies of income redistribution and subsidies; the agricultural land reform and cooperative system which had full control over the farmers by selling them seeds, fertilizers and setting crop prices; labor laws and regulations which increased the minimum wage, guaranteed employment and profit sharing; free education and health services (Ikram).

Sadat inherited an inflated and highly inefficient public sector that ran deep in all sectors of the economy. The Egyptian psyche was also now heavily reliant on the government as its rightful provider of free goods and services and took them for granted and which was guaranteed employment and job security irrespective of skill or productivity, and protected by a social welfare net of subsidies and fixed prices. However the situation after 1973 changed dramatically with the worldwide inflationary pressures after the oil embargo causing the Egyptian government serious problems. Since it was not possible to renege on its social obligations, the government enforced a two-tier system: the population would continue to receive their basic necessities through a rationing system at subsidized prices and any excess demand would have to be met on the local market at fixed prices which were still lower than international prices (Ikram).

But the costs of maintaining such a policy were exorbitant. Ikram noted that,

> the General Authority for Supply Commodities registered a trading loss of $228 million in 1973, over eight times the loss of $ 28 million incurred in 1972. This trend intensified in 1974. The consumer price index rose by 10 percent, with the food and beverage sub-index increasing by about 15 percent. Much of the increase in the latter was caused by the spurt in prices of the non-controlled items, such as vegetables, fruits and livestock products… The cost of subsidizing domestic prices again rose sharply: the trading loss of the General Authority for Supply Commodities almost quadrupled, rising to $ 845 million.

It should be noted that these costs pertain only to direct cost of living subsidies however the total subsidy bill for 1974 was around $ 890 million, and do not include the embedded subsidies of offering energy products like gas and electricity for example at below international prices. These factors strained the budget and the government resorted to additional local and foreign borrowing to cover its deficit (Ikram).

In its relentless pursuit of industrialization in the 1960s, which was considered the "key" to development and way out of the less developed countries' league, the Egyptian government neglected agriculture which trailed at the end of its priority list. At the same time, its industrial sector was burdened by idle capacity, low productivity, high production costs and mediocre quality control (Ikram). There were no hopeful indications of recovery or turnaround in the near future. The Egyptian economy was in shambles and it was an austere state of affairs. Sadat both admired and longed for the high standards of living enjoyed by the West, and was convinced that Egypt's demise lay in its entrenchment with the Eastern Bloc camp, so he decided to change direction and looked westward towards the capitalist model and introduced the Open Door Policy or "Infitah" in 1974.

In his April 1974 presentation to the People's Assembly, Sadat proposed an Open Door Policy which he explained would pave the way for Egypt's next battle, the reconstruction of the economy towards modernization by the year 2000. In the absence of adequate domestic funding, Sadat proposed that this growth would have to be financed by foreign investments. Further, the public sector would relinquish its dominant role in the economy but would continue to be the instigator and executor of the proposed development plans while embarking on strategic or long term projects that the private sector would shy away from. In its turn, the private sector would regain a considerable part of the freedom that it was denied in the last decade. In a bid to form a new social contract and attract foreign investments, especially the newly-rich oil producing Arab countries, Egypt would offer an attractive package of incentives. It should be noted however that the Infitah fell short of offering clear strategies towards specific development targets; its only clear objective was the abandonment of the previous socialist structure and the command economy, and move towards a more mixed economy. Moreover, the government neglected to create a clear tangible plan with short to long term objectives or even a set of guidelines for investors regarding the strategic sectors that were to be promoted. Galal Amin (2000) noted that the government relinquished its leading role in the economy which not only prevented it from implementing a comprehensive developmental strategy and directing FDI to the pertinent strategic sectors, but it also led to an increase in income inequality due to the softening of the social contract and the tax evasion of the newly rich beneficiaries from the Open Door Policy. Amin also lamented the Egyptian government's low investment rates in the agricultural and industrial sectors, and its lethargy in assuming a strong regulatory role over private sector investments. The government was only concerned about the flow of investments into Egypt irrespective of the activity and to that effect preferential incentives and tax holidays were offered across the board to any investor without pertinent scrutiny. Ikram noted that it was not surprising therefore that the "first and most visible result was the rapid expansion in consumption, which increased from 63 percent of GDP in 1973 to 75 percent in 1975. Between the same years imports almost quadrupled, rising from about 10 percent of GDP to over 30 percent." The biggest increases in imports came in consumer goods and consumer durables. A new tier of businessmen emerged whose sole activity was importation and acquiring agencies and franchises of consumer goods, be it automobiles or fast food. Egypt opened up its economy; but it was really a trading activity that promoted consumerism and conspicuous spending not medium or long term investments in productive enterprise. The prevailing argument was that Egyptians have been deprived too long and it was time to make them taste the good life. It should be emphasized that the Egyptian way of life has increasingly changed since the late 1970s, and with it, the patterns of consumption. Amin (1999) noted that the previous constraints on imports of consumer goods were slowly relieved or controlled through tariffs. Further, FDI was concentrated in the manufacturing of consumer goods and services and ranged from automobiles to food and beverage franchises, which were increasingly being demanded by the domestic market. Unfortunately this rise in consumerism was a trend that commenced in the late 1970s and which is still prevalent in Egypt until today. Levied tariffs have also been steadily reduced in accordance with the GATT, and it is interesting to note that during the period from 1985 to 1995 imports of consumer durables increased more than six fold and motor vehicles multiplied more than ten fold. This had an adverse impact upon the rate of domestic savings which is presently around 15 per cent of GNP. One also notices that despite the government's efforts to establish industrial zones like 10th of Ramadan and 6th of October, the majority of the projects were geared towards the domestic market and few of them targeted exports.

Metz cautions that, although Egyptian GDP figures between 1975 and 1980 indicate an impressive growth rate exceeding 11 per cent per annum, these figures should be analyzed with caution as they do not pertain to an increase in the share of the industrial or agricultural sectors but rather to the oil boom following the 1973 oil embargo, workers' remittances and foreign aid. From 1980 till 2000 GDP was sluggish and increased at a meager 2.9 per cent per annum.

> Like most countries in the Middle East, Egypt partook of the oil boom and suffered the subsequent slump. Available figures suggest that between 1975 and 1980 the GDP (at 1980 prices) grew at an annual rate of more than 11 percent. This impressive achievement resulted, not from the contribution of manufacturing or agriculture, but from oil exports, remittances, foreign aid, and grants. From the mid-1980s, the GDP growth slowed as a result of the 1985-86 crash in oil prices. In the two succeeding years, the GDP grew at no more than an annual rate of 2.9 percent. Of concern for the future was the decline of the fixed investment ratio from around 30 percent during most of the 1975-85 decade to 22 percent in 1987.

The Egyptian economy thus benefited from a windfall of revenue which did not emanate from sustained development of the industrial or agricultural sectors, but rather from the export of primary goods and services. The resulting GDP growth figures were therefore misleading. By the same token it is important to differentiate between growth and development in the case of Malaysia which due to its impressive GDP growth was dubbed an "economic miracle" until the 1997 economic crisis exposed the weaknesses in the economy.

Egypt's Bread Riots - 1977

In the 1970's import financing exhausted Egypt's foreign exchange earnings although it was complemented by revenue from the Suez Canal, tourism, oil exports, workers' remittances in the Gulf as well as foreign aid. Ikram noted that "While this deluge of funds radically eased the foreign exchange constraint, it did nothing to ensure a more effective use of resources." The Egyptian government respected its social contract and continued its subsidy policy but the burden was weighing it down in the form of an increasing deficit. To counteract this problem the government had to resort to external borrowing. Egypt approached the IMF, the World Bank and USAID. Not surprisingly the IMF and the World Bank interfered in the borrowing country's economy with a prescription to rectify the economic ills. In 1977 the IMF recommended contractionary macroeconomic policies that would promote austerity in the Egyptian economy in a bid to correct the economic imbalances. At the core of the IMF recommendations were Egypt's subsidies which it recommended to be gradually lifted. The Egyptian government, in line with IMF recommendations, proposed a new budget which stated that the prices of all the basic commodities would increase. The public took to the streets in protest and the "Bread Riots" erupted all over Cairo in January 1977. The government succumbed to public pressure and the price increases were abolished. This was an important lesson for the government to never compromise the Egyptian population's social contract of political submission in return for subsistence.

Sadat looked towards the Arab countries for more aid to Egypt but none was forthcoming. Encouraged by the United States he took the historical initiative and proposed peace with Israel in 1977. This cost him dearly as most of the Arab countries severed their ties with Egypt and deprived it of financial assistance. Although this was compensated for by increased American aid, demand for Egyptian labor in the Gulf decreased and workers' remittances were adversely affected. Sadat also retreated from his earlier pro-democracy practices and cracked down on opposition who came from all walks of life: Muslim Brotherhood, Christian clergy and Nasserites. A month later he was assassinated in October 1981.

Malaysia's 1969 Ethnic Riots and the Formulation of the New Economic Plan (NEP)

By contrast Malaysia's transition to independence was less conspicuous than that of Egypt's. After World War II the British government was geared towards granting independence to its Eastern colonies, including Malaysia, in a bid to reduce its involvement in that part of the world. There were also internal pressures from the emerging Malayan Communist Party (MCP) which was predominantly Chinese, and which began its fight for independence during the Japanese occupation. The MCP conducted a guerilla war against the British, but this insurgency was overpowered and a state of emergency declared. It is not surprising therefore that the Chinese, in spite of being one of the major instigators of growth for Malaysian development, albeit for their own personal gains, inevitably felt unfairly treated with the rise in Malay national sentiment and British patronage. It was as if their own success was their own enemy.

The evolution of Malaysia as a country started in 1895 when the British government created the Federated Malay States (FMS). And in 1946 the FMS was converted into the Malayan Union when Singapore became a separate crown colony. In 1948 the Malayan Union became the Federation of Malaya and eventually independence from British colonial rule was achieved in 1957; in 1963 it became known as Malaysia and included Sabah and Sarawak. K.S. Jomo (2004) noted that at the time of Independence Malaysia was almost 50 per cent Malay, 40 per cent Chinese and 10 per cent Indian. Although Malays outnumbered other ethnic groups and held political power, they were the least fortunate in material terms and were mostly involved in agricultural activities. The Chinese by contrast, enjoyed financial wealth and were more sophisticated than the Malays and dominated the relatively more modern sectors (Colin Barlow, 2001).

In the decade preceding Malaysian independence there were three main parties based on ethnicity: the UMNO (United Malays National Organization), the MCA (Malaysian Chinese Association) and the MIC (Malayan Indian Congress). The UMNO was the most powerful political party and was originally established in 1946 primarily to oppose granting the Chinese population the Malaysian citizenship (William Guinee, 2005). However this standoff was overcome with the granting of special privileges to the Malays. This special Malay status took a formal shape in the 1957 Constitution (Hefner), whereby Malays were recognized as having privileged status as 'bumiputeras or children of the soil' in exchange for the granting of Non-Malays the Malaysian citizenship. In order to gain Independence, an Alliance was formed between the three parties in 1954, to meet the condition of the British that Malaysian political leadership should be multi ethnic. Malaysia finally achieved independence in 1957 (Gomez and Jomo).

At the time of Independence the Malaysian economy enjoyed a high level of per capita GDP due to its successful primary goods' exports of rubber, palm oils and timber. Until independence, serious and planned industrialization did not occur in Malaysia when the government embarked on its ambitious Import Substitution Industrialization (ISI) program in 1966. However there was increased dissatisfaction among Malays who felt that they were not awarded proportionate allocation of the advantages of economic growth, especially in the non-agricultural sectors. Wealth was still predominantly in foreign hands (65 per cent) and a sizeable portion (35 per cent) was with mostly Chinese Malaysians and only 2 per cent was held by ethnic Malays. Although the government pursued economic policies to improve living standards, this only increased income disparity. By contrast non-Malays criticized the special privileges awarded to the Malays. Bloody inter-ethnic tension surfaced in May 1969 after parliamentary elections resulted in unexpected defeat of the Malay-based political parties and racial riots erupted mainly between the Malays and the Chinese, which resulted in hundreds of fatalities. A state of emergency was imposed and the country was in an indeterminate state. The result was that the government gained more power to keep a firm grip on the country and there was a move towards authoritarianism, as well as assuming the paternal role for the bumiputeras in order to help them to reduce their income disparity and employment inequalities compared to other Non-Malays. This resulted in the introduction of an affirmative action plan: the New Economic Plan (NEP) which dealt with that problem in ethnic terms. The NEP was therefore the epitome of Malaysia's social contract where the state in return for Malay allegiance to the government and acceptance of other ethnic groups, concentrated its efforts and funds on improving the welfare of indigenous Malays or bumiputeras. A simultaneous social contract was also in place between the government and the Chinese and Indians who would be accepted as Malaysian citizens and enjoy relative economic freedom in return for their acceptance of the state's patronage of the indigenous Malays. The NEP was to cover a 20 year period from 1970 to 1990 (Drabble). It had two main objectives: eradication of poverty among all Malaysians and the elimination of the prevailing association of ethnic groups with a particular economic activity. Jeffrey R. Vincent (1997) noted that the

> NEP set numerical targets for raising the bumiputera stake in the economy. For example, it aimed at raising the ownership of share capital by bumiputera

> from 2 percent in 1970 to 30 percent in 199. The government became more directly involved in the economy through state-owned enterprises, and aggressively pursued the purchase of controlling interests in foreign-owned companies.

The NEP primarily targeted Malay poverty and planned to create a new stratum of Malay entrepreneurs and capitalists. It provided preferential treatment in credit facilities, scholarships, land ownership, capital participation, employment opportunities, and the like. In other words, the government undertook a paternal role in development in order to further the lot of the underprivileged indigenous Malays. Adherence to the NEP agenda was to be closely undertaken within the Malaysia Plans falling in that time frame. Special emphasis was to be directed towards rural development; fostering of export-oriented industrialization; regional development; granting of special privileges to bumiputeras to assist them to be integrated in the economy.

Initially the government focused on rice based on a threefold plan of self-sufficiency, improving the incomes of farmers who were mainly bumiputeras and maintaining a competitive consumer price for this important item in the Malaysian diet. To that end, the government invested heavily by subsidizing farmers, granting them cheap credit, providing them with superior seeds, fertilizers, pesticides and improved irrigation techniques, in addition to increasing the cultivated areas of rice. Rice production showed an initial increase then stagnated and the cost of production was more than the price of imported Thai rice. This was exacerbated by the reduction in world rice prices by almost 50 per cent in the late seventies and early eighties, which led many farmers to shy away from rice cultivation and even worked in non-agricultural activities in order to subsist their families. The Malaysian government finally realized that its heavy subsidization was not justified and economically unfeasible and searched for better solutions (Drabble). To that end, the government created the New Agricultural Plan (NAP) in 1984 which lessened the subvention of the NEP for the rice producers in favor of the establishment of

> more efficient and commercialized industry in eight 'rice bowl' areas, all on the west coast… which together produced 55-60 per cent of the total. Farmers outside these areas were to be encouraged to turn to non-rice crops such as coffee, maize or groundnuts. The degree of self-sufficiency was lowered to a 'floating target' of 60-65 per cent. The NAP envisaged structural changes to try to overcome the problem of uneconomically-sized holdings, such as consolidation (no more large-scale, individualistic, development schemes), group farming, mini-estates, centralized management, mechanization and so on (Drabble).

The government also proceeded to wean the rice producers from their dependence on subsidies which were becoming a financial burden in view of the recessionary trends that prevailed in the mid 1980s. Interestingly rice farmers faced a similar dilemma to that which occurred at the beginning of the Twentieth Century with the introduction of rubber, namely to replace rice which is their subsistence crop in favor of other cash crops and thus expose themselves to the dangers of market fluctuations, or take an even more drastic route by seeking non-agriculture employment (Drabble).

The emergence of forestry and timber industry also played an important role in Malaysia's economy. Malaysia emerged as a leading worldwide timber producer and its share of international unprocessed log exports increased from 17 per cent in 1960 to over 47 per cent in 1981. However this had its price as it affected the lives and the environment of the indigenous forest dwellers. Further discontent grew regarding favoritism in the allocation of timber cutting rights, profit repatriation and environmental considerations. In addition, although Sabah and Sarawak contributed between 60 to 70 per cent of total Malaysian timber production during 1960 to 1983, yet the majority of the downstream production units were located in Peninsular Malaysia, which therefore reaped a lopsided value added and employment advantages. Unfortunately, lack of coordination within the industry led to fragmentation and idle capacity (Drabble).

Mining also experienced a gradual change from the early tin extraction to petroleum, gas and copper. Petroleum was discovered in the early Twentieth Century and Malaysia discovered new deposits of oil and gas by the late 1960s and boosted output. The 1973 oil embargo enhanced world prices which jumped from $ 2.5/barrel to $ 11 in 1975 and then to $ 35 in 1979, and greatly benefited Malaysia which turned its attention to this strategic sector. In 1982, Malaysia's petroleum and LNG exports peaked, accounting for around 29 per cent of total export revenue. This subsequently decreased to about 18 per cent in 1989. Although petroleum proved to be a vital cash earner, yet the industry failed to create a trickle-down effect or linkages to other sectors in the economy.

Like the rubber industry, the NEP promoted a change in the structure of ownership in the tin industry, with Bumiputera ownership exploding from a mere 1 per cent to 34 per cent between 1970 and 1982. Malaysia bought a majority stake in the London Tin Corporation, which was renamed Malaysia Mining Corporation (MMC), and it became the largest mining company in the world. However the tin industry ran into trouble with surplus international supply which led to declining world prices and augmented by competition from other metals like copper, lead and aluminum. The industry crashed in 1985 with the withdrawal of price support from the International Tin Council and prices dropped from $ 29,600 to $ 13,600/ton. This led to closure of many mines and since tin's future industrial prospects were bleak, the Malaysian government took active measures to disassociate itself from the industry in the form of heavy taxation and mining disincentives.

Egypt's Mubarak and Malaysia's Mahathir in the early 1980s

Hosni Mubarak came into power in a state of turmoil and recession. Like his predecessor, Mubarak was a vice president who was elevated to president upon the death of Sadat in 1981. He was the Commander of the Air Forces during the 1973 War and spent his whole career as a soldier until he was promoted to vice president by President Sadat. During his time as vice president Mubarak did not leave any mark on the Egyptian political scene because he was primarily occupied by issues pertaining to the army. Mubarak took over as president in the midst of political turmoil and a surge in extremist group bomb attacks that continued to undermine Egypt's security by targeting of government officials and tourists which created an unstable political and economic climate. Mubarak continued to enforce emergency rule which continued till the present; this drew criticism from the Egyptian opposition and Western countries alike. Further, on the one hand Egypt was boycotted by Arab countries and was isolated and its political weight was eroded within the Middle East, and on the other Mubarak had to deal with political unrest at home amid recessionary trends that gripped an economy plagued by mounting indebtedness and chronic balance of payments and budgetary deficits. The adverse impact this has had upon Egyptian economic development should be clear as political unpredictability does not welcome domestic or foreign investment.

By contrast, Malaysia enjoyed stability both on the political and economic arenas which enabled it to concentrate on its development path without interruption. Most importantly, Malaysia had ample funds to finance its ambitious development schemes and amend them as it progressed. To begin with, Malaysia's transfer of leadership was much smoother than Egypt's and involved an electoral process whereby the leader of the winning political party becomes prime minister and chooses the cabinet. Up until 1981 all Malaysian prime ministers came from the Malay aristocracy; this changed when Dr. Mahathir Mohamad, a doctor of medicine by profession, won the elections as leader of the UMNO (United Malays National Organization) in 1981 and became Malaysia's prime minister. It should be noted however that Mahathir was the Finance Minister under the previous cabinet and had been involved in politics and the running of the economy for a long time. He became the main force and catalyst of growth in Malaysia which continued to enjoy high growth rates until the mid 1990s to the extent that it would be considered an economic miracle. It should be clarified that although average growth of GDP in Malaysia during 1957 to 1970 was over 6 per cent (Kok Peng Khor, 1983), this was the result of export revenue from tin and rubber. Mahathir viewed Japan and South Korea as solid examples of success so he coined the term 'Look East' as a policy title in the early 1980s that underlined the East Asian ethics of hard work, dedication, discipline, loyalty, high productivity, quality control. Before Mahathir, Malaysia had started its five-year plans with an initial ISI that was later replaced by EOI. However when he became prime minister there was a worldwide recession that took its toll on a decreased growth of the Malaysian industrial process, so he steered the economy to a reversion to import substitution industrialization (ISI) founded on heavy industries with a strong emphasis on heavy industries with the objective of creating linkages within the Malaysian economy and the production of intermediate and consumer goods. In pursuing this second round of import substituting industrialization in the 1980s, Malaysia copied the South Korean experience. The underlying rationale was that the Malaysian economy would succeed in creating a wider and more integrated industrial base. Malaysian production suffered from strong international competition and the government had to protect it heavily by tariffs to sustain it. (K.S. Jomo, ed., 1993) These ambitious investment projects were financed by foreign borrowing, mainly from Japan. This had its toll on debt servicing which was exorbitant and in 1987 Malaysia’s foreign debt peaked at 77 per cent of GNP with debt financing swallowing more than 16 per cent of export revenue. However with the gain in pace of its industrialization schemes, Malaysian exports changed from being mainly primary goods to manufactured products and Malaysia returned to EOI in 1986. By 1990 Malaysia's export mix was 60 per cent manufactured products compared to 12 per cent in 1970. This further strengthened the economy which was less vulnerable to international price fluctuations of primary goods like in the past

(Drabble). Malaysia's EOI was crucial to its economic growth with exports which initially accounted for 10 per cent of total manufacturing output in the 1970s expanding to over 65 per cent by the mid 1990s. However FDI was the main factor responsible for such an outcome as foreign companies constituted more than 45 per cent of industrial value-added and 75 per cent of industrial exports by the mid 1990s (Barlow).

Mahathir also acknowledged that government agencies and the public sector were inundated with incompetence and corruption that resulted in exorbitant financial losses. Added to this, the pro-bumiputera NEP policies created an inefficient bumiputera rentier that fostered an easy-money, get-rich quick attitude instead of a serious and entrepreneurial one. Mahathir thus concluded that in order to reduce the heavy reliance on government and induce the entrepreneurial spirit among Malays, the country had to move more aggressively towards privatization; this was proclaimed as a government objective in 1983 and went into force in 1984.

Mahathir launched privatization of public sector projects in 1984 under the slogan "Malaysia Incorporated" whereby the public and private sectors would become full partners in the economy, with the shared objective of improving the livelihood of the whole nation. Privatization of a considerable portion of the public sector was carried out with zeal in the 1980s and 1990s. Unfortunately the process was flawed and had the undertones of favoritism as the sale of the public entities was not conducted through a tender process but rather a "nebulous 'first come, first served' principle" (K.S. Jomo, 1995). Thus the public companies were under-priced and sold to individuals whose only merit was their strong political alliance with the political decision makers. This marks the beginning of favoritism in Malaysia.

The underlying motivation for the move towards privatization was to disseminate wealth from the consolidated public sector into that of private sector investors. And given the private sector's main objective of profit maximization, it was hoped that privatization would ultimately lead to increased productivity and better utilization of resources. But in reality, because of the way it was conducted and the selection process, Malaysian privatization resulted in a surge in the phenomenon of 'money politics' (Drabble). The main benefactors of privatization were mainly bumiputeras who succumbed to acting as rent-seekers and not real modernizers of the Malaysian economy. An outcome of this also is that a new class emerged that was not genuinely entrepreneurial in spirit and who later chose to dispense of their abnormal profits in short-term real estate speculation instead of long-term productive activities (Gomez and Jomo). It could be assumed that since privatization benefited bumiputeras, the government believed that it did not constitute a departure from its social contract as decreed under the NEP. However at an advanced stage of its privatization process, the Malaysian government would be faced by a choice between continued privatization and its pro-bumiputera social contract.

Privatization was to cover all aspects of Malaysian economic activity and it was deemed to be "…the material basis for a new vanguard – a 'Malaya-state-Malay-capital' alliance leading non-Malay capital" (Khoo Boo Teik, 1995). Drabble eloquently described the then prevailing Malaysian state of affairs as being an "Ali Baba" situation where capital-poor Malays (Ali) acted as a front for supposedly Malay concerns in order to benefit from government incentives, by seeking the capital of rich non-Malays (Baba), mostly Chinese. In reality it was the Chinese who completely controlled the operations while the Malays were owners in name only. It is interesting to note that this sponsorship regulation is rife in the AGCC countries of the Arabian Gulf until today.

Through a series of consecutive five-year plans Malaysia pursued its industrialization scheme: passing through an initial phase of ISI from 1958 to 1970; followed by EOI during 1970 to 1980; then a second stage of ISI from 1980 to 1985 and from 1986 it returned to EOI. Simultaneously it also followed the New Economic Plan from 1970 to 1990 (Drabble). In the initial import-substitution (ISI) phase most industries were geared to processing of Malaysia's primary products rubber, tin and timber, in addition to food products. And since the bulk of production was in consumables, their imports dropped whereas imports of intermediate and capital goods increased. However, Malaysia was fortunate in that generally good prices for primary products offset potential balance of payment problems from the continuing high level of imports. However despite the influx of foreign capital into Malaysia and concentration on huge, capital-intensive industrial projects, the majority of the foreign companies established assembly or packing units with a high import content that were primarily targeting selling to the local market to benefit from the protective tariff structure awarded to the infant industry. Further, there were poor linkages between the newly established industries and the rest of the economy as the bulk of the raw materials, as well as the technology to produce the end product, were imported and hardly had any local content. In addition, given the capital-intensive nature of the industries, they failed to encourage employment. By the mid 1960s, the government realized that this policy did not yield the anticipated benefits, it then progressed towards a more labor intensive, export-oriented industrial plan or export-oriented industrialization (EOI). This was followed by a third phase of ISI and finally a fourth phase of EOI which continues to the present. In 1968 the Malaysian government embarked on an open door policy and introduced the Investment Incentives Act which provided tax and tariff relief to pertinent projects. Free zone areas were also created to further promote export-oriented industrial investments (Gomez and Jomo).

While Malaysia surged ahead undeterred in the 1980s with its development schemes, Egypt was suffering from the declining remittances from Egyptian workers in the Arabian Gulf countries, reduced tourism and falling oil prices which worsened the situation as they were the major components of its revenue stream. In a bid to counteract this, the United States, the major orchestrator of the peace treaty with Israel increasingly transferred foreign aid and loans to Egypt. Egypt considered foreign grants and loans as an important source of revenue, and became extremely dependent on them, just like the Egyptian population was dependent on the subsidies that were intertwined within the economy. These funds were utilized to finance the government's expansionary policies. At this point in Egypt's economic history, Ikram argued that the economy suffered from structural rigidities. First, as a result of Egypt's adherence to its social contract of price controls, subsidized prices, guaranteed employment and other commitments, the pricing and incentive systems were distorted and hence caused misallocation of investments and resources. Second, the overvalued exchange rate and the tariff protection systems acted as a disincentive to exports and again led to further misallocation of investment choices. Third, the economy still had multi-tiered exchange rates and suffered from a patchy trade system. Fourth, the budget itself included structural rigidities; on the one hand it depended on external revenue sources, yet it was also tied to inflationary pressures in the domestic market. Fifth, a bureaucratic public sector controlled the economy, and operated under the Nasserite regime's protective umbrella that adhered to the proclaimed social contract and was not subject to free market competitive pressures on employment, productivity and technology. Sixth, there was no urgency to modernize or improve such weak performance. Seventh, the government did not utilize fiscal and monetary tools efficiently to absorb the challenges it faced but rather relied on price controls and/or subsidies. These things on the one hand were used to placate the masses and on the other hand, despite their cost, they were readily available tools that have become entrenched in the economy and the government was wary to introduce any policies that would disturb the status quo. Finally, the government did not fully understand the mechanism of a market economy and its interference in the market caused distortions.

However, this situation was unsustainable and had to be rectified. The situation became critical with mounting debt service and Egypt was unable to repay on a timely manner. Total debt peaked in 1987 to around $40 billion, which was around 112 per cent of GDP at the official exchange rate, and 184 per cent at the free market exchange rate. Thus Egypt became the largest debtor in the world and continued to renege on its payment schedule and ultimately faced a debt crisis. It was rescued by a rescheduling scheme by the Paris Club in 1987. In 1991 Egypt entered into intensive negotiations with the IMF and the World Bank in order to formulate a stabilization program for its ailing economy. Ikram notes that,

> The Bank and the Fund were concerned with two overarching aspects of Egypt's economic problems. The first was the immediate issue of stabilizing the economy and bringing into balance the main macroeconomic indicators. Second, structural reforms had to be undertaken that would minimize rigidities and free up the economy. In order to do this, the authorities would have to commit to visible actions demonstrating their determination to move towards a market economy.

Privatization of a considerable portion of the public sector investments and projects was next on the government's agenda as part of the World Bank package; this was started in the 1990s and continues until the present. It is important to note that privatization in Egypt was a result of strong external pressure from the World Bank whereas in Malaysia it was instigated by Mahathir himself. Unfortunately privatization which was viewed as a pro-growth tool in Malaysia slowly signaled a departure from its social contract pro-distribution targets. This again exposes one of the major flaws in the Egyptian planning process which is often reactive due to the deficiency of long term vision or overall planning strategy.

Egypt's and Malaysia's Softening of their Social Contracts

In its stabilization program in the early 1990s following its debt crisis, the Egyptian government worked on the fiscal as well as on the monetary systems. Despite its efforts to maintain its social contract the Egyptian government could not fulfill its promises due to the financial burdens that could not be met with the existing resources. The main reason for this is that the existing scheme provided universal subsidies to all households irrespective of their income levels and geographical location, as well as to industrial units alike. The prevailing social contract was unsustainable in view of Egypt's resources and served only to increase the government's financial burdens. The government concentrated on reducing the deficit, reducing public sector investments as well as subsidies, which were restricted to four basic items namely bread, flour, sugar and cooking oil. Further it reduced its previous commitment of guaranteed employment of university graduates and increased its privatization pace and dismantling of loss-making public sector companies. The government also eased monetary regulations which caused capital market distortions like keeping a ceiling on interest rates and minimum liquidity requirements and increased the capital of public sector banks and introduced government securities which not only provided a source of funding but offered the Central Bank a useful monetary tool. Egypt also devalued its currency and pegged the Egyptian Pound to the US Dollar (Ikram). The short term effect of such policies was an increase in unemployment and inflationary pressures. The stabilization program, while targeting the distortions within the Egyptian economy, in essence also entailed a slow departure from Egypt's social contract and its pro-poor policies. Ikram further noted that in the last five years of the 1990s growth was not pro-poor and Egypt witnessed a worsening of its GINI index from 0.345 in 1996 to 0.378 in 2000. Table 1 displays figures for the budget allocation to the different social sectors during the years 1991 to 2000.

Table 1 – Budget Allocation to Social Sectors

	1991/ 1992	1992/ 1993	1993/ 1994	1994/ 1995	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000
Total Revenue	43.1	46.7	52.6	55.7	60.9	64.5	68.0	73.2	79.4
Current Exp.	33.4	41.0	45.9	46.9	51.2	53.0	55.3	60.7	69.5
Wage Bill (%)	24.0	23.9	24.2	26.7	27.4	29.0	30.8	32.2	31.8
T. Capital Exp.	15.8	11.1	10.7	11.3	12.6	14.1	15.6	25.3	26.1
% of Current Exp.:									
Subsidies	14.5	10.3	7.4	7.8	8.0	8.3	8.0	7.5	7.2
Education	14.5	14.1	14.8	16.6	16.8	17.9	19.0	19.0	18.2
Health	3.2	3.1	3.1	3.3	3.3	3.3	3.5	3.3	3.4
MISA	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Total Social Exp.	32.8	28.0	25.8	28.3	28.6	30.0	31.0	31.0	31.8
% of Capital Exp.:									
Education	3.4	4.9	10.8	12.0	11.5	14.1	12.8	11.8	13.0
Health	1.0	1.0	0.8	2.4	2.3	2.6	4.9	5.0	4.8
MISA	0.14	0.28	0.28	0.25	0.23	0.17	0.17	0.2	0.4
% of GDP:									
Total Revenue	31.2	29.7	30.0	27.3	26.5	25.2	24.3	24.2	24.3
Total Expenditure	36.6	33.2	32.2	28.6	27.9	26.1	25.3	28.4	29.1
Current Exp.	24.0	26.0	26.2	23.0	22.3	20.7	19.7	15.0	21.0
Investment Exp.	11.3	7.1	5.9	5.6	5.5	5.4	5.5	8.2	5.6
Education: Cur+Cap	3.4	3.7	3.9	4.1	4.1	4.4	4.6	4.5	4.4
Health: Cur+Cap	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
MISA: Cur+Cap	0.06	0.06	0.05	0.05	0.05	0.04	0.05	0.05	0.05
Subsidies	3.5	2.7	2.0	1.8	1.8	1.7	1.6	1.6	1.5
Total Social Exp.	7.8	7.3	6.8	6.8	6.8	6.9	7.1	7.1	7.1

(Figures in L.E. Billion)
Source: Heba Handoussa (2002).
MISA = Ministry of Insurance and Social Affairs

The figures indicate that during the 1990s Egypt has gradually reduced its expenditure on subsidies and succeeded in almost halving them from 14.5 per cent of current expenditure in 1991/2 to 7.2 per cent in 1999/2000. And although education witnessed an increase of 14 per cent of current expenditure in 1991/2 to 18.2 per cent in 1999/2000, the government's aggregate commitment to the social services has steadily declined from a total of 32.8 per cent to 31.8 per cent of current expenditure in the same period. Nevertheless it is worth noting that in terms of their share in capital expenditure social services witnessed an increase during the decade of the 1990s with the share of education increasing from 3.4 per cent to 13.0 per cent, health from 1 per cent to 4.8 per cent and Ministry of Insurance and Social Affairs (MISA) from 0.14 per cent to 0.4 per cent.

Education received the highest share of capital expenditure standing at 13 per cent, whereas health was 4.8 per cent and the Ministry of Insurance and Social Affairs receiving only 0.4 per cent in 1999/2000. The total current and capital expenditure on the social services witnessed a decrease from L.E. 7.8 billion in 1991/2 to L.E. 7.1 billion in 1999/2000 which reflects the government's softening of its social contract commitments.

A similar scenario took place but at an earlier date in Malaysia. As mentioned earlier, as the pace of privatization quickened in Malaysia the government was faced by a trade-off between its continuous pursuit of pro-growth policies and adherence to its social contract under the NEP. This happened in the mid 1980s when Mahathir realized that the NEP redistribution targets would not be realized by the deadline of 1990, so he made a conscious decision of putting the NEP on hold and concentrated instead on regaining the economy's economic vigor. EOI became the target for industrial development with the main investor being Japan, followed by the Asian NICs, especially Taiwan, which now directed their attention to investing in developing countries when they were denied easy entry into the previously lucrative Western markets, as they were deemed too dangerously successful and detrimental to the domestic industries. The Promotion of Investment Act of 1986 was introduced and promised better tax holidays, export credit funding and an exemption from NEP conditions. Although the new laws were introduced to placate the Chinese capitalists, they were mainly geared towards attracting foreign investments which were completely exempt from NEP quotas and equity percentage participation as long as more than 50 per cent of the production of the new ventures, which were to exceed a preconditioned size, were export oriented or sold in the Free Zone (Drabble). This betrayal of the original redistribution and egalitarian principles led to division within the UMNO to pro-growth led by Mahathir and pro-distribution factions, and election clashes in 1987 over the positions of President and Vice-President.

Mahathir won the elections by a narrow margin and there were allegations of election fraud which resulted in the deregulation of the UMNO. Mahathir then established the UMNO Baru (New UMNO), and in his opposition were the pro-distribution supporters who set up Semangat '45 which mean "Spirit of 1945" (Khoo Boo Teik).

It is important to note that countries that experienced successful growth and development have traditionally moved from an authoritarian rule to a democratic one. This is because authoritarian law cannot cope with the complex bureaucratic systems that emanate from economic growth. Thus economic and social forces lead to a change in the country's political practices. However in the case of Malaysia this was not the case. As Drabble stated "The constitution installed at independence was democratic, but…government moved from a largely laissez-faire stance in the 1960s to more authoritarian modes in the 1970s and 1980s whilst the growth rate accelerated, except for the mid-1980s downturn." Crouch and Morley (1993) label it as being 'quasi-democratic', or a mixture of authoritarian rule and parliamentary democracy. Government involvement in the economy was basically for two prime reasons: first to expand the national economy through a brisk and solid growth and generate high standards of living and second to redistribute wealth and change the prevailing ethnic-related employment structure. It could be pointed out in this context that Egypt's authoritarian rule never faltered or reduced its grip irrespective of the economic or social forces at play.

As mentioned earlier, an increase in GDP if not coupled by structural change within the economy, is misleading and can be misconstrued as a sign of sustained development. This became evident when Malaysia's outstanding growth was shockingly disrupted by the financial crisis that occurred in 1997. Until then, Malaysia was considered an "economic miracle", a model to be emulated by the rest of the developing world. However it should be noted that there were warning signs prior to this downfall. These could be summarized as follows: first, the seemingly unnatural and economically unwarranted rates of growth from 1991; second, decreasing total factor productivity thus indicating inefficiency; third, brisk expansion in bank financing of the non-tradable sectors of real estate, consumer and stock markets; fourth, persistent current account deficits; and lastly the appreciation of the real exchange rate in spite of such a deficit, thus indicating the overvaluation of the Malaysian ringgit (Barlow). The Malaysian government applied fiscal and monetary policies to counteract the crisis and with time the economy slowly recovered. However this served as an eye opener to reassess the real performance of an economy that was previously considered an economic miracle.

An appraisal of Malaysia's EOI could also serve to shed light on the underlying problems within the economy that hitherto went unnoticed. The EOI was centered on two industries only: electronics and electrical machines and textiles. The electronics and electrical machine industry was nothing more than an assembly of semiconductors with over 90 per cent imported components, hence creating hardly any linkages within the local industrial base. To remedy this situation the government strived to widen its industrial sector by focusing on 12 industries to enhance their production and standing in the economy. These were either resource based like: rubber products, palm oil, wood, chemicals/petrochemicals, non-ferrous metals, non-metallic minerals and food products or non-resource based items such as electronics/electrical machines, transportation equipment, machinery and engineering products, iron and steel, and textiles and readymade garments. This was a renewed export focus was to coincide with a reduction in tariffs in a move away from the infant industry argument. It was hoped that this would strengthen backward linkages between the first category of resource based industries and the local producers. In the non-resource category, the government hoped that the heavy industries would succeed in becoming competitive on the local market and create strong linkages with the engineering and machine industry. Unfortunately with respect to tariffs, once implemented to protect a certain industry, they became a feature rather than an interim procedure and this did not assist Malaysia to climb the technological hierarchy and shifting from labor intensive to high capital, technological industries with solid competitiveness on the international markets (Drabble).

It is ironic to note that the 1997 contagion which occurred in South East Asia had an adverse effect on the Egyptian economy precisely because of this pegging to the US Dollar. At the onset of the crisis, East Asian countries devalued their currencies to protect their balance of payments. While the dollar appreciated, so did the Egyptian Pound. This made Egyptian exports more expensive compared to those from East Asia and affected Egypt's competitiveness in the world markets. Moreover, Egypt also increased its imports from these countries thus adversely affecting its balance of payments (Ikram).

Malaysia as an Economic Miracle

Malaysia's emergence as an "economic miracle" was attributed to many factors ranging from its natural resources, a reasonably developed infrastructure and administrative systems inherited from the colonial era, its leading position as an exporter of primary products (tin, rubber), its geographical location and state incessant pursuit of growth and development. Nevertheless, the above-mentioned factors do not satisfactorily explain the Malaysian rapid growth phenomenon. The single most effective factor has been "the massive direct investment from newly industrialized countries and Japan in the late 1980s and early 1990s, as well as the continuous shift of relatively labour-intensive production processes from Singapore to Malaysia by multinational enterprises" (Barlow).

Malaysia therefore benefited from being a major client of multinationals who aggressively invested in the country, taking full advantage of the government's incentives and open trade policy. Barlow noted that Malaysia's export-oriented attitude, stable political environment, relatively well developed infrastructure and its solid fiscal policies enabled it to take advantage of globalization. "Rapid economic growth and employment expansion contributed to significant improvements in living standards across all ethnic groups, also lubricating ethnic relations in a pluralistic society" (Barlow).

Government involvement in the economy was a major factor in Malaysia's economic plans. Nevertheless, strong government control of the economy has been an issue of debate, especially in the case of South East Asia. According to H. Crouch and J.W. Morley (1993),

> A central issue is whether a direct correlation can be established between the rate of economic growth and the type of government in power, with the most consistently successful cases being those moving to liberal democratic regimes and, at the other extreme, authoritarian ones attaining least success. A paradigm for a shift from authoritarian rule towards liberal democracy is that economic growth brings more complex structures which the bureaucracy by itself becomes less able to manage efficiently to maintain that growth. New social groups, notably a middle class, emerge which press for a more liberal regime through which they can exert more influence. Decision-making power has to be devolved increasingly to private interest whose actions are based 'at least in part, [on] the determination of the market.

In this model, political change is driven by economic and social pressures. One such example is Japan which has combined a democratic political system with fast economic development. On the other hand, this has not been cast in stone for some countries; Thailand for instance has ironically started from an authoritarian system and steered towards a democratic one, only to revert to authoritarianism without adversely impacting its economic progress. Malaysia is another confusing case which started its path of economic growth from the remnants of the colonial era with a fairly laissez-faire system only to become increasingly authoritarian during the 1970s and 1980s (Drabble). According to Hji Ahmad Zakaria (1993), "Rapid economic growth has provided an important justification for an increase in state power [but] on the other hand [it] has also had the opposite effect, strengthening…those forces that seek to restrain the state power and enliven the democratic process". It is ironic that initially, the unsurpassed economic growth of that period was attributed to the authoritarian rule prevailing at the time. However with the maturity of the Malaysian political scene, the repercussions of the 1997 crisis, and the ensuing accusations of favoritism and nepotism, this correlation was shaken at the roots.

Further, the dominance of the Malaysian government on the economic scene, while providing the initial impetus for growth, became a hindering factor. Kunio Yoshihara (1988) criticized state intervention as being

> generally of low quality, resulting in an ersatz (or inferior) form of capitalism with massive inefficiency in the economy and a large number of rent-seekers. The latter include strange breeds of capitalists such as crony capitalists… bureaucratic capitalists… political leaders, their sons and relatives… royal families.

It is argued that although the phenomenon of 'money politics' and state patronage resulted in the misallocation of resources during the twenty year period of 1970-90, and thus adversely affected the emergence of a solid entrepreneurial class within the bumiputeras, the majority of the manufacturing exports was the result of FDI. Malaysia was fortunate to receive a considerable influx of FDI which entered the market with their mature managerial and administrative skills, and counteracted the deficiencies of the patronage system and its failure to create a more solid and economically-savvy bumiputera entrepreneurial class, and led to Malaysia's impressive growth on the export scene. Ironically, it was this dependence on foreign investments that brought about the 1997 crisis which jeopardized most of the gains of the previous years.

Towards the end of the 1990s Malaysia recovered from the adverse effects of the 1997 crisis and continues to pursue its EOI policy and is striving to widen the variety of its manufactured products base in order to improve its competitiveness on the international markets but the focus is still on consumer and intermediate goods. With respect to its social contract, the government never revisited the NEP or introduced new pro-bumiputera policies. Nevertheless the fact remains that Malaysia did realize relative success in its pursuit of development and has succeeded in improving its standard of living and the welfare of its citizens. Further, it is credited with formulating and closely adhering to a concrete plan, namely the NEP, with clearly set targets and objectives unlike Egypt which despite its efforts never went beyond price controls and subsidies. It is therefore prudent to appraise the NEP in the hope that Egypt would benefit from the lessons and avoid the pitfalls in its own quest for sustained development that not is not only translated in growth of GDP but mainly in a renewed social commitment in which all Egyptians are active members of the development process.

Appraisal of Malaysia's Social Contract Under the NEP

One has to acknowledge the pitfalls of the NEP which in essence literally institutionalized ethnicity with its political and economic repercussions. The plan only served to create a class of Malay rentiers and the argument remains whether it succeeded in creating the avowed Malay entrepreneurs or capitalists, who in many cases were reduced to being "fronts" of companies that were in reality owned and managed by Chinese entrepreneurs, but which enjoyed privilege status due to their bumiputera participation. Unfortunately, this led to favoritism, corruption and cronyism and there was also a growing attitude of heavy handedness on the part of the increasingly authoritarian government with the passing of a "sedition act" which prohibited questioning ethnic special privileges. Moreover, due to the lack of initial bumiputera entrepreneurial skills, the government further threw its weight in their direction by establishing institutions to create projects or procure investments and hold them as trusts on behalf of the bumiputeras. Funding for such projects and investments was separated from the annual budget, and these institutions were later branded as 'non-financial public enterprises', that had access to virtually unlimited supplies of interest free funding. These agencies were managed by members of the Malay aristocracy and retired government officials. Such generous funding was primarily the result of the increase in petroleum export revenue during the 1970s especially after the sharp rise in oil prices. But in pragmatic terms the much anticipated redistribution did not occur and the targets were not met.

Despite the government's protective attitude towards, and financial support of, the bumiputeras in a bid to improve their entrepreneurial skills, this did not materialize. They still limited themselves to the conventional activities in handicrafts, timber, transportation and contracting. According to Drabble,

> Government soon started to take initiatives to persuade Malays to pool their resources, such as National Investment Company to buy shares in industrial companies with pioneer status. Progress was slow… These measures were not sufficient to enable Malays to break into areas of the economy, notably manufacturing industry, where foreign and domestic non-Malay capital was strongly entrenched.

And although the NEP did not fully realize its targets, it nevertheless greatly improved the status of Malays. "Between the early 1970s and 1993, the Malay middle class rose from 19 percent to 28 percent of the population" (Hefner). Further, within 30 years poverty decreased from 50 per cent to 7 per cent for all the population and by 1995 Malaysia enjoyed full employment. Asma Abdullah and Paul B. Pederson (2003) noted that "Everyone's income including those of the non-indigenous citizens has more than quadrupled while the cost of living remains low with only 3 per cent inflation on average. There were almost as many rich Malays as there were rich Chinese."

With respect to redistribution of income and eradication of poverty, especially among ethnic strata which were the primary targets of the NEP, it should be noted that the Gini coefficient did not witness the sought after goals. In 1957, Malaysia's Gini coefficient was 0.412 and after Malaysia's launch of its growth plans it reached 0.513 in 1970, peaked to 0.567 in 1976, but in 1990 it decreased to 0.48. According to Drabble,

> Despite some 20 years of redistributive policies a number of points stood out in the late 1980s. First the inter-ethnic income inequality as measured by the Gini coefficient… was higher in 1987 (0.477) than in 1970 (0.466), but lower among Chinese (0.430 against 0.455) and Indians (0.402 against 0.463)… it can be said that in general the NEP had led to few large shifts in the regional relativities of national income (in terms of per capita GDP) and incidence of poverty. For those states with the heaviest concentrations of manufacturing industries the relationship was inverse: that is, higher per capita incomes were associated with lower incidence of poverty.

It is important here to recall Kuznets theory pertaining to income inequality; in the initial stages of growth and development income inequality increases but it is later reduced. This is due to the migration of agricultural labor to the industrial sector which enjoys higher income and productivity levels. With the decrease in agricultural labor supply, the wages of the latter rise and wage differential decreases. However in the case of Malaysia, the vehicle for economic growth was not an inter-sector labor migration as the additional labor did not come from surplus agricultural labor but from women and expatriates.

The basic problem with the NEP was that there a tradeoff between rapid economic growth and income redistribution that clashed with the government's adherence to its social contract with the bumiputeras. Strict focus on rapid economic growth entailed efficient resource allocation in accordance to market requirements, whereas redistribution based on political or social considerations rather than economic factors could negatively impact the vehicles of growth. By the end of the Second Malaysia Plan, the figures for bumiputera corporate wealth were disappointing. And despite the government's introduction of more regulations to enforce a minimum bumiputera equity share as a prerequisite for license approval, still this did not achieve the aspired changes. The Malaysian government thus played a dual role: on the one hand endeavoring to attract FDI in order to jumpstart the industrialization process and technology transfer, while at the same time pursuing its focus on the bumiputeras to improve their status. Fortunately this did not have unfavorable effects on FDI because multinationals either created export-oriented entities or focused primarily on the local market. However the Industrial Coordination Act (ICA) of 1975 affected investment adversely as it stipulated that companies with more than $ 100,000 share capital and more than 25 employees should acquire a special license, which in turn required that Malaysian companies should maintain at least 30 per cent bumiputera participation and if they were foreign companies, then bumiputera participation would be 70 per cent. This condition would be waivered if the company was export oriented. Needless to say, this act was not accepted by the Chinese Malaysians and foreign companies and it was later amended. When the level of investment declined in the late 1970s, the Malaysian government took it upon itself to expand the public sector in order to implement its political and social agenda. Although the influx of revenue from petroleum exports, operating licenses, commercial and export taxes enabled the government to finance its plans, the government still considered FDI to be crucial.

Mahathir and his pro-growth supporters were fortunate with their emergence from the recessionary trends that gripped the global economy in the 1980s. Malaysian Real GDP witnessed an impressive growth from a mere 1.2 per cent in 1986 to 8.9, 8.8 and 9.8 per cent during 1988, 1989 and 1990 respectively (Rokiah Alavi, 1996). This was mainly due to FDI which took full advantage of the investment incentives of the government's open door policy. According to Gomez and Jomo, the leading role played by FDI is clear from the data on participation in the equity of approved manufacturing projects. From 1975-1986 this had ranged between about 18 per cent and 40 per cent, but leapt to approximately 49 per cent in 1987 and a peak of 74 per cent in 1989. The balance was split between bumiputeras 10 per cent, other Malaysians 13 per cent and public enterprises 3 per cent. FDI was a crucial factor in Malaysia's industrial progress. The main domestic capital providers, the Chinese, were apprehensive from the NEP which to their mind was unfairly favoring a social group at their expense, and thus were reluctant to invest in long term industrial enterprises. FDI was therefore the main vehicle for investment open to the Malaysian government. In addition, FDI were also expedient as it

> could contribute to a favorable balance of payments, and also generate new employment and import technology. From the viewpoint of foreign investors, particularly Japan and the East Asian NICs, capital was driven off-shore by factors such as rising domestic wage levels and appreciation in the international value of currencies (particularly the yen after 1985) making their exports more expensive, together with a desire to gain direct access to markets in developing countries, thus avoiding trade barriers. Malaysia as a host country was attractive for its political stability, initially low wages and developed infrastructure, particularly in the Peninsula (Drabble)

In 1990 at the conclusion of the NEP, bumiputera corporate equity was around 20 per cent and did not realize the targeted 30 per cent. However non-bumiputera Malaysians owned 45 per cent, representing 5 per cent above target while foreigners owned 25 per cent representing 5 per cent below target. Table 2 outlines the restructuring of the Malaysian economy under the NEP during the twenty years of its life from 1970 to 1990.

Table 2 - Restructuring under the NEP, 1970-1990

Ownership

Percentage of Share Capital at Par Value

	1970	1980	1985	1990
Bumiputeras				
Individuals	1.6	5.8	11.7	20.3
Trust Agencies	0.8	6.7	7.4	
Other Malaysians				
Chinese	27.2		33.4	44.9
Indians	1.1	} 44.6	1.2	1.0
Other	--		1.3	0.3
Nominee Companies	6.0			8.4
Foreigners	63.4	42.9	26.0	25.1

Employment in Each Sector

Percentage of Total in Each Sector

	1970	1990 (Target)	1990 (Achieved)
Primary			
Bumiputera	67.6	61.4	71.2
Non-Bumiputera	32.4	38.6	28.8
Secondary			
Bumiputera	30.8	51.9	48.0
Non-Bumiputera	69.2	48.1	52.0
Tertiary			
Bumiputera	37.9	48.4	51.0
Non-Bumiputera	62.1	51.6	49.0

Employment in Relation to Ethnic Groups

Percentage Employed as Proportion of Ethnic Group

	1970			1990		
	Bumi	Chinese	Indian	Bumi	Chinese	Indian
Primary	61.0	25.4	51.2	36.7	13.5	21.8
Secondary	14.6	37.7	18.9	26.3	36.5	39.8
Tertiary	24.4	36.8	29.9	36.9	49.9	38.3

Source: Drabble 198

In terms of ownership, bumiputeras did witness an increase in their share of wealth, but this came at the expense of reduced foreign ownership. We notice that the share of Chinese investors almost doubled during the period under study, and was still more than double that of the Malays. And although the proportion of bumiputeras in the primary sector had fallen sharply, it had actually risen as a share of total employment. Table 3 gives bumiputera share in publicly listed enterprises sheds more light on the Malaysian government's "Big Brother" attitude towards this social stratum.

Table 3 – Bumiputera Share in Publicly Listed Enterprises (%)

	1970	1984
Agriculture/Mining	1.6	35.7
Industry/Construction	4.7	24.5
Transport/Communications	13.5	n/a
Commerce	0.8	n/a
Banking/Insurance	3.3	43.5
Other	2.0	49.7
Average	1.9	32.2

Source: Drabble, 203

The overall share of bumiputeras in publicly listed companies witnessed a giant leap from an average of around 2 per cent in 1970 to 32 per cent in 1984. This was primarily the result of the Malaysian government taking on the role of "Big Brother" and investing on their behalf as a provider of trust funds. And although their share in industrial companies grew, it is noticed that services companies (banking, insurance) were of special interest to them, probably because of their relatively quicker, short term returns and they were less complex to manage.

Although the NEP did not achieve all of its targets within its two decades of implementation, without it there would have been a higher incidence of inequality which would have resulted in complex interethnic problems. These in turn would have adversely affected Malaysia's progress (Drabble). However the first important lesson to be learned from Malaysia's social contract is one of determination. This is exemplified by the Malaysian government's staunch adherence to the NEP for at least the first 10 years after its launch. The second lesson is one of entrepreneurship which needs to be nurtured and incorporated within the educational system and cultural framework so that the new generations accept it as a character trait. It was proven that, despite the Malaysian government's sincere efforts, entrepreneurship could not be spoon-fed to the ethnic Malays. The third lesson is that, in its over-zealous protection of the bumiputeras, the Malaysian government has possibly spoilt them and promoted their rentier and "get-rich-quick" mentality. Fourth, it should be clear that the presence of a strong, ambitious and enlightened visionary leader is of paramount importance in the developing world as his or her charisma inspires those who witness it. The Malaysian experience therefore serves as both a warning for pitfalls to avoid and provides points of strength to follow.

ANALYSIS OF EGYPT AND MALAYSIA'S SOCIAL CONTRACTS

By contrast to Egypt, Malaysia's resource endowments were substantial and almost all were export-oriented and generated considerable revenues. These high earnings enabled Malaysia to finance its social welfare schemes that were aimed at the bumiputeras, which is the main reason why Malaysia relatively succeeded while Egypt suffered under the financial weight of its social obligations. It should also be noted that Malaysia enjoyed relative political stability since its independence and did not suffer like Egypt from being involved in a continuous state of war against Israel since 1948 or being the target of terrorist attacks that undermined the political and economic stability of the country and adversely affected its tourist industry which is one of its main revenue streams. Further Egypt's defense and armament budget depleted much of its resources which could have been directed towards development and social programs.

GDP Per Capita and Employment

The rate of growth of GDP is one of the most important indicators of economic growth. Tables 4 and 5 outline pertinent data for Egypt and Malaysia for the years 1986, 1996 and 2005. These include investment and savings rate, debt service rate, the different sectoral components of the economy, international trade components Balance of Payment and Current Account Balance.

Table 4 – Egypt Pertinent Data

	1986	1996	2005
Population 2006 – millions			75.4
GNI per capita – US $			1,350
GDP (US $ billions)	35.9	67.6	89.7
Gross Capital Formation/GDP	23.7	18.1	18.0
Exports/GDP	15.7	20.7	30.3
Gross Domestic Savings/GDP	13.8	12.7	15.7
Gross National Savings/GDP	18.1	21.4	22.1
Current Account Balance/GDP	- 9.4	- 0.3	3.2
Interest Payments/GDP	2.8	1.6	0.8
Total Debt/GDP	111.2	46.6	38.0
Total Debt Service/Exports	27.0	12.9	7.7
Structure of the Economy: % of GDP			
Agriculture	20.8	17.3	14.9
Industry	26.8	31.6	36.1
Services	52.4	51.1	49.0
Exports of Goods and Services – $ Mill	6494	13415	27952
Imports of Goods and Services	11825	17660	30216
Balance of Payments	-5331	-4245	-2263
Current Account Balance	-3357	-185	2911

Source: The World Bank

Table 5 - Malaysia Pertinent Data

	1986	1996	2005
Population 2006 - millions			25.8
GNI per capita – US $			5,700
GDP (US $ billions)	28.2	100.9	136.7
Gross Capital Formation/GDP	23.4	41.5	20.3
Exports/GDP	55.5	91.6	117.6
Gross Domestic Savings/GDP	29.4	42.9	37.9
Gross National Savings/GDP	22.9	37.0	30.0
Current Account Balance/GDP	-0.4	-4.4	14.6
Interest Payments/GDP	4.6	1.4	1.4
Total Debt/GDP	77.5	39.3	37.3
Total Debt Service/Exports	21.8	8.9	5.7
Structure of the Economy: % of GDP			
Agriculture	19.8	11.7	8.3
Industry	38.5	43.5	49.7
Services	41.7	44.8	41.9
Exports of Goods and Services – $ Mill	15637	92120	160811
Imports of Goods and Services	14016	90710	130139
Balance of Payments	1621	1410	30139
Current Account Balance	-123	-4462	19916

Source: The World Bank

The comparative figures indicate a huge discrepancy between Egypt and Malaysia with the latter enjoying a high standard of living as evidenced by its high per capita GNI and GDP. Further, Malaysia's export performance is commendable and it does not suffer from Egypt's chronic Balance of Payments deficit. Although for both countries the share of agriculture has decreased in relation to GDP, in the case of Malaysia however, industry was the main component at approximately 50 per cent followed by services, whereas in Egypt's case services is 49 per cent followed by industry at around 36 per cent. Malaysia's exports helped it achieve high per capita GDP levels, and although it had a trade deficit in the services, its tradable exports realized a surplus, thereby maintaining a positive Balance of Payments. Table 6 further explores Egypt's employment figures during the years 1966 to 2000.

Table 6 - Egypt Labor Force and Employment: 1966 to 2000 – figures in millions and %

	1960	1966	1970	1976	1986	1992	1996	2000
Population	26.1	30.1	33.3	36.6	48.3	53.7	59.3	63.3
Labor Force	7.8	8.4	8.8	11.5	12.9	15.1	17.2	18.9
Employment	7.7	8.3	8.4	9.6	12.2	13.7	15.8	17.4
Unemployment	0.1	0.1	0.4	1.9	0.7	1.4	1.4	1.5
Participation Rate (% of population)	29.8	27.9	26.4	31.4	26.7	28.1	29.1	29.9
Unemployment Rate (% of labor force)	1.3	1.2	4.5	16.5	5.4	9.2	8.1	7.9

Source: Ikram

During the 40 years under consideration population more than doubled growing by 143 per cent, while the labor force increased by around 126 per cent. Unemployment increased from 1.3 per cent in 1960 to almost 8 per cent in 2000, and more recently was reported to have reached alarming rates of between 10 to 15 per cent, excluding disguised unemployment which would even inflate the figures further.

By the year 2000 roughly 35 per cent of the employed population worked in the public sector with the remaining 65 per cent in the private sector. Further, Egypt experienced a structural change during the period under study; the share of agriculture in GDP fell, while that of services increased which was reflected in employment. According to Ikram, "Most of the jobs created during this period were in the services sector (61 per cent) followed by the industrial sector (27 per cent), while additional employment in agricultural constituted only 12 per cent of total employment." The significance of such a structural transformation cannot be overlooked and ascertains that agriculture as Egypt's primary sector was not replaced by industry, but rather by the services sector, which by itself cannot be a vehicle for sustainable growth.

Ikram noted that unemployment was highest among intermediary and university graduates, whereas ironically the illiterates had an extremely low unemployment rate of 1 per cent, thus signifying that the labor market returns to education were negative. This is an extremely dangerous sign and could have several interpretations. First, it might indicate that the Egyptian educational system is oblivious to the pertinent specializations demanded in the market and produces graduates who are unfit to cater to them. Second, intermediate-high school or university graduates do not chose their subjects based on preference or aptitude but might be forced to specialize in certain subjects due to their weak academic results. Third, the Egyptian social system attaches great importance and respect to academic degrees irrespective of their economic returns. The average Egyptian family's mentality discourages menial work irrespective of its pecuniary returns and pushes its offspring to become university graduates, even if they are paid less. Fourth, the Egyptian government's guarantee to provide university graduates with definite employment encouraged a slack attitude towards education which was not regarded as an investment or a means to expand one's potential but as an easy way to a public job. This in itself led to erroneous educational choices which were not based on sound economic grounds, weakened the entrepreneurial spirit and private business mentality.

Human Capital

Human and physical capital accumulation is one of the main vehicles for the growth of output. Table 7 also considers Total Factor Productivity which measures the efficiency of production in Egypt between 1965 and 2000. Between 1965 and 2000 Egypt experienced modest growth on all fronts. The only period that showed potential was between 1976 to 1980 following the implementation of the Open Door Policy and the wide migration of Egyptian workers to the Arabian Gulf. Unfortunately this was not sustained and figures hitherto declined.

Table 7 - Egypt's Factors' Contribution to GDP Growth 1965 - 2000

	Growth Rate (%)			Contribution to GDP Growth (%)		
	GDP	Human Capital/ Adjusted Labor	Physical Capital	Human Capital/ Adjusted Labor	Physical Capital	Total Factor Productivity (TFP)
1965-70	3.33	3.29	3.80	1.74	1.79	-0.20
1970-75	3.48	3.04	6.24	1.61	2.93	-1.06
1976-80	9.80	4.07	13.54	2.16	6.36	1.28
1980-85	6.73	2.42	11.89	1.28	5.59	-0.14
1986-90	4.22	3.37	6.45	1.78	3.03	-0.59
1991-95	3.39	3.64	3.73	1.93	1.75	-0.29
1996-2000	5.72	4.65	6.88	2.47	3.23	0.02
1965-2000	5.22	3.50	7.45	1.85	3.50	-0.13

Source: Ikram – TFP is the ratio of real output to the level of productivity

With the exception of the years 1976 to 1985 GDP growth was modest and did not exceed 5 to 6 per cent, and on average it only increased by 5.2 per cent, while physical capital increased by 7.5 per cent. If we compare this growth rate to the increase in employment we would find that it rose by 2.6 per cent; and while human capital/adjusted labor contributed one third to the growth in GDP, physical capital contributed two thirds, whereas TFP was negative most of the time and therefore did not contribute anything to the growth in GDP. According to Drabble, "The negative contribution of TFP to GDP growth, for example between 1980-85, says that any combination of labor and capital would have produced less output in 1985 than it could have in 1980…TFP growth in Egypt does not compare well with rates of productivity in other middle-income countries in Asia and Latin America. Thus in 1973-94, TFP growth contributed about 24 percent and 40 percent of GDP growth in Malaysia and Thailand respectively" (Drabble).

Poverty and Income Distribution

Tables 8 and 9 below illustrate poverty data for Egypt and Malaysia respectively. The incidence of poverty or headcount refers to the percentage of the population whose income is below the poverty line. The poverty gap pertains to the depth of poverty or the distance separating the poor from the poverty line.

Table 8 - Egypt Poverty Measurements: 1982 – 1996 (percent)

	1981/82		1990/91		1995/96	
	Urban	Rural	Urban	Rural	Urban	Rural
Lower Poverty Line:						
Headcount (P_o)	18.2	16.1	20.3	28.6	22.5	23.3
Poverty Gap (P_1)	3.5	3.1	4.3	4.5	4.9	4.3
Poverty Severity (P_2)	0.9	0.8	1.1	1.4	1.6	1.2
Poverty Line at current Prices (L.E.)	138.6	109.7	556.0	423.0	968.4	696.2
Poverty Line at 1990/91 Prices (L.E.)	555.0	422.0	556.0	423.0	549.4	430.9
Real per capita expenditure (L.E.)	1,107.0	733.0	1,088.0	724.0	1,002.0	639.0
Upper Poverty Line:						
Headcount (P_o)	33.5	26.9	39.0	39.2	45.0	50.2
Poverty Gap (P_1)	6.5	4.2	10.8	12.0	12.8	12.5
Poverty Severity (P_2)	3.5	1.6	4.0	4.5	4.9	4.2
Poverty Line at current Prices (L.E.)	182.0	122.0	739.0	502.0	1,326.0	924.0
Poverty Line at 1990/91 Prices (L.E.)	729.0	472.0	739.0	502.0	743.0	568.0

Source: Ikram

The poverty severity takes into consideration the poverty gap in addition to the inequality among the poor. The above figures indicate that the incidence of poverty has increased in Egypt over the period under consideration. By contrast, Malaysia can be seen in Table 9 as realizing an improvement in the incidence of poverty.

Table 9 - Malaysia incidence of poverty by ethnic group, 1970, 1976, 1990 (%)

	1970	1976	1990
Peninsular Malaysia			
Bumiputera	65.0	n/a	20.8
Chinese	26.0	n/a	5.7
Indian	39.0	n/a	8.0
Peninsular Overall	49.3	n/a	15.0
Malaysia Overall	n/a	42.4	17.1

Source: Drabble

As seen from the Malaysian figures the Bumiputeras were and still are the main poverty group in Malaysia, however it is obvious that the NEP greatly improved their situation. With respect to Malaysia as a whole, incidence of poverty was relieved within the 20 years under consideration reaching around 17 per cent whereas in the case of Egypt the ratio is higher and stands at 24.5 per cent on average, with the rural population at almost 29 per cent. It should be noted however that whereas Malaysia’s GDP per capita was around $ 4,392 in 1990, Egypt’s was $ 1760 which further illustrates the large income differential between the two countries.

Demographic Indicators

Egypt's and Malaysia's main demographic indicators are given in Tables 10 and 11. Despite almost doubling over the last decade of the Twentieth Century, Egypt's GDP per capita slowed down in the new Millennium and in fact decreased in 2005 to $ 1207.

Table 10 – Egypt GDP, Employment and Education

	1992	1996	2001	2005
Real GDP per capita (US $)	723	1,084	1,424	1,207
Human Development Index	0.524	0.631	0.680	0.689
Average Life expectancy at birth	n/a	66.7	67.1	70.6
National Literacy rate at 15+	48.8%	55.5%	65.6%	65.7%
Unemployment Rate	10.6%(1993)	8.9%	9.0%	9.9%(2004)
Youth Unemployment (15-29 yrs)	n/a	20.1%	20.4%	n/a
Women Employment Rate		18%	22.0%(2002)	
Women Unemployment Rate	22.1%(1993)	20.3%	19.8%	24.0%(2004)
Women Proportion of Labor Force		15.3%	21.8%(2002)	23.9%(2004)
Poor persons (% of total pop.)	35.1% (1990)	22.9%	20.1% (2000)	20.2%(2004)
National Infant Mortality Rate/1000	42.5 (1991)	34.0	30.0	22.4 (2004)
Primary Educatn. Enrollment Rate				
Boys			94% (2003)	
Girls			91% (2003)	
Enrollment Ratios				
Primary			96.4%	
Secondary			77.2%	
Tertiary			27.7%	
Literacy Levels				
Men 15+				71.0%(2004)
Women 15+				49.8%(2004)

Sources: UN (2005) Common Country Assessment – Ministry of Planning and UN (2004) Millennium Development Goals, Second Country Report – UNDP (2006) Human Development Report Egypt 2005 – United Nations Population Fund (UNPF)

Government figures indicate that GDP at the end of 2006 reached $ 1422, which although is a healthy increase over 2005, yet it is still lower than 2001, and until the official 2007 figures are published one cannot ascertain whether the decline in 2005 was temporary or not. One of the reasons might be that while population continued to increase at around 2 per cent per annum. GDP did not increase by the same rate during 2005, hence the decline in per capita GDP. In any case the rate of growth of the Egyptian economy is still unsatisfactory and is not sustainable.

There has been an improvement in the life expectancy and infant mortality rates in Egypt but the health care system leaves a lot to be desired and it currently ranges from the public, over-crowded and generally of inferior quality to the exorbitantly expensive, albeit more hygienic, profit-oriented variety.

Malaysia's demographic indicators are outlined in Tables 11 and 12 and again in contrast to Egypt indicate an improvement over the 15 years ending in 1995.

Table 11 – Malaysia Demographic and Development Indicators

	1980	1990	1995
Life expectancy at birth – years			
Male	63.5	67.5	69.6
Female	67.1	71.6	74.5
Infant mortality (per 1000 live births)	34	13	11
Adult literacy rate (%) – Male	79.6	87	96.0
Adult literacy rate (%) – Female	59.7	74	85.7
% of GNP spent on education	6.0	5.5	N/a
Unemployment (% of Labor Force)	6.7	5.1	2.8
Population living in absolute poverty (% households)	(1985) 20.7	17.1	9.6

Source: UN Department of Economics and Social Affairs – Country Profile

Malaysia has also improved in its demographic indicators, improving the life expectancy of its population and reducing the infant mortality rate by almost 68 per cent. It has also made impressive progress towards eradication of illiteracy but there is a gender bias in favor of males. Malaysia's unemployment rate was less than 3 per cent in 1995. This rate has increased to around 3.3 per cent by 2006 but it is still under control. It is worth noting that Malaysia has succeeded in its efforts to control poverty and the percentage of households living in absolute poverty has come down from 20.7 per cent in 1980 to 9.6 per cent in 1995.

Table 12 – Malaysia GDP, Employment and Education

	1992	1996	2001	2005
Real GDP per capita (US $)	2,432(1992)	4,294(1995)	3,746	5,159
Human Development Index	0.725(1990)	0.832	0.790(2000)	0.811
Average Life expectancy at birth	n/a	n/a	72.5	73.7
National Literacy rate at 15+				88.7%
Unemployment Rate	3.1 (1995)	2.5%	3.7%	3.5%
Youth Unemployment (15-29 yrs)	n/a		29.5%	n/a
Women Employment Rate				
Women Unemployment Rate				
Women Proportion of Labor Force	31.4%(1990)	47.1% (1995)		48%
Poor persons (% of total pop.)		17% (1998)		13.7%(2006)
National Infant Mortality Rate/1000			19.0 (2003)	17.7
		96.4%		
Primary Educatn. Enrollment Rate		77.2%		
Boys		27.7%	94% (2003)	
Girls			91% (2003)	
Enrollment Ratios				
Primary			98% (1998)	93% (2004)
Secondary			70% (2002)	
Tertiary			29% (2002)	
Literacy Levels				
Men 15+				92%(2004)
Women 15+				85%(2004)

Sources: UN Common Country Assessment – United Nations Population Fund (UNPF) – UNESCO – UNDP Human Development Reports

On the whole, Malaysia's development indicators are better than Egypt's with Malaysia's HDI in 2005 an impressive 0.811 whereas Egypt's is 0.689. A closer look at the HDI's three dimensions of human development namely life expectancy, literacy and GDP per capita reveals that Malaysia fared better than Egypt on two of the three fronts. Malaysia's GDP per capita in 2005 amounted to $ 5,159 whereas Egypt's was only $ 1,207. In terms of school enrollment, Egypt surpassed Malaysia, however the literacy levels in the former were lower than the latter.

CONCLUSION: A NEW SOCIAL CONTRACT FOR EGYPT

Egypt and Malaysia were committed to their respective social contracts since their independence; Egypt has floundered while Malaysia has realized mixed success. Egypt's social contract promised a welfare system and safety net to its population under a command economy in which the government was both the instigator as well as the executor of growth. The Egyptian government strived to provide patronage to its citizens through the control of prices, guaranteed employment, subsidization of basic commodities, services and energy, as well as free educational and health services while at the same time relentlessly pursuing development. Unfortunately due to inadequate financial resources and an economically devastating war with Israel, Egypt was not able to honor its expanding commitments due to a population explosion. The only method of filling this gap was by resorting to increased borrowing. Malaysia on the other hand was selective and mainly targeted ethnic Malays with its social contract and realized more success than Egypt in both its social contract targets and its development path.

The comparative analysis between Egypt and Malaysia served many important purposes. First, it exposed the reality of the Malaysian experience and placed it in the right perspective without overstating or understating its successes. Second, there were lessons to be learned from the path that Malaysia took in its pursuit of its development and its social contract. These lessons could benefit Egyptian strategic planners. Third, it assisted in exposing the flaws within the historic and present Egyptian experience. Fourth, while outlining the similarities between the two countries, the above analysis also displayed their differences and highlights the reality that any attempt to emulate the Malaysian experience by Egyptian policy makers should be conducted with caution in view of their very unique individual circumstances.

The circumstances surrounding Malaysia whether they are its natural resource endowments, the quality of its leadership, the presence of the Chinese as a driving force with their entrepreneurial skills and high savings rate, are factors that greatly assisted it in its pursuits. Further, the presence of Malaysia amidst a dynamic part of the world, namely South Asia, and given its historic readiness to open its economy, helped it become part of that dynamic phenomenon.

One should not overlook how Egypt was weighed down with the task of being the whole Arab World's army in dealing with the Palestinian issue and subsequent wars with Israel which had its toll both on the political and economic progress of the nation. This gnawed at its resources and diverted them from being optimally utilized, and created an unstable climate which was not conducive to FDI, the main vehicle for economic progress in the case of Malaysia. Despite its best intentions and proclaimed strong social commitment to the masses the Egyptian government's control of the economy led to price distortions and a heavy subsidy bill that burdens as well as diverts Egypt from sustained growth. The solution does not lie in Egypt's departure from its social contract but rather in an appraisal and reformulation of a new social contract in place of the existing outdated one.

Since the late 1990s and into the new Millennium Egypt has been earnestly following its stabilization program in order to get on track and achieve its long sought after development. As mentioned earlier it has slowly departed from its previous social contract and there is rising discontent among the low and middle classes who are groping with unemployment and inflationary challenges. There is a dire need therefore for Egypt to reconsider its social contract in order to honor its obligations and avoid possible unrest. However the answer does not lie in eliminating its social commitments altogether but rather is twofold: targeting the needy while gradually reducing subsidies to reallocate resources to medium and long term schemes that would improve employment and income in the long run.

It should be noted that there have been numerous reports among Egyptian economists, policy makers and international agencies, all calling for reform. Heba Handoussa (2002) proposed that the Egyptian government's current employment and educational expenditures could be readjusted to improve economic and social benefits by concentrating on the informal sector and accepting it as a vehicle for growth. The existing social contract also needs to be revised so as to target and reach the poor in a more efficient way.

Another report is the UNDP's and Ministry of Planning and Local Development's Egypt Human Development Report (EHDR) of 2005 which declared that income inequality and social discrepancies have been among the main obstacles to national welfare and eradication of poverty. The Report declares that the less privileged strata would not only be major recipients of aid but also major contributors of a new social contract between the government and Egyptian citizens which instigates grassroots change thus invigorating the development process. Further, the report stated that there is an urgent need for the current social contract as decreed by the Egyptian Constitution to be reformulated and revitalized to cope with the changing circumstances and in order for welfare to actually reach those in dire need of it. The new vision envisages that Egypt focuses on eight directions namely:

> Comprehensive reform in the social contract, structural change of the economy, cultural and behavioral change through education and redrawing of Egypt's map to save scarce agricultural land; reinvigorating the legitimacy of the welfare state through the provision of higher quality public goods and services that are better targeted in favor of equity and efficiency; equity for growth with employment; boosting credit to augment investment and domestic savings; new roles for all stakeholders, actors and players; dynamism, innovation and entrepreneurship; Civil service reform; and Conserving the environment for future generations.

In essence the EHDR 2005 advocated that two main targets of change would generate the much needed paradigm shift that would pull the whole country forward. These two targets are a new social contact that encourages the active involvement and empowering of the Egyptian population and second a cultural and behavioral change based on a more democratic system that would instigate the anticipated sustained growth.

> The EHDR 2005 is based on two important notions of change: firstly a new 'social contract' whereby the state encourages further political, social and economic participation from civil society; by extending and integrating institutions that promote democratic practices and are accountable; by raising the quality of public goods and their delivery; and by developing policies that encourage private sector participation in development without adverse distributional effects. Secondly cultural and behavioral change such that the values of participation, entrepreneurship, innovation and transparency can prevail. This will require the creation and public dissemination of codes of conduct and accountability for public services, well-designed policies and programs for those basic public institutions that help shape values - schools and the media - the systematic public rewarding of independent thought, tolerance and social responsibility, and the promotion of gender equity.

The informal sector which has hitherto been disregarded despite its growing importance in the economy also deserves attention from the government. The formalization of such a sector would greatly enhance the job creation opportunities, improve the working conditions and labor rights, as well as increase the government's tax revenues.

The free public educational system urgently requires attention and revision to improve its and mediocre standards and quality. It is imperative that the government formulates a long term human capital investment plan to improve skills which would ultimately benefit the labor force and ease the unemployment problem. Further, by investing and promoting technical institutes, the government would actively stimulate a paradigm shift in the prevailing condescending view of manual skilled labor. Moreover, the government should re-examine the provision free university education and instead divert part of these resources to the eradication of illiteracy and instating a reward system to encourage the completion of primary education which under Egypt's circumstances might be more advantageous than a system that produces low-quality university graduates. Subsidies are another given in the Egyptian economy, and Egypt has become a country of stark inequalities and incongruities, and unfortunately some Egyptians do not receive the adequate state patronage they deserve while others are over-subsidized. The subsidy system should be selective and the government should strive to ensure that subsidies are not universal across the board, but do in fact reach those who need it the most. A meticulous consensus should be undertaken to quantify as accurately as possible real income levels in Egypt in order to determine those who need and deserve subsidies. Based on such data, it would be possible to formulate a more practical subsidy scheme.

Further, a stronger and more progressive taxation scheme should be enforced to ensure that taxpayers pay their fair dues. In that respect a sophisticated and integrated computerized system which connects all the different government agencies to identify sources of income and assets should be instated. This would help the pertinent government agencies determine the level of wealth and assist in the fair and correct valuation of taxes.

Egypt is unique and as such deserves a unique planning strategy that caters to its needs and requirements to exploit and expand its potential to the fullest. It needs to find its niche and its sense of identity in order to enable it to compete in an increasingly competitive world while at the same time addressing its poverty and inequality issues in recognition of its social contract, to regain its integrity and self respect. Heightened focus on improving Egypt's competitive advantage in contrast to its comparative advantage becomes a key issue. This has to be incorporated within an overall long term sustained development strategy of all the productive sectors in the economy. At present the Suez Canal, workers' remittances and tourism constitute the bulk of Egypt's current revenue stream, but they are considered to be relatively volatile bases for sustained development due to their vulnerability in the face of adverse political circumstances and limited passage capacity, as in the case of the Suez Canal. This was clearly demonstrated when the tourism industry literally collapsed in the wake of the terrorist attack on tourists in the Luxor incident of 1997. More emphasis is therefore urgently required to be directed towards the manufacturing and agricultural sectors within an unambiguous, and strictly adhered to, long term plan under the auspices of the government. The Egyptian government should assume its developmental responsibilities and not leave them to the private sector's discretion, since the latter has been clearly inundated since 1974, by a get-rich-quick mentality with limited social awareness or responsibility. Egypt should expand its agricultural and manufacturing product base to ensure maximum competitive advantage. A return to Egypt's historic competitive status as a leading producer of long staple cotton comes to mind as an example. This would foster the linkages within the existing textile industry and create a competitive niche for Egypt in this upscale market. A variation of this could also be the production of organic cotton which is recently in vogue in the environment-friendly West. Other interesting export-oriented, cash earning agricultural products are asparagus, jasmine and floral extract for the perfume industries, herbs and spices. However, the promotion of a free environment with prevailing democratic practices under enlightened leadership is an integral prerequisite for the above, because only in such an environment would people combine their best talents and skills for the welfare of their nation.

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