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Sectoral Transformations in Neo-Patrimonial Rentier States: Tourism Development and State Policy in Egypt

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Abstract

This article challenges claims that liberalising state regulated markets in developing countries may induce lasting economic development. The analysis of the rise of tourism in Egypt during the last three decades suggests that the effects of liberalisation and structural adjustment are constrained by the neo-patrimonial character of the Egyptian political system. Since the decline of oil rent revenues during the 1980s tourism development was the optimal strategy to compensate for the resulting fiscal losses. Increasing tourism revenues have helped in coping with macroeconomic imbalances and in avoiding more costly adjustment of traditional economic sectors. Additionally, they provided the private elite with opportunities to generate large profits. Therefore, sectoral transformations due to economic liberalisation in neo-patrimonial Rentier states should be described as a process, which has led to the diversification of external rent revenues, rather than to a general downsizing of the Rentier character of the economy.

Key words: Egypt, rentier state, economic liberalisation, economic development, tourism

JEL Code: H27, L83, O11, P26

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Zusammenfassung

Sektorale Transformationsprozesse in neopatrimonialen Rentier-Staaten: Tourismusentwicklung und staatliche Politik in Ägypten

Dieser Artikel stellt den Zusammenhang zwischen nachhaltiger wirtschaftlicher Entwicklung infolge der Liberalisierung staatlich regulierter Märkte in Entwicklungsländern in Frage. Die Analyse des Aufstiegs des Tourismussektors in Ägypten seit Anfang der 1970er Jahre zeigt, dass die Liberalisierung und Diversifizierung der ägyptischen Ökonomie maßgeblich durch den neopatrimonialen Charakter ihres politischen Systems bestimmt war. Infolge des Rückgangs der Erdölpreise seit den frühen 1980er Jahren wurde der Ausbau des Tourismussektors zur optimalen Entwicklungsstrategie, um Einnahmenverlust zu kompensieren. Die steigenden Tourismuseinnahmen halfen dem ägyptischen Staat, makroökonomische Ungleichgewichte auszugleichen und kostspielige Anpassungsprozesse in traditionellen Wirtschaftssektoren zu vermeiden. Darüber hinaus eröffnete die Tourismusentwicklung den privaten Wirtschaftseliten des Landes neue Möglichkeiten, erhebliche Profite zu realisieren. Sektorale Transformationen in neopatrimonialen Rentier-Staaten sollten deswegen vor allem als Rentendiversifizierung verstanden werden und weniger als Prozesse, die den Rentencharakter einer Volkswirtschaft im Allgemeinen verringern.

Sectoral Transformations in Neo-Patrimonial Rentier States: Tourism Development and State Policy in Egypt

Thomas Richter and Christian Steiner

Article Outline

1. Introduction[1]

Egypt's tourism industry is a rising star at the dawn of the new millennium in an otherwise mostly struggling economy. Tourism receipts in the Egyptian current account increased from US$304 million in 1982/83 to US$6.429 billion in 2004/05 (Central Bank of Egypt; IMF Archives, various years). This development is unique compared to other sectors of the Egyptian economy. The share of tourism revenues in Egypt's current account receipts reached the 20 percent mark at the beginning of the new century. Tourism has become the largest single source of foreign exchange earnings for the Egyptian economy. Using the foreign currencies of millions of tourists, the country was able to overcome its recurrent balance of payments problems during the 1980s and 1990s.

[1] Writing this paper the authors have benefited from important comments and criticisms provided by Martin Beck und Juliane Brach. Christian Steiner gratefully acknowledges the financial support by the German Research Foundation and Thomas Richter likes to thank the Graduate School of Social Sciences (GSSS), University of Bremen, for a financial contribution.

This finding is surprising given previously stated expectations in line with the liberal paradigm that Egypt's economic liberalisation and structural adjustment would lead to a reduction of the Rentier character of its economy. As an outcome of prescribed liberalisation policies, one would rather expect a sustainable economic growth and lasting structural change by upgrading traditional economic sectors and infant industries than the rise of tourism.[2] Thus, this paper seeks to answer the question whether economic liberalisation in Rentier states really implies the potential of substituting foreign rents with domestic non-rent revenues leading to a general reduction of the Rentier character of its domestic economy.

Since empirical surveys on the sectoral transformations of neo-patrimonial Rentier states do hardly exist, we use the case of Egypt in order to explore the rise of tourism in this context. Through a combination of tourism studies with the Rentier state approach, this paper uncovers more insights than conventional theories would predict regarding the modes of sectoral transformations in neo-patrimonial Rentier states[3] following recurring crises of rent revenues. We argue that there is overwhelming evidence that the political decisions to expand the tourism sector in Egypt were not primarily driven by economic needs, but instead have deep roots in the neo-patrimonial structure of the country, which they aimed to stabilise. Therefore, analysing the case of Egypt challenges the conventional policy prescriptions of foreign donors and multilateral organisations, which are identified in market liberalisation and deregulation as the silver bullet of a transformation of Rentier into market economies representing the text-book pathway of late-late development.

2. Methodology, Case Selection and Data

Methodologically speaking, Egypt is used as a heuristic case in order to explore the reasons for the relative rise of the tourism sector over the last three decades. This kind of theory building research 'inductively identif[ies] new variables, hypotheses, causal mechanisms, and causal paths' (George/Bennett 2005: 75). Egypt has been chosen as a case due to three main reasons: 1. Even though Egypt lacks the degree of oil-dependency of Rentier states in the Arab Gulf, it controls a significant amount of oil and natural gas exports, and was, therefore, directly hit by the decline of world oil prices during the 1980s. 2. Egypt is still among

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2 For a general perspective on how market liberalisation and structural adjustment may lead to economic growth cf. Balassa (1982) and Krueger (1990). 1991's as well as 1996's World Development Reports are key to donors' understandings of how economic liberalisation and structural adjustment connect to economic development (World Bank 1991, 1996). Cf. Roe/Roy/Sengupta (1989) for a more regional perspective and especially Korayem (1997) for the Egyptian case. The central goal of the Egyptian program of economic liberalisation and structural adjustment during the 1990s has been summarized by the IMF-staff as follows: 'The primary objective of the program is to create, over the medium term, a decentralized market-based, outward-oriented economy where private sector activity will be encouraged by a free, competitive, and stable environment, with a scaled down public sector operating in the same competitive environment with autonomy from government intervention (…) The program aims at a steady recovery of economic growth" (IMF Archives 1991: 8-9).

3 Cf. Bill/Springborg (2000) and Kassem (2004) for the concept of neopatrimonialism and Beblawi/Luciani (1987) for the Rentier state.

the most influential Arab states, with the most populous and second largest economy after Saudi Arabia. 3. Egypt was the second Arab state after Tunisia proclaiming its will to overcome failures of import-substituting industrialisation at the beginning of the 1970s by embarking on a strategy of economic opening (Infitah).

Our findings derive from fieldwork in Egypt and an extensive study of documents released by the *International Monetary Fund* (IMF). Fieldwork was carried out between 2003 and 2005, and consisted of more than 30 interviews with experts from the tourism industry and governmental bodies in Egypt. Interview subjects included hotel investors, bankers, consultants, regional and national management staff of national and transnational hotel chains, regional managers of incoming agencies, higher representatives of the administration and politicians such as the minister of tourism. Fieldwork was complemented by extensive research of original IMF documents between the period of 1973 and 2000. A circular qualitative content analysis (Strauss/Corbin 1990) has been conducted, and results complemented and cross-checked using official data released by the Egyptian government, the *World Bank* (WB) and the IMF.

3. Theoretical Framework: Rentier State Theory and Tourism Development

3.1. Tourism and the Rentier State: Main Shortcomings in the Literature

According to Bianchi, tourism studies are not yet a discrete field of inquiry in political economy; neither has been the latter a vital field of analysis in tourism studies. Existing studies on the relationship between tourism and the political economy use either neo-Marxian dependency theory (Britton 1982: 331-358) or neo-classical informed approaches (Brohman 1996: 48-70). Both perspectives stress external relations over internal problems (Wall 1997: 36). Therefore, they are primarily useful in providing analytical perspectives about external structural conditions, but essentially ignore local socio-political and economic circumstances. Bianchi accentuates this deficit by stating: ‘What many of these (…) political economy analyses of international tourism had in common was their overly generalised view of macro-structural processes (…) whilst crucial aspects of local/regional economic development were certainly overlooked and under-theorised’ (Bianchi 2004: 271). In summary, the ‘role of the state in tourism has been sadly neglected’ (Hall 1998: 199) and local conditions of power structures still capture a subordinate role. Recent empirical studies on the Middle East and North Africa (MENA) region focus on the relationship between tourism and political violence or on tourism and the increasing degree of globalisation rather than concentrating on the relationship between the development of tourism and the political economy within the countries of the region (for instance, Aziz 1995, Wahab1996a and Al-Hamarneh/Steiner 2004). One of the few exceptions in this respect is provided by Hazbun. His study contextualises the political economy of tourism in the Middle East within a framework of globalisation and reterritorialisation as used in economic geography. Although he states that ‘within the fields of political science and international political economy [tourism] remains highly under-theorised' (Hazbun 2004), he unfortunately says little about the distinct relationship between Middle Eastern political systems and tourism development. Another study written by Wahab on Egypt (1996b) covers aspects of the country's institutional setting and the planning process of tourism development. However, he only slightly points to the linkages between tourism development and the political economy of the region. One of the most promising efforts how tourism development can be analysed in a general framework of national political economies is represented by the work of Matthew Gray (Gray 1997, Gray 1998 and Gray 2000). He locates tourism development within the framework of economic reform and privatisation. Even though he descriptively identifies common patterns over time and across countries in North Africa, he does not embed them within a theoretical framework of specific political systems and their economies. To sum up, tourism development has been rarely linked to the more general logic of specific national political economies.

There is a second major deficit in the literature concerning the intersection of tourism development and political economy. Soon after the publication of Beblawi and Luciani's *Rentier State*, rents became recognised as an unquestionable part of the political economy of the MENA region (Beblawi/Luciani 1987, Pawelka 1993 and Richards/Waterbury 1996). Since that time, Rentier state theory has systematically linked the polity (structure), the politics (process) and the policy (outcome) of a political system to its income base. In addition to that, the approach has blamed oil rent dependency as the stumbling block of any sustainable economic development (Karl 1997). Indeed, as Waldner has pointed out, 'the theory of the Rentier state, has itself become a staple of political-economic analysis, crossing over into other regional literatures and into the public sphere' (Waldner 2003: 2). Considering that Rentier state theory has become one of the rare examples, where a conceptual approach originating in Third World studies has been utilised by a general social science literature[4] it is surprising to state, that it has not yet played a role within tourism studies at all.

Despite its relative success as an analytical approach, Rentier state theory lacks a conceptual avenue of how rent saturated economic structures are managed by state policies following a sharp decline of rent revenues. Even though a large body of literature exists on economic liberalisation in the MENA,[5] there is mostly speculation regarding how the development of rent-prone economies has been managed by state authorities and whether economic liberalisation has induced lasting economic growth overcoming the Rentier character of national economies. Furthermore, facing the recent success of tourism development in the MENA region, it is even more astonishing that no attempts have been made to combine tourism studies with the analysis of sectoral transformations in Rentier states.

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4 Rentier state theory has for instance become a prominent explanation for the lack of democratization and the survival of authoritarian regimes (Cf. Ross 2001 and Smith 2004).

5 Some of the most informed works on the determinants of economic policy making under scarcity in Rentier states stem from Chaudhry (1994 and 1997). For general accounts on economic liberalisation see for instance the two volumes of Barkey (1992) and Harik & Sullivan (1992).

3.2. Defining the Tool Box: Revenues, Rents and Tourism Income

Since rents are, by definition, a surplus higher than the minimum that the receiver would have accepted given alternative opportunities (Cf. Buchanan 1980: 3), they typically do not originate from investment or labour – in the capitalistic sense of the word –, but are generated as the result of natural advantages and organisational skills (Beck/Schlumberger 1999, Beck 2003: 17, Richter 2007: 180). As rents are not a result of complex forms of organising capitalistic production, rents do not have to be reinvested into the production process. Consequently, they are at the free disposal of the state, can be allocated by purely political terms and are most often used without considering long-term economic needs.

Any economic activity involving the use of natural resources such as minerals or the agricultural use of land may involve what Karl Marx has called absolute rent (*Grundrente*). Absolute rents indicate the basic level of earnings of agricultural production or mineral exploration minus the investment costs and a certain level of surplus. 'As part of the capitalistic mode of production, the owner of property gains a surplus of value independent of labour cost and average profit rate' (Schmid 1991: 8). As a rule, the higher the demand for agricultural or mineral goods and the less their supply or (known) deposits, the higher the degree of absolute rent.[6] In addition, absolute rent can be complemented by differential rents (*Differentialrente*). This amount of income originates from land of higher-than-average productivity or mineral deposits with lower-than-average exploration costs, not including any return on additional capital invested in improving the land or the exploration (Schmid 1991: 10).

From this perspective, there are six different types of resources important in an Egyptian context, which all contain absolute and/or differential rents (Richter 2007):

1. Raw material rents, which stem from selling raw materials on world markets like oil or natural gas
2. Location rents generated by major transportation facilities or traffic routes like the Suez Canal or the SUMED-pipeline
3. Strategic rents including grants and soft loans directly given to a country's budget as military and budgetary aid
4. Political rents such as donations to government institutions and other actors for the sake of human dignity or developmental reasons
5. Workers' remittances, which are resources generated in countries with higher average wages belonging to mainly private actors and flow into domestic financial systems, but are partially absorbed by the state through taxes and duties.
6. Tourism revenues.

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6 More precisely and in contrast to Karl Marx, who only speaks of private property owners in terms of absolute rents, it is the external and internal sovereignty of the state, which explains the monopoly of governmental institutions over the cultural heritage of for instance Egypt. Seeing it this way, it was the state who has captured his own monopolistic access on this lucrative source of income.

Theoretically, all of these rents can be acquired by the state and purposely redistributed according to political criteria. Even from an empirical perspective, the state's capacity to dispose these rents may differ depending on the social context where the rent arises from[7] The first five types of rents are well established in the literature, while tourism revenues are hardly known to be a source of rent income. Therefore, it seems necessary to explain why it is appropriate to partially classify tourism revenues as rents.

Analogously to agriculture and minerals, tourism is extensively based on the use of land and natural endowments, and therefore contains absolute rent. The tourism of historical, religious and natural wonders, for instance, '(…) is less substitutable than resort tourism and, therefore, less sensitive to price differentials. It is possible that a particular asset may engender (…) a rent, which will yield an additional premium on all prices simply because of the intensity of tourist demand to visit that particular asset' (Gray 1982:109-110).[8] In addition, tourism revenues also contain differential rents, since the production of tourism services supplied on world markets can be heavily influenced by states' policies affecting the factor costs of land, labour and investment. First, states are able to support tourism development by providing cheap land, credit and infrastructure, leading to higher-than-average productivity of investments. Second, manipulating local currencies, such as by selective devaluation, leads to the absorption of higher-than-average amounts of tourists due to the price-elasticity of tourist demand, thus creating higher amounts of differential rents. We explain below how these differential rents have been created in the case of Egypt.

3.3. A Framework of Sectoral Transformation in Rentier States

From a conventional perspective, policy reforms using prescriptions of the Washington consensus shall induce successful late-late development by liberalising foreign trade, exchange rates and prices as well as cutting state subsidies (Balassa 1982, Krueger 1990, Williamson 1990, World Bank 1991, 1996). In Egypt, an unsustainable growth path persists, even though efforts have been made towards economic liberalisation and structural adjustment during the last two decades or so (FEMISE Coordinators 2004: 1-2). Economists and social scientists specialising in the economic development of the MENA struggle to explain this outcome. Two different but interrelated sets of arguments predominate. First, researchers claim that Egypt's liberal reforms did not proceed far enough. Even though reform programs have been formulated and agreed upon, implementation has been rather fragmentary (Abed/Davoodi 2003, World Bank 2001: 81 and Subramanian 1997: 61). Second, others claim that institutional and social constraints (e.g., bad governance) as well as low degrees of hu-

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7 It is generally unexplored, why the degree of disposability of rents by the state differs across types of rents. It is also univestigated how the same type of rent may flow into state coffers trough different mechanisms. In Egypt for instance, oil revenues take two different paths into the treasury: first, via tax revenues, as corporate tax, and second via non-tax revenues, as profits and surpluses of state owned companies. Cf. for a first summary and some more details (Richter 2007).

8 Since there is only one narrow space where for instance the Pyramids stand, Egypt enjoys a natural monopoly in this respect. Achieving very high prices for entry-tickets or hotel rooms next to this place becomes an easy exercise. This will not be accomplished at a comparable place without such a unique selling point.

man development have hindered the economic success of liberalisation (UNDP/Arab Fund for Economic and Social Development 2002 and El-Mikawy/Handoussa 2002). However, both arguments pointing to the deficiencies of development programs from different theoretical perspectives are unable to describe some of the real sectoral transformations, which have been taking place in Egypt during the last three decades. Empirically speaking, demanding more liberal reforms or complaining of bad governance both ignore to explain the relative rise of the Egyptian tourism sector.

As shown in Table 1 we assume that Rentier states can use two different ideal-typ sets of political strategies following fiscal crises situations. First, strategies of stabilising and/or intensifying the flow of external revenues are policies, which aim to continue to use rents as main revenues of the state. These strategies basically attempt to broaden the universe of rents available to the state. Since most of rents are of external origin state policies thus are externally oriented. We call these strategies 'external rent diversification policies.' Second, strategies of substituting external rent inflows by domestic income are policies, which aim to reform internal modes of rule-making, economic governance and policy implementation. These strategies lead to the structural transformation of the national economy. We refer to these strategies as 'internal development policies' (Schmid/Pawelka 1990). In this sense, internal development policies represent a possible successful late-late development away from the reproduction of a Rentier economy, whereas rent diversification policies lead to the maintenance of this status quo. Even though this classification of different strategies of sectoral transformations might be rough and incomplete, it enables a first deductive heuristic of how economic governance has influenced the sectoral performance within rent shaped economies following a fiscal crisis of the state.

Table 1: Rentier States' Two Political Strategies under Fiscal Scarcity

Rentier states' political strategies under fiscal scarcity		
Political Strategies	external rent diversification policies	internal development policies
Modes of Governance	external (e.g. bi- or multilateral agreements, external borrowing, war)	internal (e.g. restructuring of the economy, implementation of new laws, internal borrowing)
Outcome	maintenance of status quo	lasting late-late development

Source: Authors' compilation.

4. A Post-Revolutionary Political Economy of Egypt

Egypt became the prototype of Arab socialism in the 1950s and 1960s. During that time, the state invented a complex system of economic governance containing fixed domestic prices and foreign exchange rates, large amounts of subsidies, and a state-led program of investment and import substitution. During that first period, fiscal crisis were overcome primarily by streamlining existing economic regulations (Pawelka 1985 and Weiss/Wurzel 1998). Anwar al-Sadat, who took the presidency after Nasser's death in 1970 stimulated relations with the West, introducing a new policy of economic opening (Infitah). In short, in reaction to a second post-war fiscal crisis, the Egyptian government employed an economic opening, even though many of the previously know structural characteristics (e.g. state owned enterprises, state planned investment, state determined prices and fixed foreign exchange rates) remained untouched. In this regard, these second round of reforms rationalised rather than threatened the structure of state domination.

After renewed pressures in the balance of payments starting in 1976 (IMF Archives 1977: 15), the economic opening was enforced, at least orally, in order to win more Western and Arab investment. Conversely, negotiations with the IMF, Western and Arab governments over fiscal bi- and multilateral support were initiated. Under increasing pressure to reduce budget deficits and in order to prepare an agreement with the IMF, the government decided to drastically increase the price of subsidised foods. Riots broke out immediately, only hours after the new prices were announced. Under increasing pressure from the street, the president rescinded all previous decisions. The following IMF stand-by arrangement was shaped by the previous social upheavals. Its attached softened conditions as well as additional money from the Arab Gulf, helped Egypt sustain fiscal balances without solving its structural problems (Adams 2000: 42). In addition, Egypt's own resource base was strengthened by increasing oil, tourism, the Suez Canal, and worker's remittance revenues as well as '[h]er international position vis-à-vis Israel meant that the United States had political reasons for providing economic support under certain circumstances' (Rivlin 1985: 181). In short, a third period of fiscal crisis during the mid1970s was overcome by maintaining external support without implementing structural economic reforms.

After the assassination of Anwar al-Sadat in 1981, the change to the presidency of Husni Mubarak did not lead to a significant change in Egypt's economic policy. Current account deficits did not increase again until the beginning of 1985. Previously granted loans by the Arab oil states became due, and oil prices, Suez Canal revenues and worker's remittances declined simultaneously. Egypt's response was two-fold. On the domestic front, only minor policy changes were implemented, mainly concerning the foreign exchange rate regime, while increasing deficits were covered by increasing foreign debt. On the international front, negotiations with the IMF were resumed, and a new stand-by arrangement was signed in 1987 after two years of negotiation. Simultaneously, Egypt finished negotiations with the Paris club of creditor nations, leading to the relief of the most immediate debt burden. Even though the conditionality of the IMF agreement was remarkably weak due to persistent American pressure, none of the policy changes agreed upon (consolidation of budget deficit, tax reform and trade liberalisation) were implemented by the Egyptians (Momani 2004). In the meantime, Egypt's fiscal deficits deteriorated again, and the country was obliged to negotiate another agreement with the IMF in 1991, which demanded a systematic change of economic governance according to the standards of the Washington consensus. Accompanied by a massive debt relief of 50 percent, Egypt undertook the most encompassing adjustment of its economy since the 1952 revolution. Liberalising trade, cutting subsidies, freeing of prices and privatisation of the public sector transformed from slogans into concrete policy changes (Cf. for this period especially Weiss/Wurzel 1998).

To summarise, Egypt was repeatedly under pressure to adjust its national economic governance due to recurring budget and balance of payments crisis. While costly armed conflicts destroyed the national auto-centric development during the Nasser period, post-1973' war reconstructions constrained Egypt's policy makers towards reintegration into world markets, causing the economic opening of the late 1970s. Following oil price revolutions, Egypt was able to conserve the main parts of its existing state-dominated economic policies. Falling oil revenues caused massive budget deficits as well as serious balance of payments crises during the early 1980s. Egypt's policy makers, however, were able to postpone broad liberalisation and structural adjustment until the early 1990s. Instead, the government opted for a gradual approach of cutting subsidies and public investment, freezing wages, accompanied by a partial and selective liberalisation. Since then and over the last fifteen years, the main aspects of economic policy have changed, moving Egypt's system of economic policies towards more liberal Western standards.

5. Tourism Development and the Rentier State

5.1. Governing Tourism: The Evolution of an Institutional Framework

After the revolution in 1952 and Nasser's shift towards Arab socialism, the Egyptian tourism industry was nationalised and the largest private hotels were expropriated. Only small-scale tourism companies remained in private hands. Nevertheless, the management of the largest hotels in the country was handed over to experienced international hotel chains like Hilton and Sheraton. In 1967, the *Ministry of Tourism* (MoT) was established as the main administrative authority dealing with the regulation of the tourism sector (Wahab1996b: 354 and Gray 1998: 98).

With the beginning of the Infitah, the regulatory and institutional framework governing the tourism sector started to be liberalised (see Table 2). In addition, authorities took specific measures to develop the tourism industry. Most of these efforts focused on the encouragement of private sector investment in hotels and other tourist facilities through tax exemptions and other incentives, improvement of existing facilities and services, upgrading the skill levels of tourist personnel, and a general improvement in the management of public sector tourist facilities (IMF Archives 1979: 17). In 1973, the government issued Laws No. 1 & 2, which prescribed responsibility for tourism operations in the hands of the MoT and the granting of numerous privileges for tourism companies. One year later, these privileges were expanded again with Law No. 43 of 1974. Consequently, Sadat's liberalisation policies encouraged some investment, and new foreign tourism companies began to enter the country, often operating as joint ventures with public firms (Gray 1998: 94).

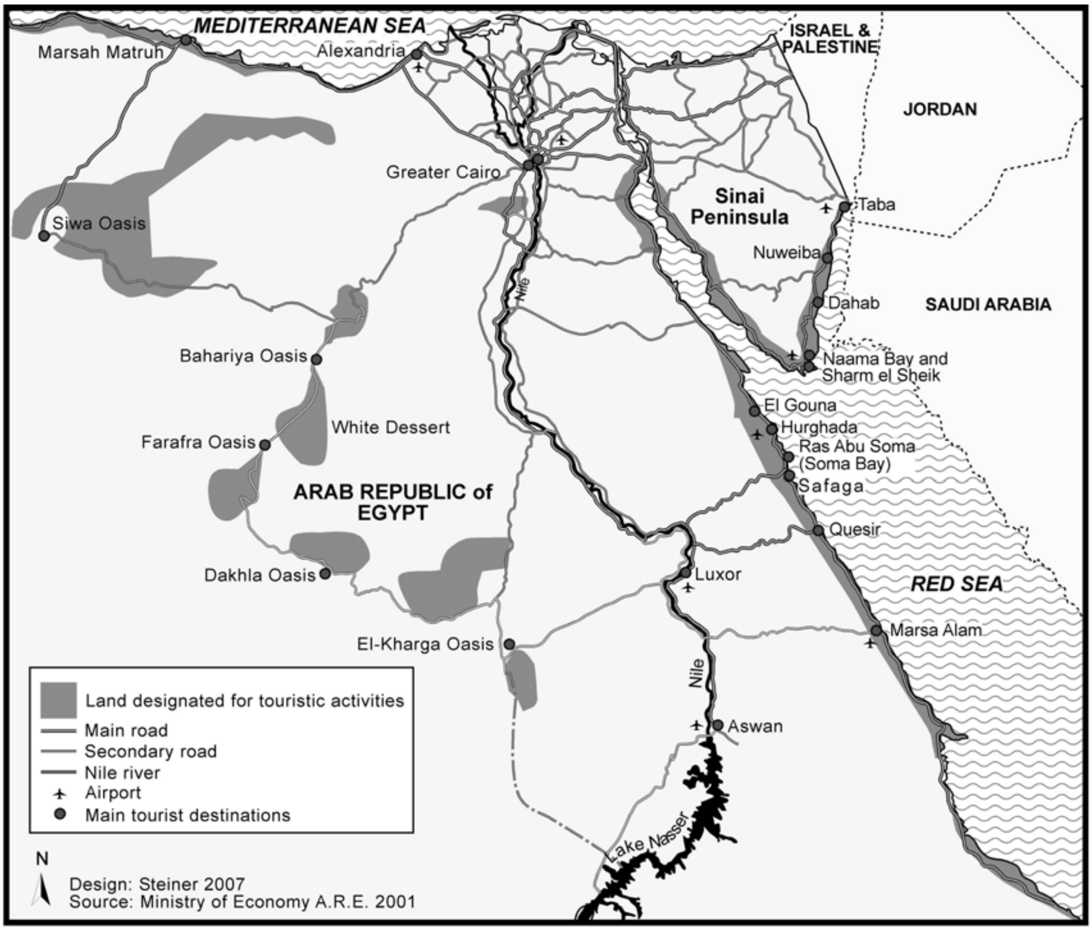
Table 2: The Institutional and Regulatory Framework of Tourism Development in Egypt

Year	Measure	Content
1971	*Law No. 65/1971*	First step of the Infitah politics. Introduction of Free-zones and granting of the possibility to build joint ventures with public companies for foreign investors.
1973	*Law No. 1/1973*	Overall competence for the management of the tourism sector is given to the Ministry of Tourism (MOT). Law no 1/1973 gives MOT full responsibility to regulate the sector. The new law grants tax exemptions for 5 years and the exemption from import duties for qualified tourism companies.
	Law No. 2/1973	Further powers are given to the MOT including the *exclusive* competence to designate areas for tourism development/expansion.
1974	*Law No. 43/1974*	Opening of the economy to foreign investors, who are allowed to invest as minor partner in joint ventures (majority of 51% has to be Egyptian). Projects under Law 43/1974 enjoy tax exemptions for a period of up to fifteen years. Admission of bank-joint-ventures. Guarantee of property rights for Egyptian land and for capital of foreign firms.
1977	*Law No. 32/1977*	Third, fundamental law of the Infitah. Granting foreign investors the right to repatriate profits and to withdraw freely their investment. Amendment of Law 43/1974 encourages domestic investment through legal equalisation of domestic with foreign capital concerning the Infitah-privileges.
1981	*Presidential decree No. 712/1981*	The MOT is provided with extended competences for tourism facilitation, research, development, industry control, tourism marketing, coordination and policy.
1982	*Five-year-plan, 1982-1987, div. ministerial decrees*	Implementation of five-year-plan fosters infrastructural development on the Sinai and on the Red Sea. Easing of regulations for foreign firms to manage and operate hotels. Liberalisation of airline rules.
1988	*Prime Ministerial decree No. 933*	The MOT receives the exclusive competence for the development planning and coordination of the provision of infrastructure in all areas designated as tourism zones.
1989	*Law No. 230/1989*	First *Investment Law* replaces regulations set by Law No. 43/1974; the new law allows for full foreign ownership in some economic sectors, including tourism, includes guarantees against expropriations and against the deprivation of operational licences for private companies are provided, but still maintains restrictions for foreign investments. Investments are promoted in desert areas where tax holidays for ten years are granted.
1991	*SAP*	Privatisation of public owned hotels and tourism companies is part of the agreement. Substantial privatisation does not take place.
	Law No. 7/1991	Establishment of the Tourism Development Authority (TDA). The TDA bundles the formerly fragmented responsibilities for the spatial planning of tourism development in Egypt. Generation of a comprehensive plan for tourism development, covering all coasts along the desert areas of the country.
1994	*Law No. 38/1994*	Foreign Exchange Law guaranteeing unrestricted repatriation of profits and capital, and protection of brand names and intellectual property.
1997	*Law No. 8/1997*	Second Investment Law simplifies the existing rules and regulations for the establishment of firms and 16 economic sectors are defined, which receive extraordinary legal and fiscal privileges including all kind of tourism businesses with defined minimum standards. Tourism companies established under law 8/1997 receive 20 years tax exemption and grant facilities of import regulation and tariffs.

Source: Authors' compilation based on Gray 1998; Steiner 2007; Wahab 1996b.

After coming into power, Mubarak immediately issued a presidential decree extending MoT's responsibilities. Nevertheless, the responsibility for the spatial tourism development planning remained fragmented (Wahab1996b: 356). In 1982, a five-year-plan was issued and later implemented that encouraged public and private infrastructural investment on the Sinai Peninsula and at the Red Sea coast. Previously, both areas had been closed for public use due to the Egyptian-Israeli conflict. While the Sinai was occupied by Israel, the shores of the Red Sea were a restricted military area assigned to the Egyptian armed forces. The retransfer of the Sinai to Egypt in 1981 offered the possibility to encourage tourism development in both areas. During the first years of Mubarak's rule, the dynamics of tourism development did not make significant progress in terms of increasing investments. It was not until the second wave of liberalising tourism regulations during the late 1980s that investment growth gathered momentum and the market involvement of major foreign hotel brands increased. The liberalisation of airline rules allowed charter flights to approach directly the new tourist areas on the Red Sea and thus created more demand for the new tourist facilities. This second wave of liberalisation paralleled intensified balance of payments problems. While entering into negotiations with the IMF in 1985, the Egyptian government was looking for alternative possibilities to improve the country's external economic position. Through Prime Ministerial decree No. 993 of 1988, the MoT received exclusive planning responsibility for tourism development and was granted the power to coordinate the provision of infrastructure in all areas designated for tourism development. Following these decisions, as shown by Figure 1, large zones next to the Western oasis and almost the complete North-Western coastal area, such as the shores of the Sinai and the Red Sea, were declared for use as tourism sites. Therefore, this prime-ministerial decree was an important attempt to push tourism development towards a new level. Law No. 230 of 1989, the following milestone, radically reshaped the legal and institutional environment for the tourism sector, fundamentally redesigning the conditions for investment within the country. All interviewed investors and local hotel managers emphasised these legal changes and agreed on their outstanding importance for the development of the industry. This law guarantees against expropriations and against the deprivation of operating licenses for private companies. Furthermore, capital invested in desert areas was given tax exemption for at least ten years. These new regulations were especially beneficial for the tourism industry, which concentrated its investments in the remote desert areas along the coastline. However, the takeoff for the investment boom did not begin until 1991, when the *Tourism Development Authority* (TDA) was established. The TDA took over the spatial planning duties for tourism development in Egypt from the MoT, and generated a comprehensive plan for tourism development with support from Arthur D. Little, an US-American consultant firm. Under the auspices of the TDA, the largest share of the Egyptian coastline that was not needed for settlements or industrial usage was divided into development sectors. The state provided basic infrastructural developments (roads and airports) and sold land to private investors. Therefore, the establishment of the TDA must be seen as the crucial step in Egyptian tourism policy during the past few decades. Its creation and subsequent planning enabled the tourism industry to take advantage of the changing legal economic environment after the gradual liberalisation in the late 1980s. While in the beginning mainly domestic investors took advantage of the new investment opportunities, the implementation of the Foreign Exchange Law No. 38 of 1994 facilitated investments for international investors. Furthermore, investments in tourist projects were again promoted three years later by Investment Law No. 8 of 1997. This law simplified the existing rules and regulations regarding the establishment of firms defining 16 economic sectors, which receive extraordinary legal and fiscal privileges.[9] Tourism companies established under law No. 8 of 1997 were granted 20 years of tax exemption and received concessions concerning import regulations and tariffs.

Figure 1: Master Plan of Land Designated for Tourism Development in Egypt



Source: Ministry of Economy A.R.E. 2001.

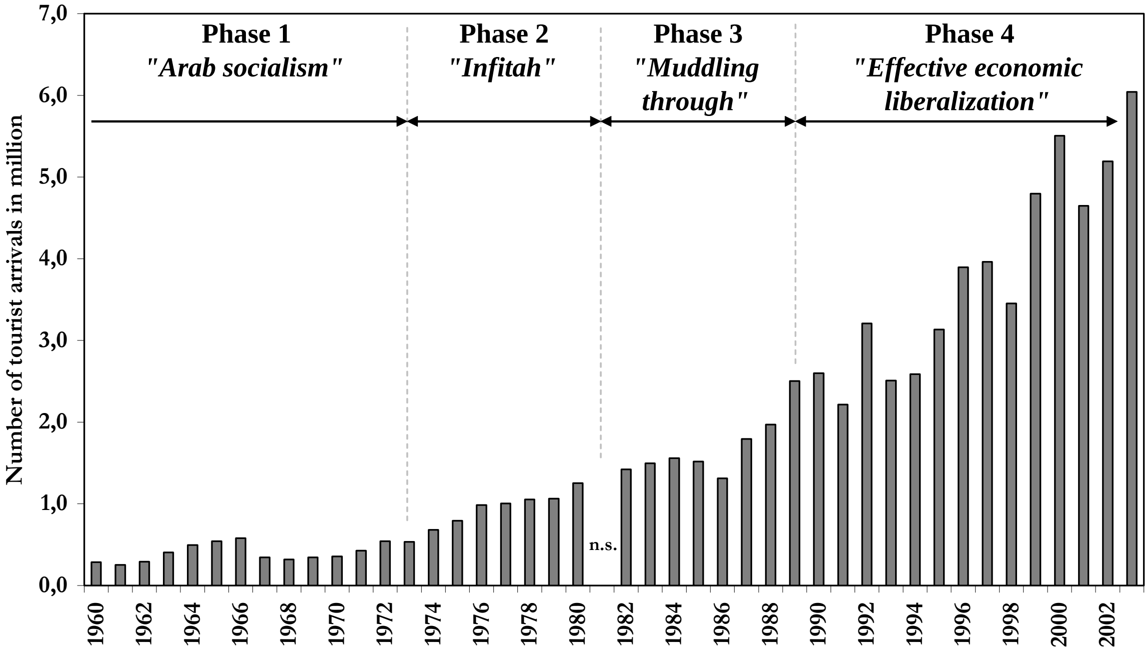
5.2. The Absolute and Relative Rise of the Tourism Sector

Linking the institutional evolution of tourism's governance structure with data about annual tourism arrivals allows us to distinguish between four main phases of tourism development in Egypt as illustrated in Figure 2. The first period of 'Arab socialism' covering the time from

[9] Among these 16 sectors were agricultural, industrial, mining and transport activities, real estate and infrastructure projects, the financial and IT-sector and all kind of tourism.

the revolution in 1952 until 1973 was constrained by a high degree of state regulation and a relatively constant level of less than 1 million tourist arrivals a year. Tourism sites were concentrated in the Nile valley, mainly covering the classical places of pre-revolutionary and colonial tourism.

Figure 2: Tourist Arrivals in Egypt, 1960-2003



Source: Authors' compilation based on Gray 1998; IMF Archives, various years.

The second period started with Sadat's 'Infitah' during which the number of incoming tourists transgressed the level of 1 million people for the first time in 1977. The Infitah period was characterised by the above-described reduction of state control as well as increasing private sector involvement, while tourism sites were still mainly concentrated on cultural tourism in the Nile Valley. Nevertheless, general investment in tourism remained selective until the end of the 1980s.[10]

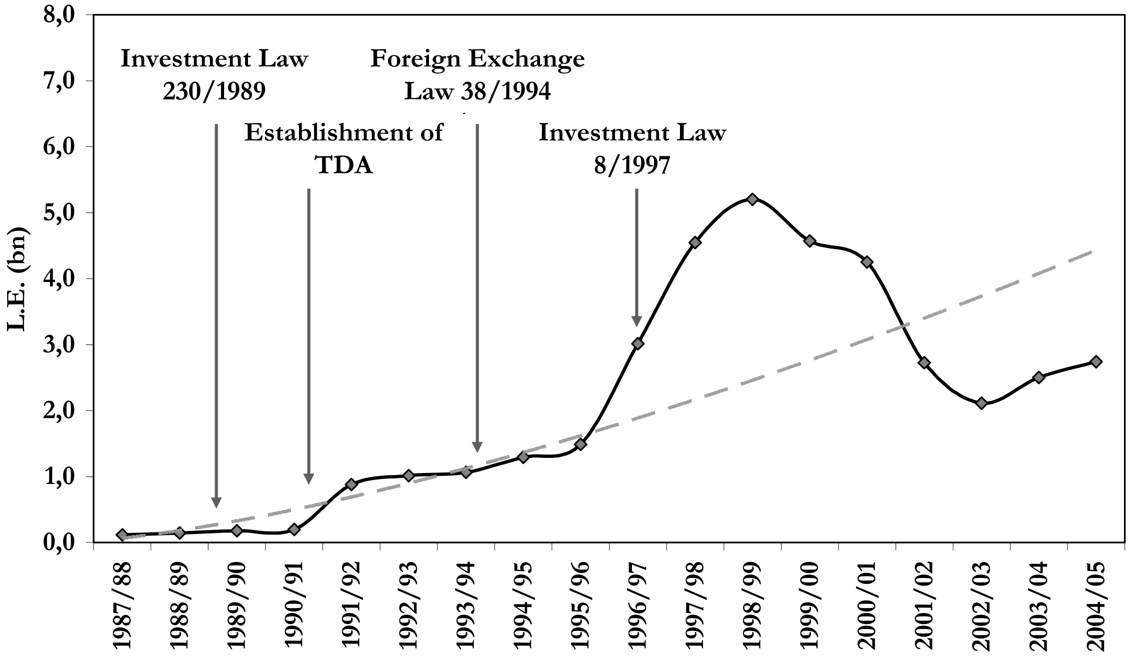
Beginning in 1981/82 and continuing until the close of the decade, a third period of tourism development can be characterised by what we call 'muddling through.' The number of tourist arrivals grew slightly but steadily due to an intensification of reforms of the operational structure of tourist companies and state-led efforts to develop remote areas, creating prototype tourism sites on the shores of the Sinai and the Red Sea, adding sun and sea resort-tourism to the tourism portfolio of the country.

The fourth period started in the late 1980s and continues until today. Roughly speaking, this period fits with the period of effective economic liberalisation. This phase is characterised by a strong expansion of tourism initiated by substantial investment incentives and the imple-

[10] IMF sources doe stress that tourism investment had risen dramatically compared to previous decades, but that the '(…) actual expansion of tourist facilities has lagged behind demand and the rise in tourist earnings continues to be hampered by inadequacy of facilities and services' (IMF Archives 1979: 17).

mentation of a coordinated spatial development strategy. Following the considerable improvement of the legal environment during the late 1980s and early 1990s, mostly private Egyptian investors generated an unparalleled investment boom in hotels and resorts. As indicated in Figure 3, the Investment Law 8/1997 was the ultimate turning point for this increase. Without the preceding regulatory change this strong growth of tourism facilities could not have taken place.

Figure 3: Annual Fixed Tourism Investment in Egypt, 1987-2004



Source: Authors' compilation based on Central Bank of Egypt, various years.

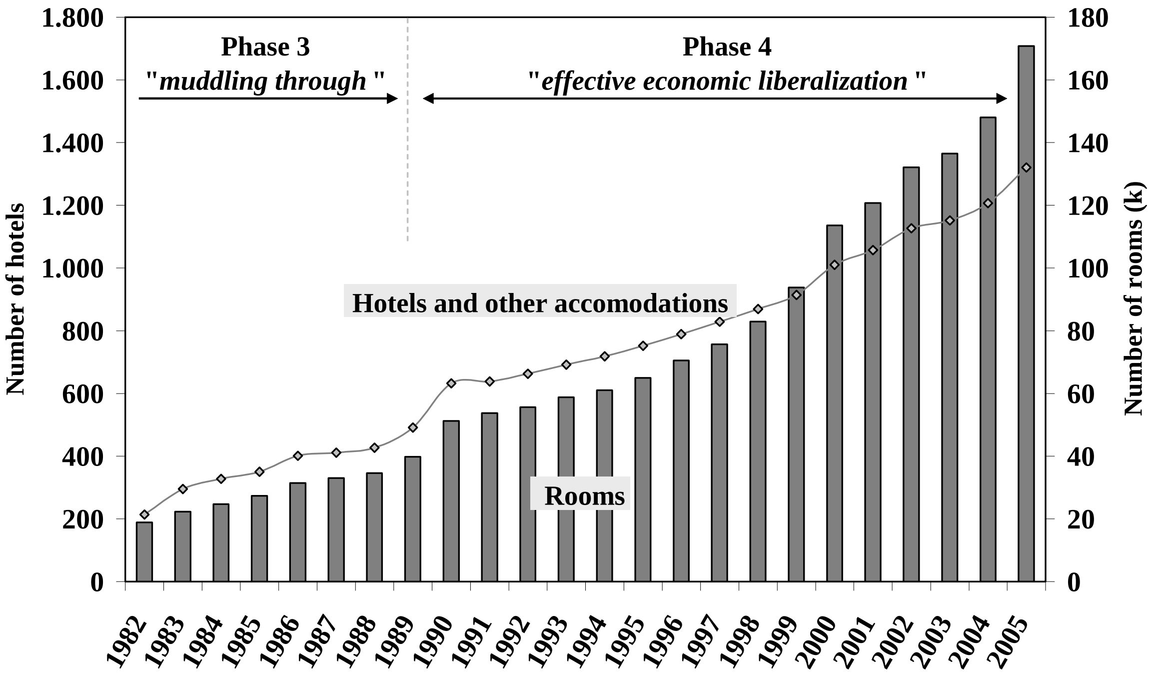
Investment was predominantly allocated in international mass tourism facilities on the shores of the Sinai and the Red Sea. From 1989 to 2005, the annual fixed investments in hotels increased from 144 million Egyptian Pounds (L.E.) in 1988/89 to L.E. 2.740 million in 2004/05, or about US$ 475 million.[11] Despite these impressive results, the government did not succeed in attracting foreign investment on the scale it intended to do. The vast majority of tourism investment in Egypt was of local origin. Less than 14 percent of the hotel investments in Egypt between 1990 and 2001 were financed by international investors. In addition, only one in eight of these investments originated in Europe and North America (Steiner 2007). Simultaneously to the growth of investment, the number of hotels increased from 491 to 1321, and the room capacity of Egypt's tourism sector grew from almost 40,000 to 170,000 (see Figure 4).

Parallel to the expansion of tourism facilities, Egypt was able to increase its international tourist arrivals tremendously. Even though visitor flows oscillated somewhat due to various

[11] The annual tourism investments already peaked in 1998/99 with L.E.5,203 billion. After the year 2000, investment decelerated due to the problems of the Egyptian banking sector and a temporary oversupply of hotel rooms.

incidents of violent political unrest within the country and the region throughout the 1990s, international tourist arrivals grew continuously, reaching more than 5.5 million in 2000. Due to the incidents of 9/11 and subsequent military engagements in Afghanistan and Iraq, the number of visitors declined in 2001 and 2002. In 2003, however, international arrivals exceeded again the number of six million. The latest data show an impressive success thereafter, with more than 8.6 million tourists visiting Egypt in 2004/05. Comparing these numbers with those of 1988, foreign tourists visiting Egypt have more than quadrupled.

Figure 4: Growth in Number of Hotel Rooms, Hotels and Other Accommodations in Egypt, 1982-2005

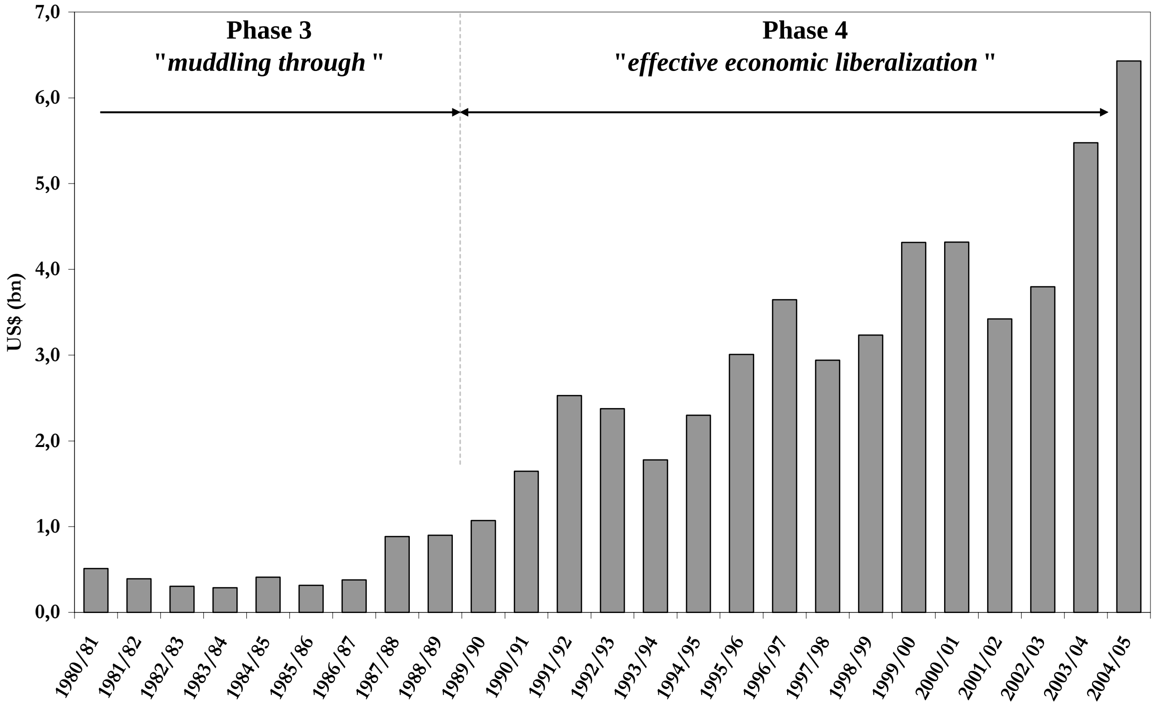


Source: Authors' compilation based on MoT, various years.

5.3. The Role of Tourism Revenues in the Egyptian Economy

As a consequence of the increasing international tourist arrivals, tourism's contribution to current account receipts has risen tremendously over time. As shown in Figure 5, in 1970/71, shortly before the Infitah started, tourism accounted for US$130 million of current account receipts. This amount grew to US$512 million in 1980/81. While tourism revenues at that time contributed five percent to total current account receipts, its share rose to 7 percent in 1990/91, and accounted for 19 percent in 2000/01. During the same period, official transfers, mainly containing bilateral grants, diminished from 19 percent to less than four percent. The share of oil and gas revenues decreased from 18 to 12 percent (Arab Republic of Egypt 2001:13 and 1999: 13). In 2004/05, tourism receipts in the current account amounted to US$6.4 billion. With this development, tourism became the most important source of foreign exchange income for the Egyptian economy.

Figure 5: Tourism Receipts in the Egyptian Current Account, 1980/81-2004/05

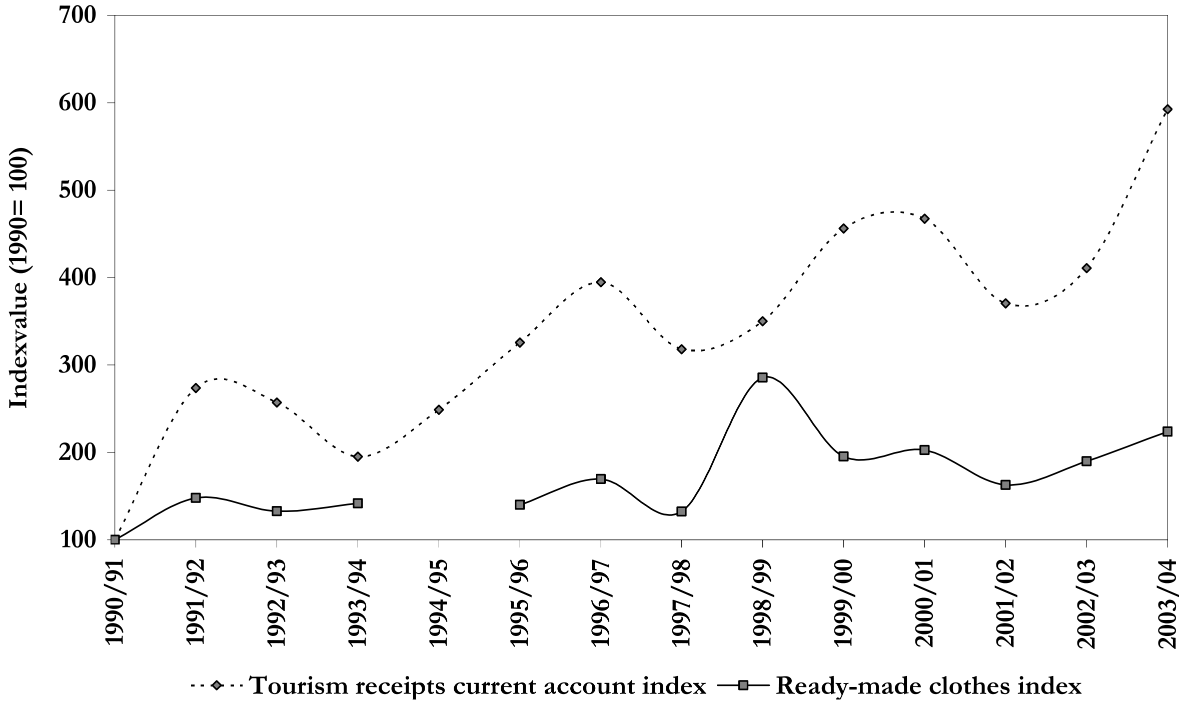


Source: Authors' compilation based on Central Bank of Egypt, various years; IMF Archives, various years.

Comparing growth rates of tourism revenues with those of other economic sectors shows that traditional industries did not experience the same growth as tourism. Even the textile industry, one of the oldest, strongest and most internationally competitive industrial sectors, was not able to realise a similar strong growth of foreign exchange earnings during the last 15 years. As Figure 6 demonstrates, export revenues from ready-made garments increased up to 223 percent since 1990/91, whereas tourism revenues achieved a 592 percent growth during the same period.

Tourism revenues do not only help to offset the constant deficit in the Egyptian trade balance they also influence GDP, tax earnings and indirectly help to cover government's budget deficits. The official Egyptian statistics show a 3.5 percent contribution of the tourism industry to the GDP in 2004/05 (Central Bank of Egypt 2006). Since these statistics only count hotel and restaurant revenues as tourism expenditures, tourism's real influence is systematically underestimated. The official data for instance ignore tourists' spending on souvenirs, entrance fees, transportation and other tourism services (Mihalič 2004:94-95). As estimations have shown, the total direct effects of tourism might be two and a half times higher than official statistics suggest, such that tourisms total contribution to GDP came close to US$16.3 billion in 2004/05. In addition, indirect and induced effects multiply the direct effect by an estimated factor of 2.6 (Tohamy/Swinscoe 2000:17). In short, economic activities induced by tourism may easily add up to more than US$40 billion per year, while the whole GDP of Egypt accounts for roughly US$82 billion in 2003/04 (World Bank 2004).

Figure 6: Growth of Revenues from Tourism and Ready-Made Clothes Exports in the Egyptian Current Account, 1990/91-2003/04



Source: Authors' compilation based on MoT, various years; IMF Archives various years.

In 1996, tourism contributed about L.E. 1.9 billion to income tax revenues, this makes up for about 13 percent of the total tax revenues (authors' calculation based on Tohamy/Swinscoe 2000 and IMF archives, various issues). Egypt's public budget has been afflicted by a permanent deficit ever since valid data became available. This deficit was financed through three different sources during the last three decades: a) savings of the domestic social insurance fund (SIF) via the National Investment Bank (NIB),[12] b) domestic and c) foreign lending. Overall, most budget deficits of the past, especially during the economic liberalisation and structural adjustment period of the 1990s, were financed from domestic sources. Over the last fifteen years, the Central Bank, the National Investment Bank (NIB), and the, at that time, four state-owned banks[13] have routinely lent money to the government, or bought government-issued treasury bills (Abdel-Khalek 2000, Abdel-Razek 2003 and Alba et al. 2004). Egypt's banking system is thus of prime importance for supplying the government with the cash it needs. Under conditions of low domestic saving rates but growing government lending via treasury bills[14] it becomes important, how and to what degree the domestic

12 The SIFs are social security schemes entirely funded by the reserves and contributions of employees. The practice of using SIF resources to cover budget deficits seems to have been widespread for some years. Because SIF revenues are invested almost exclusively in government and National Investment Bank liabilities, the government will have to finance these paybacks from its own resources or with further loans in the future (Alba et al. 2004, 8).

13 These were the Banque du Caire, Bank Misr, the National Bank of Egypt, and the Bank of Alexandria.

14 The bulk of treasury bills in the late 1990s, about 80%, was held by the domestic commercial banks (IMF Archives 1997: 54).

banking sector can provide the necessary liquidity to fill this demand. It is unlikely that local banks could have met the increasing need for domestic government loans (resulting from the public deficit) without migrant workers' remittances from abroad and without revenues from tourism. Even though there is no direct prove to this relationship, we use balance of payment date in order to assess this link on a macro level. Egypt's trade balance remains negative even if oil and gas exports are included. Imports have exceeded exports ever since detailed data have been available. The negative trade balance is only partially offset by private and public transfers (including workers' remittances and Official Development Assistance). Services receipts, however, which include most importantly Suez Canal and tourism revenues, have helped to diminish the current account deficit and in many years even turning the deficit into a surplus (FEMISE Coordinators 2004: 215, IMF archives, various issues).
In summary, the Egyptian BoP has heavily relied on the influx of foreign exchange earnings generated by tourism for counter-balancing the trade deficit and capital flight during the last few decades. Even though there is no direct link between financing the Egyptian budget and tourism current account revenues – aside from tax revenues –, it seems safe to say that without tourism revenues, the state could not have financed its budget deficit through domestic borrowing for so many years; instead, large cuts in the vast public expenditures would have been likely, eventually followed by increasing social instability.[15]

5.4. Rents and Private Investment

As we have argued above, there are good reasons to believe that large parts of tourism revenues are rents. Absolute rent is formed by the existence of historical wonders, while differential rent is created by a state's decision to lower the factor costs of a given product relative to the factor costs in other states. Through exploiting the attraction and uniqueness of its ancient cultural heritage in the Nile valley, Egypt was and is able to generate tourism revenues as absolute rents. Visitors of the Pyramids in Giza, or the temples and tombs of Upper Egypt are willing to pay higher than average prices to see these 'once-in-a-lifetime' sights since Thomas Cook invented package tours bringing Europeans to Egypt in 1869. In contrast, the enormous generation of differential rents in tourism is a rather modern phenomenon. There are two empirical observations that lead us to believe that especially during the boom years of resort development on the shores of the Red Sea and on the Sinai Peninsula in the early 1990s, the Egyptian state created an institutional environment conducive to the generation of massive amounts of differential rents.
First, during the early 1990s, the TDA sold land in remote coastal areas at a price of one dollar per square metre to private investors. This price was not only far below average land costs in the Northern Mediterranean, but even lower than the local market price. This land,

[15] Even though it remains an open question to what precise degree tourism rents are acquired by the Egyptian state in order to cover budget deficits, we believe that available data and the presented arguments provide enough evidence to assume that the state acquires tourism rents in order to cover his budget deficits. We hope that in the future others may follow our suggestion in researching how and to what degree the Egyptian state has precisely tried and was able to dispose tourism rents effectively.

which was previously valueless desert soil, became an asset after the government made the decision to change its status into a developmental area. As the government did not take the opportunity to siphon this increase in value by its own, this government action provided private Egyptian investors with huge assets. Land declared as a tourism development area exceeded its original price of one dollar by more than hundred percent immediately after signing contracts with the TDA. Interviewees characterised this process as a complex interaction between state authorities and private actors. Accordingly, Egyptian banks accepted land titles as guarantees for providing loans to investors, calculating a value of at least US$100 per square metre. Consequently, the prospect of buying 100,000 square meters of land at a price of US$100,000 provided investors with a liquidity of almost US$10 million overnight. The money was then predominately invested in building standard hotels on the previously bought soil.

Second, as many managers of the tourism industry have indicated, return on investments in the tourism sector has been extremely high compared to returns in the traditional sectors of the economy. During periods without major incidents of violent unrest, new hotel projects were able to pay for themselves within only two years. Investments entering the market in times of turmoil were able to realise their return on investment in six to eight years. Taken together, returns on investments in the Egyptian tourism sector yield annual profits between 2500 and 1000 percent given a construction phase of about 48 months. Managers interviewed by the authors noted that tourism investments in Egypt hardly implied any risk during the 1990s. As a four or five stars hotel only needs an occupancy rate of about 30 percent to cover its operational expenses every additional visitor contributes to the return on investment. Even in times of severe terror attacks, like in 1997 after the Luxor incident, or interstate wars within the region, the average occupancy rate never fell below the level of 30 percent for more than a few weeks.

As these two observations demonstrate, the Egyptian state has created a structure, which produced huge amounts of differential rents that has been earned by investing in tourism. Egypt's private elite has taken advantage of this structure in particular (Sowers 2003: 221-223). These extraordinarily high levels of profits explain why so many investors have spent their money in tourism and have abstained from investing it in other sectors of the Egyptian economy, and therefore an upgrading of traditional economic sectors and infant industries did not take place as has been expected.

6. Conclusion

Tourism development in Egypt has taken place in four steps since the 1952 revolution. After the nationalisation of the industry under Nasser, the tourism sector was slightly liberalised under Sadat's 'Infitah' policy after 1973. Following Sadat's assassination, most of Egypt's traditional external rent sources became extremely volatile. In this situation, the Mubarak government was looking for alternative sources to generate income and growth, to offset its trade deficit and to offer new rents to stabilise its neo-patrimonial system of power. At this point, formerly inaccessible coastal areas were made available for tourism development. During the late 1980s and early 1990s, there was no other economic sector, which promised a comparable potential for the generation of foreign exchange earnings at an affordable political price. The political decisions in favour of promoting tourism development and the accompanying extraordinary changes of the regulatory and institutional framework have been a result of cost-benefit calculations by the political core. Tourism development's advantage was that it did not require substantial structural reforms and was therefore less costly than reforming, de-monopolising and expanding other economic sectors. Restructuring of the public and labour intensive parts of the Egyptian economy would have lead to large layoffs, which may have undermined the stability of Egypt's authoritarian regime. In addition, private domestic investors heavily invested in tourism lured by extremely quick returns on investment. Consequently, tourism development accelerated and eventually became the single most important source of foreign exchange earnings during the 1990s.

Briefly, Egypt's tourism development emerged out of the coincidence of two main factors: First, the cost-benefit calculations of a neo-patrimonial Rentier state intended to avoid more costly alternative policy choices, and second, the rational motivation of segments of the Egyptian bourgeoisie to gain the highest available profit from their own investments. Thus, tourism development has assisted in preserving the existing neo-patrimonial system of power in a twofold way. First, it provided the Egyptian economy and its domestic financial system with the highly needed foreign exchange to balance trade and current account deficits. Therefore, the increasing need of domestic lending by the Egyptian government to finance its budget deficits became possible and main public mechanisms of material distributions could be maintained (Richter 2007). Second, tourism development in Egypt is an example where more traditional direct distributions of rents toward the country's private elite have been substituted with the generation and allocation of new more indirect rent sources.

In addition to that, the case of Egypt helps to understand how and why sectoral transformations in neo-patrimonial Rentier states have taken place the way they did. In contrast to the prescriptions of the liberal paradigm, it seems that gradual liberalisation motivated by the need to attract foreign and domestic private investment has not led to a reduction of the Rentier-character of the Egyptian economy. Quite the opposite, economic liberalisation has caused skewed investments in favour of sectors where rents do prevail. In Egypt, the traditional and labour intensive economic sectors were not updated or expanded, but a new sector instead gained major influence.

This leads us to conclude that neither pure 'external rent diversification policies' such as externally oriented strategies stabilising or intensifying the inflow of external rent revenues, nor mere 'internal development strategies' such as domestically oriented policies substituting external rents with domestic revenues have been used by the Egyptian state in order to overcome fiscal scarcity and balance of payments problems. Instead, the success of tourism development can be interpreted as the result of a political strategy generating new external rents by changing modes of internal governance, not substituting external rents with domestic revenues, but instead substituting one type of external rent with another type of external rent by changing domestic policies.

To sum up, the analysis of the Egyptian case also points to the continuation of autonomous latitudes by national and local actors under increasing constraints due to globalisation, and highlights the necessity of a more empirically informed and inductively organised way of building theories of sectoral transformations in developing countries. Instead of trying to understand these processes by applying Western type macroeconomic heuristics, it seems more appropriate to use theory-informed fieldwork in addition to established paradigms to build a more comprehensive understanding of economic developments in major parts of our contemporary world.

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