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ECONOMIC LIBERALIZATION IN EGYPT: COALITION CYCLE ANALYSIS AND MARKETING IMPLICATIONS

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Introduction

The identification and study of potential foreign markets involves careful evaluation of governmental policies towards business in addition to consideration of market size, economic growth and stability, and other factors. While appraisals of individual markets are useful to marketing managers, also valuable are particular approaches to market analysis that are applicable across countries and time. A political economy approach might relate the socio-political system of a country to the level of economic development (Arndt, 1981). Gillespie's (1984) particular approach uses a conceptual framework of the relationships between three interest groups: foreign investors, government, and local investors. Gillespie identifies a "coalition cycle" as various bipartite coalitions among these three interest groups form and dissolve over time. The changing power of interest groups relative to others in a country can affect the permitted ways of doing business there.

In international marketing planning it is not sufficient to know about the relevant existing governmental policies in a particular country. In order to assess possible future policies it is vital for managers to understand the policy-making process and the roles of interest groups in that process. Foreign markets, because of their foreign character, tend to be perceived as more complex and uncertain by managers. Thus, the implementation of systematic methods of market analysis is even more important for these markets.

The country of study in this paper is Egypt. According to Jabber (1986), nowhere are politics and economics more intertwined than in present day Egypt. An analysis of Egypt will demonstrate how the control systems over foreign investment and trade, and private local investment there have responded to the demands of the country's political interest groups and the record of economic development. The paper is organized as follows. First, the explanation of

Gillespie's coalition cycle is illustrated briefly by the evolution of Sadat's economic liberalization of Egypt. Then, an in-depth discussion of the coalition cycle during Mubarak's presidency includes Egypt's recent economic development experience, the policies towards foreign and domestic business and the marketing opportunities associated with each stage of the cycle. This analysis, therefore, extends Gillespie's study of Egypt in the seventies by examining the period of Mubarak's presidency in the eighties. It also broadens the scope of Gillespie's work by focussing on the international marketing implications at the different stages of the coalition cycle during Egypt's economic opening.

In general, economic liberalization policies such as Egypt's economic opening, have been associated with improved performance and growth and, therefore, enhanced opportunities for business. For example, Rhee (1985) reports that three major empirical studies conducted by The World Bank (Balassa, 1982), the Organization for Economic Cooperation and Development (Little, Scitovsky, and Scott, 1970) and the National Bureau for Economic Research (Bhagwati, 1978; Krueger, 1978) which investigated the effects of foreign trade regimes on the economic growth of developing countries more or less reach the same conclusion: economies with outward-looking strategies have had better performance and better economic growth than economies with inward-looking strategies. The implications of such findings have little meaning for international marketing managers however, unless the findings are also based on a careful evaluation of the underlying institutional background. Neither government policies nor market operations can be implemented without proper institutional development (Rhee, 1985). Furthermore, efficient economic operations need an adequate transportation and public utility infrastructure, the establishment of a skilled labor force, and the efficient allocation of physical, financial and human resources to productive sectors (Luis, 1982). A common problem is that excessive military expenditure tends to displace scarce resources (especially human skills and foreign exchange) from the industrial sector (Kaplinsky, 1984). These are some of the issues that will be considered in presenting the international marketing implications at the different stages of the coalition cycle.

An Approach to Market Analysis: Gillespie's Coalition Cycle

The relationship of government, foreign investors, and local investors in a country may reflect certain patterns. According to Gillespie (1984) there are clear patterns of coalition-building and erosion among the three parties concerned with direct foreign investment in developing countries. These three parties--government, foreign investors and local investors--tend to enter bipartite coalitions, (two parties in coalition to the exclusion of the third). These coalitions form and erode as each party seeks its own advantages and are likely to follow a succession, maybe a cyclical pattern.

The coalition cycle can be summarized as follows (Gillespie, 1984). The "development coalition" occurs when governments and foreign investors form a bipartite coalition. The government grants foreign investors privileges beyond those given to local private investors in return for certain advantages that the foreign investors offer. These advantages include capital, technology, foreign exchange and market access. The government's rationale arises from a need to satisfy local interest groups other than local private investors. The inevitable conflict in goals, however, (for example, the foreign investor seeks profit; the government seeks national economic development) strains the coalition and allows the excluded third party (the local private investors) to take advantage of the rift between the original two parties. The development coalition becomes a "capitalist coalition" as foreign and local investors form joint ventures. Foreign investors may need local market knowledge such as distribution systems. Local investors may need access to technology, trademarks and a potential ally against local or international competition. As the government may not be satisfied with the response by foreign investors to its economic liberalization policies, it may allow concessions to local private investors. Sometimes one outcome of the capitalist coalition is the attempt to influence the government to encourage private enterprise in general.

As local private investors recognize a strengthening of their position, they will begin to lobby for a "nationalist coalition." Changes in the investment environment include more local ownership and especially in the case of foreign-local joint ventures, the local position will be increased. Local investors, however, may avoid capital intensive projects or projects that require a number of years to produce profits, despite the fact that the government wants such projects in order to develop the country. Local investors tend to take advantage of the higher margins to be made by selling luxury goods to the rich, for example. Therefore, other interest groups in the country will begin to oppose the nationalist coalition and may call for a new development coalition. This would result in the value of an investment to the nation as a whole being more carefully scrutinized. The coalition cycle may begin again.

One coalition cycle in Egypt was identified by Gillespie (1984) during Sadat's period. It is the authors' contention that this cycle has repeated itself during the presidency of Mubarak. Table 1 is a synthesis of the various coalitions and their associated goals and events in Egypt.

The First Coalition Cycle: Sadat's Presidency

In Egypt, following Sadat's rise to power in mid-1971, in the years 1973-75, there was a dramatic shift in foreign policy towards the West. The "open-door" investment policy of "El-Infitah" (the opening) was implemented with the passing of Law 43 in 1974. It was initially designed to create conditions attractive to foreign investment capital. Law 43 covered five areas with respect to benefits and privileges of foreign investors: taxation; customs duties and import/export regulations; expropriation; exchange control; and business and labor law. Foreign investment was welcomed in the form of joint ventures with the private and/or public sector. All such ventures were free from public sector controls. Priority was given to projects designed to generate exports, encourage tourism, or reduce the need to import basic commodities, as well as to projects requiring advanced technical expertise or making use of patents or trademarks therefore promoting technology transfer. Investments were judged on a case-by-case basis and the General Authority for Investment and Free Zones (GAIFZ) was the "control" mechanism or investment-licensing agency. Full details of Law 43 are given in Davies (1984).

With the passing of Law 43, the Egyptian government undoubtedly regarded its policy as representing a tripartite coalition of itself, foreign investors and local private investors working towards the country's economic development. Gillespie (1984) judges this stage to be a "development coalition" because the role of the local private investors was clearly secondary and operated through the mechanism of joint ventures with foreign investors.

The response in terms of foreign, especially American, aid to the economic opening of Egypt was considerable compared to the response in terms of foreign investments. Jabber (1986) indicates that, of the $4.4 billion worth of GAIFZ-approved projects in the seventies, 63 percent of the capital provided was Egyptian, compared to 13.2 percent, Arab; 6.1 percent, European Economic Community and 5.5 percent, U.S. Few approved projects were actually under way because of obstacles posed by structural shortcomings such as Egyptian bureaucracy and poor infrastructure. It is not surprising that Law 43 was amended by Law 32 in 1977, which further liberalized Egypt's trade and investment policy. Amendments were made in the area of exchange control and Law 32 set out the projects covered by Law 43 in more detail. The incentives provided were clarified and in some respects extended.

This signalled a change from the development coalition to the capitalist coalition (Gillespie, 1984). The government's policy could be made to appear more successful by allowing more Egyptian investors to participate. The foreign investment law revision of 1977 permitted consideration of projects with capital totally subscribed in Egyptian currency. The capitalist coalition was characterized also by the Egyptian government's more positive attitude towards free enterprise, an attitude reinforced by closer ties with the U.S.

The nationalist coalition was evoked by private investors appealing to nationalistic logic to exclude foreign capital. Thus, there was a tendency for the foreign partner's percentage participation in a joint venture to decrease. Social unrest and tension increased in the late seventies as other groups of Egyptians, for example, the Islamic fundamentalists and the poorer citizens resented the growth in imported luxury goods and "conspicuous consumption" which now characterized the middle and upper classes of Egyptian society. As American aid grew, so did anti-Americanism (Jabber, 1986). Gillespie (1984) argues that, with Sadat's assassination and the pledge by Mubarak to return the open-door policy to its original goals, the coalition cycle was complete.

The Second Coalition Cycle: Mubarak's Presidency

The need for a new development coalition

The second coalition cycle (see Table 1) began with a return to the development coalition as Mubarak emphasized the original goals of the economic liberalization. The coalition cycle demonstrates that unless carefully and gradually implemented, liberalization often creates social and political tensions that can force a government to rethink its policy. For example, early in 1982 the Egyptian government placed a high priority on intermediate and capital goods rather than luxury and non-essential imports (Middle East and African Economist, 1982). This new emphasis on the productive sector rather than on the consumer sector resulted from two main factors. These were the need for more equitable distribution of Egypt's financial resources and the growing shortage of foreign exchange.

Egypt's average annual rate of growth of gross domestic product (GDP) increased markedly from 3.8 percent during 1965-73 to 8.5 percent during 1973-84, the period of economic liberalization (The World Bank, 1986). Egypt compares very favorably with the weighted average for all lower middle-income economies (the group of economies in which The World Bank places Egypt): 4.2 percent growth in GDP during 1973-84. Unfortunately, Egypt's new wealth has remained largely inaccessible to the mass of the population (Jabber, 1986). Among the most conspicuous benefactors of the open door policy were the importers of luxury goods that were beyond the means of most Egyptians (The Middle East Reporter, 1982). Also, investments in land reclamation and food industries were minor as compared to those in finance, construction and building materials (Najafbagy, 1985). The inequitable distribution of income and benefits from the economic liberalization fuels the coalition cycle process by causing dissension among the country's different interest groups. That the government was responding to the needs of the country as a whole, and not to those of a minority interest group is signified by the renewing of the development process. Mubarak declared "any projects we will approve have to be those that produce the basic needs of the struggling classes, not luxury goods whose use is restricted to a minority who can afford them" (Middle East and African Economist, 1981).

The second factor that precipitated a return to the development coalition was the growing shortage of foreign exchange. It is vital to explain that Egypt's improved growth during the seventies occurred not only because of economic liberalization policy. Indeed, the more plausible explanation was a fortuitous circumstance. Oil replaced cotton as Egypt's major export not because of a conscious export diversification policy but because of resource availability and demand (Wilson, 1984). Egypt was able to benefit from the increased price of oil. The country's four most important earners of foreign exchange are now oil revenues, expatriate workers' remittances, Suez Canal dues, and tourism. Worker's remittances, as well as oil revenues, grew considerably during the seventies. Egyptian workers took advantage of employment opportunities in other oil-exporting countries in the Middle East. When the oil price began to drop precipitously in the early eighties the weaknesses in Egypt's economic liberalization policy were more clearly exposed. Thus, the faltering of the economy necessitated a renewed appeal to foreign investors through a development coalition.

Implications for marketing: opportunities through aid projects

During economic open door policies, and especially during a development coalition and at times of severe foreign exchange shortage, aid financing is an important benefit for the international marketing manager. Aid financing permits investors, contractors or exporters of all sizes to take advantage of business opportunities at reduced financial risk.

The economic opening of Egypt resulted in a dramatic increase in aid from a number of sources (Japan, France, Italy, West Germany, U.K., Spain, The World Bank, the African Development Bank, Arab Industrial Development Organization, etc.) but especially from the U.S. Following the peace-making process with Israel in the late seventies, Egypt became the second largest recipient of U.S. foreign aid. For example, in 1983/84, Egypt received $1.3 billion in military aid, $750 million in economic support funds and $240 million in commodity aid (EIU Annual Supplement, 1985). In 1984 Egypt's official development assistance receipts represented 5.5 percent of the gross national product.

Egypt has a large potential to industrialize and the opportunities for the sale of technology, skills and consulting in the building and improvement of Egypt's industrial infrastructure provide market diversification options for many foreign firms. Investment and trade opportunities exist in the agribusiness, health, computer and data processing, telecommunications and petroleum equipment sectors (Business America, May 28, 1984). One of the most acute problems for Egypt is lack of low-cost housing. The demand for new units is about 200,000 per year, while no more than 80,000 units are constructed. There is also a large demand for road rehabilitation and network expansion, and water and sewage facilities.

A typical joint venture strategy at the stage of the development coalition is the "go-together split." This is a strategy where two or more firms cooperate over a certain period of time and then separate (Kirpalani, 1985). An example is Interinfra-Arabco, a consortium of seventeen French firms led by SGE-

TPI and two local concerns headed by Arab Contractors (Osman Ahmed Osman and Co.). In 1981, this consortium was awarded the contract for the tunnels and stations for the Cairo Metro project. The project is being financed by concessionary loans, provided by France according to bilateral protocols (MEED, 1 November, 1986).

The Planning and International Cooperation Ministry must give its approval to aid projects. Another example is a coal-fired power station construction project financed by Australia and other international sources. When The World Bank is involved in a financing arrangement, some of the work has to be put out to general tender.

Opportunities for aid financing are available to exporters as well as investors and contractors. Examples include an agreement by West Germany to provide a $25 million grant to finance food imports and 50,000 tonnes of wheat presented as a gift to Egypt by the Australian Wheat Board. The implication, then, is that international companies should actively seek information on new and existing development projects that are being financed by their home governments or one of the international organizations such as The World Bank and the International Finance Corporation.

The Capitalist Coalition: Emphasizing the Private Sector

A new capitalist coalition can be identified when the government responds to the demands of local business and renews the emphasis on developing the private sector. Increasing privatization has always been a part of Egypt's economic opening. At certain times, however, such as 1977 (Law 32), this has been a relatively more important goal.

Najafbagy (1985) conducted an interview study in the early eighties, (at the time of the second development coalition), of managers and officials from joint ventures, local private industries and government organizations in Egypt. The results are useful in the analysis of the coalition cycle because they illustrate the different viewpoints of various interest groups in the country. One particularly relevant finding was that the the attitudes of managers of local firms towards foreign business operations were negative. As coalition cycle analysis would lead one to expect, the local managers felt unhappy about Law 43, and in particular, about the incentives given to foreign investors. A common complaint was "multinational corporations look for profit, and they produce goods that are profitable for themselves" (Najafbagy, 1985). As Najafbagy's results might imply, Egyptian businessmen sought more share in the benefits to be gained from the development process. The government, recognizing the superior productivity performance of the private sector placed the focus on this sector during the mid 1980s. This was effected by maintaining tax incentives for private sector firms, facilitating their acquisition of operating licenses, and encouraging joint ventures between local or foreign private investors and Egypt's numerous public sector firms (Wall Street Journal, October 9, 1985). Under Law 43, joint ventures between foreign investors and public sector firms are free from public sector controls.

Although in the 1982-87 Five Year Plan 76.7 percent of the total planned investment remained public sector investment, this represents a considerable drop from the public sector's 94.1 percent share in 1973/74 (EIU Annual Supplement, 1985).

Implications for marketing: joint ventures and bureaucratic obstacles

Joint ventures have always been regarded as a means to further economic development for Egypt since the passing of Law 43. It is valuable for managers to monitor the political and economic environments in Egypt so that they can judge when the government is going to be receptive to joint venture arrangements (for example, in the mid-eighties) and to what particular types of joint ventures (for example, with public sector firms in the manufacturing sector).

The Egyptian government has used the joint venture to maintain national control over some sectors of the economy while at the same time encouraging free enterprise; an example is the banking industry. The government has also encouraged joint ventures between foreign firms and public sector firms in order to privatise the public sector and benefit from the managerial expertise and technical know-how of the foreign partners.

Joint venture banks in Egypt must have a minimum of 51 percent local control; they are free to pursue all classes of local business as well as financing foreign trade. Examples of joint venture banks set up in 1982 include Egyptian Gulf Bank, between Banque du Caire and Kuwaiti interests, and Misr Exterior Bank, between Banque Misr and Banco Exterior. The growth of private banks, generally financed by expatriate Egyptians, has been spectacular since the 1977 law was passed extending foreign investor privileges to Egyptian nationals. The Islamic banking sector has also witnessed significant growth during the period of the open-door policy and, in general, Egyptian banking has become very competitive (EIU Annual Supplement, 1985).

Coping with the unwieldy Egyptian bureaucracy is a particular problem for foreign firms working with joint venture partners in Egypt, especially public sector partners. Ayubi (1982) noted that, for a variety of organizational and political reasons, the performance of the Egyptian bureaucracy is declining sharply in quality, when the desire to encourage foreign investment is actually calling for a more innovative, flexible and efficient bureaucracy. A report on the metro project (MEED, 1 November 1985) emphasizes that the main problems of the French-Egyptian consortium have been bureaucratic. For example, the Governor of Cairo would not allow sections of the road to be closed off to enable work to commence; the ministries concerned failed to give adequate support to the project, and the powers of the authority in charge of the metro were not clearly defined. These administrative problems were eventually solved in 1983 by the formation of the National Authority for Tunnels which was given power to make the necessary decisions for progress of the project.

An example of a joint venture between a foreign firm and an Egyptian public sector firm is the proposed operation between General Motors (GM) and El-Nasr Automotive Manufacturing Company (Nasco) (Wall Street Journal, March 6, 1986). The GM-Nasco scheme involves the reorganization and expansion of the Egyptian passenger car industry. Egypt needs the scheme to boost its economy, stem losses by the public sector firm, provide new jobs, technology transfer and enhanced credibility among investors. For GM, there is Egypt's large demand for cars (local production is less than half of the estimated demand of 50,000 to 60,000 cars a year). Furthermore, 22 car-parts firms that will locate in Egypt to supply the Egyptian market will also provide a source of inexpensive parts for GM's European operations.

At the time of writing, however, the founders agreement for the GM-Nasco joint venture (with additional partners, Misr Iran Development Bank and the Export Development Bank of Egypt) remains unsigned, as do the letters of association (MEED, 7 February, 1987). The reason for the delay, which according to GM lies in the legal and technical formalities of Egypt's complex investment code, is again indicative of Egypt's economic management difficulties.

Such experiences illustrate a point made earlier: that economic development and, therefore, international marketing opportunities are hindered when not accompanied by proper institutional development. In response to international marketers' complaints that they have been deterred by bureaucratic obstacles, the Egyptian government is making efforts to clarify the investment situation and to speed up and centralize the investment approval process so as to attract new investors into priority sectors (Middle East and African Economist, 1982). Such efforts have characterized each stage of the second coalition cycle. The government is now making regular visits to the Free Zone area at Cairo Airport to ensure the speed of transactions and to eliminate unnecessary obstacles (Arab Youth, March 1987).

The move by the Egyptian government to ban imports of finished automobiles in August 1986 and to increase the local content participation in several joint ventures, suggests that Egypt may be moving once more into the nationalist coalition stage. For example, plans for the GM-Nasco venture call for the local content of the GM models produced to exceed the low levels achieved in Nasco's present range of Fiat derivatives. The local manufactured content of a joint venture between Suzuki of Japan and the local Modern Motor Company is eventually to be 75 percent in the production of vans and pickup trucks. The import ban also implies that if foreign firms wish to exploit the Egyptian automobile market they will have to adjust their mode of market entry.

Political Response to Economic Difficulty: A Nationalist Coalition?

According to Gillespie's coalition cycle concept, current government policies would suggest that Egypt is in the nationalist phase. Policies are characterized by increasing governmental control over trade and joint ventures, for example, import controls and increased local participation in joint ventures. Yet these policies are not only a response to pressure on the part of local business to ally with the government to retain or gain more control vis a vis foreign investors. The policies are also a response to a dramatic worsening of the Egyptian economy. The main forces affecting the economy are external (the international oil market and terrorism) which are complicated by Egypt's burgeoning population, internal economic structural problems and political uncertainty.

The value of Egypt's exports remained virtually constant at approximately $4000 billion over the period 1981-85 while the value of imports rose from $7918 in 1981 to $9500 billion in 1985 (EIU, 1986). Egypt's debt service ratio was 27.5 percent in 1981 and had increased to 35 percent by 1984 (EIU, 1986). The economy is, therefore, burdened by a large trade deficit as well as a chronic foreign exchange shortage. Egypt's oil revenues of approximately $2 billion in 1985/6 are expected to shrink to $800 million in 1986/7 (MEED, 14 February, 1987). The recession in the countries of the major oil producers has resulted in declining remittances from Egyptian expatriates. Some workers are returning home, thus exacerbating unemployment and underemployment. Income from tourism fell because of increased terrorism in the region in 1985 and 1986 and the February 1986 riots in Cairo.

These economic problems are made even more acute by the rapidly growing population. Population growth is currently 2.2 percent per annum. Egypt's population has grown from 42.1 million in 1980 to an estimated 51 million in 1987 (Insight, January 12, 1987). The population is projected at 65 million in 2000. Accompanying problems are high population density in non-desert areas, rapid urbanization, urban unemployment and increasingly poor housing conditions.

According to The World Bank (1984) rapid population growth impairs economic growth by exacerbating the awkward choice between higher consumption now and the investment needed to bring higher consumption in the future. Although Egypt has followed an economic liberalization policy with respect to foreign trade and investment and expansion of the local private sector, there remains serious distortion in the economy because of subsidized food, energy, transportation, utilities and financial services (Business America, March 16, 1987). These distortions have not been eased by the open door policy and in some cases the situation from the viewpoint of the average citizen has worsened as some food has been permitted to be imported by private, rather than public, sector organizations. Because the private importer uses a different rate of exchange, the foods become more expensive. Removal of subsidies, especially those on food, is extremely difficult. There is the danger of riots, which have occurred in response to such attempts in Egypt in 1977, and in Tunisia and Morocco more recently. At the time of writing, however, Egypt is discussing with the International Monetary Fund and The World Bank a program of economic reform designated to increase government revenues and decrease expenditures (Business America, March 30, 1987).

The government, at the nationalist coalition stage, remains committed to liberalization. Yet, the emphasis has changed: for example, "foreign firms must help Egyptians help themselves through the creation of export-oriented industries" (Business International April 14, 1986). Despite growth in nationalism, the open-door policy is still supported. A "new class" has arisen as a result of the policy and this group provides a base of support for the government. Jabber (1986) argues that, although this group is relatively small, it has accumulated much economic and political power over the past decade and now has an enormous stake in the continuation of the present system. This group consists mainly of entrepreneurs, professionals, and high-salaried employees of the private economy. It is this group that allies with the government in the nationalist coalition. The nationalist coalition is bolstered by the economic and political uncertainty in a developing country with economic structural problems such as Egypt. Foreign firms are hesitant to trade with and invest in Egypt and local investors can consolidate their power. A reduction in foreign investment, however, bodes ill for the state of the economy.

Implications for marketing: increased risks and new forms of business

As illustrated by the case of Egypt, international firms wishing to do business in a country characterized by a nationalist coalition must respond to increased demands to share the benefits of their investments and economic success. These demands include technology transfer, management know-how and skills training. Typical of other developing countries in this stage (such as Brazil), Egypt's need for foreign exchange also has implications for business operations. Hence, a firm must be more willing to use local sourcing (because of restrictions on imported raw materials or components), to consider countertrade options and to develop export-oriented investments (making contributions to the country's balance of payments). Examples of how firms can respond to the changed political attitudes and economic demands in Egypt follow (see also Table 2).

The growth of the computer and data processing sector is one which reflects Egypt's desire for technology. The market for computers has grown quickly since private firms were permitted to operate in this sector after 1977. The government requires that vendors be able to provide operating and maintenance service for products supplied, and Arabic language systems have advantages (Business America, March 16, 1987). The implications for marketers include careful adaptation of products and services for the Egyptian market. Also important in the high-technology sectors are opportunities in aid programs. The U.S. has provided Egypt with financial aid to help establish the Centre for Information at the Egyptian Academy of Scientific Research and Technology. There has also been an agreement between Egypt and France to establish a cooperative program that will help Egypt to use computers and produce them in Egypt (Arab Youth, March 1987).

The cement industry in Egypt is illustrative of the current problems of the traditional industrial sector. For example, there is a shortage of foreign exchange to pay for spare parts, poor management and maintenance such as a tendency to overwork the machinery and skip regular servicing, and technical problems such as the impurity of raw materials. In 1986, the government invited foreign firms to set up operating and maintenance joint ventures rather than to develop new plants (MEED, 13 December, 1986). These developments are important opportunities for firms having the particular operating skills needed. Furthermore, firms involved in operating and maintaining plants under management contracts face less financial risks than firms having ownership of such plants. Arab Swiss Engineering Company (ASEC) has formed a joint venture with Asland (of Spain) to manage and maintain cement works. ASEC is a joint venture of Switzerland's Holderbank Management and Consulting and five local cement companies (MEED, 21 February, 1987).

Heightened financial risk in times of countries' foreign exchange shortages means that export credit agencies are less willing to grant cover. For example, for Egypt, British exporters face harshly restrictive terms and French exporters can obtain credit for only the smallest transactions. The Italian and Japanese credit agencies are becoming increasingly wary (MEED, 7 March 1987). U.S.

exporters are in a more fortunate position because they can take advantage of the substantial grant aid provided by USAID.

Non-traditional methods of financing trade and investment must be investigated by managers. These methods include various countertrade arrangements. From the viewpoint of the government, countertrade can be used to promote exports. For example, the Export Development Bank of Egypt (EDBE) has recently negotiated, on behalf of the government, an offset agreement with a U.S. military equipment supplier. Another proposed deal is with the Japanese firm, NEC, where trips sold to Japanese tourists would be exchanged for TV tubes (MEED, 6 December 1986). The problems inherent in pursuing countertrade methods are several, however. They include legal and bureaucratic constraints; all formal barter arrangements must be channelled through the Foreign Trade Ministry. The lack of competitively priced local goods of export quality is a severe problem. Key export items such as oil, cotton, and aluminum are specifically excluded from barter trade. Yet a careful examination of the economy by the creative international marketer can isolate opportunities. For example, Egypt enjoys a useful advantage for off-season deliveries of fresh produce which it is failing to exploit. Furthermore, in the highly competitive citrus export markets in Europe, Egyptian fruit often arrives in poor condition, however, because of careless packaging. If Egypt is to take advantage of fresh produce market opportunities, deficiencies will have to be overcome (Wilson, 1984). There are opportunities for foreign firms to help and work with Egyptian ones in this regard.

Conclusion

This paper's discussion of the open-door policy during Mubarak's and Sadat's presidencies has illustrated the kinds of foreign trade and investment policy changes that might occur at each stage of Gillespie's coalition cycle. Thus, an understanding of the political or power relationships within a nation can provide information on the likely directions economic policies will take. The analysis is more than simply evaluating leftist or rightist tendencies, but entails in-depth understanding of particular interest groups: for example, in Egypt, the "new class" that has benefitted from the liberalization policy; the Islamic fundamentalists; the poor; the managers of public sector organizations; the unemployed.

The coalition cycle approach could be a valuable analytical tool for international marketers. What is needed is further investigation of coalition cycles in other countries and a comparison of the implications for marketers in different countries. Some countries' idiosyncracies may encourage particular marketing approaches. In general, the implications of the different coalition cycle stages, however, would probably apply across countries. For example, at the development coalition stage, aid projects provide opportunities. Aid projects, and especially aid financing, joint venture arrangements and technology transfer will be important throughout the coalition cycle. Nevertheless, certain factors rise to prominence in terms of their impact on developing marketing strategy at certain times of the cycle. Economic liberalization policies at the time of the capitalist coalition might provide substantial benefits for a foreign firm willing to accept joint venture arrangements. During the nationalist coalition, a foreign firm must be prepared to demonstrate the benefits, in terms of technology transfer, management/

technical skills, and foreign exchange, that it is providing the country.

Marketers must also continue to monitor external factors having an impact on the country as these factors (oil, terrorism and International Monetary Fund negotiations in the case of Egypt) will determine internal economic performance and hence internal politics.

Table 1 Coalition Cycles in Egypt's Economic Opening

The First Cycle: Sadat's Presidency

Coalition	Parties in Coalition	Goal of Coalition	Examples of Events
Development Coalition	Government and Foreign Investors	To attract foreign investment to country	1974 Open Door Policy. GAIFZ (Investment Authority). Bilateral Arab assistance. Foreign Policy: Sadat's visit to Jerusalem.
Capitalist Coalition	Foreign & Local Investors	To promote business interests in general against other conflicting interests of the host government	Relaxation of GAIFZ's attitude towards project approval. Revision of foreign investment law 1977-e.g. allowed consideration of projects whose capital was totally subscribed in Egyptian currency. Joint ventures encouraged. 1976 onwards, Arab aid reduced; replaced by more U.S. aid. Positive attitude towards private sector (ties with U.S.). Growth in imports of luxury goods.
Nationalist Coalition	Local Investors & Government	Local investors wish to retain government-granted benefits and deny them to foreign investors.	As U.S. aid grows, anti-Americanism grows. Tendency for foreign partner's percentage participation in a joint venture to decrease. Local investors excluded foreign investors from projects but still received government approval under "foreign investment law". Appeal to nationalistic logic to exclude foreign capital. Local investments tend to be in real estate & financial services.

Table 1 continued

The Second Cycle: Mubarak's Presidency

Coalition	Parties in Coalition	Goal of Coalition	Examples of Events
Development Coalition	Government & Foreign Investors	To promote development that satisfies other political interest groups in the country besides the local investor group	Sadat's assassination 1981: Mubarak pledges to return Open Door Policy to original goals. Emphasis is to be on productive sector rather than consumer sector.
Capitalist Coalition	Foreign and Local Investors	(see above, earlier capitalist coalition)	1985 Emphasis on growth of private sector: tax incentives for private sector firms, facilitating acquisition of operating licenses, encouraging joint ventures.
Nationalist Coalition	Local Investors and Government	(see above, earlier nationalist coalition)	Joint ventures with increasing local participation e.g. 75% local manufactured content in Suzuki/Modern Motor Co. venture. Dissatisfaction among various groups: political unrest & rise of opposition groups because of a lack of emphasis on indigenous industry, particularly agriculture and food. Foreign firms hesitant to trade/invest because of political and economic uncertainty.

Sources: Gillespie, Kate The Tripartite Relationship Government, Foreign Investors During Egypt's Economic Opening New York: Praeger, 1984; Jabber, Paul "Egypt's Crisis, America's Dilemma" Foreign Affairs, Vol. 64, Spring-Summer, 1986, 960-980; Middle East and African Economist Vol. XXXV, No. 11, November 1981, 80. Wall Street Journal, "Egypt's Top Priority is Beefing Up Private Sector, Prime Minister Says," October 9, 1985.

Table 2 The Coalition Cycle in Egypt: Stages and Implications for the International Marketer

Stage of Cycle	Implications	Example
Development coalition	Take advantage of low financial risk associated with aid development projects.	Supplying goods for or subcontracting on large-scale development projects such as those financed by USAID, CIDA, The World Bank, etc.
	Consulting engineering opportunities.	
	"Go-together split" joint ventures particularly on infrastructure projects such as telecommunications, health care, energy/power.	Interinfra Arabco (Cairo Metro).
Capitalist coalition	Joint ventures with local partners.	Proposed GM-Nasco joint venture.
	Joint venture banks (minimum 51% local control).	Egyptian Gulf Bank (Banque du Caire and Kuwaiti interests).
		Misr Exterior Bank (Banque Misr and Banco Exterior).
Nationalist coalition	Restructuring joint venture arrangements to adjust to increased local participation/content requirements.	Suzuki (Japan) and Modern Motor Company (Egypt) joint venture to have 75% local manufactured content.
	Management services and training should be provided. Show benefits of technology & knowledge transfer are being realized.	Canadian Pacific Consulting Services for Egyptian National Railways: management services and training.
		China & Thailand offering technical assistance in carrying out housing schemes.

Table 2 continued

Nationalist coalition (continued)		
		Joint venture-Rhone Poulenc (France) and El-Ameriya Pharmaceutical Industries Co.: medicine for humans and animals.
		Research into industrial pollution for National Research Centre. By UK Overseas Development Administration and British Council.
	Adjust to increased financial risks by investigating countertrade options.	NEC: trips sold to Japanese tourists could be exchanged for TV tubes.
	Develop export-oriented investments.	Opportunities to assist Egyptian food industry export fresh produce.

Sources: MEED, 6 Dec., 1986, p 7; MEED, 20 Dec., 1986, p 7. MEED, 7 Feb., 1987; MEED, 14 Feb., 1987; EIU Quarterly Economic Review of Egypt, Annual Supplement, 1985, London: The Economist Publications Ltd., 1985.

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