

**ITS NO SECRET AT ALL: EXTRA ECONOMIC AND EXONGENOUS  
DEVELOPMENT AND CHANGE IN THE INTERWAR EGYPTIAN ECONOMY,  
1919-1939**

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A Thesis Submitted to the Faculty of the  
DEPARTMENT OF NEAR EASTERN STUDIES

In Partial Fulfillment of the Requirement

For the Degree of

MASTER OF ARTS

In the Graduate College

The University of Arizona

2009

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## ACKNOWLEDGEMENTS

This thesis has benefited from the support of my advisors and countless friends. I would like to thank my advisors Dr. Charles D. Smith, Dr. Leila Hudson, and Dr. David Gibbs for their guidance, intellectual insight, patience, and for sharing with me their knowledge during my studies at the University of Arizona.

I would also like to specifically thank my colleagues Tylor Brand and Jason Hushour for their support and their willingness to listen to my ideas during the writing process. Their feedback and insights have been much appreciated.

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## **ABSTRACT**

The development of the interwar Egyptian economy resulted from interactions between extra-economic and exogenous factors, normally seen as lying outside the economic sphere in historical accounts. Local economic elites successfully challenged colonial domination of the local economy by utilizing a number of strategies to found locally controlled businesses. The strategy of economic nationalism allowed the local elite to break into the foreign dominated Egyptian economy. By 1927 this strategy was adjusted to facilitate partnerships with foreign firms who sought out partners due to the exigencies of the Great Depression. Foreign powers interested in Egypt began to see colonial control as a detriment to their continued influence in Egypt following their increased economic success in the country. Along with strategic factors this would bring about the diminution of the capitulations in 1937 in favor of bi-lateral trade arrangements.

## I. INTRODUCTION

Egypt's incorporation into the world capitalist system during the 19<sup>th</sup> and early 20<sup>th</sup> century has been analyzed using economic and political justifications. Each of these perspectives sought to portray the period negatively, in the process removing the actions of local individuals and exogenous factors, such as the role played by foreign business and government, from the narrative of Egyptian economic development. Following this process the economy has been singled out by historians who, in their own preoccupations with economic and political assumptions, have claimed the interwar period represents a failed attempt at economic development.<sup>1</sup> These historical accounts have left us with a basic narrative of crisis for the interwar period, a narrative which furthered the interests of economists and politicians, but which have negatively influenced historical treatments ever since.<sup>2</sup>

Typical narratives of economic development fail to account for the extra-economic (social, cultural, political) and exogenous foundations of the Egyptian economy, creating a narrative of crisis based upon the perspectives of historians and economists, rather than in historical reality. The tendency to discount extra-economic factors has been highlighted by Timothy Mitchell who argued that the technique of 'enframing' was the primary tool of historians and economists in their efforts to simplify

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<sup>1</sup> Charles Issawi. An Economic History of The Middle East and North Africa. New York: Columbia University Press (1982) and Roger Owen and Sevket Pamuk. A History of Middle East Economies in the Twentieth Century. London: I.B. Tauris Publishers (1998) both depict the interwar period as a failure due to policy incoherence and fail to discuss extra-economic and exogenous factors in their analysis of the Egyptian economy.

<sup>2</sup> Economic assumptions are derived out of the development of orthodox economic theory while the political assumptions referred to here were derived out of the 1952 Egyptian Revolution. The crisis narrative in Egyptian history is discussed in Ellis Goldberg. "The Historiography of Crisis in the Egyptian Economy". in Middle east Historiographies: Narrating the Twentieth Century. Ed. Israel Gershoni, Amy Singer, Y. Hakam Erdem. Seattle: University of Washington Press (2006)

and homogenize economic relations. The simplification of economic relations was a direct outgrowth of 19<sup>th</sup> and 20<sup>th</sup> century European social theory, which, in order to assure its own analysis, needed to create an economic sphere against which it could be defined. Economic relations reframed in this manner allowed for their calculation according to economic theories upon which the real economy was overlaid and from which it obtained logic and meaning in relation to other spheres. Ideal conceptions of the economy, what it was supposed to look like according to economists, became the standard; elements lying outside of this standard were discounted in the process of simplification.<sup>3</sup> Separation of the real world, the realm of social, cultural and political relations, from its ideal representations, or the economy, elided the extra-economic factors which historically influenced the realm of economics.

Exogenous factors influencing the interwar Egyptian economy were elided following the repositioning of the state as the central actor in economic relations. The development of Keynesian economics during the early 20<sup>th</sup> century brought about this change as the state, which controlled an economic sphere defined and measured over a given geographical space, became crucial to the regulation of the global economy.<sup>4</sup> During the early 20<sup>th</sup> century the centrality of the state would become an unquestionable fact of economic theory influencing historical treatments of earlier epochs. The centrality of the state found in orthodox economic theory has been questioned by Hugo Radice, who argued that, “the idea of the nation-state as an ‘economic actor’ is taken for granted”

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<sup>3</sup> Mitchell, Timothy. *Rule of Experts: Egypt, Techno-Politics, Modernity*. (Berkeley: University of California Press, 2002), 5

<sup>4</sup> Keynes views the geographical space as the nation-state in Keynes, John Maynard. “National Self-Sufficiency”. *The Yale Review*. 22 (1933), 758

leading to “The elision of individualistic economic behavior and self-interest into a presumed collectivity.”<sup>5</sup> By taking for granted the roles played by individuals economists have instead based their analysis upon economic aggregates – output, employment, investment, consumption, etc. – or synthetic averages-rate of interest, real wage, money wage level, price level.<sup>6</sup> This situation, while applicable to more advanced economies in Europe and North America, has little relevance to the situation found throughout much of the world during the early 20<sup>th</sup> century. Colonial economies, such as that found in Egypt during the interwar period, were influenced by relationships formed between local individuals, governments and foreigners, these relationships were difficult to describe using the data created by modern economics so they were discarded.

The development of the interwar Egyptian economy was in practice a result of interactions between extra-economic and exogenous factors, all normally seen as lying outside the economic sphere in historical accounts. Combined together these factors accounted for the development of the Egyptian economy during the interwar period and not only provided the local economic elite, the native Egyptian capitalist class, with a source of capital for their emergent industrial ventures but would bring about the diminution of the capitulations once they no longer benefited those involved in the Egyptian economy. These factors permitted the local economic elite to successfully challenge foreign domination of the economy despite the apparent failure of policy and the poor performance of the economy according to economic data.

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<sup>5</sup> Radice, Hugo. “The National Economy: A Keynesian Myth?”. *Capital and Class* 22 (1984), 120.

<sup>6</sup> *Ibid*, 121.

Egypt was first brought within the orbit of European economic control under a series of commercial conventions signed with the British during the 19<sup>th</sup> century which would become a model for similar agreements signed by other interested powers. The International Commercial Conventions of 1820, 1838, and 1861 forced Egypt to maintain low external tariffs that were designed to benefit the commerce of foreign merchants.<sup>7</sup> These low external tariffs served to decrease state revenues and adversely affected local industries which were no longer afforded protection from foreign competition.

The Egyptian economy was brought under the direct control of the foreign powers during 19<sup>th</sup> century efforts to modernize the country. With huge debts accumulated during the construction of projects such as the Suez Canal, Egypt submitted to a system of financial control under the *Caisse de la Dette* in 1876 to ensure the continued payment of Egypt's foreign debt following the country's bankruptcy. Two Comptrollers-General, one British with supervision of government receipts, the other French overseeing expenditure and charged to collect revenue, were placed in charge of Egyptian finances.<sup>8</sup> Under the control of foreign creditors Egypt's economy was adjusted away from funding beneficial internal development projects and towards areas which would ensure the payment of creditors, such as the export-oriented agricultural sector. With Egypt's economy focused outwards little thought was given to internal development until the early 20<sup>th</sup> century.

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<sup>7</sup> The International Commercial Convention of 1820 set a 3 percent tariff, 1838 a 5 percent tariff, and 1861 an 8 percent tariff on imports. The International Commercial Conventions also set high internal tariffs which further exacerbated the decline of local industry. Owen, Roger. The Middle East in the World Economy, 1800-1914. (New York: Methuen, 1987), 61

<sup>8</sup> Ibid, 133.

European financial control was girded by the system of capitulations to which Egypt remained obligated during the interwar period. Inaugurated during the 16<sup>th</sup> century the capitulations refer to an array of colonial financial agreements and consular arrangements which had accumulated over the centuries in the Middle East. The capitulations in practice removed foreigners from the jurisdiction of local authorities, a system which had long since become antiquated in the region. Foreigners in Egypt were not forced to pay taxes to the Egyptian government and deprived the state of what it considered legitimate income.<sup>9</sup> Such protection was abused by foreigners who came to use their capitulatory rights to dominate the Egyptian economy.

The capitulations also provided foreigners with judicial protection from local jurisdiction. In Egypt efforts were made to bring the juridical aspects of the capitulations under control through an experiment in international law, the Mixed Courts of Alexandria. The capitulations had led to judicial chaos in Egypt, with each capitulatory power having an abundance of overlapping and competing consular jurisdictions virtually removing foreigners living in Egypt from the legal control of the state. This situation became untenable in the eyes of Egyptians, leading to a movement to reform the system. The principal reformers, Khedive Ismail and Nubar Pasha, had three aims that they wanted to ensure through the Mixed Courts. They wanted to ensure justice in claims against the Egyptian government, between litigants of different nationality, and to protect foreigners from the risk of arbitrary government action.<sup>10</sup> While ensuring the protection of the state the Mixed Courts also were designed to protect the investments of foreigners

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<sup>9</sup> "War on Capitulations". *Time*. 26 April 1937

<sup>10</sup> Hoyle, Mark S.W. "The Origins of the Mixed Courts of Egypt," *Arab Law Quarterly* 1:2 (1986), 10.

in the country. Following many years of negotiations the *Reglement d'Organisation Judiciaire* was adopted in 1876 laying the groundwork for the Mixed Courts operation. This agreement set up a system of courts in which both foreign and Egyptian interests were represented by a system which allowed for two foreign and one Egyptian judge presiding over each case brought before the court. Foreign consular courts maintained jurisdiction in cases of personal status.<sup>11</sup> While designed to end the “judicial chaos” caused by the overlapping jurisdiction of consular courts the Mixed Courts maintained foreign control over much of the Egyptian legal system with a foreign majority on the bench. This majority looked out for the interests of foreign nationals at the expense of Egyptian interests.

Most importantly for business the Mixed Courts had wide discretion in the commercial field. Nearly every major corporation and investment in Egypt came under its purview. Jasper Yeates Brinton, American Mixed Court judge and its foremost historian, wrote that the dominance of the Mixed Courts in commercial matters was “due to the fact that their jurisdiction...is of a nature to draw to them all litigation of any large importance which arises in the country.” In ordinary civil and commercial cases this jurisdiction covers all suits “between Egyptians and foreigners and between foreigners of different nationalities.”<sup>12</sup> The Mixed Courts assumed jurisdiction over commercial matters by simply presuming corporations had foreign investors. According to Brinton:

Like all foreigners the foreign company necessarily enjoys the privilege of the jurisdiction of the Mixed Courts. By the application of the theory of the “mixed

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<sup>11</sup> Jasper Yeates Brinton, “The Mixed Courts of Egypt,” *The American Journal of International Law* 20:4 (1926), 7-8.

<sup>12</sup> Brinton, Jasper Yeates. *The Mixed Courts of Egypt*. (New Haven, CT: Yale University Press, 1930), 97-98.

interest” a similar result has also been reached in the case of the “Egyptian” companies. Acting on the possibility that the stock of every company is, partly at least, in the hands of foreigners, the courts have seen here a mixed interest sufficient to enable them to assume exclusive jurisdiction even in the case of suits between such companies and purely native litigants.<sup>13</sup>

Using their wide discretion, the Mixed Courts ruled that foreign corporations were afforded the same protections as individuals from the capitulatory powers in Egypt. These protections were extended to all corporations with branches or subsidiaries in Egypt as it was assumed that at least some of the stock in these companies was held by foreign nationals. Instead of ending judicial chaos the Mixed Courts only served to deepen foreign control over the Egyptian economy.

Britain’s occupation of Egypt in 1882, in response to the Urabi Revolt, furthered their domination of the Egyptian economy. Dual Control exercised by the British and French Controllers was eliminated in 1883 and replaced by a single British financial adviser with control over revenue and expenditure.<sup>14</sup> With British control formalized, Egyptian finances were further directed towards ensuring the repayment of debts and away from domestic needs, such as education and industrial development. A commentator writing in 1910 stated that the British “in the course of their twenty eight years rule...have not only not succeeded in building up a single manufacturing industry, but have effectively killed whatever possibilities there had been for one.”<sup>15</sup> British preoccupation in ensuring financial solvency continued to adversely effect the development of the Egyptian economy which stagnated and declined. The

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<sup>13</sup> Ibid, 98

<sup>14</sup> Owen, *Middle East in the World Economy 1800-1914*, 220.

<sup>15</sup> El-Gritly, A.A.I., *The Structure of Modern Industry in Egypt*. (Cairo: Government Press, 1948), 367. T. Rothstein wrote about the British occupation of Egypt in the Journal *Asia* in 1910.

underdevelopment of the economy would not arise as an issue locally until shortages struck Egypt during World War I.

World War I revealed Egypt's dependence and subservience to Europe, a realization which led the emergent cosmopolitan capitalist elite to seek out new economic opportunities. The Commission of Commerce and Industry represented the capitalist class which had developed a stake in the Egyptian economy during the 19<sup>th</sup> and early 20<sup>th</sup> century. Composed of both resident foreign and local economic elites the commission formed to promote the separation of Egypt from metropolitan interests which were negatively affecting the local business of both groups. The *Rapport de la Commission du Commerce et de l'Industrie* published in 1918 represented the post-war goals of the emergent Egyptian capitalist class. It was believed that a program of state-led import-substitution industrial development would help spread economic risk by diversifying the cotton-dominated local economy so that the country would not be bound to a single source of revenue and in the process create a self-reliant economy.<sup>16</sup> Diversification of Egypt's economy would break the country's dependency on Europe while building a local industrial sector which, it was hoped, would become the engine of local economic development and prevent shortages as had occurred during the First World War by expanding the businesses of the emergent capitalist class into import-substitution industries. The Egyptian capitalist elite anticipated that their plans would garner the support of the state following the nation's anticipated independence after the war.

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<sup>16</sup> Badrawi, Malak. *Isma'il Sidqi (1875-1950): Pragmatism and Vision in Twentieth Century Egypt*. (London: Curzon Press, 1996), 8.

Despite their cooperation on the Commission of Commerce and Industry with the resident foreign elite the local economic elite would break away from their counterparts as the furor of the nationalist movement in Egypt increased during the war. This change developed by the outbreak of World War I as European capital permeated every sector of the Egyptian economy and in the economic sphere, “Egyptians felt as if they were aliens in their own country.”<sup>17</sup> This feeling of subservience made it incumbent on the local elite to find ways to extricate the country from its economic morass as many from the local economic elite and landowning class argued that complete independence needed to be buttressed by economic independence.<sup>18</sup>

In opposition to local efforts, Britain made plans to maintain their dominance of Egypt during the postwar period. The reforms proposed by the British were embodied in the Milner-Zaghlul agreement of 18 August 1920. The solution conceived of in this agreement would place Britain as the protector of foreign privileges guaranteed under the capitulations and the British would endeavor to secure from the capitulatory powers a transfer of their extraterritorial rights to Great Britain.<sup>19</sup> This proposed agreement for all intents and purposes would have put the British in control of the capitulatory regime enabling them to determine when extraterritorial actions were desirable, strengthening the position of the British in Egypt. British policy would continue to seek the diminution of

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<sup>17</sup> Tignor, Robert. State, Private Enterprise, and Economic Change in Egypt, 1918-1952. (Princeton, N.J.: Princeton University Press, 1984), 15

<sup>18</sup> Tignor, Robert. “The Egyptian Revolution of 1919: New Directions in the Egyptian Economy”. Middle East Studies 12 (1976), 46.

<sup>19</sup> Brinton, The Mixed Courts of Egypt, 15 and U.S. Department of State. Foreign Relations of the United States, 1922 v.1. (Washington D.C.: GPO, 1923), 903-907.

the capitulations in Egypt throughout the interwar period, a move opposed by many of the capitulatory powers.

Following Britain's unilateral declaration of Egyptian independence in 1922, limited by British insistence on the Four Reserved Points, Egypt finally had an opportunity to initiate proposed economic reform.<sup>20</sup> Yet, this opportunity was squandered during the early 1920s by the political elite. Saad Zaghlul, the leader of the nationalist Wafd party, was a political, as distinct from an economic, nationalist and to him the movement for political independence took precedence over economic concerns. Thus, he was opposed to the movement to boycott British products (1922), and in campaign speeches Zaghlul cautioned that the burdensome economic legacy of colonialism would require a long time to throw off. He added that his role was to instill a new spirit of unity in the country rather than forge a complete economic and political break with Europe.<sup>21</sup> Lacking support from the upper echelons of the state Egyptian ministries proved unable to alter the economic obligations tying Egypt to Europe.<sup>22</sup> With little support from the political elite and the state, which chose not, or were unable, to fight foreign domination of the Egyptian economy, the industrial development schemes of the local economic elite which had hoped for state assistance were forced to change course.

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<sup>20</sup> The Four Reserved Points maintained British control 1) in the security of communications of the British Empire in Egypt, 2) the defense of Egypt against all foreign aggression or interference, either direct or indirect, 3) the protection of foreign interests in Egypt and the protection of minorities, and 4) the Sudan. In Royal Institute of International Affairs. Great Britain and Egypt 1914-1951. (Westport, CT: Greenwood Press Publishers, 1978), 8.

<sup>21</sup> Tignor, State, Private Enterprise, and Economic Change in Egypt 1918-1952, 81.

<sup>22</sup> *Ibid*, 97.

The controlling influence of foreign economic arrangements and the failure of the state to undertake development programs in Egypt led those seeking opportunity to devise strategies to operate successfully within the local economy. The strategies employed were based in the extra-economic sphere (culture, society, and politics). The local economic elite devised strategies to challenge foreign domination of the Egyptian economy. Sometimes they relied on the momentum of the nationalist movement to influence patrons such as the local landowning elite and the state. Sometimes they manipulated foreign interest in their businesses to form cooperative ventures with foreign firms during the interwar period. Sometimes, especially after 1930, combinations of these strategies were employed simultaneously. Appropriate strategies were based on their utility, rather than upon a commitment to the nationalist movement.

The dichotomy between economic nationalism and cooperation with foreign interests has been embedded in arguments separating those apparently maintaining a nationalist position, referred to as the nationalist bourgeoisie, and those cooperating with foreign capital, the comprador class, into distinct segments of the local elite. According to Robert Vitalis such a model does little to explain the role played by the local economic elite in the development of the interwar Egyptian economy as the activities of those associated with these factions were virtually indistinguishable.<sup>23</sup> This thesis will follow Vitalis and avoid the terms 'nationalist bourgeoisie' and 'comprador' as it will be shown they do not adequately explain the situation of the local economic elite during the interwar period in Egypt. Both followed a similar pattern to economic success during the

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<sup>23</sup> Vitalis, Robert. When Capitalists Collide: Business Conflict and the End of Empire in Egypt. (Berkeley: University of California Press, 1995), 291

period and in the end obtained controlling shares of their industrial ventures, a reality which formed the basis for an Egyptian controlled industrial sector which challenged foreign domination of the economy.

With foreign control of the Egyptian economy the role played by exogenous factors in the development of the Egyptian economy also needs to be discussed. Great Britain, confident in its position in the local market, and the United States, hoping to expand business in Egypt, were required to devise strategies to secure markets for the products of their industries following Egyptian independence as well. In addition to the British, the United States will be the focus here as its role in bringing about change in the Egyptian economy in the later 1930s and the industrial focus of its interests are most relevant to this study.<sup>24</sup> Due to the predominance of British influence in Egypt the British first attempted to maintain direct control of the economy but would eventually begin supporting partnerships between local and foreign business to maintain their position in the local market. Their partnerships would provide the local economic elite with capital, while accomplishing their goal of maintaining market share.

American firms, on the other hand, continued to rely upon the capitulations and government lobbying to protect their interests from the competition of both European and local businesses. This policy remained in place until the later 1930s when the changing nature of American interests locally and internationally would lead American firms to copy the British partnership model and end their support of continued foreign control

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<sup>24</sup> Other foreign powers were not heavily involved in industry. French capital was concentrated in the agricultural sector where French capital backed agricultural banks. Italian influence was most pronounced in the construction sector and many laborers were of Italian extraction. Belgium was represented in industrial ventures by the Empain Group, which will be discussed in the course of this thesis.

over the economy. This shift would result in an alliance between the British and the United States supporting the diminution of the capitulations at the Montreux Convention of 1937.

By reaffirming the place of extra-economic and exogenous factors it will be argued that during the interwar period, despite foreign control and the lack of state support, Egypt's local economic elite were able to develop a locally controlled industrial sector with the help of foreign capital. Yet these efforts did not end Egypt's economic dependence. Egypt's economic dependence would not end until they obtained support for the diminution of the capitulations from the foreign powers. To recover the extra-economic and exogenous factors that were the primary economic forces during the interwar period this thesis will reinsert the extra-economic and exogenous economic factors at work in Egyptian economy back into the narrative of the country's interwar industrial development. The business strategies utilized by Egypt's local economic elite and foreign interests in Egypt during the interwar period offer the opportunity to do so. These groups, the local economic elite and foreign interests, will be treated separately except when their paths converge as these groups were often in competition with each other during the period. This has been done to clarify their activities.

Three major periods will be discussed. Chapter two will focus on the period from 1920 to 1927 when the local economic elite and the emergent interests of the United States first devised strategies to break into the British dominated Egyptian economy. Chapter three will focus on the period from 1927 to 1937 when both the local economic elite and American interests were forced to adjust their strategies to maintain their place

within the Egyptian economy during the Great Depression. Lastly, chapter four will focus on the Montreux Convention of 1937, also known as the 'Capitulations Conference', where much of the colonial economic and judicial controls of the foreign powers are diminished, leading to a new relationship between Egypt and the foreign powers interested in Egypt in the years before the outbreak of World War II.

## II. THE EGYPTIAN ECONOMY 1920 TO 1927: THE SEARCH FOR ECONOMIC VIABILITY

Egypt's economy between 1920 and 1927 was a battleground between the local economic elite and the foreign powers both seeking to develop their local business interests using the countries newly granted 'independence' as a spring of development. At the forefront of the local economic elite were men such as Talat Harb and Ahmed Abbud who would elaborate a discourse of economic nationalism, the use of nationalist rhetoric to bolster the narrow economic interests of its promoter, from 1920 to 1927 to market their emergent industrial endeavors in the foreign dominated Egyptian economy.<sup>25</sup> During this time-span the local capitalist class promoted their ventures using local social, cultural and political connections to supply the capital needed to initiate their industrial ventures.

Outside Egypt the country's 'independence' seemed to offer a potential boon to business. The United States took particular interest in the opportunities presented to business in Egypt, a market under British domination, while the British sought to avoid confrontation with their Egyptian counterparts. Throughout much of the interwar period the United States would promote American business in Egypt using a combination of

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<sup>25</sup> Roger Owen, "The Ideology of Economic Nationalism in its Egyptian Context: 1919-1939," in Intellectual Life in the Arab East, 1890-1939. ed. Marwan R. Buheiry. (Beirut: Center for Arab and Middle East Studies, 1981), 1. Owen argues that the momentum of Egyptian nationalism was used to further the economic interests of its promoters whose "set of ideas is not to provide comprehensive or totally satisfying answers to problems but rather to persuade people to act in a certain way or to allow their holders to improve their own social position and to combat rival and potentially dangerous sets of ideas which appear to threaten it." Egypt's local economic elite used economic nationalist to persuade locals to support their businesses from 1920-1927 and hide their earlier affiliations to foreign interests. From 1927 to 1939 this position shifted and was used to convince foreign business of their usefulness in their efforts to maintain the position of foreign firms in the Egyptian market while legitimating these ventures as benefiting the national interests.

lobbying efforts and legal maneuvers in the Mixed Courts. This policy demanded the continuation of the capitulatory system upon which the courts were based. Maintaining capitulatory rights would become the guiding force behind American relations with Egypt during much of the interwar period. The British remained relatively inactive during the period, attempting to defuse situations which could lead to the irritation of the nationalist movement, and, potentially, affect their continued control over Egypt and the Suez Canal.

From 1920 to 1927 the relationship between local and foreign elements was less than ideal. The local economic elite had to distance themselves from their connections to foreigners by supporting the nationalist movement in order to get their emergent ventures off of the ground while foreign business saw nationalist activities as a threat to their success in the domestic market. Policies adopted during this period were determined by this dichotomy. Cooperation between these two blocks would not occur until the initial enthusiasm of the 1919 Revolution had faded in the closing years of the 1920s, a topic which will be the focus of chapter three.

### **TALAT HARB AND AHMED ABBUD: ECONOMIC NATIONALISM AND PRE-1927 ECONOMIC ACTIVITIES**

Two individuals, Ahmed Abbud and Talat Harb, are emblematic of Egypt's interwar economic elite, a group which would use a variety of strategies to establish business ventures during the interwar period. These individuals will be the primary focus of this thesis as they have been the most studied of this group by historians and were

disputably the most important of the Egyptian economic elite during the period. Talat Harb, the founder of Bank Misr and the Misr Group, has been virtually elevated to hero status in the nationalist historiography of the post-1952 era due to his apparent resistance to foreign economic exploitation.<sup>26</sup> Much of this status has been derived from his pre-World War I writings. At this time, Harb wrote extensively concerning Egypt's need to liberate itself from colonial domination. In 1910 the Suez Canal Company's negotiations with the Egyptian government concerning the extension of the Suez Canal lease from 1968 to 2008 led Harb to write a book entitled *Qana al-Suwis* (The Suez Canal), which provided a close examination of the Suez Canal Company's balance sheets and an argument focusing on the lack of return reaped from the labor of the Egyptian nation, whose hands built the canal.<sup>27</sup> These early tracts focused on the effects of European capital on the Egyptian economy, an argument that implied the need for more Egyptian control over their economy, primarily through the creation of banks independent of foreign control.<sup>28</sup> Bank Misr and the companies associated with it would come to embody these early anti-colonial tracts written by Harb. Furthermore, these nationalist tracts would serve as a critical element in Harb's future marketing strategies.

Despite Harb's early anti-colonial writings and the nationalist aura surrounding Bank Misr, he understood from an early date that foreign capital would be needed to develop the Egyptian industrial sector in the future when the political situation would

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<sup>26</sup> For more on the historiography of the post-52 era see Gran, Peter. "Modern Trends in Egyptian Historiography: A review article". *International Journal of Middle East Studies*. 9 (1978)

<sup>27</sup> Tignor, Robert. "Bank Misr and Foreign Capitalism". *International Journal of Middle Eastern Studies*. 8 (1977), 164.

<sup>28</sup> Harb brought up the need for an Egyptian national bank in front of the Egyptian National Congress in 1910 in Davis, Eric. *Challenging Colonialism: Bank Misr and Egyptian Industrialization, 1920-1941*. (Princeton: Princeton University Press, 1983), 73.

promote cooperation between the local economic elite and foreign business. This position was based on Harb's previous associations with foreigners in Egypt, a fact not uncommon amongst the local economic elite. Foreseeing cooperation with foreigners in Egyptian-controlled partnerships was influenced by Harb's pre-World War I experience in the foreign-dominated Egyptian economy. Harb had been appointed director of the Kom Ombo Company in 1905. Harb acknowledged that Felix Soares, a member of Alexandria's Jewish community and founder of the Kom Ombo Company, had taught him a great deal about business and economics. Most important for his future career, Harb became acquainted with the system of international finance through his relationship with Soares, who maintained close ties to Jewish capital in Europe mainly through the German Deutsche Orient Bank.<sup>29</sup>

From the beginning of Bank Misr in 1920, a company founded with strictly Egyptian capital, Harb began to prepare the nation for future partnerships with foreign interests. Harb justified his seemingly contradictory position by stressing the national aspect of the bank and the industries which would be associated with it in the future. In his speech celebrating the opening of Bank Misr, Harb stated that the bank "was prepared to benefit from any foreign expert as a technical advisor or as an employee but not as a ruler."<sup>30</sup> Harb saw the need for foreign capital and expertise in the future development of Egyptian industry but the domination of these industries by foreigners would be reduced in the Misr Companies, which would only seek the assistance of foreigners in the future development of Egyptian industry after the local elite had gained a measure of control.

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<sup>29</sup> Davis, 93.

<sup>30</sup> Tignor, Robert. "Bank Misr and Foreign Capitalism", 169.

Harb was already an accepted figure among not only the resident foreign but the Egyptian elite prior to the establishment of Bank Misr in 1920. Harb was acquainted with much of the local landowning elite during his time as translator for the legal section and eventually the director of the office for the settlement of disputed claims of the *al-da'ira al-saniya* from 1888 until 1905.<sup>31</sup> Harb was also appointed general manager of the agricultural estates of Umar Sultan. This appointment “afforded Harb entree into the world of [Egypt’s] large landlords - an advantage he was to exploit when he endeavored to raise funds for Bank Misr.”<sup>32</sup> These connections clearly helped Harb during the early years of Bank Misr, a period during which he relied exclusively upon the support of the landlord class. Ali Islam, a landed magnate from Beni Suef, “journeyed around his community calling upon people to purchase shares [in Bank Misr].”<sup>33</sup> With the support of Egypt’s large landlords, who would go on to provide much needed capital both out of their own pockets and through advocacy, Talat Harb was able to successfully establish and operate Bank Misr and its associated industries with local capital during the 1920s.

Connections with Egypt’s political elite legitimized Harb’s banking venture. The idea of a locally controlled bank did not garner wide support among the landowning elite as the local banking system, which underwrote the properties of the landowning class, was firmly under the control of foreign interests.<sup>34</sup> This situation continued until Harb obtained the assistance of one of Egypt’s most powerful men, Midhat Yakin, the *Muhafiz* (Governor) of Alexandria, who agreed to work hand-in-hand with Harb in the

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<sup>31</sup> Davis, 91. The *al-da'ira al-saniya* were vast estates in southern Egypt.

<sup>32</sup> Tignor, *State, Private Enterprise, and Economic Change in Egypt, 1918-1952*, 62

<sup>33</sup> *Ibid*, 65.

<sup>34</sup> The French controlled Crédit Foncier Egyptien provided many loans to the Egyptian landowning class.

establishment of his banking venture. Yakin not only provided Harb with political legitimacy at the highest levels but provided him with another investor.<sup>35</sup> Yakin's moral, political and financial support provided Harb with the clout needed to initiate bank operations.

Bank Misr was depicted as a direct outgrowth of the nationalist movement despite Harb's early employment by and connections to foreign interests. The 1919 Revolution forced the British to allow the participation of Saad Zaghlul and the Wafd delegation at the Paris Peace Conference, an event which Egyptians hoped would bring about independence from Great Britain. Popular euphoria surrounding the nationalist movement reached a crescendo following Zaghlul's release, creating an instant captive "market" for Bank Misr. According to Eric Davis, "Not only did the revolution hasten the opening of the Bank Misr but the subsequent nationalist support for the bank was crucial in keeping it solvent during its critical first year of operations."<sup>36</sup> Harb and Bank Misr rode the nationalist wave following the 1919 Revolution to economic success. Enveloped in the nationalist aura, which had widespread appeal following the 1919 revolution amongst the populace, Bank Misr was able to break into the foreign dominated banking sector. This feat was accomplished with the backing of capital provided by Egypt's big landowners and the support of political elites marketed under the guise of nationalism.

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<sup>35</sup> Tignor, "The Egyptian Revolution of 1919", 56. *Muhafiz* refers to the governor of Alexandria Governate.

<sup>36</sup> Davis, 112.

Nationalist fervor became central to the marketing of Harb's business ventures during the period from 1920 to 1927. After the founding of Bank Misr in 1920, Amin al-Rafi'i, editor of the nationalist newspaper *al-Akhbar*, promoted the bank by running front-page advertisements that encouraged Egyptians to buy bank shares and deposit their savings in the bank.<sup>37</sup> Promotion in the nationalist press concerning the national character of Bank Misr was cultivated by Harb as when he held a 'national' celebration at the Bank Misr, including the renowned nationalist poet Ahmad Shawqi, who composed a poem for the occasion.<sup>38</sup> Talat Harb threw 'national' celebrations during the bank's anniversary celebrations each year, actions which gained authenticity with the populace aware of his earlier anti-colonial writings. These nationalist activities were designed to increase popular support for the bank, which needed to attract additional depositors in order to remain financially viable since Bank Misr's start-up capital of L.E. 80,000 represented only a symbolic challenge to the traditional dominance of foreign capital in Egypt.<sup>39</sup>

Ahmed Abbud rose from humble origins in comparison to Harb. After studying engineering in Glasgow, with the financial assistance of the nationalist leader Shaykh 'Abd al-'Aziz Shawish, he worked as an engineer and contractor in Iraq and Syria at the behest of Ottoman authorities from 1913 to 1920.<sup>40</sup> Returning to Egypt in 1920, Ahmed Abbud made his initial entry into the economic scene as an agent of foreign business interests as had Harb. Abbud's post-war strategy did not attempt to establish businesses

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<sup>37</sup> Tignor, Robert. "Bank Misr and Foreign Capitalism", 163.

<sup>38</sup> *Ibid*, 166.

<sup>39</sup> Tignor, *State, Private Enterprise, and Economic Change in Egypt, 1918-1952*, 67.

<sup>40</sup> Tignor, Robert L. "The Egyptian Revolution of 1919", 51 and Davis, 152

using strictly local capital; he covertly utilized connections to foreign capital beginning with his earliest ventures in the construction industry, and later became the representative of British manufacturing firms competing for contracts with the Egyptian government during the 1920s to raise capital for his personal industrial ventures. Edward Cook, the British governor of the British-controlled National Bank of Egypt, gave Abbud “an authoritative and unqualified endorsement” and “testified to the businessman’s (Abbud’s) integrity in his dealings with British businessmen.”<sup>41</sup> Such linkages to foreign interests consequently led historians to label Ahmed Abbud a comprador despite his Egyptian ethnicity.<sup>42</sup> Considering that his business relationships were with British economic interests, such a negative label is not a surprise. But despite his links to foreign economic interests, Ahmed Abbud also maintained a position of economic nationalism in order to successfully market his own industrial ventures during the 1920s with his primary customer and source of capital, the Egyptian state.

Ahmed Abbud maintained links to the Wafd party in order to promote business dealings in Egypt. In Abbud’s case his strategy resulted in his adherence to nationalism while at the same time working with foreign capital throughout his career. His support of the nationalist cause was most common when his economic interests were at stake. In 1920 during the drawn-out debate surrounding the electrification of the Aswan Dam, Abbud used nationalist appeals in a press campaign meant to thwart the plans of an English firm that intended to carry out the scheme. The nationalist newspaper *Al-Akhbar*

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<sup>41</sup> Vitalis, Robert. “On the Theory and Practice of Compradors: The Role of Abbud Pasha in the Egyptian Political Economy”, 295-297.

<sup>42</sup> Abbud is given this label in Tignor, Robert L. State, Private Enterprise, and Economic Change in Egypt, 1918-1952. (Princeton: Princeton University Press, 1984)

reported in the press campaign, reportedly initiated by Abbud, that the scheme was designed to separate Egypt and the Sudan, a point of particular concern to the nationalist movement which desired to maintain Egyptian influence over the Sudan.<sup>43</sup> By raising the antagonism of the nationalist movement, Abbud was able to block the 1920 electrification scheme, keeping alive the possibility of receiving government support for his own proposal to electrify the Aswan Dam.<sup>44</sup> Unsuccessful in 1920, as the Egyptian authorities decided to not undertake the project at the time, Abbud would devise a new strategy in his effort to obtain rights to electrify the Aswan Dam in the following decade.

Following the establishment of Bank Misr, Talat Harb sought to develop industries using funds from the bank and his supporters in the Egyptian elite in his effort to fulfill the goals of the local economic elite. The earliest Misr Group industrial ventures suffered from a lack of capital despite this local support. Bank Misr began several industrial ventures during the 1920s with the use of strictly Egyptian capital. Misr Printing Co., Misr Paper Co., Misr Ginning Co., Misr Transport Co. and Studio Misr were founded between 1922 and 1926. These companies displayed signs of self-exploitation as described by John T. Chalcraft. During the late 19<sup>th</sup> and early 20<sup>th</sup> century, Chalcraft has shown that local ventures, in an effort to continue to pursue their livelihoods, were engaged in self-exploitation “whereby they (craft producers) accessed inputs and sold their products at rates which did little more than permit them to reproduce

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<sup>43</sup> Tignor, *State, Private Enterprise, and Economic Change in Egypt, 1918-1939*, 95, 138.

<sup>44</sup> This scheme is the focus of Vitalis, Robert. *When Capitalists Collide: Business Conflict and the End of Empire in Egypt*.

their existing capital.”<sup>45</sup> Each of these Misr companies was founded with low start-up capital, a situation that indicates a lack of mechanization as machines, such as would be found in ‘modern’ factories were expensive, requiring more start-up capital.<sup>46</sup> In addition, these companies showed little or no profit<sup>47</sup>, a situation that matches Chalcraft’s analysis of craft production in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. Misr Printing Co. was founded with only L.E. 5,000 of capital. Misr Paper Co. was started with L.E. 30,000 start-up capital and never actually started production after the Bank’s board came to the realization that the company was under capitalized to have an opportunity for success.<sup>48</sup> These ventures served as symbols of Egyptian economic independence; but they did not represent major competition to foreign interests during this period, which continued to dominate the most profitable sectors of the Egyptian economy from 1920 to 1927. The major factor in the survival of these industries was the euphoria surrounding the nationalist movement cultivated by Harb through his connections to the landowning elite and the nationalist movement. Considering their lack of profitability, these industries represented marketing tools rather than a challenge to foreign domination, allowing the Misr Group to survive the lean years of the 1920s when local capital was

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<sup>45</sup> Chalcraft, John. The Striking Cabbies of Cairo and Other Stories: Crafts and Guilds in Egypt, 1863-1914. (Albany: State University of New York Press, 2005), 10.

<sup>46</sup> According to El-Gritly in 1937 93% of establishments did not use motive power see A.A.I, El-Gritly. The Structure of Modern Industry in Egypt. (Cairo: Government Press, 1948), 489. The lack of mechanization in Egypt was seen as a result of self-exploitation, which produced little surplus capital for reinvestment, in addition to labor abundance in Chalcraft, 142-143.

<sup>47</sup> The lack of profitability of these firms is blamed on brand loyalty amongst the Egyptian people who still preferred foreign brands despite nationalist sentiment in El-Gritly, 368. This view is furthered supported by the efforts of foreign cigarette manufacturers, such as the American firm Eastern Tobacco, which bought local brand names in the early decades of the 20<sup>th</sup> century from local Greek firms in Owen, Roger. “The Study of Middle Eastern Industrial History: Notes on the Interrelationship between Factories and Small-Scale Manufacturing with Special References to Lebanese Silk and Egyptian Sugar, 1900-1930”. International Journal of Middle Eastern Studies. 16 (1984), 483

<sup>48</sup> Davis, 145 and Davis, 129.

scarce and the political situation militated against cooperation with foreign interests.

With his industrial ventures lacking in competitiveness during the period from 1920 to 1927 Harb devised a new strategy in 1927 to challenge foreign domination of the local economy.

Government contracting offered Abbud entry into the Egyptian economy from 1920 to 1927, and would remain a source of capital for his personal business ventures throughout his career. Abbud credited Marqus Hanna, minister of finance under the Wafd government of 1924 and later the minister of finance under Abd al-Khalaq Tharwat, with helping him obtain his first business with the state.<sup>49</sup> The dredging of Egypt's system of canals had been monopolized until that time by two British firms. Following Abbud's badgering, the Egyptian government gave part of the contract to Abbud at the expense of the British firms with whom he had been competing.<sup>50</sup> Abbud, in recognition of the support offered by the nationalist movement, continued to maintain his political affiliations following his first government contracts.<sup>51</sup> The benefits of nationalist political affiliation were clear in the case of Ahmed Abbud, who was able to use his social connections to the ruling party to obtain government patronage for his business ventures despite his simultaneous connections to foreign interests. Without the help of his associates in government ministries, Abbud would never have been able to break into the foreign-dominated economy during the period. Government patronage, obtained through his support for the nationalist political movement, provided Ahmed

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<sup>49</sup> Vitalis, "On the Theory and Practice of Compradors", 295.

<sup>50</sup> "Pharaoh of Free Enterprise," *Time*, Aug. 10, 1953.

<sup>51</sup> Vitalis, *When Capitalists Collide*, 50, 54. Abbud participated in the treaty negotiations between Tharwat and Chamberlain in August of 1927.

Abbud with economic opportunities that would allow him to establish his own fledgling business empire during the 1920s.

### **AMERICA IN THE EGYPTIAN ECONOMY 1920-1927: CAPITULATIONS AS PROTECTION**

While the Egyptian economic elite were able to use the momentum of the nationalist movement and their social, cultural, and political connections to break into the foreign dominated economy, foreign interests desiring expansion into the local market were forced to react to the local political situation, British economic control and the tactics of the local economic elite. Emerging from World War I as an industrial power the United States sought to maintain its interests through the Mixed Courts and political channels between American and Egyptian representatives. These tactics were seen as the best method to ensure the interests of American firms in the country in the face of the nationalist movement and the predominance of the other colonial powers in the Egyptian economy. The British attempted to block these maneuvers, which they saw as inimical to their control of the country as they raised the ire of nationalist forces in Egypt.

American business saw Egypt's 'independence' as a potential boon and sought to acquire an increased share of the Egyptian market following World War I. The development of the American merchant marine during the war helped to maintain a direct line between the two countries. Prior to World War I there had been no direct link between the United States and Egypt with most American goods coming by way of

England, Germany, and Italy.<sup>52</sup> Direct trade links offered American companies the opportunity to transport their goods to the Egyptian market without relying on European middlemen as they attempted to promote the Middle East as a market for the products of the United States.

The American Chamber of Commerce of the Levant, established in Istanbul, Turkey in 1920 led the movement to promote Middle Eastern markets. Lewis Heck's "New Avenues of Trade in the Near East," published in the July 1920 edition of the *Levant Trade Review*, the monthly journal of the American Chamber of Commerce of the Levant, focused on the new opportunities awaiting American business in the Middle East following World War I. Heck offered a description of the journal's purpose, connecting it to the lack of interest amongst the American people to entangle themselves in the affairs of the Middle East. Heck wrote:

It has been apparent that the American people are not disposed in the present circumstances, and with the limited amount of accurate and unbiased information regarding the Near East that has so far been presented to them, to assume the responsibilities of a mandate. Private individuals and companies have, however, shown more confidence and initiative.<sup>53</sup>

With little interest emanating from America, the American Chamber of Commerce of the Levant took it upon themselves to promote the Middle East as a market for American products, an initiative led by American business interests such as The Standard Oil Company of New York and Singer Sewing Machines.<sup>54</sup> According to Heck countries

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<sup>52</sup> Mahmoud K. Issa, "Trade between Egypt and the United States," (PhD diss., University of Minnesota, 1953), 41-42.

<sup>53</sup> Heck, Lewis. "New Avenues of Trade in the Near East". *Levant Trade Review*. 8 (July, 1920), 614.

<sup>54</sup> Standard and Singer are two of the most frequent advertisers in the *Levant Trade Review*. Standard supplied kerosene and lubricating oils throughout the Middle East while Singer's contributed sewing equipment to the textile mills of the Middle East.

such as Egypt which were already home to a native capitalist class would “offer the best opportunities to American capital.”<sup>55</sup> Heck continued that, “These Near Eastern countries have practically no modern industrial sector” and that, “The products of the native industries now meet only a small proportion of the needs of the population for finished goods, and for many years to come will not supply all of them.”<sup>56</sup> Implicitly Heck urged American firms to enter the Middle Eastern market by supplying goods to local merchants as a select group of firms such as Singer had already done, or by building factories in the Middle East to take advantage of the lack of industry in the Middle East.<sup>57</sup>

This campaign was also taken up by representatives of the United States government in Egypt and businessmen from major American firms in the domestic press. J. Morton Howell, the American Minister in Egypt, conveyed that “the recent proclamation of Egypt’s independence would affect American interests in Egypt considerably, pointing to the commercial importance of Egypt to the United States “which he believed could be trebled if proper attention were paid to the Egyptian market.”<sup>58</sup> American businessmen returning from Egypt also saw potential in the local market. Guy E. Tripp, President of the Western Electric Company, echoed the view of Howell upon his return from Egypt, saying that “trade between the United States and

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<sup>55</sup> Heck, 509.

<sup>56</sup> Ibid, 509.

<sup>57</sup> Singer has been shown to be one of the first American industries to seek a global market. In the Middle East Singer had business connections as early as the mid-19<sup>th</sup> century. For more see Kupferschmidt, Uri M. “The Social History of the Sewing Machine in the Middle East”. *Die Welt des Islams* 44 (2004)

<sup>58</sup> “Urges Trade with Egypt: Our Diplomatic Agent There Says We Could Treble Our Sales”. *New York Times*. April 24, 1922. pg. 4

Egypt should develop considerably in a few years.”<sup>59</sup> In anticipation of economic change under an ‘independent’ regime in Egypt American officials and businessmen seeking to open new markets advertised the potential they believed Egypt offered in their attempt to sway opinion away from America’s traditional isolationism from the affairs of the Middle East.

The press also highlighted the desire emanating from Egypt in establishing better trade relations with the United States following independence. According to the *New York Times*, Egyptians were “especially anxious to cultivate business relations with the United States.”<sup>60</sup> Such interest was welcomed in the United States following World War I as there was much surplus production in the United States which forced many industries to produce goods on part-time.<sup>61</sup> Excess production capacity following World War I was handicapped by the lack of infrastructure for American business in Egypt. According to the *New York Times* the United States needed to establish a bank in Cairo and Alexandria which “would serve to start trade moving between the two countries.” In addition an “equally important need in the development of Egyptian business is a permanent exhibition of our [American] products in Cairo and Alexandria.”<sup>62</sup> The model promoted would have continued American control over economic infrastructure, taking a cue from the pre-World War I activities of the European powers, while, in theory, removing American firms from local control.

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<sup>59</sup> “Guy E. Tripp Returns: Western Electric President Expects Good Trade with Egypt”. *New York Times*. May 7, 1922. pg. 2

<sup>60</sup> “Egypt and America: New Government Looks to Us for Development of Trade – Opportunities Abound”. *New York Times*. May 21, 1922. pg. 102

<sup>61</sup> Ibid

<sup>62</sup> Ibid

Even American Judges on the Mixed Court became involved in the push to promote trade between the United States and Egypt. American Judge Pierre Crabites, who was nominated to the bench of the Mixed Courts in 1911 and would go on to write many books and articles on Egyptian history, emphasized the potential of the Egyptian market for American business. According to Crabites “There are 14,000,000 prospective buyers of American goods in Egypt, and no inconsiderable proportion of them are wealthy.”<sup>63</sup> While certainly an exaggeration, considering that the mass of the Egyptian population was living in poverty, such remarks clearly meant to bring about interest in the Egyptian market amongst American business interests. Crabites argued that America would succeed in manipulating Egypt as a market based “on the personal qualifications of the individual salesmen and the superiority of our goods.”<sup>64</sup> Crabites’ belief in the superiority of American businessmen and goods led him to believe the United States would become a major player in the Egyptian market at the expense of the European powers already active in Egypt. In order to facilitate these potential opportunities the United States needed to devise strategies which would allow them to carve a niche in the Egyptian economy.

The first of these strategies would involve the Mixed Courts. The United States remained active on the Mixed Courts in the aftermath of the First World War, pursuing the maintenance of America’s capitulatory rights in Egypt. On the Mixed Courts this

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<sup>63</sup> Weil, Elsie. “Egypt Invites Bigger Trade”. *New York Times*. Sep. 26, 1926 pg. XX17 Crabites also held anti-British sentiments based on his upbringing as a Bourbon Democrat in New Orleans in the aftermath of the American Civil War where he came to despise ‘foreign’ occupation. For more see Parkinson, Brian. “A Creole in Cairo: Judge Pierre Cabrites’ Thoughts on the Middle East”. *Louisiana History* 49 (2008), 315-334.

<sup>64</sup> Ibid

effort manifested itself into a concern for equality of representation amongst the capitulatory powers on the bench of the Mixed Courts. The United States desired to achieve equality based upon several 19<sup>th</sup> century documents which were considered by American officials to form the basis for their concerns. First, American acceptance of the Mixed Court system remained contingent on their ability to obtain impartial justice, harking back to a clause of the 1876 proclamation of Ulysses S. Grant that cleared the way for American participation in the Mixed Courts in that same year.<sup>65</sup> The argument embodied in the 1876 proclamation, that American participation was contingent on their ability to obtain justice would continue to appear in American thinking concerning the equality of representation on the Mixed Courts.

The second pillar of the American equality argument was again based upon a decades old letter from the British representative Sir Henry Elliot at the Constantinople Convention during which the Mixed Courts had been established. Elliot wrote that, “Her Majesty’s government who concur in the view of the Khedive as to the importance of avoiding giving any preponderance to one nationality over another in the selection of judges.”<sup>66</sup> This letter was interpreted by the United States to imply that it was the Egyptians (here represented by the Khedive) who had established the concept of equality of representation on the Mixed Courts amongst the capitulatory powers. The Egyptian Minister for Foreign Affairs Ziwar Pasha replied that in addition, as the letter had never been accepted by the Egyptian government, “this letter cannot be considered a

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<sup>65</sup> U.S. Department of State. Foreign Relations of the United States, 1922 v.1 (Washington D.C.: GPO, 1923), 108.

<sup>66</sup> U.S. Department of State. Foreign Relations of the United States, 1927 v.2 (Washington D.C.: GPO, 1928), 563.

convention between the Britannic and Egyptian governments.”<sup>67</sup> While the Egyptians rejected their position it is clear that the United States was willing to continue pushing capitulatory claims, regardless of how tenuous those claims were, in order to ensure equality amongst the powers in Egypt and to protect their interests.

Maintaining impartiality and equality were the methods by which the United States hoped to retain a measure of control over the local economic investments of American interests during the period. American concern over the equality of representation on the Mixed Courts would pique whenever there was an increase in the representation of other powers on the court or when there were plans to increase the number of justices on the bench. Smaller powers from the inception of the courts had seen their number of judges as a way to influence local events and attempted to pack the court with justices from their respective countries.<sup>68</sup> As a self-proclaimed major capitulatory power, a position others such as Britain and France scoffed at, the United States began arguing forcefully for at least a return to equality of representation on the Mixed Courts if not an increase as a right of the United States accorded by their status.

This strategy had the ability to gain traction as the Mixed Courts as each capitulatory power had the right to withdrawal from the arraignment when they deemed it was not protecting their interests, an action which would reinstitute the full range of consular privileges. Even prior to Egyptian independence the United States asserted the right to withdraw from the Mixed Courts and served notice that the United States would not allow their rights to be trammled. Upon notification of this position the Egyptian

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<sup>67</sup> Ibid, 564.

<sup>68</sup> Brinton, The Mixed Courts of Egypt, 29.

Minister for Foreign Affairs Sarwat Pasha responded that such an action would in fact give the United States a privileged position over the other powers and over the Egyptian government.<sup>69</sup> Due to ability of the United States to withdraw from the Mixed Courts such an action would not be in line with a previously agreed upon one-year notification period, leading to the reinstatement of consular jurisdiction, a situation which the Courts had been designed to prevent but which the United States saw as leverage in their effort to maintain oversight. Following assurances from the Egyptians that their rights would not be trammled the United States agreed to remain on the courts, with the caveat that their representation would be increased in the future to bring it into equality with that of other powers in Egypt.<sup>70</sup>

America's second strategy was an active lobbying effort by the American diplomatic mission in Egypt on behalf of American business interests already established there. American government support for commercial interests took the form of an attempt to undermine Egyptian efforts to increase their control over the local economy by insisting on the legal rights of American corporations. This support often times resulted in the United States lobbying on behalf of American corporations with both Egyptian and British officials instead of such claims adjudication before the Mixed Courts. The mere appearance of discrimination was enough to bring about action on the part of Egyptian authorities and their British counterparts, both wishing to avoid the public airing of grievances before the Mixed Court, a situation sure to arouse nationalist sympathies.

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<sup>69</sup>U.S. Department of State. Foreign Relations of the United States, 1922 v.1 (Washington D.C.: GPO, 1923) , 107.

<sup>70</sup>Foreign Relations of the United States, 1922 v.1, 108

In 1927 the Vacuum Oil Company brought an instance of what was perceived as discrimination to the attention of American authorities, providing an opportunity for them to lobby on behalf of an American economic interest. In a letter from Vacuum to the Egyptian Minister of the Interior on 12 May 1926 the company complained that, “Whereas we spent large amounts of money in providing proper storage tanks on shore and taking every possible precaution against accidents, these small [local] importers, who had little or no experience in petroleum, were permitted to store and handle petroleum in a way that constituted a grave danger.”<sup>71</sup> As a capitulatory power firms based in the United States were supposed to obtain the same treatment as enjoyed by these Egyptian firms, if such treatment was not forthcoming American firms had recourse to the Mixed Courts where their disputes could be adjudicated. These small Egyptian importers were allowed to store petroleum in floating barges in Alexandria Harbor which the Vacuum Oil Company felt was both a danger and most importantly unfair since they had been required to spend large sums of money on proper storage, a requirement that the smaller local importers were not being held to. In the view of company officials this situation constituted a discriminatory practice on the part of the Egyptian authorities who, in their opinion, had allowed it to occur, perhaps out of their nationalist sympathies or through dealings such as those made with Harb and Abbud.

Continued discrimination in the commercial relations of an American multinational would lead the United States to begin pushing the demands of the Vacuum Oil Company through diplomatic channels with the Egyptian government and British

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<sup>71</sup> Foreign Relations 1927 v.2, 571. The United States indicates that these importers were Greek, by which they are assumed to be referring to the local Greek population of Egypt.

authorities. After studying the complaint of the company Minister Howell agreed with the analysis put forward by Vacuum in their earlier written complaint to the Ministry of the Interior. Following several months without a reply to the original complaint Howell wrote directly to Minister of Foreign Affairs Sarwat Pasha. Howell believed that, “It would appear that these small importers of this product (petroleum) are carrying on not only in an illegal manner but in a manner prejudicial...to the safety of these various companies that are properly installed for the transaction of their business in this product.”<sup>72</sup> It was decided that the prejudicial nature of this situation called for further lobbying by American authorities with the government in an attempt to rectify the situation.

After continued inaction by Egyptian authorities on the storage issue in Alexandria Harbor the United States reverted to dealing with the British who were known to be the power behind the Egyptian ministries. Lobbying by *Charges d’Affaires* North Winship and Minister Howell brought the issue to the attention of Lord Lloyd who facilitated a conference with Cecil Campbell, the Acting British Financial Advisor to the Egyptian government. During the conference Vacuum was able to rebuff the argument put forward by the Egyptian government that the floating storage had been allowed due to the lack of land available for proper storage near the harbor. The Vacuum Oil Company had themselves recently bought land suitable for the construction of proper storage facilities.<sup>73</sup> Following the conference Campbell, obviously convinced by the presentation, notified Vacuum that, “no further grants or permits for floating storage

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<sup>72</sup> Foreign Relations 1927 v. 2, 572.

<sup>73</sup> Foreign Relations 1927 v.2, 580.

would be issued and that the companies now existing and holding permits would not be permitted to increase [their] stock.”<sup>74</sup> Without direct American diplomatic involvement this situation would have continued to be pushed aside by the Egyptian bureaucracy as it had been for many months. By going to the British authorities the Americans were able to leverage the Egyptians and demanded the same treatment for American firms as enjoyed by their competitors.

The support Vacuum received from the American legation in Egypt was an outgrowth of growing concerns emanating from the United States concerning access to oil supplies in the Middle East. While Egypt was not a major oil producer it was an important transportation link between the oil fields of the Middle and Far East and Western markets and a market for these products. In the years immediately following World War I oil executives such as Arthur Veatch of the Sinclair Oil Company were “of the opinion that under the system in operation at that time, it was politically impossible for the State Department to match or surpass the effort which the British Foreign Office put forth on behalf of its nationals.”<sup>75</sup> In consideration of this the State Department sought to emulate the British, providing their nationals with more support. Wesley Frost, the acting foreign trade adviser of the State Department, became chairman of a new economic liaison committee concerning the affairs of American oil companies. The committee issued a report recommending that US consular and diplomatic officials abroad make special efforts in assisting those American interests that were seeking oil

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<sup>74</sup> Ibid, 581.

<sup>75</sup> As quoted in Chester, Edward W. United States Oil Policy and Diplomacy: A Twentieth-Century Overview. (Westport, CT: Greenwood Press, 1983), 10

properties.<sup>76</sup> Following these decisions in Washington, the State Department authorized its agents “to lend all legitimate aid” to responsible American citizens or interests seeking oil rights.<sup>77</sup>

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<sup>76</sup> Chester, 8

<sup>77</sup> De-Novo, John A. “The Movement for an Aggressive American Oil Policy Abroad, 1918-1920”. The American Historical Review. 61.4 (1956), 869

### III. EGYPTIAN ECONOMY 1927-1937: NEW OPPURTUNITES DURING THE GREAT DEPRESSION

Changes in the local economy and shifts in the demands of foreign business finally presented the local economic elite with opportunities to make the most of Egyptian independence after 1927. Following their initial development efforts the local economic elite *en masse* ended their exclusive reliance on local sources of capital (the landlord class, state patronage) in order to expand their personal business ventures. This new strategy would garner the support of both British business and officials in Egypt, who by 1930, begin to cooperate with the local elite in an attempt to preserve their share of the Egyptian market during the Great Depression in the face of the economic downturn and increasing competition for their products in the local market. Economic nationalism continued to be a salient feature of these partnerships. 'National' industries become the preferred partner for British firms who viewed the social, cultural, and political connections formed during the early years of these businesses as beneficial to their operations.

The United States slowly began to adjust their policy during this period in the realization that their previous activities in support of the capitulations had become more untenable due to the success of the local elite's development efforts and due to the changing nature of American businesses in Egypt. Paralleling the local economic elite and the British, this policy shift resulted from the demands of business. The American internationally oriented industrial sector's expansion during the period was no longer reliant upon the capitulations in Egypt to remain competitive as they had established

themselves as world leaders. As a result the United States sought to cooperate with, rather than antagonize, their counterparts by 1930 to facilitate American interests in Egypt. These shifts were the antecedents to a major shift in American policy in 1937.

### **THE ADJUSTMENT OF ECONOMIC NATIONALISM 1927-1929**

The local economic elite would adjust their position of economic nationalism during the period from 1927 to 1929, maintaining it while openly partnered with foreign interests in their successful efforts to market these relationships based on their service to the national cause. Talat Harb partnered with a German cotton exporter, Hugo Lindemann, to form the Misr Cotton Export Company in 1927. Harb justified this move to the shareholders of the bank by emphasizing Lindemann's respect for Egyptian ways. Lindemann was portrayed as a foreigner in name only who spoke Arabic and whose father had also worked in the Egyptian cotton export sector.<sup>78</sup> Lindemann was chosen expressly because of his links to Egyptian society and culture. Most importantly, the control of the company was kept in Egyptian hands. The capital of the new company was divided equally between the two firms, but the president of the board of directors was an Egyptian.<sup>79</sup> This type of combination, where power was shared between local and foreign elements, would become a model for the development of the Egyptian industrial sector during the late 1920s and 1930s.

In 1927 Bank Misr began four ambitious commercial ventures in addition to the Misr Cotton Export Company that provide further evidence for the shift in Harb's policy

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<sup>78</sup> Tignor, "Bank Misr and Foreign Capitalism", 171.

<sup>79</sup> Ibid, 171.

vis-à-vis foreign capital. The Misr Spinning and Weaving Co., Misr Silk Weaving Co., Misr Linen Co. and the Misr Fisheries Co. were each founded with Egyptian capital. However, the charters of these companies were less restrictive than the 1920 charter of Bank Misr in that only three of the ten board members were required to be Egyptian.<sup>80</sup> This loosening of national control was symptomatic of the changing position of Bank Misr. The failure of the Egyptian government to respond to the needs of locally owned business “forced Bank Misr...on the new course of cooperation with foreign capital as there was no other alternative to provide sufficient capital for the realization of its economic program.”<sup>81</sup> While this cooperation had already begun in 1927 with the partnership between Harb and Hugo Lindemann, the reason for both was the same – the need for adequate capital. With no government financial help, the development projects that Bank Misr hoped to undertake in their second, more ambitious, round of industrial development led to cooperation with sources of foreign capital. This local search for capital was combined with foreign interests in maintaining their market share, a development that would bring about partnerships between the Misr Group and British economic interests in the coming years.

Ahmed Abbud facilitated his personal business ventures by manipulating his connections to both foreign business interests and the nationalist political movement during the late 1920s and 1930s as opposed to his earlier activities where he primarily

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<sup>80</sup> Tignor, “Bank Misr and Foreign Capitalism”, 170. The Egyptian Legislature will pass a Nationality Law in 1927 yet this law does not seem to behind the less restrictive charters of these companies. As a national business the Misr Group would not have been beholden to the Nationality Law, only foreign firms would have been required to diversify their boards.

<sup>81</sup> Marius Deeb. “Bank Misr and the Emergence of the Local Bourgeoisie in Egypt”. Middle Eastern Studies. 12:3 (1976), 77.

relied on his promotion of the nationalist movement to obtain state patronage. His social and political connections continued to play a major role in these endeavors, mirroring his activities during the period from 1920-1927. Abbud was linked to the Wafd until the death of Saad Zaghlul in 1927. In 1927 Abbud founded the pro-Wafdist weekly, *al-Kashaf*, which corresponded to the beginning of that year's debate surrounding electrification of the Aswan Dam. In April of 1927 Abbud's ally, Abd al-Khalaf Tharwat, took over as prime minister, backing Abbud's electrification scheme.<sup>82</sup> This partnership would end following the ascension of Mustafa Nahas as leader of the Wafd in 1928. This would lead Abbud to support the authoritarian order then being implemented under the premiership of Muhammad Mahmoud in 1928 and Ismail Sidqi during the 1930s. Abbud wrote that he "joined with other sectors of the business community in celebrating the movement against parliamentary decadence sweeping nearly all Mediterranean countries."<sup>83</sup> Abbud's maintenance of cordial relations with each successive regime in Egypt points to his use of political affiliations in the promotion of his business ventures. These relations would provide him with economic opportunities.

During the late 1920s Abbud was sought out by foreign corporations seeking local partners. In 1927 Abbud became the local agent for Metrovick, a British electrical engineering firm secretly sold to General Electric by the company's founder, British businessman Dudley Docker. Metrovick sought a local agent as it had become clear that there was little chance of electrifying the Aswan Dam without the help of local social and political connections to facilitate the venture. Abbud was especially attractive as his

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<sup>82</sup> Vitalis, *When Capitalists Collide*, 71.

<sup>83</sup> *Ibid*, 72.

close ally Abd al-Khalaq Tharwat was Prime Minister.<sup>84</sup> Abbud represented the Egyptian side of this arrangement which bid unsuccessfully for the electrification scheme owing to the Egyptian government's failure to award the contract to any of the groups competing for it as the project became enmeshed in political debates which held it up in parliament. While in this case unsuccessful, Abbud's relationship with Metrovick surely gave him an indication of the capital available via partnerships, a route which he would use successfully in his future development projects.

The 1920s closed with a report which gives a clear indication of the changing needs of Egyptian business moving into the 1930s. In 1929 Bank Misr published a report entitled the "Creation of Domestic Industries" which outlined the company's development plan for the next decade. The company favored a close alliance between private capital and the state and proposed that a small group of business and government leaders establish a comprehensive ten year plan for Egyptian industrial development. The report also called on the state to sponsor the foundation of an industrial development bank to mobilize local capital.<sup>85</sup> The failure of the state to adopt this plan exemplified the need for a continuation of cooperative arrangements with foreign firms, which already were successfully utilized by the Misr Group. With the state unable to support the development of an industrial bank foreign partners, and to a lesser extent state patronage, remained the only major source of capital for the local economic elite.

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<sup>84</sup> Vitalis, *When Capitalists Collide*, 64. The British government was unaware of this sale. Eventually they saw it for what it was, as a "British faced" American business.

<sup>85</sup> Tignor, Robert L. "Bank Misr and Foreign Capitalism". *International Journal of Middle Eastern Studies*, 8 (1977), 170. This plan was not adopted by the Egyptian government leading Harb to continue down the partnership path.

## **1930 TARIFF LAW AND THE ANGLO-EGYPTIAN PARTNERSHIP**

### **MOVEMENT**

1930 would mark a turning point in the efforts of the local economic elite in the development of their local business ventures. Under tariff protection the local elite would begin to successfully challenge foreign domination of the local economy by garnering a controlling share of new businesses formed in partnership with foreign interests. With the passage of Egyptian tariff reform in 1930 and the downturn in the global economy this arrangement became inviting to foreign business, leading to a proliferation of partnerships between the local economic elite and foreign firms. British firms, eager to maintain their market share in Egypt, would seek out local agents and industry for partnerships which facilitated their goals. The local economic elite would benefit from this new policy, positioning themselves as ideal partners due to their status as economic nationalists. Local economic elites such as Harb and Abbud were able to market their joint ventures to the Egyptian state and people as serving the national interest, building on their previous support for the nationalist movement in Egypt. Foreign firms benefited from the local connections Egyptian businessmen brought to bear on their partnership. Additionally a new group of Egyptian capitalists would be created by the 1930 tariff reform who would follow a different route than Harb and Abbud, celebrating their cooperation with foreign interests.

Following the expiration of the International Commercial Convention of 1861 in 1930, the Egyptian government was able to institute tariff reform for the first time, successfully making the most out of their by now nearly decade old 'independence' and

driving the movement toward partnerships between local and foreign business. Egypt's logic behind implementing tariff reform was to facilitate the import-substitution strategy which had been first proposed decades earlier by the Committee of Commerce and Industry as a response to the shortages experienced in Egypt during World War I owing to the lack of local industry. In 1930 the Egyptian government established a three-tiered tariff structure with a 4 percent tariff on necessities, 6-10 percent tariff on semi-manufactures and machines, and a 15 percent tariff on most finished manufactured goods.<sup>86</sup> Yet most importantly, these protective measures required foreign companies to devise new strategies to maintain their position in the Egyptian market during the Great Depression.

Following the initiation of tariff reform in 1930, the amount of capital invested from abroad increased exponentially. According to A.E. Crouchley's The Investment of Foreign Capital in Egyptian Companies and Public Debt, originally published as technical paper no. 12 of the Egyptian Ministry of Finance in 1931, four companies were founded on foreign capital with a total paid-up capital of L.E. 460,000, which had increased from only L.E. 75,000 in 1930. Eight companies were founded on local capital during the same period with a total paid-up capital of L.E. 1,078,130, an increase from L.E. 334,000 in 1930.<sup>87</sup> As attested by Crouchley, both foreign and local investment dramatically increased following the institution of tariff protections in 1930.

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<sup>86</sup> Owen and Pamuk, 38. The Italian Commercial Convention was only the last of the trade agreements to expire under the rubric of the capitulations, its expiration was needed to institute tariff reform under the capitulations as all countries had to be treated equally under this system. Each capitulatory power had had their own treaties with the Egyptian government.

<sup>87</sup> Crouchley, Arther Edwin. The Investment of Foreign Capital in Egyptian Companies and Public Debt. (New York: Arno Press 1977), reprint of the 1936 ed. published by Govt. Press Cairo, which was issued as

The increase in foreign investment benefited from a change in official British policy following the 1930 tariff reform. Foreign competition had cut into the market share of British firms in Egypt. Mohammad A. Rifaat outlined the problems faced by British textile firms in Egypt when he wrote the *Times* of London concerning the increasing popularity of Japanese textiles. Japanese textile manufacturers had undercut the products of Britain's textile manufacturers due to their "ability to produce goods of pattern corresponding to the Egyptian taste and better marketing organization for their articles."<sup>88</sup> Such calls on the British to rethink their business model by sympathetic Egyptians such as Rifaat drove home the need for a new business strategy with British officials.

In response the British, following a pattern that had already been used in South America, began sending trade missions to Egypt to "inquire into the present position of trade between the United Kingdom and Egypt and to report which action should be taken to develop and increase that trade."<sup>89</sup> Instead of maintaining the dominance of British products in the Egyptian market, cooperation with Egyptian manufacturers was seen as a way to regain a share of the Egyptian market. The mission recommended that, "Manufacturers, whose business does not warrant a separate branch in Egypt, should consider joining firms selling non-competitive and, if possible, complementary articles,

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a Technical paper no. 12 of the Egyptian Ministry of Finance, 102. Crouchley does not acknowledge companies founded by the local economic elite in cooperation with foreign capital; but it can be assumed that a number of these local companies were, in fact, joint-stock companies that included partnerships between foreign investors and the local foreign economic elite or were the individual endeavors of the local foreign economic elite which Crouchley includes in the local category according to Clawson, Patrick. "The Development of Capitalism in Egypt". *Khamsin*. 9 (1981), 89-90.

<sup>88</sup> Rifaat, Mohammad A.. "The Cotton Trade: Japanese Competition in Egypt," *The Times* [London] 25 Aug. 1933.:6

<sup>89</sup> "Trade with Egypt: A British Mission." *The Times* [London] 16 December 1930.:14.

to establish a joint office in Egypt under British management with locally recruited staff.”<sup>90</sup> The new partnership policy was enunciated officially for the first time by the confidential report of the trade mission. Owing to the decrease in the value of British exports to Egypt, the report saw combinations between Egyptian and British interests as the “wave of the future.”<sup>91</sup> This new wave was motivated by decreasing British market share due to foreign competition in Egypt. Egyptian firms which had already established themselves in the local market were ideally suited to fulfill the strategy being formed by the trade mission. With British market share challenged the textile giants of Britain endeavored to change their business model in Egypt over the coming years.

The influence of tariff reform on the actions of the local economic elite and their foreign partners would first be seen in Talat Harb’s promotion of Misr Air. Harb signed an agreement in 1931 with Airwork Ltd. of Great Britain in search of the technical expertise needed to begin such a complicated undertaking. On paper the agreement with Airwork Ltd. allowed the British to influence the development of Egypt’s skies and safeguarded Egyptian interests. Misr Air contributed 60 percent of the start-up capital and therefore was able to have six of the ten board members of the company.<sup>92</sup> In addition to these arrangements the agreement stressed the national nature of the endeavor. The manager of the company, who would be foreign, was to be “animated by a spirit of loyal collaboration...He must be devoted to the goals pursued by the Misr Company and especially the training of Egyptians for the discharge of all the technical, administrative,

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<sup>90</sup> “British Trade with Egypt: Report of the Mission.” *The Times* [London] 18 May 1931.:18.

<sup>91</sup> Tignor, “Bank Misr and Foreign Capitalism”, 172.

<sup>92</sup> *Ibid*, 173.

and commercial functions which the company undertakes.”<sup>93</sup> Harb presented his collaboration as a service to the national interest. Since Egypt lacked the necessary expertise to initiate such a venture using local sources of expertise, the charter of the company stressed that the foreign manager’s primary function would be to prepare the company for Egyptianization.

Harb’s partnership with Airworks Ltd. offered the Egyptian government an opportunity to create their own state airline, a symbol of advancement and modernity during the period. In 1932 Misr Air won a thirty year concession from the Egyptian government as the nation’s exclusive domestic and regional carrier. The concession stipulated that Misr Air would build airports, repair shops and train local pilots. Among its many missions it was also commissioned to take land surveys and carry mail.<sup>94</sup> Government concessions provided more capital for the ventures of the local elite established in partnership with foreign firms. The patronage of the state also acted to provide these firms with further legitimacy, as they outwardly became symbols of the country’s achievement of a level of ‘national’ development on par with that found in Europe.

The British quickly began to see the local economic elite as permanent fixtures following tariff reform and due to their successful engagements with foreign firms since its passage. Hence the High Commissioner’s office in Egypt began to counsel British firms to seek financial alliances with Bank Misr and Abbud. The logic behind Anglo-

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<sup>93</sup> Ibid, 173.

<sup>94</sup> Di-Capua, Yoav. "Common Skies Divided Horizons: Aviation, Class and Modernity in Early Twentieth Century Egypt". *Social History* v. 41 (2008), 56.

Egyptian partnerships was that not only would these amalgams likely prove lucrative to British firms, but they would enhance British political authority and tie Egypt more closely to its British overlord.<sup>95</sup> With the failure of their efforts to gain more control over the Egyptian economy in the 1920s the British saw the rise of the local economic elite as a way to maintain their control over Egypt's economy. Bypassing the state, these arrangements had the potential to further decrease nationalist sympathies concerning foreign control. Partnerships were far more palatable in Egypt, where such alliances had already been foreseen by Harb and Abbud in their earlier speeches and business dealings.

Ahmed Abbud used his ever changing political connections during the late 1920s and early 1930s to further his business ventures by manipulating his connections to both local and foreign interests to obtain capital. In 1931 the Abbud's strategy was recognized by British officials that viewed Abbud as a pro-British businessman while at the same time recognizing Abbud's constantly shifting political allegiances, which included not only local allegiances but connections to the British Residency in Cairo and the Foreign Office in London, as a possible source of political problems in Egypt. In a letter to the Residency dated 27 November 1931, Sir Arthur Balfour explained that, "Abbud Pasha was in fact invaluable to British trade" and that the Residency should stop giving him problems due to his political activities which sought to undermine the position of his arch-nemesis, Hafez Afifi, who the British Residency in Cairo considered more amenable to British interests in Egypt.<sup>96</sup> The connections that Abbud had developed at the Foreign

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<sup>95</sup> Tignor, "Bank Misr and Foreign Capitalism", 171-172.

<sup>96</sup> FO 141/766

Office during trips to England as part of Egyptian trade delegations resulted in his promotion as a suitable agent of British business interests locally.<sup>97</sup>

At the same time, Abbud's political activities were also seen as a possible detriment to British interests by British officials in Egypt and ways were devised to control them which combined both using Abbud as an agent as emanated from the Foreign Office and the desire of the Residency to keep Abbud in check politically. Backing away from the Residency's earlier position in a letter to the Foreign Secretary Rufus Isaacs, it was recommended that the British keep Abbud happy by providing access to the British Residency in order to control his political activities. The Residency wrote that "your Excellency is aware that I have always stressed the importance of keeping Abbud Pasha in a friendly spirit, and I still consider that his political activities can be quite easily controlled if he could be encouraged a little more here [in Egypt]."<sup>98</sup> From the British perspective, Abbud was both beneficial to British interests and a possible detriment if he was not kept happy. British desire to keep Abbud happy allowed him to use his links to the Foreign Office and Residency along with his connections to the Egyptian nationalist movement to facilitate his business ventures. This strategy would form the basis of Abbud's activities during the 1930s, echoing his earlier activities during the earlier 1920s.

British interest in local partners led to almost immediate efforts to forge cooperative arrangements on the behalf of the local economic elite. Ahmad Abbud and Isma'il Sidqi, the Prime Minister of Egypt from 1930 to September of 1933, sought out

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<sup>97</sup> Vitalis, *When Capitalist Collide*, 295.

<sup>98</sup> FO 141/766

an alliance with the Calico Printers Association in 1933 in an attempt to take advantage of British firms willingness to establish partnerships with local businessmen. The two formed a group which attempted to convince Calico and Bradford Dyers to join forces with their local group to form a huge textile conglomerate.<sup>99</sup> While deemed too costly by both of the English textile firms involved, this project shows that the local economic elite quickly adjusted to new British policy, using their willingness to establish partnerships to seek additional capital.

Between 1932 and 1935 Ahmed Abbud successfully utilized the desire of British firms to jump the tariff barrier and his connections to the Residency to promote his newly founded Egyptian General Omnibus Co. which was attempting to enter the transportation sector – a sector dominated by the Belgian Empian Group’s Cairo Electric Railways. These efforts to enter new sectors of the Egyptian economy were instigated by the continued search for new markets emanating from British and other foreign interests hurting during the Great Depression. A partnership was initiated with Britain’s Thornycraft Co., which had unsuccessfully bid for transportation routes in Cairo years earlier. Lord Lloyd, the former British High Commissioner in Egypt from 1925-1929, asked Abbud to join with the British firm since “local businesses brought specific resources to the bargaining table and, obviously, the foreign investors found these essential to remain competitive.”<sup>100</sup> As an agent of foreign interests Abbud was in fact furthering his own economic interests in addition to those of his foreign partners.

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<sup>99</sup> Tignor, *Egyptian Textiles & British Capital: 1930-1956*. (Cairo: The American University in Cairo Press, 1989), 26.

<sup>100</sup> Vitalis, “On the Theory and Practice of Compradors: The Role of Abbud Pasha in the Egyptian Political Economy”, 298-299.

According to Vitalis even though Abbud was seen as an agent of foreign capital in standard accounts, he in fact had a controlling share of the joint venture between the Egyptian General Omnibus Co. and Thornycraft.<sup>101</sup> Acting through a local agent, foreign economic interests entered the Egyptian market despite the opposition of diehard Egyptian nationalists who continued to oppose the operation of foreign interests in the Egyptian economy. Egypt's economic elite also benefited from the increased capital available through foreign partnerships.

Despite Abbud's close connections to the British, he continued to present himself as a supporter of the nationalist movement. This position most likely allowed him to deflect attention from dealings with foreign firms and to retain leverage needed to garner a controlling share of any new firm. During a trip to London in June of 1934, Abbud wrote to the *Times* of London concerning the controversy surrounding the Mixed Courts of Egypt, which had come to symbolize the continued influence of Europe in Egyptian affairs. Abbud wrote in support of the nationalist movement that, "We Egyptians further claim that if a foreigner and an Egyptian wish to have a dispute between them tried by our Egyptian Courts instead of by the Mixed Courts the latter should not veto such a procedure."<sup>102</sup> In addition to the vetoes of the Mixed Court in such cases, the broad interpretation that the Mixed Courts took of their jurisdiction was singled out. Abbud wrote that, "We also resent the tendency on the part of the Mixed Courts to interpret their

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<sup>101</sup> Abbud controlled 60% of the venture. Ibid, 299.

<sup>102</sup> "Egypt and Britain: Maintenance of Smooth Relations," *The Times* [London] 30 June 1934.:8.

statutes as to enable them to extend their tentacles into the remotest corner of Egyptian litigation even where the foreign interests concerned are microscopic.”<sup>103</sup>

These activities in 1934 are reminiscent of Abbud’s earlier activities in the 1920s. Through the press Abbud continued to promote the nationalist movement. By maintaining an alliance with both the British and the nationalist political movement, Abbud was able to maintain leverage in his business dealings. The local connections of the Egyptian economic elite had been seen by British business as one of the primary benefits of establishing partnerships with locals so the continued cultivation of local political, social and cultural connections was crucial. In the process this allowed the local economic elite to control partnerships with foreign firms.

Abbud’s efforts in the transportation industry clearly registered with his foreign competitors, speaking to the success of the partnership strategy. In just years Abbud parlayed his support of the nationalist movement, his connection to British officials and the search for Egyptian partners by Thornycraft to challenge Belgium’s Empain Group, a dominant force in the urban transportation sector which Abbud’s General Omnibus Co. had broken into. Baron Édouard Empain described Abbud as the “only stumbling block” in his efforts to amalgamate all of Cairo’s trams into a single corporation.<sup>104</sup> In the deal with Thornycraft Abbud had established Egyptian control of the General Omnibus Co. which was now in a position to challenge the plans of the largest of corporations in

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<sup>103</sup> “Pharaoh of Free Enterprise”.

<sup>104</sup> *Politics and Diplomacy in Egypt: The Diaries of Sir Miles Lampson, 1935-1937*. Ed. M.E. Yapp. (Oxford: Oxford University Press, 1997), 125 This exchange was directed toward Monsieur Urbain in the text, Urbain is Baron Edouard Empain according to Yapp, Belgian transport entrepreneur involved in railways. He established the Cairo Electric Railways and Heliopolis Oasis Company and was later chairman of Egyptian Hotels Ltd.

Egypt. Empain's ability to unilaterally control the tram lines in Cairo was no longer possible as Abbud's General Omnibus Co. was a new breed of company able to challenge European competition due its control over its cooperative arraignment with European capital.

Bank Misr and Talat Harb maintained support for the nationalist political movement even while publicly establishing partnerships with foreign business, taking a cue from Abbud's relationship with both the nationalist movement and foreign interests. The erection of tariff barriers had created these conditions, allowing the Misr Group to benefit from the assistance of foreigners not as rulers, but as partners. In May of 1935 Bank Misr threw a garden party in Azbakkiyya.<sup>105</sup> Sir Miles Lampson, British High Commissioner in Egypt, recorded that the arrival of Wafd leaders Mustafa al-Nahas and Makram Obeid led to "a regular demonstration and I have seldom seen anything so comic or so braggart as Nahas as he walked up through the avenue of cheering tarbooshes."<sup>106</sup> Public displays such as this were key tools of 'national' companies to further their own narrow economic interests. Nahas and Obeid used this opportunity to throw a nationalist rally while the company was partnering with foreign interests.

Harb's partnership with British textile interests is a perfect example of this phenomenon. Harb's most successful industrial venture, the Misr Spinning and Weaving Co. which first began operations in 1930, became the object of attention for British textile manufacturers desiring to maintain their local markets after the erection of tariff

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<sup>105</sup> Azbakkiyya was a European district of Cairo. It is unclear from Lampson's entry if this celebration was in the Azbakkiyya Gardens, a popular public area, or inside a Bank Misr branch in the area.

<sup>106</sup> Politics and Diplomacy in Egypt, 191.

protection. With a startup capital of L.E. 300,000 from local sources the Misr Spinning and Weaving Co. was founded in the Delta city of Mahalla al-Kubra. Harb intended for this company to become a vertically integrated spinning and weaving works which would transform Mahalla al-Kubra, the traditional center of the textile handicraft industry in Egypt, into the textile capital of the Near East.<sup>107</sup> Yet the local capital market was unable to provide the funds needed to accomplish this goal. British firms stepped in to provide the capital needed in their quest to remain locally competitive.

The partnership model of the trade mission was followed by the two largest British textile firms, the Calico Printers Association (who established a venture with *Filature Nationale d’Egypte* in 1934) and the Bradford Dyers Association. Each established joint ventures with companies already established in Egypt and both companies saw establishment of a plant in Egypt as key to maintaining their position in the local market. Charles Butterworth was dispatched by the Bradford Dyers Association to report on the economic conditions in Egypt in 1936. Butterworth concluded that the only way to maintain their position in the market was to establish a plant in Egypt. The possible nationalist resistance to such a move led them to Misr Spinning and Weaving.<sup>108</sup> The convergence of interests between Bradford Dyers and Harb’s Misr Spinning and Weaving Co. benefited both sides in the partnership. Misr Spinning and Weaving Co.

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<sup>107</sup> Owen, *Egyptian Textiles & British Capital:1930-1956*, 14. The location of the Misr Spinning and Weaving Co. is explained to be based on the city’s tradition as the center of textile manufacture in Egypt in Benin, Joel. *Workers and Peasants in the Modern Middle East* (Cambridge: Cambridge University Press, 2001), 103 Tignor speculated that the location of the Misr Spinning and Weaving Co. was also based on Midhat Yakin’s landed interests in the area, Yakin was a major investor in the Misr Group who had supported Harb since the establishment of the Bank Misr in 1920 in Tignor, “The Egyptian Revolution of 1919”, 57

<sup>108</sup> Tignor, Robert. “British Textile Companies and the Egyptian Economy”. *Business and Economic History*. 16 (1987), 60. *Filature* was a French owned and operated textile factory.

obtained capital, which allowed them to upgrade their facilities, while Bradford Dyers ensured their share of and continued competitiveness in the Egyptian market.

With the threat of war on the horizon by 1937 the British also sought to guarantee control of strategically sensitive sectors of the economy. Egypt's fledgling airline was the focus of such attention. The British were anxious that no foreign power and Germany in particular, should be admitted to the field of local Egyptian aviation. It had come to the attention of the British that Misr Air had entertained an offer from Germany to expand their domestic air routes. This issue was discussed with now Prime Minister Nahas in early 1937. Lampson emphasized that "the right thing to do was to cultivate and develop that Anglo-Egyptian organization [Misr Air] with a view to its undertaking all short haul traffic." Lampson did not just demand that Germany be excluded, stating that he "would go further and say that I thought some arrangement should be come to with Imperial Airways whereby the Misr [Air] should act as their feeders."<sup>109</sup> Here partnerships are also clearly being employed to maintain and even expand British control locally over strategic sectors such as air transportation.

Rivalry between the local economic elite began to develop after the partnership movement had successfully been utilized to develop the interest of the local economic elite and was also influenced by their use of nationalist discourse as a business strategy. This strategy was used to challenge the partnerships of their competitors with foreign firms even while they were doing the same thing themselves. Abbud's diplomacy on behalf of the nationalist movement continued despite his partnerships with British and other

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<sup>109</sup> Politics and Diplomacy in Egypt, 762.

foreign firms. Sir A. Keown-Boyd, head of the European Department of the Egyptian Ministry of Interior, regarded Abbud as an agitator against the construction of a new Bradford Dyers/Misr Spinning and Weaving factory. On May 27, 1937 Keown-Boyd told Lampson that “all the agitation against his show (the new factory) is organized by Abboud and that his relations with the Banque Misr and Talat Harb are good. I gave it as my advice that it was essential to keep in close with Talat Harb who was regarded as the emblem of national industrialization.”<sup>110</sup> Following a similar tactic seen previously Abbud seems to be stirring up nationalist sympathies in order to further his own economic ventures (recall that Abbud had hoped to form his own textile partnership in 1933). Agents at this point are also clearly being identified by the British based on their suitability for partnership. Harb’s association with the nationalist movement and his good relations to British business was the perfect partner in the eyes of Lampson and Keown-Boyd who interpreted Abbud as a nuisance when he was most likely attempting to compete with Harb’s textile venture, a sector he had been shut out of.

Tariff reform would also lead to the rise of a new group of local economic elites that would attempt to challenge Harb and Abbud for local supremacy. Amin Yahya would begin to lay the foundations for a business empire in the 1930s by celebrating his close working relationship with foreigners which he had developed during the 1920s as a merchant involved in the import-export trade. Unlike either Harb or Abbud, Yahya came from a privileged background.<sup>111</sup> Yahya used his connections to well-connected political officials and foreigners in Alexandria, Egypt to facilitate his business ventures. He first

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<sup>110</sup> Ibid, 825.

<sup>111</sup> According to Berque in Davis, Challenging Colonialism, 90.

obtained significant capital from the state, a decision made in a meeting during which his brother, ‘Abd al-Fattah Yahya, the Minister of Foreign Affairs in the Sidqi government and the Prime Minister of Egypt from the Ittihad Party from September 1933 to November of 1934, was present.<sup>112</sup> Connections with foreign interests were cultivated by the Union Alexandrine, which Yahya founded to link foreign and Egyptian interests in the city. Yahya would found the Alexandria Produce and Trading Company, the Alexandria Pressing Company, and the Alexandria Navigation Company in cooperation with foreign interests in Egypt’s most Europeanized city.<sup>113</sup> Despite the different background and strategy Yahya accomplished the same goal following the initiation of tariff protection in 1930; he was able to establish Egyptian control over his partnerships with foreign capital. His ability to forgo nationalist rhetoric was most likely a consequence of his base of operations in Alexandria, a city far more cosmopolitan and accepting of partnerships with foreigners than the scene in which Harb and Abbud operated.

To the local economic elite their partnerships with foreign capital were strategies permitting them to take advantage of economic opportunities. Harb, Abbud, and the new class of local economic elites which developed following the 1930 tariff reform were able to use the political situation locally and economic situation internationally to further their business ventures by gaining majority control over their partnerships with foreign economic interests during the 1930s. Ahmed Abbud may have summed up the activities of the interwar economic elite during the 1930s best in an interview with *Time* in 1953.

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<sup>112</sup> This government subsidy was for the Alexandria Navigation Company in Davis, 155.

<sup>113</sup> Tignor, State, Private Enterprise, and Economic Change in Egypt, 1918-1952, 136-137.

When asked what had been the secret to his success, Abbud replied, “It's no secret at all. Just looking around for the best opportunities and knowing when to take advantage of them. Just making it my business to know the people who count. Just keeping everlastingly on the job. That's all.”<sup>114</sup> Egypt's interwar capitalist class was able to take advantage of the opportunities presented to them in their successful quest to develop Egyptian industry by manipulating the social, cultural and political connections which they had fostered in their pursuit of capital.

#### **AMERICA IN THE EGYPTIAN ECONOMY 1927-1937: THE ANTECEDENTS TO CHANGE**

The United States began the period in much the same way as it had accepted Egyptian independence in 1922, with reservations. By the end of the 1930s American business and their increasing successes in the local economy would gradually push the United States away from supporting their earlier antagonistic policies. First, British efforts to undermine the capitulations in favor of better relations with the nationalist movement had made the United States even more insistent on maintaining the capitulations. In 1928 American representatives were presented with an opportunity to accomplish their goal of equality amongst the capitulatory powers on the Mixed Court, still seen as the best way to maintain American influence in Egypt especially following the successful pressure placed on both Egyptian and British officials during the oil storage debate. Following the victory of the Liberal Constitutional Party, reconstitution

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<sup>114</sup> “Pharaoh of Free Enterprise”.

of the Mixed Courts was again considered. The Egyptian Minister of Foreign Affairs proposed changes calling for the creation of a three man Court of Appeals for the sole purpose of trying appeals in possessors' cases and cases in chambers.<sup>115</sup> The United States saw this proposal as an opening through which they could push their agenda by packing the court with additional American justices.

The United States believed that the proposed increase was insufficient and that “the purpose which the Egyptian government has in mind can best be achieved by creating a new chamber of five judges.” American insistence on increasing the number of justices from three to five was connected to their desire to bring about a return to the principle of equality on the Mixed Courts.<sup>116</sup> Even with these Egyptian proposals the United States saw all discussions of the Mixed Courts through the idea of equality of representation. Suggesting an increase in the proposed number of judges was an implicit attempt to gain greater representation, which the United States felt would naturally result in the placement of additional Americans on the bench as they felt the principle of equality was a cornerstone of the Mixed Courts, increasing American oversight of the court system.

Such action raised the ire of British officials who continued to seek the diminution of the capitulations. American insistence led Lord Lloyd to remark to the American Minister Franklin Mott Gunther that his “supposition (was) that the United States did not sympathize with British policy and aims in Egypt.”<sup>117</sup> While the British

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<sup>115</sup> Ibid, 747.

<sup>116</sup> US Department of State. Foreign Relations of the United States, 1929 (Washington D.C.: GPO, 1930), 940.

<sup>117</sup> Foreign Relations 1929 v. 2, 953.

sought the adjustment of the capitulations to better their relationship with Egypt the United States continued to see the capitulations and the Mixed Courts as the only way to ensure the interests of American business locally. This strategy would become increasingly untenable and difficult to implement during the 1930s.

In 1930 the United States negotiated its first trade agreement with Egypt in the 20<sup>th</sup> century. These negotiations were made possible by Egypt's tariff reform in 1930. America's first response to these proposals immediately resorted to their traditional stance of supporting their capitulatory rights which had guided the actions of the United States in Egypt during the 1920s. Acting Secretary of State Joseph P. Cotton wrote to *Charges d'Affaires* George Wadsworth that "it is seriously doubted by the Department that the Egyptian government has the authority, under the capitulatory treaties and usage, to make new customs tariffs without obtaining the consent of the capitulatory powers."<sup>118</sup> America's first response to Egypt's notification of future changes in the tariff regime were met with skepticism as America mistakenly held that Egypt was beholden to the wishes of the capitulatory powers regardless of their ability to initiate tariff reform.

In 1930, in a formal response to Egypt's notification, the United States maintained their skeptical attitude. Cotton, seemingly surprised that the Egyptians had actually obtained the consent of the other capitulatory powers, asked the Minister in Egypt Franklin Mott Gunther to notify the Egyptian authorities on 6 February 1930 that the United States would consent to the new tariff regime "while maintaining full reservations with regard to all points that may affect the capitulatory regime." American consent was

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<sup>118</sup> Foreign Relations 1929 v. 2, 957.

offered under the understanding that the agreement would include “a *modus vivendi* according unconditional most favored nation treatment in customs matters.”<sup>119</sup>

Preserving leverage under the capitulations and most favored nation treatment in trade matters was key to assuring the position of American products in Egypt where America was a primary supplier of kerosene, machinery, automobiles, and scientific instruments.<sup>120</sup> Yet these discussions show that the United States was beginning to lose the power which they had prior to 1930. With the expiration of the International Commercial Convention of 1861 the United States was forced to bargain with the Egyptians, or risk being shut out of the local economy by prohibitive tariffs. This more cooperative trend would continue in the following years.

Apparently unhappy with the implementation of increased tariffs in 1931 under their preliminary trade agreement with Egypt the United States would resort to their traditional support of the capitulations in asserting their rights once again. Discussions between Jardine and Secretary of State Henry L. Stimson focused on an increase on gas and kerosene tariffs which caused considerable indignation. Excise duties on gasoline had been increased from 160 to 360 piasters, kerosene from nothing to 44 piasters per metric ton over the previous year.<sup>121</sup> In response the United States felt that their position “would seem to be the strongest of any [of the] capitulatory powers by virtue of express

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<sup>119</sup> Foreign Relations 1930 v. 2, 741.

<sup>120</sup> The table of goods under consideration in the 1930 tariff negotiations was not published; I have pieced together the important products from “Yankees Find Egypt Holds them Friends”. Chicago Daily Tribune. 19 July 1931, 24 and Foreign Relations 1930 v. 2, 743 where the concerns of the Vacuum Oil Company are discussed. Vacuum’s largest business in Egypt was as a supplier of kerosene.

<sup>121</sup> Foreign Relations 1931 v. 2, 153

reservation with regard to all rights under treaty, custom and usage.”<sup>122</sup> By treaty, custom, and usage Jardine referred to America’s assertion of their capitulatory rights found in their formal notification to the Egyptian government of 6 February 1930.

These assertions would eventually be set aside by American authorities, who in the end concluded that these tariffs were not discriminatory against American business, businesses that in reality had few competitors both locally and globally. Despite their inclusion of rights to treaty, custom and usage in the 1930 preliminary trade agreement, which in the past had been used to protect American interests, the United States was unable to influence Egyptian authorities no longer beholden to the International Commercial Convention. It appears in this instance that American officials had simply not yet adjusted to, or perhaps were unwilling to accept, the changing circumstances on the ground. The powers no longer had the ability to influence the local economy has had been possible prior to 1930 through the capitulations.

Lobbying efforts on behalf of American business also seem to have had less effect on Egyptian authorities following the 1930 tariff law. American automobile manufacturers had established themselves in the Middle East during the 1920s and 1930s as a part of their global expansion, seeking out the assistance of American representatives in Egypt. Egypt was seen as an excellent distribution point for American manufacturers eager to tap into the eastern market. In 1932 Ford Motor Company established operations in Egypt under the leadership of the company’s British branch. The Ford Motor Company (Egypt) SAE operated out of Alexandria merely for sales and service,

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<sup>122</sup> Ibid, 154

with no assembly plant, an operation on par with Ford's subsidiary companies found in France, Finland, Italy, and Chile.<sup>123</sup> The Alexandria branch conducted Ford business in Iraq, Ethiopia, Saudi Arabia, Cyprus, Rhodes, Italian Somaliland, Oman, Muscat, Bahrain, Malta, Sudan, Syria, Iran, Eritrea, Yemen, Albania, Sinkiang, Mongolia, Transjordan, Hadramaut, and Kuwait as well as Egypt.<sup>124</sup>

The expansion of American auto companies into the region led to the direct involvement of American officials in Egypt in 1932 following the promulgation of Egyptian decrees limiting automotive traffic by restricting the number of vehicle licenses available and increased taxes on motor vehicles which had come before the Mixed Court for approval. According to the US Minister William M. Jardine, "during the past few months....the arbitrary restrictions [on licenses] imposed by the Egyptian authorities upon automotive vehicular traffic [is] of a character seriously to jeopardize vested American interests."<sup>125</sup> These new restrictions on vehicular traffic were seen as an impingement on the right of American auto makers and dealers to sell their goods without discrimination. This position was based upon an Egyptian Ministerial decree which stated that foreign nationals and their local affiliates had the right to sell their stocks of motor vehicles as a consequence of the freedom of traffic principle. This principal was, "formally recognized by the Egyptian government which, for the purpose of legislation in the matter, has considered it appropriate to have recourse to the authority of the General

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<sup>123</sup> Tignor, Robert L. "In the Grip of Politics: The Ford Motor Company of Egypt, 1946-60". Staff Seminar Paper no. 3. University of Nairobi Department of History. (Nov. 30, 1989), 2 In the end the Egypt branch obtained its vehicles from the United States despite the company's foundation by Ford-Britain.

<sup>124</sup> Wilkins, Mira and Hill, Frank Ernst. *American Business Abroad: Ford on Six Continents*. Detroit: Wayne State University Press (1964), 258-259 Fords operation in Egypt was one of its most profitable anywhere outside the United States with profits of nearly three-quarters of a million dollars by 1935.

<sup>125</sup> US Department of State. *Foreign Relations of the United States, 1932* (Washington D.C.:1933), 640.

Assembly of the Mixed Court of Appeals.”<sup>126</sup> Since this decree had been accepted by the General Assembly, a legislative body of the Mixed Courts which approved Egyptian legislation that was of a mixed interest, the recently promulgated restrictions and taxes would be an impingement on foreign privileges protected by the capitulatory regime according to the United States.

American efforts to resolve this situation again took the form of direct diplomatic intervention on behalf of American auto-makers and dealers operating in Egypt with the Egyptian government, a pattern already seen in the 1920s with the Vacuum Oil Co. Yet in this case the United States was unable to force a change in local policy. Instead the United States was forced to bargain with their Egyptian counterparts as they had during trade negotiations in 1930. Jardine related to Secretary of State Henry Stimson that in a conversation with Sidqi Pasha he had brought up the issue that Sidqi as Prime Minister had not obtained any relief for [American] automobile dealers who were continuing to complain that they were being put out of business by the new Egyptian regulations.<sup>127</sup> Direct communication of American interests was coupled with another familiar tactic; that of reserving assent to Egyptian wishes prior to American concerns being resolved. Jardine told Sidqi that without relief, “it was very doubtful if my Government’s consent to the levying of additional taxes on motor vehicles would be forthcoming,” yet the United States wavered from this fixed position. Jardine communicated that it was believed that the Egyptians “should be in a position to tax automobiles to the same extent

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<sup>126</sup> Ibid, 640.

<sup>127</sup> Ibid, 643.

that they are being taxed in Europe.”<sup>128</sup> In the end the United States accepted the right of the Egyptian authorities to tax automobiles as long as they did not restrict their circulation.

While differing from the partnerships between British and Egyptians interests these negotiations follow a similar cooperative logic. Whereas the United States in 1927 had demanded the immediate end to floating storage of petroleum at the behest of the Vacuum Oil, a position supported by British authorities at the time, in 1932 they were unable to enforce their demands. British support for such interventions had declined during the period in favor of cooperation as seen in their joint-ventures with the local economic elite. This forced the United States to negotiate, coming to an agreement which in the end benefited both sides. American automobile manufacturers’ freedom to sell autos locally was confirmed, while Egypt was able to tax autos circulating on Egyptian roads.

Chrysler Corp. was also active in Egypt. As the smallest of the American automakers it was less adventurous in its business dealings in Egypt, following the example of European firms unwilling to sink equity capital into foreign affiliates in favor of partnerships. Chrysler was represented by Wadi Said, one of the most energetic agents of foreign business in the country.<sup>129</sup> American business became increasingly tangled in Egypt during the 1930s. This entanglement forced the representatives of the United States to end their forceful enunciation of American capitulatory rights. Such a position

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<sup>128</sup> Ibid, 643, 648.

<sup>129</sup> Tignor, “In the Grip of Politics”, 4. GM was also established in Egypt but their has been little attention to their activities in Egypt in the historical record.

now was more likely to hurt American firms which had begun to benefit from the partnership movement, rather than support them.

Prior to the Montreux Convention the gradual move away from the capitulations as the primary support for American business in Egypt is confirmed. The British, still eager to do away with the capitulations, sought out American support for their effort to bring about the diminution of the capitulations. Lampson told American Minister in Egypt Burt Fish on 31 July 1936 that the British sought a reduction of the capitulations where the financial aspects of these agreements would be done away with immediately (the inability to tax foreigners), while the Mixed Courts would be maintained for a yet unspecified transition period. In response Fish indicated to Lampson that the British need not expect any trouble from the United States which had come around to support British efforts seeking to bring about the diminution of the capitulations in Egypt.<sup>130</sup> Fish's response was the first clear enunciation of change in American policy toward the capitulations in Egypt. These early indications would lead to a fundamental change in American policy during the Montreux Conference.

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<sup>130</sup> Politics and Diplomacy in Egypt, 641

#### IV. THE MONTREUX CONVENTION AND THE DIMINUTION OF THE CAPITULATIONS

In essence the Montreux Convention was a step in the slowly advancing process of decolonization in Egypt during the 1920s and 1930s. The Montreux Convention was heralded by the 1936 Anglo-Egyptian Treaty. This treaty was pushed by British authorities in preparation for war and strategic calculations drove their policy. Lampson had apprised Eden of his view that “an allied friendly Egypt” was preferable to “the risks of continuing on the present lines with an unfriendly Egypt and an encircling Italian Empire.”<sup>131</sup> With the Italians surrounding Egypt the British deemed that they needed to garner the support of Egypt by granting increased sovereignty, most importantly by doing away with the Reserved Points and promising to remove British troops from Egyptian cities. The capitulations had of course been opposed on similar grounds for nearly two decades by 1936 and were included in the treaty.<sup>132</sup> British promises were still not enough to abolish the capitulations; this would require the approval of the other capitulatory powers in Egypt.

The local elite, having proven their value following the initiation of tariff reform, offered the British and other foreign interests with a way in which to influence the Egyptian market without relying upon colonial systems of control such as the capitulations. This allowed not only British firms to flourish but also allowed the local elite to obtain a greater measure of control over the local economy. The success of

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<sup>131</sup> Morewood, Steven. “Appeasement from Strength: The Making of the 1936 Anglo-American Treaty of Friendship and Alliance”. *Diplomacy and Statecraft*, 7:3 (1996), 547.

<sup>132</sup> Marsot, Afaf Lutfi Al-Sayyid. *Egypt’s Liberal Experiment: 1922-1936*. (Berkeley: University of California Press, 1977), 188.

cooperative ventures between the local economic elite and British firms in Egypt did not lead to a situation where business and officialdom came into conflict over the diminution of colonial control as found in India during the mid-1930s. In India a similar diminution of control in the 1935 Government of India Act was opposed by British business that saw continued colonial control as key to their successful operations.<sup>133</sup> In Egypt it seems that the success of the partnership movement had precluded a similar situation from occurring.

The slow change in American policy was a result of a combination of factors. American representatives in Egypt were clearly driven by an anti-British prejudice throughout much of the 1920s and early 1930s. This prejudice subsided owing to America's primary foreign policy objective during this period, the pursuit of profit. Bolstering business by way of the capitulations had worked in the period from 1920-1927 but this policy began to hurt American interests following the initiation of tariff reform, many of which had followed the British example and initiated partnerships with local businessmen or which simply no longer needed protection as they were global leaders in their field.<sup>134</sup>

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<sup>133</sup> White, Nicholas J. "The Business and the Politics of Decolonization: the British Experience in the Twentieth Century", *The Economic History Review* 53 (2000), 554.

<sup>134</sup> Baram, Phillip J. "Undermining the British: Department of State Policies in Egypt and the Suez Canal Before and During World War II". *The Historian*, 40:4 (1978), 632 Baram discusses the demand that American be recognized by the Brits as a bona fide member of the great power club "interested" in Egypt, with all the rights and privileges inherent therein and enjoyed by states like Britain. Considering the predominance of British economic interest in Egypt the United States seems to have never obtained this recognition. Instead policy of the United States changed brining about the compatibility between the British and American position during Montreux. Baram also identifies the pursuit of prestige and profit as the ethos of the State Department during this period, an ethos which led them to assume that the interests of business and the state were compatible. Such a close connection between business and government is seen in the actions of the United States in the 1930s where the considerations of business trumped those of maintaining the capitulations.

The local economic elite had of course always hoped for the abolition of the capitulations. Abbud's interview in the *Times* (London) in 1934, mentioned earlier, led to a haranguing of the Mixed Courts, at the time the most visible manifestation of the capitulations in Egypt. While Talat Harb's thoughts concerning the capitulations were never recorded, his actions provide an indication of his thinking on the issue. Specifically, the plan put forth in the 1929 Bank Misr report was impossible without the abolition of the capitulations. The state's inability to found an industrial development bank was in large part caused by their inability to tax foreign corporations in Egypt.<sup>135</sup> Bank Misr saw such a bank as the key to the success of the local elite, who turned toward foreign capital when it became clear that the state was unable to accomplish this task. It can be assumed that in a situation in which this capital was available locally the partnership movement would have never occurred as they were efforts to form local investment banks – yet none of these efforts were successful during the interwar period. Instead the local economic elite were forced to rely on their foreign partners, primarily British firms, in their desire to develop 'national' industries. Instead of finding partners elsewhere the local economic elite in Egypt sought out the support of their colonial master, which was firmly ensconced in Egypt to protect their strategic lifeline to India the Suez Canal.

While the British may have had different objectives, owing primarily from British strategic entanglements in Egypt, the United States was not hampered by a similar set of

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<sup>135</sup> Tignor, *State, Private Enterprise and Economic Change in Egypt, 1918-1952*, 58, 75-76 According to Tignor the Bank Misr was resentful of the capitulations which were constrained by the inability of the state to tax foreigners in Egypt and there was no income tax at the time which could be an alternative source of funding for such ventures.

strategic concerns. Changes in American policies would arise out of the American experience; both locally in Egypt and domestically during the Great Depression, and by 1937 would provide Egypt with a new partner in their quest for the abolition of the capitulatory system. American support for their abolition was driven by capital intensive industries such as the Vacuum Oil Company, Ford and Chrysler, companies which were competitive in Egypt regardless of the capitulations, and who would come to support changes in American policy during the mid-1930s.

Capital intensive industries had a major influence on American foreign policy during the administration of Franklin Delano Roosevelt. Abandoning isolationism was seen by both industry and FDR as a solution to America's economic downturn during the Great Depression. Industries associated with this 'internationalist' movement have typically been portrayed as a major backer of American anti-colonial foreign policy. According to Jeffrey Frieden sellers of uncompetitive merchandise and investors in primary production for export were more prone to support imperial intervention and direct colonialism than were competitive exporters, such as the American automotive and oil industry, investors in foreign markets and lenders.<sup>136</sup> The primary American firms involved in Egypt hailed from the globally dominant competitive export sectors. By the 1930s these firms no longer needed state support, instead they supported the state.

The overseas investments of these firms provide an indication of their competitiveness. By the late-1920s the investments of the competitive export sector had

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<sup>136</sup> Frieden, Jeffrey A. "The Economics of Intervention: American Overseas Investment and Relations with Underdeveloped Areas, 1890-1950", *Comparative Studies in Society and History*, 31:1 (1989), 55. Henry Ford was quoted as saying that he "feared no competition from abroad", speaking to the dominant position of the American auto industry globally in Wilkins and Hill, 205-206.

become less concentrated in domestic production, moving toward industrial production for the local, and following the Great Depression as in the case under consideration here, foreign market. Due to this evolution, “United States policy moved away from intervention and became firmly anti-colonial.”<sup>137</sup> While Frieden is primarily focusing on American possessions in the Western Hemisphere his analysis helps explain changes occurring in Egypt as well. American business had supported the government’s support of the capitulations in Egypt as they assured their position in the Egyptian economy. This support was deemed necessary as America was not yet in a dominant position in the Egyptian economy owing to British mercantilist control during the period from 1920 to 1927. The success of the local economic elite and changes in American trade policy under FDR rendered this protection less relevant to commerce. Colonialism was no longer seen as beneficial to the business of competitive firms overseas aligned with the internationalist movement.

Other capitulatory powers were not as enthused about the Montreux Convention. France in particular was disinclined to their diminution. Their views were made clear by French nationals who visited the British residency in the lead up to the conference. On Wednesday, April 7, 1937 Meyer, of the Parisian newspaper *Le Temps* visited Lampson on “one of his regular visits consisting in a long harangue by himself - a sort of monologue - regarding local politics.” Lampson, who clearly did not enjoy the company of his French guest, wrote that, “Naturally he turned on Montreux where, he tells me, the French are going to be very sticky and will not agree to more than 10% of what the

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<sup>137</sup> Ibid, 56.

Egyptians want.”<sup>138</sup> While the stubbornness of the French can be understood, due to their vast investments in Egypt, the British were determined to see through the abolition of the capitulations at Montreux. In order to do so they had already sought the help of the United States, apprised of the situation in an effort to seek their assistance at Montreux.

French obstinacy was paralleled by an increasingly cordial relationship between the British and the United States in the year leading up to Montreux. By the beginning of 1937, Robert W. Bingham, American Ambassador to Great Britain, explained that the British attempted “to persuade the United States...that the frontier of democracy lies somewhere in the North Sea; that England, the outpost of democracy in Europe, is a small island...without raw materials and dependent upon the United States and the British dominions for war materials and foodstuffs.” British officials, Bingham told Roosevelt, were beginning to exhibit “a progressive and almost bewildering friendliness.”<sup>139</sup> British attempts to strengthen their position in preparation for war had led to an overall improvement in the relationship between the two powers. Improvement in the relationship between the British and the United States on the international level had far reaching affects, influencing the policy of the United States toward Egypt.

Under this new geo-political arrangement the United States opinion of the British role in Egypt shifted, paralleling the shift amongst the local Egyptian economic elite toward cooperation. Pierre Crabites, American Mixed Court judge, provides an indication of this shift in an article published in the journal *Asia* in 1937. Crabites

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<sup>138</sup> Politics and Diplomacy in Egypt, 796. The French were unable to stop the abolition of the Capitulations.

<sup>139</sup> Schatz, Arthur W. “The Anglo-American Trade Agreement and Cordell Hull’s Search for Peace 1936-1938”. The Journal of American History. 57:1 (1970), 95.

arrested his anti-British stance following the Italian invasion of Ethiopia, primarily over concerns that the invasion threatened free passage of the Suez Canal, a key transportation link for American businesses. According to Brian Parkinson, “like the Egyptians, he began to view British stewardship of the canal not as a sword, but as a shield.”<sup>140</sup> Crabites perceptions of the British changed with the growing threat posed by the fascist dictatorships of Europe. This threat further justified a shift in US policy in the years leading up to the Second World War where their alliance with the British seemed more important than asserting American rights in Egypt. America’s support for British and Egyptian plans to abolish the capitulations was undertaken with these considerations in mind.

Increasing Anglo-American camaraderie had clear effects on the actions of American officials towards the situation in Egypt. Secretary of State Cordell Hull, one of the prime architects of American trade strategy during the Roosevelt administration, advocated the abolition of the capitulations in Egypt. Hull revolutionized American trade strategy during the 1930s, which he saw as not only an economic but as a political tool. Hull wrote that “it seemed virtually impossible to develop friendly relations with other nations in the political sphere so long as we provoked their animosity in the economic sphere.”<sup>141</sup> This line of thought would influence Hull’s view concerning the capitulations in Egypt. Writing directly to President Roosevelt on 19 March 1937, two months before the Montreux Conference, Hull conveyed that the State Department was “of the opinion that every reasonable effort should be made to cooperate with the Egyptian government

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<sup>140</sup> Parkinson, 328

<sup>141</sup> Hull, Cordell. The Memoirs of Cordell Hull v. 1. (New York: MacMillian Company, 1948), 355.

and the other capitulatory powers for the realization of the Egyptian governments desire to be freed from the burden of the capitulatory regime, since such cooperation would be thoroughly in accord with our good neighbor policy.”<sup>142</sup> Hull later wrote to Minister Fish that he considered it “to be self evident that Capitulations [were] no longer needed for the effective protection of legitimate American interests in Egypt.”<sup>143</sup> America’s change in policy demanded that American ministers in Egypt end their support for the capitulations, which had only served to irritate both the Egyptian people and their British overlords who had consistently sought their eradication since they took formal control of Egypt. With American business interests ensured by their sheer economic clout and competitiveness the clumsy capitulations, an artifact of the colonial era, were no longer deemed advantageous in America’s relationship with Egypt.

With the knowledge that they had the support of the British the Egyptian delegation at Montreux confidently presented their demands. The Egyptian delegation arrived fully prepared to negate any challenges brought before them. Prime Minister Nahas, the leader of the Egyptian delegation, bluntly told the delegates what he wanted – immediate abolition of fiscal privileges for foreigners. If the Conference met him on that he would agree to a gradual assumption of Egyptian court control.<sup>144</sup> Confident in their stance due to the support of the British Nahas was able to push his demands. Egypt’s position would also be facilitated by the lobbying of the United States on their behalf.

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<sup>142</sup> Foreign Relations 1937 v. 2, 631 It seems that the British and the United States were the only countries willing to completely abolish the capitulations. Many countries, for example Switzerland, a capitulatory power, seemed to have little influence over the Montreux negotiations. It also seems that political battles were also on the mind of state such as Spain, Portugal and Italy, delegates of which time describes as “eyeing the others with a smoldering eye” in “War on Capitulations”. *Time*, 26 April 1937

<sup>143</sup> Foreign Relations 1937 v. 2, 634

<sup>144</sup> “War on Capitulations”

The United States was key to the success of the Montreux Convention, playing an intermediary role between the British, desirous of a change in the capitulations to ensure Egyptian support in the coming war, and the other capitulatory powers in Egypt. The British passed information on to American representatives at the conference concerning Egyptian demands. This information was used by the United States to rebuff French proposals demanding an eighteen-year transition period, six-years longer than the British proposed twelve-year period that was eventually adopted during the conference.<sup>145</sup> At the time America's role caused the "surprise and discomfiture of the French and most of the other powers" that supported a lengthy transition. Judge Burt Fish, the American Minister in Egypt from 1933 until 1944, justified America's acceptance of the British proposal "as part of the Good Neighbor Policy." America's active support for the twelve-year transition period led to expressions of gratitude from the Egyptian delegation at the Montreux Conference as the United States "was the only important power except Egypt's ally, Great Britain, to uphold their view".<sup>146</sup>

The spirit of cooperation which drove America's justification behind their support of Egyptian demands at Montreux continued after its conclusion. On 8 May 1937 Hull wrote Nahas Pasha, now President of the Egyptian Council of Ministers, to state the "willingness of the US to forgo its objection[s] to taxation of US nationals and corporations, domiciliary visits, extraterritorial jurisdiction, abrogation of the legislative

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<sup>145</sup> Brown, Nathan J, "The Precarious Life and Slow Death of the Mixed Courts of Egypt," International Journal of Middle East Studies 25 (1993), 48.

<sup>146</sup> "Special Foreign Rights in Egypt End in 1949; Aid by American Speeds Parley's Decision", New York Times, May 1, 1937.

powers of the General Assembly of the Mixed Court of Appeals.”<sup>147</sup> These issues had been major demands of the Egyptian government throughout the interwar period. The limited ability to tax foreign residents had prevented the Egyptians from undertaking a variety of internal improvements while the legislative functions of the Mixed Courts were a continual source of embarrassment for both nationalists and the populace.

Where in 1930 America’s first response to Egyptian overtures had been to assert their capitulatory rights their abolition with American support in 1937 predictably brings about a much different tone in aborted trade negotiations between the two countries in 1938-39. The United States immediately offers their Egyptian counterparts a proposal during the trade negotiations of 1938-39 offering “a reduction in the duty on long-staple cotton, and of guaranteeing continuance of the present tariff treatment of cigarettes, and of the free entry applicable to crude senna, henna and waste bagging for paper making.”<sup>148</sup> Such overtures are consistent with the emphasis on friendship during the Montreux Convention. Cotton, Egypt’s only major export to the United States was also included in the American offer in recognition that its exclusion would be a non-starter from the Egyptian perspective. The export of cotton was a major source of revenue for the state which was constantly strapped for funds. American overtures were clearly designed to ingratiate the Egyptians and were based on reciprocity.

America’s enunciation of the Good Neighbor policy in Egypt has striking parallels to similar events in Latin America during the Roosevelt administration. According to Frederick B. Pike, “FDR’s concern to establish nonintervention as a

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<sup>147</sup> Foreign Relations 1937 v. 2, 636.

<sup>148</sup> Foreign Relations 1939 v. 4, 493. These negotiations were aborted by the outbreak of war in Europe.

fundamental building block of his hemispheric policy points to a *realpolitik* approach,” as the United States was “not inclined to pressure Latin Americans into abandoning political and economic, cultural and moral habits that were anti-ethical to what was assumed to be the US way of life.” This policy was undertaken as Roosevelt believed, “Eventually...hemispheric convergence would come about; eventually, Latins would recognize the advantages-economic, cultural and moral-of basic US values.”<sup>149</sup> The Good Neighbor policy in Egypt was based on America’s long held belief that if allowed to operate under a system devoid of discriminatory practices American business would flourish.<sup>150</sup> With the British acquiescent to Egyptian demands for further political and financial autonomy in 1936 under the auspices of the Anglo-Egyptian agreement forces were finally aligned to bring about the abolition of the capitulations and the opening of bilateral trade relations between Egypt and the rest of the world.

The Egyptian nationalist movement and the success of Anglo-Egyptian business partnerships had also limited American options which would have been viable under a different set of conditions. FDR’s abandonment of intervention in Latin America on behalf of business had been driven by “growing and ever more concerted Latin American resistance to their [American business’s] economic incursions, severely strapped for funds with which to finance strong-arm tactics in the southern frontier, and encouraging strong opposition among their own taxpaying citizens footing the bill, would-be frontiersmen in Latin America had to develop a new sensitivity to the feelings of the

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<sup>149</sup> Pike, Frederick B. FDR's Good Neighbor Policy: Sixty Years of Generally Gentle Chaos. (Austin: University of Texas Press, 1995), xii-xiii.

<sup>150</sup> Baram, The Department of State in the Middle East, 199.

natives.”<sup>151</sup> During the Depression funds were not readily available to support the interests of business in Latin America under the protection of the US military. While such interventions were never considered in Egypt the United States was faced with a similar problem. Many in the Egyptian nationalist movement had heralded the rise of Germany and Italy in the years prior to World War II as potential allies in their independence efforts. Instead of providing sentiments with further fuel the United States chose to appease Egyptian demands, presenting themselves as a friend and most importantly a willing trading partner.

America had far more than just an ideological influence on what has been typically seen as a ‘backwater’ of American diplomacy during the interwar period. As Robert Vitalis first suggested, the relationship between the United States, Great Britain and Egypt was far deeper than first assumed.<sup>152</sup> The United States effort in Egypt was certainly driven by the pursuit of ‘profit and prestige’ yet this effort was not this simple. American support for business was driven by their desire to expand commercial opportunity for firms operating in Egypt. Throughout much of the interwar period this effort demanded the maintenance of the capitulatory regime in Egypt as British and other European firms whose governments had a much larger political and economic footprint in the country had an advantage. Under the rubric of the Good Neighbor policy this policy would shift as the United States sought to cooperate rather than compete with the nations of Europe and the local economic elite. This policy was dictated by the needs of the

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<sup>151</sup> Pike, 38.

<sup>152</sup> Vitalis, Robert. “The New Deal in Egypt: The Rise of Anglo-American Commercial Competition in World War II and the Fall of Neocolonialism”. *Diplomatic History* 20 (1996)

state, their Egyptian partners, and their allies in capital intensive export industries for whom colonial controls, such as the capitulations in Egypt, had become a threat to their continued economic success.

## V. CONCLUSION

This thesis has attempted to show that the development of the Egyptian economy during the interwar period was a result of the interactions between extra-economic and exogenous factors. Typical historical accounts of this period have discounted these elements that have been presented here as critical to the development of the Egyptian economy during the early 20<sup>th</sup> century and which pushed the Egyptian economy away from its traditional colonial metropole-oriented economic arrangement. These factors have been discounted in the historiography of the period simply because these extra-economic elements have been written off in classical economic theory as elements originating outside the sphere of the national economy. Yet, as has been shown here, economies do not occupy their own sphere disconnected from the world around them. It is more appropriate to see the economy as a product of its surroundings. Reframing debates concerning economic development in this matter reveals that the 'invisible' hand of capitalism, a force which we are led to believe only works its miracle when the prescription of economists is followed, is in fact a multifaceted element, shaped by the exigencies of the local and international social, cultural and political environment.

The local economic elite did not follow the nationalist bourgeoisie or comprador route to success. Instead the local economic elite utilized strategies in part girded by social and cultural factors. Egypt's interwar capitalist class used their social connections to fund the creation of their business empires. Capitalists formulated discursive strategies that allowed them to occupy a position between foreign sources of capital and expertise and the increasingly vocal nationalist movement in Egypt, which had risen to a position

of prominence by the end of World War I. Egypt's interwar capitalist class saw the nationalist movement as a source of potential capital in their personal efforts to carve out business empires at the expense of foreign interests in Egypt. Several strategies, ranging from nationalization to outright cooperation with foreign capital under the guise of Egyptian nationalism, developed and allowed the interwar capitalist class to make use of the growing power of the nationalist movement amongst the Egyptian populace to establish their businesses during the interwar period.

Local elites became paragons of the nationalist political movement to facilitate this strategy from 1920 to 1927. Some, such as Talat Harb, would base their business empires on their level of Egyptianization and on social relations with the landowning and political elite, while others, such as Ahmed Abbud, would support successive ruling parties to create a mutually supporting system between patron and client and between state and business. Regardless of the strategy, the interwar capitalist class were all seeking the same ultimate goal during this period; the development of their business empires using the momentum of the nationalist movement and the support for it amongst Egyptians to challenge foreign domination of the Egyptian economy.

From 1920 to 1927 the foreign powers vested in Egypt influenced the economy as well. The British, seeking to maintain their control over Egypt would attempt to maintain a modicum of direct control through their placement of advisors in Egyptian ministries, as seen in the discussions between the Vacuum Oil Co. and Egyptian authorities in 1927 where the British brokered negotiations between the two sides. The influence of other foreign powers in Egypt would also determine the course of change in the Egyptian

economy during period. Foreign influence in Egypt has typically been oversimplified in traditional accounts of the interwar Egyptian economy, an economy which is always seen as subservient to British interests, despite the activities of thirteen other foreign powers in Egypt vested with extraterritorial powers. While the local Egyptian capitalist class was busy building their own business empires the foreign powers were working to maintain the position of their firms in the Egyptian economy.

On the Mixed Courts, the United States would continually assert their extraterritorial rights in support of American business efforts in Egypt. These efforts were based upon the American belief that their accumulated capitulatory rights precluded Egyptian authorities from impinging upon the rights of equality upon which the capitulatory regime was based. These efforts appear as an assertion of American prestige in the face of their tenuous claims to extraterritoriality, as a policy to protect American businesses from Egyptian nationalist sentiment and to ensure them against unfair trade practices by the other capitulatory powers in Egypt. The combined activities of the foreign powers in Egypt forced the local economic elite to use their discursive strategies in their effort to obtain local capital.

By 1927 the early optimism surrounding the nationalist movement had begun to wear off due to the intractability of the Egyptian political scene, which failed to support the development efforts of the local economic elite. During this period foreign capital appeared as a viable, if not the only, source of capital for the interwar economic elite. This would lead the local economic elite to seek out partnerships with foreign firms from 1927 to 1929.

In 1930 the Egyptian state was able to institute tariff reform, a change which until then had been impossible owing to Egypt's subservience to the International Commercial Convention of 1861. Tariff protection would lead to an explosion of partnerships between the local economic elite and foreign capital. Foreign firms, desirous to maintain their position in the protected Egyptian market, sought out locals identified with the nationalist movement to jump tariff barriers without raising the ire of the nationalist movement under the guidance of British trade and colonial officials. The phenomenon would lead to the establishment of a number of Egyptian controlled partnerships, strengthening the position of the local economic elite. The goodwill built up by the local economic elite during the 1920s would legitimate these partnerships, allowing them to access much needed capital and expertise in the West using a mutually contradictory position of nationalism and cooperation with foreign capital. This contradiction would remain a salient feature of the partnership movement during the 1930s.

By 1930 internationally oriented businesses in the United States had set their sights on foreign markets to help alleviate the affects of the Great Depression. In Egypt this newfound assertiveness would lead the United States to lose their ability to challenge the Egyptians based on their capitulatory rights, which were becoming more of a liability than a benefit following the initiation of tariff reform in 1930 and with the increasing activities of American firms in the country. The influence of business, which no longer needed or desired the protection of the United States government backed the movement to abolish the cumbersome system of capitulations in favor of the new instrument of American power, the Good Neighbor Policy.

The 1936 Anglo-Egyptian treaty promised that the irksome capitulations would be restrained. British willingness to diminish the capitulations was an olive branch to the Egyptians in order to protect their strategic lifeline to India, the Suez Canal, and from the intrigues of the Italians who had surrounded Egypt following their invasion of Libya in 1911 and Ethiopia in 1935. While the British were willing to abolish the capitulations based upon their own strategic considerations this willingness provided the United States with an opportunity to play a constructive role assisting the Egyptian delegation at the Montreux Convention in 1937. This role led to further economic and political independence for the Egyptians and allowed the United States to initiate a bilateral economic relationship with Egypt based on cooperation and friendship, rather than the capitulations as the British had developed during the 1930s during the partnership movement.

The interaction between these elements brings us back to the object of this paper. While typical narratives of economic development do not account for extra-economic factors the interwar Egyptian economy did not follow the singular logic of capitalism. The development of the interwar Egyptian economy was in practice a result of interactions amongst social, cultural and political factors, normally seen as lying outside of the sphere of economics in the works of economic historians. These elements were in fact key to the development of and change within the Egyptian industrial sector during the interwar period. The interconnections between these extra-economic and exogenous elements were the driving force of economic development and change during the interwar period in Egypt.

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