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Egypt's 'Orderly Economic Transition': Accelerated Structural Adjustment under a Democratic Veneer?

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In recent weeks, the economic direction of Egypt's interim government has been the object of intense debate. International Financial Institutions (IFIs), such as the World Bank and the International Monetary Fund, and the European Bank for Reconstruction and Development have already started to publicize economic prescriptions that amount to little more than the acceleration of the Mubarak-era neoliberal program.

Promises of aid from the G8 have been pushing in the same direction—inevitably accompanied by the rhetoric of the need for 'democratization'. The Gulf Arab states, in particular Saudi Arabia, Kuwait and Qatar, have also pledged billions of dollars in loans and investment to the military-led Egyptian government.

The press releases accompanying many of these recent announcements of financial support speak grandly of "the transition to democracy and freedom", conveniently ignoring, of course, the long-standing support given by Western regimes to Mubarak and other autocratic rulers in the region. However, analysis needs to move beyond simply highlighting such hypocrisy to be useful.

The plethora of aid and investment initiatives now being promised by global and regional financial institutions and by leading Western powers is designed, in fact, to consolidate and reinforce the power of Egypt's dominant class in the face of ongoing popular mobilisations (see Hanieh 2011a).

Ostensibly, this external assistance is meant to promote such laudable measures as 'employment creation' and 'infrastructure expansion' but such measures are premised, in reality, upon the classic adjustment policies of privatisation, deregulation and greater openness to foreign investment and trade.

The Democracy Discourse

This is a new form of the so-called 'Post-Washington Consensus', in which a democracy discourse is now advertised as the basis to advance the neoliberal economic trajectory already initiated by the Mubarak era. The ultimate outcome is likely to be an Egyptian state that assumes some of the formal trappings of a liberal democracy but remains ultimately dominated by the country's military and business elites.

The basic premise of the recent calls for accelerating economic reforms is that Egypt's problems stem from the weakness of the private sector combined with the 'rent-seeking' of state officials. This view flows from long-standing analyses by IFIs of the alleged sources of Egypt's economic problems.

An example is the flagship World Bank report in 2009, *From Privilege to Competition: Unlocking Private-Led Growth in the Middle East and North Africa*, in which it prescribed the essential economic steps to be taken by all governments in the region: "(1) opening protected sectors such as retail and real estate, which have barriers to foreign investors…; (2) reducing tariff bands and nontariff barriers; (3) removing protection of state-owned firms…; and (4) eliminating anti-export biases."

Since the disastrous decades of structural adjustment in the 1980s and 1990s, the World Bank has been obliged to complement such an economic agenda with liberal-sounding institutional reforms. Thus, it has been able to readily adopt the slogans of the 'Arab Spring' that call for greater democracy and reforms in governance.

Anti-Democractic Reforms

Since authoritarian regimes have been the norm in the Middle East, such calls for governance reforms can be easily portrayed as democratic. In fact, however, they are profoundly anti-democratic since they are designed to tailor public institutions to the needs of the private sector and remove the ability of the state to intervene, for the public good, in markets—where powerful economic elites continue to hold unquestioned sway.

From the early days of Egypt's uprising, the political slogans heard on the streets involved demands such as reclaiming wealth that was stolen from the people, strengthening state support and services to the poor, renationalizing the industries that had been privatised and placing restrictions on foreign investment. But these demands have been largely ignored within the analytical framework of the IFIs, which have instead attempted to claim that the 'Arab Spring' occurred in response to the *absence* of capitalism instead of its normal functioning.

The remarks of Robert Zoellick, President of the World Bank, at the opening of a meeting on the Middle East in mid April are indicative of the logic of such an economic paradigm. Referring to Mohammed Bouazizi, the young peddler who became the catalyst for the Tunisian uprising by setting himself on fire, Zoellick remarked that "the late Mr. Bouazizi was basically driven to burn himself alive because he was harassed with red tape…"

Precisely because Egypt's uprising has been motivated by the belief that political and economic demands are inseparable and intertwined, Zoellick's opportunistic 'pro-market' recasting of its ideals is designed chiefly to deflect ongoing mobilisations from fulfilling their basic aspirations (see Hanieh 2011b).

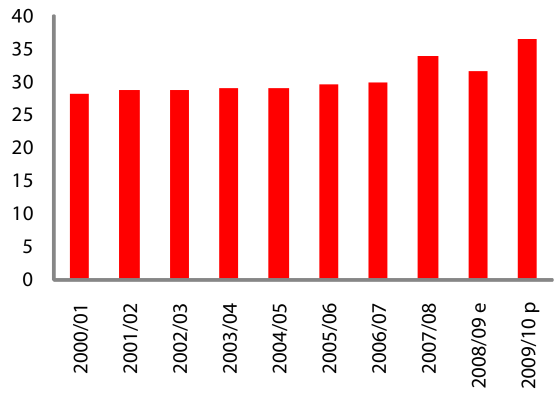
Debt Servicing and Odious Debt

The external financing of the acceleration of neoliberal economic reforms in Egypt is likely to assume two major forms: 1) the extension of loans that deepen the country's external debt burden and 2) the privatisation of state-owned enterprises through the vehicle of Public-Private Partnerships (PPPs).

At the end of 2010, Egypt's total external debt was about US$ 35 billion (see Figure on next page). And for the last decade the country has been paying roughly $3 billion a year in debt service. Despite such yearly payments, the country's total debt still increased by around 15%.

More tellingly, during this same period Egypt's net transfers on its long-term debt (its repayments minus new loans) totalled $3.4 billion. Hence, contrary to popular assumptions, more money has been flowing out of Egypt to Western lenders than vice versa. In other words, wealth has been continuously extracted from Egypt, effectively in order to enrich powerful financial institutions in the US and Europe.

Egypt's Total External Debt (in US$ billions)



Source: IMF International Financial Statistics

About 85% of this external debt had been public or publically guaranteed by the Mubarak regime. Moreover, the Egyptian ruling elite that was centred upon Mubarak and his closest coterie had profited handsomely from these loans. In this sense, much of this external debt could be characterised as 'odious debt', i.e., incurred by a dictatorial regime with blatant disregard for the common good.

In a major speech on May 19th, President Obama made a seemingly beneficent promise to relieve Egypt of up to $1 billion in its debt obligations to the US. However, this 'forgiveness' is tied, in fact, to a strict condition, namely, that the money freed up should be used in a manner approved by the US government. As the speech stated, the basic objectives should be "ensuring financial stability, promoting reforms and integrating competitive markets with each other and the global economy".

At roughly the same time, the World Bank and IMF announced an agreement to provide Egypt with new loans totalling up to $6 billion, which World Bank President Robert Zoellick explicitly tied to "governance and openness reforms"' and to help finance Public-Private Partnerships, a modern euphemism for privatisation. A public debate ensued around the possible conditionalities of these proposed loans but the interim government refused to reveal any details.

In the context of this debate, and under pressure from Egyptian activists, the Finance Ministry announced on June 24 that, "for the time being", it would no longer need assistance from the World Bank and IMF. However, the decision to temporarily reject the loans took place after the Egyptian government (with IMF advice) had revised the state budget to slash expenditure by around $4.6 billion.

Indicatively, the Finance Ministry has not made the full nature of the cuts public, except to disclose that they include a 50% reduction in spending on unemployment aid and a lowering of energy subsidies. Although the situation is in flux, it is clear that there is no retreat from neoliberalism. Overall indebtedness is still set to increase as Egypt takes on loans from other sources such as the Gulf states, bilateral lenders and the EBRD.

Public-Private Partnerships

In President Obama's May 19th speech, he also pledged $1 billion in new investment in Egypt through the vehicle of the Overseas Private Investment Corporation (OPIC). The mission of OPIC is to support US business investment in so-called emerging markets. Such support takes the form of reducing barriers to foreign capital and accelerating the privatisation of state-owned enterprise.

Soon after Obama's speech, OPIC put out a press release announcing, for example, that the $1 billion of US investment would be used "to identify Egyptian government-owned enterprises investing in public-private partnerships in order to promote growth in mutually agreed-upon sectors of the Egyptian economy".

A public-private partnership (PPP) is essentially a means of encouraging the outsourcing of previously state-run utilities and services to private companies. Under this arrangement, the private company signs a contract with the government to provide certain services, such as running a hospital or a power plant. In return, the company receives payments from the government, or from the direct users of the service. This is, in effect, privatisation under a public-relations cover.

Investment by the European Bank for Reconstruction and Development (EBRD) in the Middle East has traditionally been explicitly linked to PPPs. The EBRD was set up to help East European countries transition quickly to capitalist economies. A hallmark of such transitions was huge and rapid privatisation programs.

Already, the EBRD is contemplating providing 1 billion Euros a year to Egypt starting in 2012. This will be the first time that the EBRD has extended its program to the Middle East, and the yearly massive sum that it has announced would lead undoubtedly to an accelerated process of privatisation in Egypt. At the Annual General Meeting of the EBRD in late May, Egyptian representatives obligingly signalled their intention to "encourage PPP initiatives".

Concluding Remarks

It appears evident that current as well as promised commitments of financial assistance and investment from Western powers and IFIs are premised on Egypt's adoption of an ambitious program of economic liberalisation. This program will entail deepening privatisation (mainly in the form of PPPs), deregulation (initially linked to more foreign investment) and reduction of trade barriers (in return for greater access to US and European markets).

Such a neoliberal project is likely to lead to rapid expansion of Egypt's already heavy external debt burden, which will put increasing pressure on the country to adopt a long series of restrictive structural adjustment programs. Meanwhile, the business and military elites that continue to dominate the country are the likeliest social strata to profit while the living standards of the vast majority of Egyptians will surely face continuous erosion.

Was this the kind of future that galvanised in early 2011 the massive and unprecedented social uprising in Egypt that toppled Mubarak from power?

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