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## Economic Aid to Egypt: Promoting Progress or Subordination?

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# Economic Aid to Egypt: Promoting Progress or Subordination?

## Abstract

This article evaluates the political economy of U.S. aid in Egypt, arguing that transnational actors worked symbiotically with political and crony capitalist Egyptian elite to formulate and implement aid policies. The transnational elite project, narratively described as promoting 'market democracy,' defined reforms within a narrow frame where political and economic engagement would not challenge the dominant U.S.-Israeli security structure. The aid regime used a dual strategy based on partnerships and privatization, whereby reforms functioned to enhance asymmetric elite profit-making, economic integration into the U.S.-dominated capitalist system, and the geostrategic stability, and hence, dictatorship, within that order. Dictatorial power was central to transnational profits which connected directly to the aid regime and generated greater exclusion and inequality within Egypt. These effects led many critics to view U.S. aid and the changes that it effected as subordinating, both domestically, in terms of socio-political and socio-economic relations, and externally, in terms of Egypt's stature and foreign policies.

## Keywords

Political Economy, US aid to Egypt, Egypt foreign policy, Egyptian political economy

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## Cover Page Footnote

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Since the signing of the Camp David 1979 Egypt-Israel Peace Treaty, the United States has provided Egypt with more than \$70 billion of military and economic assistance. Despite this long-standing relationship, questions remain about the role that this aid played in achieving American policy objectives, specifically with regards to the economic, institutional, political, and ideological development of the country. While reigning Orthodoxy extols the role of U.S. aid in promoting economic and political progress,<sup>1</sup> a critical evaluation of the experience contradicts official pronouncements and data. This article will discuss the transformations that realigned Egyptian state policies in the context of U.S. economic and geo-political goals, and Egyptian debates that are skeptical about the mostly negative effects of American aid.<sup>2</sup>

Successive U.S. governments have emphasized the promotion of democracy and free markets as priorities. The website for the United States Agency for International Development (USAID) states that economic aid is focused on: “holding free and fair elections, empowering citizens to play an enhanced role in their country’s future, protecting and expanding universal rights, expanding independent civil society and building democratic institutions that are transparent and accountable.”<sup>3</sup> In addition, economic aid was also used to support “[...] Egypt’s transformation to a more market-oriented economy, making Egypt a regional leader in economic reform. Past reforms lowered tax rates while increasing tax revenue, cut barriers to trade and opened industries to competition.”<sup>4</sup> Similarly, the U.S. State Department envisions that: “A prosperous and democratic Egypt, buoyed by economic growth and a strong private sector, can be an anchor of stability for the MENA region.”<sup>5</sup>

Egypt is the second largest recipient of U.S. aid after Israel. It thus makes a compelling test case for evaluating the political economy of U.S. aid policies and the role that these policies played in helping the U.S. achieve its geopolitical aim of normalizing Israeli relations with Egypt and in the Middle East region. The formulation and implementation of the aid framework depends in large part on transnational actors who occupy influential positions and whose definitions of what constitutes optimal political and economic development are transcribed into actual policies. In execution, the transnational elite project, often narratively described as promoting ‘market democracy’, is targeted within a narrow frame.<sup>6</sup> In Egypt, as in many parts of the world that transitioned to ‘free market’ economies, narrow framing served to promote asymmetric elite profit-making, economic integration into the U.S.-dominated capitalist system, and the geostrategic stability of that order. As such, the focus on ‘stability’ facilitated dictatorship while encouraging only carefully structured forms of political engagement, neither of which is intended to challenge the Israeli-U.S. security structure. Those who oppose such policies, for ideological, political and/or economic reasons, are marginalized and excluded.

I argue that the discourses of democracy promotion and of free markets were posed as solutions to Egypt’s ‘problems,’ classified as such by the U.S. and the Egyptian political and economic elite. This elite had maneuvered into powerful positions after President Anwar al-Sadat realigned the country away from the state-led and Arab nationalist course that was the hallmark of President Gamal ‘Abd el-Nasser’s rule. While provision of aid monies is conditioned on the U.S. Secretary of State certifying before Congress that Egypt is meeting its obligations under the peace treaty, the Egyptian elite had to contend with a domestic arena where the overwhelming majority of Egyptians held hostile views towards Israel.<sup>7</sup> Therefore, Sadat and the U.S. needed a narrative to convince Egyptians that the future prosperity of Egypt lay in an increasingly warmer peace. According to Article III (policies elaborated in Annex III) of the Camp David Peace Treaty, for the peace to be ‘normal’, the relationship is to include ‘full

recognition, diplomatic, economic and cultural relations, termination of economic boycotts and discriminatory barriers to the free movement of people and goods, and will guarantee the mutual enjoyment by citizens of the due process of law'.<sup>8</sup>

To maintain the stability of this arrangement, U.S. aid has mostly gone to the Egyptian military. Former U.S. Ambassador to Egypt Daniel Kurtzer testified to the Senate Foreign Relations Committee in July 2013 that: "It would make no sense for the United States to cut off aid to the Egyptian military, the one group in Egypt that continues to share our interests and the only group ultimately capable of assuring domestic stability."<sup>9</sup> To encourage the realization of 'normal' relations, parallel efforts were expended on the ideological, socio-political, and economic levels. Promoting a reforms agenda that structured ideological production, economic and institutional transformations, and business and socio-political networks so as to support transnational capital accumulation was linked to the process of normalization through aid policies. Partnerships and privatization served as tools by which businesses, territories, civil organizations and institutions were re-oriented to accommodate and advance 'globalization.' By definition, globalization opened avenues for normalized relations with Israel while directing asymmetric benefits towards amenable elites who could exploit their positions to advance crosscutting interests with the United States and to ensure that Egypt's future developmental and geopolitical agenda would maintain the stability of the U.S. goals of globalized and normalized relations in the region.

Proportionally, U.S. aid actually represented only 4 per cent of Egyptian Gross Domestic Product (GDP) in 1995 and only 1.3 per cent of GDP in 2010.<sup>10</sup> The economic, non-military portions of this aid constitute even smaller ratios of GDP. Despite the seeming insignificance, aid produced striking transformations in Egyptian government policies. Partly explaining this 'success' is that U.S. aid complements political and military tools and opens the door to other sources of global aid, including international financial institutions (IFCs) and non-governmental organizations (NGOs) within the U.S.-dominated international system.<sup>11</sup> Aid realigned Egyptian state policies within the American orbit through the instrumental use of privatization and targeted partnerships with an autocratic elite and their capitalist allies. This group functioned to enforce austerity measures as prescribed by the International Monetary Fund (IMF) and other creditors and served as conduits for a globalization-normalization project. Dependence on an autocratic elite for the implementation of reforms had the counter-effects of producing sweetheart deals – in effect, advancing transnational capitalist profits. Many of these deals, while legal from the technical standpoint, were perceived as indicative of a pervasive corruption that was facilitated by the state of flux in economic, legal and administrative institutions during the transition to the free market economy. On a parallel trajectory and because of popular antipathy to the idea of normalization, privatizing revenue streams was especially important in incentivizing the regime to build trade relations with Israel. These methods were efficient and necessary for alignment with U.S. strategic and economic goals.

Aid-linked reforms reduced the role of the state in development and the provision of social services. Instead, reforms redirected the government's role towards creating programs for macroeconomic stabilization (reductions in the deficit and government spending), public sector management (divestments), and private-sector development (transforming financial and trade policies, free-market liberalization).<sup>12</sup> At best, the repercussions were contradictory.<sup>13</sup> More often than not, they produced adverse effects, many of which were disguised by various instruments and/or ignored. Instead of seeking internal resources as national solutions for economic and social problems, aid-conditioned free-market reforms increased the state's dependence on

external financial flows – rents, aid, debt, Foreign Direct Investments (FDIs) – as well as on the partnered political, military, and economic elite that sustained these flows. Concomitantly, the state's dependence on the productive – labor – social segments in society declined.<sup>14</sup> The dominant narrative defined the obstacles to Egyptian progress as emanating from Nasserist state-led and nationalist Arab institutions and policies. Consequently, the 'solutions' offered focused on transforming the 'market' and the 'democracy' spheres by re-structuring institutions and channeling political engagement so as to depoliticize economic decision-making and to manage the organization, mobilization, and agendas of civil society organizations. Meanwhile, foreign investments and aid-rent flows did not live up to expectations of transferring technology, new industries, and expertise into Egypt or of reducing the unemployment rate. Instead, they were focused on capital-intensive, resource-extractive oil and natural gas industries and were mostly limited to paper transfers of wealth in the form of purchases / privatization of public assets and land, and luxury investments in the construction and tourism sectors - hardly the basis for independent progress.

These latter furnished ample fodder for critics to contest regime policies as subordinating. They perceived Egyptian subordination (*taba'iyya*) in relationships that tie together the U.S., Israel and a corrupt and authoritarian ruling elite.<sup>15</sup> Domestically as well, privatization, neoliberal reforms, and normalized business relationships proceeded without public debate or parliamentary approval and in spite of oppositional activism (protests, journalistic exposés and legal challenges). Regionally, Egypt's stature was diminished and its foreign policies, more often than not, became ancillary to U.S. foreign policies in the region. The middle and lower classes experienced a gradual, but noticeable, reduction in the services and economic resources available to them through the state, leading to a massive brain drain and to labor emigration. These subordinating effects were magnified by diverted revenue streams due to corruption and increasing autocracy, both of which were perceived as having been accentuated by policies undertaken within the aid-framework. Criticism of American aid, and of the peace treaty with Israel, spread to most Egyptians.<sup>16</sup> These discourses proved particularly resonant, eventually contributing to the downfall of Mubarak. Any discussion of Egypt's future would have to start from these domestic and international aspects of subordination experienced by most Egyptians apart from complicit elite beneficiaries.

The situation was not much better on the democracy promotion front, where economic aid monies directed at the civil society sphere served to channel political engagement and contributed to sustaining the asymmetrical and inequitable power position of the regime as well as of U.S. interests in the region. Most of the economic assistance was allocated to the categories of 'Macroeconomic foundation for growth,' 'Private sector competitiveness,' and 'Trade and investment.'<sup>17</sup> While the advocacy of a greater role for the private sector – foreign and domestic – was narratively-linked with promoting democratization, these lofty intentions are belied by the fact the U.S. provides relatively miniscule amounts for the promotion of democracy and capacity-building in civil society. According to the U.S. Department of State, civil society/democracy and human rights received \$29.78 million in 2006, a number that fell to only \$7 million in 2010.<sup>18</sup> By 2014, the amount of aid devoted to democracy and civil society increased, but remained low at \$65 million in 2014.<sup>19</sup> Significantly, most of this aid money goes to U.S. institutions – the National Democratic Institute (NDI), the International Republican Institute (IRI), Freedom House, the International Foundation for Electoral Systems (IFES), and the Middle East Partnership Initiative (MEPI).<sup>20</sup>

There is little funding directed towards organizations that can actually mobilize people, such as political parties and labor unions. The reason is that the U.S. coordinates democracy and governance assistance – the funding and registration of organizations – with the Ministries of Foreign Affairs, International Cooperation, and Social Solidarity.<sup>21</sup> Up until 2005, the U.S. only funded civil society organizations approved of by the Egyptian government.<sup>22</sup> That meant that the Ministry of Social Solidarity would oversee and license Non-Governmental Organizations (NGOs) – effectively granting autocratic control over their operations. Moreover, the U.S. and other Western donors further limited the parameters for the work of Civil Society Organizations (CSOs). Specifically, CSOs had to qualify to donor targets and to fill out applications (in English) in order to receive funding. The effects of these simple and seemingly neutral conditions effectively weed out (non-elite) non-English speakers in addition to encouraging adherence to donor agendas.

Adherence to donor agendas was read as subservience by some CSOs like al-Nadeem Center for the Management and Rehabilitation of Victims of Violence and Awlad al-Ard, both of which announced that they will forego donor funding. Al-Nadeem Center published reports suggesting that foreign funding of CSOs was provided as political cover with which to disguise detrimental neoliberal economic and normalizing relations with Israel.<sup>23</sup> Such stances garnered NGOs such as al-Nadeem with added legitimacy in the domestic arena. In other instances, affiliation with a donor may have detracted from the legitimacy of NGOs and were controversial even among pro-democracy activists.<sup>24</sup> For example, Sana' al-Masri of al-Nadeem accused Saad Eddin Ibrahim of having tailored his language to suit foreign funders, including on the issue of normalized relations with Israel.<sup>25</sup> Donor agendas became especially apparent, for instance, when the U.S and other international donors intervened on behalf of Saad Eddin Ibrahim, head of the Ibn Khaldun Center, but did not admonish the regime for incarcerating other political prisoners who opposed U.S. policies in the region such as the invasion of Iraq and normalization of relations with Israel. For instance, Magdi Ahmad Hussein, journalist and editor of *Al-Sha'b* newspaper and current General Secretary for the Labor Party, and his comrades were jailed for their political positions and activism.<sup>26</sup>

The circumscription of civic political engagement is also instituted legally. Law 84(2002) created a larger space for civic work in human development and in fighting poverty – areas where the state was withdrawing its services and where partnerships with CSOs could remain focused on arenas that would not upset predominant agendas. Law 84 specifically prohibited alliances with any organizations or institutions outside of Egypt in addition to barring NGO coalitions with unions and political parties. Another law, No. 152, specifically excluded any NGOs with political or trade union-like activities from registration as NGOs.<sup>27</sup> Surprisingly, Law 84(2002) was preceded by a meeting held by the Ministry of Social Affairs, in which NGOs and donor institutions had been invited to discuss the draft law. Soon after, the Minister of Social Affairs met with the American Ambassador and the European Union representative in Cairo and urged them, as the biggest funders, to increase donations to NGOs. This request was inconsistent with parliament's suggestion that foreign funding threatens national security.<sup>28</sup> The legitimacy of NGO work therefore became a matter of controversy. According to Gamal Eid, director of human rights center ANHRI, "... sometimes NGOs pretend to be independent, taking money from U.S. aid agencies with one hand and from the government with another while furthering a pro-government agenda." Another factor contributing to suspicions among many Egyptians of NGOs is the fact that they do not have to reveal their expenses and money sources to the press or public, making it hard to link their political stances with their sources of funding.<sup>29</sup>

## Background

Among the prime instruments used by the United States to transform the world to align with its vision for a (purportedly) more institutionalized, democratic, globalized, and market-driven system is the provision of economic aid. Altruistic narratives by liberal institutionalists such as Joseph Nye and Tony Smith (2012) hold that aid advances U.S. goals by incentivizing policies that keep states in the U.S. orbit and by spreading liberal ideals like (Kantian) peace, freedom, and democracy.<sup>30</sup> Other observers of a neo-realist bent, such as John Mearsheimer (2001), Stephen Walt (2014), Christopher Layne (2014), and Chalmers Johnson (2006) are more critical, viewing these transformations as serving mainly to extend American hegemony, potentially provoking opposition and leading to the over-extension of American power.<sup>31</sup> Political-economy critics such as William I. Robinson (2006) view such altruistic narratives as a means to endow a democratic and supposedly neutral 'free market' façade that induces (subordinating) behavioral changes in target states. Since the process of convincing is best done under democratic conditions that privilege consensus over force, the United States uses the logic of 'market democracy' to direct aid towards fortifying sympathetic decision-makers and capitalists, tying them to an international elite.<sup>32</sup> As will be demonstrated below, political elite actors, in alliance with a network of crony capitalist Egyptian elite, dominated the execution of the aid regime through their privileged political and bureaucratic positions, using aid and aid policies to advance their own interests. Meanwhile, they also acted as intermediaries for profit accumulation by transnational actors with whom they were affiliated. These asymmetric benefits and profits were linked to the aid regime and generated greater exclusion, marginalization, and inequality within Egypt. This outcome is consistent with Barry Gills and Joel Rocamora's argument that U.S. aid promotes a type of politics designed to accommodate U.S.-dominated globalization and consequently yields 'low-intensity democracy.'<sup>33</sup> The enhancement of dictatorial powers as a direct result of U.S. aid was noted by Jason Brownlee (2002 and 2012) and Noam Chomsky (2010).<sup>34</sup> Along similar lines, other observers such as William Appleman Williams (2009), N. Chomsky (2004), David Harvey (2010), and Peter Gowan (2010) have argued that the contemporary misnomers of globalization and free markets, institution-focused liberal democracy promotion in the non-West, and universalist-type claims of human rights and of economic liberty serve an ideological function that promotes the geostrategic and market agendas of powerful countries.<sup>35</sup>

The Egyptian case demonstrates that the geostrategic and market agendas of powerful countries are promoted by policies associated with globalization and democracy promotion. Egypt is a key component of U.S. Middle East policy. After Israel, Egypt is the second highest recipient of American aid, receiving approximately \$1.3 billion annually since the signing of the Camp David Peace Treaty in 1979.<sup>36</sup> Unlike Israel, which receives unconditional cash transfer aid of at least \$3.1 billion annually, Egypt's loans are conditional and frequently tied to the implementation of reforms that have affected its course of development. Steven A. Cook (2011) aptly described this arrangement as the "trilateral logic of bilateral relations," highlighting that there is tension in the relationship because, from a U.S. perspective, the close relationship with Egypt was almost entirely a function of its sustenance of the peace treaty whereas the regime resented that aid came with conditions and felt that the Egyptian military was somehow owed the aid.<sup>37</sup> In fact, however, Egypt is important to the U.S. for other reasons as well. Twelve per cent of international trade and twenty-two per cent of container trade pass through the Suez Canal. As

such, Egypt's geographic location also makes it central to the U.S. interest in free markets.<sup>38</sup> Egypt also possesses historical, political, cultural, and demographic (one in four Arabs is an Egyptian) stature, making it an essential cornerstone for the projection of U.S. power in the region.

Since becoming a recipient of U.S. aid, a cash transfer program has financed grain imports from the United States, rendering the country dependent on the U.S. and other sources for its food and turning it into one of the top importers of wheat in the entire world. A 2005 report by the U.S. Government and Accountability Office (GAO) states that: "According to the grant agreements, the Egyptian government is authorized to use 75 percent or more of the funds to purchase U.S. commodities, such as wheat or equipment, and up to 25 percent to repay its debt to the United States."<sup>39</sup> The same document highlights that the rationality underlying economic aid is partly intended to foster normalization: "Since 1975, the United States government has provided more than \$25 billion in economic assistance to Egypt. The U.S. continues to support Egypt, in part because of its political leadership in making peace with Israel and fostering a broader peace between Israel, the Palestinians, and other Arab states, including its efforts in the war on terrorism."<sup>40</sup>

The most important criterion for aid provision is Egyptian compliance with a primary strategic American goal, namely, maintaining the peace with Israel. Most of the aid is directed towards the Egyptian military while most of the funds never actually leave the United States. Funds are deposited at the New York Federal Reserve and used by Egypt to finance its purchases, often in the form of multi-year agreements, from American defense contractors.<sup>41</sup> Aid ensures not only peace, but military cooperation with the U.S.. According to a 2009 U.S. Embassy cable released through WikiLeaks, former U.S. Ambassador to Egypt Margaret Scobey wrote: "President Mubarak and military leaders view our military assistance program as the cornerstone of our mil-mil relationship and consider the USD 1.3 billion in annual FMF as 'untouchable compensation' for making and maintaining peace with Israel. The tangible benefits to our mil-mil relationship are clear: Egypt remains at peace with Israel, and the U.S. military enjoys priority access to the Suez Canal and Egyptian airspace."<sup>42</sup> As a result, more than 2,000 military aircraft flew through Egyptian airspace in support of missions in Afghanistan and the Middle East region; and about 35 to 45 naval ships pass through the Suez Canal (expedited passage) annually, including carrier strike groups.<sup>43</sup>

This military relationship was necessary to maintain the stable environment that would foster a transformation of the Egyptian economy and of targeted beneficiaries among the elite and the capitalist class. Economic aid was used to help structure partnerships under the reforms agenda, wherein privatization proved highly effective at transforming economic and trade orientations for the benefit of Egypt's dominant class and their foreign investor allies. An example of such reforms that coddle the foreign investor and the ruling economic class was Law 230 (1989) which authorized 100 per cent foreign ownership of ventures and guarantees the right to remit income and repatriate capital. Law 230 did not place any price controls or profit margin limitations. Similarly, in 1997, the Investment Incentives and Guarantees Law 8 of 1997 was introduced to regulate foreign investment. It granted projects in 16 high-priority activities special exemptions and incentives and offered guarantees against nationalization. It also gave companies generous tax exemptions, ranging from five-year tax holidays from corporate income tax to ten year holidays for companies in new industrial zones (where Israel can be a partner) to twenty year tax exemptions for investments outside the Nile Valley. Like Law 230 (1989) before it, this law also grants exemptions from certain labor requirements.<sup>44</sup>



Egyptian critics interpreted U.S. aid as designed to gain influence over Egyptian policy-making and will. Such deductions are not improbable. An October 2007 WikiLeaks cable from the U.S. embassy in Cairo confirms that democracy and governance programs were part of an effort to ‘optimize American influence’ in Egypt, guarding against potential political upheaval after Mubarak’s death or retirement.<sup>45</sup> This cable coincided with the succession crisis (*tawrith*) when Mubarak wanted American approval to hand over power to his son, Gamal. In reality, the reforms merely facilitated access for power-holders and investors, who used their positions to redirect revenue streams and to gain resources and assets in the now privatized free market spaces where public input and political debate are minimized. The new frame implied that free markets will allow ‘efficient’ capitalists to lead Egypt’s progress whereas the ‘inefficient’ and ‘corrupt’ bureaucrats and autocrats could not. This narrative was more illusory than real. Timothy Mitchell’s excellent study of the logic of neoliberalism in Egypt (1999) highlights that the so-called success of neo-liberal policies was only ‘political imagination.’<sup>46</sup> Free market policies enhanced the power of politically well-connected families, who, through their positions at the apex of public institutions, formed partnerships / conglomerates with the private sector, appropriating the wealth and profits through the privatization program.<sup>47</sup>

The strategic dependence on autocrats and capitalist partners facilitated corruption – often disguised within the framework of institutional transition. As a result, in 2012, Egypt ranked 118<sup>th</sup> out of 176 countries on Transparency International’s Corruption Perception Index (CPI).<sup>48</sup> According to the Egyptian Center for Economic and Social Rights (ECESR), the marriage between the political and economic elite enabled the use of economic liberalization and privatization to purchase state assets below their true value and the monopolization of foreign aid.<sup>49</sup> Between 2000 and 2008, Egypt is estimated to have lost \$57.2 billion due to corruption and illicit financial flow – or about \$6 billion annually according to a report by Global Financial Integrity.<sup>50</sup> Some specifics of how aid-supported reforms extracted such sums from Egypt are presented below.

### **Regulating Politics and Channeling Economic Wealth in the Emergent Market-Democracy**

Egypt is well-integrated into the U.S.-dominated global economic system. As such, it is subject to similar (neoliberal) economic forces that have produced increasing inequality in wealth (and power) distribution around the world. According to the European Network on Debt and Development (EURODAD), developing countries lose \$2 for every dollar in inflows of new financial resources, or about 10% of GDP since 2008. Most of these funds exit in the form of illicit financial flows, profits taken out by foreign investors (\$486 billion in 2012) and lending by developing countries to rich countries (\$276 billion in 2012 plus \$188 billion in interest on external debts). Moreover, since 2010, repatriated profits have exceeded new inflows of Foreign Direct Investment (FDI), with outflows above 8% of GDP.<sup>51</sup> A recent report by Global Financial Integrity estimates that illicit financial outflows from developing states were almost \$1 trillion in 2011, with a cumulative total of \$5.9 trillion between 2002 and 2011. These staggering numbers pale in comparison to inflows of aid by donor states, which amounted to \$134 billion in 2011. In short, “For every dollar of aid, the South loses \$7 in illicit outflows; developing countries are losing \$2.6 billion a day/\$108m per hour/\$2m per minute/\$30,000 per second.”<sup>52</sup>

The Middle East and North Africa region experienced the fastest growth rate in illicit outflows, estimated at 31.5% per year between 2002 and 2011.<sup>53</sup> Global Financial Integrity computed that Egypt lost \$3.678 billion between 2002 and 2013 in illicit money flows, mostly

facilitated by secrecy in the global financial system.<sup>54</sup> These enormous transfers of wealth from poor to rich states are made easier by the instrumental use of positions of power to institute laws and regulate governmental apparatuses so as to advance capital accumulation – either as corruption or covertly disguised in legalized forms.

For example, the measurable negative effects on the Egyptian economy which redirect revenues outside of the country do not make headlines. Specifically, the difference between the widely-reported gross domestic product (GDP) and gross national product (GNP) is an indicator of net foreign inflows and outflows, and in the case of Egypt, reveals that net foreign capital outflows from Egypt are large. To get an accurate picture of real output, GNP must be adjusted by a deflator, to make up for differences in Purchasing Power Parity (PPP) with the rest of the world.<sup>55</sup> The reasons are the following. GDP measures national income or output and national expenditure in a country, by nationals and foreigners. GNP, on the other hand, measures GDP and takes into account net income receipts from abroad, including output by nationals in the country and abroad. If multinationals that invest in Egypt repatriate their profits, then their production would boost Egyptian GDP, but would not benefit Egyptian nationals. This outflow of profits is subtracted from GNP, making it lower than GDP. Moreover, these repatriated profits by multinationals decrease demand for the Egyptian currency and lower its value (inflation). Therefore, it is necessary to adjust GNP by a deflator (PPP) in order to eliminate the effects of rising prices (inflation) on GNP and to distinguish between changes in prices as opposed to changes in physical output. Thus, comparing GDP with an inflation-adjusted GNP would reveal the true value of net outflows of foreign capital exiting Egypt. According to Ahmed el-Sayyed al-Naggar, the difference amounted to more than 17 per cent of national production in 2010 (and was more than 14 per cent in 2009).<sup>56</sup> In contrast, foreign direct investment (FDI) only represented on average 40 per cent of the monies extracted from Egypt. Furthermore, most of these FDIs were actually exchanges in paper assets and not real investments in new productive assets.<sup>57</sup> Thus, without the deflator adjustment to GNP, FDIs in Egypt would appear as greater than they actually are and capital flight would be minimized.

Selectivity in statistical reporting reinforced the dominant narrative extolling the benefits of free market reforms, where progress requires globalization and its attendant normalization. These statistics are often used to justify aid-supported reforms and serve as rationalizations for new definitions of what constitutes national progress. These new narratives diverge from prior (statist) discourses that remain extant within the socio-political worldviews and in economic and institutional realities.

An amenable macroeconomic environment created opportunities in which such asymmetrical advantages could flow to capitalist foreign and domestic investors and to power-holders in the regime. Monetary scarcity – large budget deficits approaching twenty percent of GDP and accumulated foreign debt – was posed as a central problem facing Egyptian national development, serving as justification for new laws and territorial and administrative transformations in economic production and extraction. The creation of Qualified Industrial Zones and the opening of previously-off-limits strategic sectors, such as natural gas and oil production, to private investments were innovations that integrated trade with Israel into Egypt's globalizing economy. Both of these changes served to redirect revenue streams towards the ruling elite and their capitalist partners.

The role of U.S. aid in effecting these transformations can be traced through an assessment of the economic aid package and its categories of dispensations. After the 1990s, U.S. aid increasingly shifted away from infrastructure and towards a market-democracy frame.

According to the July 2005 United States Government Accountability Office (GAO) review of USAID's work in Egypt: "Since fiscal year 1992, USAID's Cash Transfer Program has provided about \$1.8 billion in economic assistance to the Egyptian government for completing reform-related activities, such as privatizing state-owned companies. USAID and Egypt have identified 196 reform-related activities, and Egypt has completed 136 of them (about 70 percent), primarily in the areas of finance and trade."<sup>58</sup> USAID expressed confidence in Egypt's willingness to complete the rest of the reforms. It commented on the GAO report that "Egypt's completion of about 70 percent of the activities resulted from the program's structure rather than shortcomings in Egypt's policy reforms. USAID also stated that extending the target dates for completing reforms increased U.S. influence in accomplishing reforms."<sup>59</sup>

These reforms were administered through three USAID programs: commodity imports (largely financing wheat and other imports from the U.S.), cash transfer (conditioned on the implementation of particular reforms or the appointment of particular individuals), and export enhancement initiatives (an innovation that encouraged normalized relations with Israel in the form of joint production with Israeli partners, bilateral research, QIZ, and so forth). The categories on which aid was dispensed indicate a strong focus on re-writing laws and transforming the economic environment to align with international treaty obligations such as the WTO (Trade Policy and Regulations). The category of 'Business and Other Services' also received significant funding and served to enhance privatization. Debtor organizations and states, including USAID, made privatization a condition, the satisfaction of which facilitated the acquisition of debt and debt service payments.

The official narrative trumpeted that, as a percentage of GDP, external debt had fallen from 54.5 per cent in 1995 to 15.9 per cent in 2010.<sup>60</sup> Nevertheless, total external debt actually grew significantly since Sadat's *Infitah* free market policies were launched. According to the World Bank, Egypt's external debt was \$5.7 billion, or 42 per cent of GNP in 1977.<sup>61</sup> The World Bank's World Development Indicators database shows that Egypt's total external debt stocks had increased from \$29.18 billion in 2000 to \$36.54 billion in 2010.<sup>62</sup> A Eurodad report, using World Bank and IMF databases, calculates that: "Between 1993 and 2010, the Egyptian government was lent \$23 billion and repaid \$38 billion, yet the total amount owed increased slightly from \$28 billion to \$32 billion in 2010... The Egyptian government also has a very large debt owed to domestic creditors, making total public debt 75 per cent of GDP."<sup>63</sup> Meanwhile, debt service on external debt grew from \$2.4 billion in 1995 to a little over \$3 billion in 2010.<sup>64</sup> These numbers indicate that money transfer flows were *towards* external creditors.

The neoliberal prescriptions of privatization were not a panacea, and in Egypt, it arguably produced more harm than good. Even the U.S. government could not definitively assert that privatization would not bear substantial costs to Egypt. A 2005 GAO report highlighted the indeterminacy of expected benefits in terms of financial returns, efficiency of privatized companies, or contributions in additional tax revenues.<sup>65</sup> The report pointed out that USAID-supported privatization activities helped reduce Egypt's fiscal deficit. Nevertheless, the study "found that privatization did not increase Egypt's foreign direct investment relative to other developing countries..."<sup>66</sup>

Privatization may have also negatively-impacted the trade account because revenue streams were redirected away from public coffers. Egypt's balance of trade was negative throughout this period of reforms.<sup>67</sup> A trade surplus equal to 4.5 per cent of GDP before the appointment of the U.S.-supported, business-friendly Ahmed Nazif cabinet in 2004, turned into a

2.4 per cent deficit towards the end of 2009.<sup>68</sup> In terms of balances of trade, Egypt is one of the few countries in the world with which the United States has a consistent trade surplus.<sup>69</sup>

Official data highlighting the benefits of neoliberal reforms often hide less rosy statistics. Examination of alternative data from institutions that are much closer to the units of production in the state apparatus reveal a different picture. For example, the Central Agency for Public Mobilization and Statistics (CAPMAS) shows that total trade (exports and imports) grew almost sevenfold between 2001 and 2010.<sup>70</sup> The data indicate a surplus that started in 2005. A more detailed examination, however, reveals that the surplus is largely the result of an accounting change. Namely, before 2005, oil exports were recorded without including the proceeds to the foreign partner. At the IMF's insistence, Minister Mohyeddin introduced a new practice that counted exports by foreign-owned/privatized oil companies as *national* exports even when the revenues were repatriated. This new accounting doubled exports in one fell swoop.<sup>71</sup> Meanwhile, imports of petrochemical components that were purchased in dollars from a foreign partner were not registered as imports. According to economist and former Prime Minister and Minister of Finance, Hazem El-Beblawi, in reality, 'Egypt is a deficit country in oil and energy'.<sup>72</sup> Yet, IMF statistics reflect this outcome as a 'positive' economic development, indicating an oil revenue 'surplus' starting in 2005.<sup>73</sup>

For these reasons, the economic benefits that accrued to Egypt from free market reforms must be weighed against the negative outcomes from Egypt's integration (subordination) into the globalizing world order. The political benefits from free market reforms were dubious as well, since the economic reforms essentially functioned to fund partners, not challengers, and were used as a means to avoid political minefields.

### **Autocracy Gets Things Done Efficiently, but Unconvincingly**

There is a considerable amount of literature that blames Egypt's problems on (1) claims that it did not implement reforms fast and/or well (comprehensively) enough; (2) an assumed inherent corruption; (3) resistance from a statist, ideologically-opposed political coalition; and/or (4) a recalcitrant and inefficient public sector.<sup>74</sup> The reality is that the economic transformations in Egypt have been remarkable in scope – so much so, that the IMF applauded Egyptian reforms as among the best in the world, approving of the fact that they often exceeded the conditions laid down by international donors.

The reason why Egypt could change so dramatically is because economic reforms, just like the 'democracy promotion' reforms that sought to endow legitimacy and maintain the stability of dominant arrangements, relied on autocratic instruments for implementation. To facilitate this process, USAID created the Sectoral Reform Policy Program which allocated US\$200 million per year to support the Economic Reform and Structural Adjustment Program (ERSAP) sponsored by the IMF, World Bank (WB) and Egyptian government in 1991. ERSAP laid the foundation for privatization.<sup>75</sup> In 1996, U.S. Vice President Al Gore pushed for the appointment of business-friendly Prime Minister, Kamal Ganzouri. Applauding the event, Assistant Secretary for Near Eastern Affairs at the State Department, Robert H. Pelletreau, declared that 'Egypt is open for business.' Pelletreau's enthusiasm was not misplaced. The Ganzouri cabinet formulated an unprecedented number of laws – to be exact, three-hundred and eight-seven between 1996 and 1999. Public Enterprise Law 203 (1991) established legislative and regulatory mechanisms to launch the privatization of 314 wholly or partially-owned SOEs and all public shares in more than 660 joint venture companies. It also permitted sales to foreign

entities in Egypt – which, until 2004, excluded ‘strategic’ industries and firms, but later allowed foreign ownership. Later prime ministers, like ‘Atef ‘Ebeid (1999-2003) and Ahmed Nazif (2004-2010), were also backed by the United States and heavily promoted neoliberal reforms and privatization.

The democratization and reforms discourse re-oriented the state away from bureaucratic-socialist model to a bureaucratic-capitalist model. A strategy of privatization and partnership was instrumental in producing significant changes in the civil and political spheres just as much as in the economic sphere.

In the ideological, civil society, and democratic institutional arenas, the partnership and privatization strategy produced controversial results. Civil society organizations (CSOs) had to qualify to meet donor targets. Besides obvious problems with self-selection, critics perceived civil society donor-recipients as subservient to a foreign agenda. Equally important, this strategy segmented civil society organizations and efforts, creating Governmental NGOs (GONGOs), Quasi-Governmental NGOs (QUANGOs), Donor NGOs (DONGOs), Business NGOs (BINGOs) – most of which could not be justifiably perceived as speaking for the public at large. Often, these CSOs functioned as ‘partners’ of donors, but were not necessarily credible domestically, socially-inclusive, or mobilizing. Two prominent examples of such NGOs are the Federation of Egyptian Industries (FEI) (see below) and the U.S.-Egypt Business Council. FEI received funding and technical advice on the formulation of economic reforms from a U.S.-funded Center for International Private Enterprise (CIPE). The U.S.-Egypt Business Council described itself as “the foremost advocacy organization representing America’s leading companies doing business with Egypt,” working with a counterpart Egyptian President’s Council to “conduct policy missions to Egypt to advance members’ priorities in meetings with senior Egyptian officials and business leaders.”<sup>76</sup> Such organizations were perhaps the only segment of the population to have debated with the regime on the Constitution of 2007, which discarded all socialist references and cemented the aid-induced neoliberal transformation of Egypt that Sadat had started with the *Infitah* policies. This re-orientation defined a different type of interrelationship between citizen and state as well as different conceptualizations of ownership of national resources and of participation in the public sphere.

The partnership strategy was also used for a project of ‘institution-building’ – essentially a strategy by which USAID (as well as other IFIs) formed partnerships with nine ministries in order to implement aid-conditioned reforms. These included divestiture of the sizable public sector, the encouragement of foreign investments, and trade liberalization. WikiLeaks documents such as the Memorandum of Understanding (MOU) of 2005 reveal that the U.S. set benchmarks for the dispensation of aid funds, among which were specific conditions to divest ‘cash cows,’ especially in the oil and gas sectors as well as the “strongest bank operating in Egypt” because its sale ‘will increase Bank of America’s assets.’<sup>77</sup>

The efficiency of the partnership strategy was key in the authoring of reforms. For example, the Center for International Private Enterprise (CIPE), which is funded from USAID and the National Endowment for Democracy, worked to induce (neoliberal) change from within by providing technical and financial assistance to business associations and think tanks. For instance, it worked with ‘revolutionary’ leaders – many of whom were accused of corruption after the fall of Mubarak – in the Federation of Egyptian Industries to provide “an effective lobby for business and economic reforms that enhance the performance and profitability of U.S. companies that are rising in number in Egypt.”<sup>78</sup> Ahmed ‘Ezz, one of these ‘revolutionary’ leaders, sat on the board of the Egyptian Center for Economic Studies (ECES, see below),

established with U.S. funding, and also chaired the ruling National Democratic Party where he was in a position to re-write laws in his favor. Together, they changed the rules of FEI so that it could now receive funds from foreign governments (and therefore started to represent foreign agendas).

The reforms introduced by the Privatization Coordination Support Unit (PCSU) that was responsible for implementing USAID's three-year (1999-2002) Monitoring and Coordination Services Project, did not necessarily reduce the government's role in the economy so much as redirect it. It formed institutional partnerships with ministries and other agencies, effectively avoiding potential sites of resistance and/or debate. PCSU justified this strategy by claiming that bureaucrats added 'procedures and layers' that 'increase transaction time and costs,' jeopardizing the 'viability' of the targeted institutions and scaring away potential entrepreneurs. PCSU recommended, for reasons of 'transparency,' that the bureaucracies in charge of public institutions be circumscribed in their ability to supervise and to have input that might impede privatization. The outcome was that, USAID assigned partners within ministries – i.e. the Egyptian government power-holders or those who depended on aid – to re-direct public revenue streams towards private owners, while removing potential impediments.

Under the reforms agenda, some institutions were created specifically for the purpose of seeking aid and advancing its agenda. Ideologically, dominant 'knowledge', rationales, statistics, studies, and research came from new business and economic think tanks (the segments of civil society that were favored in aid allotments). These institutions worked to recalibrate the indicators of progress and development from a societal national frame to a globalized and privatized frame. For example, the powerful Egyptian Center for Economic Studies (ECES) was established with a \$10 million grant from USAID. It brought together heads of industry, prominent politicians and businessmen – including Gamal Mubarak and Taher S. Helmy, an Egyptian-American lawyer who was the first Chairman of the Board of the American Chamber of Commerce (ACC). ACC was Prime Minister Nazif's first destination in an official capacity after being appointed.<sup>79</sup> Helmy is a good example of how networks of allied partners can further a foreign (in this case, American) agenda. He was a board member of the Federation of Egyptian Industries (FEI), a founding member and partner at Baker & McKenzie in Cairo and in Riyadh, the principal founder and former chairman of the ECES, and a founder of the International Economic Forum and the Future Generation Foundation (with Gamal Mubarak). He also served three terms as a member of the U.S.-Egypt Presidents' Council and was a member of the ruling National Democratic Party's Supreme Policies Council. In that capacity, he helped draft and write key economic legislation.<sup>80</sup> Such 'civil society' organizations for the economic elite were pivotal in the development of legal, financial, and economic transformations that furthered private sector reforms that made Egypt available for globalization within the American orbit – consistent with the Economic Support Fund (ESF) aid agenda. Concomitantly, these reforms, such as the slashing of corporate business taxes, granted windfall profits to ECES fellow members.<sup>81</sup> Many of these individuals were mired in corruption and had vested interests in specific divestitures and stood to benefit from the formulation of the new legal framework. Unsurprisingly, it is estimated that divestitures yielded only \$10 billion of a possible \$90 billion since 1991.<sup>82</sup>

Besides the key partnerships, some institutions were expressly created to further the aid agenda. The Ministry of International Cooperation, established in 2003, was nick-named *Wizarat al-Shahata al-Dawliyya*, or the Ministry of International Begging, by its critics. As in other partnered ministries, a program of *taw'ama mu'assasiya*, literally institutional twinning,

ensured ‘structural consonance’ with macroeconomic IMF and WB policies and norms, as well as with the U.S. efforts to effect economic policy reforms through aid. Another institutional development also served to further the aid agenda. Namely, the Ministry of Public Enterprise was merged into the Ministry of Finance, granting the latter the power to divest the public sector in order to close budget deficits and/or comply with donor conditions. USAID also gave technical support to the Investment and Free Zones Authority, advising on financing and discounting incentives so as to encourage foreign and domestic capital investments. Meanwhile, the Ministry of Investments was also created in order to value and re-organize SOEs for sale to foreign investors and connected Egyptian elite. This ministry was the first Egyptian government agency to implement USAID’s and the IMF’s ‘governance principles.’

Privatization reforms were particularly contentious. Of all the Egyptian SOEs, only fifty-six were not profitable. The other two-hundred and sixty were – or were re-structured in preparation for divestiture by Egyptians into profitability.<sup>83</sup> According to critics of these policies, this profitability ought to have eliminated the rationale for selling them to a ‘more efficient’ private sector.<sup>84</sup> Another controversial issue that resonated widely with the public were divestitures that were targeted for geostrategic, not economic, reasons. One example, the privatization of al-Marajil al-Bukhariyya, was read by critics as subordinating Egypt vis-à-vis Israel and as undermining its economic development. Critics deduced that there was a geopolitical agenda hidden within economic reforms.

Al-Marajil al-Bukhariyya (al-Nasr Giant Boiler Factory) was the very first SOE targeted for privatization and became a symbol for the corruption associated with privatization.<sup>85</sup> It was established in 1962 under Gamal ‘Abd el-Nasser and was intended to be a cornerstone of national industry. At the time, it was one of only three such giant boiler factories in the developing world that could be used in nuclear energy production. Al-Marajil was profitable until Law 203 (1991) was passed, allowing for the divestment of the public sector to investors. The company only became unprofitable when its administration saddled the company with accumulated uncollateralized debt as it was being restructured for sale. Its subsequent losses and debt were used as justification for its sale. It was initially sold in September 1992 under conditions set out by the IMF and the United States.<sup>86</sup> Despite protests from its workers and a successful lawsuit by labor that temporarily halted its sale, al-Marajil was re-offered for sale in July 1993. A subsidiary of the giant Bechtel Corporation assisted in its valuation.<sup>87</sup> The estimated valuation ranged between \$16 and \$24 million, which raised questions in the minds of opponents of the sale. Opponents calculated that the land alone on which the company is built was worth \$100 million at that time. Al-Marajil was eventually sold to Babcock-Wilcox, a Canadian-American firm, in February 1994, even though there was a better competing bid available. Babcock-Wilcox paid \$11 million for its fixed assets and \$6 million for its stock, a fraction of what the land it sat on cost and not counting the productive asset (the factory). Babcock-Wilcox had not committed to paying al-Marajil’s debt and taxes, and therefore, after deducting these obligations, only paid L.E. 2.5 million, or three quarters of a million dollars.<sup>88</sup> Intentional loss-making to justify a low sale and offer price came to light when the CEO of al-Marajil’s holding company, ‘Abd el-Wahab al-Habbak, was going through divorce proceedings. During the proceedings, his second (secret) wife complained that he had received a US\$91 million payoff which he had registered in the names of his first wife and children. After admitting corruption, Al-Habbak threatened to expose ‘those who are above me.’<sup>89</sup> Tellingly, he received a light ten year sentence, most of which he served at home. The court ordered the repossession of al-Marajil in December 2012 after Mubarak was overthrown.<sup>90</sup>

The sale of al-Marajil provoked much controversy. Opposition from labor, economists, and other members of society was motivated not just by the monetary terms of the deal, but also by how its sale dealt a blow to national development. Al-Marajil's ability to manufacture pressure vessels was essential for generating electricity, desalination, and other uses. Thereafter, Egypt had to import equipment for electricity generation, leading to significant and persistent electricity shortages as well as acting as a drain on foreign currency reserves. Opposition was also motivated by a perception that al-Marajil's sale weakened Egypt's position *vis-à-vis* Israel.<sup>91</sup> Many recognized that there was a geostrategic agenda hidden within economic reforms. Kamal Khalil, labor activist in the 'nationalist labor movement' (*al-haraka al-'ummaliyya al-wataniyya*) and leader in the Labor and Peasant Movement Party at the time of writing, argued that aid-driven privatization had created an environment that denationalized economic and developmental priorities, producing an outcome that was favorable to the U.S. interest in preserving Israel's strategic edge, thereby containing Egypt's military and developmental capacities *vis-à-vis* the only nuclear power in the region.<sup>92</sup> Even though U.S. aid was not directly linked to this particular deal, prominent economist, Chairman of Al-Ahram (2014- ), and Director of Economic Studies at al-Ahram Center for Political and Strategic Studies, Ahmed el-Sayyed al-Naggar affirmed that the aid relationship opened political and business back doors that made the deal possible.<sup>93</sup> The introduction of geostrategic factors into the reforms agenda changed 'private' domains that would be off-limits to public input in the free market system into legitimate matters for public debate. Reforms, divestments, and so forth, could be criticized because they were perceived as posing a threat to the national interest / nationalist worldviews that remain unassimilated into the re-oriented stances of the regime.

For critics, Foreign Direct Investments were yet another area that signified a geostrategic agenda within the aid framework of economic reforms that subordinates Egypt. On the surface, the data appeared impressive. Under business-friendly Minister of Investments, Mahmoud Mohyeddin, FDIs increased from \$2 billion in 2004 to \$13.2 billion in 2008 (and \$9.1 billion in 2009).<sup>94</sup> A less flattering reality was hidden within, however. A big reason for this large rise in FDIs is that, instead of following standard business practices that spread long-term investments in the oil and gas fields over the expected age of the project, Mohyeddin accounted for all investments immediately when the deal was signed.<sup>95</sup> While the jump in FDIs was used to justify further privatization in previously-off-limits strategic sectors, critics remarked that foreign and private investors enjoyed asymmetric advantages. Specifically, as 'domestic' producers, they benefited from indirect state subsidies for inputs, including electricity.<sup>96</sup> Indirect subsidies for inputs were substantial, sometimes exceeding direct subsidies, for example, for food. For the oil and gas sector, the subsidy was almost as large as the budget deficit. In addition, the government coddled foreign firms by paying international prices for the products that they sell domestically even though the state paid to subsidize the fuel used for their operations in Egypt.<sup>97</sup> In short, Egypt was not only subsidizing international investors, but was also inflating their profits. Thus, FDIs, like other components of neoliberal recipes, served to enhance the books of private and foreign firms while providing misleading information as to the 'success' of IFI- and aid-supported conditions and advice.

After the fall of Mubarak, the Egyptian state's commitment to privileging foreign investors at the expense of countering corruption and implementing Egyptian laws was manifest in the amendment of two important investments laws. According to a report by the Egyptian Center for Economic and Social Rights (ECESR), Law No. 4 (2012) amended the Investment Guarantees and Initiatives Law (Act No. 8 (1997)) by authorizing the General Authority for



Investment and Free Zones (GAFI) to settle cases of fraud, theft, and corruption in investment outside the criminal courts.<sup>98</sup> Thus, Law No. 4 (2012) immediately eliminated the role of the judiciary in demanding accountability for fraud and invalidated local criminal proceedings against investors in all cases of corruption.<sup>99</sup> On 11 September 2013, Law No. 89 (1998) was also amended, thereby exempting some authorities and local units from provisions of the law in addition to facilitating direct sales by the competent minister and heads of departments and agencies to sell public assets valued below \$1.5 million. Consequently, this amendment restricted the bids and tenders law, which regulates sales provisions and operations and was crucial to the ability of Egyptian courts to annul privatization and land sale contracts. In short, these amendments gave legal cover for economic crimes and corruption.<sup>100</sup>

Foreign governments are equally complicit in facilitating potential corruption by reducing states' jurisdiction over possible fraud cases. For example, the European Union negotiated Deep and Comprehensive Free Trade Agreements (DCFTA)<sup>101</sup> with Egypt (and other Arab states), effectively guaranteeing that foreign investors are not governed by Egyptian law. Instead, this agreement stipulates that if the litigant is not Egyptian, then cases must be tried in international investment courts, whose main purpose is not to uphold local justice, but to see that the letter of the Bilateral Investment Agreements is adhered to. The DCFTA illustrates an overstepping of International law, which traditionally is applied only after local remedies and domestic legal procedures are exhausted. Instead, the new agreements allow foreign investors to side-step local courts, overrule local judges, and force the state to implement the rulings by international investment courts.<sup>102</sup>

Such outcomes provoked much critical debate, dominated by themes of 'squandering of public wealth' (*ihdar al-mal al-'am*), 'independence' (*istiqlal*), and 'subordination' (*taba'iyya*). Critics contended that most U.S. and foreign investments were in the oil and natural gas sectors, both of which are depleting resources whose extraction is capital-intensive and, therefore, will not help alleviate Egypt's chronic unemployment problems nor contribute to productivity or the production of more value-added goods. The domestic debate assessed the outcomes from a national societal, as opposed to globalizing, perspective. These discourses derived from the socially-widespread preference, thanks to the Nasserist legacy, for public ownership of national resources and a nationally-authored course for development where the public sector plays a leading role in ensuring independence and resistance to subordination. These worldviews contrasted with the new structures of ownership and the consequential ideological and political power shifts that were introduced by free market policies.<sup>103</sup> Importantly, these interpretations were not categorically opposed to liberal reforms, focusing instead on issues of "who benefits?" and "on whose terms do these transformations occur?"

Much public scepticism surrounded American aid. Prominent economist, Salah Gouda, published a widely-debated study of the 'American program of privatization.'<sup>104</sup> His research indicated that privatization cost Egypt LE 2.5 trillion and resulted in the unemployment of 600,000 workers. It showed that most of the benefits of trade flowed to U.S. companies, of which an estimated 1,200 export to the Egyptian market. Statistics published by the Office of the United States Trade Representative confirm the unequal trade relationship. For example, in 2013, Egypt imported \$5.2 billion from the U.S. which resulted in a \$3.6 billion goods trade deficit.<sup>105</sup> These numbers significantly exceeded the \$2.1 billion in yearly aid that is given to Egypt, most of which never leaves the United States because the U.S. government uses aid monies to directly pay American contractors, firms, and experts. Furthermore, Gouda estimated that annual losses from privatized revenue streams arising from the divestment of the public sector were LE 3.1

billion (approximately US\$406,000). Many other writers and economists, including ‘Abd el-Khalek Farouk, also documented the high costs of U.S. aid and of privatization in Egypt.<sup>106</sup>

Another important basis for contestation of aid’s effects was that it furthered normalization of relations between Israel, Egypt, and Arab states. Specifically, the creation of Qualified Industrial Zones (QIZ) and the privatization and export of natural gas were two highly controversial issues, perceived by wide social sectors as sites targeted by the United States where private firms could further the ‘peace’ economy, circumventing and superseding popular opposition to normal relations with Israel. Both sets of treaties were signed at a time when Mubarak wanted to attain American approval for his son’s (Gamal) succession (*tawrith*). Critics, therefore, viewed both treaties as ‘selling’ and ‘subordinating’ Egypt.

In 1996, the U.S. Congress authorised the creation of QIZ to promote ‘peace and development’ between Israel and Arab neighboring states by entitling goods jointly produced by Israel and either Jordan or Egypt to enter the United States duty free.<sup>107</sup> Production would take place in these special zones and the goods produced had to contain a certain percentage of Israeli components. QIZ functioned as a means of both avoiding bureaucratic control over businesses and of excluding large concentrations of unionized (anti-normalization) labor, such as in the textile factories at al-Mahalla al-Kubra. Importantly, QIZ granted Israel the power to “dictate which industrial firms in Egypt should flourish and grow, and which should shrivel and die out,”<sup>108</sup> since Israel had the exclusive power to verify whether or not QIZ firms and business people continued to adhere to the treaty. In addition, these businesses were at the mercy of disruptions in deliveries from Israel – as occurred during the 2005 Gaza War. QIZ also opened up an indirect means for Arab investors to trade with Israel.

Critics had substantive – not just ideological – reasons for their negative assessments. Instead of a Free Trade Agreement with the United States, QIZ was spearheaded by, and mainly benefited, a tiny group of seven textile magnates. It included suspicious exclusions from the point of view of oppositionists. For example, el-Mahalla al-Kubra, the largest and oldest textile industrial region where unions and public sector companies predominated, was excluded. Similarly, there was a special category in QIZ for the export of construction material to Israel – much of which went to build the Separation Barrier.

The economic calculus was not better. After QIZ, exports to the US did increase, but only by a relatively miniscule \$60-\$70 million over base exports. Importantly, Egyptian imports from Israel increased by more than \$100 million. Adding the numbers, Egyptian economists calculated that the ‘success’ of increased exports to American markets as a result of QIZ was about \$30 to 40 million less than what Egypt lost by allowing trade with Israel.<sup>109</sup> While exports from QIZ areas increased (mainly to the U.S.), Egypt’s overall trade deficit rose two and one-half times between 2005 and 2010. Moreover, according to the Israeli Central Bureau of Statistics and until 2009, Israel exported more to Egypt than it imported (not counting oil). Egyptian imports from Israel exceeded exports to Israel (excluding oil) in 13 of the 15 years between 1995 and 2010.<sup>110</sup> Egypt’s trade deficit with Israel, which had been declining until the appointment of the Nazif government in 2004, experienced a sharp reversal in 2005. Thus, the real reward for the envisioned economic peace was illusory for the average Egyptian. What little benefit that was derived, was due to exports to the United States and accrued to partnered elites. Meanwhile, Israel now had access to sell its products in the vastly larger Egyptian and Arab markets.

Like QIZ, the natural gas export treaties were equally controversial. A WikiLeaks Cable from the U.S. Embassy in Cairo states: “In an effort to distance itself from the political implications, the GOE encouraged the formation in 2000 of the Egyptian Eastern Mediterranean

Gas joint venture company, owned by Israeli businessman Yossi Mieman's Merhav Group (25%), Egyptian businessman Hussein Salem (65%), and the GOE's Egyptian Gas Holding Company (10%). Having a private company negotiate with the Israel Electric Corporation made the arrangement more palatable for the GOE [...].<sup>111</sup> Egyptian gas experts urged that 'investors should export as much gas as possible now because Egypt's domestic gas demand is expected to rise rapidly, dampening exports.'<sup>112</sup>

On the natural gas front, the United States was a signatory to the treaties and heavily involved in the negotiations. U.S. Secretary of State Hillary Clinton pressured Egypt to increase exports of natural gas to Israel and to reduce the price below the already base price of \$2 per cubic foot – at a time when natural gas was selling for \$12 per cubic foot on the international commodity markets.<sup>113</sup> As was the case with QIZ, partnered elite were key to structuring the deal and were the main beneficiaries. The public reaction was overwhelmingly against the sale of natural gas to Israel. Close to forty thousand men and women in the legal profession signed an initiative entitled 'No to the Export of Gas.'<sup>114</sup> It was also opposed by some members of Parliament, the heads of all political parties except the ruling NDP, many popular movements and rights organizations, experts and former officials in the oil and gas sectors, labor activists, and many others. This wide societal coalition granted Ibrahim Yusri, Deputy Foreign Minister and head of the Administration of International Law and International Treaties, the legal right to file the lawsuit on their behalf. Two lawsuits were filed against the sale of natural gas; one in 2006 and another in 2009. The court ruled against the government, declaring these agreements null and void.<sup>115</sup> In the second lawsuit, the court agreed with the coalition's argument that the treaty dissipated national public wealth and should have been presented openly for public discussion as well as for a vote in parliament. In response, the Mubarak regime overruled the court ruling that had suspended natural gas sales. Again, the neoliberal economic frame provided the regime with a rationalization for its unconstitutional and unpopular practices. Namely, Minister of Petroleum Sameh Fahmi used the legal framework of privatization to argue against interference in the operations of private firms. Interestingly, natural gas was sold cheaply to other U.S. allies, including Jordan, Spain, and Turkey but did not provoke the same level of popular outrage. Nevertheless, opposition derived from the recognition that Egypt has large and growing energy needs and may not have any surplus gas to export.<sup>116</sup> Irrespective of court rulings and of popular attitudes, sales of natural gas continued.

Neither QIZ nor the natural gas treaties were submitted to Parliamentary vote, as per the Egyptian Constitution. Article 51 of the Constitution stipulates that a strategic agreement must be presented, debated, and passed in the People's Assembly.<sup>117</sup> Instead, these deals were implemented by an internationalized elite who saw normalization as the gateway to investments and profits. They not only served as a conduit for aid, they also posed themselves as the necessary link to foreign investments that can sustain development. As such, aid, the policies that it promoted, and the elites that it privileged, worked to re-conceptualize the national interest, integrating globalization and normalization within the concept of national economic development. The ability of this dominant push to change popular perceptions was undercut by asymmetric advantages to the ruling beneficiaries, as well as to the United States and to Israel. Therefore, critics understood that privatization was not pursued for purely economic reasons, but rather served a political function that solves the problem of securing a warm peace. These agreements increased the political vulnerability of the regime because anti-normalization was a part of the platforms of every professional syndicate, labor union, and political party (except for

the ruling National Democratic Party), not to mention a component of widespread societal worldviews.

## Who Is Convinced?

Even though economic aid was posed as the solution to Egypt's problems, the reality is that it created a whole new set of problems. This article has shown that the promotion of democracy and free markets, proclaimed as the keys to political and economic progress, used partnership and privatization strategies that essentially replicated and enhanced elitist and autocratic dominance in state, society, and the 'market.' Using the framework of reforms, this strategy avoided any real dialogue with critics and served to overcome political and ideological resistance to normalization (and foreign policy reorientation) as well as public opposition to the segmenting and dissolution of the state's role in the economy. Besides the negative economic effects that ensued from the liberalization of the economy, whatever 'positive' benefits were largely circumscribed to elites who were increasingly perceived as disaffecting the national interest.

The story of aid to Egypt confirms that it is given within the context of global relationships and, as such, performs a necessary function in sustaining dominant arrangements and augmenting the benefits (and profits) that derive from such relationships. It is within this light that the discourses of democratic and economic reforms must be evaluated.

Ultimately, the negative effects arising from the implementation and execution of reforms fueled perceptions that aid subordinated Egypt to U.S. foreign policy and economic objectives. Critics attacked the dominant façade that conflated progressive development and reforms with aid-linked strategies that they perceived as encouraging consumption and service sector development (for example, tourism) instead of enhancing productivity through investments in education, agriculture, and industry. They viewed the asymmetric benefits that went to a select few as enhancing autocracy while reducing Egypt's regional stature and negatively-impacting wide social sectors through inflation, rising unemployment, and consistent negative balances of trade and large deficits. Many remained dominated and unconvinced, therefore, potentially oppositional and destabilizing.

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<sup>1</sup> See, for example Joseph S. Nye, *Soft Power: The Means to Success in World Politics* (Public Affairs: 2004); and "Transformational Leadership and US Grand Strategy," *Foreign Affairs* Vol. 85(4) (July-August 2006).

<sup>2</sup> Gouda Abdel Khalek, "Foreign Economic Aid and Income Distribution in Egypt: 1952–1977," in Abdel Khalek and Robert Tignor (eds), *The Political Economy of Income Distribution in Egypt* (New York: Holmes and Meier Publishers, 1982: 435–68); Abdel Karim Bangura, *The Effects of American Foreign Aid to Egypt, 1957–1987* (New York: Mellen University Press, 1995); Heba Handoussa, "Fifteen Years of US Aid to Egypt: A Critical Review," in Ibrahim Oweiss (ed.), *The Political Economy of Contemporary Egypt* (Washington, DC: Center for Contemporary Arab Studies, 1990); The American University in Cairo, "Whither Economic Aid to Egypt?," 23 September 2012. Available at <http://www.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx>. Accessed 18 January 2015.

<sup>3</sup> USAID, 'Democracy, Human Rights and Governance,' 2015. Available at <http://www.usaid.gov/egypt/democracy-human-rights-and-governance>. Accessed 27 May 2015.

<sup>4</sup> Ibid, 'Economic Growth and Trade,' 12 May 2014.

<sup>5</sup> US Department of State, "US Relations with Egypt," 20 May 2014. Available at <http://www.state.gov/r/pa/ei/bgn/5309.htm>. Accessed 27 May 2015.

<sup>6</sup> The concept of market democracy is similar to Philip Bobbitt's 'market state', where the 'market state' is more focused on consumption than on protecting people's autonomy or the well-being of the nation. The 'market state' is

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contra-political because it leaves ever-larger segments of life outside of the state's purview, thereby affecting social commonalities and the engagement of and responses to segments of society. Philip Bobbitt, *The Shield of Achilles: War, Peace and the Course of History* (London: Allen Lane, 2002), p. 233. Also see, William I. Robinson, *Promoting Polyarchy: Globalization, US Intervention, and Hegemony* (Cambridge: Cambridge University Press, 1996).

<sup>7</sup> See John Zogby, "2010 Poll: Egyptians Dislike Obama, See US/Israel as "Threats," Want Clergy More Political," *The World Post*, 3 February 2011. Available at [http://www.huffingtonpost.com/john-zogby/polls-egypt-obama\\_b\\_818192.html](http://www.huffingtonpost.com/john-zogby/polls-egypt-obama_b_818192.html). Accessed 20 January 2015.

<sup>8</sup> Article III; policies elaborated in Annex III.

<sup>9</sup> Daniel Kurtzer, "Senate Foreign Relations Committee Hearing on the Crisis in Egypt Testimony of Ambassador (Ret.) Dr. Daniel C. Kurtzer," *Senate Foreign Relations Committee*, July 25, 2013. Available at: [http://www.foreign.senate.gov/imo/media/doc/Kurtzer\\_Testimony.pdf](http://www.foreign.senate.gov/imo/media/doc/Kurtzer_Testimony.pdf). Accessed 27 June 2015.

<sup>10</sup> Calculations based on statistics from the IMF 2011 *World Economic Outlook* and from US State Department.

<sup>11</sup> See USAID Foreign Assistance Database (FADB), "Disbursements by sector & implementing partners, 2000–2010," *USAID Economic Analysis and Data Services*, 4 January 2012. Available at <http://gbk.eads.usaidallnet.gov>. Accessed 1 February 2014.

<sup>12</sup> Farhad Noorbakhsh, Alberto Paloni, "Structural Adjustment and Growth in Sub-Saharan Africa: The Importance of Complying with Conditionality," *Economic Development and Cultural Change*, vol. 49(3) (2001: 479-509), p. 482.

<sup>13</sup> See Steven A. Cook, *The Struggle for Egypt: From Nasser to Tahrir Square*, (Oxford University Press, 2011).

<sup>14</sup> Hootan Shambayati, "The Rentier State, Interest Groups, and the Paradox of Autonomy: State and Business in Turkey and Iran," *Journal of Comparative Politics*, Vol. 26 (3) (April 1994: 308-309). Also see Saleh S. Abdelazim, *Structural Adjustment and the Dismantling of Egypt's Etatist System* (2002: 78-80), PhD Dissertation, Virginia Tech (2002). Available at: <http://scholar.lib.vt.edu/theses/available/etd-12232002-083424/>. Accessed 9 April 2015.

<sup>15</sup> George Habash, "Introduction" in 'Imad Gad (ed.), *Min Dakhil Isra'il: al-An wa Munth Nisf Qarn* (Cairo: Merit lil-Nashr wal-Ma'loumat, 2002), pp. 6–9. Also see Gad, "Al-Bu'd al-demoghrifi fi masirat al-sira' wa dawruhu al-mustaqbali," *ibid.*, pp. 10–12.

<sup>16</sup> A 2012 Pew Research Center poll indicated that 60 per cent of Egyptians viewed US aid as 'detrimental' to Egypt, 80 per cent viewed the US unfavorably, and 61 per cent want to annul the peace treaty with Israel. Pew Research Center "Egyptians Remain Optimistic, Embrace Democracy and Religion in Political Life," *Global Attitudes Project*, 8 May 2012. Available at <http://www.pewglobal.org/2012/05/08/egyptians-remain-optimistic-embrace-democracy-and-religion-in-political-life/>. Accessed 12 April 2015.

<sup>17</sup> USAID Economic Analysis and Data Services, "USAID Foreign Assistance Database (FADB)," 4 January 2012. Available at <http://gbk.eads.usaidallnet.gov/>. Accessed 2 February 2014.

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<sup>19</sup> Max Strasser, "Can USAID Be a Force for Good in Egypt," *The Nation*, 26 February 2015, Available at <http://www.thenation.com/article/162239/can-usaid-be-force-good-egypt#>. Accessed 8 April 2015.

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<sup>23</sup> Sana' al-Masri, *Tatbi' wa Tamwil: Qissat al-Jam'iyyat Ghayr al-Hukumiyya*, Vol. 1 (Cairo: Markaz al-Nadim li-l-Abhath wa al-Ma'lumat, 1998).

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<sup>96</sup> ‘Abdelazim, (2002), p. 93. And World Bank, 2001: 39.

<sup>97</sup> For a detailed discussion of this issue see *ibid*, pp. 253–6, 279, 283–7. Also see El-Beblawi, *Araba‘at Shuhour fi Qafas al-Hukuma*, p. 93.

<sup>98</sup> Zayed and Khalil, “Egypt and International Arbitration...,” *ECESR*, (2013), p. 6.

<sup>99</sup> *ECESR*, (2013), p. 6.

<sup>100</sup> *ECESR*, (2013), p. 7.

<sup>101</sup> European Commission, “Overview of FTA and Other Trade Negotiations,” 16 March 2015. [http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc\\_118238.pdf](http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf). Accessed 12 April 2015.

<sup>102</sup> *ECESR*, (2013), pp. 8-12.

<sup>103</sup> From Abdelazim, (Harik 1997: 3).

<sup>104</sup> Salah Gouda, “Al-Ma‘ouna al-Amrikiyya,” Blog, 2 August 2012. Available at <http://blogs.mubasher.info/%D8%A7%D9%84%D8%AE%D8%A8%D8%B1%D8%A7%D8%A1/%D8%AF%D9%83%D8%AA%D9%88%D8%B1-%D8%B5%D9%84%D8%A7%D8%AD-%D8%AC%D9%88%D8%AF%D9%87/%D8%A7%D9%84%D9%85%D8%B9%D9%88%D9%86%D8%A9-%D8%A7%D9%84%D8%A3%D9%85%D8%B1%D9%8A%D9%83%D9%8A%D8%A9>. Accessed 2 February 2014.

<sup>105</sup> Office of the United States Trade Representative, “Egypt.” Available at <https://ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa/egypt>. Accessed 9 March 2015.

<sup>106</sup> Gouda, “Al-Ma‘ouna al-Amrikiyya,” (2012). For a summary of other opposition economists’ research into privatization in Egypt, see ‘Ula ‘Issawi and Muna Imam, “Al-Khaskhasa.. hikayat bay‘ ‘usul Misr: Siyasa fashila,” *Masress*, 19 July 2011. Available at <http://www.masress.com/akhersaa/3174>. Accessed 2 February 2014. See also, “Al-Ma‘ouna al-Amrikiyya: Sanawat al-furas al-da’i‘a li al-iqtisad al-Misri,” *Alarab*, 15 November 2012. Available at <http://www.alarab.co.uk/?p=9895>. Accessed 2 February 2014. Another very important study of the ill effects of US aid and of privatization, see Farouk, *Iqtisadiyyat al-Fasad fi Misr*.

<sup>107</sup> Mary Jane Bolle, Alfred Prados and Jeremy M. Sharp, Foreign Affairs, Defense, and Trade Division, “Qualifying Industrial Zones in Jordan and Egypt,” Report RS22002, *Congressional Research Service*, 7 July 2006. WikiLeaks document release available at <http://wikileaks.org/wiki/CRS-RS22002>, 2 February 2009. Accessed 1 February 2014).

<sup>108</sup> Galal Amin, *Egypt in the Era of Husni Mubarak, 1981-2011*, (American University of Cairo Press, 2011), p. 64, quoted in K.V. Nagarajan, “Egypt’s Political Economy and the Downfall of the Mubarak Regime,” *International Journal of Humanities and Social Science*, Vol. 3(10) (2013: 22-39), p. 35.

<sup>109</sup> Waked, “Al-QIZ: Kizba man yusadiquha?” *Al-Ishtiraki*, 1 December 2006. Available at <http://revsoc.me/politics/lkwyz-kdhd-mn-ysdqh/>. Accessed 27 June 2015.

<sup>110</sup> Israeli Central Bureau of Statistics, Imports and Exports are calculated for 1995–2010 from data by month and in US\$. Available at <http://www.cbs.gov.il/ts/ID3550b5316a0d63/>. Accessed 29 March 2013.

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<sup>111</sup> US Embassy in Cairo, Cable 4972, 5 June 2005. Available at <http://wikileaks.ch/cable/2005/06/05CAIRO4972.html>. Accessed 1 February 2014.

<sup>112</sup> Ibid.

<sup>113</sup> Mekki, Zaynab, "Dughout Amrikiyya li-ziadat al-ghaz al-Misri li-Isra'il bil idafa li-khafd al-se'r," *Moheet*, 16 November 2009. Available at <http://www.masress.com/moheet/112231>. Accessed 2 February 2014.

<sup>114</sup> Mahmoud Sa'd ed-Din, "Al-Safir Ibrahim Yusri': Ittifaqiyyat bay' al-ghaz li-Isra'il batila," *Al-Fikr al-'Arabi*, 1 October 2008. Available at <http://www.alfikralarabi.org/modules.php?name=News&file=article&sid=2877>. Accessed 2 February 2014.

<sup>115</sup> Muhammad Fahmi Yunis, "Mahkama Misriyya taqdi bi-waqf tasdir al-ghaz li-Isra'il wa al-hukuma tat'an fi al-qarar," *Al-Sharq al-Awsat*, 19 November 2008. Available at <http://www.aawsat.com/details.asp?section=4&article=495515&issueno=10949#.UvvgTmJdWSp>. Accessed 10 February 2014.

<sup>116</sup> Khaled al-Shami and Zuheir Andraus, "Al-Safir Ibrahim Yusri: al-Safqa al-jadida li-tasdir al-ghaz li-Isra'il ta'ni anna misr asbahat "izba khasa'," *Al-Quds el-'Arabi*, 30 July 2009. Available at <http://81.144.208.20:9090/pdf/2009/07/07-29/All.pdf>. Accessed 27 June 2015.

<sup>117</sup> Gamal Essam el-Din, "Sales strategies," *Al-Ahram Weekly*, 26 February–4 March 2009.