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Introduction (the Economics and Politics of Structural Adjustment in Egypt)

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INTRODUCTION

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During the early 1990s, Egypt witnessed dramatic changes in economic policy. These involved the gradual implementation of a program of stabilization and structural adjustment along lines typically recommended by the International Monetary Fund (IMF) and the World Bank. The program aims at creating an outward-looking market-oriented capitalist economy in which the private sector plays a dominant role. If fully implemented, it would bring about a fundamental shift in economic structure--a major departure from the situation that prevailed in the 1980s, when Egypt's economy was characterized by strong central controls, significant barriers to foreign trade, and a predominant public sector. In addition to reshaping the economy, structural adjustment will also probably have strong political repercussions.

Thus, it was natural for **CAIRO PAPERS IN SOCIAL SCIENCE** to select "The Economics and Politics of Structural Adjustment in Egypt" as the topic of its Annual Symposium, held on April 21, 1993, at the American University in Cairo (AUC). This issue of **Cairo Papers** includes four contributions initially presented at the symposium which either directly address different aspects of Egypt's Structural Adjustment Program or throw light on Egypt's situation by drawing on the experiences of other Third World countries. Together they bring a wide range of perspectives to bear on the subject.

In "The Politics of Adjustment in Africa with Special Reference to Egypt", Trevor Parfitt, of AUC's Department of Political Science, views structural adjustment in Africa as the response of the World Bank and the IMF to the debt crisis of the 1980s, pointing to exchange rate overvaluation, excessive state intervention, and protectionism as the culprits generating the crisis. Before turning to Egypt, he discusses the economic and political effects of structural adjustment policies in a number of countries. He notes that, while such policies tend to remove macro imbalances, their impact on growth and economic diversification is often less salutary. They tend to generate opposition as living standards decline for politically significant groups who sometimes raise the banner of democracy while calling for the abolishment of the structural adjustment program. The implication is that the pursuit of structural adjustment may depend on the absence of democratization since groups with the strongest popular support are those who are bent on opposing not only the government but also its plans for structural adjustment. In his analysis of Egypt, Parfitt notes that the assumed causes of economic crisis and the proposed remedies closely resemble situations in other African countries. His investigation of the Egyptian scene leads him to conclude that while some early successes have been realized in the macro area, the long-run impact of the program on growth remains to be seen. However, deteriorating conditions for the mass of Egyptians and general prices increases help produce fertile soil for the Islamist opposition--a factor that may explain government slippage in the timetable for implementing socially sensitive reforms.

My own paper follows. It focuses directly on "Egypt's Program for Stabilization and Structural Adjustment". I begin by presenting the background to the program, stressing that it was implemented after several years of low GDP growth and large external imbalances that generated a foreign debt crisis. The program is designed to address some of the causes behind this disappointing record. The program has so far been successful in fighting the country's macro imbalances and their manifestations. Thus, the budget deficit has been cut drastically, the current account of the Balance of Payments has recorded a surplus, foreign currency reserves have grown astronomically, real interest rates are now positive, and inflation has declined. Given the contractionary nature of these changes, GDP growth remains low. I also survey policy shifts toward liberalization of domestic prices and foreign trade, public sector reform and privatization and conclude that the results of the stabilization policies have on the whole been positive. However, the improvement in the foreign exchange area is quite fragile since it is due to a combination of high nominal domestic interest rates, a stable nominal foreign exchange rate and liberalized short-term foreign capital flows. If a devaluation becomes expected, these funds may flow out at short notice, making a large devaluation necessary and shaking the confidence in the Egyptian pound that has developed since 1991. The direction of structural change is also seen as promising. However, export growth would require that the nominal exchange rate be devalued as long as Egypt's inflation exceeds that of its major trading partners -- if not, domestic producers will find it increasingly difficult to compete against those abroad. Finally, I argue that higher long-run growth, social justice and political stability would all be enhanced by reordered government spending priorities in favor of social, educational and health services targeting disadvantaged groups.

The remaining two papers represent two very different antidotes to the preceding analyses. "The Rationale for Structural Adjustment: A Layman's Guide", by Marcelo M. Giugale, the World Bank's Resident Economist in Egypt, delivers what the title promises, trying "to explain the rationale for structural adjustment to those who have never entered (and do not want to enter) an economics course; that is most people". Giugale's conclusion is that while structural adjustment may not be perfect, there is no alternative. In a most entertaining way, Giugale argues for the typical ingredients of a structural adjustment program: tight money, financial liberalization, the removal of foreign exchange controls, subsidy discontinuation, privatization, and trade liberalization. Not only should policy makers embark on structural adjustment, they should not wait before they embark on what invariably is a rather painful experience.

Mourad Wahba of AUCs Economics Department focuses on one specific aspect of Egypt's reform program, the manner in which the government has marketed the program to the people. His contribution, "The Nationalization of the IMF: An Essay on the Nature and Evolution of the Official Discourse on Economic Reform in

Egypt, 1987-1991", seeks to bring out the ideological element in this discourse based on reports in the government press. Wahba views the discourse as having passed through three stages. Initially, it assigns its subject, the "man-in-the-street", the responsibility for the need to go the IMF -- his extravagant eating habits and many children are the reasons behind Egypt's economic woes. Moreover, condescending explanations of economic policy serve to emphasize that the man-in-the-street is unable to understand complex negotiations. Hence, he needs a champion or hero, the President, who "as a benevolent parent reproaches a prodigal child, yet protects him from debtor's jail". In the second stage, the "Other" is identified as the IMF and, to some extent, the World Bank. The IMF, the agent of Egypt's foreign creditors, is initially seen as a neutral agent who wants to make sure that Egypt repays its foreign debts; this view coincided with the signing of Egypt's 1987 agreement with the IMF. However, as the 1987 program collapsed, the IMF was transformed into a technocratic "quack doctor", who "[applied] a prescription regardless of the social and political costs it might have on the people", its lack of political sense matching the lack of economic sense of the people of Egypt. This paves the way for the third stage in which, "As in all good myths, the President -- Hero will ... fight the enemy in his den (Washington) and come back victorious with the enemy monster subordinated to the hero's will." The IMF had put its seal of approval on an "Egyptian" program, including "conditions which no other country has achieved." At this point, the IMF has been "nationalized"; it is once again defended as the one to ask if you want to know whether your economy is sound.

On behalf of **CAIRO PAPERS** and as one of the co-organizers of the symposium that led to this issue, I thank all those who helped in the effort. Particular mention must be made of my colleague and co-organizer, Dr. Mourad Wahba, Dr. Adel Beshai , Chairman of the Department of Economics at the American University in Cairo, and Dr. Samir Radwan, Chief of the Policies and Programs for Development Branch of the ILO's Employment and Development Department.