

Creditors, Dictators and IMF “Economic Medicine”: Obama and the G8’s Fake Pledge to Egypt

A Continuation of Neo-liberal Policies

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Obama’s much publicized speech on 19th of May in which \$1bn of aid to Egypt was pledged is a deception of the nature and object of the proposed transferal of funds.

At G8’s Summit of Deauville a declaration was issued on 27th of May which stated that in the short term the aim of the G8 is to ensure that political instability does not undermine political reform, and lauded the Egyptian government’s decision to ask for loans from the IMF and the Multilateral Development Bank[1].

The funds proposed by Obama in his speech include \$ 1bn of debt relief and \$ 2bn to be provided through OPIC (Overseas Private Investment Corporation) [2]. However, debt relief can only be provided with Congressional approval in accordance with The Federal Credit Reform Act of 1990.

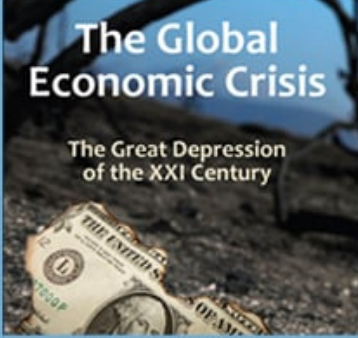
As such it is not possible to ascertain that debt relief will be provided given the current economical and political climate in the US, and any mention of debt relief was omitted in the Fact Sheet on Obama’s speech provided by the Bureau of Public Affairs.

Thus the most rapid transferal of funds will be through OPIC. OPIC is the US government’s development finance institution. Created in 1971 it advances US foreign policy by enabling US corporations gain access to emerging markets on favorable terms. As US foreign policy is neo-liberal market economy OPIC functions as a tool to privatize national resources.

OPIC provides funding to enterprises with annual revenues exceeding or below \$ 250m. Enterprises with annual revenues exceeding \$ 250m receive support for projects that require large investments; infrastructure, telecommunications, power, water, financial services, and natural resource extraction industries amongst others.

The funds provided for large projects are typically loan guarantees and occasionally direct loans. All funding is guaranteed by the federal government of the US and is provided at below market rates.

The role of the Egyptian state in corporations: Egypt nationalized foreign owned corporations in the 50s and 60s, as such corporations and their assets were appropriated during colonization. However, after becoming indebted Egypt adhered to the Washington Consensus in the 70s and 80s.



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A significant loss to national economical independence occurred in 1991 when Egypt signed an Economic Reform and Structural Adjustment Program with the IMF and the World Bank. Enshrined in Egyptian legislation through Law 203, a total of 314 public sector corporations were listed for privatization.

Different stages of privatization in Egypt: between the years of 1993/94 and 1996 an initial phase took place during which public sector corporations were partially or wholly privatized at a discount by the government. In 1997 the economic crisis in Asia and other occurrences slowed the rate of privatization. Up until 2001 Egypt’s highly profitable cement industry was to a large extent wholly privatized. Sectors such as agriculture, real estate and construction, pharmaceuticals and tourism were also targeted[3].

Between 2001 and 2004 the pace slowed; however, in 2004 a new reform cabinet was tasked with enhancing the privatization process. Corporations outside the scope of Law 203 were privatized; the smallest state-owned bank, the Bank of Alexandria, and the sale of Telecom Egypt were privatized and significantly increased government revenue from privatization, whereas the Societe Generale (SocGen) acquired a majority stake in partly state-owned Misr International Bank[4].

The banking sector in particular had been designated for privatization, although opposition was substantial due to selective lending practices by state banks amounting to an effective market entry barrier, and the entrenchment of business opportunities[5].

Law 203 prohibited large scale layoffs by privatized corporations; in response workers were fired before privatization took place, whereas layoffs also occurred after privatization[6]. IMF’s Structural Adjustment Programs never fail to accomplish their aim, which is to open up markets to foreign corporations, provide cheap labour and low corporate taxes by reducing government spending.

In 2010 the Egyptian government announced that future privatizations were put on hold, due to a lack of interest from private investors[7]. Yet privatization plans in the underdeveloped infrastructure sector in the shape of PPP’s, Public-Private Partnerships, had reached advanced stages. Hospitals, roads, sewage systems and schools are currently being planned.

Due to the implementation of IMF and World Bank policies the Egyptian economy provided for less of its citizens needs which, together with a lack of participation in the political process, led to a steep rise in strikes and protests, which eventually culminated in the mass demonstrations and much bloodshed and the toppling of Mubarak’s dictatorship. Egypt, like

much of the Arab world is at a cross roads. Transformation to a democracy by the people for the people is yet to be fulfilled.

Time to act now: Obama spoke of assistance to provide quick concrete results, whereas the G8 summit asserted the importance of stability and political reform in the short-term. It is in plain sight that the importance of Egypt subscribing to new IMF loans et al. is to bind Egypt to terms and conditions which ensure that the political institutions and reforms follow neo-liberal market policies, even before the yet to be elected democratic government is in office.

The proposed so-called aid is thus a continuation of pre-existing policies, which would have taken place in absence of the toppling of Mubarak's dictatorship. The internal turmoil in Egypt severely reduced state income and contributed to the need for new IMF and World Bank loans. Additionally, the outcome of a government change is viewed as more favorable to the nations in the G8, than retention of status quo.

Obama stated the importance of hindering the old elite in Egypt to appropriate national resources for themselves[8] whereas G8 highlighted the fight against corruption[9]. With a renewal of IMF, World Bank and loans, the old elite shall not be able to resist implementation of neo-liberal policies, and in all considerations regard to the demands and aspirations of the Egyptian populace is non-existent.

Frederik Andersson is a Swedish writer focussing on political economy

Notes

[1] DECLARATION OF THE G8 ON THE ARAB SPRING, G8 Summit of Deauville – May 26-27, 2011:

<http://www.g20-g8.com/g8-g20/g8/english/live/news/declaration-of-the-g8-on-the-arab-springs.1316.html>

[2] Assistance to Egypt, Fact Sheet, Office of the Spokesman, Washington DC, May 19, 2011 : <http://www.state.gov/r/pa/prs/ps/2011/05/163818.htm>

[3] Privatization Status and Performance of Privatized Companies in Egypt, Dr Shahira Abdel Shahid, Version June 2002 p. 7: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=312963

[4] Frederik Richter "Finishing off law 1991/203 and beyond. The Egyptian privatization programme during 2005", in Florian Kohstall (dir.), L'Egypte dans l'année 2005, CEDEJ, Le Caire, 2006: <http://www.cedej-eg.org/spip.php?article133>

[5] Ibid.

[6] Justice For All, The Struggle For Worker Rights In Egypt, A Report By The Solidarity Centre p. 17: http://www.solidaritycenter.org/files/pubs_egypt_wr.pdf

[7] Egypt's Privatization Drive Shifts, Ashraf Khalil, JUNE 24, 2010, Wall Street Journal: <http://online.wsj.com/article/SB10001424052748704911704575326421014544624.html>

[8] Remarks by the President on the Middle East and North Africa, State Department, Washington, DC, May 19, 2011: <http://www.whitehouse.gov/the-press-office/2011/05/19/remarks-president-middle-east-and-north-africa>

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