

Legacy of the “Arab Spring”: Egypt for Sale. The Bitter Taste of IMF “Economic Medicine”

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By Felix Imonti

Three years has seen the overturn of two government, the deaths of thousands of people and the destruction of much of the Egyptian economy. In the end, the mobs have changed nothing, except to make their own lives more miserable.

It was a year ago in August of 2012 that the Morsi government approached the International Monetary Fund for a 4.8 billion dollar loan. That was an increase from the 3.2 billion dollars that the interim military government had sought and that the Muslim Brotherhood members of the parliament had opposed.

Getting the loan was critical. If Egypt could raise the funds, it would be in a better position to borrow from other sources. The IMF calculated that Egypt needed at least ten to twelve billion dollars to survive for another [year](#).

First, though, Egypt would have to meet certain standards before a loan could be granted. The deficit had risen to 8.7 percent of the budget and that would have to be reduced. Income tax on higher income earners and a higher consumption tax on a variety of goods would have to be imposed. Bread and energy subsidies that consume a third of the budget needed to be cut sharply.

Mubarak had understood in 1977 that the subsidies were a drain on the national budget and tried to raise [prices](#). He learned when the mobs when into the streets the lesson that is as true today as it was thirty-six years ago. A large portion of the Egyptian population views the subsidized items as a right. 40 percent of the population lives below the poverty level and would find their hardship turned into desperation by an increase in prices. A quarter of the population of 84 million faces some degree of malnutrition and can be brought into the streets without much encouragement.

In December, the mobs were already in the streets to protest Morsi’s usurpation of power as he pushed through his constitutional obsession that was the focus of his government when the taxes and prices were raised. Instead of abandoning the constitutional conflict in order to resolve an economic crisis, his administration chose to concentrate upon fighting a political war by abandoning the loan. It was easier for him to defuse one angry mob by canceling the tax increases and the subsidy decreases than it was to appease the mobs opposing his dictatorial rule

He had acquired an economy with structural flaws that would take decades to correct. Egypt was and remains a rent funded economy that puts the source of wealth beyond the control of the state. Revenue from the Suez Canal and the Sumed Pipeline, tourist spending, remittances from Egyptians working abroad, and foreign aid support the state. Before the revolution resulted in the closure of forty-five hundred enterprises and the flight of capital offshore, only 13 percent of foreign earnings came from the export of manufactured goods.

Short of raising fees for use of the Canal or pipeline, that source of income is relatively inflexible. Tourism was discouraged by news reports of twenty-five riots or demonstrations per day somewhere across the country and a three hundred percent increase in the murder rate. The civil war in Libya sent most of one and a half million Egyptian workers home to congested cities, inflated the unemployment rate, and cost the countries desperately needed remittance payments.

The one hope came from foreign aid. Qatar funneled 8 billion dollars to Egypt. Turkey provided another two billion and Libya added 2 billion more. Each contribution made it easier to delay settling the loan with the IMF. It avoided the humiliation of submitting to foreign dictates that threatened to ignite a civil [war](#).

The government was engaged throughout the period in a struggle between the availability of quality bread at an affordable price and the survival of the currency. Egypt must import fifty percent of its wheat. Between 2006 and 2011 the price of wheat and fuel rose by 300 percent. Under usual circumstances, Egypt runs a fifty percent trade deficit that must be offset by the rent sources of income. Once the disorders began inside and outside of Egypt, the collapsing economy meant that the usual circumstances no longer applied.

Since the start of the Revolution, the Central Bank of Egypt has been engaged in a futile effort to curb the inflation by supporting the exchange rate of the currency. The Strategy has been to allow for a gradual 3 percent depreciation of the Pound by maintaining a managed float. That has drained the reserves from 36 billion to 14 billion of which only half was available for international payments.

A million jobs had been lost since the outbreak of the Revolution in January 2011. Inflation had risen above 10 percent, and foreign reserves had dwindled to a mere two months in funds to finance imports.

These were numbers that the government could not easily conceal from the public. What the Morsi administration was more interested in hiding was that wheat reserves were down to two months and that the people were on the edge of a famine as well as a currency collapse.

The bulk of the imported wheat comes from Russia that produces a high gluten grain preferred for the making of unleavened pita bread that is a staple of the Egyptian diet. The Morsi regime found itself at odds with its main food supplier that was concerned about the spread of radical Islamic movements inside of Russia.

The Russian anxiety was made worse by Morsi's support of the rebel movement in Syria where Moscow was supporting the Al-Assad regime. In spite of the looming crisis that Egypt was facing, Morsi called on June 15th for a jihad in Syria that assured Russian unwillingness to provide the desperately needed grain.

It was not until shortly after the coup that the United Nations Food & Agricultural Organization announced the social disorders and the abrupt increase in the birth rate threatened a food shortage. The emergency loans and grants of 12 billion dollars from Saudi Arabia, Kuwait, and the UAE has given Egypt the means to purchase the wheat on the open [market](#), and the Russians have indicated their willingness to sell what wheat is available. Just in time, the new government has discovered abundant supplies of diesel fuel and butane that will enable the farmers to complete their harvest and to transport the grain to the mills. The rapidity with which the new administration located the previously scarce fuel reveals that the mismanagement by the Brotherhood of the economy and the negative natural economic forces were made worse by the manipulation by government agencies.

The 6.8 million government employees had a vested interest in bringing down the Brotherhood backed government. The Brotherhood was advocating the privatization of the state owned industries. That was threatening the economic interests of the military that controls a third of the economy and the jobs of the government workers. Morsi was following the same policy that contributed to the mob led coup that enabled the military to remove Mubarak.

Between 1991 and 2009, 382 state companies were sold by the Mubarak administration to private investors for a total of 9.4 billion dollars. Economic reforms to encourage foreign and domestic investment introduced in 2004 attracted foreign investment that grew the economy in 2008 at an annual rate of 7.2 percent from 4.1 percent. In spite of the impressive improvement, the overall unemployment rate remained above 9 percent and 25 percent for the youth that comprise a majority of the Egyptian population. University graduates found that their inferior education did not qualify them for employment and were forced to join the ranks of the unemployed. Neglect of the agricultural sector sent an influx of rural migrants into the crowded slums of the cities. The combined hopeless masses formed the powder in the time bomb that exploded in January of 2011.

Removing Hosni Mubarak was the easy part of the coup that the public imagined was a revolution. Finding a replacement was the harder part especially when the only choice was the Muslim Brotherhood that had been an enemy for sixty years. It was for the military the possibility of preserving its privileges of a separate state within a state. Since Morsi was deposed, the military has separated itself still further from the political system by amending its oath of loyalty to exclude any reference to the [president](#).

The Brotherhood gained from the arrangement access to political power for the first time in its eighty-five year history, but assuring that they would be able to keep that power was not a part of the deal. That was made clear in January 2013. General Abdul Fattah el-Sisi, the defense minister, said in an address to military cadets, "Political, economic, social and security challenges" require united action "by all parties" to avoid "dire consequences that affect the steadiness and stability of the [homeland](#)."

The warning was ignored. Morsi's call on June 15th for a jihad in Syria provoked General El-Sisi to declare that the military's duty is to defend the borders of Egypt.

The next step in dooming the Morsi Administration came on June 17th when seventeen new governors were appointed. These included eight Islamists, seven of whom belong to the president's Muslim Brotherhood party. Of all of the appointments, it was the granting of the office to Adel al-Khayat as governor of Luxor that provoked the strongest reaction.

Al-Khayat is a member of the Building and Development party, the political arm of Gamaa Islamiya. The terrorist organization was responsible for a 1997 attack at Luxor's Hatshepsut Temple, where 58 foreign tourists and four Egyptians were murdered by six members of the [group](#).

While the people of Luxor protested the appointment of a terrorist to the government, the military was lamenting the loss of the destination for retiring military officers. The office of governor was one of the privileges reserved for their members.

The environment that allowed for another coup that the mobs could label the reclaiming of its revolution was set with the petition circulated by the Tamarod Movement that called for nationwide demonstrations on the anniversary of the Morsi presidency. The mob bolstered by the support of the army has become addicted to the taste of political blood with the defeat of the Hosni Mubarak regime and the real possibility that Morsi too was fall. The mob became its own Roman Circus. Screaming for the destruction of the Brotherhood had nothing to do with solving the real problems that require massive reforming of the economic and political structures. What the mobs failed to grasp while they were urging the armed forces to oust Morsi was that the military is a major source of the poverty and tyranny. The generals cannot make those changes without surrendering the deeply entrenched privileges that is a key part of their elite standing.

The privileges of the military take many forms. Only 8 percent of land is registered. The remaining 92 percent cannot be counted as part of the national wealth and is not available to the average citizen. The lack of confirmed ownership means simply that investing in the property is not possible and that holds down the opportunity for people to accumulate wealth. It does not prevent state businesses or friends of the authorities from using the land that will not appear on any official records.

Government regulations block those without the connections from acquiring within a reasonable period of time and at a reasonable cost something as simple as a telephone. It is why 9.6 million people are employed in the underground economy where they can escape the burdensome regulations and costs while only 5.9 million are employed by the private sector that is public. The businesses in the underground economy do not have access to regular sources of financing and are not available to provide tax [revenue](#).

None of this will change so long as the leadership has access to foreign loans and grants. How long the money will keep flowing remains to be seen. In Cairo, there is the general view among the leadership that Egypt is simply too important to be allowed to fail. It was one reason that Morsi thought that he had the advantage bargaining with the IMF and with Washington. The generals also hold the view that Egypt is entitled to the aid and will in one way or another get it from someone. Who that someone is really doesn't matter.

The only real concern is how they will pay for the contributions. The United States demands little more than the assurance that Israel would not be attacked, but then, the American aid of 1.5 billion dollars is a minor sum that gives little demanding rights. The Saudis are offering 8 billion with additional funds of 4 billion from close allies; and that gives the Saudis considerably greater demanding rights. What they will demand is likely to take the Middle East into a new era.

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