Chapter Four

Structural Adjustment Policies in Egypt since 1991: The Transformation of the State

Introduction

This chapter focuses on Egypt's application of structural adjustment policies since 1991. It particularly focuses upon how the application of these policies has affected the Egyptian state, particularly with regard to its *etatist* role of promoting development and providing social welfare programs. As Chapter two outlined, after Egypt's 1952 revolution, the state played an effective role in economic development until the mid-1970s, and effectively promoted social welfare programs until shortly before the application of structural adjustment programs in 1991. The *etatist* state provides a helpful model for assessing the impacts of structural adjustment in Egypt. Egypt maintained the dual roles of the *etatist* system, development and social welfare, under the Nasser regime and during most of the Sadat era. However, since the application of structural adjustment programs in 1991, both of these roles have declined.

In developing countries, the implementation of the market system, structural adjustment policies, and privatization has arisen due to two factors: pressure from international financial institutions, including the International Monetary Fund (IMF) and the World Bank; and pressure from other creditors, including the United States, Western European countries, and Japan (Welch 2000: online; Ward 1990; Singer 1994: 182-183;

Thomas 2001:13, and 46-47).[1] The tendency of core nations to force developing countries to apply structural adjustment policies, while implementing their own restrictive protectionist policies represents, fundamentally, a globe double standard. These policies, which require that developing countries open their markets and remove restrictions on foreign investment, essentially render them incapable of economic independence. Hypocritically, no industrial countries do the same. Thus, as a precondition for foreign aid, developing countries must ensure that they never become strong economic competitors (Danaher online; see also Ward 1990; Gilpin 2000 and 2001; Globalization Challenge Initiative 2002; Feigenbaum et al. 1999; Graham 2002; Scott 1998: Sklair 1999 and 1995).

Since the late 1970s, the U.S. has been a principal force in the imposition of structural adjustment policies on the governments of the South. Structural adjustment policies require recipient countries to change their economic policies, mainly to encourage and support greater economic deregulation of trade, investment, and finances (Amin 1998; Amin 2001; Robinson 1996, 2001; Sklair 1995, 1999; Tabb 2001; Waters 1995). Furthermore, the IMF has forced many developing countries to apply structural adjustment policies, regardless of their severe and negative impacts on the economic and

[1] As Chapter three mentioned, neoliberalism and "the Washington Consensus" have been the dominant policy of the US and international financial institutions since 1980. Summers and Pritchett (1993:383) note, the neoliberal agenda has become *de rigeur* across the world, as "stabilization, liberalization, deregulation, and privatization" have been thrust upon developing countries. In general, the policy of structural adjustment has a standard and rigid recipe, which includes currency devaluation, tax holidays, import liberalization, government food subsidy reductions, civil service retrenchment, cuts in social services, increased indirect taxes, cost recovery measures, public enterprise reform/privatization, wage freezes, and a squeeze on credit.

political structure of these countries. For example, under the prescription of the Fund, the developing countries that borrow from it have to devalue their currency, leading to increases in the cost of imported commodities. In Egypt, the cost of subsidized commodities, which depend mainly on imports such as edible oil and wheat, "rose from £E679.7 million in the revised 1978 budget to £E1,179.9 million in the budget proposed for 1979, an increase of 73 percent" (Rivlin 1985: 180-81). [2]

Governments in developing countries have historically played a dominating role in economic, political, cultural, and educational spheres. In addition, the colonial experience has distorted domestic social and economic structures, replacing hardy, indigenous structures with artificial, foreign ones, and creating fragile comprador states.[3] These states have suffered from external political and economic interference. This has largely occurred because the citizens of these nation-states no longer collectively shoulder responsibility for their civil society. Even in the case of the application of new and radical policies, such as structural adjustment and privatization, most negotiations between the IMF and the state in developing countries have been held in secrecy. Although it was believed that structural adjustment policies would support the process of democratization, they have led in the opposite direction. They have led to a decline in the

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[2] In many cases, the IMF's grants and loans were approved for political and ideological reasons more than economic ones (Welch 2000: online).

[3] For further information on the hegemonic role of the state in the Middle East since independence and its negative effect on civil society and social classes, mainly the middle class, see Abootalebi 1998 and 1999; Al-Naqeeb 1990; Anderson 1987; Ansari 1986; Aulas 1988; Ayubi 1990, 1989, 1982; Barnett Summer 1995; Clark 2000; and Ghoneim 1986.

power of civil society, the middle class, and the poor while they have empowered new elites, particularly businessmen. Welch (April 2000: online) demonstrates the stealthy relationships between the IMF and a small group of government officials in developing countries, noting that the structural adjustment policy, particularly as it has been interpreted by the World Bank and IMF, has been unnecessarily secretive. They have kept important information secret, effectively keeping the rest of the country from involving itself in decisions that will determine the course of their country.

As Skidmore puts it, structurally-adjusted developing nations no longer have "social capital." The importance of social capital, according to Skidmore, lies in the way that it supports economic growth. To demonstrate this, Skidmore uses empirical studies from both developed and developing countries, including Tanzania, the United States, India, Taiwan, Italy, Japan, and Bangladesh to demonstrate the relationship between social capital and economic performance (Skidmore 2000: online). Similarly, Ajay (1997: online) emphasizes the importance of broadening the limits of participation between local people and their governments in developmental projects, asserting the failure of top-down approaches. He also presents some examples, which demonstrate the high returns from this participatory approach. Ajay (1997: online) shows that, in the case of "waterborne sanitation systems in Recife, Brazil; housing schemes for the poor in Port Elizabeth, South Africa; management efforts in Gujarat, India; and health care in Khartoum, Sudan," close relations between citizens and their leaders led to higher returns and more effective development programs.

In developing countries, the state is a powerful actor in the economy, a role that includes application of structural adjustment policies and privatization. Governments in developing countries tend to tightly control much social activity (Quiroz 2001: 11). These governments, particularly their executive branches, make and implement decisions for the entire country, discouraging political participation by the citizenry (Abootalebi 1998; Skidmore 2000; Beattie 1994; Kleinberg and Clark 2000).

Ironically, while the post-colonial state led economic growth and development in the three decades following Egypt's independence, it chose to apply free market economics and privatization, ignoring the fact that one of the main goals of this system is to seriously undermine the role of the state in the economic and social welfare sectors. Adam et al. (1992: 7) refer to this as "state shrinkage," and demonstrates that it removes governmental responsibility in the economy, redirecting this responsibility to private industry. Additionally, they argue, it can involve "debt-equity swaps which extinguish sovereign liabilities for private equity participation on the part of external creditors." Brecher and Costello demonstrate the undermining of "the ability of governments in developing countries to pursue development, full employment, and other national economic goals," (1994: 29) under the power of corporate agendas and trade agreements such as NAFTA (the North America Free Trade Agreement) and GATT (the General Agreement on Tariffs and Trade) (Brecher and Costello 1994: 29-30).[4] A major

[4] Although, as Harik (1997: 4), says, the state "is a more encompassing concept than government and includes the inputs to public life and other activities of ordinary citizens," in this study, I will use these words synonymously. The main reason for this is, in Egypt, the government cannot make critical decisions

challenge facing the nation-state around the world is the weakening of their administrative and organizational apparatuses.

Reform measures aimed at reducing government activities and minimizing its involvement in economics and politics can be classified into three main groups: macroeconomic stabilization, public-sector management, and private-sector development. Noorbakhsh and Paloni (2001: 482) state that macroeconomic stabilization requires lower government deficits, lower government spending, and market-based exchange rates. Public-sector management calls for reforms of civil service systems and government spending, in addition to privatization of state-owned enterprises. Private-sector development seeks to overhaul financial and trade policies, eliminate price controls, and liberalization of economic regulations. All of the aforementioned activities represent the main activities of the state in the developing countries. Through structural adjustment policies, international financial institutions ask developing governments to relinquish and abandon these responsibilities.[5]

These activities encompass the two historical roles of the state, development and social welfare (which this work describes as the main characteristics of the *etatist* system) in the post-colonial era. As Chapter two mentioned, these were the most influential roles

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outside the dominant role of the state, specifically the dominant role of the president. Ayubi, for example, describes the Egyptian state by the end of Sadat's era as a boss-state (état-rais) (Ayubi 1989: 2).

[5] Pending submission to its required conditions, including control of the money supply, budgetary control, and exchange and trade liberalization, the IMF provides developing countries with a seal of approval, which enables them to obtain official and private sector loans. As Woodroffe and Ellis-Jones (2000: online) note, this gives the IMF a disturbing amount of power. Unless developing countries accept its terms, they are unable to borrow money from other countries.

of the Egyptian state from the July 1952 revolution until 1991. The following section demonstrates how structural adjustment policies have been applied in Egypt since 1991, and focuses on the role of the state, how it has managed these policies, and its relationship with international financial institutions and other creditors. It particularly considers two main aspects of structural adjustment policies: cutting back subsidies and selling public sector and state-owned enterprises. In addition, it examines the effect that these policies have had upon Egypt's macroeconomic structure, including its GNP and exchange rate. The main aim of this analysis is to examine how the *etatist* Egyptian state's developmental and social functions have changed in the aftermath of adjustment.

Historical Background of Structural Adjustment Policies in Egypt

Recent events suggest that the application of structural adjustment policies may represent a turning point in contemporary Egypt.[6] The present study examines the possibility that these policy changes represent a historical turning point for the Egyptian state in particular.

As Chapter two mentioned, Egypt previously witnessed two such turning points in the second half of the 20th century. The first was the 1952 revolution, and its application of Arab socialism and a centrally-planned economy, accompanied by ambitious development and social-welfare policies. The second started officially in the wake of the

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[6] The World Bank Considers that the application of structural adjustment programs in 1991 is a pivotal point in Egypt's modern economic history (The World Bank June 20, 2001: 6).

1973 October War, with the pronouncement of the *infitah* policy, Egypt's move away from the central-planned economy of the former era, and its increasing emphasis upon the role of the private sector and foreign investments. Since it introduced the *infitah* policy, Egypt has changed its economic policy from central planning to a market economy. This has led to chronic, severe economic problems.

The economic liberalization of the *infitah* widened the gap between the rich and the poor. According to the World Bank, "malnutrition increased between 1978 and 1986, particularly among school children" (World Bank 1991: 66). As the Egyptian government applied the *infitah* policy and increasingly accepted free market principles, the gap between the rich and the poor widened more than it did during the 1960s. "While the lowest 20 per cent of the population held 6.6 per cent of national income in 1960 and had improved their share to 7.0 per cent in 1965, they dropped to 5.1 per cent by the late l970s. By comparison, the income of the highest 5 per cent clipped slightly to 17.4 per cent from 17.5 per cent between 1960 and 1965 but increased markedly to 22 per cent after several years of Sadat's policies" (McDermott 1989: 82). Thus, it appears that the *etatist* policies actually narrowed the gap between the rich and the poor, but that this advance was destroyed by the *intifah*.

The poor of Egypt – often illiterate, with minimal job skills, and residing disproportionately in Upper Egypt – depend on education and health services that the state previously offered (El-Laithy 1997: 147; see also Harik 1997: 21). The only way for the poor to get these services is the public sector. The current study demonstrates

how structural adjustment policies have eviscerated the public sector and the subsidy system in general, and the health and educational sector in particular.

With the declaration of the *iniftah* policy, the Egyptian economy became dependent on new and somewhat unstable means of earning foreign exchange. In addition to petroleum, there are four other exogenous sources of income, which the state has depended on since the 1970s. These sources include tolls from the Suez Canal after its reopening in 1975, tourist revenues, remittances from Egyptians working abroad, and grants and loans from the United States and multilateral institutions (Wahba 1994: 152; El-Laithy 1997: 147-148; El-Mahdi 1997: 17; Rivlin 1985: 181). During the 1970s and 1980s, Egypt effectively transformed itself into a *rentier* state, dependent on these unsteady external payments to support its social and welfare programs (Barkey and Parikh 1991). A rentier state receives a substantial portion of its revenues from such *external rents* (Tullock 1967; Krueger 1974).[7] Since external rent-seeking has characterized the oil-producing countries of the Gulf Area, it is important to flesh out the unusual traits of rentier states. Shambayati (1994: 308-309) provides this excellent analysis of the relationship between a rentier state and internal interest groups:

> When external capital pours into the coffers of the state before circulating in the domestic economy . . ., the state becomes financially independent of domestic productive groups. Theoretically, this independence should strengthen the state by insulating it from domestic pressure groups. . . . Under rentier conditions, loyalty to the system is the most rational course of action for entrepreneurs. Instead of challenging the state, they

[7] The concept of "rent seeking" was introduced and developed by Tullock (1967) and Krueger (1974).

> will try to gain the government's favor by establishing patron-client ties with powerful individuals within the state structure.

However, a rentier state is not necessarily a strong state just because it is able to minimize internal conflict toward its policies. Indeed, dependence on external rents can undermine the overall power of the state.

> First, since external rents are the main source of wealth, domestic productive sectors—agriculture, industry, and manufacturing—are likely to remain underdeveloped, thus posing a threat to the long-term prospects for development. . . .[T]he fact that the state's income is not determined by domestic production means that rentier states do not need to increase domestic production. . . . [Second], the extractive [internal taxation] capacities of the state are likely to remain underdeveloped, or actually to decline. . . . Third, even though rentier states typically play a heavy role in the domestic economy, they are not well integrated into domestic society. . . .Fourth, although on the face of it a dependent bourgeoisie should enhance the autonomy of the state, patron-client relationships can undermine the ability of the state to achieve its goals. When clientilism dominates state-business relations, the government bureaucracy itself becomes the means through which demands are satisfied. Consequently, businessmen often use their ties with members of the state class to influence or prevent implementation of policies (Shambayati 1994: 309-10).

Rentier revenues may produce prosperous economic conditions in the short-term, but in the long term, they lead to more loans, more debt, and increased reliance on international financial institutions. This happened to Egypt and many other developing countries in the late 20th century. While Middle Eastern states received reduced income from oil sales in the 1980s and 1990s, they have had to accept the structural adjustment agenda, including privatization, reducing welfare programs, and accepting loans and

foreign aid (Abootalebi 1998: 46). The problem with oil revenue, workers' remittances, Suez Canal dues, and tourism is that the flow and level of all of these resources are determined by external factors. It is important here to underline the negative impacts and consequences of the deterioration of these external revenues on the performance of the Egyptian economy in the 1980s, the decade immediately preceding economic reform and structural adjustment. To do so, one must seriously reconsider the *infitah* policy, a key force underlying social change in Egypt during the 1980s and the 1990s.

Since implementation of the *infitah* policy, the Egyptian economy has worsened. Egypt's total external debt in 1977 was over US $5.7 billion, 42 percent of its Gross National Product (World Bank 2000c). Suffering from this economic crisis, which led to increased debts, weak economic growth, and a severe budget deficit[8] of over US $2.0 billion, the Egyptian government began its first discussion with the IMF in 1976. As a result of these negotiations, Egyptian policymakers decided to reduce expenditures by cutting subsidies. Egypt's only realistic option for reducing its debt was to cut welfare subsidies. However, when the government cut bread subsidies, the results were disastrous: the 1977 bread riots (*New York Times*, 26 February l977: 7). Two decades later, the Egyptian Ministry of State and Economic Affairs still is focusing on the financial aspects of economic reform while de-emphasizing the negative impacts of structural adjustment on the majority of poor Egyptians. In 1997, for instance, the Ministry stated that in the next phase of economic policy, the country's interests lie in

increasing foreign investment, national savings and exports. Increased investment is expected to be followed by the introduction of new technology that will spur “higher labor productivity.” “Easier financial markets” and “having the stock market being accessed more easily” are prioritized, but economic impacts on the bottom half of the Egyptian population are ignored (Interview, MEED, April 18, 1997: 25-26).

The 1976 discussion between the Egyptian government and the IMF led to a US$450 million loan, contingent upon Egypt’s willingness to implement currency reforms and reduce government spending (Rivlin 1985: 179). Because of that agreement, Egypt witnessed its most serious riots since the 1952 revolution on January 18 and 19, 1977. These riots ultimately posed a major threat to Egypt’s social stability (IMF 1996; IMF 2001). As its domestic problems have worsened, the Egyptian government tried to solve them with short- and long-term loans. After doubling spending in the first half of 1977, the Egyptian government found itself in November 1977 in negotiation for a US$600 million loan from the IMF over three-year period, instead of US$450 million. The IMF allowed Egypt to withdraw only US$105 million in 1977 because it worried that excessive borrowing would lead Egypt to exceed its ability to repay. The United States, however, worried that a lack of available funds would lead Egypt into further domestic insecurity. Consequently, it pushed the IMF to allow Egypt to borrow more (Rivlin 1985: 179-180).

[8] The budget deficit equaled 20.0 percent of Egypt’s GDP in 1976. The IMF and others in both Egypt and abroad felt that this was excessive (Rivlin 1985: 178).

The IMF's policy ignored the negative political consequences of spending reductions; for the Egyptian government, these negative consequences were impossible to ignore. Its most important goal was to maintain social and political stability; therefore, its main objective was to compromise between external pressure and internal demands. Therefore, the Egyptian government has continued to deal with international institutions, seeking new loans and grants as long as they do not lead to further social and political disorder (Harik 1997: 105; Clark 2000: 161).

President Mubarak himself always bears in mind the political cost of any agreement with the IMF and other creditors, realizing that it may lead to riots against his regime. In October 1981, when Mubarak became the president of Egypt in the wake of Sadat's assassination, he tried, to some extent, to avoid the pressure of the IMF and the World Bank to accelerate structural adjustment. Recently, during his inauguration of the National Conference on Social Development, Mubarak stated: "we made up our minds to launch a comprehensive but gradual and well-calculated economic reform process. In so doing, we avoided those measures that would more or less affect the social dimension, or undermine the interests of the largest portion of citizens" (President Addresses, September 17, 2000). The Egyptian government has never forgotten the 1977 bread riots, and their specter has controlled its negotiations with international financial institutions (McDermott 1989: 80-81).[9]

[9] To understand how food is one of the most essential elements in the family budget in developing countries, one needs to compare the cost of food in developed countries to its counterpart in developing countries. "While the average expenditure on food per household exceeds 60% of total expenditures, and

In July 1978, Egypt and the IMF reached their second agreement, leading to a $750 million loan. The main conditions of this agreement included an extensive review of Egypt's subsidy system, an increase in interest rates, reform of the exchange rate system, and a reduction in the fiscal deficit. "By November 1978, there were signs that the budget deficit was exceeding the limit agreed with the IMF"; as a result, Egypt could not draw the November 15, 1978 portion of the loan (Rivlin, 1985:179-180).

In an attempt to stabilize its economy, Egypt reached a third agreement with the IMF in May 1987. Egypt agreed on an economic package in which the IMF provided a US $250 million SDR (Special Drawing Rights) standby credit over eighteen months. Although this agreement allowed Egypt a 10-year debt rescheduling through the Club of Paris and an informal group of OECD creditor governments, it entailed new economic reform commitments, which greatly affected the living standard of the poor and the political stability of the regime (Butter 1989: 124; see also Butter, 2001; Springborg 1989: 273; Mohieldin and Nasr 1996: 38; El-Mahdi 1997: 17-18). After the first US$160 million installment of this loan was disbursed to the Egyptian government, the agreement collapsed, much like those of 1976 and 1978. While the IMF accused the Egyptian government of failing to carry out the agreement's conditions, the government expressed its fear of massive social turmoil, stating that it preferred to apply the conditions gradually and slowly (Clark, 2000: 161; see also Dillman 2001: online).

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might reach 90% in low income households in developing countries, this ratio is only 20% in developed countries" (Nasser and Rizk July-October 1993: 55).

Even with the second and the third IMF agreements, no major elements of the Egyptian economy changed. With the 1991 agreement, the established pillars of the Egyptian economy – the public sector; a wide umbrella of social and welfare programs, mainly food subsidies; and a highly centralized system, controlled by the state – continued to dominate economic life in Egypt. Accordingly, until the 1991 agreement with the IMF, the Egyptian state held hegemonic power over domestic economic activities.

The Egyptian Economy from the 1980s to 1991

Until the end of the 1980s, Egypt faced low productivity and poor economic management, enhanced by the adverse social effects of high inflation, excessive population growth, and urban overcrowding.[10] From 1976 to 1986, the consumer price index rose from 164.2 to 708.8 in urban areas and from 187.8 to 795.8 in rural areas (Oweiss 1990). Over the same period, the national annual inflation rate itself generally increased, growing from 10.30 percent in 1976 to 23.9 in 1986 (World Guide 2001/2002). Because population grew faster than the GDP expanded, Egypt suffered a

[10] Since the 1960s, Egypt has faced a problem of population growth, particularly in rural areas, which influences its development efforts and devours its limited economic resources. In addition, because of the high ratio of population growth and the severe shortage of social and economic services in rural areas, Egypt has suffered, historically, from a high rate of internal migration to urban areas. According to *The Economist*, "the annual increase of 1.4 million people has already put Egypt among the top populous countries of the area (over 60 million). It is exerting pressures on the precious few resources of the country. Egypt's terrain is mostly desert (96.5%). The cultivated land makes up only 2.8% of the total area, and the Inland water makes up the rest (0.7%). The twin problems of the fast pace population growth and the increasingly rapid urbanization have exhausted the infrastructure of Africa's largest city (Cairo). Cairo's population is over 12 million (more than doubled in 25 years). More than half live in slums, which gives

high unemployment from the late 1980s to 1991 (Kienle 1998: 232). By mid-1991, 15% of the labor force was unemployed, inflation had escalated, and external debt had reached US$50 billion (Abdel-Khalek 1993: 8; Lofgren 1993: 410; Clark 2000: 160).

Egypt's economy began the 1990s with chronic problems, including a growing fiscal deficit, escalating inflation rate, worsening balance of payment deficits and declining international reserves. For example, real GDP growth decreased from 3.9% in fiscal year 1987/88 to 2.3% in 1990/91. In addition, the Egyptian pound was devalued from 1.761 to 3.009 per US dollar (Abdel-Khalek 1992: 43) The World Bank (1991: 62) attributed this deteriorating situation to the state's failure to cut welfare expenses, an inability of its exports to offset sluggish foreign exchange performance, and a debt increase. This situation was further damaged by reductions in foreign aid and in the amount of money that Egyptians working abroad sent back to Egypt. Because of this, "the current account deficit grew to a peak of $5.3 billion in 1986, about 15% of GDP. External debt increased rapidly, reaching $47 billion by the end of 1989. The budget deficit has remained at about 15% of GDP and inflation is estimated at 20% a year." As Abdel-khalek mentioned before the real GDP growth declined from 3.9% in fiscal year 1987/88 to 2.3% in fiscal year 1990/91. In addition, the Egyptian pound depreciated from 1.761 to 3.009 pounds per US dollar.

In addition to these domestic conditions, which affected the Egyptian economy at the end of the 1980s and at the beginning of 1990s, one should not disregard the impact

rise to unemployment, congestion, pollution, and all the usual social ills of an intensely crowded city" (The

of regional and international disorders on the Egyptian economy. Iraq's sudden invasion of Kuwait on August 2, 1990 and the subsequent Gulf War vastly reduced Egypt's financing sources. In addition, it forced the return of roughly 700,000 workers from Gulf countries and a severe decline in tourism. Adding to these problems, the heavy service burden of Egypt's debt, which totaled 46 billion dollars, became an imminent threat to the economy (The Economist October 25, 1997; see also World Bank: 2000c).

The 1991 Agreement and the Implementation of Structural Adjustment

Since 1987, Egypt has undertaken many agreements with the IMF to alleviate its economic woes (IMF 2001). In March 1991, the Egyptian government once again relied on the IMF, reaching an agreement to borrow 278 million SDRs, on the condition that it would implement a far-reaching and comprehensive economic reform program.

The three stand-by arrangements that Egypt signed with the IMF before the 1991 agreement, in 1976, 1978, and 1987, all followed the same line of policy recommendations, "advocating different degrees of conservative fiscal and monetary policies, and instituting liberal exchange rate and trade policies. All three agreements were discontinued for social, political, and economic reasons" (The Economist October 25, 1997).[11] Under deteriorating economic conditions, including Egypt's gigantic debt,

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Economist 1997).

[11] Lofgren synthesizes the point of views of Sadowiski, Vandewalle, Richards, and Sullivan in his explanation of why the Egyptian government resisted the most severe elements of the orthodox program throughout the 1970s and 1980s (For more details see Lofgren 1993: 410; see also Harik 1997:

which reached $50 billion in June 1990 (Abdel-Khalek 1992: 43), the IMF, the World Bank, and Egypt agreed to an Economic Reform and Structural Adjustment Program (ERSAP) in May 1991. As Clark (2000: 160) notes, this enabled Egypt to use three billion (US) dollars, in three increments, to reduce its debt. As a condition of this agreement, Egypt had to adopt IMF and World Bank prescriptions to stabilize and transform its economy, moving it towards dependence upon market control and trade, and encouraging privatization (see also Subramanian 1997: 45; Abdel-Khalek 1992: 44-45; El-Mahdi 1997: 18-19; Harik 1997: 199; Kanovesky 1997).

The First Phase of the 1991 Agreement: Macroeconomic Stabilization

The economic reform and structural adjustment policies of 1991 had two stages. The first was related to financial and monetary reform, and aimed at decreasing the deficit in the government's budget, which is generally considered the main reason for inflation. As Badran and Wahby (1996: 11) note, the structural adjustment program helped this process by reducing portions of Egypt's external debt. Egypt's three-stage debt-forgiveness program, which Clark noted, was combined with a U.S. agreement to cancel all of the military debts that Egypt had accumulated from assisting America's effort in Iraq. Moreover, under the terms of this plan, states in the Persian Gulf also erased Egypt's debts with them.

104-105).

President Mubarak referred to the second stage of the 1991 agreement, which focused on economic growth, “the stage of reaping the benefits.” It aimed at increasing growth rates until they reached triple the 2.4% of population increase rate. To do this, it focused upon developing production and accelerating privatization.

The main aim of the 1991 agreement with the IMF and the World Bank was macroeconomic restructuring. This agreement had common policy measures and strong cross-conditionally. It focused on problems in such spheres as Egypt’s budget deficit, high interest rates, foreign-exchange system, and high energy prices.

> Economic liberalization, or Structural Adjustment (SA) is however more complex. In brief, it prescribes three sets of reforms: 1) deflationary measures such as the removal of subsidies and reduction of public expenditures; 2) institutional changes such as privatization, public sector reforms, deregulation on price control, interest rates, imports and foreign exchange; and 3) devaluation and export promotion. These are designed not only to reduce the deficit, but also to undermine substantially the role of the state in the economy while extending that of the market forces (Bayat 1997: 210).[12]

The May 1991 IMF agreement was followed four months later by another structural adjustment agreement administered by the World Bank. This agreement forced Egypt to adopt conservative economic policies to redress its budget issues and debt. This program, which included deregulation of prices and trade, and privatizing of nationally-owned businesses, was aimed at long-term consolidation of the economy (Kienle (1998:

[12] While El-Mahdi refers to the same objectives of structural adjustment policies, that Bayat mentioned, she adds another objective to the application of these policies, namely protecting Egypt’s poorest citizens from increases in the cost of food, and potential unemployment growth resulting from the structural adjustment program (El-Mahdi 1997: 18-19; see also Subramanian 1997: 45).

232; see also El-Laithy 1997: 148).[13] On the fiscal and financial front, the program produced remarkable macroeconomic results. The Egyptian government took new steps toward achieving long-term macroeconomic stabilization and strengthening the financial sector; the results were to "unify exchange rates, raise interest rates, bring energy prices up to world levels over five years, raise taxes (through a sales tax), eliminate most consumer subsidies over five years, pursue privatization, and reduce the budget deficit to 6 percent of GDP" (Waterbury 1992:201; see also Harik 1997: 21-22; Clark 2000: 160; Mohieldin and Nasr 1996: 38-41; Lofgren 1993: 408-409; Kienle 1988: 232; Nasser and Rizk April1993: 8). Egypt "took decisive action on the fiscal front, reducing the budget [deficit] from more than 15 percent of GDP to 1.3 percent in fiscal year 1994/95" (Galal and Tohamy 1998: 27). The IMF itself praised the achievements of the Egyptian government on the financial and monetary level. According to a 1996 IMF press release, Egypt improved public finances and made major advances in decentralizing its economy:

> Real GDP growth accelerated to over 4 percent in 1995/96 from virtual stagnation in 1991/92, while the rate of inflation declined to 7 percent from over 21 percent. The overall balance of payments remained in surplus, leading to a substantial accumulation of net international reserves

[13] As McDermott (1988: 144) states that contemporary history of Egyptian debt echoes the story of the Khedive Ismail at the end of the nineteenth century: "the Khedive had piled up such debts that a bankrupt Egypt was put into the receivership of the Dual Control of Sir Rivers Wilson of Britain and the Marquis de Blignières — thereby opening the way to occupation by the British. Today, the Egyptian economy is monitored from outside by the IMF and the World Bank, the Paris Club (an informal group of industrialized countries which negotiates debt relief) and the US Agency for International Development (USAID)" (McDermott 1988: 144). This does not mean that the Egyptian government always accept all conditions of the IFIs and other creditors; on the contrary, "It strongly dislikes this supervision and consistently takes issue with criticism and comment from these sources; but developments have been such that, within the framework of political policies of the time, Egypt has little choice but to comply, albeit in a piecemeal and grudging fashion" (McDermott 1988: 144; see also Butter 1989: 124).

> (reserves are currently equivalent to about 17 months of imports).[14] With limited external borrowing and further debt relief from the Paris Club, the ratio of external debt to GDP fell to 47 percent in mid-1996 from about 75 percent in 1991/92, and the debt service ratio declined to about 11 percent of current account receipts (excluding official transfers) from 14 percent in 1991/92 (IMF 1996; see also IMF 2001; The World Guide 2001/2002).

From the international financial institutions' point of view, macroeconomic stabilization is urgently needed, particularly in heavily-indebted countries, as it aims at implementing a developmental strategy to achieve continuing, long-term economic growth. This process includes three main components: fiscal policy, interest rate and monetary policy, and the exchange rate. Abdel-Khalek explains these factors:

> The *fiscal adjustment* lies at the heart of the stabilization package, and involves trimming off the fiscal deficit, both the overall and the bank-financed par. The target is to bring down the ratio of the overall budget deficit to GDP from an estimated high of 22% for 1990/91 to a mere 1.5% by 1995/96. It stipulates a slight reduction in the ratio of public expenditure to GDP, and a substantial hike in the share of public revenue (from about 25% to about 40% of GDP). But it is interesting to note that, in relative terms, central government non-tax revenue will provide most of the targeted adjustment: namely through price increases-particularly energy prices. The increase in tax revenue is mainly through greater reliance on indirect taxation (a comprehensive sales tax, escalation of stamp tax, etc)" (Abdel-Khalek 1992: 44-45).

The Process of Social Subsidy Reduction since 1991

In addition, the government played an effective role in cutting food and fertilizer subsidies and public investment outlays. Egypt's three main safety net programs accounted for about two percent of its GDP and about four percent of its total

[14] International reserves were estimated at $20 billion in 1998 (see Galal and Tohamy 1998: 27-28).

governmental expenditures in 1999 (The World Bank 2001: 70). The oldest and largest one is the food subsidy program, which consumed 1.5 percent of the GDP in 1999. The second is the Social Fund for Development (SFD), which was established in 1991. The Ministry of Social Affairs (MOSA) is the third one, and mainly focuses on cash transfer payments to the poorest and most disadvantaged groups in Egypt (The World Bank 2001: 70; see also Social Fund for Development 1999; El-Fiqi 17 - 23 January 2002). According to the World Bank:

> Food subsidies account for 85 percent of safety net expenditures, SFD for 13 percent, and MOSA transfers for just over 2 percent. Total public spending on all three programs combined has grown on average by about 3 percent per annum in real terms beginning in 1992. Much of the increase in funding since the early 1990s is attributable to Government support for the SFD, which increased by 4.0 percent per annum compared to only 0.1 percent per annum for the food subsidy program. MOSA safety net spending is small and has not increased substantially in recent years (The World Bank 2001: 70; see also Kheir-El-Din 1996: 1).

Although the ratio of social subsidies and public expenditures has increased, this does not mean that social subsidies and public expenditures have grown since 1991; on the contrary, both of them have been severely reduced since that date. As the World Bank (1995) states that as a percentage of the Gross Domestic Product, these programs dropped over 11% between 1982 and 1995. For example, "the commodity coverage of food subsidies has been restricted to popular bread, a limited quantity of edible oil and sugar" (Kheir-El-Din 1996: 1). By 1995, government investment levels were reduced to one-third of the level that occurred in the mid-eighties (World Bank 1996). It is clear from these indicators that the main roles of the Egyptian state, development and welfare

programs, have greatly shrunk, creating new openings for the private sector and the new interest groups.

In addition to usual subsidized products, including edible oil, sugar, tea, and kerosene, the list of subsidized food was extended during the 1970s to include beans, lentils, frozen fish, frozen meat and chicken. As Adams (2000: 5) delineates, this list had grown to almost twenty foods by the end of the 1970s. As most Egyptians were eligible to receive these foods, the cost of this program rose astronomically. By the mid-1970s, 16.9% of all governmental outlay went into food subsidies. For example, estimated government expenditures on food rose from 2,400 million Egyptian pounds in 1990/91 to 3,099 million Egyptian pounds in 1995/96, adjusting for inflation. It is important to notice that food subsidies as a percentage of total government expenditure reached 19.5% in 1981-1982, and decreased into 7.4% and 6.5% in 1990-1991 and 1996-1997, respectively (Adam 2000: 30).

There are two kinds of subsidies in Egypt; explicit, or direct, subsidies, which directly subsidize food; and implicit, or indirect, subsidies, which support other services such as water, electricity, health, education, and so on. Adams shows the differences between explicit and implicit subsidies from 1990 until 1996. While the explicit subsidies are listed in the official government budget, the implicit ones are not. For example, the government used to sell water and electricity in subsidized prices, and added the difference in prices to public sector companies as losses in their budgets (Adams 2000: 6). In some years, the implicit subsidies were much higher than food

subsidies. For example, as Adams (2000: 6) notes, "in the year 1993/94, the total value of implicit subsidies (LE 3,950 million) is much higher than that for food subsidies (LE 2,486 million)" (World Bank 2001: 39; see also Harik 1997: 87).

Cutting back subsidies and social expenditures weakened and eroded the role of state institutions, including the Ministry of Supply (MOS). Since the 1960s, the MOS had played an effective role in distributing strategic commodities in Egypt. Nasser and Rizk note that:

> The aim of such distribution system was to achieve a reasonable degree of equity among different governorates. Ordinary and patent wheat flour, white rice, broad beans, lentil, sesame, sugar, edible oil, tea, coffee, and imported frozen meat, poultry and fish were among commodities controlled by the governmental distribution system. All commodities… were subsidized. Some staple food commodities such as edible oil, sugar, tea, and rice were also distributed by means of ration cards so as to guarantee a minimum limit of such commodities for each consumer. Additional limited amounts of staple foods were available to consumer at a relatively higher price by the guidance of these cards (Nassar and Rizk, July-October 1993: 55-56).

According to Harik (1997: 97), "Five basic commodities (sugar, rice, edible oil, tea, and soap) were [subsidized] by £E1,390 million in 1986/87. Ten million Egyptians [i.e., ten million Egyptian households], nearly the whole population, held family coupons *(bitaqaat tamwiin)* from the Ministry of Supplies that entitled them to a fixed quota of these goods at subsidized prices."

This distributional system guaranteed, to some extent, that these subsidized foods and commodities found their way to the most vulnerable people in Egypt. The central control of the state, represented by MOS, secured these minimum staples for the poor.

After the introduction of structural adjustment policies, “the MOS abolished the quota distribution system, except for ordinary and patent flour no. (2) consumed in the production of subsidized bread, and edible oil and sugar, which were distributed through ration cards” (Nassar and Rizk, July-October 1993: 56).[15]

In general, the main trend of the Egyptian state since the application of the structural adjustment policies has been to decrease social subsidies and public expenditures. The World Bank (2001: 39) shows the expenditure composition in Egypt from 1996 until 1999, including wages, materials, subsidies, pension fund contributions, and interest payments on the public debt. This expenditure composition shows how the Egyptian state has kept its subsidies and expenditures almost stable since 1996. This is difficult “in a country where the bulk of low income families’ expenditure is accounted for by food, subsidies decreased by 41 per cent between 1973 and 1989. And while food subsidies stood at LE 3,786 million in 1984/85 they had shrunk to LE865 million by 1995” (Farag, 20 - 26 January 2000).

The main aim of social safety nets, including those established after the introduction of structural adjustment policies in 1991, is to compensate the most vulnerable groups, particularly those that have been harmed by structural adjustment and the consequent shrinking of the subsidies system (Kheir-El-Din 1996). The government established the Social Fund for Development in 1991 to alleviate the harsh effects of

[15] For more details about other measures that the MOS took to decrease subsidies after the application of structural adjustment policies, see Nasser and Rizk, July-October 1993: 56-57.

structural adjustment policies on the poor, mainly during the macroeconomic restructuring phase.[16]

One of the mandates of the SFD when initially established was to support the Government of Egypt's Economic Reform and Structural Adjustment Program, and to work as a

> Social safety net to protect those most vulnerable to the adverse effects of the reform program. Measures were to be developed to assist unemployed and displaced workers, all within the government's fiscal targets - either through the commitment of new funds, or through the reallocation of existing subsidies or transfer funds. The adverse effects of economic restructuring on workers were to be minimized through this social safety net. (Social Fund for Development 1999: 12; see also Kheir-El-Din 1996: 2)

The Second Phase of Structural Reforms

While the IMF praised Egypt's achievements on the macroeconomic stabilization front, it noted the weak performance of structural economic reforms. The IMF (1996) stated that Egypt failed to realize the level of reform that the IMF had expected. The

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[16] According to Kheir-El-Din, "as of the end of November 1996, the SFD resources amounted to a US$746.4 million (approximately L.E. 2525:98 million) pledge by 18 international and regional donors. The largest contributors are the European Union (30.7%), the World Bank/IDA (20.7%), three Arab Funds (19.I %), the Government of Egypt (8.0%), Germany/KFW (9.4%). Approximately 43% ($321.36 million) of these resources were borrowed by the SFD, the remaining 57% (S 425.04 million) are grants to finance infrastructure projects, and human resources and community development"

main difference between macroeconomic stabilization and structural reforms is that while the former focuses on short term measures, the latter aims at long term economic change. Structural reforms include a set of economic changes and regulations aimed at bringing about a fundamental change in the ownership structure of the Egyptian economy, where "public enterprises account for as much as one-third of Egypt's manufacturing sector, half of investment expenditure, and about 15 percent of total employment" (IMF 1996). Structural reform includes promoting investment, growth, trade liberalization, privatization and employment. In addition, it tries to "reduce transaction costs, enforce contracts efficiently, and restore flexibility in the labor and capital markets" (Galal and Tohamy 1994: 28).

The government has supported foreign trade liberalization, largely for the benefit of importers and exporters. Abdel-Khalek (1992: 47) delineates the main measures of Egypt's foreign trade liberalization: "Reducing the list of commodities protected by import bans to no more than 30% of industrial domestic output…changing the tariff structure so that [the] maximum tariff rate will be 80% and the minimum 10%…[eliminating] non-tariff barriers other than import suspensions and import bans…eliminating discretionary allocation of foreign exchange by the banking system." The main reason for deregulating foreign trade is to increase exports and attract foreign capital investments. Unfortunately, opening developing countries to foreign trade and

(Kheir-El-Din, 1996: 2).

investments has flooded these countries with imported luxury goods and undermined local industries.

The Private Sector and its Alliance with the State in the 1990s

Applying structural adjustment policies and privatization is not only a technical issue of changing economic system but also a complex social and political process. Changing the structure and legislation of ownership leads to changing authority relations (Harik 1997: 3). Moving towards the market system and privatization implies not only an economic change, but also a political and ideological shift. These changes lead to a restructuring of power relations not only between the state and society, but also among various interest groups. They alter the dialectic relations among the state, the social and economic structure, and diverse interest groups (Richards and Waterbury 1990: 8).

In developing countries, the state has played often stimulated the emergence and persistence of new interest groups, and those groups differ from one historical period to another. Here the state itself plays an influential role in supporting new interest groups by encouraging privatization and economic reform. For example, when Ahmed El Dersh, the Minister of State for International Cooperation, talks about what he calls the "participatory planning approach," he means supporting and encouraging the private sector and foreign investments. As he says:

> Promoting foreign direct investment and privatizing public entities are well known aspects of Egypt's economic and social transition. But also important are the decentralization of the decision-making process and,

> consequently, the growth of the role of civil society organizations" (Ahmed El-Dersh as quoted in AmCham 2001).

Maher Abaza, the Former Minister of Electricity, puts it directly when he demonstrates the facilities designated to private sector and foreign investments**:**

> To encourage private capital to get involved, many important facilities will be provided by the government. These companies will enjoy tax exemptions, currency conversion, repatriation of profits and they are protected against nationalization. Moreover, a World Bank guarantee will be granted when required.... To further facilitate their task, the Ministry has agreed to transfer and supply fuel for the projects at very attractive rates. (Maher Abaza as quoted by, Nasr 30 April- 6 May 1998)

It seems that, for all intents and purposes, Abaza proposes shifting Egypt's subsidies from the poor to foreign investors.

Since 1974, many of Egypt's new laws, including Investment Law 43 (1974), Companies Law 159 (1981), Unified Tax Law 157 (1981) (amended in 1993), New Investment Law 230 (1989), and Capital Markets Law 95 (1992) have encouraged foreign investors to transfer their money to Egypt by allowing them to enjoy many perquisites (Country Commercial Guides for FY 2000: online). For example:

> 1989's Law 230 authorizes 100% foreign ownership of ventures and guarantees the right to remit income and repatriate capital. Key provisions include a guarantee against confiscation and nationalization without compensation; the right to maintain foreign currency bank accounts; a five year tax holiday low and middle income housing projects that can be extended to twenty years by the Council of Ministers; a flat rate of 5% for customs and imports duties; exemption from certain Egyptian labor requirements; and no price controls or profit margin limitations. (Country Commercial Guides for FY 2000: online)

Since 1991, privatization has been accompanied by a series of new laws aimed at attracting foreign and domestic investments, encouraging exports, and accelerating privatization of the public sector. "Foreign Currency Law 38 (1994) relaxed restrictions on capital transfers and emphasized the right of individuals and companies to transfer foreign exchange out of Egypt" (Country Commercial Guides for FY 2000: online). Law 8 (1997), the investment incentives and guarantees law, identified sixteen fields that were ripe for foreign investment, and guaranteed automatic governmental approval for investment in them. It also guaranteed foreign investors against confiscation, sequestration, and nationalization of their property; gave them the right to own land, hold foreign currency bank accounts, and repatriate capital and profits; gave them freedom from administrative attachment; and granted them equal legal treatment regardless of nationality. Furthermore, companies established under Law 8 received did not have to pay corporate income tax for a period ranging from five to twenty years. Finally, the law also granted exemptions from certain labor requirements (NTDP 1997: online).

Most of these laws provoked dispute, specifically those that dealt with sensitive and strategic economic sectors, such as banking and insurance. The laws most directly affecting national security and interests are those that privatize public sector banks and insurance companies.[17] Consequently, they have faced clamorous criticism from

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[17] "Banking Law 155 (1998) permits private sector ownership of Egypt's four public sector banks. The Egyptian government has not yet announced specific plans for the privatization of a public sector bank. Insurance Law 156 (1998) amended law 91 (1995). Law 156 removes the 49% ceiling on foreign ownership, permits privatization of national insurance companies, and abolishes the ban on foreign nationals serving as corporate officers. Law 1 (1998) amended Law 12 (1964), the General Egyptian Maritime Organization Law. Law 1 permit the private sector, including foreign investors, to conduct most

different national forces, including members of parliament, economists, and financial experts. Ultimately, they gained approval of the People's Assembly, which was majority led by the ruling National Democratic Party (NDP). This assent came at the cost of severe battles, which often took the form of personal attacks. As Essam El-Din (11-17 June 1998) notes, some members of the opposing political parties claimed that the author of these bills, Economy Minister Youssef Boutros-Ghali, was a pawn of the IMF and the World Bank.[18] Additionally, members of the opposition argued that the government railroaded the bills through. In fact, in spite of specific provisions requiring that shareholders in banks had to have special permission to acquire more than ten percent stock, they argued that the bills granted control of Egyptian banks to private investors, the United States, and Israel.

The leftist Tagammu party described the banking and insurance bills as a national catastrophe. As Essam El-Din (21 - 27 May 1998: online) reported, they argued that these laws were the result of coercion by the United States and the IMF, and would give control of Egypt's banks to foreigners. A former economic minister also expressed concern that the government seemed to be abandoning its responsibility for development

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maritime transport activities, including loading, supplying, and ship repair" (Country Commercial Guides 2000: online). By issuing these laws, the Egyptian state loses control of hard currency and strategic sectors, such as its maritime concerns.

[18] In an interview, Ghali said that, "I would like to emphasize again that we have already completed our institutional and legal financial frameworks and right now, we are applying the internationally accepted financial and banking criterion of the Basel conference." He added that the entire world has come to accept the fact that the private sector is the best administrator of economic resources: "In the banking sector, the public sector has proved to be inefficient and lacks effective supervision of their financial resources. Thus, I want to ask: is it not high time to let the public sector banks in Egypt be more efficiently run through the private sector?" (Essam El-Din, 2 -27 May 1998: online).

and welfare, and did not seem to have a clear-cut plan for future development once the national banks and insurance companies were privatized (El-Said 28 May- 3 June 1998: online).

Wahish (11-17 June 1998: online) notes the irony that, although the IMF suggested privatization, it did not enforce this proposal. In fact, as Mahamoud Mohieddin, senior advisor to Egypt's minister of economy, noted in the same article, Egypt's government often exceeded the IMF's demands, based on a belief that increased privatization was good for the economy.[19] These new laws and legislation went hand in hand with the Egyptian economy's transformation towards a free market. In general, the main aim of introducing all of the aforementioned laws was to support and attract investors. As Abdel-Khalek (1992: 47-48) notes, this group of laws was issued in conjunction with further measures aimed at supporting foreign investment and the private sector, including immediate government approval of most private investment projects, removal of government price controls, and allowing private industries to control the distribution of government-controlled companies that were being closed.

The only labor legislation that the People's Assembly has considered in recent years has been under discussion since 1994. They have yet to put it to a vote. The draft, currently being revised by the People's Assembly's Labor Committee, took a little over a

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[19] Mitchell asserts that the Egyptian government has exceeded the requirements of the IMF and the World Bank in its application of structural adjustment policies: "After 15 years of foot-dragging and partial reforms, the government was forced to adopt an IMF stabilization plan in 1990-91 that allowed the currency to collapse against the dollar, slashed the government budget, tightened the supply of money, and

year to develop, and was produced through tripartite negotiations between the government, business interests, (represented by the Egyptian Federation of Industries and Businessmen), and labor representatives, namely the General Federation of Trade Unions (GFTU). Assad (17 - 23 January, 2002: online) points out that this law, which would have given employers the right to fire workers and would have given workers the right to strike, was a significant shift from previous laws governing labor.

The draft Unified Labor Law would apply to businesses currently governed by Labor Law 137 passed in 1981, and would not cover "government administration, domestic workers, members of an employer's family, those in short-term employ…principal management positions and the self-employed. Workers in 'pure' agriculture are also excluded from the conditions placed on the employment of women and minors" (Farag 17 - 23 January, 2002: online). "The exclusions are significant," according to Kamal Abbas (quoted in Farag 17 - 23 January 2002: online), labor activist and head of the Centre for Trade Union and Workers Services (CTUWS), headquartered in the working-class district of Helwan, noting the large numbers of unskilled female and minor workers, and the difficulty in defining "pure agriculture."

Abbas not only refers to the negative effects of the Unified Labor Law, but also identifies concrete difficulties that laborers have faced under the new trend of the state's supporting the private sector. Abbas notes also that the content of the proposed draft can

cut back subsidies to public sector enterprises, preparing to privatize or close them. These 'prudent' fiscal policies were implemented more drastically than even the IMF had demanded" (Mitchell 1999: online).

be best assessed by seeing if it practically addresses the difficulties workers face on the shop floor. He feels it falls well short of that objective. He adds:

> These workers…need to be protected from signing 'form six,' (Before signing his work contract, workers are asked to sign "form number six," preemptively announcing their resignations. As if that were not enough, his contract also stipulates that he must pay the factory owner a punitive fine of [US] $20,000 if he leaves his job) working over eight hours a day, secretive labor relations… the usurpation of the right to agreed wages and compensation in case of accident, lay-offs and/or closure. The proposed law solves none of these problems. (Abbas as quoted in Farag 11 - 17 May 2000: online, and see Farag 17 - 23 January 2002: online)

Although these new laws give more advantages to the private sector and foreign investments, the job market that laborers face is much worse than it was under the old laws.

Privatization of State-Owned Enterprises and Reduction of the Public Sector

One of the main components of the changing ownership structure of the Egyptian economy is that it is reducing the role of the state by accelerating the privatization of state-owned enterprises (SOEs). Waterbury (1992) argues that, to understand the process of economic reform led by the state, one should consider the central role of the public enterprise sector. Harik goes further, asserting the dominant role of the public sector in the Egyptian economy from the 1960s until the early 1990s, even after the launch of the *infitah* policy (Harik 1997: 11, 19; see also Ali 1994: 185).

Richards and Waterbury give a more accurate explanation of the nature of the relationship between the private sector and the state in both Egypt and Syria. Because

these states are ruled by groups that are dedicated to maintaining the power of the state, "the private sector is encouraged only insofar as it remains subordinate to the state, the party, and the plan" (Richards and Waterbury 1990: 215). The state in Egypt, and other Arab countries, will not accept willingly relinquish its power to the private sector; it may allow the private sector to have an economic role only so long as it submits to the state's power. Economic reform, privatization, and globalization could potentially benefit Egyptian society, insofar as their loosening of state economic and social control could redress the current excessiveness of this power. However, they have yet to do so (Abootalebi 1999: 63).

Egypt faces other complications with respect to privatization of the public sector. According to Aoude (1994: online), there are three major problems:

> 1) The capitalist bureaucratic sector wants to maintain…the public sector; 2) Private capital…has been reluctant to engage in production… 3) Privatization would wreak havoc on the economy that would quickly spill over to the political arena considering the large number of workers in the public sector (See also Kanovsky 1997: online)

The Egyptian government's decision to sell off the public sector has led to numerous riots and demonstrations:

> Opposition parties and trade unionists, critical of regime policies, set up various committees for the defense of the public sector. Reported strikes rose from eight in 1990, to 26 in 1991, to 28 in 1992, and to 63 in 1993. In a major strike at Kafr al-Dawwar in September 1994, three people were shot dead by the police and many others were injured. Though not seriously threatening its policies, such developments were highly disconcerting for the regime (Kienle 1998: 233)

It is important to understand Egypt's privatization process within the historical context of the relationship between the state and interest groups. Privatization reflects a new political and economic strategy of the Egyptian state that emerged after application of structural adjustment policies. Thus, privatization of the public sector and of state-owned enterprises is not only an economic process, but also a political one, reflecting the characteristics of the new coalition between the state and businessmen and other rich people.

Economic reform since 1991 has aimed at starting an accelerated process for selling public sector companies. According to Waterbury (1992: 183), there are many reasons why the Egyptian state is reforming and selling SOEs, including public deficits caused by the SOE sector; the severe problems, such as inflation and obstruction of export growth, that this crisis has caused; and the fact that shedding these public businesses would undermine powerful actors in Egypt.

In 1993, the Public Enterprise Office (PEO) published an action plan entitled "General Procedures and Guidelines for the Government's Program of Privatization, Restructuring and Reward System." This is the only "formal" document that reflects the government's commitments and objectives with regard to the privatization of SOEs. The document claims that the Egyptian privatization program is based on five principles: privatizing as many services as possible, and making the market responsible for the transactions; maintaining control of strategic assets; keeping the transactions in the open, and avoiding non-public sales; as much as possible, selling only to those companies that

have expertise in the specific area; and selling to a large array of people, so that these assets do not become concentrated within a small group of owners (Mohieldin and Nasr 1996: 43).

After 1991, the Egyptian government started an extensive program for privatizing state-owned enterprises. Although the Egyptian government originally called this program "reform and privatization," its main goal was to privatize, selling state-owned enterprises. Although the stated goal of this process was to "reform" many of these enterprises, the actual aim was to improve their financial situation by decreasing and/or settling their debts to make them more attractive for private sector ownership.

The Egyptian government has adopted two approaches for privatizing SOEs. The first focuses on improving the management of these enterprises by allowing the managers to act separately from their ministries. One of the main procedures in this regard is the 1991 SOE Law, which gave these enterprises more control over management, pricing, and the acquisition of funding. The only decisions still controlled by restrictive laws and regulations were those regarding employment and suspension (see, Waterbury 1992; Mohieldin and Nasr 1996).

While the first approach focused mainly on reforming these enterprises and preparing them for sale, the second one went hand in hand with the selling process itself. It allowed the Egyptian government to offer most of the SOEs for sale according to a medium term schedule. This approach meant that these enterprises' property would move from the state's hands to the private sector. Therefore, the enterprises which faced

economic and financial problems would be classified under the first approach, and the more attractive ones were placed under the second approach.

The noticeable point here is that the decision makers have not had a specific plan or strategy for privatization and economic reform. As Mohieldin and Nasr (1996: 43-46) note, this has been become particularly clear during the second approach sales, which used three methods of selling. The first method was selling to an "anchor" investor who bought all of the company's shares. Under this method, the Egyptian government sold three companies: the Pepsi Cola Bottling Company, the El Nasr Coca Cola Bottling Company, and the El Nasr Steam Boilers Manufacturing Company. Although it sold these companies using this method, the Egyptian government prefers not to sell public companies to such anchor investors, as it wants to avoid creating monopolies (Mohieldin and Nasr 1996: 43-45).[20]

While the first method focuses mainly on one or two main investors, the second method tries to avoid such monopolies by diversifying ownership through public offerings. To do so, the government sells 10% of the companies' shares to the public. The government used this method to sell portions of fifteen companies. Doing so earned it £E711 million. Furthermore, the government sold even more shares to the actual

[20] By the same token "in 1994 the Egyptian government sold two bottling companies and an industrial boilers plant to a consortium of Arab and/or Egyptian investors and U.S. partners (Coca-Cola International, Pepsi Cola International, and Babcock & Wilcox). In early 1995, Cairo Sheraton hotel, one of Egypt's largest hotels, was sold to a consortium of Arab and Egyptian investors with the government retaining a minority stake. In 1996, Al Ahram Beverages was sold to an anchor investor, Luxor International" (NTDP 1997).

employees of these companies, netting another £E154.15 million. The employees later formed the Employee State holder Association, or ESA (Mohieldin and Nasr 1996: 46).

A third method is selling stock in Joint Venture Companies. Essentially, state-owned companies sold their shares in other state-owned companies. This netted a further £E125.04 million. In FY 1996/97, the government sold most of its holdings in 40 companies (Mohieldin and Nasr 1996: 46). According to Dillman (2001: online)

> Between 1991 and 1993, more than 1,500 small public companies at the local level were sold. Law 203 (1991) made some 300 public holding companies and affiliates, along with roughly 200 mixed companies, subject to private law and commercial management. From 1993 to 1998, Egypt's privatization amounted to US$3.3 billion. However, the majority of the proceeds were used to restructure and reinvest in state enterprises or fill state bank coffers; none of the proceeds was used to reduce government debt.

The privatization process has not proceeded as quickly as planned by the Egyptian government (see Martin 2001: online). According to the United States Department of Commerce:

> In January 1997, the government announced its plan…to privatize 33 companies through anchor investor sales and 12 companies in Initial Public Offerings (IPOs). In the first five months of 1997, only six companies were privatized through Egypt's…LE 60.3 billion ($17.8 billion) stock market. Only one company was sold to an anchor investor in the same time period. At this rate, the government may not be able to meet its 1997 objectives for privatization. (NTDP 1997; see also, Galal and Tohamy 1994: 28)

To accelerate the selling process, the Cabinet Privatization Committee (CPC), headed by Prime Minister Atef Ebeid, decided to privatize a number of highly-profitable companies, including companies involved in tourism, maritime transport, and the

production of tobacco, cement and fertilizer. The general consensus is that stock in five-star hotels and the Eastern Tobacco Company are the most attractive investments in the privatization process (Essam El-Din, 7 -13 December 2000). It is worth noting that, in addition to the banking and insurance sectors, the government has privatized the most sensitive sectors of Egypt's economy, including maritime transport, cement and fertilizer. As Essam El-Din (7 -13 December 2000) noted that the Egyptian Maritime Transport Company was sold to Egyptian investors, and paved the way for the sale of the Alexandria Shipyard Company and the Egyptian Ship Repair Company. Much like the privatization of the banking and insurance sectors,

Conclusion

The Egyptian state has undergone major changes since the introduction of the structural adjustment program in 1991. In general, these changes can be classified under two main headings. First, the state does not involve itself in economic development, the establishment of new industrial projects, or land reclamation. Second, it has gradually implemented a wide-reaching program for cutting the welfare system. Under this reduction in welfare programs, the state has conceded one of its main roles: the primary supporter of the most vulnerable groups in Egypt

In this regard, the *etatist* system, which continued until the 1980s, has lost its two main pillars: development and welfare. The state has abandoned its developmental responsibilities, leaving them to the private sector and foreign investors. The main aim of

the state since the application of the structural adjustment program has been to support the private sector and facilitate foreign investment. In addition, the state has started a long process of cutting the social subsidies that benefit the most vulnerable groups in Egypt. Instead of restructuring its taxation scheme, building on direct taxes, the Egyptian state still focuses on indirect taxes, which greatly affect the many Egyptians who depend on government salaries.[21] This act goes hand in hand with a harsh program of cutting social subsidies. In general, the Egyptian state since 1991 has chosen to stand beside the rich interest groups at the expense of the majority of Egyptians.

[21] Prior to the 1991 structural adjustment program, the majority of the workforce was employed in the public sector.