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STUDY

Short Term Fixes for Long Lasting Troubles

Why IMF Reforms Won't Solve Egypt's (Political) Economic Problems

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- After four decades of attempting to establish market-based development, little actual development has been delivered to most Egyptians. The root problem was neither recurrent deficits in the balance of payments and state budget, nor cyclical shortages of foreign currency. These were mere symptoms of long-standing weaknesses in the Egyptian economy.

- In Egypt, external linkages to the global economy neither allowed the space for the pursuit of national development, nor contributed to the establishment of state capacities, be they absolute or relative, for managing the economy.

- The current resumption of neoliberal reforms, aimed at restoring pre-2011 economic performance, does not represent a solution for development. Fixing Egypt's short-term, and admittedly pressing, financial problems is something quite different from helping Egyptians identify with and pursue an economic model that may potentially deliver development. Otherwise, both international financial institutions and foreign donors should expect to be called on repeatedly in the future to fix the very problems they are currently seeking to address.

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Introduction

In November 2016, the Egyptian government received a twelve-billion-dollar loan from the International Monetary Fund (IMF) as part of a push to reform and economic growth. This was not the first IMF involvement in Egypt's contemporary history; the IMF has been engaged in working on the country's financial and economic imbalances. A new arrangement between the Egyptian government and the IMF has been signed at least once a decade since the 1970s. The loan packages and austerity programs in 1976, 1987, 1991, 2003 and the most recent 2016 package all have significant similarities. Yet, the Egyptian populace have experienced few if any benefits of the attempted transformation to a market-based economy grounded in neoliberalism.

Whether the IMF program could be the way out of Egypt's multifaceted economic ordeal has been a topic of much debate among the Egyptian politicians and economists currently in charge of the country's fiscal, monetary, and trade policies. Critics have focused on the inner contradictions within the program that may impede the re-launch of the economy. Moreover, the reform packages are perceived to have a prohibitively high social cost for financial stabilization. This debate, however, suffers from its short-term focus. The real puzzle is that the IMF is routinely called back to provide another reform package every decade or so. This suggests that Egypt's problems are recurrent, structural, and long-standing. Solutions should go beyond short-term stabilization, which serves as the IMF's natural mandate. In other words, why has the problem not been solved in the long run?

The IMF, alongside other International Financial Institutions (IFIs) grounded in neoliberal ideology, have been actively engaged in Egypt's economic management throughout the country's attempted transformation into market-led development. is The renovation of the country's economic structure was inspired and informed by the prevailing neoliberal philosophy that rose to ideological hegemony from the 1980s to mid-1990s. This thought system took its place as the primary economic philosophy at the end of the Cold War and solidified its primacy after the emergence of the Washington consensus in 1993. Neoliberalism has influenced numerous transformations worldwide through international trade, capital movement, and IFI conditionality.

Throughout the four decades of attempted establishment of market-based development, few tangible impacts have materialized for the majority of Egyptians. The root problem was neither recurrent deficits in the state budget nor cyclical shortages of foreign currency, factors addressed by the IMF loan. Instead, these were mere symptoms of long-standing weaknesses.

This paper investigates the following two questions: why has market-based development failed to improve the standards of living of the majority? And what role have neoliberal IFI interventions played in perpetuating such shortcomings? This paper argues that addressing symptoms rather than the source of economic strife and instability has hindered Egypt's economy.

The central argument posited in this paper is that neoliberally-inspired and IFI–induced transformations have suffered from a central contradiction that has undermined the establishment of market-based development in Egypt. While liberalization, deregulation, private-sector development, and the privatization of state-owned enterprises were supposed to create a vibrant market that would integrate individuals and households through the production, exchange and consumption of value (Elyachar, 2005), these very processes, especially the redefinition of the role of the state vis-à-vis the burgeoning market, redistributed assets and capital from the poorer sectors of the population to the wealthier. This undermined the end goal of integrating more people into the market either as workers, entrepreneurs, or consumers. Though integration into the market would not have necessarily implied equity or social justice, examples of successful integration into the global division of labor from, Central Europe and South East and East Asia demonstrate that it might have allowed more social groups to improve their standards of living.

Neoliberally-inspired and IFI-induced measures don't deliver the development promised or provide long term stability for a functioning capitalist order. IMF and other IFI interventions that have short- to medium-term concerns for financial stabilization roll over the problem, and likely deepen it, rather than solve it. The establishment of a viable market-based development model in Egypt, as well as in other developing and transitional economies, requires the creation of market actors. Production presupposes some redistribution of capital: physical (land), financial (credit) and human (education, training, and skills) in a way that would imply the redefinition of the role of the state vis-à-vis the market. This is not likely to happen if IFIs continue to perpetuate the same policy and institutional recipes through conditionality and other means of influence. This initial redistribution of human, physical, and financial capital is necessary for market integration and for the accomplishment of the highest objective of neoliberalism, of the creation of a market society (Foucault, 2008). Redistribution of capital is a necessity for the socio-political hegemony of the market order (Roccu, 2013). This may help explain the successful cases of market-based development like China and Malaysia that deviated from IFIs' prescriptions and neoliberal precepts in their capitalist transformation.

Neoclassical institutionalists underlined the role of institutions that uphold private property rights and enforce contracts (North et al. 1990). The experiences of the 1970s and 1990s demonstrated that rolling back the state does not automatically create a market, with the tragic example of post-Soviet Russia where state monopolies passed into the hands of a handful of predatory oligarchs who captured the state and market alike (Stark and Bruszt, 1998). Doubtless, cronyism as the uneven distribution of property rights has been one prevalent feature of the failed capitalist order that emerged in Egypt since the mid-1970s. However, the prevalence of crony capitalism and the absence of functioning formal market institutions hardly explain the general incapacity of Egypt's economic system to deliver growth and development for the majority of the population.

When the majority of the population is deprived of even minimal physical, financial, and human capital, it is not guaranteed that they will become market actors and make use of private property protection and contract enforcement. Moreover, the Asian economies, namely China, but also Vietnam, Malaysia, and earlier development in South Korea and Taiwan, that fared relatively better in their journey of integration into the world capitalist order hardly evolved robust private property protection. Nevertheless, these economies grew quickly.

This paper discusses Egypt's economic challenges using a long-term perspective. This lays the groundwork for a better understanding and analysis of the recent involvement of IFIs and other agents of neoliberal reforms. The first section gives a brief historical account of Egypt's economic transformation. This will be followed by the paper's main argument through a critical literature review that engages with diverse perspectives on the problems with market-based development in this context. This section tackle critically some conceptual issues that have dominated the neoliberal approach to development, with shedding light on the limits of the recently popularized concept of »inclusive growth«. The third section will expand on the main argument, drawing clear conclusions on how neoliberally-inspired and IFI-induced changes undermined Egypt's ability to generate development under market capitalism. The paper then concludes by restating the main argument that in case IFIs keep provides short-term fixes to long-standing problems, they should expect to be called back to Egypt repeatedly in a Sisyphean manner in order to do the same thing one time and again.

Neoliberalism: A brief History of Egypt's Relationship with Neoliberal Economics

Egypt's attempt at market-based development started in 1974 when President Anwar El-Sadat (1970–1981) launched the open-door policy *(Infitah)*. The push for private sector development, partial trade, and capital liberalization was primarily motivated by that the economic and fiscal crises in Egypt at the time. Moreover, this was symbolic of its foreign policy realignment with the West. This policy turn was multifaceted and included; partial import liberalization; the passing of private investment laws in hopes of attracting private, mainly foreign, investment, and; the adoption of IMF stabilization packages in order to fix the country's fiscal and balance of payments crises.

Neoliberal influences found their way to the Egyptian economy through international creditors like the IMF, the World Bank, USAID, and Arab Gulf development funds (Stallings 1992: Neoliberal influences have been consistently present since the 1970s and were responsible for pushing for the redefinition of the role of the state vis-à-vis the economy. Secondly, neoliberalism impacted the Egyptian economy through market linkages, primarily through the integration of the economy into global trade and capital flows via foreign direct investments and debt. Thirdly, ideological connections were formed, especially in the 2000s, when coherent neoliberally-oriented teams of technocrats and businessmen came to dominate Egyptian economic policy-making.

Egypt's economic liberalization did not blossom out of some ideological conviction of the superiority of the market as a means for the allocation of resources and the delivery of development. This feature did not appear until 2004 when, for the first time, a rather coherent team of businessmen and technocrats with strong connections to the IFI took charge of economic policymaking under the Ahmed Nazif cabinet (2004–2011). However, Egypt had previously explored IFI-conditionality/consultancy, usually coupled with funding in 1976, 1987, 1991 and 2003 in response to mounting financial pressure. Budget and balance of payments deficits, severe foreign-currency shortages amidst utter import dependency, and recession often coupled with high inflation were the common features of IFI reforms. The IMF, whose natural domain is to create short-term fixes for national financial crises, was always the first to step in. The IMF reforms are ever-recurring goal of achieving macroeconomic indicators right by cutting deficits, rebalancing the country's external position, and hence providing much needed stability for investment, and thus production and consumption.

The first austerity package was signed in 1976. It included price increases of some basic foods. Sadat faced overwhelming protests and riots in January of 1977, which forced him to back down. Political turmoil mounted until his assassination in 1981, temporarially halting further pursuits of austerity measures. Sadat's successor, Hosni Mubarak (1981–2011), was reluctant throughout the 1980s to push the same *infitah* agenda. He chose to avoid any controversial liberalization or restructuring measures. Instead, he made use of Egypt's access to oil-related rents following the 1979 oil shock, including foreign aid, workers' remittances, and Suez Canal fees. The oil glut of 1986, however, denied the government access to critical revenues and forced Mubarak to negotiate a stabilization package with the IMF in 1987, which did not go into effect for fear of political repercussions. By 1989, Egypt was virtually bankrupt. The government couldn't service its external debt, which hovered around 45 billion dollars (Soliman, 2006, p. 62).

In the early 1990s, Egyptian policy makers resumed the push towards market-based development. In the wake of Egypt's participation in the Kuwait war in 1990 and 1991, the regime signed a new IMF stabilization package, coupled with a very generous debt-relief scheme (Ikram, 2007, p. 150). Mubarak signed a stand-by agreement with the IMF in 1991 through which the budget deficit was slashed, inflation rates brought down and hard budget constraints with state-owned enterprises instilled. Meanwhile, a Structural Adjustment Program (SAP) was agreed upon with the World Bank. The SAP was designed to help gradually privatize SOEs and remove legal biases against the private sector. Many sectors that were once confined to SOEs were deregulated and then opened to domestic and foreign private companies. Even though privatization of SOEs was extremely slow throughout the 1990s and up till 2004 (Roccu, 2013, pp. 44–45; Hanieh, 2012, pp. 50–52), the private sector continuously expanded, sometimes at an accelerated speed during this time.

The Egyptian economy has undergone an undeniable shift towards more liberalization, deregulation, and privatization. These changes were part of the more global transformation under the ideological hegemony of neoliberalism, especially the Washington consensus in the early 1990s following the end of the Cold War. Neoliberally-inspired and IFI-induced transformations were not uniform nor a mere implementation of some universal agenda by the Egyptian government. Rather, domestic political economy weighed in into the scale, pace, and scope such changes as well as in the definition of the final outcome of such processes of market making.

Trade liberalization and deregulation cleared areas for private enterprises to occupy. Moreover, the state provided direct as well as indirect subsidies in a variety of sectors, including manufacturing, tourism, financial services, telecommunications, agricultural exports, real estate, and construction. These took the form of tax rebates, investment incentives, below-market rate land allocation, and generous energy subsidies.

Private sector expansion went hand in hand with the contraction of the share of SOEs in output and employment due to chronic financial problems. Moreover, lack of investment together with privatization and divestiture accompanied this private sector expansion. By the early 2000s, the share of private sector enterprises of all sizes, in total output, investment, and employment grew continuously and to become the largest share in most productive sectors. This trend was pushed through 2004, when Mubarak appointed a neo-liberally inclined cabinet that was committed to more intense liberalization of trade and capital movement, broad-scale privatization of SOEs, and Foreign Direct Investments (FDIs).

According to the World Bank (200, p. 26), the private sector held around 75 percent of Egypt's non-hydrocarbon GDP. Private sector enterprises successfully expanded their shares in key sectors. In the manufacturing sector, privately-owned enterprises increased their share from 58 percent in 1991 to 79 percent in 1996. By 2001, the manufacturing sector was 85 percent private. Their share remained constant all the way till 2010. The story isn't much different in the construction sector where the share of the private sector grew from 71 percent in 1991 to 88.4 and 89.1 percent in 2006 and 2010 respectively. The private sector dominated retail and wholesale trade as well as tourism, including restaurants and hotels as of early 1990s (85 percent) all the way to 99 percent in 2010 (Central Bank of Egypt, 2018, output structure at factor cost, 1991–2012).

Egypt's development has been rather humble. A myriad of indicators throughout Egypt's journey towards market-based development reveal that little improvement has been made with regards to the standard of living for most Egyptians. Despite the recorded absolute improvements in per capita income, life expectancy, and educational attainment, poverty, unemployment, and under-employment persist. Egypt's performance in production and distribution of economic value has been modest, especially when compared to East, South East, and South Asian contemporary cases of market transformation (Achcar, 2013).

Market Integration versus Inclusive Growth

When it comes to answering the question of why market-based development hasn't worked in Egypt, there is very little agreement on how to interpret the aforementioned facts. On the right, centers of neoliberal discourse production and policy making (e.g. IFIs, aid agencies and rightwing think-tanks and universities) sought an explanation in the way reforms were (or were not) implemented. According to them, Egypt's dismal performance was the result of either too few or poorly implemented reforms. In the 1980s, scholars and observers that were informed by the tenets of neoliberalism held that Egypt's track record was sluggish and reticent (Waterbury, 1992; Richards, 1991). This, of course, was no longer the case by the 2000s when Egypt became being a top-reformer, according to the IMF (IMF, 2007, p. 5). Yet, this did not come to a happy ending.

As the 2011 revolution exposed the socio-political vulnerabilities of the much-appraised model, mainstream literature shifted the blame to crony capitalism. According to this argument, successive episodes of liberalization, privatization and deregulation did not give way to the emergence of a competitive market-based capitalism (Adly, 2012a; 2012b; King, 2009; Chekir and Diwan, 2015). Instead, this strategy created a nonmarket-based capitalism, dominated by private monopolies and cartels that used (or rather abused) their political influence and the asymmetries of power and information to generate unnatural profits at the expense of the general welfare of consumers, smaller businesses and the state budget and the economy as a whole. The literature drew a strong correlation between cronyism and predation on the one hand and the authoritarian dynamics of the ruling regimes on the other. The lack of accountability and democracy provided a ripe political context for an unholy marriage between wealth and power and opened the appetites of the former dictators and their allies to translate their monopoly over power into economic gains.

Of course, the resultant capitalist order was exclusionary and failed to create jobs that were adequate in quantity and quality for the increasingly educated young populations. This can hardly be attributed simply to cronyism, as the uneven distribution of property rights cannot account for unemployment and other forms of social marginalization and exclusion on its own. Intimate relationships between the state and specific businesses fed the resentment against the regime as being corrupt. However, it would be far too simplistic to ignore powerful actors such as the institutions reigning over education and vocational training, health care, industrial relations, and taxation that undermined the ability of the Egyptian economy to produce and distribute.

For the left, the problem was never perceived as a national failure to live up to the expectations of free market-development or as merely a deviation from »true market capitalism«. Rather, the very precepts deeply carved into neoclassical economics, were seen as flawed and counterproductive to development. As Harvey (2007) argued, neoliberalism was a global project that varied in its tools and policies but had one principal objective: redistributing income and wealth upwards on a world scale. This trend held true internationally and extended to the Middle East (Hanieh, 2012; Achcar, 2013; Mitchell, 1999). According to leftist critics, neoliberalism has been all about the dismantlement of welfare structures and Keynesian policies exacerbating inequality and socio-economic marginality (Jessop, 2002). Despite the claims that shrinking the state would allow more market freedoms, the role of the state was redefined rather than decreased in size. The state moved away from delivering welfare services to the poor and the middle classes, while doing whatever it took to sustain the market through tax cuts, providing subsidies to large businesses, and eventually offering massive bailouts like the ones witnessed in the aftermath of the 2008 economic meltdown. As per this analysis, in the case of Egypt, neoliberal measures led to increasing inequality and poverty, especially in the countryside, as social protections were slashed (Bush, 1999). Meanwhile, income and wealth flowed upwards to a limited faction of businessmen and corrupt officials in the name of market-making and private-sector development. Rather than open space for the market to grow, this was a case of market making by dispossession (Elyachar, 2005).

One of the main problems with the leftist accounts is that they have neglected the fact that the Egyptian economy had indeed failed to produce as much as it distributed and redistributed. The Egyptian economy failed to generate growth rates that could catch up with population increases, and hence could lead to higher per capita income. Of course, neoliberal claims of the trickle-down development proved to be empirically flawed. Inequality has been growing consistently whereas real wages stagnated (Pickety, 2014). However, there is little doubt that economic growth is necessary, albeit not sufficient, for the delivery of development.

Like other Arab countries without oil revenue such as Tunisia, Jordan, and Morocco, Egypt has failed to generate high growth rates and upgrade their positions in the world division of labor through producing higher value-added goods and becoming more competitive. Egypt has failed in the very mission envisioned by neoliberal policy-makers and economists: the integration of social forces and relations into the market. The key issue with Egypt has been the inability of the majority of Egyptians in the working age to participate in the economy in any fashion. Their absence in the production and hence distribution of economic value is a trademark of the failed global economic integration. Workers' productivity remained low. The share of the formal private sector in total employment remains minuscule compared to the public and informal sectors. To compound the problem, the public sector has many redundant and low wage jobs while the informal sector is marred with low-productivity, low job security and poorly paid jobs. Educational attainment did not translate into higher productivity, better employment, or higher wages (Assaad, 2010).

One of the few points of agreement amongst critics across the political spectrum is that the production base of the Egyptian economy is incredibly narrow. This means that relatively small numbers of Egyptians get involved in the generation of economic value, which subsequently undermines the ability of the economy to distribute the returns of growth. Distribution here is in the Ricardian (after the classical economist David Ricardo) liberal sense. Ricardian distribution refers to the shares of different factors of production in the value created out of the production process like wages for workers, profits, dividends, and interests for capital holders and rents for landowners. This liberal conception has been mirrored in the recently-developed notion of inclusive growth, defined by the OECD as »economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society« (OECD, 2017). This liberal opportunity-centered concept of development and social justice and the more familiar neoliberal concept of trickle-down effect share the concept that development is a result of market activity. There is no identified room here for redistribution through political (i.e. state) rather than market means, like taxation and public expenditures on education, healthcare, and welfare.

Focusing on Egypt, the problem from a liberal view was that growth was not that inclusive; as only a few could take part in the generation of economic value as workers or entrepreneurs. Most Egyptians were further marginalized through either complete unemployed (especially working age women); or underemployed in the informal sector and redundant public sector low-wage jobs.

This manner of handling inclusive growth on policy or programmatic fronts is not novel. As early as the 1980s, and easily visible during the 1990s and 2000s, market transformation in Egypt required the creation of a market society, as Foucault once envisioned in his lectures on neoliberalism in late 1970s. The market, according to the neoliberal theory, is indeed not a sphere or a space where exchange of value happens. Rather, it is how social relations are arranged. For a market to thrive, social relations must be market-oriented. Households become family businesses, individuals become entrepreneurs, and citizens become consumers (Foucault 2008 [1978–1979], p.148). This was the rationale behind the hundreds of projects designed for microenterprises and young entrepreneurs such as the Social Fund for Development and the hundreds of funding packages extended by the USAID to business NGOs, financing SMEs, and other community-based groups focused on female and youth entrepreneurship (El-Meehy, 2010). The idea here was to convert social actors into market actors. Clearly, this did not pan out as a successful strategy. The notion of market society thus had to be reintroduced in the guise of inclusive growth in the aftermath of the 2011 revolutions. The failure of this strategy can be better understood by shedding light on the role neoliberal reforms played in undermining the very market-based development it claimed to be bringing about.

The main problem with the concept of inclusive growth is twofold. First, it ignores the distributional dimensions in the creation of a market society. The inclusion of more individuals and groups in the production of economic value would most definitely incite questions, social and political in nature, about how this value is to be distributed and redistributed among the various actors of production (or factors of production in the liberal conception where labor is equated with capital, technology, and land).

The second issue is that in liberal discourse, inclusive growth remains a utopian way out of marginality and poverty; a solution that of course bypasses the market. Yet, almost nothing is said about how to achieve this goal. Neoclassical theory, which constitutes the theoretical basis of neoliberalism, argued that the market required institutional infrastructure (private property rights, rule of law, and contract enforcement) so as to encourage market actors to engage in production and exchange at low transaction cost. However, it clearly requires more than just these »rights« to create market actors that can meaningfully engage in the production of economic value. The constitution of the market cannot be simply a political process. The issue here is not just about how economic freedom is upheld by continuous state intervention in the areas of private property and contract enforcement. The style and type of intervention shapes the quality and quantity of market actors, producers, as well as consumers. They require access to capital; financial, non-financial, and human (skills, education, and training). Capital is acquired through socio-political processes that begin, but do not end, with the redistribution of income and wealth.

Inclusive growth can only happen through the integration of an increasing number of social actors into the market as workers, entrepreneurs, investors, and consumers. Market integration is another word for a market society. It is the road towards inclusive growth, which would be the outcome of extended socio-political processes rather than a natural phenomenon. There is nothing utopian about market integration; it is not the end of social conflict. It means that more people and more social relations and interactions will pass through market-based production, exchange, and consumption of economic value. There will always be unevenness between workers and capitalists and amongst workers and consumers themselves. Questions of justice and equality will persist as political rather than merely economic matters. The one main difference here is that more and more people will participate in the creation of value and will get some return from it, regardless of if it is just or equitable or not.

Varieties of Capitalism and the Uniformity of Neoliberalism

There were two interrelated yet separate processes that provided the context for Egypt's economic transformation since the 1970s onwards. The first was the integration of many third-world economies and the former Eastern Bloc into the capitalist global division of labor. The second was the rise of one particular version of capitalism to the position of ideological dominance in key centers of the world economy: neoliberalism. The integration process had its own dynamics that were initially separate from the universalization of neoliberalism. It initially had to do with the exhaustion of import-substitution industrialization (ISI) schemes that came to dominate the scene after the end of World War II. This implied relatively closed economies and an extensive state role in the allocation of resources and the production of goods and services. ISI-models came to suffer from severe socio-economic and political problems by the early 1970s. This was particularly apparent in the wake of the 1973 oil shock. These problems translated into external debt crises, especially in Latin America and choking shortages of foreign currency, leading to a halt of further industrialization. The potential solution sought was to bring in IFIs conditionality and stabilization packages, which include the ever important funds, as a means to solve the problems balancing payment. This was, however, the moment where neoliberalism began to dictate the terms of integration into the global division of labor.

Neoliberalism is a policy and program translation of neoclassical economics. Following the Great Depression and WWII, the free market dogma of self-corrective and self-regulating markets was thought to be all but dead. State regulation, especially of labor markets coupled with a direct role in the production and distribution of goods and services, became the norm in the capitalist core of the world system such as the United States, Britain, and Continental Europe. Keynesian policies of full employment and induced demand dominated. Newly independent countries, Egypt included, adopted varieties of state capitalism (or state socialism) in a push towards industrialization that targeted domestic markets, with a few exceptions like South Korea and Taiwan that adopted export-led growth. The 1973 oil shock triggered the beginning of the end of ISI and Keynesian/welfare arrangements in the core as well as peripheral economies.

The moment of the rise of neoliberalism, calling for deregulation, privatization, and liberalization as the means to ending stagflation coincided almost perfectly with the integration of the second- and third worlds into the capitalist world order. The end of the Cold War confirmed the trend that started in the 1970s and reaffirmed the ideological primacy of neoliberalism. It even gave rise to illusions about the end of history (Fukuyama, 1989).

Contrary to neo-dependency arguments, not all cases of global integration of developing economies were non-developmental for most of the people there. Globalization in terms of intensifying movement of goods, services, information, technology, capital, and to a lesser extent people, has benefited some developing countries, or at least significant sections of their populations, tremendously. East Asian countries and China stand out as the most dramatic cases of development driven by export expansion. These economies managed industrial upgrading and displayed high competitiveness on the one hand while allowing dramatic improvements in the standards of living of the great majority on the other. China is one of the most obvious cases of robust annual growth over three decades that was combined with the lifting of the biggest number of people relatively and in absolute from poverty, despite increasing inequality. Of course, there is no room to romanticize the Chinese model. China remains one of the most inequitable countries, despite the absolute gains in poverty alleviation. Liberalization has been happening in the context of a repressive one-party state (Fan, Zhang and Zhang, 2002; Ravallion and Chen, 2007). However, it is one clear example that the integration into the global order can actually be good, albeit unequally, for the many and not just the few.

Nevertheless, socio-economic development under market-based capitalism can and does exist. Yet, the domestic and external conditions under which the integration happens are crucial. In East-Asian countries, including China, major leaps – before the grand liberalizations of the 1980s and 1990s – had happened in areas of literacy, healthcare, education, and the redistribution of land through waves of reform in the 1950s. This had made the populations of these countries more capable of engaging with the production and distribution of economic value in a way that entailed development for the many, even under rightwing and leftwing authoritarian regimes.

Domestic institutional legacies are indeed important in defining the potential benefits of globalizations. Conversely, Amartya Sen (2001) mentioned in his authoritative book »Development as Freedom« that due to deep patterns of social segregation in India and hence the poor records of human development (compared to China), at the moment of economic liberalization in the 1990s only a few could beneficially engage in developmental exchange with the rest of the world. The majority, however, remained far away from benefiting in any meaningful way as most gains were centered in high-skill and high technology sectors that employed merely one million people in a country of a thousand million (Luce, 2010).

On the national level, actors in historical institutional legacies, especially those related to welfare and corporatist structures, pushed for a variety of market capitalisms. One important observation here is that the countries that had the most developmental integration into the global order in the past four decades were the ones least subjected to neoliberal reforms. Despite the great variance between them, most of these cases witnessed a bigger role of the state in controlling the space, scope, and scale of trade and capital account liberalization. China, of course, stands out. The capitalist transformation spurred by Deng Xiao Peng's reforms of the late 1970s proceeded in Chinese terms with almost no presence of IMF or World Bank conditions. Trade liberalization was subject to a Mercantilist approach, wherein the generation of a large trade surplus and the accumulation of massive foreign reserves was the objective. This was part of a bigger role for the state vis-à-vis the market either on the central or regional levels, where the government kept running public sector enterprises or more confusing semi-public/semi-private firms. Overall, the state suppressed imports and consumption to increase domestic savings. China was doubtlessly reintegrated into the global division of labor. However, this happened largely at the choosing of the Chinese incumbents and the complex domestic interests they came to represent in urban as well as rural areas.

Another, albeit less dramatic, example is of Malaysia in the aftermath of the Asian crisis of 1997. Malaysia recovered more quickly than its other Southeast Asian neighbors. They rejected the IMF terms and conditions to open their capital accounts before as well as after the crisis. The uniform liberalization of capital accounts in the 1980s and 1990s proved to be one principal point of weakness for almost all developing economies that had no institutional or policy infrastructure to manage the flows of hot money. This led to devastating and recurrent financial crisis in the developing world, as early as the 1990s, that were not associated to external debt like the 1970s and 1980s but rather to short-term capital flows, namely outflows. Some of the most staggering examples were Mexico in 1994, the Asian crisis in 1997, Russia in 1998 and Argentina and Turkey in 2001. Argentina, the poster child of IMF restructuring in the 1990s, underwent a severe collapse in 2001 that cannot be separated from the full liberalization of trade and capital flows in a way that led to the accumulation of large external debt stocks, both private and public, and the subsequent bankruptcy of the nation. Similarly, the integration of Post-Soviet Union Russia into the global order came at a high cost of de-industrialization and the reduction of Russia into a country of utter dependence on the exporting of raw materials, namely oil and gas.

Having the Space and the Ability to Move within It

Domestic and external factors deciding on market-based development through the integration into the global division of labor converge into having the space and being able to move within in. Having the space refers to subjecting liberalization to the requirements of national development. As revealed by the experience of the last four decades, many developing states often had this space rather compromised by global powers, market based and conditionality, in ways that made development subject to liberalization rather than *vice versa*. The latter scenario has been the case with the majority of nations in the South that had to integrate their economies into the global order in a manner that accommodates badly needed inflows of aid, loans, investments, and imports. One potent and uniform power here was of course IFI conditionality under the aegis of IMF-stabilization packages and the opening-up of capital accounts or the World Bank privatization schemes but also pressures from powerful trade partners like the US and the EU for mutual and reciprocal trade liberalization.

Having the space is itself not enough, though. States in the Global South need to have the capacity to make use of it. Domestic institutional legacies do matter. In other words, unless these states can identify and pursue some notion of the national development needed, they are highly unlikely to make use of any freedom of movement. State capacity has long been defined by Neo-Weberian scholars in bureaucratic terms as the possession of autonomous, meritocratic, professionalized, and incorrupt administrative apparatuses (Evans, 2012; Amsden, 1992; Skocpol et al., 1999). However, such »absolute« capacities related to the characteristics of state bureaucracy also require specific state-society relationships in order to make these states capable of delivering tangible development. This is what Peter Evans (2012) had in mind in his discussion of embedded autonomy, where states could combine being autonomous from private interests with dense connectedness with socio-economic actors so as to gather and process information and to pursue public policies and designs. Shafer (1994) describes this as the relative capacities of the state.

Many states in the Global South already lacked absolute and relative capacities altogether before they embarked on economic liberalization. Their bureaucracies have seldom been competent, professional, or incorrupt. This has limited the capacity of state incumbents to define coherent notions of development to start with. Even if they identified any specific development strategies, they were hardly capable of coherently pursuing them. Plans were derailed or devoured by private interests. Similarly, many states also lacked relative capacity. Postcolonial bureaucracies usually have authoritative and top-down approaches to dealing with their own societies. This cut them off from vitally needed flows of information about what is happening on the ground, which are often necessary for sound planning and for low-cost implementation and monitoring.

The problem is, however, that the integration into the global economy through neoliberally-inspired and IFI-induced measures proved generally disabling on both absolute and relative capacity fronts (Hart, 2002). Subjecting development to liberalization requirements rather than vice versa did not contribute to the growth of much needed state capacities or the forging of domestic alliances that could push for further market integration. Overall, unless developing states already have these capacities, they are not likely to make use of any available space left to them in the process of integration into the global division of labor.

More often than not, domestic and external factors are mutually reinforcing. States that have had developmental capacities, absolute and relative, were the ones that could most bargain their way into integration and hence not succumb to foreign conditionality by IFIs, Multinational corporations or domestic private parties. In the same vein, states that couldn't devise their own development agendas were the ones most susceptible to having IFIs and other powerful foreign or domestic actors draw their own development priorities, that usually corresponded to theirs, revolving around pushing for liberalization and privatization regardless of any developmental consequences. Even worse, some states fell prey to private interests and ended up with state capture. A combination of these two factors could be seen in Sub-Saharan Africa, for instance, where states usually have limited capacity and are often captured by private interests to the detriment of the population's wellbeing.

The explanation this paper gives for the underachieved market-based development in Egypt is that external linkages neither allowed the space for the pursuit of national development nor did they contribute successfully to the building of state absolute and relative capacities. It's unlikely that Egypt's powerful »partners« (the IFIs, the EU, and the USAID) contributed deliberately to the country's failed development efforts. The general context in which Egypt initiated, time and time again, its integration into the global economic order always highlights the country's geopolitical importance. Egypt has received massive capital inflows from Western and GCC allies since the 1970s and onwards in addition to US military aid, large inflows of Official Development Assistance, and an extremely generous bailout in 1990/91. Around 50 percent of the country's huge foreign debt was simply written off while the second half of the debt was rescheduled in the bailout in the early 1990's. The EU and the USAID have been keen on building state capacities as part and parcel of their objective to push for a market-oriented economy. Together with the World Bank, the EU and the USAID explicitly underlined and pursued programs aiming at market integration of micro-businesses and SMEs through micro-financing and industrial upgrading. There was hence no shortage of good intentions or even in defining the primary and secondary goals for a functioning market-development model in Egypt. The problem lied in the fact that such development objectives, due to ideological commitments and direct interests, could never translate into coherent strategies. Development requirements had to fit into dogmas of free trade, privatization and free movement of capital.

In the coming two subsections, a brief analysis of the exact disabling mechanisms that engulfed Egypt's integration into the global division of labor will be given.

Two Disabling Mechanisms: the Case of Egypt

Egypt has been a typical case of a semi-peripheral economy. The country has been progressively integrating into the global economy since the mid-1970s. This trend has become more coherently and comprehensive since the

1990s. Its integration has happened under the aegis of neoliberal forces, international as well as domestic. The mechanisms through which these forces worked denied the Egyptian state the space and the ability to pursue development were manifold. They can be divided into two broad categories that unleashed processes undermining eventually the very objective of creating marked-based development.

The first mechanism was the continuous deterioration in state finances. Egypt embarked on liberalization as early as the 1970s in the wake of fiscal trouble. This was the direct motive behind adopting restructuring measures in the 1990s and the 2000s, and very recently in 2016. Whereas austerity packages have consistently underlined the problem of »big government« as the essence of large deficits and hence prescribed cutting subsidies and wage bills as well as public investment, checking the long-term patterns shows the problem with the decline in revenues rather than increase in expenditure. Neoliberal reforms failed to fix the problem of increasing state revenue. External rents, non-tax revenue, kept declining. The way out should have been building absolute and relative state capacities to collect taxes, which never materialized. Prioritizing FDIs and private investment made it imperative to extend tax holidays, without sunset clauses that denied any credible chance to collect direct income taxes from big businesses. Ironically, no major FDI inflows materialized. The only real thing the Egyptian state ended with was less tax revenue not more investment. This curtailed the state capacity to invest in physical infrastructure and more importantly in education and vocational training causing major productivity problems to the emergent capitalist orders that limited their global competitiveness and their ability to grow, invest and to generate well-paid jobs, and hence push towards more market integration. It conversely led to the heavy reliance on domestic debt financing from the banking sector exacerbating the problems of financial exclusion and hence undercapitalization for the broad base of private sector firms, namely micro, small, and medium-sized enterprises. This will be shown in more details below.

The second disabling mechanism was foreign trade linkages. Like many developing countries, Egypt was pushed for a quick liberalization of its trade as of the 1990s. This took primarily the form of bilateral trade agreements with major trading partners, namely the EU (Egypt's biggest trade partner with a share of 50 percent of its foreign trade), that were based on reciprocity and that replaced earlier accords that granted free access to Egyptian exports. Egypt also had commitments within the GATT/WTO framework. Even though trade liberalization in itself is not necessarily bad, successful cases of market-led development demonstrated that trade liberalization ought to be subjected to requirements of development rather than the opposite. It must be integrated into a strategy that could deliver industrial upgrading and allow the movement into higher niches of value added, which did not happen in Egypt.

The overall result of the loss of space with regards to foreign trade was threefold. First, there has been a general shift in domestic investment into non-tradable sectors, namely real estate and construction (Abdelkhalek, 2001). Both were marked by intense speculation, corruption, and cronyism (Mitchell, 1999). This again barred the broad base of private sector firms from accessing land for productive uses. It also made it socially and politically costly for the state to tax property, namely real estate that received the greatest chunk of middle-class investments. Secondly, with the primacy of non-tradables, no industrial deepening took place leading to a heavy reliance on imported inputs for domestic industries, agriculture, and services. Thirdly; it led to a continuous dependency on raw material exports, with a limited capacity to upgrade its structure into higher value-added products (Adly, 2012b). Weak export performance combined with import intensiveness for domestic industries and services constituted the structural factors behind the chronic balance of payment deficit and hence cyclical shortages of foreign currency that caused the frequent calling for IMF austerity and bailout packages. The only viable way to fill in the financing gap was utter dependence on rather volatile foreign-currency generating sectors like tourism and workers' remittances, or the full-fledged reliance on external aid and borrowing, as has been the case since 2013. Between 2013 and 2015, Egypt received around 23 billion dollars in cheap credit and in-kind (oil and natural gas) and cash aid from the UAE, Saudi Arabia, and Kuwait (Reuters, 2015).

A Chronic Fiscal Crisis

The Egyptian state suffered from a combination of diminishing public revenues and an inflexible structure of public expenditure. On the revenue side, non-tax revenues (primarily external rents from sales of oil and foreign aid) dwindled consistently through the 1990s and the 2000s. Conversely, the state had a generally weak capacity to collect taxes from property and capital holding classes. This resulted in an overall stagnation in tax revenues, and a sheer decline in total revenues as percentages of the GDP. Average state revenues as a percentage of GDP declined from 30.8 percent in 1990 to around 20 percent in 2000. It increased steady ever since reading an average of 26.4 percent in the interval between 2005 and 2010, still considerably below that of 1990 (Central Bank of Egypt, 2018, time series).

Whereas successive waves of deregulation, privatization and liberalization managed to transfer the bulk of output and value-added to the private sector, the state hardly augmented its capacity to collect taxes. Corporate taxes held a humble share in total tax revenues. Most expansion in tax collection happened in the domain of indirect taxation. Capital and industrial and commercial gain taxes averaged around five percent of total tax revenue between 1990 and 2010 (Central Bank of Egypt, 2018). Indirect taxes, namely sales and customs, stood for around two thirds of tax revenue. The share of property taxes averaged less than three percent during the same period. The only way out was levying indirect taxes on consumption that were regressive in nature and any way were not enough to fix the state finances problem radically.

On the expenditure side, sustaining a large workforce in the public sector and urban lower and middle classes, translated into an ever-inflated bill of wages next to fuel and food subsidies and other recurrent expenses. Even though the overall share of expenditure in total GDP remained constant, its structure was overwhelmingly made up of recurrent expenditure with no room for public investment. The problem was not the amount of public expenditures but rather how they were structured. The increase in the budget deficit, and consequently in public debt required to finance it, resulted from the decline in revenues rather than the increase in expenses.

The real option left for the state was to borrow more domestically. Conscious of the dangers of increased foreign borrowing, the Mubarak regime depended on domestic debt, which kept jumping through the 1990s. By 2006, it stood at 87 percent of the GDP. The bulk of public debt was domestic in the 1990s and up till 2011 (Adly, 2012b, p.159). By 2010, the state took over productive sectors as the single biggest borrower raising interest rates and exacerbating financial exclusion.

Having the state as the main borrower reduced the entrepreneurialism that should be found in banks, which were risk-averse. Instead, they found an easy and lucrative investment in bonds and treasury bills. Banks had little incentive to extend their client base or to include more small and medium-sized enterprises keeping the majority of private sector firms undercapitalized. The undercapitalization of the broader base of private sector enterprises could only mean lower prospects for market integration and hence precluded any chance of having vibrant labor-intensive industries that could have established backward and forward linkages with the big business creating jobs and making use of Egypt's edge of having large pools of unskilled labor.

Another side of the state's chronic fiscal crisis since the 1990s onwards has been the inability to inject enough public investment in human capital, namely education, vocational training, and skill acquisition. This has been the historical route taken by East Asian economies for market integration. Direct investment averaged a meager ten percent in Egypt in the period between 1990 and 2010. This may help explain why the state had very little input in investing in infrastructure and human development disabling it from becoming a »service state« that could have catered for the national as well as sectorial interests of the burgeoning capitalist orders.

Indeed, public school enrollment did increase in the 1990s in Egypt at impressive rates. However, the expansion in quantity was hardly matched by quality (Galal, 2002; Assaad, 2010). The actual outcome of increasing education was a higher representation of intermediate-education and university graduates amidst the unemployment. This proved to be socio-politically disastrous with the irruption of the 2011 revolution.

Import-intensive Development Instead of Industry Expansion

The 2000s witnessed an intensive round of trade liberalization for Egypt. This took place through a series of bilateral agreements, and especially the entry into force of the Association Agreement with the EU in 2004. Additionally, there was massive currency devaluation in 2003 by which the exchange system shifted into managed-floating allowing a bit less than a hundred percent depreciation of the pound vis-à-vis the dollar. These were coupled with generous energy subsidies to often large and politically-connected exporters, including some MNCs. As a result of these factors, an increase in export volume did occur after stagnation in the 1990s. Government officials and their international sponsors celebrated this. Yet, the composition of exports suggests that little upgrading ever happened. The share of manufactured goods stagnated. Egypt remained dependent on exporting cheap raw materials, especially oil and natural gas.

Between 2004 and 2010, the Egyptian economy developed a hidden dependency on oil and natural gas by expanding energy-intensive industries such as iron and steel, cement, fertilizers, and petrochemicals. Egypt managed to increase its exports and attract foreign investments in these activities thanks to generous government subsidies to producers, at a time when Egypt was beginning to become a net oil-importer. One-fifth of the country's total import bill went to paying for oil products. In turn, fuel subsidies (covering mainly gasoline, butane, and diesel) spiraled out of control, constituting one-fifth of total government expenditures during the period between 2010 and 2014, roughly equal to the state budget deficit during the same period (Adly, 2014).

The capital-intensive nature of these sectors implied a limited capacity to create jobs. While growth rates were high, there was a commensurate increase in underemployment through informal, low-paying, and low-productivity jobs. According to an International Labor Organization report published in 2014, 91.1 percent of youth (defined as those between the ages of fifteen and twenty-nine) were employed in the informal sector in 2012 (Barsoum, 2014). This only reinforced a sense that Egypt's economic order was continuing to exacerbate perceived inequalities and social exclusion, as it had before the 2011 revolution.

Ironically, pushing for freer international trade and capital movement led to the expansion of non-tradables that hardly contributed to the attempts of export upgrading or of creating jobs in labor-intensive industries, where Egypt was supposed to have a comparative advantage. Instead, a consumption-driven growth model was set in place. Part of this consumption was the utter import-dependency for inputs, namely intermediate and capital goods. This precluded the chance of establishing feeding industries that could have supplied inputs to final producers. Conversely, semi-finished and intermediate goods make up 40.3 percent of total imports, according to the Central Agency for Public Mobilization and Statistics. In terms of value, imports are more than twice as large as exports, resulting in a large trade deficit that is a burden on foreign currency reserves and the Egyptian pound. These ills were the cause as well as the effect of the weak state capacity to devise and pursue an industrial policy. The conditions under which Egypt was integrated into the world economy did not provide the space for the pursuit of such strategy and; it did not enable the rise of a domestic coalition of actors that could have pushed for one either.

For instance, industrial deepening in Egypt has been closely tied to the development of labor-intensive industries and allowing more competitiveness and job creation for many SMEs and micro-enterprises. This could have only happened through state intervention in the areas of technology and credit provision on the one hand, which went against the idea of market making through state contraction. It also omitted any chance of adopting a type of import-replacement as part of an industrial strategy, given the fact that SMEs worldwide provide for domestic rather than export markets. Instead, the EU intervention was confined to creating the Industrial Modernization Centre (IMC), with the aim of cushioning the socio-economic impact of removing trade barriers with the EU on the broad base of Egyptian manufacturing firms. The Center was a partial success in building a partnership between the state, big business, and SMEs. It fell however short of enabling the state in Egypt to devise a full-fledged industrialization strategy.

Indeed, most of the macroeconomic stabilization that happened in Egypt since the massive devaluation of November 2016 is attributed to the suppression of imports rather than the growth of exports. Whereas, imports were cut by 9 billion dollars, exports only increased by two billion (Reuters, 2017). Even though the outcome was generally positive translating into a significant decrease in the balance of trade deficit, in the light of the structural dependency on imported inputs it meant a deepened recession in productive sectors. Lower trade deficits meant less pressure on the Egyptian pound and hence the seeming stability on the exchange rate. This however came in the form of higher production costs for agriculture, the manufacturing and other productive sectors, including those capable of exporting.

The overall growth rate that marked an increase between 2016 and 2017 and was taken as a sign of recovery by the IMF and the government of Egypt ignores the sectoral breakdown of such growth (Mohamed, 2018). Whereas productive sectors, which happen to be the ones capable of generating employment as well, showed a shy recovery, service sectors like, transportation, communications and finance boomed. According to official statistics, »the best performing sector in 2016/17, however, was communications, which recorded growth of 12.5 percent, followed by construction and transport, which expanded by 9.5 percent and 5.3 percent, respectively. Agriculture and manufacturing, traditional mainstays of Egypt's economy, posted gains of 3.2 percent and 2.1 percent, while extraction industries declined by 1.8 percent, the report added« (Mohamed, 2018).

The financial sector is a case in point. Showing a robust growth since 2015 (Enterprise, 2017) banks have been investing, rather expectedly, in the government massive debt. This translated into high-return investment, in their definition, but hardly of a productive nature for the economy as a whole. The expansion in financial services happened in a context of high interest rates that were used by the Central Bank to fight dollarization and hence to defend the Egyptian pound. The two combined factors of an expanding public debt and high interest rates fed into higher investment costs for the same productive sectors, already hard hit by the devaluation and the contraction in imported inputs.

Next to financial services that witnessed a boom, real estate and construction equally expanded, especially with the government initiative regarding the establishment of a gigantic new administrative capital to the east of Cairo. Construction and real estate served as locomotives for economic growth under Mubarak, given the large span of feeding industries and services they rely on including cement, iron and steel, aluminum, bricks in addition to forward linkages in real estate, advertisement, and financial services. The main problem with a construction-driven growth model is that it hardly tackles the structural roots of Egypt's balance of payment. Construction is a non-tradable sector that does not contribute to increasing exports or decreasing imports. Moreover, it has been historically predominantly geared towards the domestic market consuming most of the middle and upper-middle classes' savings into unproductive assets. Over and above, construction and real estate have proved in the past to be highly speculative, especially with the manipulation of land pricing and regulation in desert areas, which has been notoriously corrupt since Mubarak's times.

Celebrating high growth rates regardless of their sectoral source is an instance of utter short-termism. These are likely to be signs of numerical recovery that does not promise any delivery from the root causes of foreign currency shortages and the import-intensiveness of productive sectors in Egypt. The real question is what would likely happen if productive sectors start showing stronger recovery and hence increase their demand of imported inputs of technology, semi-finished and capital goods, and raw materials. This will likely increase the import bill and hence threaten the stability of the foreign exchange rate and put more pressure on Central Bank's foreign reserves, which have been largely built through massive borrowing from abroad.

Egypt's foreign debt has been growing at very high rates since 2016. The country's stock of external debt climbed from an historical low of 26 billion dollars in 2001 to 48 billion in July 2015. It then increased by a staggering 66 percent in two years jumping from 48 billion in July 2015 to 81 billion in July 2017. It hit 92 billion in the third quarter of 2018 (Ya'quob, 2018). The increase has also happened in the ratio of debt service to total export earnings, which is the indicator widely used to measure the capacity of the economy as a whole to meet its foreign obligations. The ratio increased from six percent in 2010 to around 19 percent in 2016. This is the highest ratio since the early 1990s. This means that considerable pressure will be laid on the economy as a whole to generate the necessary foreign currency for the servicing of a formidable foreign debt.

Another example of the subjection of development goals to liberalization is the overstatement of Foreign Direct Investments (FDIs). The idea that the attraction of large inflows of foreign capital into the Egyptian economy is the solution to the country's low levels of saving, investment, and growth has been present as an uncontested truth since the 1970s. This is not a silver bullet for Egypt's multiple problems with balance of payment. Despite bundle after bundle of tax holidays, investment incentives, guarantees, and open subsidies, especially in the energy sector, Egypt never became a major attraction to FDIs. The ratio of net FDIs to GDP averaged a bit less than one percent in the period between 1989 and 2004. The exception that proves the rule was that between 2005 and 2009 the ratio increased to around 5 percent. Moreover, as an average for the period between 1972 and 2009, half of net FDI inflows have been concentrated in extractive industries, namely oil and natural gas (Hanafy, 2015: 44) with minimal presence in important and labor-intensive sectors (where jobs can be created and market integration achieved) like agriculture, tourism, and manufacturing.

Conclusion

This paper raised one principal question: why hasn't Egypt ended up with market-based development after four decades of liberalization? The answer given was that neoliberally-inspired and IFI-induced transformation through market, hierarchy and ideational linkages suffered major contradictions that proved disabling for the central task of market integration. These external linkages did not provide the space for the definition and pursuit of a development strategy. They rather subjugated development to the imperatives of liberalization to the detriment of the first in the long-term. They did not allow either the formation of domestic state-societal coalitions that could have been capable of generating economic value. The end result was a vulnerable capitalist order that failed on both production and distribution fronts, and of course lacked sufficient socio-political legitimacy to keep on going.

It is about time for Egypt's international creditors, investors, and sponsors to admit that the resumption of neoliberal reforms, with the aim of returning to the pre-2011 economic performance, won't create development. Fixing Egypt's short-term, and admittedly pressing financial problems, is an entirely different issue than helping Egyptians identify and pursue an economic model that may deliver long-term, stable development. Should the IMF and other IFIs continue with past strategies, they should expect to be called in to Egypt again and again to fix the very problems they are currently addressing.

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