

With Europe in crisis, Egypt must reverse course

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International banks and financial institutions receive about US\$3 billion a year in debt service (and have done so continuously for the last decade), much of this for so-called “odious” debt garnered under Mubarak.

Teetering on the brink of debt default, the eurozone economies have once again moved center-stage in the ongoing global economic turmoil.

On 25 June, the German magazine *Der Spiegel* reported that a euro collapse, perhaps precipitated by Greek withdrawal from the single currency or a bank run in one of the southern European economies, would likely see a 12 percent drop in the output of the eurozone.

Such an eventuality, described by the magazine as both “very likely” and “horrific,” would be equivalent to a loss of more than 1 trillion euros. A predictable chain of consequences would quickly ensue: an immediate paralysis of world trade, an unprecedented contraction of financial flows and a mass bankruptcy of businesses.

Of course, for millions of people, much of the likely pain of such a dire scenario is already being felt. Official unemployment rates are well over 20 percent in Spain and Greece, with youth unemployment double this figure. Across the continent as a whole, the mantra of permanent austerity has cut deep into the living standards of the European population.

Yet, much like media coverage of the 2008 US financial crash, the popular framing of Europe’s unraveling has largely sidelined its global implications. This can lead to a serious misreading of the crisis and its effects. The contemporary global economy operates as a single organism, and sickness in the core countries of North America and Europe can never be confined within state borders.

Indeed, the immediate roots of this crisis are largely found in the enormous imbalances that characterized the era of ‘globalization’ and the deeply unequal manner in which virtually all nations were integrated into the world market. The dominant storyline of the last few years confirms the importance of taking this global standpoint, with the worst effects of crisis continually being pushed onto the weakest zones of the world economy.

For this reason, Europe’s crisis is of singular importance to the direction of Egypt’s unfinished revolution. More than 30 percent of Egypt’s exports went to the 27 countries of the European Union in 2011 — more than six times those to the US. The effect of a contraction in the European market was sharply indicated in 2009, when Egypt’s exports to Europe fell by a hefty 26 percent as a consequence of the global downturn.

Egypt’s largest trading partners in Europe include Italy, Spain and Greece — three countries at the top of the list of those facing severe debt strain. A European collapse would also quickly detonate a dramatic downturn in world trade as a whole, with all of Egypt’s export markets suffering as a

consequence.

The problem would be accentuated by a likely drying-up of trade financing, a mechanism through which international banks provide exporters with credit until they are paid. European banks provide almost 80 percent of global commodity trade finance, yet they are becoming increasingly unwilling (and unable) to lend in the context of the eurozone crisis. Global trade finance volume fell 18 percent year-on-year in the first quarter of 2012, the lowest quarterly volume since the third quarter of 2009.

But it is not just a collapse in exports that would affect Egypt in the wake of a deepening of the eurozone crisis. Since the liberalization initiated by former President Anwar Sadat, much of Egypt's population has become linked to remittance flows from overseas workers.

In 2010, remittances constituted around 4 percent of Egypt's gross domestic product — a figure that needs to be treated with some caution in that it likely understates the amount of money that Egyptians abroad send home. In times of crisis, migrant and undocumented workers are frequently the first to lose their jobs or to be pushed into precarious and low-paid work.

Any intensification of the crisis will thus likely lower remittance flows — this is precisely what happened in 2009, when remittances to Egypt dropped by just under 18 percent in the wake of the global downturn. The impact of this drop also needs to be differentiated; it will be felt most intensely by the poorest families for whom money from overseas is often the difference between the ability to meet daily needs or not.

There are other transmission mechanisms of the global crisis to Egypt. Tourism arrivals will certainly plunge as Europeans are unable to afford overseas travel (tourism receipts fell by around 3 percent in 2009 from a year earlier; tourism approached nearly 30 percent of the value of Egyptian exports in 2010), foreign capital inflows are also likely to pull back as investors attempt to cover losses in the core countries, and the Egyptian government will find it more difficult (and expensive) to sell debt on the financial markets.

Yet these potentially disastrous consequences should not be seen as merely an unfortunate or inevitable outcome of the European crisis. They are a direct, and entirely predictable, result of how Egypt was integrated into the world market through the Mubarak years.

Over the last three decades, and most particularly in the latter half of the 2000s, Egypt moved rapidly along the path of liberalization. State assets were sold off, land opened up to purchase by foreign investors (mainly from the Gulf Arab states), and the economy shifted toward a reliance on foreign capital inflows, remittances, and export-oriented earnings. This trajectory was strikingly illustrated in the food sector, where Egypt became one of the most import-dependent countries in the Middle East and North Africa region (itself the most import-dependent region in the world) — and was thus laid bare to the devastating effects of global food price rises. In short, Egypt's exposure to the vicissitudes and crisis-prone tendencies of global capitalism was a deliberate and conscious affair.

It must never be forgotten that this economic path was developed in conjunction with, and widely praised by, the key international financial institutions. Indeed, Egypt was held up as the model for the Middle East — recognized as the Top Reformer for the region by the World Bank for three years in a row from 2006 to 2008. Indeed, in 2008, the country was awarded the World's Top Reformer by the World Bank and the International Finance Corporation.

These institutions' remarkable amnesia is one further illustration of how Western states continue to deny fundamental culpability for the Mubarak dictatorship. Their approach has been to divorce the

nature of Egypt's autocratic state from its underlying political economy — pretending that Mubarak's rule was simply a problem of individual nepotism, corruption and misrule, and that the trajectory of Egypt's economy through the Mubarak years was fundamentally healthy — indeed, among the world's 'best.'

For Egypt, the potentially catastrophic implications of a eurozone collapse points to the urgency of breaking with the Mubarak-era economic policies in a substantive and genuine manner. What can be done? The starting point is to realize that the Mubarak-era economic policies did not just lead to worsening living standards for the majority of Egyptians. They also provided fabulous riches for a tiny few.

Large companies and individuals from both inside Egypt and out — Egyptian, Arab and Western alike — benefitted enormously from the sale of state assets, land and resources. Many of these now cynically describe themselves as supporters of the revolution. Moreover, international banks and financial institutions receive about US\$3 billion a year in debt service (and have done so continuously for the last decade), much of this for so-called "odious" debt garnered under Mubarak.

There can be no effective protection against the impending crisis without addressing the inequalities in Egyptian society — and that means reclaiming this wealth, rejecting the disastrous course of 'private-sector led growth,' and placing social justice as the top priority. Finally, we must realize that Egypt is not alone. Neighboring countries, including those in Southern Europe, face a similar scenario. A united front of resistance could point to a new direction for the whole region.

Adam Hanieh

P.S.

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<http://www.viewpointonline.net/with-europe-in-crisis-egypt-must-reverse-course.html>

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* Adam Hanieh is a Lecturer in Development Studies at the School of Oriental and African Studies (SOAS), University of London. He is author of *Capitalism and Class in the Gulf Arab States* (Palgrave-Macmillan 2011) and a member of the Editorial Board of the journal *Historical Materialism*. Email: ah92 soas.ac.uk