Egypt's Economy, Financial Deregulation and Protest

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The ongoing demonstrations in Egypt are as much, if not more, about the mass deterioration of economic conditions and the harsh result of years of financial deregulation, than the political ideology that some of the media seems more focused on. Plus, as Mark Engler cross-posted on Alternet and Dissent yesterday, the notion that the protests in Cairo are 'spontaneous uprisings' misses the mark. As he eloquently wrote, "there are extraordinary moments when public demonstrations take on a mass character and people who would otherwise not have dreamed of taking part in an uprising rush onto the streets. But these protests are typically built upon years of organizing and preparation on the part of social movements."

That got me thinking about what else has been building up in Egypt under Mubarak's 29-year as President, but more specifically over the past decade, and in particular the years leading up to the world economic crisis catalyzed by the US banking system – and that would be, extreme financial deregulation and the increased influx of foreign banks, capital, and "investment" which tends to be a euphemism for "speculation" when it belies international funds looking for hot prospects, no matter what the costs to the local population.

According to the CIA's World Fact-book depiction of Egypt's economy, "Cairo from 2004 to 2008 aggressively pursued economic reforms to attract foreign investment and facilitate GDP growth." And, while that was happening, "Despite the relatively high levels of economic growth over the past few years, living conditions for the average Egyptian remain poor."

Unemployment in Egypt is hovering just below the 10% mark, like in the US, though similarly, this figure grossly underestimates underemployment, quality of employment, prospects for employment, and the growing youth population with a dismal job future. Nearly 20% of the country live below the poverty line (compared to 14% and growing in the US) and 10% of the population controls 28% of household income (compared to 30% in the US). But, these figures, as in the US, have been accelerating in ways that undermine financial security of the majority of the population, and have been doing so for more than have a decade.

Around 2005, Egypt decided to transform its financial system in order to increase its appeal as a magnet for foreign investment, notably banks and real estate speculators. Egypt reduced cumbersome bureaucracy and regulations around foreign property investment through decree (number 583.) International luxury property firms depicted the country as a mecca (of the tax-haven variety) for property speculation, a country offering no capital gains taxes on real estate transactions, no stamp duty, and no inheritance tax.

But, Egypt's more devastating economic transformation centered around its decision to aggressively sell off its national banks as a matter of foreign and financial policy between 2005 and early 2008 (around the time that US banks were stoking a global sub-prime and other forms-of-debt and leverage oriented crisis). Having opened its real estate to foreign investment and private equity speculation, the next step in the deregulation of the country's banks was spurring international bank takeovers complete with new bank openings, where international banks could begin plowing Egyptians for fees. Citigroup, for example, launched the first Cards reward program in 2005, followed by other banks.

According to an article in Executive Magazine in early 2007, which touted the competitive bidding, acquisition and rebranding of Egyptian banks by foreign banks and growth of foreign M&A action, the biggest bank deal of 2006 was the sale of one of the four largest state-run banks, Bank of Alexandria, to Italian bank, Gruppo Sanpaolo IMI. This, a much larger deal than the 70% acquisition by Greek's Piraeus Bank of the Egyptian Commercial Bank in 2005, one of the first deals to be blessed by the Central Bank of Egypt and the Ministry of Investment that unleashed the sale of Egypt's banking system to the highest international bidders.

The greater the pace of foreign bank influx and take-overs to 'modernize' Egypt's banking system, inevitably the more short-term, "hot" money poured into Egypt. Pieces of Egypt, or its companies, continued to be purchased by foreign conglomerates, trickling off when the global financial crisis brewed full force in 2008, though not before Goldman Sachs Strategic Investments Limited in the UK bought a $70 million chunk of Palm Hills Development SAE, a high-end real estate developer, in March, 2008.

When a country, among other shortcomings, relinquishes its financial system and its population's well-being to the pursuit of 'good deals', there is going to be substantial fallout. The citizens protesting in the streets of Greece, England, Tunisia, Egypt and anywhere else, may be revolting on a national basis against individual leaderships that have shafted them, but they have a common bond; they are revolting against a world besotted with benefiting the powerful and the deal-makers at the expense of ordinary people.