# President Mubarak's top security problem is Egypt's economy

by Judith Wyer

In the spring of 1982 the Central Bank of Egypt negotiated its first Eurodollar market loan since 1977. Though Cairo has not revealed the purpose of the $200 million standby revolving credit, the prime reason for the loan stems from increased illegal capital flight which has aggravated a decline in badly needed foreign exchange and Egypt's balance-of-payments deficit.

Capital flight is organized internationally by the London-centered black nobility through its unregulated "offshore" banks as an economic warfare weapon against the development potentials of countries such as Egypt. Earlier this year former Mexican President José López Portillo attacked the financial mafias which facilitated the flight of $20 million of badly needed capital from his country, for sabotaging the developing sector economies.

The capital-flight problem in Egypt is one of the chief results of the so-called Open Door economic policy which self-professed British agent Henry Kissinger and David Rockefeller sold to the late Egyptian President Anwar Sadat in 1974. The economic problems visited upon Egypt by this free-enterprise scheme today threaten to destroy the nation's development potential unless the Open Door policy is reversed immediately. In the months leading up to his Oct. 6, 1981 assassination, Egyptian President Anwar Sadat had begun to take steps toward cleaning up the pervasive corruption and rampant speculation which the Open Door policy had invited and which were then major factors in the drain of foreign exchange.

Under the Open Door policy a parallel economy based on illegal drug trafficking, smuggling, and speculative financial activities developed, as the agro-industrial based economy build in Egypt after the 1952 revolution stagnated. The Open Door policy had its greatest impact in four areas:

- The establishment of the offshore unregulated banking system. Egypt today has scores of unregulated foreign banks which function as a parallel banking system to the Egyptian state system which Gamal Abdul Nasser created with the nationalization of the banks in 1956.
- The effective de-nationalization of Egypt's land. Thousands of acres, in some cases in the heart of the vital food-producing area of the Nile Delta, have been taken over by a mafia of land speculators.
- The establishment of free-trade zones, essentially sweat-shop districts created to break Egypt's labor laws, a product of the regime of revolutionary Egyptian leader Nasser. The free-trade zones are today centers of smuggling and their warehouses are storage facilities for illegal drugs, principally from Lebanon.
- Through the Open Door policy's so-called privatization of Egypt's state-capitalist economy, the Alexandrian mafia, which maintains ties to the degenerate Farouk monarchy which Nasser overthrew, has regained a stranglehold on the Egyptian economy.

## Sadat's moves to close the door

Shortly before his death Sadat, attempted to plug some of the holes in the offshore banking system through which flight capital escaped the country, and adjust the conversion rates of the Egyptian pound through the notorious black market. A month before his death, Sadat ordered his Minister of Finance Abdul Razak Abdul al Meguid to call a meeting of the Bankers Club, the group of foreign banks operating in Egypt. Meguid delivered a shocking message to the banks: stop speculating on Egypt's economy by taking out more capital than is being invested.

These and other actions by Sadat suggest that he was coming to realize that the Open Door policy, which he had implemented in 1974 as the economic companion of the Egyptian-Israeli peace treaty, was a failure. The Open Door, patterned on the Milton Friedman school of free enterprise economics, was sold to Sadat as the means to revitalize Egypt's economy after a decade of war beginning in the Yemens and ending with the 1973 Arab-Israeli war.

Sadat, a clever peasant who was more concerned with his jet-set image than economics, believed that the transformation of Egypt's state-capitalist economy into a free-enterprise system would relieve the pressures of worsening cash-flow crises and the related mounting short-term debt servicing.

But this very policy was what killed Sadat and today poses a threat to the life of President Hosni Mubarak. From the very beginning Sadat surrounded himself with influencials of British sympathies, including his half-British wife



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Jihan, who were committed to destroying the nation-building achievements of Nasser, and returning to the looting and speculative system that prevailed under King Farouk.

Mubarak has repeatedly pledged to his countrymen that his number one priority is rescuing Egypt from the economic crisis which has developed over the past decade. In order to accomplish this task, Mubarak is confronting a mafia whose power has multiplied under the Open Door policy. Unlike his predecessor Sadat, who refused to heed countless warnings of an assassination plot against him in his last days, Mubarak is proceeding cautiously against the so-called Alexandrian mafia.

## Capital flight and speculation

Since 1974, Egypt's economy has been transformed from one whose wealth was generated from production of tangible goods, to a rentier-service economy (see Figure 1). Over this period, Egypt's industry and agriculture has stagnated, and its infrastructure seriously decayed.

It is conservatively estimated that as a result of the Open Door policy over four times as much capital is circulating within the Egyptian private sector as in the debt-strapped public sector. This free-floating pool of private capital is the source of today's rampant speculation, primarily on Egypt's meager habitable lands, but also on the profits of the growing illegal drug and contraband trade, run through the free-trade zones established as part of the Open Door policy.

Only 4 percent of Egypt's total land mass is naturally habitable, and since the time of Nasser the government has been fighting to reclaim land from the barren Egyptian desert to provide living space for Egypt's rapidly growing population.

And yet, under the Open Door economic policy thousands of valuable acres of land were handed over to the Egyptian mafia and its Persian Gulf and Mediterranean allies for "real estate" development. These lands have changed hands quickly in a series of speculative real estate swindles. Wheeler-dealers like the Egyptian-born Roger Tamraz gained control of 10,000 acres of arable Nile Delta land under Sadat.

According to an Egyptian diplomatic source, Mubarak has quietly expropriated some of the land which fell into the hands of the mafia, and one of his first priorities was to level the estate of construction magnate Osman Ahmed Osman, a mafia kingpin.

Almost every major category of foreign exchange-earnings—tourism, foreign-workers remittances, transit fees from the Suez Canal—has dropped this year, further exacerbating the decline in Egypt's foreign-exchange reserves and the country's balance-of-payments crisis. This, in part, is a function of the onset of a world economic depression. But the Egyptian mafia which is now under attack from Mubarak is also wittingly contributing to the crisis.

Shortly after Mubarak announced the extension of martial law on Oct. 3, he escalated his corruption purges with the trial of Esmat Sadat, the half-brother of Anwar. At that time a massive amount of capital fled Egypt. So intense was the capital flight that the value of the dollar soared by 15 percent against the value of the Egyptian pound on the black market, indicating a massive dollar-buying spree. The dollars then fled the country via the numerous offshore banks to safe haven in such places as Switzerland.

As a result of the inflated value of the dollar on the black market, foreign Egyptian workers began to remit their earnings through the black market as opposed to the official state-run Egyptian banking system, causing a further decline in foreign-exchange deposits.

**Figure 1**

### Egypt's foreign exchange earnings 1974-1980

($ millions)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 (est.) |
|---|---|---|---|---|---|---|---|
| **Merchandise** | | | | | | | |
| Petroleum | 104 | 164 | 268 | 600 | 688 | 1347 | 2650 |
| All other | 1671 | 1402 | 1341 | 1392 | 1296 | 1165 | 1350 |
| Percent petroleum | 6% | 10% | 17% | 30% | 35% | 54% | 66% |
| **Services** | | | | | | | |
| Suez Canal | — | 85 | 311 | 428 | 514 | 589 | 710 |
| Tourism | 265 | 332 | 464 | 728 | 702 | 601 | 680 |
| Worker remittances | 189 | 365 | 755 | 896 | 1761 | 2214 | 2750 |
| Other services | 255 | 298 | 447 | 500 | 469 | 677 | (700) |
| **"Rent" (services + petroleum)/total foreign exchange** | 33% | 53% | 63% | 69% | 76% | 82% | 85% |

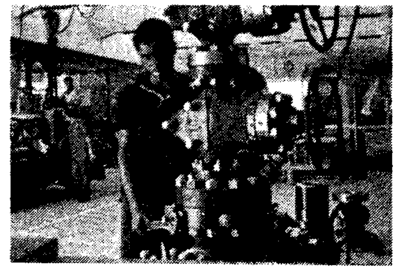
**Source:** Central Bank of Egypt

*Non-petroleum merchandise exports include in order of importance: raw cotton, textiles, other agricultural products (onions, potatoes, rice fruit), processed goods, other.

**Figure 2**
## Egypt's population and employment, 1975-1980

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|
| Population* .......... | 37.2 | 37.9 | 38.7 | 39.8 | 41.0 | 42.3 |
| Employment** ....... | 9,606.2 | 9,645.6 | 9,885.5 | 10,216.3 | 10,694.1 | 11,056.6 |

* millions
** hundreds of thousands
**Source:** U.S. Egyptian Business Review



According to a State Department source, Egypt's foreign-exchange reserves have dropped by nearly half in the past year.

The source of these problems is Law 43, approved in 1974 by the Egyptian parliament. Law 43 created the unregulated free-trade zones and offshore banking facilities. A U.S. Treasury Department source reports that the law enabled a quickly-growing array of foreign banks in Egypt to operate without any reserve requirements or restrictions on interest rates for lending. The banks, the source said, were making gigantic profits on virtual usury, by borrowing money abroad at one interest rate and then relending in Egypt at a far higher rate. This is one of many aspects of the Open Door policy which has contributed to Egypt's rising rate of inflation, now estimated to be at 30 percent.

### No long-term investment

Of all the billions of dollars that have floated into Egypt through the Open Door, none have been put into long-term investment for basic industrial and agricultural development. These funds have instead been gobbled up in inflationary schemes such as real-estate boondoggles and tourism, with short-term returns the primary goal of investors.

After the 1974 oil price rise, Sadat hoped that billions of new petrodollars would underwrite Egypt's development. This was the intention of the Gulf Organization for the Development of Egypt (GODE). But official Gulf states' financial aid to Egypt was halted with Egypt's signing of the Camp David Treaty. However, private Gulf money continued to flood Egypt, all of it for useless short-term speculative investment, a development which has caused some discord between Cairo and Gulf investors.

Over the past four years, close to 100 hotels and resorts have been built in Egypt, a country which faces a housing shortage conservatively estimated at 750,000 units in 1981. So severe is the overcrowding and housing shortage in Cairo that tens of thousands of homeless vagrants live in the Cairo cemetary which has come to be known as the City of the Dead.

Before 1974 and the Open Door policy, Egypt did not even have a ministry of tourism. Today, that ministry is considered to be one of the most powerful. As an Egyptian diplomatic source recently warned, the spread of resorts, casinos, and hotels is another front for organized crime in Egypt.

### The food weapon

The greatest vulnerability of Egypt today is its growing dependency upon foreign food imports. Over the past decade Egypt's food-producing capability has stagnated, while the nation's food demand continues to climb by approximately 4 percent a year.

The availability of food, notably bread, is probably one of the most delicate issues of Egypt's internal life. The term "bread riot" was coined in Egypt, a nation which throughout its long history has been plagued by such riots in time of economic crises. The eruption of bloody street riots in January 1977 after then-Finance Minister Abdel Moneim Kaissouni announced a cut in state food subsidies attests to the volitility of the issue.

Since 1977, Egypt has been operating on a narrow margin with respect to its food reserves. Because of inadequate storage facilities and a below-standard distribution network Egypt maintains only a seven-day stockpile of staples, primarily wheat. Last year for the first time, the total amount of imported food was over half the total food consumed in the country and this year Egypt is expected to import even more. For 1982 Egypt's wheat production will drop 0.1 million tons to 1.8 million. Its imports will climb from 5.9 to 6.3 million tons.

Food subsidies, amounting to around $2.5 billion a year, are one of the largest expenditures of the state budget. As Mubarak knows, a worsening balance-of-payments crisis could jeopardize Egypt's ability to pay out subsidies. The 1977 riots showed that this is a serious security matter, and hence Mubarak has stood by his decision not to cut food subsidies.

Nonetheless the clique of financiers and bankers advising Mubarak on economic policy is urging Mubarak to immediately cut food subsidies and begin to sell off the state sector. Kaissouni, known as the Talleyrand of Egypt, is part of this anglophilic nexus, as is Mustafa Khalil, and Mubarak's Investment Minister Wagih Shindy. This grouping is associated with the Arab International Bank.

## The debt question

With a balance-of-payments deficit which could climb from $4 billion to $5 billion this year, Mubarak's regime is now struggling to meet necessary budgetary expenditures like subsidies without engaging in more foreign borrowing.

Beginning in July 1982, Egypt will start to come under new financial pressures, as medium-term loans from the Gulf Organization for the Development of Egypt came due. These loans were made to Egypt shortly after the 1977 bread riots, to help resolve a serious cash-flow problem which had arisen from mounting short-term debt servicing. This year's budget allocates about $1.2 billion for debt servicing, more than 55 percent up from debt-service payments last year.

Shortly after taking office as Egypt's new Economics Minister, Mustafa Kamal Saeed told the press: "We have not reached the stage of economic crisis. We are paying all our debts on time." But previews of Egypt's new budget show that the economic team under Prime Minister Fuad Mohiddine is looking for ways to quickly attract the free-floating capital in Egypt into financing the mounting balance-of-payments deficit. In early November Mohiddine announced Egypt's new five-year plan. He stressed that the plan's main purpose is to limit the service sector of the economy and encourage investment in agriculture, energy, industry, and construction. The Mubarak regime is working to encourage increased savings in domestic banks, which will give these banks the reserve base upon which to finance the deficit. The Central Bank is also increasing taxes and customs duties in order to increase state revenues.

In order to make the Open Door policy look good to an Egyptian population which saw its standard of living decline while the rich got richer, Sadat's economic czar Abdul Meguid lied about the state of the economy, presenting a rosy picture of economic growth. When Mubarak assumed power, he promptly ousted the scheming Abdul Meguid and appointed a team of technocrats to assess the actual state of the economy. Mubarak has adopted the policy of telling his people the truth about the economy. One of the first initiatives he took was to form a parliamentary commission to study the viability of the free-trade zones, giving special attention to the Port Said zone, which is said to be a major illegal drug smuggling center. It was discovered that, over and above the massive drug trade, the government was losing millions of dollars in tariffs due to the smuggling of other contraband via these free-trade zones.

**Figure 3**
### Egyptian trade and debt indicators
(in billions of dollars)

| | | |
|---|---|---|
| 1. Total import bill | 1980 | $7.29 |
| | 1981 | 8.58 |
| 2. Total export earnings | 1980 | 3.33 |
| | 1981 | 4.33 |
| 3. Total external debt | | $15.5 |
| 4. Foreign exchange | June 1982 | $1.3 |
| | Sept. 1982 | $0.7 |
| 5. Foreign aid | 1982 | $1.3 |

**Source:** Economist Intelligence Unit, Quarterly Economic Review, Egypt

## The Muslim Brotherhood and the economy

The issue of Egypt's economic ills is being used by the fanatical sects of the pro-Khomeini Muslim Brotherhood which killed Sadat to fuel unrest against Mubarak. Behind these fanatics stands the British-centered neo-colonial circle which backed the Open Door policy. London and the International Monetary Fund hope to catch the Mubarak regime in between the free-enterprise mafia on the one side and the fanatical Brotherhood on the other, to destroy completely the republican form of government established in Egypt by Nasser's 1952 revolution.

The Muslim Brotherhood, which *EIR* has documented to be the creation and tool of British intelligence, has gained its strongest influence among Egypt's youth. It is for this reason that after the killing of Sadat, that Mubarak deployed troops to Egypt's universities.

The vulnerability of the Egyptian youth to Muslim extremism stems from a dangerously high rate of unemployment among youth. It is estimated that Egypt's universities turn out 400,000 to 500,000 graduates a year. But only 20 percent are absorbed into the state sector and a fraction more into the military. The remainder are left no recourse but to leave Egypt if they wish gainful employment. A "brain drain" of educated scientists, engineers, doctors, and other professionals has reached crisis proportions. One of Nasser's highest priorities was building a broad educational system to train skilled and professional workers to run the industrial state he wished to build. But with the decline of Egypt's industrial growth, some of the best brains in the Arab world are now scattered throughout Europe and North America.

Instead of supporting the Cairo government's efforts to expand the industrial base in order to expand employment opportunities, the International Monetary Fund and its allied U.S. Agency for International Development (AID) advocate a Malthusian population reduction plan for Egypt (see interview). These agencies are also pushing for lowering the wage level in Egypt, to spread the free enterprise zone system throughout the economy.

As Figure 2 shows, the rate of Egypt's population growth is increasingly outstripping the rate of growth of the workforce. Not only is the growing mass of unemployed youth potential prey for the Muslim Brotherhood, the peasant and farmer who has left his farm to come to the city are potential victims as well. At present Cairo is estimated to have up to 3 million unhoused and unemployed. The city's ancient infrastructure is stretched to the limit as a result of the overcrowding problem.