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Egypt's Asymmetric Integration in the EU: The Making  
(and Unmaking) of a Neoliberal Borderland?

Roberto Roccu



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Challenging the notion of Fortress Europe, the BORDERLANDS research project investigates relations between the European Union and the states of North Africa and the Mediterranean Middle East (MENA) through the concept of borderlands. This concept emphasises the disaggregation of the triple function of borders demarcating state territory, authority, and national identity inherent in the Westphalian model of statehood. The project explores the complex and differentiated process by which the EU extends its unbundled functional and legal borders and exports its rules and practices to MENA states, thereby transforming that area into borderlands. They are connected to the European core through various border regimes, governance patterns, and the selective outsourcing of some EU border control duties.

The overarching questions informing this research is whether, first, the borderland policies of the EU, described by some as a neo-medieval empire, is a functional consequence of the specific integration model pursued inside the EU, a matter of foreign policy choice or a local manifestation of a broader global phenomenon. Second, the project addresses the political and socio-economic implications of these processes for the 'borderlands', along with the questions of power dynamics and complex interdependence in EU-MENA relations.

Funded by the European Research Council (ERC) within the 7th Framework Programme, the BORDERLANDS project is hosted at the Robert Schuman Centre, European University Institute, and directed by Prof Raffaella A. Del Sarto.

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## **Abstract**

There is little doubt that the EU has played a key role within the wider constellation of forces pushing several Arab Mediterranean countries on the path of economic reform since the late 1980s. This is particularly clear in the case of Egypt, where the EU has been able to differentiate itself from international financial institutions and main donors in two crucial respects. On the one hand, it has proposed integration through a gradualist approach to economic reforms. On the other hand, within the wider process of multiscalar restructuring, the EU has tried to entrench its own model of integration through re-regulation in its periphery, promoting EU standards in several key areas ranging from agriculture to banking to telecoms.

Following from these processes, Egypt has been asymmetrically integrated in the EU's economic 'sphere of influence', a process which in turn has contributed to three fundamental forms of differential integration within Egypt. One is most obvious and has a sectorial nature, with some parts of the Egyptian economy highly integrated with, and others effectively prevented access to, the EU market. The second form of differential integration is socioeconomic, and has seen outward-oriented sections of the Egyptian elite capturing most benefits of integration, with the wider population shouldering most of its costs. Lastly, differential integration has also had a political dimension, as increased access to the Egyptian economy has heightened the stability bias in Brussels, as well as the reliance on Mubarak's ruling elite before the revolution, thereby strengthening the marginalisation of opposition groups, both secular and Islamist, and in turn their resentment towards the EU.

While the sectorial dimension of differential integration was clearly part and parcel of the EU's project, the socioeconomic and political dimensions, though arguably unintended, have made the Egyptian public and its elites in the post-Mubarak era much less receptive to the incentives offered from Brussels. This is suggested both by the preference Morsi demonstrated for doing business with Turkey and Qatar, and by Sisi's decision to deepen economic ties with Saudi Arabia and Kuwait rather than the EU.

## **Keywords**

EU-Egypt relations; ENP; economic integration; borderland; neoliberal restructuring



## Introduction\*

The literature on European Union (EU)'s approach towards its Arab Mediterranean neighbours often focuses on the tensions and contradictions between promoting democracy and preserving stability in the region (Pace et al. 2009; Cavatorta and Pace 2010). The role of the economic pillar, in which the EU claims with some reason to have been much more successful, has not received nearly as much treatment.<sup>1</sup> This is partly because most politics and IR scholars have come to accept the economic as an autonomous sphere of social action from the political, to which both security and democracy belong. But, perhaps more importantly, this is also related to the fact that the EU is usually considered as promoting economic reforms which follow very much in the footsteps of the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO). In this respect, there is little doubt that the EU has played an important role in pushing several Arab Mediterranean countries on the path of economic restructuring. There is also little doubt that the form of restructuring promoted is a neoliberal one. At the same time, given the large constellation of forces – public and private, local, regional and global – these reforms in the developing world, as well as the degree of inevitability which this form of integration has taken in the globalisation discourse (Hay 2002), the EU's contribution in this direction is often neglected because of the problems in disaggregating its impact from that of other external actors and factors.

This paper disagrees with this view, and it takes the EU-Egypt relations as a case study to test the potential of a scalar-relational approach in shedding light on both sides of this process (Macartney and Shields 2011). On the one hand, an approach sensitive to the multiscale nature of restructuring promises to grasp the contribution of EU's economic reform promotion to the broader neoliberal restructuring of the Egyptian economy. On the other hand, as it allows for the relative autonomy of different scales, a scalar-relational approach can also highlight the key elements that differentiate the EU from other external actors pushing for structural reforms in the Egyptian economy. Indeed, this distinctiveness might also provide the EU with the possibility of partially incorporating Egypt as an economic borderland (Del Sarto 2010), thus also serving an aim *vis-à-vis* other major powers with strong interests in the region.

The argument for a scalar-relational approach to the process of multiscale restructuring that has taken place globally since the 1980s is at the heart of the first section. While this shows the EU's alignment with this broad goal, it also identifies its main specificities. Two of them are particularly relevant in the context of this paper: gradualism instead of 'shock therapy' structural adjustment, and re-regulation via institutional reform as the preferred route towards market creation and consolidation. The second section shows how these specificities are key in structuring the way in which the EU's economic space only partially incorporates Egypt, making it a borderland. This is illustrated with reference to EU's promotion of its gradualist approach to reform based on re-regulation in the three key domains in which the EU has been heavily involved, particularly under the auspices of the European Neighbourhood Policy (ENP): the imposition of strict sanitary and phytosanitary (SPS) measures for Egyptian agricultural exports, the reform of the Central Bank of Egypt (CBE), and the regulation of the newly created telecoms markets through the National Telecommunications Regulatory Authority (NTRA). The third section looks at how asymmetric integration with the EU and the global economy produced three dimensions of differential integration within Egypt: sectorial,

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<sup>1</sup> For a notable exception, see Holden (2010).

socioeconomic, and political. While these are only partly related to Egypt's unstable position as an EU borderland, it is argued here that the EU certainly contributed to differential integration within Egypt, and that this helps explain the latter's relative distancing from the EU itself in the post-Mubarak era. In light of these considerations, the final section discusses whether this backlash and the increasing role of Gulf capital in Egypt signal the disincorporation of Egypt from the EU, and thus whether the little material clout currently exerted by the latter, despite the persisting overlap in regulatory regimes, renders the label of EU borderland an inappropriate one.

### **The EU's place in global economic restructuring: scale matters**

The process of global economic restructuring, and its political implications, have for long been at the heart of much literature in the field of International Political Economy (IPE). In both its mainstream and critical strands, there is a nearly universal consensus that sees the rise of neoliberalism, and the attendant economic reforms needed for its success, as the reaction to the global slowdown of the early 1970s and the ensuing stagflation, which pointed towards the relentless erosion of the 'embedded liberal' compromise underpinning the Bretton Woods regime (Blyth 2003; Harvey 2005). However, following the dismantling of barriers to both trade and capital movements, restructuring along neoliberal lines has hardly produced the flattening of the economic space suggested by some of its advocates (Ohmae 1991; Friedman 2005). Rather, integration has hardly been uniform both between and within countries, and if anything it has further demonstrated the unevenness of capitalist development, rather than its supposed equalising effects. This is obviously also related to the persisting role of political authorities, located on different scales, which has produced the fragmentation of this global process of restructuring, at the same time articulating it with local specificities, thus bringing about several variations of the neoliberal template (Cerny 2004; Macartney 2010; Jessop 2014).

If unevenness and differentiation remain the rule also, and especially, in times of neoliberal restructuring, then it becomes all the more important to develop an approach that adequately accounts for the interaction of different spatial scales. Following developments in human geography, Macartney and Shields propose a scalar-relational approach which eminently focuses on the process of scaling (2011), defined as 'the production, reconfiguration and contestation of particular differentiations, orderings and hierarchies among scales' (Brenner 2001: 600). According to Jessop (2007: 105), 'scale comprises the nested (and sometimes not so nested) hierarchy of bounded spaces of different size: for example, local, regional, continental and global'. In light of the intimate relation between scales implied by conceiving them as 'nested', this approach appears better suited to account for today's highly interconnected world than the silos approach adopted in the levels-of-analysis tradition. In addition to this, the relational side of the process of scaling allows to retain some degree of agency in each of the scales, eschewing structural determinism. Thus, according to a scalar-relational approach, economic processes such as trade liberalisation are inevitably fragmented but nonetheless present. For instance, the WTO would be setting the broad parameters within which such liberalisation occurs in its member states, but its specificities are defined locally, and are simultaneously influenced by other actors acting transnationally or regionally. Through this approach it is thus possible to account both for the general coherence of the process of neoliberal restructuring and for the competitive dynamics that it engenders.

In the context of the EU-Egypt relations, the move towards a scalar-relational approach appears promising for three reasons. Firstly, as just mentioned, it provides the possibility of taking into adequate account the ways in which tendentially global processes are articulated, refracted, resisted and also contested on different spatial scales. Such an approach thus allows us to consider the specificities of both the EU's approach to economic restructuring in its periphery as well as the implementation of reforms in these partner countries. Secondly, as highlighted in the quotation above, the relational dimension of the approach also applies to how spaces and scales are configured and reconfigured, and are thus not to be taken as fixed containers but as themselves the product of

interactions. This puts us in a position to assess whether, and to what extent, the EU's promotion of economic reforms in Egypt can be seen as a way of turning Egypt into an EU borderland. Lastly, within a scalar-relational approach, spaces and frontiers are not simply redrawn as the result of the operation of an allegedly apolitical economic logic, but are instead constituted by and through power relations. In the words of Macartney and Shields (2011: 38), '[s]pace and scale are neither ontologically given nor politically or discursively neutral; space and scale embody power relations'. This is an element that is often neglected in the constructivist literature on the diffusion of norms and policies, and on a regional scale in the Europeanisation literature.

Understood in these terms, a scalar-relational approach should steer us away from two opposite risks that are visible in the extant literature. On the one hand, as mentioned above, much literature on integration assumes that the dissolution of barriers would lead to a homogeneous economic space, where resources can be allocated efficiently. Beyond the *prima facie* objection that here by resources one means the many forms of capital, while labour is to be regulated through ever tighter migratory policies, this is a process that is at best tendential, and thus provides us with a teleological end point rather than with a useful framework for analysis. Focusing on how the creation of specific spaces for the easier and more profitable circulation of capital, such as export-processing (EPZs) and special economic zones (SEZs), is itself a process that requires differentiation rather than homogeneity, and on how the creation of borderlands is a competitive process heavily shaped by power relations, is a much more realistic starting point for understanding the forms in which economic restructuring has occurred in different times and locales. On the other hand, the opposite risk lies in suggesting that the persistence of differences across borders signals the failure of integration. This is an argument that is often advanced with reference to the Middle East, with the region lagging dramatically behind in most key indicators of integration such as share of global FDI stock and flows and role in global production networks (Talani 2014). At the same time, the inability to attract global investments does not necessarily stem from a lack of measures favouring integration.<sup>2</sup> Indeed, scholars increasingly agree that neoliberal restructuring has affected most Middle Eastern countries, either through conditionality imposed by international financial institutions and donors, or through policies carried out by the local ruling elite (Guazzone and Pioppi 2009). A scalar-relational approach should thus put us in the position to avoid indulging in the profoundly misleading 'regional narcissism' denounced by Fred Halliday already a decade ago (2005), allowing us to grasp the dimensions on which economic restructuring has occurred, and how and to what extent the EU contributed to it.

Through a scalar-relational approach it is possible to grasp the specific forms in which the EU has promoted economic restructuring both within its member countries and in its neighbourhood, as well as the overlap with the actions of other international institutions and donors. We can thus identify the EU's role within a larger trend of multiscale restructuring, while highlighting its peculiarities. Two of them are particularly important. Firstly, compared to the IMF and the World Bank, the EU has historically relied on an approach to economic restructuring characterised by *gradualism*. This can perhaps be understood in light of the social crisis in which the 'shock therapy' strategy had plunged most Central and Eastern European countries already earmarked for EU accession (Kolodko 2000). This might have led policy-makers in Brussels towards what was considered a more realistic and socially sustainable approach to economic reforms. This had already been tested with respect to the direction towards which member states had been steered since the Single European Act, and even more so following the implementation of the Maastricht Treaty (Ryner 1998). Through the setting of criteria and benchmarks, the EU has created the conditions for a gradual harmonisation of laws and regulations in most economic spheres (Falkner et al. 2005). A similarly staggered approach, with the

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<sup>2</sup> Rather, relevant literature in development economics has for instance discussed issues such as first-mover advantage and third-party effect (Cornia 2003), which lead latecomers to the process of economic integration to see the conditions of their own economy deteriorate further because of the failure of domestic firms to keep up with international competition in the local market, as well as their inability to penetrate into foreign markets, already saturated by cheap products from developing countries that integrated earlier.

periodic monitoring and evaluation of progress in different areas, and with heavy reliance on conditionality, has been applied both to candidate countries and to ENP partners, firstly through Association Agreements (AA) and then through Action Plans (AP) (Tulmets 2006).

Secondly, the EU's promotion of economic restructuring, both within and without, has taken much more the form of *re-regulation* rather than deregulation (Majone 1996; Menz 2003). This approach implies a much larger role played by institutions not only in monitoring markets, but to a large extent in shaping them. Such an approach has recently been cast as an extension of the highly successful ordoliberal model underpinning the German social market economy to the whole EU (Bonefeld 2012). The ordoliberal tradition is founded on the assumption that the market order is inherently fragile, and in need of a strong political authority for both fostering and protecting the market. This relation whereby a strong state is able to shield and guarantee a free market can then also produce socially desirable outcomes, as in the German case (Ryner 2003). While this ordoliberal influence has become much more apparent in the wake of the Eurozone crisis, it is possible to see the re-regulatory drive taking hold within member states since the late 1980s as a milder form of the same process (Gerber 1998). Interestingly, the attitude towards reform promotion in neighbouring countries, both primed for accession and not, appears to follow a similar pattern. In the Egyptian case, this is reflected in the implicit division of labour between international financial institutions (IFIs), and more recently the World Bank, and the European Union, with the former focusing on sectorial reform and the latter more heavily involved in institutional matters, such as for instance the regulation of banking and telecoms sectors.<sup>3</sup>

In sum, the EU's involvement in promoting economic restructuring in its periphery is selective, characterised by gradualism, and with an emphasis on re-regulation via institutional reform rather than deregulation *tout court*. It is not difficult to see how these specificities in the EU approach, particularly once articulated with reforms supported by other international organisations and donors, carry a significant potential for asymmetries in two different directions. Firstly, the EU's support in market creation through re-regulation means, as we will see in the next section, that the regulations promoted are akin to the ones already in place within the EU. In an increasingly global economy driven by the imperatives of competitiveness, such an approach allows the EU to establish and entrench an advantage against other powers with economic interests in the region. More specifically, it is also meant to facilitate the ability for EU-based companies to invest in countries that are not part of the EU, but whose regulatory framework increasingly looks like the one these companies face at home. This might well be construed as the attempt to establish an economic borderland. Here, it is important to distinguish between a more specific and a broader definition of processes of borderland-making, as presented by Del Sarto (2010). The former entails 'the gradual expansion of overlapping regimes and functional boundaries' (ibid: 165), with some of the functions being 'outsourced' to neighbouring countries. In the more comprehensive definition, the making of a borderland instead 'connects the periphery, in differentiated ways, with the European core as the former absorbs EU rules and legal frameworks' (ibid: 151). The discussion of EU-Egyptian economic relations presented here contributes more to this broader understanding of borderland than to the more specific one.

Secondly, the limited extent of the economic reforms directly supported by the EU risks producing a very lopsided integration of the economies of neighbouring countries. For this reason, in its empirical section this paper frames this following Halliday's concept of 'differential integration' (2002), which provides a way of adopting a scalar-relational approach even with respect to which specific areas, sectors and social groups have been more successfully integrated, and which ones less, through this decade-long process of making Egypt an EU borderland. The suggestion here is that understanding these asymmetries might provide a key for understanding to what degree this process might be a reversible one.

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<sup>3</sup> In this respect, and following Ryner (2015: 281), ordoliberalism is conceived here as 'a particular variant of neoliberalism'.

Indeed, the selection of Egypt as the case study for this paper is partly motivated by the unique combination of a changed conjuncture both on the national and regional scale, with revolution and quick succession of regimes in the former, and sovereign debt crisis in the Eurozone hampering EU power projection in the latter. This twin instability, combined with Egypt's sheer size as the largest Arab country, has created a window of opportunity for other regional powers. In this respect, Egypt's position as an essentially *contested borderland* opens up the opportunity for exploring not only its partial incorporation within the EU, but also its relative disincorporation from it, as well as the pressures towards integration with the Gulf region currently exerted by Saudi Arabia and Kuwait most notably.

### **Turning Egypt into an EU borderland? Evidence from economic reforms**

After sustained engagement in reforms under the IMF-led Economic Reform and Structural Adjustment Program (ERSAP), Egypt appeared to be significantly less interested in strengthening its ties with the EU, which in turn – after the launch of the Euro-Mediterranean Partnership (EMP) – had moved towards making conditionality a binding element in the new round of association agreements. Perhaps also for this reason Egypt signed his AA only in 2001, with its entry into force delayed until 2004. It took a sizeable change in political personnel, with the rise of the self-styled 'reformist' wing in the ruling National Democratic Party (NDP) and the appointment of the Nazif cabinet in 2004, to render the Egyptian government significantly more receptive to the incentives offered by the EU. While not legally binding, the AP concluded under the ENP created the foundations for deepening EU-Egypt economic relations, which would now include a much larger number of sectors.

In order to address the Egyptian case, it is essential to recast some of the specificities of the EU's promotion of economic reforms in its neighbourhood. More specifically, a clarification is needed with respect to gradualism. Despite the aim to produce wide-ranging structural reforms through ERSAP, the IMF's approach to reforms in Egypt has *de facto* been far more gradual than in most other developing countries engaged in structural adjustment programmes in the late 1980s and 1990s (Momani 2005). The reason for this has largely been found in Egypt's strategic relevance for the West, in both economic and geopolitical terms, which has pushed IFIs to turn a blind eye to the limited progress in achieving structural reforms (Amin 1995). However, this should not be read as a prolongation of the politics of dilatory reform typical of the 1980s (Richards 1991). Indeed, in the two decades between the 1987 IMF agreement and the global financial crisis, the Egyptian economy had been thoroughly transformed along neoliberal lines, even though Washington Consensus principles were articulated with persisting crony relations between government and private sector. When measured in terms of policy outcomes, it is difficult to maintain that the Egyptian economy has not been thoroughly neoliberalised: both current and capital account were liberalised (Ikram 2006); the dual exchange rate had been eliminated and the Egyptian pound had now reached a competitive rate that could boost exports (Economist Intelligence Unit 2003); privatisations had reduced the direct presence of the state in the productive sector, touching in the mid-2000s previously off-limits sectors such as banks and oil refineries (Richter 2006); tax reforms led to the implementation of a general sales tax and a combination of tax breaks and lower corporate tax for businesses (Soliman 2011). While fiscal discipline on the part of the government had been intermittent at best, and subsidies still weighed heavily on the state budget (Ikram 2006), most other indicators suggested that Egypt had clearly moved in a neoliberal direction.

Regardless of these results, if gradualism was also common to other international donors, the dimension of temporal asymmetry between reforms demanded and actual provision of market access still characterises the EU's promotion of economic restructuring in Egypt. However, the main criterion for the division of labour between the EU and other main institutions and donors is to be found in the

second element outlined earlier: re-regulation via institutional reform.<sup>4</sup> For this reason, this section focuses on three sectors in which the EU played a major role exactly in setting new frameworks for regulating specific products and markets: the implementation of much stricter SPS measures in agriculture, CBE reform in the banking sector, and the regulation of the fast-developing telecom sector.<sup>5</sup>

*Agriculture.* The case of market access for Egyptian agricultural products, and the emphasis laid by the EU on safety and quality standards, provides an ideal illustration of the workings of gradualism. Interestingly enough, following the AA signed in 2001, the EU dismantled its tariffs for agricultural products at a much faster pace than the Egyptian government. This was presented as a sign of the EU's willingness to give its partner countries the opportunity to adapt to free trade in agriculture, while providing them easier access to the vast EU market. However, contrary to what labour costs and comparative advantage would suggest, Egypt did not experience any significant increase in its agricultural exports to the EU market (Kourtellis 2014). The explanation for this is twofold. On the one hand, the EU decided to keep tariffs on about sixty agricultural items (Colombo and Tocci 2012). On the other hand, non-tariff barriers (NTBs) on the EU side constituted a major hurdle for Egyptian producers. More specifically, following the 1995 WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures, the EU had moved towards implementing stringent quality and safety controls, which it demanded foreign agricultural producers to respect for their products to enter the EU market. As a consequence of this, while agricultural produce from EU countries was by definition good enough to be sold on the Egyptian market, most Egyptian producers would not be able to export to the EU as they failed to acquire the SPS certifications expected by the EU (Kourtellis 2014).

The AP set upon itself the task of dealing with NTBs, with the aim of offering a larger stake of the EU common market to Egyptian agricultural products. While efforts to establish a national food safety authority have so far failed to yield significant results, the EU has managed to gain some autonomy from the WTO with respect to the implementation of SPS measures, persuading the Egyptian regulator not simply to comply with WTO regulations, but rather to comply by harmonising its own SPS controls with the ones carried out in the EU. There is a vast literature discussing the detrimental effects on trade of SPS-related regulations for developing countries, particularly in light of their cost-raising and supply-discriminating effects (Sykes 1995; Henson and Loader 2001).

The promotion of more stringent SPS controls, and thus of higher quality and safety standards, was presented to Egypt, as well as to other Mediterranean partner countries, as a potential engine of GDP growth. The growth of Egypt's agricultural exports to the EU by an average 4.5% a year between 2009 and 2013 appears to validate this prediction (European Commission 2014). What these aggregate figures fail to show is that only few Egyptian companies have had the resources to comply with EU regulations, and thus the benefits of growing exports are highly concentrated towards the largest agricultural companies. Developments in this sector following the Arab uprisings suggest that the EU does not consider this skewed distribution of costs and benefits a major issue, and indeed the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) appears to offer more of the same, with first reports suggesting an intensification in the implementation of SPS controls, thus further raising export costs out of the reach of small and medium agricultural enterprises (Kourtellis 2014).

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<sup>4</sup> This point was particularly well put by Sahar Nasr, then senior financial economist for the World Bank in the Middle East and North Africa, in an interview she gave me in one of my first visits to Egypt (Cairo, 20 June 2010). She suggested that the EU was 'doing what it does best': creating regulatory and institutional capacity.

<sup>5</sup> Whilst of great importance, particularly in the light of the historical state presence in the sector, the manufacturing sector is not taken into account in this paper. This is because the effects of trade and price liberalisation on the industrial production are difficult to attribute to any specific international organisation promoting these measures. What is commonly accepted is that these reforms have produced a widespread de-industrialisation (Abdel-Khalek 2001).

*Banking.* Even more than SPS measures in agriculture, regulatory reforms in the banking sector allows us to assess how the EU manages to gain some degree of autonomy within a common template, in this case provided by Basel II regulations. This room to manoeuvre has been granted to the EU, with the direct involvement of the European Central Bank (ECB), with a mandate to steer and supervise the re-regulation of the Egyptian banking sector through CBE reform.

EU support of central bank reform was inserted in a much broader canvas of financial sector reforms, led by the World Bank through the extension of three Financial Sector Development Policy Loans amounting to \$1.5 billion between 2006 and 2010 (World Bank 2010). These loans followed the successful efforts by Mahmoud Mohieldin, finance minister since 2004 under the Nazif cabinet, to take decisive action towards altering substantially the ownership structure of the Egyptian banking sector. This meant incentivising consolidation on the one hand, and on the other hand downsizing significantly public ownership. By the end of 2006, 94% of state-owned shares in banks had been divested (World Bank 2006: 11, ft. 10). These measures were deemed essential towards increasing foreign ownership in the Egyptian banking sector, and indeed opened the way for the privatisation of one of the 'big four' public sector banks, Bank of Alexandria, in the hands of Intesa-San Paolo, which in 2006 acquired 80% of the bank's equity (Economist Intelligence Unit 2006).

Within these general transformations of the Egyptian banking sector, the EU was tasked with supporting the CBE towards being in a position to implement Basel II regulations by 2011. In this direction, the ECB carried out two EU-funded projects, with support from the central banks of seven EU member states.<sup>6</sup> The first project (MEDA I, 2006-08) focused nearly exclusively on capacity-building missions. The second (MEDA II, 2009-11) supported the CBE in developing an appropriate regulatory framework to ensure compliance of the Egyptian banking sector with Basel II regulation (European Central Bank 2008). The main challenge in this respect was identified in shifting from a compliance-based to a risk-based regulatory regime.<sup>7</sup> While this seems a highly technical and politically neutral move, it represents the EU's main contribution to entrenching capital account openness as a *sine qua non* in the Egyptian financial sector, creating an environment within which high volatility of capital flows is effectively naturalised. Egyptian banks can only react to this state of affairs by meeting specific capital adequacy and leverage ratios, with the possibility of capital controls disappearing on the horizon (Roccu 2012).

As in the case of SPS controls, the international body established the end result, leaving up to the national regulator the route by which requirements would be met.<sup>8</sup> It is in this space that the EU has managed to maximise its own influence exactly by shaping the path along which the CBE would move towards Basel II compliance. Another aspect that obviously factored into the EU's considerations was the attempt of creating a regulatory environment in which EU-based banks would feel comfortable in investing and operating. While this was construed as a long-term objective, particularly in the light of the strong presence of Gulf-based banks since the 1970s (Ikram 2006), this aim is indicative of the EU's intention of drawing the Egyptian banking sector closer to its own through the increased harmonisation of its regulatory regime. The expansion of the circulation of EU-based capital beyond its legal boundaries, with its regulation delegated to Egyptian authorities, still broadly along EU standards, might well be understood as a process of borderland-making.

*Telecom.* The EU's actions in the newly created telecom sector were more clearly oriented towards locking-in the presence of EU-based companies *vis-à-vis* other potential foreign investors. Despite its relatively negligible size, the telecom sector is an interesting case study for three main reasons. Firstly,

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<sup>6</sup> The central banks selected represented a mix of older and newer EU members, highly and less developed: Bulgaria, Czech Republic, France, Germany, Greece, Italy and Romania.

<sup>7</sup> Interview with Hervé Leclerc, ECB Resident Programme Coordinator, Cairo, 23 June 2010.

<sup>8</sup> In the case of Basel II, the room for domestic manoeuvre was spelled out in the so-called 'national discretions' (Central Bank of Egypt 2009).

being effectively created anew in the mid-1990s, it provides the opportunity of seeing how the EU influenced the set-up of a relatively pristine economic sector. Secondly, policy-making in telecom has usually had a low degree of politicisation, and given the high degree of advancement of telecommunications technologies in Europe, this seems an ideal sector for the EU to maximise the influence deriving from its soft power. Thirdly, this is a sector in which there is no overarching international organisation setting benchmarks to be met, and this leaves much more scope for autonomous action. Unsurprisingly, even in this case the EU's efforts were focused on assisting the Egyptian government in the creation of a regulatory framework under the NTRA.

Since the turn of the century, the EU has been engaging national telecom regulators in the MENA region through the three phases of the New Approach to Telecommunications Policy (NATP) programme. The aim of the project is to assist regulatory authorities in the various phases of liberalisation of their telecom market, particularly in the field of the policies, institutes and tools for regulation, with the long-term objective of increasing convergence between the regulatory approach of the participating countries and the EU. This process was enhanced by the signing of twinning programmes, with officials from member countries' telecom regulators spending time at NTRA and with Egyptian officials doing the same in EU member states (Frontier Economics 2007). The NTRA itself appears to share the goal of harmonisation, stating that institutional twinning enhances its 'capacity as telecom regulator through legislative approximation with EU Regulatory bodies and through the application of EU best practices that is [*sic*] best suited to the Egyptian context'. This decision of taking EU regulators as the benchmark for measuring regulatory progress in Egypt was justified with reference to the fact that 'a large number of European countries went through similar experiences of having to deal with liberalizing telecom sectors dominated by monopolies without endangering the social aspects of compromising consumer concerns'.<sup>9</sup> In a more prosaic form, the EU delegation official following telecom regulatory cooperation claimed that the EU's goal was 'to attract as much EU investment in the sector as possible', to the point of suggesting that ideally he would want NTRA to 'copy and paste' EU regulation, so as to provide a business environment as close as possible to the one the EU-based telecom giants face at home.<sup>10</sup> The strong presence of Orange and Vodafone, respectively within MobiNil and Vodafone Egypt, in the booming Egyptian mobile market was presented as evidence of how EU-based companies feel increasingly comfortable investing in the Egyptian telecom market.

The EU has managed to significantly shape regulations in all these three sectors, effectively shaping a regulatory environment much closer to its own than it might have been otherwise. In the economic realm, the Egyptian government is not asked to implement much on behalf of the EU, as it happens for instance with migratory regimes, where the EU is 'in fact expanding its variable border geometry to its immediate periphery' (Del Sarto 2010: 150). However, what we have outlined is undoubtedly a process that 'enables the EU to permeate its periphery in a differentiated manner, exert control over the latter, and advance the economic and political interests of the Union and its member states' (Ibid.: 165). It is thus not inaccurate to see this limited incorporation of the Egyptian economy as an attempt to establish an EU borderland on the southern shores of the Mediterranean.

A scalar-relational approach would suggest two qualifications that might to a degree question the success of this process of borderland-making. On the one hand, this process of harmonisation is far from uniform, and indeed we have seen how only in the telecoms sector the EU really had its hands entirely untied in trying to bring Egyptian regulation closer to its own. In agriculture and banking, WTO and Basel II regulations respectively narrowed the scope of EU's influence. Given the strong emphasis on liberalisation, of trade and capital account respectively, at the heart of WTO and Basel II regulations, one could thus suggest that the attempt of turning Egypt into an economic borderland is

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<sup>9</sup> Both quotes from: [http://www.tra.gov.eg/english/DPages\\_DPagesDetails.asp?ID=144&Menu=7](http://www.tra.gov.eg/english/DPages_DPagesDetails.asp?ID=144&Menu=7) (first access 16 January 2015).

<sup>10</sup> Interview with the Deputy Head of the Environment and Technology Section, EU Delegation in Egypt, 15 June 2010.

limited by the open nature of the international economic system, which thus creates the scope for newly created borderlands to be contested, and potentially also deconstructed and reconstructed in different directions. On the other hand, but related to the point just made, one must avoid conflating regulatory harmonisation with the material effects this has in terms of serving the interests of the EU, its members states and/or some of their companies. In this respect too there is a degree of variation that must be taken into account. For instance, SPS controls as a sophisticated NTB have certainly hampered the ability of Egyptian farmers to gain real access to the EU market, allowing EU-based producers to protect their own position. Similarly, NTRA regulations protect the position that Vodafone and Orange have gained in the Egyptian mobile market. However, the same discourse does not apply to banking, which is to this day still dominated by the remaining public sector banks and by Gulf banks, with HSBC, Barclays and Intesa San Paolo among the few EU-based banks entering the market successfully. This element can be understood as a clash between two processes of region-making, one led by the EU and the other by Gulf capital and the monarchies representing it (Hanieh 2011).

These qualifications only add weight to the argument made earlier that the integration of the Egyptian with the EU economy one is a highly partial and asymmetric one. Partly because of this very partiality and asymmetry, it was also significantly more fragile than EU officials and representatives were inclined to think. The 2011 revolution and its long aftermath have exposed the two most important dimensions of this fragility. On the one hand, asymmetric integration with the EU economy contributed significantly to Egypt's asymmetric integration in the world economy. In turn, this is essential for understanding the dimensions of differential integration *within* Egypt. On the other hand, the reaction of other regional powers to the revolution itself, and the change in attitude of successive Egyptian regimes towards the EU, have also pointed towards the potential reversibility of Egypt's position as an EU borderland. It is on these elements that we turn our attention in the next two sections.

### **From asymmetric integration between to differential integration within**

Three dimensions of differential integration within Egypt are of particular relevance here, as they are essential for understanding both the destabilising potential of asymmetric integration between economies and the setback experienced by the EU in the preferences of Egyptian regimes post-Mubarak. Firstly, in sectorial terms, Egypt's real economy was more integrated than its financial sector. Secondly, in socioeconomic terms, outward-oriented sections of the Egyptian elite captured most of the benefits of integration, while its costs were shouldered particularly by middle- and low-income Egyptians. Lastly, in political terms, the interconnections resulting from integration, however partial, had increased the EU's reliance on the incumbent regime, seen as the domestic driver of that integration, to the expense of increasingly marginalised opposition groups.

A caveat is in order here. While the political dimension of differential integration, with its attendant stability bias, was a more general problem affecting Western elites and IOs alike, it is still possible to evaluate the EU's role in its right. On the other two dimensions, there are no intentions of claiming that the EU *caused* differential integration, or even that it was its main architect. Such argument would be difficult to substantiate in the light of available evidence. It is nonetheless possible to advance a less daring argument, and suggest that the EU *contributed* to these different dimensions of differential integration. This is one of the advantages of the scalar-relational approach proposed here, which brings to light the relative autonomy enjoyed by the EU when promoting specific economic reforms in Egypt, showing both its degree of differentiation from other IOs and donors, on which we have hitherto focused, and its contribution to the broader project of neoliberal restructuring.<sup>11</sup>

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<sup>11</sup> It is clear that the flipside of such radically relational approach is a degree of indeterminacy with respect to theoretical predictions. However, this tension can be teased out by looking at developments on the ground on a case-by-case basis.

It is difficult to contend that the EU's contribution to the sectorial dimension of differential integration was an unintended one. Unless one is clouded by lofty considerations on 'normative power', it is only to be expected that a strong international actor would push for integration in sectors where it has to benefit from market access, while it will try to slow down or prevent altogether integration in those markets in which protection is in its own interest, as discussed above. An aspect which instead we have not touched upon yet, as it can be seen only by looking at Egypt's integration in the global economy, is that external factors, in the form of greater penetration of foreign capital but also of greater competition from foreign goods, have affected much more the real economy compared to the financial sector. Successive trade and price liberalisations and privatisations significantly limited the ways in which the government could affect manufacturing, while some of the tools still available would often have an opposite effect to the one intended.<sup>12</sup> As a consequence, Egyptians working in agriculture and manufacturing found themselves exposed to the volatility of global markets much more than investors in the booming but still relatively underdeveloped financial sector. This point is further witnessed by the resilience demonstrated by the Egyptian financial sector in the wake of the global financial crisis,<sup>13</sup> while the same cannot be said with respect to the effects of the global food crisis and the great recession.

The socioeconomic dimension of differential integration is arguably the most important for understanding the upheavals leading to Mubarak's overthrow. The neoliberal turn, particularly in the articulations promoted by the rising predatory oligarchy, produced a constant increase in economic inequality, and at a much accelerated pace since 2004 (Amin 2011). Such inequality was largely produced by the uneven distribution of the benefits and costs of reforms. On the one hand, the group of businessmen-cum-politicians around Gamal Mubarak were the embodiment of the new partnership between large domestic and foreign capital. On the other hand, the success of this partnership largely occurred at the expense of small and medium enterprises, leading to the pauperisation of the middle class, the decline in living standards for industrial workers and peasants, and the further swelling of the ranks of the urban informal proletariat (Roccu 2013). The EU certainly played a part in this process. In agriculture, for instance, the combination of state withdrawal and ever more expensive certifications for exporting to the EU constituted a threshold that effectively ruled out the vast majority of farmers, as '[t]hese costs could only be tolerated by large-scale farmers, who not only had the funds to apply the standards, but [have] also created networks or their own packing houses to export to the EU' (Kourtelis 2014: 194). Thus, the EU has certainly contributed to reinforce the dual nature of the Egyptian agricultural sector, with the sector being increasingly dominated by a small number of export-led companies, while the majority of producers have become engaged in what appears more like subsistence farming (Bush 2007). In the financial sector, the most acute problems were presented by limited access to finance,<sup>14</sup> which had a lot more to do with World Bank-funded financial sector reforms than with the EU support in implementing Basel II regulations. The overall outcome of these processes was increasing real and perceived inequality, which in fact accounts for two of the three key terms in the now famed revolutionary slogan 'bread, freedom, and social justice'.

The political dimension of differential integration saw the EU taking increasingly diverging positions *vis-à-vis* the key Egyptian political actors, increasingly integrating the incumbent political and economic elite while accepting its crackdown on major oppositional forces (Youngs 2014). Through this process, the EU was becoming increasingly tied to a political and economic elite that was held in high regard by the international community because of its reform efforts, while being increasingly despised at home because of the outcomes of those very reforms. This in turn had alienated to the EU the sympathies of opposition groups, particularly of Islamist orientation, as it kept

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<sup>12</sup> Cook's discussion of the role of subsidies in the bread shortages of May 2008 is exemplary in this respect (2012: 177-8).

<sup>13</sup> Interview with Mahmoud Mohieldin, then minister of investment, Cairo, 10 July 2010.

<sup>14</sup> In 2006, for instance, about 51% of total credit extended to the private sector went to 0.19% of clients (World Bank 2008: 26). According to Osman (2010: 115-6), thirty corporations accounted for 40% of the country's credit supply.

supporting a deeply authoritarian regime because it was following friendly economic and foreign policies (Pinfari 2013). The ambivalence of the EU's immediate reactions to widespread demonstrations was unlikely to win back any support from the protesting masses (Driss 2012), and in fact created an atmosphere that made it difficult for post-Mubarak regimes to engage with the EU in as open and collaborative a way as it had happened in the final years of the previous regime.

### **Beware what you push for: an inevitable backlash?**

While the sectorial dimension of differential integration was clearly part and parcel of the EU's project of limited integration, the socioeconomic and political dimensions, while possibly unintended, made the Egyptian public and its new governments much less receptive to the incentives offered from Brussels. The contribution of both intended and unintended forms of asymmetric integration to limiting the EU's impact in Egypt is at the heart of this section, which also looks at how other regional powers, notably Turkey and Qatar under Morsi, and Saudi Arabia and Kuwait under Sisi, have tried to increase their own influence exploiting the instability following the revolution. The discussion of these two elements should allow us to assess to what extent recent developments have undone Egypt's position as an EU borderland.

The sectorial dimension of differential integration has been constructed as a new form of exploitation in both neo-Nasserist and Islamist circles. This should not come too much as a surprise, given that despite the neoliberal turn, the language of economic nationalism still holds sway in Egypt, and particularly so in the public discourse, where foreign conspiracies are always the source of the country's problems.<sup>15</sup> However, despite the new virulence of the nationalist rhetoric in post-revolutionary Egypt, its very resilience suggests that it is not here that we should be looking for an explanation of the increasing estrangement from the EU. The arguably unintended dimensions of differential integration might provide a more fruitful starting point in this respect.

On the one hand, the stability bias implied by the political dimension of differential integration was particularly problematic as it led the EU to engage insufficiently with political opposition, secular and Islamist alike, and their civil society organisations. For the same reason, the EU was seen as privileging economic access to Egyptian markets, and the stability required by functioning markets, while tolerating the increasingly repressive tendencies of authoritarian rule. In light of the hesitations displayed by the EU High Representative Catherine Ashton during the first days of protests, also the support provided to the revolution was largely perceived as a form of late bandwagoning once it had become impossible to prop up the old ally (Durac 2013).

On the other hand, the rampant inequality produced by the neoliberal turn, and the EU contribution to the latter, meant that the EU was largely perceived as one of the crutches supporting a regime that was increasing unpopular among its own population. This little sympathy that the EU inspired in Egyptian society at large was not so much a problem in itself as long as political and economic elites were thought to be on board in the process of economic restructuring and partial integration with the EU. At the same time, EU policy-makers appeared to be trapped in a view – not uncommon within EU member states undergoing structural reforms – that saw increased inequality as a signal of weakening state control over the economy and thus of increasing opportunities.<sup>16</sup>

One might be inclined to suggest that neither of the two points above necessarily entails long-term implications. Indeed, one would expect that a reality check would limit the consequences on EU-Egyptian relations of the former's double-speak. Additionally, the central position that the army has taken again since Morsi's overthrow in July 2013 might suggest a return to elite-centric politics in Egypt, and this might create an environment that would enable the EU to increase once more its

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<sup>15</sup> In a very interesting book, Gray (2010) suggests that this is a feature common to the Arab world as a whole.

<sup>16</sup> Interview with EU delegation official in Egypt, Cairo, 21 June 2010.

leverage. However, these considerations are informed by a highly misleading *ceteris paribus* assumption, neglecting that over the past four years matters have changed drastically in Egypt, in the Middle East, but also in the EU.

To begin from the latter, the sovereign debt crisis in the Eurozone has been suggested to impair the EU's ability to project its power, both material and ideational, in the near abroad. Similar circumstances in the US, combined with the decision by the Obama administration to 'pivot to Asia', have contributed to creating a power vacuum in the Middle East (Lynch 2013). This has in turn bolstered the regional ambitions of middle powers that did not experience as severe a crisis as the North Atlantic partners. Within this changing global and regional configuration, because of its sheer size and untapped economic potential, Egypt clearly offers a much coveted prize. This explains the efforts made first by Turkey and Qatar under Morsi (Tabaar 2013; Ayata 2015), and more recently by Saudi Arabia and Kuwait under Sisi,<sup>17</sup> to bring Egypt under their respective orbit.

A changed scenario demands a changed approach, one might be led to think. The EU appears to have instead chosen to deepen the same approach, basing its re-engagement on 'the acceleration of existing policies which focus on market access and liberalisation' (Teti 2012: 277). Colombo and Tocci have similarly suggested that the 2011 Partnership for Shared Prosperity and Democracy and the proposal of a Deep and Comprehensive Free Trade Area amount to little more than 'old wine in new bottles' (2012). Most importantly, the new slogan of 'more for more' with respect to conditionality clashes with a significantly transformed scenario, within which the post-Mubarak regimes can rely on forms of aid, funding and loans with very few strings attached. The scaling up of funding through existing programmes is unlikely to provide the EU with greater leverage *vis-à-vis* the Egyptian elites, at least in the short term (Pinfari 2013). Despite pledges to forge much stronger and broader links with civil society, the EU's vocal but toothless reaction to the blatant human rights violations of the Raba'a massacre was unlikely to win many sympathies in any section of civil society not already organic to the new regime. Under these circumstances, it becomes difficult to disagree with those scholars suggesting that the Arab uprisings have to this date been a failed opportunity for the EU to revise its approach to economic reform and democracy promotion in the Arab world (Michou et al. 2014).

Does this suggest that the Egypt's position as an EU borderland is inevitably unravelling? As it pays attention to the multiform and multiscalar nature of integration, a scalar-relational approach suggests us to consider such an argument somewhat premature, as it was premature to hail as successful the EU's approach to reform promotion before the revolution. After all, the carrot of veritable access to the EU's agricultural market is a large one, particularly if the EU moves away from the tendency to use safety, quality and hygiene standards as a way of limiting Egyptian exports. At the same time, if domestic, regional and global trends have weakened the EU's pulling power, one can then at least envisage the possibility of Egypt as a floating borderland, more loosely tied to the EU orbit while still influenced by its regulatory standards in many key economic sectors. Nonetheless, despite the enduring appeal of being the largest common market in the world, and one just around the corner for Arab Mediterranean countries, recent developments suggest that the EU's ability to draw neighbouring countries in its own orbit as borderlands is not an irreversible one. This is even more so in the light of the inconsistencies and double standards that the very borderland approach exposes the EU to, making a backlash and the shift towards alternative power centres always a possibility.

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<sup>17</sup> Apparently also through the use of off-balance sheet transactions directly into the army's coffers, thus bypassing the CBE, according to a recent Guardian report:

<http://www.theguardian.com/world/2015/mar/05/sisileaks-egypt-watergate-abdel-fatah-al-sisi> (first access on 5 March 2015).

## **Conclusion**

This paper has brought to light both the EU's contribution to the broader process of neoliberal restructuring of the Egyptian economy, as well as its specificities. In this respect, the scalar-relational approach proposed here provides an analytical depth that takes into adequate account the complexity of EU-Egypt relations. Among the distinctive elements of EU's approach to economic reforms, we have seen how agricultural reforms have produced asymmetric market integration, with few Egyptian producers being able to overcome the remaining barriers to trade, as the EU has managed to carve some degree of autonomy in advising Egypt on how to implement WTO regulations. The second peculiar instrument of EU's reform promotion, re-regulation via institutional reform, has taken greater prominence in central bank reform and in the regulation of the newly created telecoms market. While in the former case this influence on the regulatory framework has not translated into substantial material presence of EU-based banks in Egypt, in the case of telecoms EU's efforts at moulding regulations were very much oriented towards entrenching the strong position developed by Vodafone and Orange since the late 1990s. Thus, if seen in terms of accessing new markets and protecting its own, the EU's promotion of economic reforms in Egypt has been generally successful, although to a varying degree in different sectors.

More generally, the EU has managed to develop a competitive advantage *vis-à-vis* other external actors with an economic interest in Egypt. Through the promotion of regulatory frameworks along the lines of the ones already in place in its member states, the EU has fostered a form of asymmetric integration with the Egyptian economy. In this respect, it is not out of place to speak of Egypt as an EU economic borderland. The empirical discussion has also provided two important qualifications to this point. Firstly, borderland is understood here in a somewhat weaker sense than in other sectors such as migration, where the EU has effectively outsourced some of its monitoring and patrolling functions to Southern Mediterranean governments. In the economy we are instead talking mostly of a regulatory convergence, which in many occasions might serve the EU's interests, but not necessarily so. Secondly, even in the moments of highest convergence, with the business-friendly Nazif government implementing economic reforms at a pace unseen before, Egypt was always a contested borderland, and the extent to which integration would continue was strongly dependent on the interests of the incumbent political and economic elites.

Thus, if Egypt was an EU borderland in economic terms, it was always a fragile and contested one, and indeed the asymmetric integration promoted by the EU contributed to deepen this fragility by creating ever wider sectorial, socioeconomic and political fractures within Egypt. All these dimensions of differential integration belied the apparent stability of the Mubarak regime, which was to be dispelled by the 2011 revolution. In addition to transformations within Egypt, regional and global events have recently modified the general trajectory and outlook of the Egyptian economy and the competition that the EU faces from other regional powers. This suggests that the convergence and overlap in regulatory frameworks has not necessarily translated into long-lasting real influence on the Egyptian economy. Indeed, the increasing presence of Gulf capital suggests that if Egypt still is an economic borderland, it is even more than in the past a contested one, and one on which the EU can exert much less leverage than it did in the previous decade.

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