

## **CHAPTER IV**

### **THE UNITED STATES INFLUENCE IN INTERNATIONAL MONETARY FUND DECISION MAKING PROCESS**

This chapter analyzes the main topic of this undergraduate thesis which is the intervention of the United States behind the final IMF decision making process towards Egypt financial assistance agreements in 1987-1991 using a related theory and concept.

This chapter will analyze the reason why IMF finally accepted Egypt financial assistance in 1987 until 1991 while it was unable to fulfill the whole preconditions. In order to understand the decision making process and get the final result, it is very important to analyze the main actor behind IMF decision maker which is the United States. As the most contributing country member in IMF, the United States apparently received some privileges for being a country member. Having the biggest voting quota up to the one who can make the final call in the IMF. As a theoretical framework, the writer applied the International Organization concept by J. Samuel Barkin in explaining how an International Organization should work. In addition, a theory of Liberal Intergovernmentalism by Moravscik on how an actor in International Organization supposed to take an action was also used in the research.

#### **A. United States Role in the IMF**

The United States became one of the most active members and also the founder of international organization including the IMF itself. Since the early

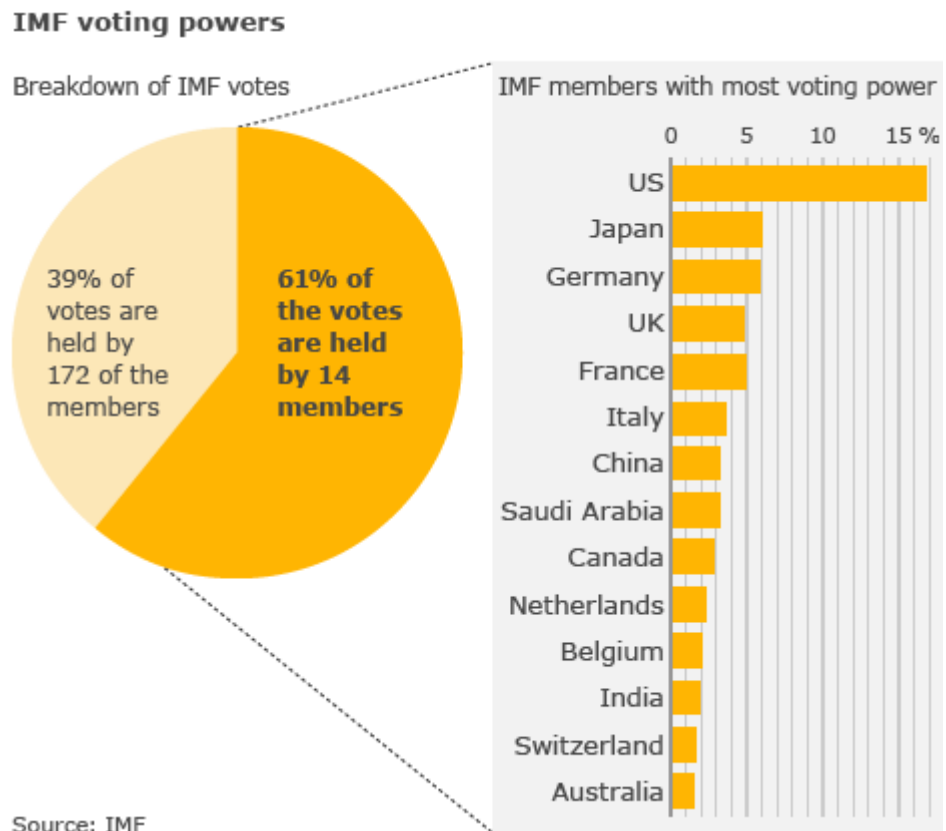
years of the IMF establishment, the United States has been considered to be one of the powerful countries in the member list. The measurement of looking at its greatness as a member state in IMF can be seen through the subscription of the member state which can be called as their investment. As what the writer had already mentioned in the second chapter related to the country quota, the bigger the country's investment, the more voting quota they will get. Furthermore, the amount of subscription in the IMF could also determine whether the member state can join the G-20 or even the G-7 in the Executive Board.

Many would have the same opinion in mentioning the American power that plays as the main actor in constructing the objectives of IMF (Oatley & Yackee, 2004, p. 415). It concerns on emphasizing the balance of macroeconomic and structural adjustment, for example, mirrors the American assurance to stretch out market-based economies to the developing world. In any case, there is a level to which American power reaching out to the IMF's operational basic leadership. In the specific matter, there is an American capacity to apply impact in the basic leadership process encompassing the production of IMF conditionality understandings (Oatley & Yackee, 2004, p. 415).

American policymakers can shape the substance of IMF programs since they appreciate their significant power in the IMF. In addition, the IMF mentioned to hold on universalistic criteria when planning contingency agreements for its member state. In its implementation, IMF conditions developed from consenting between several IMF offices, the legislature applying for help, and high-level authorities including the national

representatives serving as the Fund's Executive Board (*Weisbrot & Johnston, 2016*).

**Figure 1 The IMF Voting Powers**



Source: (IMF, 1991)

Bargaining process enabling individual governments to apply the impact over IMF decision making happens under the supervision of a formal basic leadership structure that gives the United States more power than other parts of the governments since the United States voting share is about 15% or more (IMF, 1991). The Executive Board's voting rules will enable the US to give veto in many Fund's choices. Subsequently, no overseeing chief that can settle on a major decision without the freedom from the United States. This formal power

enables the United States impacting the haggling procedure encompassing outline system. The American Official Director employs this impact by working with the United States Treasury Division to create American positions on particular contingency understandings and after that meeting with IMF staff and other Executive Board individuals to amid the program configuration (Woods & Lombardi, 2006, p. 482). Therefore, America's status in the IMF is advantaged.

At the moment when American policymakers can utilize their impact in the IMF to seek after an assortment of objectives, they are actually on the way to pursue this impact in looking for money related to business and foreign policy goals (Oatley & Yackee, 2004, p. 417). The United States can implement restriction understandings to accomplish American monetary objectives since IMF credits empower the creation of nations which represent most IMF programs to benefit their debts to American commercial banks. American policymakers can apply their agreements to accomplish the objectives of their foreign approach since the control over IMF credits enables the United States to rebuff its enemies and reward its partners. At last, the United States can utilize IMF stores to be able to build up partners to look after power.

## **B. The United States Interests**

### **1. The United States Relationship with Egypt**

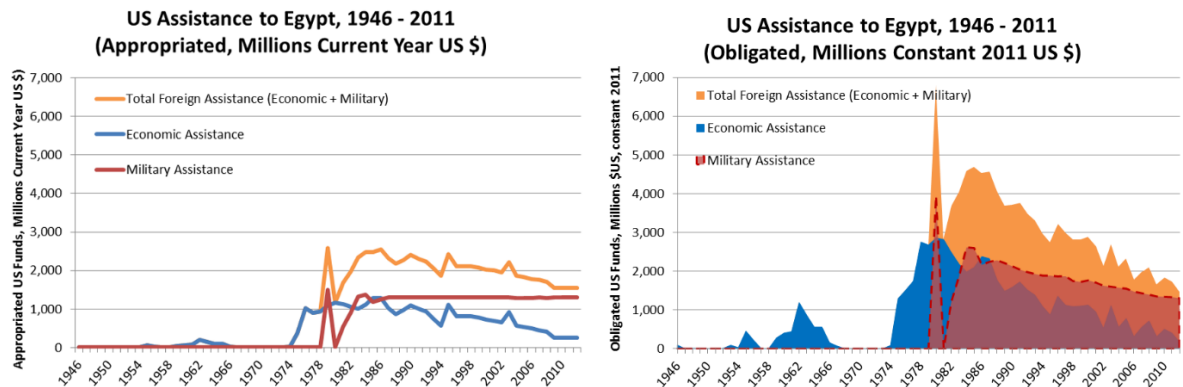
Egypt has been a long strategic ally of the United States. The United States and Egypt appreciate a solid and well disposed relationship in view of sharing common enthusiasm for Middle East peace and soundness recovering the Egyptian

economy and fortifying exchange relations, and advancing territorial security. Throughout the years, Egypt and the United States have cooperated diligently to grow Middle East peace negotiations, arrangements, and the Middle East and North Africa Economic (MENA) Conference (Egypt, 2016). In multinational activities, the United States also helps the Egyptian military modernization program, and Egypt's part as a supporter of UN Peacekeeping Operations that consistently strengthens the United States - Egyptian military relationship (Sharp, 2007). Moreover, the United States keeps on advancing their fame based in Egypt, including the extension of political opportunity and pluralism, and human rights. Mostly, United States and Egypt have their best relations in economic sector, politics, and military cooperation (Sharp, 2007).

When Hosni Mubarak took over the presidential position after the murder of President Sadat, there was a significant development from the United States in providing their ability and special capability to Egypt for the sake of keeping the territorial stability and avoiding terrorism (Jackson, 1982, p. 73). The United States was providing some military equipments such as *Unmanned Aerial Vehicles (UAV)* and *UAV R4E-50 Skyeeye* used in the border between Libya and Sudan to watch and to keep the military forces standby against the rebellion and gun smuggling. Moreover, the United States was also giving their contribution through military budget around \$1 million each year (Jackson, 1982, p. 73). As a return, Egypt kept on expanding their military cooperation with Israel troops just like what has been decided in Camp David Agreement, and the United States will get their access in Suez Canal and Egyptian air territory (Jackson, 1982, p. 73).

**Figure 2**

**US Assistance Appropriated (current \$) and Obligated (constant 2011 \$) to Egypt, 1946–2011**



Source: (Sowa, 2013)

During Hosni Mubarak era, Egypt was having a very close relationship with the United States since 1980s and 1990s. It was pictured that in 1986 the United States government was giving their highest military assistance to Egypt from its downfall in 1982. Not only that, the economic assistance from the United States was also increasing in the early 1980s and went to a fluctuation along the way to the 2000s. It can be concluded that the relationship between the United States and Egypt started to get better since the early years of Mubarak’s presidential.

## **2. Gulf War**

Gulf War is a war that was triggered by Iraq's intrusion of Kuwait on August 2, 1990 by Saddam Hussein, the Iraqi’s leader. He led the attack and took control

of Kuwait with the obvious point of gaining that country's great oil reserves wiping out an extensive obligation that Iraq owed Kuwait, and extending Iraqi power in the region (History, 2005). The main reason for the Gulf War really began when Iraq was at war with Iran. In this war, Iran was assaulting Iraq as well as assaulting oil tankers from Kuwait's shore. In order to take the war to a closure, Kuwait financially supported Iraq by lending the country 14 Billion US Dollars (Aarts & Renner, 2017).

Iraq attempted to persuade Kuwait to break down the obligation as Iraq had helped Kuwait out from being at war with Iran, but Kuwait declined. This event caused a fracture between the two countries. For a year, they attempted to determine the budgetary circumstance yet without much of any result. The following stage was for Iraq to request all Organization of the Petroleum Exporting Countries (OPEC) members to diminish oil production so the cost of unrefined petroleum would expand. This would build incomes for Iraq in enabling the country to pay its obligations (Fitzgerald, 2010). On the other hand, the OPEC members were asking Kuwait to do the opposite which is to rise up the production to 50% that could give more difficulties to Iraq in paying its debt.

Saddam Hussein concluded that he had no other choices other than fighting it with war. Hence, he positioned 100,000 troops on the outskirts and by the beginning of August, he attacked Kuwait. As the Iraqi army attacked and assumed that they took control Kuwait, they set fire to many Kuwaiti oil fields along the way. In response to the Kuwait attack, the UN announced Iraq's activities as invalid and financial assets were set up (Jr., 1991). On 16<sup>th</sup> January, Iraqi powers were still

in Kuwait and a coalition made up of 34 nations led by America responded to the call and began the Operation Desert Storm which came out as the start of the Gulf War.

**Figure 3 Operation Desert Storm**



Through the relations between the United States and Egypt, it can be seen that the United States was trying so hard to be allied with Egypt. The effort from the United States in gaining Egyptian military forces during Mubarak regime can be seen through the Foreign Military Financing (FMF) which made the Egyptian military forces could finally purchase their weapons from the United States. The weaponry aids will eased the United States to get their logistic support during the crisis period in the Middle East, the Gulf War 1990-1991. Egypt also persuaded more than half of the Arab League to fight against Iraq (Noorani, 1991). This step facilitated the American troops and its coalition to protect their oil sources in Saudi Arabia and to liberate Kuwait from the invasion, since this invasion was actually a



real hit for the United States since it had many oil sources in Kuwait and concerned about its safety under the invasion of Iraqi troops (Halliday, 1994, p. 7). The Iraqi government could change the whole pricing rates in OPEC which could cause a large damage and loss globally. In short, the Gulf War or the Iraqi invasion to Kuwait was a complete threatening action for the United States national interest in Persian Gulf region since the United States was keeping the oil flow without any cancelation directly to their country (Halliday, 1994, p. 7).

Then, The United States, Great Britain, France, Italy, Saudi Arabia and Kuwait succeeded in liberating Kuwait with an extreme result for the Iraqi troops. The United States air force-led air campaign that underwent around more than a month. With their superior speed, mobility and firepower, the allied forces overwhelmed the Iraqi forces in a land campaign lasting only 100 hours (CNN, 2017). The United States and its partners accomplished their military objective, yet the triumph was inadequate. While the United States accomplished their objective, Saddam Hussein stayed in control in Kuwait. He brutally subdued the Kurds in the north and the Shiites in the south of Kuwait, both of whom had risen in defiance after the war. Many oil-well flames were intentionally set by the Iraqis until November 1991 to douse. Saddam's administration additionally endeavored to obstruct United Nations monitors working as per Security Council resolutions, attempted to find and demolish Iraq's weapons of mass demolition including atomic offices and gigantic loads of concoction weapons.

During the Gulf War period, there was two coalition standing in order to defend each party, Kuwait coalition and Iraq coalition. Egypt was one of Kuwait

allies in this war alongside with the United States, Saudi Arabia, United Kingdom, France, etc. Egypt sent their 45.000 troops and staffs to Saudi Arabia which finally fought against the Iraqi military forces and also joined the United Nations and the United States operation, Desert Storm Operation (Ibrahim, 1991). From this point, it can be seen that the United States was looking at Egypt as a loyal alliance. Egypt was still defending the Kuwait coalition even though it was actually experiencing a chronic financial problem. Thus, the United States wanted to give Egypt a favor as a present for being such a loyal alliance during this war.

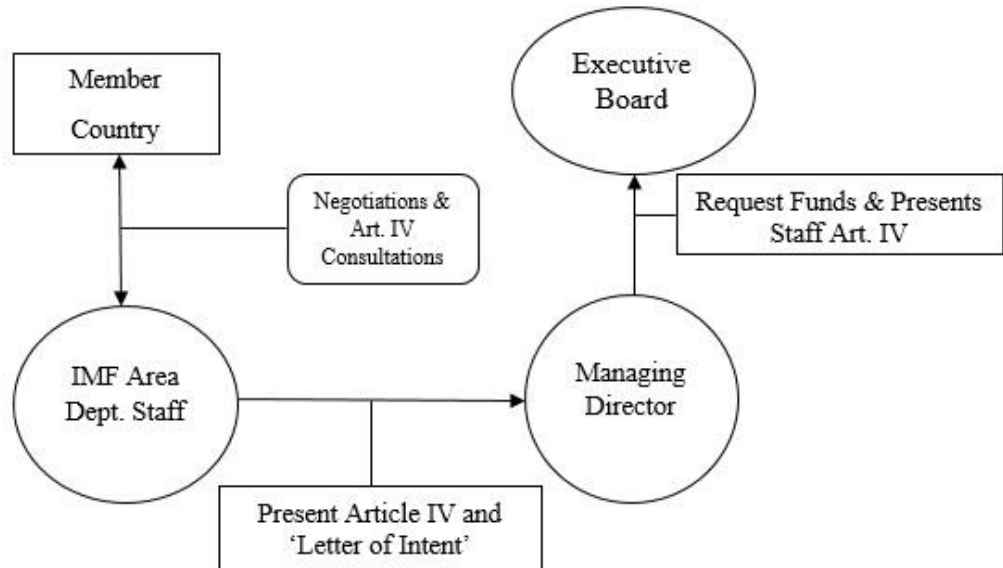
### **C. Decision Making Process for Egypt**

Before the IMF finally approved their decision in providing financial assistance to Egypt, there had to be a procedure to follow based on their Article IV Consultations. This is called as decision making process. As mentioned in chapter II about the general or common decision making process in IMF, the writer explains and describes more details this particular Egypt case in this chapter. Since the 1987 agreement, Egypt was unable to fulfill the preconditions given by IMF in order to get the financial aids. However, in 1991, there were only three out of seven conditions to fill (Table 4), yet it was still making Egypt as an unqualified debtor candidate. Fortunately, Egypt still got its monetary assistance from the IMF fund to finally recover their economic crisis.

According to the graphic of IMF decision making process, the decision making for Egypt financial assistance is not quite usual. There are a couple of steps that had been violated due to the country intervention driven by its national interest.

Figure 4

Decision Making Process of IMF towards Egypt



Source: (Momani, 2004, p. 888)

In 1987 IMF and Egypt Agreement, the conditions referred to in the pre- and post-IMF staff Article IV Consultations and three conditions included in the agreement were only restrict budget deficit, tax reform, and trade liberalization. Unfortunately, none of these conditions was implemented at the end of the agreement. Thus, when a member country got the preconditions during the negotiation process and could not fill the whole precondition meaning that the IMF Staff are going to return your request or reject the country's assistance. It means the Egyptian financial assistance request in 1987 rejected since Egypt did not fulfill the whole IMF preconditions (Jabber, 1986). However, the 1991 IMF and Egypt Agreement went differently than the first one. In 1991, there had been some changes and additional preconditions for Egypt.

There were seven preconditions (IMF, 1998): (1) exchange rate unification. (2) restrict budget deficit. (3) decrease interest rates. (4) decrease government subsidies. (5) applying tax reform. (6) privatization, and (7) investment reforms. However, only three out of seven preconditions that were finally implemented at the end of the agreement namely exchange rate unification, decrease government subsidies, and tax reform. By only implementing three out of seven preconditions, Egypt did not qualify to receive the financial assistance through SAP from the IMF.

During the period of negotiating in 1987 until 1991, the United States was trying to give Egypt a favor by attaining a lenient agreement since it terrified if the political instability could happen to Egypt especially during Gulf War (Jr., 1991). In addition, the Egyptian government also concerned if they took a rapid implementation which could cause to other food riots like in 1977. However, the IMF staff contended that steady changes were inadequate and would need to give away to show the strategies that were regarded fundamental for the Egyptian economy (IMF, 2007). The staff was also aware as it reported in the 1988 Article IV Consultation that the Egyptian representatives declared the view that the adjustment being described in the staff scenario was too rapid, and its impact would jeopardize economic growth and social stability (IMF, 2009). The Executive Director of the United States was always being reminded by Egypt that Egypt would always ensure its economy in peace and harmony in the Middle East. It also tried to make the United States sure that the importance of geopolitical of Egypt's economy balanced with the difficult preconditions by IMF (IMF, 2009).

Through all agreements in 1991, the United States was still trying to interfere the lenient agreement for Egypt. The beginning of the Persian Gulf emergence in August 1990 further elevated the United States worries about the strength of the Egyptian administration (Blakenship, 1994). In spite of the United States worries towards Egypt political instability during the war, there was also another reason behind the United States intervention in the Executive Board decision making process. When Saddam led the Red Army to Kuwait in 1990, the United States supposed to secure its European and East Asian partners from the Red Army of Iraq. However, the United States was only protecting its main interest in Persian Gulf which was to protect their oil supplies from any Iraqi disturbance on which their economies depended (Lind, 2014).

For that matter, the United States feared that the economic crisis which occurred in Egypt could give a significant impact towards its performance in Gulf War in order to save Kuwait and the American oil pipeline. Thus, during the decision making process for Egypt in 1991, the Letter of Intent regarding to this financial assistance was directly passed on to the Executive Board and approved by the United States which actually violated the procedure of decision making process of IMF (IMF, 1991).

After several agreements and long process of requesting financial assistance due to its country's economic crisis, Egypt finally received its aids from the IMF on 18<sup>th</sup> May 1991. IMF mentioned that they had approved \$372 million loan for Egypt in order to help that country getting out of the tough economic situation (Reuters, 1991). As an end-result of the 18-month IMF credit, Egypt

consented to upgrade its economy by cutting its spending shortage, liberating oil and different costs and deregulating its cultivating area.

Since the agreement with IMF in 1991, the Egyptian government has quickened up the economic liberalization, privatization enterprises all over the range of economic industry. The privatization and economic reform helped out the public offering from the Egyptian government for greater productivity. Therefore, the public debt in Egypt has decreased, product choices have diversified, and competition in the market has increased as well. Egypt also started to fulfill the basic needs throughout the country, such as food, infrastructure, and education. The fluctuation of tourism also started to occur in the end of 1980s.

**Table 1 The Fluctuation of Tourism in 1980s**

| <b>YEAR</b> | <b>Arab States</b> | <b>OECD States</b> | <b>Socialist States</b> | <b>Others ('000s)</b> | <b>TOTAL</b> | <b>YEAR</b> | <b>INCOME (US\$m)</b> |
|-------------|--------------------|--------------------|-------------------------|-----------------------|--------------|-------------|-----------------------|
| 1986        | 528                | 613                | 40                      | 130                   | 1,311        | 1984/1985   | 410                   |
| 1987        | 818                | 932                | 45                      | 204                   | 1,795        | 1985/1986   | 315                   |
| 1987/1988   | 638.7              | 1,102.1            | 51.3                    | 177.2                 | 1,969.3      | 1986/1987   | 380                   |
| 1988/1989   | 940.3              | 1,274.6            | 50                      | 238.5                 | 2,503.4      | 1987/1988   | 886                   |
| 1989/1990   | 1,132.9            | 1,215.1            | 58                      | 194.2                 | 2,600.2      | 1988/1989   | 901                   |
| 1990/1991   | 1,082.3            | 988,1              | 42.5                    | 101.4                 | 2,214.3      | 1989/1990   | 1,067                 |
| 1991/1992   | 1,102.9            | 1,866              | 73.7                    | 164.3                 | 3,206.9      | 1990/1991   | 924                   |

Source: (Publications, 1995)

According to Table 5 showing the fluctuation of tourism during the 1980s in Egypt, the visitor number reached its peak in 1991 until 1992. Meanwhile for the highest income, it was US\$1,067 million in 1990 until 1991. The data show how Egypt rapidly developed after its economic recovery.