DOI:
10.1080/13629395.2017.1358899

Document Version
Peer reviewed version

Citation for published version (APA):
Roccu, R. (2018). Banking on Ordoliberalism? Security, Stability and Profits in EU's Economic Reform Promotion in Egypt. *Mediterranean Politics*, *23*(1), 43-61. https://doi.org/10.1080/13629395.2017.1358899

Banking on Ordoliberalism? Security, Stability and Profits in EU's Economic Reform Promotion in Egypt

Word count: 8,715 words

Abstract. The framing of EU-promoted economic reforms in Egypt has been heavily influenced by ordoliberal ideas and practices, which have in turn affected how the EU interprets security and stability in the economy. This is especially visible in the EU promotion of banking sector regulations. Despite the change in approach heralded in the post-uprisings EU documents, this paper finds that what we see is only a minor reframing of the ordoliberal template, which aims at becoming more inclusive especially drawing in small and medium enterprises. However, in light of fast changing circumstances, this supposedly new approach has not achieved its stated aims, but indeed something close to its opposite, that is: less engagement with a narrower range of actors.

Keywords: ordoliberalism; EU-Egypt; economic reforms; banking regulation; security; stability

Introduction

Despite its weight in terms of the sheer amount of resources devoted to it, the economic channel of Euro-Mediterranean cooperation has been somewhat neglected, with the majority of the literature focusing on the tensions and contradictions between promoting democracy and preserving stability in the region (Pace et al., 2009; Cavatorta and Pace, 2010).[1] This neglect is even more visible with respect to the financial and the banking sector, as aid and trade have historically featured much more prominently in the Euro-Mediterranean agenda. This paper addresses this empirical gap with reference to EU-Egypt relations, and contends that a focus on the EU's promotion of financial sector reforms, and more specifically banking regulation,[2] provides a best-case scenario for the EU to change its policy without incurring particularly high costs. This is so for two reasons. Firstly, finance is a sector to which historically the EU has devoted limited material resources, and thus one in which sunk costs of engagement with Egypt along a specific path are relatively low. Secondly, despite this limited material commitment, the Egyptian banking sector has seen the increased penetration of EU-based banks. Thus, accepting a change in disposition by post-uprisings regimes while retaining access for EU-based companies to the Egyptian banking sector would have had relatively little material costs for the EU.

While these factors indicate limited constraints to policy change, this paper demonstrates that the thrust of the economic reforms promoted by the EU, in the financial sector and beyond, has changed only at the margins. Indeed, through its emphasis on 'inclusive' growth and engagement with more actors, be they civil society organisations (CSOs) or small and medium enterprises (SMEs), the new approach to the European Neighbourhood Policy (ENP) – inaugurated by the March 2011 *Partnership for Democracy and Shared Prosperity* (*PfDSP*) – has moved towards deepening and broadening the scope of application of the same economic template. This is perhaps nowhere clearer than in the chief economic goal of establishing a Deep and Comprehensive Free Trade Area (DCFTA), which verbally encapsulates the EU's intention of deepening (*Deep*) and broadening (*Comprehensive*) the move towards free trade that had been at the heart of economic reform promotion since the mid-1990s (Martin, 2004).

This remarkable resilience in the EU framing of economic reforms in general, and with specific reference to the banking sector, is yet to be adequately accounted for. Providing such an account is the main task of this paper, which relies on qualitative analysis of documents and policies on the one hand and on the other hand on elite interviews conducted with relevant stakeholders, encompassing officials in the Egyptian government, the Central Bank of Egypt (CBE), the EU delegation to Egypt, the European Central Bank (ECB), international financial institutions (IFIs), as well as representatives of a sample of both public and private sector banks operating in Egypt. The material is presented as follows. The first section examines the EU's economic reform promotion activities under Mubarak, and how these were shaped by a specific understanding of the security-stability nexus assessed in this special issue (see Introduction). It is suggested that the amelioration of traditional security concerns had led the EU to interpret security in both economic and ontological terms, and to equate stability with the stability of the Mubarak regime. This is specifically illustrated with reference to the EU programme assisting the CBE in the creation of a regulatory framework ensuring the compliance of the Egyptian banking sector with Basel II regulations. The second section looks at the extent to which the EU framing of security and stability with respect to economic relations has changed in the wake of the uprisings. While aiming to broaden engagement through reliance on a larger set of tools, the new policy approach enshrined in the *PfDSP* and subsequent ENP-related documents is understood as the deepening and broadening of the pre-existing ordoliberal template. The third section explores the causes of the limited success of this approach, with specific reference to the role of contextual factors. Three of them are of greater importance here: the negative spillover effects that the Eurozone crisis has had for the EU reputation and power projection; the momentous transformations experienced by Egypt since 2011; and a changed regional environment, especially visible in the increased activism of Gulf countries. It is argued that the EU neglect for these fast changing circumstances in favour of ideological consistency led a supposedly richer and more inclusive approach to less engagement, and of a lower quality, with a narrower range of Egyptian actors. This argument contributes to the broader special issues in two significant ways. On the one hand, it shows how greater intentions of engagement deriving from the reframing of the security-stability nexus need not entail more engagement in practice, in this specific instance also because of factors beyond the EU's control. On the other hand, it also suggests that change with respect to broadening engagement does not equate change in overall direction of travel that the EU envisages for its economic relations with Egypt.

Between security and profits: EU's economic reform promotion in Egypt under Mubarak

By the time the ENP was launched, Egypt appeared in an ideal position for the EU to focus on a more economic and ontological understanding of security (see Special Issue Introduction), which could in turn be more easily combined with the quest for stability and prosperity not only in Egypt but in the broader Southern Mediterranean region. Three main developments had made traditional security a domain in which the EU could take for granted the cooperation of the Egyptian regime, thus opening the space for a stronger focus on economic issues. Firstly, since the recognition of Israel enshrined in the 1978 Camp David accords, and even more strongly since its participation in the 1990 Gulf War, the Egyptian leadership had demonstrated its loyalty on foreign policy matters. Thus, discrepancies in foreign policy orientation could largely be factored out

Secondly, a change of the guard within the ruling National Democratic Party (NDP) led between 2002 and 2004 to the rise of a new faction (Collombier, 2006), coalescing around Mubarak's president Gamal, with 'very liberal' economic views.[3] In light of their outward-orientation as well as their links with the international business community, once this self-styled 'reformist' group gained prominence within party, parliament and cabinet (Soliman, 2011), it began to reform the economy along the lines long promoted by IFIs as well as main donors and partners such as the EU (Roccu, 2013). This created a clear interlocutor within the regime that shared the parameters of the neoliberal discourse to which the EU also subscribed.

Finally, economic cooperation had been made much easier by a clear division of labour between the EU and IFIs. As put before the 2011 revolution by a World Bank official, within this division of labour the EU would be 'doing what it does best': creating regulatory and institutional capacity.[4] This focus on regulation and institutions is emblematic of the distinctiveness of the EU approach to promote reforms along a neoliberal template compared to other major international actors. This distinctiveness revolves around two key elements. On the one hand, a gradualist approach to economic reforms, as opposed to the 'shock therapy' promoted by IFIs in Central and Eastern Europe in the 1990s (Kolodko, 2000). On the other hand, more than the idealtypical neoliberalism of the Chicago School usually associated with Thatcher and Reagan, the EU approach to economic reforms has been very much informed by German ordoliberalism. This rejects the vision of the market as a spontaneous order to be left to its own devices, and instead conceptualises the market as a fragile social convention, to be fostered and protected through state power (Bonefeld, 2012; Gerber, 1994). Thus, the EU's practice and self-framing as a regulatory power (Majone, 1996; Menz, 2003), opposed to the excesses of deregulation in the Anglosphere, had increasingly been accepted by IFIs, other main donors and developing countries' governments, providing it with a specific remit within which it could propose genuinely distinctive reforms.[5]

In light of these transformations, the EU articulation of the security-stability nexus (see Special Issue Introduction) in its economic relations with Egypt had three tightly interwoven defining features. Firstly, stability was largely perceived in political terms, and more specifically as the stability of the Mubarak regime, given its loyalty and its effectiveness in serving the EU's perceived interests (Pace, 2009). To a large extent, the EU embraced the framing on the part of the Egyptian regime, which presented itself as necessary for the EU to achieve its goals not only in the country, but in the wider Southern Mediterranean region. Secondly, this regime stability was perceived as the best way of ensuring the security and profitability of investments conducted in Egypt by EU-based firms. Thus, security was largely understood in economic terms, with the interests of EU-based firms operating in Egypt taking a prominent role. Thirdly, this pursuit of profits and market shares for EU-based companies had to avoid undermining the regime stability on which it was predicated. Hence, the gradual approach to reforms, and the emphasis on providing state institutions with adequate tools for managing a more open and competitive economy, can be understood as key ingredients of the EU's economic reform promotion in Egypt. This extension to the neighbourhood of an approach to reforms tried and tested internally (Gerber, 1998; Ryner, 1998) could also be couched in terms of ontological security (Mitzen, 2006), as it allows the EU to influence neighbouring countries in a way that is consistent with the EU's economic self-image (Damro, 2012; Parker & Rosamond, 2013).

Informed by this specific framing of the security-stability nexus (see Special Issue Introduction), the EU's ordoliberal approach to reform promotion emphasises two elements. On the one hand, as mentioned above, it aims to enhance the regulatory capacity of neighbouring states, providing support for the establishment of regulatory authorities and frameworks in different sectors. One major consequence of this is that, within the broader parameters of the ENP, EU's economic cooperation with Egypt has largely taken a sectoral, as opposed to comprehensive, focus. On the other hand, in line with IFIs' expectations, these regulatory instruments are geared towards fostering an open and competitive environment. Consequently, EU-promoted regulations were by and large market-oriented.

Both elements are in full display in the EU-Egypt cooperation on the reform of banking supervision aiming at making the Egyptian banking sector fully compliant with Basel II regulations. Here, the EU efforts are nested into a much broader drive towards transforming the Egyptian financial sector on neoliberal terms. Financial sector reforms undertaken in the 2000s included the divestment of the vast majority of state-owned shares in Egyptian banks (World Bank, 2006: 11, ft. 10), the privatisation of one of the 'big four' public sector banks,[6] and other reforms affecting corporate governance and lending practices under the aegis of the World Bank, which extended three Financial Sector Development Policy Loans amounting to a total of $1.5 billion between 2006 and 2010.

Within this context, the EU funded two projects to be carried out by the ECB and seven member states' central banks in cooperation with their Egyptian counterpart, the CBE.[7] The first (MEDA I, 2006-08) focused nearly exclusively on capacity-building missions, including the establishment of a task force within CBE focusing on Basel II-related issues only. Through the second project (MEDA II, 2009-11), this task force drafted a regulatory framework compliant with Basel II provisions (European Central Bank, 2008).[8] The key challenge in this respect was identified in the move from a compliance-based to a risk-based regulatory regime, entailing a change in the regulatory focus from the rules to be followed to the assessment of the amount of risk held by individual actors in the financial sector.[9]

This is a vivid example of the EU tendency to present specific reforms in highly technical, and as a consequence apolitical, terms (Radaelli, 1999; Kurki, 2011). However, some of the implications of the proposed regulatory reforms are extremely political. For instance, the whole Basel II approach, having been designed by advanced economies for advanced economies,[10] can prove problematic when extended to developing countries with relatively underdeveloped banking sectors, as it neglects key sources of vulnerability (Griffith-Jones, 2007; see also *Kourtelis* contribution for similar patterns in agriculture). A number of these have been verified in the Egyptian case, such as for instance an overall reduction in credit levels, a reinforcement in the pro-cyclicality of lending practices, and a strong disincentive to lend to small and medium enterprises (SMEs) (Herrera et al., 2012). Beyond its systemic shortsightedness revealed by the 2007-8 financial crisis (Haldane & May, 2011), the shift towards a regulatory framework assessing the amount of risk held by individual banks means that regulatory authorities are now expected to act in the last instance. Through the neglect of some of the peculiarities of the Egyptian banking sector, and through entrenching a very specific policy direction, the EU-promoted reforms in banking regulation appear geared towards serving a goal that had already been pursued in other sectors. In the words of an EU official, this goal was 'to attract as much EU investment in the sector as possible', to the point of suggesting that ideally local regulators would 'copy and paste' EU regulation, in order to create a business environment as close as possible to that faced at home by EU companies.[11] In this respect, as much as they were driven by specific norms favouring an open financial sector, the EU-promoted regulatory reforms in banking were clearly also aimed at serving the EU perceived interests.

Regulatory reforms in banking are interesting also for the method in which they were promoted, and thus for the forms of engagement privileged by the EU. Contrary to most other sectors, in finance the EU does not have much of a carrot to offer, for instance in terms of market access. Additionally, the two MEDA programmes combined for a total of about €7.5 million (Al-Ahram weekly, 2008), hardly a sizeable material incentive. Thus, much more than in other sectors discussed in this special issue, the EU promotion of reforms was heavily reliant on discursive means of engagement. These took two main forms. On the one hand, there were efforts of a largely argumentative nature through which the EU attempted to persuade the counterpart of the benefits of risk-based regulation for the competitiveness of the banking sector, as evidenced in the discussion papers produced by the CBE task force throughout MEDA II.[12] On the other hand, discursive engagement also takes the form of institutional cooperation and training programmes, such as the one between central banks, aiming at both knowledge transfer and the broader socialisation of CBE task force officials. This was complemented by a series of meetings including 'a sample of Egyptian banks, the Capital Markets Authority, Egyptian legal and external audit firms, the Egyptian Banking Association, and the Egyptian Banking Institute'.[13] Additionally, the CBE task force would lead domestic working groups aimed at disseminating knowledge and best practices among ‘a significant sample of Egyptian banks and other stakeholders’.[14] Thus, EU’s engagement was both selective and hierarchical, with most of its efforts being devoted to cooperation with the CBE task force, while delegating to the latter relations with banks operating in Egypt, which in turn led to the neglect of smaller and specialised banks, non-bank financial intermediaries as well as SMEs aiming to gain better access to finance.[15]

Hence, taking advantage of a propitious conjuncture, since the mid-2000s the EU began to promote consistently its own variety of neoliberalism, centred on gradualism and re-regulation aimed at fostering competitive markets. In the economic sphere, security was by and large understood as the security of investments by EU-based companies, to be achieved through the ordoliberal reforms that the EU had itself undergone, thus also creating a higher degree of ontological security. The pursuit of these objectives was predicated on the stability of the Mubarak regime, perceived as the main interlocutor. In light of its technical-sectoral approach to reform, the EU engaged with a narrow range of local actors, relying mostly on discursive forms of engagement.

More of the same? Redefining security and stability in the economy after the revolution

In its unexpectedness, the 2011 revolution triggered a process of soul-searching among external actors involved in Egypt. The EU was no exception in this respect. In the documents issued in the aftermath of the uprisings, the solution was identified in a change in the overall method of engagement, going on the one hand for the ‘more for more’ approach and on the other hand for a much more inclusive approach to reform. In terms of content, however, the proposal of a DCFTA suggests that the diagnosis was not that economic reforms had been socially counterproductive, but rather that they had not gone far enough. Thus, the EU framing of the security-stability nexus was subject only to very minor revisions, which in turn entailed a significant broadening of its scope. This section suggests that this minor reframing is the function of two elements. On the one hand, the technical-sectoral approach to cooperation militates against appreciating the interconnections across fields of social activity, and thus the negative externalities of many reforms promoted, including those related to banking sector regulation. On the other hand, the expansion of the same reform template, if with some tinkering at the margins, represents an instance in the process of ‘fail forward’ (Peck, 2010), whereby the limitations of a round of neoliberal reforms are addressed through a deepening of the same process, this time aimed at including a broader range of social and economic actors.

The mass protests in January 2011, eventually leading to the overthrow of Mubarak on 11 February, appeared to have put in doubt all the key elements of the EU articulation of the security-stability nexus in the economic sphere. The regime perceived as ideally positioned to secure the EU interests proved unexpectedly brittle, with the Mubarak family and its associates being prosecuted first by the Supreme Council of the Armed Forces (SCAF) and then by the government appointed by Mohamed Morsi, expression of the Muslim Brotherhood and first democratically elected president in Egyptian history. In addition to major changes at the top of the political system, another layer of political instability was brought about by the infighting between and within branches of the Egyptian state (Teti & Gervasio, 2013). Additionally, the crisis in which the revolution plunged the Egyptian economy, and the ensuing uncertainty, suggest that the security of investments and activities of EU-based companies was also at risk. To compound this situation, the Islamist turn effected by the Muslim Brotherhood provided reasons for concern, as it was perceived both as step back from the secular guarantees in place under Mubarak and as a possible threat to the foreign policy trajectory consistently followed before the uprisings.

While this last concern did not appear particularly founded, as the Freedom and Justice Party scrambled to gain international legitimacy (Stacher, 2012), all of these transformations in Egypt and the broader Mediterranean region could have led to a rethinking of the EU approach to promoting economic reforms. Indeed, such a change in approach was what the EU announced to be launching, firstly with the March 2011 *PfDSP* (European Commission, 2011a), followed in May by the ENP review (European Commission, 2011b). The changed approach was encapsulated in the 'more for more' formula, aimed at rewarding with more resources the countries more committed to reforms. In terms of the material mechanisms for engagement, the new approach implied stronger positive conditionality, aimed at complementing the threat of negative conditionality on which the ENP had been hitherto based (European Commission, 2011a: 6). This call for differentiation implicitly acknowledged that the ENP had failed to take into adequate account the specific needs of individual partners. In this regard, the redirection of the ENP would have two further implications. On the one hand, it would incentivise reform ownership from partner countries (European Commission and High Representative, 2013: 16), thus making greater allowances for the different views that might emerge from a more open debate in partner countries. On the other hand, the new approach aims at being more inclusive, with respect to both its objectives, with a repeated emphasis on 'inclusive' growth and economic development, and the range of actors engaged. This means for instance lending more importance to CSOs in general and SMEs on economic issues (European Commission, 2011b: 4, 7, 14).

The substantive novelty of the EU approach to the Southern Mediterranean in the wake of the Arab uprisings has been scathingly questioned in the literature (Colombo and Tocci, 2012; Teti, 2012; Teti et al., 2012). With reference to the articulation of the security-stability nexus in the economic sphere, material transformations in Egypt and alleged transformations in policy approach have led to minor revisions of the EU ordoliberal framing. For instance, the threat to the security and profitability of investments conducted by EU-based companies made the EU a strong advocate of the need for political stability, with trade and investment as 'engines for growth' through which political stability can be ensured (European Commission, 2011a: 8). However, the latter is now broadened beyond regime stability, with an emphasis on 'deep democracy', entailing free and fair elections, freedom of association and speech, the rule of law as well as reformed security and police forces (European Commission, 2011b: 3). Indeed, this element in the EU interpretation of security-stability nexus has genuinely changed. Simultaneously, the emphasis on terms such as 'deep' and 'inclusive' appears to signal the EU's intention of enlarging the scope of its intervention, through 'more ambitious political and economic reforms' (European Commission, 2011a: 2). This entails scaling up its material commitment, as well as engaging with a broader set of actors, as highlighted also by *Kourtelis* with reference to agriculture.

Despite this partial adaptation, the substantial continuity in the EU framing of the stability-security nexus in the economy is perhaps most visible in its understanding of the contribution of economic factors to the revolution. The 'unequal distribution of wealth' is the first factor listed in the *PfDSP*, but is immediately followed by 'insufficient social and economic reform, limited job creation, weak education and training systems that do not produce the skills required in the labour market' (European Commission, 2011a: 7). The economic reforms conducted are thus presented not as heading in the wrong direction, but rather as 'insufficient', as if more thorough economic reforms would have avoided the levels of inequality central to the demands of the Egyptian revolution (Abdelrahman, 2015). This diagnosis is immediately confirmed by reference to the faults of both supply and demand in the labour market, presented as an objective entity that other policies should aim to serve. Coherently with this view, the *PfDSP* suggests that the demands raised through the uprisings 'can only be addressed through faster and more ambitious political and economic reforms' (European Commission, 2011a: 2). The EU's proposal of a DCFTA follows along the same trail. The same fundamental idea – i.e.: free trade – is to be pursued through a process of both deepening ('deep') and broadening ('comprehensive'). In addition to this general neoliberal understanding presenting ever-greater economic integration as a panacea, the ordoliberal dimension is also retained, more specifically through highlighting the importance of a 'sound regulatory framework' (European Commission, 2011a: 7).

This very partial reframing is the result of two factors, one retrospective and one prospective. On the one hand, the EU analysis of the economic causes of the Arab uprisings is significantly shaped by its technical-sectoral approach to cooperation. This is apparent with reference to the perception of banking sector regulations. From a strictly sectoral perspective, this programme appears to have been rather successful, and has been perceived as such by the EU (European Central Bank, 2012), as the Egyptian banking sector is Basel II compliant since 2013. However, the same cannot be said for the effects of banking sector reforms on the real economy. Even before the revolution highly skewed access to finance had been identified as a major issue in the functioning of the reformed financial sector (Osman, 2010; Roll, 2010; World Bank, 2008). This trend was actually worsened by the full range of reforms implemented, including EU-promoted banking sector regulations (Herrera et al., 2012). This in turn contributed to increasing levels of inequality, recently accepted even by World Bank officials as one of the triggers of the revolution, more specifically in the form of a shrinking middle class (Dang & Ianchovichina, 2016). On their own part, the revolts to which these reforms contributed jeopardised the political stability at the heart of the EU's strategy for ensuring its security, not only in the economic and ontological dimension outlined earlier, but also in its more traditional meaning, as discussed in the next section.

On the other hand, the EU's insistence on the same brand of market-centred reforms can be functional to the next iteration of neoliberal restructuring, following the process of 'fail forward' examined by the geographer Jamie Peck (2010). As neoliberal reforms are bound to fall short of the promises made by neoliberal theory, 'their manifest inadequacies have […] repeatedly animated further rounds of neoliberal invention' (ibid: 6). Here, the resonance with the EU's intensified push for the same fundamental objective of greater liberalisation in goods and services is apparent (European Commission, 2011a: 9). Rather than questioning the overall thrust of the economic reforms promoted, attention has focused on how corruption had perverted the course of otherwise well-designed policies. From this perspective, 'the problem resided not in neoliberalism as a model, but in a *corrupted implementation* of neoliberalism' (Joya, 2016: 10). Perhaps in light of this perceived failings of Egyptian institutions, and the reality of few cronies appropriating the benefits of reforms

(Adly, 2010), the EU approach after the uprisings aims at including SMEs, given a more prominent role since the *PfDSP*. As much as a recalibration, this can also be understood as yet another expansion in the scope of applicability of neoliberal reforms, from the transformation of economic relations of the Washington Consensus, to that of the institutional set-up typical of the good governance agenda (Rodrik, 2006), now towards the transformation of society at large.[16] In the financial sector, this 'outreach' duties were delegated to the European Investment Bank (EIB), which in the wake of the Arab uprisings launched the Risk Capital Facility, explicitly aiming to 'provide access to equity and debt financing to SMEs in the Mediterranean region' through private equity finance, microfinance initiatives and technical assistance.[17] Given the possibility it provides for companies to acquire equity stakes in Egyptian SMEs, this approach is also meant to facilitate EU-based investment.

Thus, the EU's changed approach towards Southern Mediterranean and Egypt has some genuinely new aspects. However, these are largely functional to the intensification of the process begun before the uprisings. It is certainly true that form is also content, and for instance greater engagement with SMEs provides the EU with a better grasp of issues surrounding access to credit than talking to banks only, as it was the case before the revolution. One could then make the broader case that greater engagement of a higher quality with more local actors can provide the EU with a wider range of views to take into account when formulating its policies and with a wider range of instruments to make these policies effective. However, from the very post-Arab uprisings documents, it is apparent that the EU had little intention to alter the general direction of travel in the economy, if not towards its broadening and deepening.

It takes two to tango: drifting towards ever more selective engagement?

Despite the alleged potential of the new approach to the ENP, Egyptian governments since the revolution have exhibited a distinctly limited interest in deepening engagement with the EU, especially when compared to the Mubarak era. This is undoubtedly affected by changing circumstances domestically and regionally, as well as by the negative effects of the sovereign debt crisis in the Eurozone on EU power projection. This section shows that particularly under Sisi the Egyptian government has moved towards a transactional approach to relations with the EU. The new regime thus cooperates on matters of mutual concern, for instance pertaining to migration and to opposition to Daesh/Islamic State, but is much less amenable to persuasion on economic reforms. Thus, the clash between the EU's insistence on its ordoliberal recipes and the new approach from the Egyptian leadership within a changed regional context have led the EU's supposedly more inclusive approach to reforms on a path of less engagement and with a narrower range of less positively predisposed local actors.

With the exception of the first phase of the Morsi presidency, Egyptian governments following the 2011 revolution have all been less than enthusiastic to engage with the EU on the new terms set out in the *PfDSP*. In 2011, the transitional SCAF administration expressed its unwillingness to deepen engagement with the EU on the DCFTA as well as on the Dialogue for Mobility, Migration and Security (European Commission, 2012: 3). The Morsi presidency began with a mutual commitment to much closer cooperation, enshrined in the joint conclusions of the first EU-Egypt task force meeting, which hailed the start of 'a new era in the relationship between the EU and the new Egypt', grounded in 'solid co-ownership' (EU-Egypt task force, 2012: 1). However, in addition to concerns about the authoritarian tendencies of the new regime, the 2012 ENP memo lamented that '[i]n the area of trade, very few developments took place', while '[n]egotiations on the liberalisation of services and establishment made no progress, and the preparatory process for the Deep and Comprehensive Free Trade Area with Egypt has yet to be launched' (European Commission, 2013: 2). This stall on the DCFTA and more generally on the economic channel of the ENP has continued after the coup, leading to the extension of the old Action Plan instead of the negotiation of a new one (EEAS-European Commission, 2015).

This reluctance to deepen engagement on the part of successive post-uprisings governments does not have to do exclusively with the EU's changed approach. Indeed, one could argue that the main reasons for this positioning are not directly related to the EU. On the domestic scale, polarisation within the Egyptian polity and society have seen the resurfacing of repression since the July 2013 coup (Beinin & Duboc, 2015). A reaction to this has been the drive towards a further centralisation of external relations. While largely independent of the EU, this development clashes with the EU intentions of engaging with a wider range of local stakeholders. On the regional scale, post-uprisings Egypt has become a much coveted prize for increasingly assertive regional powers. This is visible firstly in the preferential relations with Turkey and Qatar established under Morsi (Ayata, 2015; Khatib, 2013), and then in the financial support that Saudi Arabia, United Arab Emirates and Kuwait have provided after the coup.[18] The indirect implication of this for the EU is that, compared to the past, Egyptian governments can now obtain support from a wider range of partners.

If these external developments have in themselves decreased the short-term leverage of the EU in its relations with Egypt, this trend is compounded by issues pertaining more directly to the EU. For instance, the sovereign debt crisis with the Eurozone has clearly damaged the EU's reputation as an effective regulator of its financial and banking sectors, particularly relevant for the case study considered here. Combined with domestic and regional transformations, this helps explain why the EU's reframing of its relations with Egypt failed to find enough supporters among Egyptian elites.

Instead, especially under Sisi, the approach chosen by the Egyptian government *vis-à-vis* the EU is characterised by two elements. On the one hand, the new regime has succeeded in using two bargaining cards to its advantage. Firstly, the Egyptian leadership has gained the plaudits of the international community for its 'pivotal role in brokering a ceasefire in the Gaza strip in August 2014' (European Commission, 2015: 9). Secondly, it has also succeeded in presenting itself as a bulwark against Daesh/Islamic State and more generally Islamist terrorism. In light of its cooperation on security and migratory matters, the Egyptian regime has foregone the 'more for more' offer, going instead for a 'less for less' approach informed by a transactional logic (Bicchi, 2014; Völkel, 2014).

On the other hand, in addition to strengthening relations with Gulf countries, the Sisi regime has concluded a range of sizeable commercial agreements with the main EU economies, with France the latest in line signing a deal worth over €2 billion in April 2016 (Reuters, 2016). This follows in the trails of large investment contracts signed at the 2015 Egypt Economic Development Conference (Al-Ahram, 2015). Through these methods, the Egyptian government has experienced a significant rise in FDI inflows (UNCTAD, 2016), but the more limited engagement with the EU means that it has not had – yet – to undergo the range of economic and financial sector reforms expected by the EU.

In light of these developments, the persistence of the ordoliberal framing of security and stability despite the collapse of some of its presuppositions might help explain the limited success of the new ENP. While the Egyptian government has managed to centralise external relations and cooperate successfully on security and migration, these elements on their own are certainly not enough to guarantee the political stability on which economic security is supposed to be predicated. Indeed, significant rifts within the regime and in state-society relations witness the fragility of the new order, which in turn makes investment less secure, as witnessed by deteriorating business conditions (Mada Masr, 2016). Additionally, the EU's ordoliberal disposition appears to have been increasingly superseded by patronage arrangements with Gulf donors and lenders, thus also potentially jeopardising the EU ontological security. Somewhat paradoxically, the recently agreed austerity programme, sponsored and financed by the IMF, appears to have been brokered not as much by the EU and the US, as in previous occasions, but rather directly by Gulf states (Ismail, 2016).

This suggests that even more than in the past the Egyptian regime is able to feed back on how the EU sees security and stability. Indeed, one could argue what we see here is a form of 'reverse diffusion' (Cassarino, 2016), which – while not necessarily normative – undoubtedly affects the praxis of how the EU relates to Egypt. The re-emergence of more traditional security considerations, and the perceived ability of the Egyptian regime to deliver on them, appear to have forced the EU to redefining the security-stability nexus in more traditional terms, essentially accepting the new regime's transactional approach.

Thus, the new EU approach to promoting economic reforms in Egypt has amounted to inserting a stronger dimension of social engagement within the pre-existing ordoliberal template. However, the unwillingness of successive Egyptian governments to pursue this route appears to have led to even more exclusive engagement than in the past, together with a renewed emphasis on traditional security issues. This return of a more 'realist' conception of the security-stability nexus, also in the economic realm, holds significant implications for how the EU engages with Egypt. For one, the increasingly centralised management of external relations limits the EU ability to reach out to new local actors, thus undermining one of the dimensions of inclusiveness that the new ENP was meant to foster. Strengthened relations with emerging regional powers focusing less on policy conditionality in turn compound the increasing ineffectiveness of the EU's use of discursive means of engagement, while simultaneously highlighting the EU inability to step up its material commitment, increasingly dwarfed by the resources poured by Gulf countries in the Egyptian economy.[19] Thus, while intended to be more comprehensive and inclusive, the EU's post-Arab uprisings approach has in the case of economic reforms in Egypt led to less engagement, and of a lower quality, with a narrower range of actors. It should thus come as no surprise that the EU's short-term influence on Egypt has declined sharply.

Conclusion

The EU tendency to promote in its neighbourhood reforms that have been perceived as successful internally appears to have survived in its economic relations with Egypt, irrespective of the dramatic transformations that the country has experienced since 2011. This has happened also in sectors where policy change would have been relatively uncostly, such as banking sector regulation. Indeed, with regard to economic reforms more broadly, in the post-Arab uprisings the EU appears to have gone one step further in promoting its ordoliberal version of restructuring, focused on gradualism and market-oriented regulation. The emphasis on corruption as the factor preventing reforms from having their intended effect, and funnelling their benefits in the hands of very few, has allowed the EU to embrace the demands of equality and social justice of the revolution, while turning them into the pursuit of 'inclusive development', but one still fundamentally intended in neoliberal terms. As a consequence, SMEs have increasingly become the target of EU programmes, but in a way that seeks to subordinate them to the old ordoliberal template, as discussed with reference to the EIB's Risk Capital Facility. From the analytical perspective of this special issue, the incremental reinterpretation of the security-stability master frame in the economy has remained within the same ordoliberal parameters. Whereas this is undoubtedly partly because the EU still upholds the normative merits of this approach, it has also in no small measure to do with the belief that the pre-uprisings economic reforms carried out in Egypt under the EU sponsorship and supervision were seen as catering to the EU's perceived interests.

However, despite the declared intention to be more inclusive both in its methods and in sharing more broadly the promised benefits of reforms, the ordoliberal framing of the security-stability nexus in the economy in the wake of vastly changed circumstances has unintendedly led the EU towards even more selective engagement with Egyptian actors than under Mubarak. More specifically, the further centralisation of external relations under Sisi combined with the increased support provided by Saudi Arabia, UAE and Kuwait to the regime have crippled the EU ability to deliver on the objectives set out in the *PfDSP* and the new ENP. Rather, the EU's reliance on the same discursive tropes of the past, accompanied by a stronger commitment to the use of conditionality, has made the EU a less appealing partner for the Sisi regime, particularly as the EU material support for Egypt is dwarfed by Gulf assistance and loans. In light of this, EU-Egypt relations have increasingly been channelled towards a transactional approach, with Sisi cooperating on the EU security agenda but stalling discussions on deeper economic cooperation, as demonstrated by the lack of progress on both DCFTA and the new Action Plan.

In sum, the EU ability to influence Egypt's economic policy decisions appears to have declined, at least in the short-run. However, this does not mean that the Egyptian economy has changed direction in any significant way, given the success of the Gulf states in nudging Sisi towards undertaking a new round of IMF-sponsored austerity and neoliberal reforms. In light of these developments, one can reasonably expect that the Egyptian economy will increasingly be pulled towards the Gulf. In this regard, Sisi's ability to strike commercial deals with individual member states while simultaneously dragging his heels on deeper economic cooperation with the EU might aggravate this tendency, as it provides lucrative opportunities for EU-based companies without much of an influence on economic policies and their implementation. It remains to be seen whether market size, the main weapon left in the EU's armoury, will be enough to lure Egypt back towards deeper cooperation in the longer run.

Acknowledgements

The author would like to thank Leila Simona Talani, Benedetta Voltolini and an anonymous referee for their constructive comments and suggestions on earlier drafts of this piece.

References

Abdelrahman, M. (2015) *Egypt's Long Revolution: Protest Movements and Uprisings* (London: Routledge).

Adly, A. (2010) Politically-embedded Cronyism: The Case of Post-Liberalization Egypt, *Business & Politics*, 11(4), pp. 1-28.

Al-Ahram (2015) Egypt signs energy deals, MOUs worth over $40bn with investors at Sharm conference, 14 March, available at: http://english.ahram.org.eg/NewsContent/3/162/125244/Business/EEDC-/Egypt-signs-energy-deals,-MOUs-worth-over-bn-with-.aspx.

Al-Ahram weekly (2008) CBE ties up with ECB, *Issue No. 925*, 3-9 December, available at: http://weekly.ahram.org.eg/Archive/2008/925/ec1.htm.

Ayata, B. (2015) Turkish Foreign Policy in a Changing Arab World: Rise and Fall of a Regional Actor?, *Journal of European Integration*, 37(1), pp. 95-112.

Beinin, J. & Duboc, M. (2015) The Egyptian Workers' Movement Before and After the 2011 Popular Uprising. In Panitch, L. & Albo, G. (eds.) *Socialist Register 2015: Transforming Classes*, 51, pp. 136-156.

Bicchi, F. (2014) The Politics of Foreign Aid and the European Neighbourhood Policy Post-Arab Spring: 'More for More'or Less of the Same? *Mediterranean Politics*. 19(3), pp. 318-332.

Bonefeld, W. (2012) Freedom and the Strong State: On German Ordoliberalism, *New Political Economy*, 17(5), pp. 633-656.

=

Cassarino, J.P. (2016) Forms of reverse diffusion, unpublished paper.

Cavatorta, F. & Pace, M. (2010) The Post-Normative Turn in the European Union (EU)-Middle East and North Africa (MENA) Relations: An Introduction, *European Foreign Affairs Review*, 15(5), pp. 581-587.

Collombier, V. (2006) Le Parti National Démocratique (PND) et le système politique égyptien contemporain: quel rôle pour le parti hégémonique dans le stratégie de consolidation du régime autoritaire, CERI-Sciences Po, November.

Colombo, S. & Tocci, N. (2012) The EU's Response to the Arab Uprisings: Old Wine in New Bottles?. In Alcaro, R. & Haubrich-Seco, M. (eds.) *Re-thinking Western Policies in Light of the Arab Uprisings*, pp. 71-96 (Rome: Edizioni Nuova Cultura).

Damro, C. (2012) Market Power Europe, *Journal of European Public Policy*, 19(5), pp. 682-699.

Dang, H.-A.H. & Ianchovichina, E. (2016), Welfare Dynamics with Synthetic Panels: The Case of the Arab World in Transition, *Policy Research Working Paper*, WPS7595, Washington, DC: The World Bank.

Economist Intelligence Unit (2006) *Country Report: Egypt – November 2006* (London: Economist Intelligence Unit).

EEAS-European Commission (2014) Programming of the European Neighbourhood Instrument (ENI) – 2014-2020: Single Support Framework for EU Support to Egypt (2014-15).

European Central Bank (2008) Introductory statement at the press conference on the occasion of a signing of a Memorandum of Understanding with the Central Bank of Egypt on a new banking supervision programme, Cairo, 26 November.

European Central Bank (2012) Completion of banking supervision programme with the Central Bank of Egypt, press release, 15 March.

European Commission (2011a) *Communication on the Southern Mediterranean: A Partnership for Democracy and Shared Prosperity with the Southern Mediterranean*, COM(2011) 200 final, Brussels, 8 March.

European Commission (2011b) *A New Response to a Changing Neighbourhood: A Review of the European Neighbourhood Policy*, COM(2011) 303, Brussels, 25 May.

European Commission (2012) *Implementation of the European Neighbourhood Policy in Egypt Progress in 2011 and recommendations for action*, SWD(2012) 113 final, Brussels, 15 May.

European Commission (2013) *ENP Country Progress Report 2012 – Egypt*, MEMO/13/245, Brussels, 20 March.

European Commission (2015) *Implementation of the European Neighbourhood Policy in Egypt Progress in 2014 and recommendations for action*, SWD(2015) 65 final, Brussels, 25 March.

European Commission and High Representative (2013) *European Neighbourhood Policy: Working towards a Stronger Partnership*¸ JOIN(2013) 4 final, Brussels, 20 March.

EU-Egypt task force (2012) EU-Egypt task force: co-chairs conclusions, Cairo, 14 November.

Gerber, D.J. (1994) Constitutionalising the Economy: German Neo-Liberalism, Competition Law and the "New" Europe, *American Journal of Comparative Law*, 42(1), pp. 25-84.

Gerber, D.J. (1998) *Law and Competition in Twentieth Century Europe: Protecting Prometheus* (Oxford: Oxford University Press).

Griffith-Jones, S. (2007) Implications of Basel II for Stability and Growth in Developing Countries: Proposals for Further Research and Action, prepared for Ibase Rio Meeting on Financial Liberalisation and Global Governance, 19-20 March 2007, available at: https://www.researchgate.net/profile/Stephany_Griffith-Jones/publication/228907320_Implications_of_Basel_II_for_Stability_and_Growth_in_Developing_Countries_Proposals_for_Further_Research_and_Action/links/0046352d990d6eadd6000000.pdf.

Haldane, A. & May, R. (2011) Systemic Risk in Banking Ecosystems, *Nature*, 469, pp. 351-355.

Herrera, S., Hurlin, C. & Zaki, C. (2012) Why Don't Banks Lend to Egypt's Private Sector? *Policy Research Working Paper*, WPS6094, Washington, DC: The World Bank.

Holden, P. (2009a) *In Search of Structural Power: EU Aid Policy as a Global Political Instrument* (Farnham: Ashgate).

Holden, P. (2009b) Security, Power or Profit? The Economic Diplomacy of the US and the EU in North Africa, *Journal of North African Studies*, 14(1), pp. 11-32.

Ikram, K. (2006) *The Egyptian Economy, 1952-2000: Performance, Policies, Issues* (London: Routledge).

Işleyen, B. (2015) The European Union and Neoliberal Governmentality: Twinning in Tunisia and Egypt, *European Journal of International Relations*, 21(3), pp. 672-690.

Ismail, E.A. (2016) Official sources: UAE funded Egypt's increase in its IMF share, *Shorouk News*, 28 July, available at: http://www.shorouknews.com/news/view.aspx?cdate=28072016&id=0fa83fda-894c-4404-843f-b368ab3889a7.

Joya, A. (2016) Neoliberalism, the State and Economic Policy Outcomes in the Post-Arab Uprisings: The Case of Egypt, *Mediterranean Politics*, DOI: 10.1080/13629395.2016.1219182.

Khatib, L. (2013) Qatar's foreign policy: the limits of pragmatism, *International Affairs*, 89(2), pp. 417-431.

Kingsley, P. (2015) Will #Sisileaks Be Egypt's Watergate for Abdel Fatah al-Sisi? *The Guardian*, 5 March 2015, available at: http://www.theguardian.com/world/2015/mar/05/sisileaks-egypt-watergate-abdel-fatah-al-sisi.

Kolodko, G.W. (2000) *From Shock to Therapy: The Political Economy of Postsocialist Transformations* (Oxford: Oxford University Press).

Kurki, M. (2011) Democracy through Technocracy? Reflections on Technocratic Assumptions in EU Democracy Promotion Discourse, *Journal of Intervention and Statebuilding*, 5(2), pp. 211-234.

Mada Masr (2016) Survey: Business conditions worsen for 9th month in a row, *Mada Masr*, 10 July, available at: http://www.madamasr.com/news/economy/survey-business-conditions-worsen-9th-month-row.

Majone, G. (1996) *Regulating Europe* (London: Routledge).

Martin, I. (2004) The Social Impact of Euro-Mediterranean Free Trade Areas: A First Approach with Reference to the Case of Morocco, *Mediterranean Politics*, 9(3), pp. 422-458.

Menz, G. (2003) Re-regulating the Single Market: National Varieties of Capitalism and Their Responses to Europeanization, *Journal of European Public Policy*, 10(4), pp. 532-555.

Mitzen, J. (2006) Anchoring Europe's Civilizing Identity: Habits, Capabilities and Ontological Security, *Journal of European Public Policy*, 13(2), pp. 270-285.

Ozgercin, K. (2012) Seeing Like the BIS on Capital Rules: Institutionalising Self-Regulation in Global Finance, *New Political Economy*, 17(1), pp. 97-116.

Pace, M. (2009) Paradoxes and Contradictions in EU Democracy Promotion in the Mediterranean: The Limits of EU Democracy Promotion, *Democratization*, 16(1), pp. 39-58.

Parker, O. & Rosamond, B. (2013) "Normative Power Europe" Meets Economic Liberalism: Complicating Cosmopolitanism Inside/Outside the EU, *Cooperation & Conflict*, 48(2), pp. 229-246.

Peck, J. (2010) *Constructions of Neoliberal Reason* (Oxford: Oxford University Press).

Pinfari, M. (2013) The EU, Egypt and Morsi's Rise and Fall: 'Strategic Patience'and Its Discontents, *Mediterranean Politics*, 18(3), pp. 460-466.

Radaelli, C. (1999) *Technocracy in the European Union* (London: Longman).

Ravinsky, J. (2013) Friends again? Saudi Arabia, UAE jump in to aid Egypt, *Christian Science Monitor*, 10 July, available at: http://www.csmonitor.com/World/Global-Issues/2013/0710/Friends-again-Saudi-Arabia-UAE-jump-in-to-aid-Egypt.

Reuters (2016) France signed deals worth 2 billion Europe with Egypt – Elysee, *Reuters*, 19 April, available at: http://in.reuters.com/article/france-egypt-deals-idINKCN0XF2WB.

Roccu, R. (2013) *The Political Economy of the Egyptian Revolution: Mubarak, Economic Reforms and Failed Hegemony* (Basingstoke: Palgrave Macmillan).

Rodrik, D. (2006) Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's *Economic Growth in the 1990s: Learning from a Decade of Reform*, *Journal of Economic Literature*, 44(4), pp. 973-987.

Roll, S. (2010) "Finance Matters!" The Influence of Financial Sector Reforms on the Development of the Entrepreneurial Elite in Egypt, *Mediterranean Politics*, 15(3), pp. 349-370.

Ryner, M. (1998) Maastricht Convergence in the Social and Christian Democratic Heartland: Sweden and Germany, *International Journal of Political Economy*, 28(2): pp. 85-123.

Ryner, M. (2015) Europe's Ordoliberal Iron Cage: Critical Political Economy, the Euro Area Crisi and Its Management, *Journal of European Public Policy*, 22(2), pp. 275-294.

Seabrooke, L. (2006) The Bank of International Settlements, *New Political Economy*, 11(1), pp. 141-149.

Serres, T. (2016) Ordoliberalism Beyond Borders: The EU and Algeria's Human Capital, *EUI/RSCAS Working Paper*, 42/2016, Robert Schuman Centre for Advanced Studies, European University Institute.

Soliman, S. (2011) *The Autumn of Dictatorship: Fiscal Crisis and Political Change in Egypt under Mubarak* (Princeton, NJ: Princeton University Press).

Stacher, J. (2012) Establishment Mursi, *Middle East Report*, 42, pp. 10-11.

Teti, A. (2012) The EU's First Response to the 'Arab Spring': A Critical Discourse Analysis of the *Partnership for Democracy and Shared Prosperity*, *Mediterranean Politics*, 17(3), pp. 266-284.

Teti, A., Thompson, D. & Noble, C. (2013) EU Democracy Assistance Discourse in Its "New Response to a Changing Neighbourhood", *European Security*, 9(1-2), pp. 61-79.

Teti, A. & Gervasio, G. (2013) The Army's Coup if Egypt: For the People or Against the People?, *OpenDemocracy*, 10 July, available at: https://www.opendemocracy.net/andrea-teti-gennaro-gervasio/army%E2%80%99s-coup-in-egypt-for-people-or-against-people.

UNCTAD (2016) *World Investment Report 2016 – Investor Nationality: Policy Challenges* (Geneva: United Nations).

Völkel, J.C. (2014) More for More, Less for Less–More or Less: A Critique of the EU's Arab Spring Response à la Cinderella, *European Foreign Affairs Review*, 19(2), pp. 263-281.

World Bank (2006) Program Document for a Proposed Loan in the Amount of US$500 million to the Arab Republic of Egypt for a Financial Sector Development Policy Loan, *Report No. 36197 – EG*, Washington, DC: The World Bank.

World Bank (2008) *Access to Finance and Economic Growth in Egypt*, a study led by Sahar Nasr (Washington, DC: The World Bank).

World Bank (2010) Program Document for a Proposed Loan in the Amount of US$500 million to the Arab Republic for Egypt for a Third Financial Sector Development Policy Loan, *Report No. 52377 – EG,* (Washington, DC: The World Bank).

Endnotes

1 There are however notable exceptions. See for instance Martin (2004) and Holden (2009, 2010).

2 It is well known that Egypt has a financial sector dominated by its banks, partly also because the capital market had largely been dormant until the early 1990s (Ikram, 2006; Roll, 2010). Thus, reforms to the banking sector are likely to affect both the structure and the performance of the overall financial sector.

3 Interview, the then minister of investment, Cairo, July 2010.

4 Interview, senior financial economist for the World Bank in the MENA region, Cairo, June 2010.

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

6 In 2006, Intesa-San Paolo acquired an 80% equity stake in Bank of Alexandria (Economist Intelligence Unit, 2006).

7 The central banks selected represented a mix of more and less developed EU member states, some already using the common currency and some still using a national currency. The members involved were Bulgaria, Czech Republic, France, Germany, Greece, Italy and Romania.

8 Basel II, and the more recent Basel III, standards are designed by the Basel Committee on Banking Supervision (BCBS). These standards establish requirements concerning the amount of capital that a bank need to hold to safeguard itself against both financial and operational risks. In developing countries, the move towards implementing Basel II standards is often presented as an 'upgrading' of banking sector supervision. See instance on the CBE website: http://www.cbe.org.eg/en/BankingSupervision/Pages/Strategy.aspx.

9 Interview, ECB resident programme coordinator, Cairo, June 2010.

10 While the BCBS has broadened its membership over the last couple of decades, its regulations are still very much drafted according to the views and interests of the central bankers of the Group of 10, who established the Committee in 1975 (Ozgercin, 2012; Seabrooke ,2006).

11 Interview, official from EU Delegation in Egypt, June 2010.

12 The discussion papers on banking supervision are available on the CBE website: http://www.cbe.org.eg/en/BankingSupervision/Pages/AboutBaselRegulations.aspx.

13 See: http://www.cbe.org.eg/en/BankingSupervision/Pages/ReformPhase2.aspx.

14 See: http://www.cbe.org.eg/en/BankingSupervision/Pages/Strategy.aspx.

15 Interview with ECB resident programme coordinator, Cairo, June 2010.

16 This move towards simultaneously governing from a distance and increasingly shaping all aspects of social life is reminiscent of Foucault's work on governmentality and biopolitics (Işleyen, 2015). With specific reference to economic reform promotion, the hypothesis of the EU as promoter of 'post-modern ordoliberalism' has recently been advanced (Serres, 2016).

17 See relevant page on the EIB website: http://www.eib.org/products/blending/rcfsn/index.htm.

18 Apparently also through the use of off-balance sheet transactions directly into the army's coffers, thus bypassing the CBE (Kingsley, 2015).

[19] Within days of Morsi's removal, Saudi Arabia, UAE and Kuwait had already committed $12 billion in support of the new army-led regime (Ravinsky, 2013).