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The Politics of Economic Development:
How the U.S. Constrains the Work of International Financial Institutions in Egypt and Jordan

by

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Abstract

This Senior Study examines the political aspect of the international assistance provided by the International Monetary Fund and the World Bank. The Marxist argument is presented to explain the hierarchical nature of these international financial institutions, which allows the United States, the most prominent contributor of funds, to dictate how development programs are carried out. The experiences of both Egypt and Jordan with the World Bank and International Monetary Fund are taken as case studies to examine the many ways that American interests infiltrate and control development packages through unrealistic policies and unfavorable conditions. The aim of this Senior Study is to examine the relationship between international financial institutions and Egypt and Jordan, from the 1980s until the early 2000s, to understand why the proposed development plans did not lead to sustainable development and how the United States played a role in limiting progress. It delves into the flaws of the structural adjustment programs enacted in Egypt and Jordan, and the underlying American interests that prioritized existing political interests over long-term economic advancement. The analysis indicates a high level of American interference in Egypt's development attempts, which limited the imposition of policy changes in order to safeguard the country's strategic alliance to the United States. In Jordan's case, the analysis shows that the Kingdom fell victim to ill-suited policies that ignored the complexities of the struggling nation's economy to focus on the American interests of economic liberalization and privatization. Hence, the findings of this Senior Study point to the politicization of international financial institutions to work in favor of American interests and indicate a correlation between extensive American involvement in international financial institutions and the failure of struggling states to implement beneficial economic policies and emerge successfully into the globalized world market.

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Abbreviations

GDP	Gross Domestic Product
IFI	International Financial Institution
IMF	International Monetary Fund
IO	International Organization
IPE	International Political Economy
SAP	Structural Adjustment Program
U.K.	United Kingdom
U.S.	United States

Introduction

This Senior Study is about the hierarchical structure of IFIs and the implications of this structure on the economic development of struggling states. The Marxist perspective identifies the complexities of the world hierarchy and problems between the Global North and Global South, with an emphasis on the role of major powers in creating and controlling IOs to serve their interests. This Senior Study will delve into the sphere of IPE through the Marxist lens by offering a critique of the work done by the World Bank and the IMF under the influence of the U.S. These two IOs are responsible for providing reform guidance and loans to developing countries, with the World Bank concentrating on poverty reduction and the IMF focusing on monetary stability and the emergence of stronger economies.[1]

This Senior Study will specifically analyze the work of the IMF and World Bank in the Arab Republic of Egypt and the Hashemite Kingdom of Jordan, two Middle Eastern countries that have received support from IOs for decades, and attempt to explain why they have increasingly lagged behind the global North. The crucial underlying issues in international institutions that lead to a mismatch between the theoretical missions and tangible outcomes of development assistance are addressed. Egypt, Jordan, and many other developing nations have enacted numerous policy reforms as part of conditional IFI assistance packages, only to fall short of the optimistic economic predictions that were supposedly assured if they were to follow the recommendations of the IMF and World Bank. Such occurrences have left many questions about the intentions and effectiveness of these IOs under the influence of the rich and powerful states that predominantly fund them.

The purpose of this Senior Study is to answer the following questions. Considering that Egypt and Jordan have both received support from the IMF and the World Bank for decades, why have they continued to lag behind the Global North rather than become strong

[1] David Driscoll, *The IMF and the World Bank: How Do They Differ?*, (International Monetary Fund, 1996), https://www.imf.org/external/pubs/ft/exrp/differ/differ.htm.

contenders in the world market? How has the United States influenced and constrained the work of the World Bank and IMF in Egypt and Jordan?

These research questions are significant because they do not shy away from calling out the organizational inadequacies of the institutions that are tasked with providing aid and strengthening economies. Struggling states, in this case Egypt and Jordan, approach IOs looking to stimulate development and improve economic conditions by using substantial loans and following "Northern" models. However, these states are eventually confronted with the reality that there is no definite path leading to the global North, and the temporary injection of hope from IOs only leads to adverse socioeconomic effects that exacerbate economic conditions in the long run.

Thus, this research works to uncover and understand the structural obstacles to development resulting from the leverage, conditions, and constraints used by the U.S. to limit the political and economic progress of Egypt and Jordan. This will be done by shedding light on how the world hierarchy manifests itself in international institutions in a way that exacerbates global inequality and works against the cooperative, positive-sum ideas of liberal institutionalism. It is of great significance to address such instances head-on, not only to help the specific states in question, but also to recognize the fundamental ways in which major powers indirectly control vulnerable states and keep them dependent on assistance. Tackling these issues categorically challenges the established international order and may act as an eye-opening critique of IOs that presents a revolutionary perspective on how to explain "failed" development.

My main argument is that the substantial control of the U.S. over the IMF and World Bank effectively politicizes these institutions into working in favor of American interests, and that this has undermined the development efforts of Egypt and Jordan. In this case, American interests included maintaining control over dependent states, keeping favorable regimes

stable, obliging states to follow Western development models with austerity measures and privatization, even if unsuitable for the specific economy at hand, as well as other strategic interests. These interests are primarily why the U.S. interfered in a way that postponed, and at times stopped altogether, policy implementation in Egypt and worked to promote misguided policies in Jordan, while hastily claiming it to be a model of success. In doing such, the U.S. constrained the work of IFIs by redirecting and shaping it to fit political interests, which limited the chances of development in Egypt and Jordan.

Scope of Study

The scope of this Senior Study includes the internal framework and procedures of the IMF and the World Bank as well as their relevant work in Egypt and Jordan, including conditional loan packages, economic models and predictions, and policy recommendations. Thus, this Senior Study has clear-cut boundaries that do not cross into the details of Egypt or Jordan's internal economic makeup or American involvement in Egypt and Jordan beyond financial aid and dealings with the IMF and World Bank. In addition, even though the World Bank and IMF broadly promote the transparency of their overall decisions, there are limitations on the ability to be sure of what genuinely goes on during the internal decision-making process, especially when it comes to how the U.S. handles negotiations in cases that have strategic interests at play. This Senior Study will focus on the time period from the 1980s up until the early 2000s, before the events of the Arab Spring. While this is a broad time period, it includes significant years of World Bank and IMF assistance to Egypt and Jordan, and this Senior Study will remain focused on key turning points, which will allow for a clear analysis of U.S. interests and the role of IFIs in these two cases.

In this Senior Study I will proceed by presenting and reviewing the existing literature and its common themes regarding the internal structure of IFIs, their work in Egypt and Jordan

during the relevant time period, the interference of the U.S. in this work, and the consequences of this interference on Egypt and Jordan's economic development. Then, I will proceed with my analysis based on the existing literature and present findings that inform the arguments and hypotheses set forth concerning the relationship between the World Bank and IMF, under U.S. influence, and Egypt and Jordan.

Literature Review and Gaps

There has been substantial research conducted surrounding the structure of IOs and the impact of power disparities on decision-making. The following literature review will strengthen this paper by presenting the existing arguments of scholars concerning the World Bank and IMF and the experiences of Egypt and Jordan with these institutions, followed by a mention of the gaps in the literature that require further investigation. When explaining the inner-workings of the World Bank and IMF, the literature focuses on the internal voting scheme, principal-agent theory, role of the U.S., and other power considerations in the Marxist argument. In the case of Egypt, the attention falls on the special treatment of the country, especially due to U.S. political interests. When discussing Jordan's experience, scholars emphasize the extreme financial dependency that has only been worsened by the exaggerated success of the still-struggling state.

The Inner-workings of International Financial Institutions

In order to fully tackle the research questions, is important to understand how the IMF and the World Bank operate before delving into the specific experiences of these IFIs in Egypt and Jordan. There are a few insightful pieces of literature that offer straightforward explanations and thought-provoking analyses about the inner-workings and hierarchical characteristics of these institutions.

The Weighted Voting System

Many scholars shine light on the importance of power differences and material interests in the policy decisions of these international institutions. Clark explains one of the most essential concepts for understanding how these institutions make decisions regarding policy, loans, conditions, and more: the voting scheme.[2] Both the World Bank and the IMF use a system of weighted voting, in which the number of votes per country is the summation of a specific number of basic votes and an additional quota of votes based on economic size, which is determined using a number of formulas that take into account economic indicators, such as GDP, capital flows, imports, exports, and reserves.[3]

In order to understand how power and interests became central to these institutions, Clark dedicates a section of his article to uncovering the forces behind the original formula for allocating IMF quotas, which was created by an American economist, Raymond Mikesell, in 1943. At Bretton Woods, each country made suggestions as to what factors should be given the most weight in the formulas. For example, China pushed for population, the U.K. for foreign trade, and the U.S. for a combination of them.[4] However, in the end, Mikesell revealed that he essentially reverse engineered the estimates by experimenting with countless formulas until he arrived at the prearranged results that allocated the largest quotas to the U.S. and its allies.[5]

The Marxist Argument

The clear interference of the U.S. in molding the weighted voting system is an indication of the exploitation of power asymmetries between states, which is central to the Marxist view of

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2 Rob Clark, *Quotas Operandi: Examining the Distribution of Voting Power at the IMF and World Bank*, (The Sociological Quarterly, 2017), 599-600.

3 Driscoll, *The IMF and the World Bank: How Do They Differ?*

4 Clark, *Quotas Operandi: Examining the Distribution of Voting Power at the IMF and World Bank, 601-602.*

5 Ibid.

IOs that this paper expresses. In the Gramscian view of international relations, hegemony is a type of domination that includes an oppressor and the oppressed, and international institutions help the oppressor maintain their position of privilege in the world order. Scholars argue that it is not only material abilities that determine the hegemon, but also the predominant ideas and norms that gain legitimacy through the help of institutions.[6] According to the literature, institutions "soften domination,"[7] which plays a key role in indirectly reenforcing the hierarchy. Having explored how IFI's make decisions using a weighted quota system, it becomes evident that the U.S. acts as a dominating force that has shaped these institutions and their policies to work in its favor. The following figure presents important concepts that, when analyzed, can provide valuable insights into the Marxist view of the relationship between power and institutions.

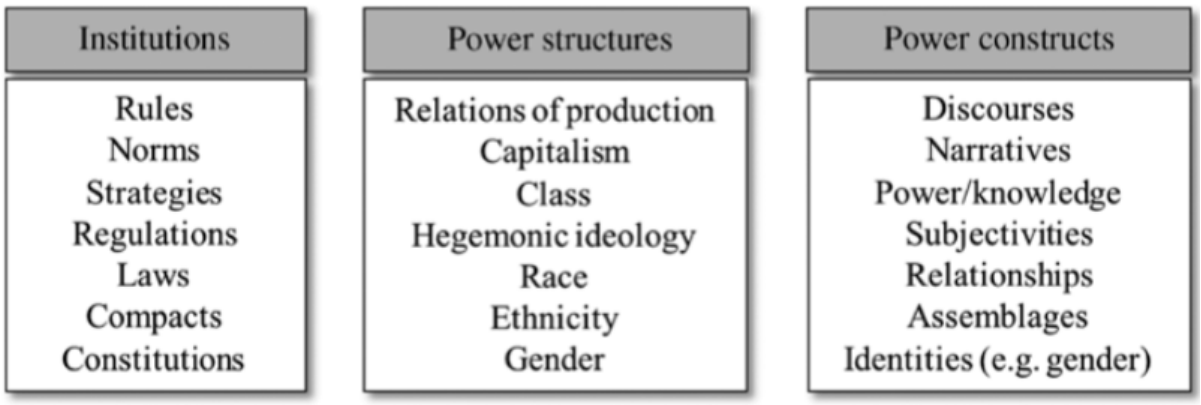

Figure 1. Key concepts for studying interactions between power and institutions.

Source: Abigail Bennet et al., "Embracing conceptual diversity to integrate power and institutional analysis: Introducing a relational typology", *International Journal of the Commons,* 2018, p. 336.

6 Nitsan Chorev and Sarah Babb, *The Crisis of Neoliberalism and the Future of International Institutions: A Comparison of the IMF and the WTO*, (Theory and Society, 2009), 461.
7 Ibid.

The Principal-Agent Theory

Mark S. Copelovitch offers some compelling insights that highlight how the above-mentioned power asymmetries and unequal voting systems of the IMF and World Bank are manifested in their work. In his work, he attempts to explain the differences that occur in IMF lending practices across different cases and time periods, with arguments rooted in power dynamics. Copelovitch does this by presenting a principal-agent theory, in which the collective principal is the U.S., along with the other G5 countries (UK, Germany, Japan, and France), and the agent is the IMF staff.[8] A significant takeaway from this article is the argument that the level of control exercised by the principal depends on both the heterogeneity and intensity of their preferences.[9] Simply put, the stronger the political or financial interests of powerful states are in a borrower nation, the more involved these powerful states will be in lending decisions, especially if there are differing opinions among the G5 that may require more lobbying between them.

It is especially important to emphasize the many powers of the U.S. as the main principal and state with the largest percentage of votes by far, almost 17%, because most significant decisions in the IMF require 85% of the votes.[10] This essentially gives the U.S. veto powers and makes U.S. domination in IFIs an undeniable fact, seeing as policies that do not align with U.S. interests have no chance of implementation, as we will see in the cases below. To put the inequality of voting into perspective, it should be noted that the African group of 24 countries possesses less than 2% of the IMF's voting power.[11] This pertinent information, along with Clark's explanation of how IFI votes were originally distributed, effectively illustrates how the interests of the U.S. are dominant in IFIs.

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[8] Mark S. Copelovitch, *Master or Servant? Common Agency and the Political Economy of IMF Lending*, (International Studies Quarterly, 2010), 55-56.

[9] Ibid., 57-58.

[10] Ngaire Woods and Domenico Lombardi, *Uneven Patterns of Governance: How Developing Countries Are Represented in the IMF*, (Review of International Political Economy, 2006), 494.

[11] Ibid., 482.

Egypt's Experience with the IMF and the World Bank

"Favored" Nation Status

The history of IMF lending commitments to Egypt outdates that of Jordan by more than two decades. There are a few pieces of literature that have addressed the politicization of the IMF using examples from Egypt. Many scholars detail how Egypt's status as a "favored" nation in a strategic position to its powerful ally, the U.S., greatly affected the IMF's dealings with it. By analyzing Egypt's relationship with the IMF during the 1990s, Chase argues that political neutrality is nonexistent in the IMF, and that this absence of neutrality granted Egypt's regime more freedom as opposed to other, less strategically advantaged countries.[12] Egypt, when worried about the domestic consequences of implementing reforms, adopted limited reforms in a very gradual manner, and the IMF enabled this with an unwavering readiness to extend loans and overlook or excuse shortfalls in policy implementation.[13]

Indirect Support of Pro-Western Regimes

Other scholars address the problematic, political framework of the IMF with a focus on U.S. intervention in the 1987 and 1991 negotiations between the IMF and Egypt. Bessma Momani agrees with Chase that the U.S. interfered on the basis of preserving its political interest of keeping the pro-Western regime secure.[14] The existing research has found that numerous conditions recommended by the IMF staff for Egypt were omitted from the final agreements, and that loan funds continued to be released to Egypt even when barely any recommendations were filled. This was the case in the 1991 agreement when Egypt received all shares of the funds despite only two out of ten conditions being implemented, and this led

12 Alison Elizabeth Chase, *The Politics of Lending and Reform: The International Monetary Fund and the Nation of Egypt*, (Stanford Journal of International Law, 2006), 193-194.
13 Ibid., 223.
14 Bessma Momani, *American Politicization of the International Monetary Fund*, (Review of International Political Economy, 2004), 880-881.

to frustration among IMF staff who were against making lenient agreements on the basis of safeguarding and prioritizing political factors.[15]

Jordan's Experience with the IMF and the World Bank

The relationship between Jordan and IFIs has not been as strategic as that of Egypt, rather it has been a dynamic on-off relationship. Even though Jordan is also an ally to the U.S., its experience with the IMF and World Bank since 1989 has been characterized by stricter conditions that led to the implementation of more reforms. However, the main issue in the case of Jordan's development is not political meddling, rather it is the extreme financial dependency on IFIs that has resulted from continued assistance and unsustainable economic conditions.[16]

A Premature Model of Success

Several scholars argue that the "success" of Jordan has been exaggerated as a model of reform in the Middle East, as the funds and guidance of IFIs may have helped the macroeconomics of Jordan, but have not mitigated the socioeconomic challenges of the country or made the country any less reliant on foreign assistance. Jordan dedicated itself to carrying out IMF recommendations, and some decisions taken include: liberalizing the financial sector, removing their currencies peg to the U.S. Dollar, and implementing austerity measures. While the country's GDP increased for a period, many scholars agree that the growth was unsustainable and that various "misguided" recommendations aggravated social and financial problems, especially for the average citizen.[17] Thus, there is a consensus in the literature that the role of IFIs in Jordan has not been as conducive to development as they

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15 Ibid., 889-890.

16 Ahmad M. Awad, *The International Monetary Fund and World Bank Intervention in Jordan*, (Arab NGO Network for Development, 2017), 2.

17 Ibid., 3-4.

have claimed, instead the geopolitical importance of the country made it the ideal case to promote economic liberalization in the Middle East, regardless of the long-term implications.[18]

Gaps in the Literature

As shown above, the literature regarding the case of Egypt and IFIs focuses more on the role of strategic alliances in limiting IMF policy ineffectiveness, while the literature concerning Jordan revolves around unsustainable recommendations and overestimated success. However, a lack of transparency within IFIs combined with a dominance of general literature about all IOs has left a shortage of literature that thoroughly covers the range of factors that affect IFI lending and the subsequent obstacles placed in front of developing nations, particularly Egypt and Jordan.

My senior study aims to fill these gaps because it is important to go further than simply addressing the Middle East and North Africa region as a whole or the practices of IFIs in general. Most of the literature broadly assesses either the economic challenges faced by Egypt and Jordan or the relationship they have with the West. While these assessments are useful to my study, I will build on and refine them by connecting the dots between the internal power structure of these IFIs and how they conduct negotiations and ultimately make decisions concerning borrowing states. I will also tackle how this structure continues to have direct and indirect effects on the long-term development of these two states. Egypt and Jordan have some similar characteristics, but the details of their experiences with IFIs considerably differ, which is why they deserve further scholarly investigation that is specifically focused on each of their cases. Building on the existing literature and filling in

[18] Jane Harrigan, Hamed El-Said, and Chengang Wang, *The IMF and the World Bank in Jordan: A Case of over Optimism and Elusive Growth*, (The Review of International Organizations, 2006), 263-265.

the gaps will contribute to the generation of a detailed analysis that may help similar developing nations assess the merits and pitfalls of approaching IFIs.

Argument, Hypotheses, Variables, and Concepts

Upon examining the existing literature and contemplating the research questions at hand, a few broad arguments can be made. In this Senior Study, I argue that the U.S., as the state with the most power and influence in the world order and IOs, controls the IMF and the World Bank and politicizes their work based on strategic interests. Correspondingly, it is argued that these IFIs, which were created with the purpose of assisting development and stimulating struggling economies, prioritize political considerations over sustainable development. This may not be purposeful, however the framework of these institutions has made it so the hierarchy of world affairs was translated into a chain of command within IFIs. Another complementary argument can be made that the weak economies, socioeconomic upheavals, and uneven distribution that have undermined the overall development chances of Egypt and Jordan can be traced back to misguided policy recommendations based on Western interests and models rather than the actual needs of borrowing states.

The hypotheses that my research aims to validate are the following. If the U.S. constantly interferes in the IMF and World Bank's work in Egypt, then Egypt is less likely to successfully implement beneficial policies and subsequently experience socioeconomic development. If Jordan continues to fall under the control of misguided IMF policies, determined in accordance with U.S. interests, then it is more likely to remain financially dependent on IFIs, funded and controlled by the U.S., and fail to emerge as a successful economy in the world market. The assumed relationship in these hypotheses is that there is a strong correlation between the involvement of IOs in struggling states and the hindrance of their development and emergence in the world economy. This is due to U.S. interference that,

in this case, influenced the actions of IFIs for the purpose of protecting and pursuing U.S. interests in Egypt and Jordan.

In these hypotheses the independent variables are U.S. interference in IFI work in Egypt and the following of misguided IMF policies in Jordan, respectively. The dependent variable, in both cases, is the delay in or failure to establish an independent, strong economy and catch up in accordance with Northern models of development. With further investigation the internal structure of IOs that reflects the world hierarchy may be considered an antecedent variable, as it is this structure that dictates how IOs provide their aid and guidance while leveraged and constrained by major powers. Thus, within this politicized framework of IFIs, it is deduced that increased involvement of the IMF and the World Bank, hegemonized by the U.S., in Egypt and Jordan leads to a significantly lower chance of their economic development into strong contenders in the global economy.

For the purpose of this Senior Study, certain definitions will be adopted for the most important concepts. The most important concept to define in this study is failed development or, more specifically, stalled development. The concept of stalled development accurately expresses the idea of states perpetually lagging behind the global North. It is important to note that this paper is not based on the unrealistic expectation that assistance from IOs would allow these struggling states to, in theory, magically catch up to the global North and become powerful contenders in the world economy. However, failure in this case is the lack of improvements in both the overall position of these states in the world economy and the standard of living of the people. Rather than define failure in absolute terms, it is more feasible and constructive to analyze failure relatively to properly assess the aforementioned correlation. The concept of U.S. interests is taken as a broad term that may encompass various geopolitical and financial considerations and objectives.

Methodology

In this Senior Study a cross-case analysis is conducted within a case study model. There is an in depth examination of each case regarding the experience of Egypt and Jordan with the IMF and the World Bank. Additionally, this Senior Study involves a comparison between the two cases to highlight similar, yet different intervening variables and conditions. Within the time period in question, both states had peace treaties with Israel, support from the U.S. and IOs, and similar economic situations. However, their experiences with the IOs in question were characterized by numerous dissimilarities as well. Therefore, implementing a cross-case analysis within the case study allows for an in-depth study, with a stronger analysis and more comprehensive findings.

This Senior Study will primarily rely on qualitative data, with a few pieces of quantitative evidence. The qualitative data will stem from the content analysis of scholarly, secondary sources and credible news outlets that cover topics including: the hierarchy within international relations and IOs, the way that IOs operate (specifically the IMF and the World Bank), the work of these IOs in Egypt and Jordan, and the outcomes and effects of this work on socioeconomic progress in these countries. Limited quantitative data will be cited from both scholarly articles and official organization websites to utilize economic indicators and trends in financial aid amounts when attempting to ascertain and label relative failure. Thus, a mixed method approach, which combines between qualitative and quantitative sources, builds a well-informed argument that is founded on the factual experiences of Egypt and Jordan when being "helped" by the IMF and the World Bank.

Analysis and Findings

The arguments of this Senior Study are focused on the indirect intervention of the U.S. in Egypt and Jordan's development efforts through the IMF and the World Bank and the

adverse effects of this involvement on these struggling states' economies. My analysis will build on the relevant literature by exposing the relevant interests of the U.S. in Egypt and Jordan and relating them to the failure of IFIs to deal with these states solely based on promoting economic development. By analyzing instances in which U.S. interests have been pursued through and reflected in IMF and World Bank dealings, the strong correlation between increased American interference in IFIs and decreased policy effectiveness and development prospects of SAPs in Egypt and Jordan will be revealed.

Background on American Interests in Egypt and Jordan

The literature has explained how the weighted voting systems of the IMF and the World Bank are inherently hierarchical and, by being such, pave the way for U.S. interests to ultimately take precedence over objective alternate viewpoints.[19] In order to understand how and why the U.S. has intentionally inserted itself in IMF and World Bank dealings with Egypt and Jordan specifically, it is imperative to delve into the relevant interests of the U.S., in these two states that may have served as underlying motives. The analysis of these cases is especially noteworthy because U.S. interests in the Middle East are usually associated with natural resources, which are not abundantly found in Egypt and Jordan. Therefore, rather than being about energy security, these cases revolve around the strategic objectives that speak to U.S. credibility and reputation in the region as the key dominant Western patron that thrives on maintaining the status quo.

U.S. Interests in Egypt

A number of historical events and strategic relations between the U.S. and Egypt have been used to justify foreign policy actions towards Egypt. The U.S. itself has continuously

[19] The U.S. is specified because the focus of this Senior Study is the U.S., but the same logic can be applied to other major powers, as their involvement in similar cases may be characterized by the same dynamics.

provided considerable foreign aid to Egypt, amounting to around $80 million in military and economic assistance since the mid-20th century.[20] Successive U.S. administrations have cited Egypt's importance to regional peace and security to justify the unusually large amount of financial aid, which increased through the Reagan and Bush presidencies.[21] Analyzing the reasons behind the American prioritization of Egypt as a recipient of foreign aid may transfer into an understanding of why the U.S. has played a role in preventing the proper implementation of IMF and World Bank policies in the country.

The politicization of aid becomes especially clear when scrutinizing the decline in aid during the 1950s and the major increase during the 1980s, as these dates coincide with notable events in Egypt. When Gamal Abdel Nasser came to power in 1956, U.S.-Egypt relations became tense, with Nasser being seen as an anti-Western Communist threat.[22] The next decade was a roller coaster of flexible U.S. reactions to events in Egypt, up until Egypt and Israel signed the first peace treaty between Israel and an Arab state. This peace treaty made Egypt a more important ally to the U.S., with a relationship based on more than Egypt's ideological makeup and strategic geography. Following the treaty, the U.S. and Egypt had solid military cooperation, greatly benefiting U.S. defense contractors, a steady stream of economic and military aid, and an unwavering support as Egypt became considered a pillar of stability in the region.[23]

This sequence of events makes it apparent that American aid is used as a "carrot" dangled in front of developing nations to elicit cooperation with political interests. This is similar to the conditionality used by the World Bank and IMF to induce policy implementation in return for

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[20] Bureau of Near Eastern Affairs, *U.S. Relations With Egypt*, (U.S. Department of State, 2019), https://www.state.gov/u-s-relations-with-egypt/.

[21] Abdul Karim Bangura, *Presidential Doctrines and United States Foreign Aid Policy Towards Egypt from Eisenhower to Clinton*, (Indian Journal of Asian Affairs, 1999), 48.

[22] Ibid., 50.

[23] Jeremy M. Sharp*, Egypt: Background and U.S. Relations,* Federation of American Scientists (Congressional Research Service, 2020), 25.

loans. For this Senior Study, it is important to point out that the U.S. spends substantial amounts of time, effort, and funds to secure Egypt's stability and ensure that Egypt is readily available to cooperate with the U.S. and Israel when strategic interests are at stake, such as when combating Islamist militants. That being said, it would be against U.S. interests, and potentially costly, to risk inducing internal upheavals by pushing dramatic economic reforms on Egypt. This is why it is logical to deduce that the U.S. would never allow its efforts for Egyptian stability and amiability to be made futile by IFIs imposing strict conditions on Egypt. The U.S. would rather protect its alliance, which was a unique one at the time in question, and the status quo than jeopardize such relations for the sake of economic development and improvement of conditions for the Egyptian people. We will come to find that the above-mentioned interests of the U.S. came to be manifested in the World Bank and IMF's dealings with Egypt, ultimately becoming obstacles to policy execution and economic development.

U.S. Interests in Jordan

U.S. relations with Jordan did not progress as smoothly as those with Egypt did, possibly because Jordan was not historically regarded as a strategic partner of the same calibre as Egypt. However, Jordan eventually became an important ally to the U.S., especially following its peace treaty with Israel. The U.S. has provided roughly $22 billion in financial assistance to Jordan since the 1950s,[24] and Jordan's Muwaffaq Salti Air Base has become home to military cooperation and joint counter-terrorism operations between American and Jordanian troops.[25] However, the proximity of Jordan to the Palestinian-Israeli conflict has placed Jordan in a difficult position with the U.S. and Arab states. Analyzing these dynamics

[24] Jeremy M. Sharp*, Jordan: Background and U.S. Relations,* Federation of American Scientists (Congressional Research Service, 2020), 11.
[25] *U.S. Military Bases and Facilities in the Middle East*, (American Security Project, 2018), 4.

can help us understand the leverage that the U.S. and IFIs had over Jordan, a state dependent on external funding, and how this leverage allowed the U.S. to impede economic progress in Jordan.

Jordan's 1950 annexation of the West Bank added a large, disgruntled population to the Kingdom, further complicating foreign relations. King Hussein's pro-Western orientation was challenged by his new constituents, while he wanted to act as a mediator between the Palestinians and the U.S. and Israel.[26] Hussein remained focused on controlling the West Bank and refused to take part in the Camp David Accords. As a consequence of this uncooperative stance, the U.S. drastically decreased support to Jordan to pressure King Hussein to make peace with Israel. On one hand, Hussein did not want to betray the Palestinian cause or anger fellow Arab states. On the other hand, it was extremely difficult for Jordan to function without aid from the West, with the U.S. refusing military sales and support to the Kingdom.[27]

Finally, King Hussein accepted an invitation to the Madrid Peace Conference of 1991, telling his constituents that, "Jordan is practically under siege; Jordan has limited resources…Jordan has both unemployment and hunger."[28] By 1994 the King was ready to initiate serious peace proceedings with Israel, hoping that Israel would help Jordan repair its economic and military ties with the U.S. The negotiations were a success, and U.S. president Clinton read out the declaration terminating the state of war between Jordan and Israel.[29] Jordan soon regained favor with the U.S., as assistance to Jordan resumed. Following the peace treaty, Jordan

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[26] Lawrence Tal, *Peace for Jordan*, (The World Today, 1993), 169.

[27] Ibid., 170.

[28] *Address to the Jordanian National Congress,* (1991), http://www.kinghussein.gov.jo/91_oct12.html.

[29] Bruce Riedel*, 25 Years on, Remembering the Path to Peace for Jordan and Israel,* (Brookings, 2019), https://www.brookings.edu/blog/order-from-chaos/2019/10/23/25-years-on-remembering-the-path-to-peace-for-jordan-and-israel/.

became a crucial U.S. ally for stability, counter-terrorism, and Israeli-Palestinian peace efforts.

Once again, the U.S. successfully leveraged the economic vulnerability of a developing nation in order to serve strategic interests. Jordan's lack of resources and extreme financial dependency were identified and exploited until King Hussein could no longer play both sides of supporting Iraq and being anti-Israel, while reaping the benefits of Western aid. In this case, the foreign aid "carrot" was confiscated until Jordan realigned itself with U.S. interests. Upon further analysis, it is not far-fetched to assume that the U.S. enjoys the dependency of struggling states due to the power dynamics that ensue from dependency. Some see dependency as a burden, while the U.S. utilizes it as leverage, especially to influence strategically valuable states like Jordan.

According to this rationale, it could be concluded that it is in the best interest of the U.S. for Jordanian economy to remain incapable of sustaining itself, and this could help explain the unsuccessful IMF and World Bank programs enacted in the Kingdom. By involving itself in Jordan's development efforts, the U.S. maintains a regional pawn and Jordan continues to follow IFI conditions to secure aid packages. To Jordan, this may appear to be a mutually beneficial relationship, however, in the long-run, Jordan's pattern of financial bandwagoning has only worsened its vulnerability and dependency.

Structural Adjustment Obstacles in Egypt

The literature has discussed the political considerations of the U.S. that made the stability of pro-Western regimes, namely that of Hosni Mubarak, a prime factor in all decisions concerning Egypt. In analyzing the specifics of the IMF and World Bank policies for Egypt, it becomes apparent that these IFIs have characteristics that liken their assistance to the "carrot" situation that this analysis has associated U.S. foreign aid with. For this reason, a

comprehensive investigation of the political mechanisms within the SAPs undertaken in Egypt will reveal the America-sized obstacle on Egypt's path towards economic development. This is not to suggest that the U.S. is entirely to blame for Egypt's lack of socioeconomic progress, however there is an importance in highlighting the most prominent voice within the IMF and the World Bank that challenges their neutrality.

In the 1980s, the decline in oil prices and immense accumulated debt of Egypt left the country in desperate need of new external funds and debt relief.[30] These circumstances gave the IMF and World Bank the upper hand in proposing vast reforms within the conditions of the programs initiated in Egypt in the early 1990s. Numerous sources insinuate that this upper hand was automatically extended to interested Western governments, and no major power was as interested as the U.S. in keeping a degree of control over the stability of Egypt.[31] There are two main issues that emerged from the policies advanced by the IMF and the World Bank and, when thoroughly examined, they point to the dominance of strategic, Western politics over the calculations and recommendations of economists.

First, the presented reforms were criticized for being more tailored to please investors and external powers than to address Egypt's internal economic troubles. Egypt was expected to implement extreme austerity measures, by removing many subsidies that citizens relied upon, promote economic liberalism, and undertake widespread privatization efforts.[32] Such policies had U.S. interests written all over them and can be linked to the American-backed programs that had been tried, mostly unsuccessfully, in parts of Latin America and Africa. These drastic proposals of change seemed to disregard the weaknesses of both Egypt's private sector and its competitive markets, which could not withstand the removal of subsidies combined with privatization and increased competition of an open economy. The Egyptian

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30 Hamed El-Said and Jane Harrigan, *Economic Reform, Social Welfare, and Instability: Jordan, Egypt, Morocco, and Tunisia, 1983-2004,* (Middle East Journal, 2014), 105.

31 Raymond A. Hinnebusch, *The Politics of Economic Reform in Egyp*t, (Third World Quarterly, 1993), 162.

32 Ibid., 163.

regime risked increased debt, dependency, and political unrest by making too many transformative decisions, thus the ruling elites dragged their feet and postponed change as much as they could, only making symbolic compromises when the "carrot" of funds from IFIs and the U.S. was jeopardized.[33]

This takes the analysis forward to the problematic inconsistencies of policy enforcement in Egypt. On paper, it seemed that the plans advised by the IMF and World Bank would limit Egypt's sovereignty and give external authorities the power to dictate which governmental actions were "best", in return for the conditional debt relief and foreign exchange injections. However, with time, IFI funds continued to be released to Egypt despite the concerns of IMF economists that economic adjustment was slow and, at times, not taken seriously.[34] This form of special treatment, which other countries were not as lucky to be granted, can only be attributed to strategic interests that tipped the negotiating scale in Egypt's favor. The previously detailed U.S. interests in Egypt set the stage for an informal agreement that granted Egypt certain privileges resulting from its special relationship with the U.S.

To the Egyptian regime, this umbrella of Western support, based on Egypt's strategic geography and cooperation with Israel, provided the necessary backing to preserve its reign. Mubarak especially valued this because his active engagement with IFIs and the U.S. overshadowed any thoughts of political change, like democratization. Thus, the overarching result of American politicization of IFIs in the case of Egypt was a perpetual cycle of stalling needed actions to satisfy short-term interests, as economic development and social projects took a back seat to political calculations. These findings directly support my hypothesis regarding Egypt, as they confirm that the U.S. using its power to project its interests in Egypt played a role in obstructing socioeconomic development. It can therefore be deduced that

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33 Ibid., 162.

34 Simon Bromley and Ray Bush, *Adjustment in Egypt? The Political Economy of Reform*, (Review of African Political Economy, 1994), 205.

constant U.S. interference in the arrangement and execution of IMF and World Bank SAPs in Egypt makes successful policy implementation and economic progress significantly less likely.

Flawed Policy Approach in Jordan

While the case of Jordan resembles that of Egypt in some aspects, the demographic challenges, proximity to the Arab-Israeli conflict, and unstable internal and external sentiments towards the West created the perfect storm of vulnerability and challenges to Jordan's attempts at economic reform. In the above analysis of American interests in Jordan, it became clear that times of increases and reductions in U.S. aid to Jordan were strategically planned according to the favorability of Jordan's actions, and this, combined with Jordan's extreme financial reliance, gave IFIs and the U.S. an obedient entity in the Middle East that was desperate for foreign exchange injections. Upon further analysis, the exceedingly flawed nature of the policy's proposed by IFIs, in accordance with U.S. interests, appear to be complicit in the exacerbation of Jordan's economic situation and external dependency.

The most prominent issue within the IFI-Jordan experience was the immense incompatibility of IFI policy proposals and conditions with the conditions of the Jordanian economy. Jordan's 1989 economic crisis prompted almost two decades of rigid economic reforms imposed by the IMF and World Bank, even though they made life more difficult for Jordan's citizens.[35] Severe austerity measures were enacted during a time when the economy was already experiencing an economic contraction and sizable foreign debt. Like Egypt, Jordan became a target for economic liberalization and privatization, which the U.S., a strong advocate for open markets, was in favor of. Limiting the already minimal government spending, taking away subsidies and social programs, and introducing new taxes, while

35 El-Said and Harrigan, *Economic Reform, Social Welfare, and Instability: Jordan, Egypt, Morocco, and Tunisia*, 102.

opening Jordan's economy to international competition left the Kingdom in a worse situation than before its SAPs.[36]

In this analysis, it is crucial to acknowledge that IFI conditions were much stricter in the case of Jordan than in Egypt, which is why Jordan had to swiftly enact the required reforms in order to secure financial assistance. Egypt was able to stall and use its strategic importance to the U.S. as leverage in aid package negotiations, and, while Jordan was also seen as an American ally in sustaining regional peace, it did not receive the same accommodations as Egypt. I believe that this is in part due to the fact that the U.S. feared political unrest in Egypt, a larger country under a harsh president, more than they did in Jordan, a smaller country under a monarchy. It also appears that Jordan's weaker and smaller economy made it easier for IFIs and Western investors to make arrangements that painted Jordan as a successful example of the IMF's impact. However, this image could not hide the reality that Jordan still lacked long-term solutions to free its economy of external dependence.[37]

The hypothesis of this Senior Study concerning Jordan cites misguided IMF advice, following U.S. models of liberalization and privatization, as a culprit in increasing the likelihood of financial dependence and economic stagnation. This analysis has shown how unsuitable and aggressive the policy reforms of Jordan were and the destructive impact that American economic ideals had on a nation that was not ready for radical change. Jordan's failure to emerge strongly into the world market cannot be attributed to a lack of trying, but rather to improper guidance that did not produce the needed results. It has also been found that political bias has dictated the degree of autonomy and understanding that struggling states are met with when consulting IFIs, and that this can lead to certain states being entitled to more leeway. It is logical to assume that if Jordan were a resource-rich country or a

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[36] Ibid., 104.

[37] Sufyan Alissa, *Rethinking Economic Reform in Jordan: Confronting Socioeconomic Realities*, (Carnegie Endowment for International Peace, 2007), 6.

stronger military power, then its relations with the U.S., and therefore the World Bank and IMF, would be much different. These findings strengthen the hypothesis regarding Jordan and challenge the decision-making process of IFIs, while questioning the objectiveness and humanitarianism of their so-called assistance programs.

IFIs: Agents of Change or Political Instruments?

Within this analysis, it is essential to realize the numerous flaws within the framework of IFIs, highlighted in the experiences of Egypt and Jordan. The U.S. has always been aware of its prominent position in IFIs and has used its influence to lobby for economic reforms that advance American interests, while disregarding the internal challenges faced by struggling states, like Egypt and Jordan. Shedding light on decades of unsuccessful assistance programs leads to questions about the effectiveness and neutrality of the World Bank and IMF.

A few lessons can be drawn from the analyzed cases, some more general than others. First, it is apparent that the degree of neutrality exhibited by IFIs depends on the relative absence or presence of major power interests in the case. With Egypt and Jordan, Middle Eastern political dynamics attracted the close involvement of the U.S. in shaping the direction of policy reform. Second, while the World Bank and IMF are known as international "financial" institutions, finances and economics are molded to fit political agendas, and not vice versa. Rather than let economic calculations dictate action, the U.S. makes it a priority to ensure that development efforts do not jeopardize political ones, which is a reason behind both U.S. intervention in IFIs and the lack of development progress in many cases, despite the apparent work of the IMF and World Bank. Furthermore, a thorough analysis of the dealings of IFIs makes it clear that the structural inadequacies within the cases of Egypt and Jordan are applicable to a larger framework. Countries in Latin America and Sub-Saharan Africa have

also been at the receiving end of IFI assistance, yet economic indicators do not suggest much progress has been made.

With that said, the findings of this Senior Study have further implications that may affect policy, international relations, economic development, and future research within the realm of IOs and economic aid. The academic critique presented in this Senior Study reveals the many issues stemming from the internal structure of IFIs all the way to the implementation of policy plans on the ground. This Senior Study found that the condition of power asymmetry between states extends into a hierarchy within IFIs, which implies a need for broad change in both policy and practice if the World Bank and IMF are to embody the neutral principles that they claim to uphold. This is why the findings of this Senior Study are relevant beyond the specificities of Egypt and Jordan's cases. It is not enough to theorize about the role of IOs and assume that they are spearheading international development without assessing the reality of development, or the lack thereof, on the ground. The more time passes without solid IFI success stories, the more questionable the credibility, effectiveness, and impartiality of these institutions become, and the findings of this Senior Study indicate that Egypt and Jordan's experiences of stalled and failed development were not isolated mistakes, but rather the product of systemic politicization within IOs, which requires further investigation.

Conclusion: Prospects of Development Moving Forward

In this Senior Study, the evident use of power asymmetries within IFIs to influence the assistance granted to the struggling economies of Egypt and Jordan has underlined the hierarchical and exploitative nature of IOs. This relevant, Marxist viewpoint emphasizes the failed promise of modernization advanced by the U.S. and IOs. While institutions are painted as neutral helping hands, a thorough analysis into their funding, voting mechanisms, and internal dynamics quickly brings this neutrality into question. At the end of the day, it is not

in the best interest of IOs to bite the hand that feeds them, and this is why the policies of IFIs are often indistinguishable from U.S. positions and strategic interests, as we have seen in the cases of Egypt and Jordan.

Egypt and Jordan engaged in SAPs from the late 1980s until the early 2000s, and the resulting economic development has been minimal, at best. In the case of Egypt, significant U.S. interests concerning Egypt's stability and pro-Western inclinations overrode economic considerations. Accommodations were made to continue funds to Egypt, maintain the status quo, and avoid political unrest over policies, even though minimal steps were taken to follow the advice of economists and improve Egypt's economic conditions. Jordan's experience involved extreme policy conditions, imposed to satisfy American interests in liberal economies, that further contracted the Kingdom's economy and increased financial dependency. This case reveals how IFI programs are molded to fit U.S. foreign policy objectives rather than the needs and capacities of developing states.

The spread of globalization has extended the interests of major powers, especially the U.S., into new realms. Extensive U.S. involvement in the work of IFIs in Egypt and Jordan indicates how intertwined political, security, and economic concerns can stand in the way of genuine development and emergence into the world economy. These cases highlight the fundamental problems of the modernization theory by exposing the unequal playing field that is sustained by major powers and transcends the political world order to affect the socioeconomic development of struggling states. While the experiences of Egypt and Jordan have some differing characteristics, the broad message arising from their trials is the same. The U.S. took advantage of its position of political and economic dominance to sway and constrain the work of the World Bank and IMF in Egypt and Jordan.

For the reasons explained in this Senior Study, increased interaction with and dependence on these IFIs placed these states under the influence of Western models and policies that

ultimately limited their chances of successful development. A broader question concerning the possibility of an equal playing field and genuine development emerges based on the findings of this Senior Study. Calling attention to the politicization of IFIs paves the way for a deeper analysis into the objectivity of modernization and overall neutrality of IOs, which is crucial if developing nations are to implement comprehensive development programs that produce tangible, long-term economic progress.

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