Summary points

- In Egypt's 2011 uprising, political and economic grievances were closely linked in attempts to address complex problems of corruption and injustice. But the cross-class, cross-ideology coalition that united behind the uprising has predictably fragmented, and different groups now have divergent views on the applicability of liberal economic policies to Egypt.

- The Islamist parties which between them won a majority in the 2011–12 parliamentary election appear to favour the continuation of a broadly pro-market policy, although, like all parties, they have emphasized the need for greater ‘social justice’ and less corruption. Leftist groups and trade unions remain largely unrepresented in parliament and tensions may be brewing between labour and Islamist forces over economic policy.

- Uncertainty over future economic policy is currently deterring investment. Although economic policy was not the main focus in the parliamentary election campaign, there is a pressing need for all parties to develop their economic blueprints further.

- Debates over the role of the state, the free market and the nature of globalization are part of democratic self-determination. Rather than repeating old mantras about the intrinsic desirability of a smaller public sector, external actors need to remember that economic policy advice on the role of the state is not purely technical but value-laden.
Introduction

When a popular uprising overthrew President Hosni Mubarak after three decades in power, Egypt’s political transition was only beginning. Mubarak’s removal reflected the formation of a wide-ranging coalition of interests, crossing class and ideological boundaries, which agreed on a shared interest in his departure. Since then, this temporary coalition has become more fragmented, and different political groups are contesting the extent to which Egypt’s political transition may involve structural changes to the distribution of power and wealth. It is presumed that the military council now ruling the country, the Supreme Council of the Armed Forces (SCAF), aims to preserve much of the existing political and economic structures, while permitting different political elites to contest a degree of power within that system.

Indeed, fundamental, institutional changes have been limited in the first year after Mubarak’s departure. In January 2012, an Egyptian presidential candidate and Nobel laureate, Mohammed El Baradei, announced he was withdrawing from the presidential contest, saying the military council was ruling ‘as if a revolution never happened and a regime never collapsed’. Yet even if structural changes have been limited, the uprising has had a dramatic impact on a number of political actors. It has empowered new actors, from the April 6 youth movement to the Salafists, weakened some of the old actors, and revealed the transformative potential of street protest, bottom-up coalition-building and mass campaigning. It is hard to overestimate the profound psychological impact of this empowerment of a public that has long been dismissed as apolitical, apathetic or fatalistic.

The new political actors in Egypt have some very different ideas about the future of the country’s economy. Egypt is by far the largest country in the Arab world, has an unusually diversified economy in a region where development is often closely tied to oil, and has a track record of strong economic growth in recent years. Its large population, numbering some 85m, constitutes a market that international investors in the Middle East and Africa will not ignore, and in the last seven years of the Mubarak regime a technocrat-heavy government had notable successes in attracting fresh inflows of foreign investment.

However, over the same period, the country continued to struggle with extensive poverty, chronic unemployment, severe strains on infrastructure and state services, and rising, and increasingly visible, economic inequality. Socio-economic demands – for decent wages, better healthcare and improved working conditions – were repeatedly voiced during the uprising, and were important in mobilizing a series of labour strikes in the preceding years. This does not mean that the protests were somehow ‘economic’ rather than ‘political’. As this paper argues, political and economic grievances were intrinsically interlinked, seen as part of complex problems of corruption and injustice. Labour unions joined middle-class professionals in making the basic political demand for Mubarak’s departure. Conversely, some of the richest people in Egypt acknowledge the need for greater attention to be paid to the notion (albeit an elastic one) of ‘social justice’ and have supported a higher minimum wage.

The extent to which economic policy should fundamentally change will continue to be contested, with many in the business community arguing that the country needs to focus on reassuring investors, while labour movements will continue to focus more on working conditions, wealth distribution and social services. This debate is part of the democratization process; foreign donors and international financial institutions that focus on the importance of ‘technical’ expertise...
versus ‘populist’ policies sometimes inadvertently exhibit anti-democratic tendencies, although they are increasingly trying to adopt the language of inclusion and participation. Emerging political players have a long way to go to develop clear, evidence-based economic policies and move beyond simple slogans. Meanwhile, the business sector needs to adapt to a new environment with more emphasis on community and labour relations than in the previous situation where government relations were paramount.

It remains unlikely that Egypt will close itself to foreign investment or attempt to revert to a Nasserist model of nationalization; but addressing the causes of the uprising will require more consideration of social justice, social values and economic ‘rights’ in economic policy-making. So far, representatives of the Islamist movements that dominated the 2011–12 parliamentary elections, the Muslim Brotherhood’s Freedom and Justice Party (FJP) and the Salafist Al-Nour party, have emphasized their commitment to attracting foreign investment and developing business. While all the major parties stress the need for greater social justice and better state services, there are as yet no indications that the Islamist movements seek radical change to economic policy. There may be tensions to come between Islamists and leftists on issues of wealth distribution and class politics.

While political uncertainty has increased Egypt’s already substantial economic challenges, and has alarmed some investors, the period of political change presents an opportunity to build a stronger, more inclusive and more politically legitimate economy in the medium to long term. The current uncertainty about future investment is weighing on business confidence, but uncertainty is inevitable at a time of political transition. There are even positive aspects in that Egypt is breaking away from one-party rule and discovering fresh policy options. Building confidence among local and foreign investors will depend in part on Egypt’s progress in moving ahead with a clearly defined political transition process, and on improving the transparency of policy-making. These are areas where the role of the ruling military council will be critical, and the military needs to be aware that future economic development will depend not only on security but on transparency and accountability.

**Egypt’s economy: a brief overview**

Egypt has significant economic resources. It has an excellent geostrategic location for trade, at the crossroads of Europe, the Middle East and Africa, with important ports as well as the Suez Canal. Having made significant gas discoveries over the past decade, it has the 16th largest proven natural gas reserves in the world,\(^1\) at 78 trillion cubic feet, or 1.6% of the world’s total known gas reserves (compared with 4.3% in Saudi Arabia and 3.2% in the UAE).\(^2\) Gas production averaged 5.9 billion cubic feet per day in 2010, while domestic gas consumption was 4.4 billion cubic feet per day.\(^3\) Its population of 85m people is the largest in the Middle East – indeed, Egyptians account for roughly one-quarter of the Arab world – and the second largest in Africa, after Nigeria. As in other Arab countries, the population is young, with 32% being under 15. These demographics are favourable to high rates of economic growth. To some extent, they can complement and help counterbalance the ageing populations and rising dependency ratios in Europe, Egypt’s main trading partner. In addition, women’s employment is relatively high for the Arab world. The country also has a large diaspora. While this partly reflects a ‘brain drain’, it is also the source of remittances, which provide some US$8bn of income per year and are the third-largest source of foreign currency after oil and tourism. The economy is relatively diversified, especially in comparison with other Arab countries.

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3. Although Egypt is a net gas exporter, it imports some types of gas. In particular, its domestic production of butane gas, which is subsidized and widely used by households, only covers around 50% of domestic butane consumption. The remainder is imported from countries including Saudi Arabia, and in 2011 it was reported that Egypt was considering new import deals with Iran and Algeria to meet butane demand. Inefficiencies in the system mean butane gas shortages have occurred sporadically for some time; they have sometimes incorrectly been blamed on the fact that Egypt exports natural gas to Israel, though this is not the same type of gas. Such shortages have become a more frequent occurrence since the uprising as weaker security has made it easier for black marketeers to divert subsidized fuel for their own profits.
Real GDP growth has averaged 4.5% over the past 20 years. It was boosted by economic reforms carried out by the Ahmed Nazif cabinet that was in power from 2004 to 2011, and remained at just over 4% even during the global recession of 2009. However, growth has rarely managed to reach the levels of 7% per year that international institutions usually estimate as needed to start reducing unemployment (and in practice, the job-creating effect of growth depends on which sectors are growing, as some are more labour-intensive than others). An estimated 700,000 people enter the labour market each year, and the NGO Injaz estimates that most graduates will take five years to find a job.  

At the same time, the country has struggled to distribute the benefits of growth among the large and expanding population, nearly half of which lives on less than $2 per day. Growth has not translated into adequate jobs – in either quantity or quality – for the growing number of young people of working age. Moreover, the country’s infrastructure, housing and social services have not kept pace with the rapid rise in the population and range from being in a state of strain to one of near-collapse.

Egyptian politicians argued that their measures to attract investment benefited the country as a whole by creating jobs and by boosting incomes through a trickle-down effect. By most indicators, material well-being improved during Mubarak’s period in office. Child mortality was reduced from 176 deaths per 1,000 live births in 1980 to 30 in 2005 and 21 in 2009. The average years of schooling per person rose from just two years in 1980 to 6.4 in 2011. Life expectancy rose from 56 in 1980 to 73 in 2011 – on a par with Brazil or China. In addition, consumers have enjoyed more material benefits in terms of widespread car ownership, access to computers, mobile phones, washing machines and other labour-saving devices.

However, both absolute and relative poverty rates seem to have increased in the past decade. The proportion of the population living below the national poverty line – a measure of relative poverty – rose from 16.7% in 2000 to 22% in 2008, according to the latest available data from the World Bank, over a period when many other emerging markets reduced poverty. Absolute poverty, defined by global measurements, is much more limited. However, the proportion of people living on less than US$1 per day rose slightly from 1.8% in 2000 to 2% in 2005 (having previously declined from 4.6% of the population in 1991). Child malnutrition, measured by the proportion of underweight children, also increased slightly between 2005 and 2008, partly reversing improvements made in the 1990s.

One of the problems has been persistently high inflation; this has had a particularly negative effect on the poor, who spend a higher proportion of their income on food and housing than the better-off. The worse-off also struggle to negotiate wage increases to compensate for the higher cost of living as they are likely to be either unemployed, informally employed or employed in jobs seen as ‘unskilled’. In general, economic liberalization will tend to depress wages for the unskilled or low-skilled workers in sectors that are opened up to international competition, while highly skilled staff in senior private-sector positions may see their wages rise as more international companies invest in the country and seek to recruit world-class managerial talent. By 2008, there was increasingly widespread scepticism about the trickle-down effect. In 2009, the

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4 For more on the link between unemployment and education, see Louisa Loveluck, ‘Education in Egypt: Key Challenges’, Background Paper, Middle East and North Africa Programme, Chatham House, March 2012 http://www.chathamhouse.org/publications/papers/view/182603.
9 Egypt is a middle-income country and its levels of absolute poverty do not meet the ILO definitions of extreme poverty (more than 50% of the population on below US$1.25 per day) or moderate poverty (more than 50% below US$2 per day).
11 Ibid.
General Authority for Investment and Free Zones (GAFI), a state agency, published a report that analysed its limitations in Egypt and called for reforms, including amendments to labour laws, to distribute the country’s income more fairly.12

The business sector has also been polarized between a small number of large companies and the vast number of small businesses and micro-enterprises that provide the majority of Egypt’s jobs. Many of the latter operate in the informal sector, seeking to avoid the costs of bureaucracy or bribes, and are thus beyond the reach of efforts to regulate business – whether in terms of pro-business legislation or the protection of labour rights. This structural challenge will remain a constraint for the newly empowered economic policy-makers.

As argued below, economic grievances reflect perceptions and expectations as well as purely material conditions. When the Egyptian Arab Republic was first established, Gamal Abdel Nasser offered an implicit social contract where the state would be politically authoritarian but would provide jobs, services and a guaranteed minimum living standard. Since Nasser, successive governments have sought to retain the political authoritarianism while gradually eroding the economic end of the bargain. This ultimately proved unsustainable. One of the problems with the advice Egypt has had over the years from international financial institutions such as the International Monetary Fund is that it has tended to focus on rolling back the state as if it were a purely technical economic issue, leaving aside the political context. But this provided only a partial picture.

Political or economic protests? A false dichotomy
It is sometimes asked whether the root causes of the protests were political, meaning an expression of the desire for democracy and rights, or economic, against rising food prices and stagnant wages. This is a false dichotomy. Egypt’s 2011 protests articulated a variety of political and economic grievances that are deeply interlinked. The core protestor slogans of ‘bread, freedom and justice’ and ‘bread, freedom and national dignity’ united a mixture of political, economic and moral concerns, seen as relating to the legitimacy of the state and its leadership. Protestors frequently framed their concerns in terms of notions of ‘corruption’, ‘injustice’ and a perceived lack of ‘dignity’, complex concerns that referred to a combination of grievances over political rights, living standards and a broader sense that economic deprivations were unfair and immoral. The issue was not simply low wages, or collapsing healthcare, or the failing education system, but perceptions that these phenomena were related to government failures, chronic corruption and an abandonment of state responsibilities.13

Corruption – at both a grand and a petty level – had become increasingly visible in the last decade of Mubarak’s rule, with increasingly close and cronyistic ties between the ruling party and the business elite.14 Yet the perception of corruption among Egyptians goes beyond the daily reality of bribery and the awareness of fraudulent business dealings to a more generalized sense that incentives and rewards were unfair; that successful business people were part of a closed elite with close ties to the government and benefiting from favourable treatment every step of the way; in short, that all this was part of a deeply distorted economic system.15

In an analysis of revolutions written before the 2011 uprisings, Asef Bayat argues that explaining revolutions requires, among other elements, an understanding of how the revolutionaries interpret their grievances: ‘… whom do they blame as being responsible: themselves, God, the state, their immediate superior at work,

or fate?16 Some comparison may be made with the British historian E.P. Thompson’s work on bread riots in 18th-century England. Thompson argued that these usually reflected not only a material increase in prices, but a perception that social values (which he called ‘the assumptions of an older moral economy’) were being immorally breached.17 His analysis focused on the mentality, expectations and traditions of rioters and protestors as a key explanatory variables – something that seems highly relevant to the analysis of why specific uprisings, such as that in Egypt, were stronger and more intense than other protest movements, at a time when unemployment and household financial stresses were global phenomena.

The groups that laid the groundwork for the protests of 25 January 2011 drew on both political and economic grievances. The Kefaya movement, a loose umbrella grouping whose cross-ideological approach prefigured the cross-class, cross-ideological composition of the January 2011 protests, united around opposition to the presumed plan for the president’s son, Gamal Mubarak, to succeed him. Its other main rallying cry was opposition to corruption. The April 6th youth movement, one of the youth coalitions that organized protests on 25 January, was named after the anniversary of an attempted national strike in 2008, led by textile workers. Labour movements were highly active in the 2011 anti-Mubarak protests around the country. Meanwhile, the ‘We Are All Khaled Said’ Facebook group formed in opposition to police brutality (Khaled Said was a young Alexandrian who was beaten to death in the street by the police in 2010, and 25 January was chosen because it was the annual ‘celebration’ of ‘Police Day’). However, its lists of demands for the 25 January demonstrations began with ‘confronting the problem of poverty’, followed by three overtly political demands: cancelling the 30-year-long state of emergency; removing the interior minister; and limiting presidential terms to two successive terms (Mubarak was nearing the end of his fifth).18

On 25 January, protestors’ grievances, motivations and objectives were varied and diverse. The protests were supported by a variety of different social and civil society movements with different priorities, from established political, social and economic associations such as NGOs and labour unions to new-generation internet activists and social movements that drew in other, previously non-political organizations, such as football supporters. Indeed, the protest movement’s success in unseating the president of 30 years reflects its wide support base, crossing class, ideological and religious boundaries and displaying an unaccustomed unity against a regime that had years of experience in playing ‘divide and rule’ with the traditional opposition parties.19 A well-known socialist journalist, Hossam Hamalawy, wrote on his blog the day after Mubarak stepped down,

In Tahrir Square you found sons and daughters of the Egyptian elite, together with the workers, middle class citizens, and the urban poor. Mubarak has managed to alienate all social classes in society including [a] wide section of the bourgeoisie.20

Likewise, a businessman and academic, Mohammed El-Beltagy, wrote of the protests,

17 ‘This was rarely a mere uproar which culminated in the breaking open of barns or the looting of shops. It was legitimized by the assumptions of an older moral economy, which taught the immorality of any unfair method of forcing up the price of provisions by profiteering upon the necessities of the people.’ E.P. Thompson, The Making of the English Working Class (Random House, 1963) p. 63.
18 These demands appear modest in retrospect. Protestors’ demands escalated after the authorities made crude and violent attempts to suppress them, and as the increasing numbers created the impression of a critical mass.
I come from an upper class background with plenty of ‘connections’ to the rich and powerful … On January 25th my bubble burst open. It was as if a platform of interaction to all was opened … The Marxist was feeling a strong bond with the Islamist, the intellectual with the poor illiterate, and the millionaire to the pauper.21

Apart from the shared desire for political change, these two very different protestors expressed radically different visions for Egypt’s economic future; elsewhere in the same post, Hamalawy urges ‘take Tahrir to the factories’, while El-Beltagy comments that he thought the protestors’ demands for a certain minimum wage were naïve and needed to be studied by a professional economist. These examples are a microcosm of a broader divergence between different protestors regarding the extent to which there should be structural changes to Egypt’s economy as part of its political transition, which also relates to their tolerance for ongoing unrest, protests and strikes.

There remains a concern among many observers that a persistent failure to address the economic aspects of popular demands could ultimately lead to a second, angrier and hungrier revolution yet to come.

The potential for urban unrest had been illustrated both by the series of protests organized by the Kefaya movement in 2004–06 and by urban riots, such as the football riots of 2009, which were not overtly political or organized but indicated the potential for Cairo’s large numbers of unemployed youth to trigger unrest. However, most observers underestimated the potential for Egyptians – frequently labelled ‘apolitical’, ‘apathetic’ or ‘fatalistic’ – to mobilize large numbers behind explicitly political causes. There remains a concern among many observers that persistent failure to address the economic aspects of popular demands could ultimately lead to a second, angrier and hungrier revolution.

The economic impact of the 2011 uprising

Predictably, the uncertainty created by the ongoing political transition has deterred investment and depressed growth. GDP rose by just 0.2% year-on-year in July–September 2011, and the official rate of unemployment was 11.9%, up from 9.0% in 2010. The official figure is usually assumed to be an underestimate; anyone who works one hour per week is officially counted as employed.22 Yet there will be significant opportunities to strengthen the Egyptian economy if the political transition achieves a more accountable system of government with greater transparency and less corruption. Indeed, under an optimistic scenario, if there were greater investment in the human capital of the broad mass of the country’s population, and a return of educated diaspora Egyptians, growth rates could increase significantly in the longer term. Reflecting this perception of opportunity, very few companies have so far withdrawn their investments from Egypt as a result of the political transition.

The uncertainty dealt an immediate blow to key sources of foreign income – foreign direct investment and tourism – although gas sales and Suez Canal revenues have remained supportive. Lower inflows of revenue from exports, services, remittances and investment have placed downward pressure on foreign reserves and hence on the currency.

The assumption that real power is held by the SCAF has added to perceptions that policy is unpredictable and non-transparent. These changes tend to be of even greater concern to foreign investors than the country’s short-term security challenges. Repeated U-turns over a proposed IMF loan illustrate the uncertainty over policy. In June 2011, the government said it would take a $3bn one-year concessional loan from the IMF for budget support. It then suddenly announced that it would not be taking up the loan, in a move generally attributed to pressure from senior generals concerned that foreign debt would constrain their independence. In January 2012, the government again declared its intention to borrow from the IMF. After months of debate in parliament, the finance minister said in late April that the loan would begin in May, nearly a year after it was first announced.

The debate over the IMF loan is largely political, reflecting controversies over foreign financing and IMF conditionality, and a rejection of the loan does not necessarily mean that economic policy will change drastically. While the conditions attached to this specific loan were relatively light, the negative perceptions reflect the historical baggage attached both to foreign debt and to international financial institutions that are seen as having lavished praise on the previous governments (although work by the World Bank in studying issues such as poverty, bureaucracy and corruption is perhaps less well known). However, the mixed messages sent over the loan have contributed to an appearance of indecisiveness and poor coordination.

Egypt has also faced external shocks that are not directly related to its own political changes, notably persistently high world food prices, and the displacement of up to 1.5m Egyptians previously working in Libya. It has also had to contend with slow growth in European export markets and reduced employment opportunities for Egyptian workers in Europe, although it has cost advantages over other tourist destinations and trading partners favoured by Europeans.

Economic policy in the transitional period

After the forced resignation of Mubarak, the ruling military council appointed a new government, headed by Prime Minister Essam Sharaf. He resigned in November 2011 and the SCAF appointed a new cabinet, headed by a 78-year-old former prime minister, Kamal Ganzouri. Policy progress has been limited under each of these transitional governments. The Sharaf government, which oversaw the 2011–12 budget, sought to offset some of the negative economic impact by increasing spending. A successful fiscal stimulus in 2009 fast-tracked capital spending on much-needed infrastructure projects, and helped underpin growth of some 4.6% that year, beating global and Arab-world averages. However, the fiscal deficit is officially predicted to expand to 8.6%, and private forecasters expect it to be even larger in practice.

The Sharaf government took a step towards a more progressive tax system, raising the threshold for income tax (below which no tax is charged) to EGP12,000 per year from the previous EGP9,000, while introducing a new top rate of tax of 25% for any individuals or companies with an annual revenue of more than EGP10bn (previously the top rate was 20%, applying to individuals or businesses with an annual revenue in excess of EGP40,000). However, there remain some serious questions about fiscal sustainability. In October 2011, Standard & Poor’s downgraded Egypt’s sovereign debt rating. While external debt has been sharply reduced compared with the 1990s, Egypt’s banks still face a heavy burden of lending to the government, diminishing their ability to support domestic businesses. Yields on nine-month Treasury bills were 15.5% in late April 2012, a rate of interest with which few corporations would be able to compete.

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24 The Middle East and North Africa Programme at Chatham House convened a workshop in Cairo in September to explore this in detail. A summary of the discussions is available in ‘The Role of International Loans and Capital in Egypt’s Transition’, Egypt Dialogue Workshop Report, Chatham House, September 2011, http://www.chathamhouse.org/publications/papers/view/181031. It is likely that the role of the IMF, World Bank and international assistance in general will remain controversial, with opposition both from much of civil society and apparently from members of the military council.
Promises of financial support have come from the Deauville Partnership, a multilateral initiative by the G8, Turkey and some Gulf countries, and from four Gulf monarchies. However, these pledges have yet to materialize, which is a concern when the country has immediate needs for support. Some observers have suggested that international donors are waiting for an IMF agreement before proceeding.

Both the transitional governments have acknowledged the need to redesign the energy subsidy system but have done little about it. At present, the subsidy for butane gas costs more than the entire budgetary allocation for higher education. In January the Ganzouri government announced that it would raise by one-third the prices that cement, steel and ceramic firms pay for their state-subsidized energy, without defining a timeline. Ministers have argued that the post-Mubarak government has more political legitimacy than its predecessor, and that it is therefore more likely to be trusted by the public when explaining the rationale behind reforms, but they have not gone as far as actually implementing the potentially controversial changes during the transition period.

The Sharaf government said it would increase spending on education and on research and development (R&D), which are both very low in the Arab world. The 2011–12 budget foresees a 16% increase of expenditure on education, to EGP55.7bn, and nearly 50% on R&D, to EGP3bn. The latter is still relatively low as a percentage of GDP, at around 0.4%, compared with 1.7% in Europe. The then assistant minister for research, Maged Al-Sherbiny, told the science magazine *Nature* that the longer-term aim was to increase R&D spending to 1% of GDP by 2012 and 2% by 2015, and that ‘We are going to build our economy to be based on democracy, science and technology’. Implementation is uncertain given the transitional status of the government but some of the current groundwork may help future governments.

A small number of land-sale contracts have been renegotiated, notably the controversial Toshka agriculture contract signed with Kingdom Holdings of Saudi Arabia. Five privatization deals, including that of the department store Omar Effendi, have also been annulled by the courts on the grounds that the sales were undervalued. However, so far this appears to be an effort to deal with perceptions of corruption and conflicts of interest (with the ultimate aim of selling the assets to other investors at a more competitive price) rather than a policy of renationalization.

In 2012 a new private-sector minimum wage of EGP700 (US$116) per month came into effect. This was welcomed by workers in principle, but in practice large numbers will be excluded, as businesses that employ fewer than ten people are exempt from the law, and many other businesses operate informally, outside the law. The wage compares with a January 2012 minimum wage of $200 per month in Beijing.25

Investor perceptions

In the short term, investor confidence in Egypt is low – but, as noted, no major investors have pulled out. Egypt is still viewed as offering some key advantages, such as its large population and geostrategic location and the relative diversification of its economy. However, most international investors are concerned about predictability and are adopting a ‘wait and see’ approach. According to Philip McCrum, MENA Director of the Economist Corporate Network, which provides business intelligence for companies investing in the Middle East, the main concerns of executives are security risk and policy uncertainty. McCrum says that many believe 2012 may be a worse year for business than 2011 owing to political uncertainty, continued instability and currency volatility, and that ‘if the economy worsens and the political climate does not stabilize, or produces non-business-friendly policies, some companies may reassess the scope of their operations’.26 Businesses are also uncertain about the impact of a more confident Islamist influence on the conditions in which they operate in Egypt.

In addition to the inevitable uncertainty about government policy at a time of political transition, there are three main worries for investors. As noted above, one is security. Fear of crime appears to have increased since

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26 Email interview, January 2012.
the uprisings. Yet it is not clear how far this reflects real increases in crime, rather than an increased perception of the risk (which can be fed, for instance, by more extensive media coverage). Interestingly, polling data published by Gallup Abu Dhabi in October 2011 indicate that among the respondents the actual experience of crime has held steady since the fall of Mubarak, but the fear of crime (measured by the number of respondents who agree with the statement that they do not feel safe walking alone in their local area at night) has risen significantly. A second key concern is the fear of choosing the ‘wrong’ local partner, who may fall foul of corruption laws or of the changing political situation. Thirdly, and perhaps most importantly, investors worry about anti-business sentiment among the public. Concerns about corruption, cronyism and conflicts of interest appear to have contributed to a widespread negative perception of big business in general. Businesses complain that they are all being unfairly tarred with the same brush. In a comment widely echoed among business people, the managing director of Abraaj Capital, Mustafa Abdel-Wadood, said: ‘There’s a strong populist anti-private sector sentiment, which frankly is not very encouraging … Not to say we won’t invest in this period; we will just be more cautious.’

A few new investments are coming in from Gulf countries. Qatar has promised some US$10bn in investment, though it is not clear if this will all materialize. In October, while the first lady of Qatar, Sheikh Moza, was visiting Egypt, a property firm owned by the Qatari sovereign wealth fund, Qatari Diar Real Estate Investment Company, signed a US$534m contract with Lebanon’s Consolidated Contractors Company to develop two projects, a US$464.3m ‘Nile Corniche’ and a US$79.5m seaside resort in Sharm El Sheikh. Also in October, the Egyptian unit of Savola Al-Azizia United Company, one of Saudi Arabia’s biggest food companies, bought majority (78%) stakes in two Egyptian pasta makers, al-Malika and al-Farasha, for US$93m. In a statement, Savola said that the two companies between them supplied 30% of the Egyptian pasta market from two factories producing 120,000 tons per year. Saudi investors have also expressed potential interest in Islamic banking opportunities in Egypt in future. Previously, the legal framework had not been conducive to such investment – although consumer demand may also be limited, given the memory of supposedly sharia-compliant investment schemes that proved to be little more than pyramid schemes in the past.

Other notable investments in 2011 include a reported US$1.1bn investment by a US energy firm, Apache, whose CEO said it would invest another US$1bn in Egypt in 2012, and, on a smaller scale, US$16m by Coca-Cola into a new fruit juice factory. Also in June, a German development fund and the European Investment Bank invested US$21m into a fund set up by Citadel Capital, a leading Egyptian investment firm, to develop Nile river transport. A German manufacturer, RKW, announced in November that it had started production at a US$30m plant to produce materials for diapers.

29 Some Gulf investors may be put off by negative perceptions of political risk. In general, the Gulf media – which self-censor heavily and tend to be extremely sensitive to the sentiments of the rulers – like to portray Egypt as something of a disaster zone; after all, Gulf elites have few incentives to represent it as a successful model for democratic transition.
Opportunities

A number of investors have argued for optimism. For instance, on 3 February 2011, Citadel Capital issued a statement saying that in the long term, what currently seemed a ‘difficult period’ would result in a ‘more stable and faster-growing Egypt’, citing the country’s demographics and proximity to other major consumer markets.30 Ahmed Fattouh, CEO of Globalist Capital Management, a hedge fund in the US, said in February 2011 that the revolution had shown the world that many Egyptians ‘are very internet savvy and very much participants in the modern world’, and that this was making US venture capitalists pay attention to a market they had previously overlooked.31

Ala’a Assem, an entrepreneur who set up a medical import company in 2010, commented that ‘the previous government was only business-friendly to the selected few … but now small investors and entrepreneurs like myself have a much better chance than before and that’s where the real growth will come from.’32 He also said that staff in government ministries had begun to treat smaller businessmen better since the uprising.

The political transition presents opportunities to build fresh links with diaspora Egyptians, some of whom left for political reasons. According to the Ministry of Manpower’s Emigration Sector, there were an estimated 6.5m Egyptian nationals working overseas as of 2008 (the latest data available33). The vast majority – an estimated 4.8m – work in other Arab countries, mainly in the Gulf. Some 800,000 work in Europe, chiefly in the UK (250,000), Italy (190,000) and France (160,000), and another 800,000 in North America. There are opportunities for a new regime to develop better links with expatriates who often left because of disillusionment with the previous system.

Priorities for future policy

So far, very little has actually changed in terms of the structure of the economy or the direction of policy. Egypt retains its key advantages – a large domestic market, an enviable strategic location, and a relatively diversified economy – while key drawbacks – skills mismatches and infrastructure deficiencies – are also largely unchanged. Much remains to play for.

The next government will face many of the same deep, structural economic challenges as previous governments. New political players will need to develop policies to address critical issues such as job creation; poverty, living standards and wealth distribution; health and education services, which are close to collapsing in some areas; tackling inflation, especially for food;34 possible land reform; overseeing the development of infrastructure for the over-crowded capital and for badly served rural areas; tackling pervasive corruption, and addressing the chronic bureaucracy that creates incentives for petty corruption. At the same time they will have to deal with a fiscal deficit that reached nearly 10% of GDP in the 2011–12 fiscal year.35 This will require a variety of trade-offs; for instance, plans to make the overstaffed bureaucracy more efficient may founder on the immediate imperative of providing jobs.

All these are long-term issues, not the result of the political transition. Indeed, there is potential for the transition to help to solve some of these problems – if there are structural reforms to improve transparency and accountability, seriously tackle corruption, reduce red tape and improve access to education and healthcare. A number of civil society initiatives are under way to research and advocate for progress on some of these issues, capitalizing on the goodwill and

32 Author interview, Cairo, September 2011.
34 As a major food importer, Egypt is vulnerable to changes in global food prices. Some food subsidies are available; the price of a subsidized loaf has been unchanged since Mubarak came to power, though by all accounts the loaves concerned have become much smaller and lighter in those three decades. But there is a great need to reform the structure of food supplies in order to help bring down prices in the local markets.
35 Egypt’s fiscal year runs from July to June.
hope that accompanied the uprising. For instance, a group of lawyers is working on a voluntary basis drafting anti-corruption legislation to present to the new government (the Egyptian Initiative to Prevent Corruption). A number of Egyptian journalists are also drafting a possible Information Law, to enhance freedom of information. An NGO, Al-Fanar, is tapping diaspora capital for social enterprises such as early childhood education and local production of educational toys, in what it calls a model of ‘venture philanthropy’.

However, the political transition entails hard-fought battles. In recent months, much of the energy of civil society and political activists has been expended on immediate, pressing disputes over the pace and form of transition and the ongoing role of the SCAF. This has crowded out the available time and energy for producing longer-term policy ideas. Moreover, voting in the 2011–12 elections seems to have been based more on identity politics and broad principles than on specific manifesto pledges – not surprising when most of the parties are largely untested in government.

Debating liberalization

Today it is virtually received wisdom that Egyptian capitalism had become too cronyistic (dominated by a small, closed elite, often with personal connections and political loyalty), and that government policy did not do enough to address poverty. The system failed to provide the perception of equality of opportunity that can, in some contexts, legitimize high levels of inequality of wealth. During the 2011–12 election campaigns, most parties emphasized the need for greater ‘social justice’. There is, however, a lack of consensus about whether the Nazif government had been too economically liberal or not economically liberal enough.

Supporters of economic liberalization argue that it is precisely what Egypt needs – especially openness to competition – but that previous efforts did not go far enough, as the lack of political reform hampered efforts at economic reform. Markets were distorted by cronyism, privileged monopolies, nepotism and corruption. Genuine liberalization would have created a more level playing field. Over time, the business community appears to have become less tolerant of strikes and protests that continue to disrupt business operations; many are worried by the economic impact of ongoing instability and the spread of apparent anti-business sentiment. That said, generalizations about business people’s political views should be treated with care since they exhibit diverse political views and are represented in many different political parties, from liberals to Salafists.

Meanwhile leftists, including trade union leaders, socialists and some of the youth activists, tend to question the assumptions underlying economic liberalization and are less likely to see Western countries as a model. These forces were among the opponents of borrowing from the IMF, forming an uneasy coalition of interests with the military council on this single issue. Some of these activists have transnational linkages with social movements and labour movements elsewhere. For instance, some members of April 6th have shared experiences with UK Uncut, a British anti-austerity movement, while Egyptian trade unions have worked with other international counterparts. Wael Gamal, economics editor of Al Shorouk newspaper, has argued that traditional economic theories are being questioned globally following the 2008 financial crisis and that economic arguments for focusing on macroeconomic growth as the top priority, while addressing poverty mainly through the supposed trickle-down effect, have been badly undermined by that crisis. Ahmed Harara, an activist who lost one eye in anti-Mubarak protests and the other eye in protests against military rule, has said that his most memorable moments of 2011 were 28 January in Egypt (a decisive day in the uprising, when protestors in Tahrir Square were attacked by government-hired thugs on horses and camels) and the beginning of Occupy Wall Street in the US.


37 Indeed Tahrir Square became a point of reference for the Occupy London protests that were ongoing in the City of London at the time of writing: activists put up a new street sign in St Paul’s Churchyard reading ‘Tahrir Square City of Westminster’, hoisted an Egyptian flag on the railings around St Paul’s Cathedral, held a talk on the Egyptian revolution in a ‘University Tent’ outside the cathedral, and organized a sit-in on the cathedral steps in solidarity with a detained Egyptian blogger, Alaa Abdel Fattah.

However, there seems to be a deficit of clear alternative blueprints for the economy. One dilemma is that while trust in business may be lacking, levels of trust in the state are also likely to be low. Ultimately, as the experience of privatization in Egypt has shown, the problems lie more in corruption, inefficiency and mismanagement than in private-sector or public-sector ownership; privatization is not necessarily a panacea for such problems. Another concern is that it is not clear how the state would fund a significant expansion of its role given its large fiscal deficit. Egypt has experienced disappointment both with a state-dominated economic development approach under Nasser and with subsequent experiences of liberalization. Future ways of thinking about the economy may need to move on from the Cold War-era dichotomy between the private and public sector.

Economic policies of existing parties
The Muslim Brotherhood, being one of the better-organized movements, has developed its economic policy more than most, although this is inevitably as yet largely untested and many details still need to be fleshed out. The Brotherhood’s newly established Freedom and Justice Party draws much of its membership from the middle class, including professionals and business owners. These cadres are likely to favour a broadly pro-business policy, leavened by greater charitable activities to advance ‘social justice’. Some of these regard Turkey’s AK Party as a promising model for economic policy. It will remain important for the Brotherhood to reach out for cross-class political support, and its charitable and voluntary work has been very important in this regard. Yet, ultimately, this may be akin to Victorian capitalist philanthropy; it is a matter of voluntary and ethically praiseworthy almsgiving rather than a restructuring of the rights and obligations of the state and the private sector, or of labour and capital.

The FJP’s election manifesto begins by enumerating economic grievances before listing the perceived political deficiencies of the previous regime. The first specific concern it mentions is economic inequality:

Suffice it to say that about 2000 businessmen grabbed 24% of Egypt’s national income – the equivalent of 200 billion Egyptian pounds – while more than 20% of the Egyptian people – according to the most optimistic statistics – lived under the poverty line.39

It then highlights the problems of unemployment, inadequate healthcare and the failing education system.

In the subsequent list of economic priority policies, the large fiscal deficit is the first problem mentioned, rather than a need to increase government spending. The manifesto goes on to recommend that Egypt seek self-sufficiency in strategic commodities, particularly wheat and cotton, something that echoes Nasserism and will evoke the sympathies of leftists. It also suggests that there should be both minimum and maximum wages (though this probably refers only to the government sector). Beyond that, most of the recommendations would fit within a free-market framework: encouraging small and medium-sized enterprises (SMEs), promoting charitable work and the payment of zakat (alms), reforming the system of special state funds for different economic sectors, better targeting of export subsidies, reviewing oil export agreements to deal with perceived under-pricing, and toughening up competition and anti-monopoly laws.

In a discussion in Cairo in March 2012,40 FJP representatives said that the party welcomed any investment that added value to the economy, whether from Arab, Western or Eastern sources. The party has held meetings with a

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40 Discussion with author and Chatham House colleagues, Cairo, March 2012.
number of current and potential Western investors. The representatives said the party has formed several committees to develop detailed economic policies on specific areas. They stressed Egypt’s strong economic fundamentals, citing a recent HSBC report that projected that Egypt would be the 20th largest economy in the world by 2050. Focusing on investment and economic growth is in line with the party’s desire to portray itself as one of the more economically literate parties, and as a group that is more in touch than some of its rivals with the bread-and-butter issues that they would argue are the main concerns of most Egyptians.

In the run-up to the elections, an FJP rally in downtown Cairo emphasized the party’s commitment to poverty alleviation, and particularly to unemployment benefits, universal medical insurance and better education. Campaigners also focused on raising the minimum wage, a popular issue. At the same time, one leading Muslim Brotherhood businessman, Hassan Malek, founder of the Malek Group of textiles and furniture factories, said in October 2011 that the solution to Egypt’s economic slump lay in ‘manufacturing, a trained labour force and enabling the private sector’, and that the past record of corruption and bureaucracy had deterred business people from opening large companies. However, he also said that there had been some correct decisions in the past and that the previous trade minister, Rachid Mohammed Rachid, understood very well how to attract foreign investment.

In March 2011, Malek launched a new business association, the Egyptian Business Development Association. Several Muslim Brotherhood businessmen are on its board of directors, including Safwan Thabet of the Juhayna Group and Mohamed Moamen of the Moamen Group, though the association has been keen to emphasize that it is not an exclusively Brotherhood organization.

Perhaps some guidance on the extent of changes likely under a Muslim Brotherhood-dominated parliament may be found in the way in which Islamic banking has developed globally with advice and religious rulings from scholars associated with the international Muslim Brotherhood. Rather than offering an entirely different model of finance, the global Islamic finance industry is largely a modified version of established international commercial banking, adapted to fit sharia-compliance criteria set by Islamic scholars, some of whom are connected with the Muslim Brotherhood in the Gulf.

Al-Nour, the largest Salafist party, headed by Emad Abdel Ghaffour, has advocated remaining open to foreign investment while maintaining state control of strategic industries such as utilities, mining, oil and nuclear energy. According to a member of the party’s economic committee, Tarek Shalaan, one of the reasons why Islamist parties were so successful in the parliamentary elections is that voters perceived them as being against corruption. Tackling corruption therefore needs to be high on the party’s agenda.

According to Shalaan, the party’s economic plan advocates the creation of ten new cities in poorer areas, mostly in upper Egypt, to help address regional disparities in economic development. Each city would specialize in a particular industry or sector, such as logistics, manufacturing, medical tourism and dental tourism, and would be built according to international codes and standards, most likely from Europe.

Ghaffour has said that sharia-compliant musharaka financing, where lenders and borrowers share in the profits or losses, should be developed to support SMEs. Salafist politicians have also commented on the need to develop ‘halal’ tourism, raising some questions in the tourism industry about the possibility of future restrictions on alcohol and beachwear, but Shalaan says that halal tourism would be developed in parallel to


43 The dominant investment products are murabaha, essentially loans that charge a fixed fee rather than interest, rather than the more equitable musharaka profit-and-loss sharing investment models, though some interesting experiments in Islamic micro-finance and Islamic cooperative lending do exist.

44 Discussion with author and Chatham House colleagues in Cairo, March 2012.
conventional tourism, as an additional market, rather than as a replacement for it. 45

Before his withdrawal from the presidential race, Mohammed El Baradei, a Nobel laureate who was one of the most outspoken opposition leaders before the uprising, published a ten-point economic recovery plan that has helped to influence the debate; he remains a respected figure among liberals. Among other things, his recommendations included a national investment programme to invest in infrastructure while creating jobs; establishing a dialogue between industrialists and the government, with new public funds to offer loans to industry; two-year tax exemptions and incentives for immediate new investments in labour-intensive sectors and in SMEs; minimum and maximum wages; and establishing dialogue between the government, labour representatives and employers to reduce the incidence of strikes. In October 2011, he said it would probably take two years before Egyptians felt the benefits of the revolution. 46

The New Wafd, a nationalist liberal party, has called for the development of a stronger public sector along with a rationalization of current spending, particularly on subsidies. In the pre-election discussions, it has argued that wages should take into account the employee’s family situation, such as the number of children.

Some of Egypt’s business people have also founded their own parties. These include the secular, economically liberal Free Egyptians, whose most famous co-founder is Naguib Sawaris, also the founder and owner of Orascom Telecom and one of Egypt’s richest men (he has claimed to be the country’s single largest taxpayer). Combined, the Orascom companies are the largest private employers in Egypt. Sawaris opposed a proposal to increase capital gains tax in the summer, saying it would deter already scarce investment. At the same time, like all other parties, the Free Egyptians have advocated more social programmes to help poorer Egyptians. Another co-founder, Hani Sarie-Eldin, told the American Chamber of Commerce in Egypt’s Business Monthly that the party’s main economic policies ‘have a social objective: to overcome poverty and to create jobs’, adding that the party targeted a reduction of the poverty rate to 10% in 10 years and ‘sustainable GDP growth of 7 to 8 per cent’. 47 For the 2011–12 parliamentary elections, the party formed a coalition, the Egyptian Bloc, with the centre-left Egyptian Social Democratic Party and socialist Al-Tagammu, united more by secularism than by shared economic policy. The coalition won some 9% of seats in parliament, coming in third place after the Muslim Brotherhood and Al-Nour.

Meanwhile, a managing director of Citadel, Hisham el-Khazindar, has co-founded the Justice Party (Hizb el-Adl, not to be confused with the Islamist Justice and Freedom Party). This offers a non-Islamist socially conservative programme, appealing to business people who are more centre-right than liberal-left.

Other important economic-policy actors

One of the most influential forces on future policy will remain the military – and there is inevitably an element of guesswork regarding the interests and intentions of such an opaque institution. 48 Estimates of its stake in the economy vary wildly, from 10% to a somewhat implausible 40%. However, the strength of its resources was illustrated in December 2011 when it agreed to lend US$1bn to the Central Bank of Egypt to help support the value of the currency at a time when the central bank’s foreign-exchange reserves were dwindling. Three military institutions, the Ministry of Military Production, the Arab Organization for Industrialization and the National Service Products Organization (NSPO), operate at least

45 Email discussion, April 2012.
48 For a more detailed analysis, see Maha Azzam, The Military and the Transition to Democracy in Egypt, Chatham House Briefing Paper MENAP BP 2012/02, forthcoming April 2012.
35 factories⁴⁹ that produce not only defence equipment but vehicles, chemicals, cement, consumer goods and foodstuffs including mineral water,⁵⁰ olive oil, pasta and bread. They also operate services ranging from gas stations to restaurants to construction, and there are claims that army conscripts are used as labourers. Brands ranging from Wataniya petrol stations to Queen pasta appeared on lists of military-owned products that circulated in Egypt in 2011. The military is also thought to have extensive real-estate holdings.

All this suggests the military has an interest in maintaining land and property prices, and in the growth of tourism (as a basis for developing hotels, leisure facilities, restaurants and second homes). While it will be interested in shoring up economic growth – and, for instance, ensuring security at ports and at the Suez Canal – it is unlikely to look favourably on economic liberalization where it might lead to greater competition with its own business interests (this, together with its civilian background, may have been one of the reasons why it did not favour Gamal Mubarak’s succession). A 2008 Wikileaks cable providing background on the defence minister and head of the armed forces, Field Marshal Mohammed Hussein Tantawi (who also holds the post of Minister of Military Production), suggests he opposed Egypt’s plans for economic reform because he believed that lessening government controls over prices and production would be a source of social instability⁵¹ – a belief that may only have been confirmed by subsequent events.

The military is also believed to be highly suspicious of foreign debt as a possible threat to sovereignty, and is likely to have been the main source of objections to the proposed IMF loan in 2011. Above all, the military is likely to seek ‘stability’, meaning both that it will see protests and strikes as economically and politically disruptive, and that it will wish to avoid reforms that might challenge its existing privileges – such as any attempt to scrutinize its budgets.

Egypt’s labour movement was a key player in the uprising and has remained highly active, although fragmented. In 2011 an independent trade union federation was established for the first time, while new unions have been formed in a broad range of economic sectors. Hossam Bahgat of the Egyptian Initiative for Personal Rights argues that ‘since the revolution, one of the few positive [economic] changes has been an improvement in workers’ rights’.⁵² Yet there have been some reverses, including the news in February 2012 that an independent trade union activist, Kamal Abbas, had been sentenced in absentia to six months in prison for ‘insulting a public official’ because he interrupted the speech of a representative of the Mubarak-era government-sponsored trade union federation.

There may be tensions to come between the labour movement and the Muslim Brotherhood over the right to strike versus creating a stable environment for business. From an employer’s viewpoint, the continuing strikes are an obstacle to business. Specific issues of wages and working conditions will continue to be contested, but there is certainly a need for new forums for dialogue and negotiation to make labour relations less adversarial.

Many of Egypt’s youth revolutionaries do not participate in political parties. This has prompted fears that many leaders of the uprising will be left out of the transition by failing to gain representation in parliament and remaining focused on street protests. Yet there may still be a role for social movements, street actions and cultural activities to help shape the future policy debate, and it is probably too early to write off youth movements such as April 6th, which have already proved conventional wisdom wrong by assisting in the almost entirely unpredicted overthrow of Mubarak.

A number of influential NGOs frame economic issues as part of a discourse of ‘economic and social rights’. The understanding of ‘human rights’ in developing countries often places more emphasis on economic ‘rights’, such as

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⁵⁰ The Safi brand of mineral water is produced by the NSPO-owned National Company for Producing and Bottling Natural Water & Olive Oils, according to the website of an Italian partner company: http://www.smigroup.it/smi/repository_new/doc/SAFI_EN.pdf.
⁵¹ ‘Scenesetter for Mindef Tantawi’s visit to the US March’, Wikileaks cable 146040, March 2008.
⁵² Author interview, November 2012.
as the right to clean water or to basic levels of nutrition, than in Western countries where civil and political rights are the main focus. In Egypt, NGOs such as the Egyptian Center for Economic and Social Rights have focused on the right to a decent, dignified standard of living. A joint statement by 13 Egyptian NGOs immediately after Mubarak’s departure called on the transitional government to draft a clear plan for ‘the gradual activation of all economic, social and cultural rights to meet the demands of the 25 January Revolution, especially a minimum wage and pension standard that are commensurate with the cost of living’. It also called for the abolition of restrictions on trade unions, as well as the dissolution of the rigged parliament and a range of reforms to the security services, constitution, electoral system and justice system.

Conclusions

Possible areas of consensus

There remains a pressing need for new political forces to develop and articulate clear blueprints for economic policy. If new players want to change the country’s economic policy orientation, they will need to focus more on positive, detailed and specific ideas for change as well as broad principles relating to social justice. Such debates are an important part of democratic self-determination, but now need to move beyond generalities to specifics. There is also a great deal of hearsay and rumour in the economic debate, and a severe shortage of reliable and timely economic data. Estimates of the value of Mubarak’s stolen assets do not appear to have a clear basis, and there is a risk of inflated expectations about the value of assets that will eventually be returned.

There are some areas of apparent consensus, but details may be more divisive. Virtually all politicians pay lip service to the need for greater social justice, but this is a relatively vague notion. The leading political parties seem to agree there should be a more progressive tax system, a minimum wage, subsidy reform and more investment in healthcare and education. In July, 26 different parties signed up to the notion of a public-sector maximum wage.

There is widespread acknowledgment that the current subsidy system is not only inefficient but is failing to address the issue of inequality. Subsidies cost more than healthcare and education combined. Cutting consumer subsidies tends to have an inflationary impact and it seems likely that a new government will be wary of taking such an unpopular step. Indeed, the IMF said in June that while subsidy reform was needed in Egypt in the medium term, it could not be implemented immediately in the absence of social safety nets to compensate the poor. However, there is likely to be more consensus behind cutting the subsidies that benefit industry.

State services are in such poor shape that it is clear to virtually all parties that education and healthcare need more investment. The education sector has experienced de facto privatization through the back door as a result of public-sector underinvestment. Extremely low teacher salaries, coupled with the strain on school facilities, have made it normal for families to pay their children’s teachers extra fees for private tuition. Teacher salaries may need to be increased, with restrictions on private tutoring introduced as a conceivable quid pro quo. In the ICT sector, private businesses pay a 1% tax on their turnover, which is directed into a training fund that has proved relatively successful. A recent Chatham House roundtable discussion

53 Some left-wing social movements are seeking to challenge this at a time of austerity in Europe.
56 See Loveluck, ‘Education In Egypt’.
on Egypt’s education system suggested this model could potentially be emulated by other sectors.\footnote{Middle East and North Africa Programme, ‘Meeting Summary: Education in Egypt’, Chatham House (in partnership with the British Council Egypt and the Egyptian British Business Council), January 2012, http://www.chathamhouse.org/publications/papers/view/182595.} However, resistance to new taxation, which is to be expected in any context, is likely to be particularly pronounced in Egypt given the widespread distrust of government and fears that money will be squandered.

Newly empowered political parties need to remember the strength of public anger about\textit{ corruption} and focus on institutional and legal reforms to reduce the chances of corruption in the future, not just on the prosecution of individuals for past cases, which can be politicized and is not necessarily a sufficient deterrent. There is a need for a \textit{freedom of information} law, together with updated laws on corruption and conflicts of interest, as much of the existing legislation dates back to the 1950s and 1960s, when economic structures were very different and far fewer business people participated in politics. Participants in a Chatham House workshop suggested including the right to information, and the state’s duty to provide information on government finances, in the new constitution.\footnote{‘The Role of International Loans and Capital in Egypt’s Transition’, Chatham House (see note 24 above).} Civil society organizations are already very active in drawing up ideas for new legislation in areas such as anti-corruption measures and freedom of information – both areas that should addressed as top priorities by the new political leaders.

In general, the problem of \textit{mistrust} – of government, of business, and of new and untested political forces – is likely to afflict future economic policy-making. Debates over the role of the state, the rights and responsibilities of business, and labour relations all have the potential to be very divisive. But having an open and inclusive debate about economic policy is an essential part of a transition towards democracy – even though it adds to the uncertainty for investors in the short term. Notions of social justice were core issues during the uprising. The future of the economy will remain central to Egyptian politics and should be a key focus for all the new political players.

\textbf{Key pointers for the future}

It is inevitable that there will be uncertainty about the future direction of policy at a time of political transition. Egypt’s ability to build confidence among local and foreign investors will depend in part on the progress of a clearly defined political transition. Conversely, uncertainty over the intentions of the military council could weigh on investor confidence and potentially also generate domestic tensions that might further weaken the economy.

Within Egypt, all sides need to avoid caricatures, whether this means the assumption that all business people are greedy and corrupt fat cats, or that young people experimenting with new means of politics are weak and naïve, or that leftists simply want to return to the days of Nasser. The cross-class, cross-ideology coalition that drove the uprising has demonstrated that Egyptian society cannot be easily segmented into simple class-based, ideological or religious interest groups; it is possible for a businessman to be a revolutionary or for a radical student to call for austerity.

\begin{quote}
The cross-class, cross-ideology coalition that drove the uprising has demonstrated that Egyptian society cannot be easily segmented into simple class-based, ideological or religious interest groups; it is possible for a businessman to be a revolutionary or for a radical student to call for austerity
\end{quote}
There appear to be very polarized views in Egypt about the role of the state versus that of the private sector. Yet Egypt’s recent history has made it clear that both are susceptible to mismanagement, inefficiency and corruption. Meanwhile, Egypt’s social and political entrepreneurs indicate that entrepreneurialism does not have to be focused on maximizing profit. Future policy solutions may be able to draw on existing experiments with cooperatives, social enterprises and other organizations that blur the traditional lines between civil society, business and state. There may be scope for using technology in innovative ways to reduce the cost of state services, perhaps looking at ‘frugal healthcare’ innovations from India and other emerging markets, or new ways of promoting e-learning.

International investors in Egypt should be aware that the reputation of business has been undermined in recent years, and that this will ultimately have an impact on the new government’s economic policy-making, which will need to take account of public opinion. In Egypt’s evolving political context, successful companies will need to pay greater attention to community relations as well as (or indeed more than) government relations. At the same time, it is reasonable for investors to communicate their concerns about policies that may eventually send them elsewhere. Private investment will be critical to addressing unemployment. A great deal has been said in the past about the need to stimulate SMEs, although implementation has been limited. But there is also a need to help existing SMEs expand and develop – which will sometimes require incentives for them to move from the informal to the formal sector – to address the problem of the ‘missing middle’ in a business landscape that is highly polarized between very small and very large companies.

International institutions and foreign governments that aim to support Egypt’s transition are rightly taking an interest in economic development as well as purely political concerns. As well as needing foreign investment, Egypt could also benefit from technical assistance in a range of areas, from developing better economic data to sharing best practice on regulations and legal institutions. However, international organizations need to remember that economic policy advice on the role of the state (for instance, on privatization and subsidies) touches on political issues and values, rather than being purely technical. Rather than repeating old mantras that a smaller public sector is always a good thing, external policy-makers should tread carefully and sensitively, recognizing that having debates over the role of the state, the free market and the nature of globalization are part of democratic self-determination – and remembering that these debates are likely to be taking place in their own countries as well.
About the Egypt Dialogue Project

The Egypt Dialogue project run by the Middle East and North Africa Programme seeks to increase political inclusion: to draw previously peripheral or suppressed voices into national and international policy dialogues. Since March 2011, we have run a series of workshops in Cairo exploring a range of perspectives on the social, political and economic elements of Egypt’s transition. Workshop reports are widely disseminated among the policy-making community, allowing us to take new-generation voices to a wider audience.

So far workshops have been convened in Egypt on:

- Egypt in transition
- Securing a democratic process
- The role of media
- Egypt’s economy
- The role of international loans and capital
- Transparency and accountability and the new Egyptian state
- Defining and tackling corruption
- Priorities in the Egyptian Delta
- Parliamentary politics

This project is kindly funded by a grant from the Arab Partnership Fund.

Other work on Egypt includes a recent roundtable and research paper on education, a project on Youth Movements in Egypt and Yemen and a series of workshops with Egyptian Chevening scholars which looked at education, regional politics and climate change.

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