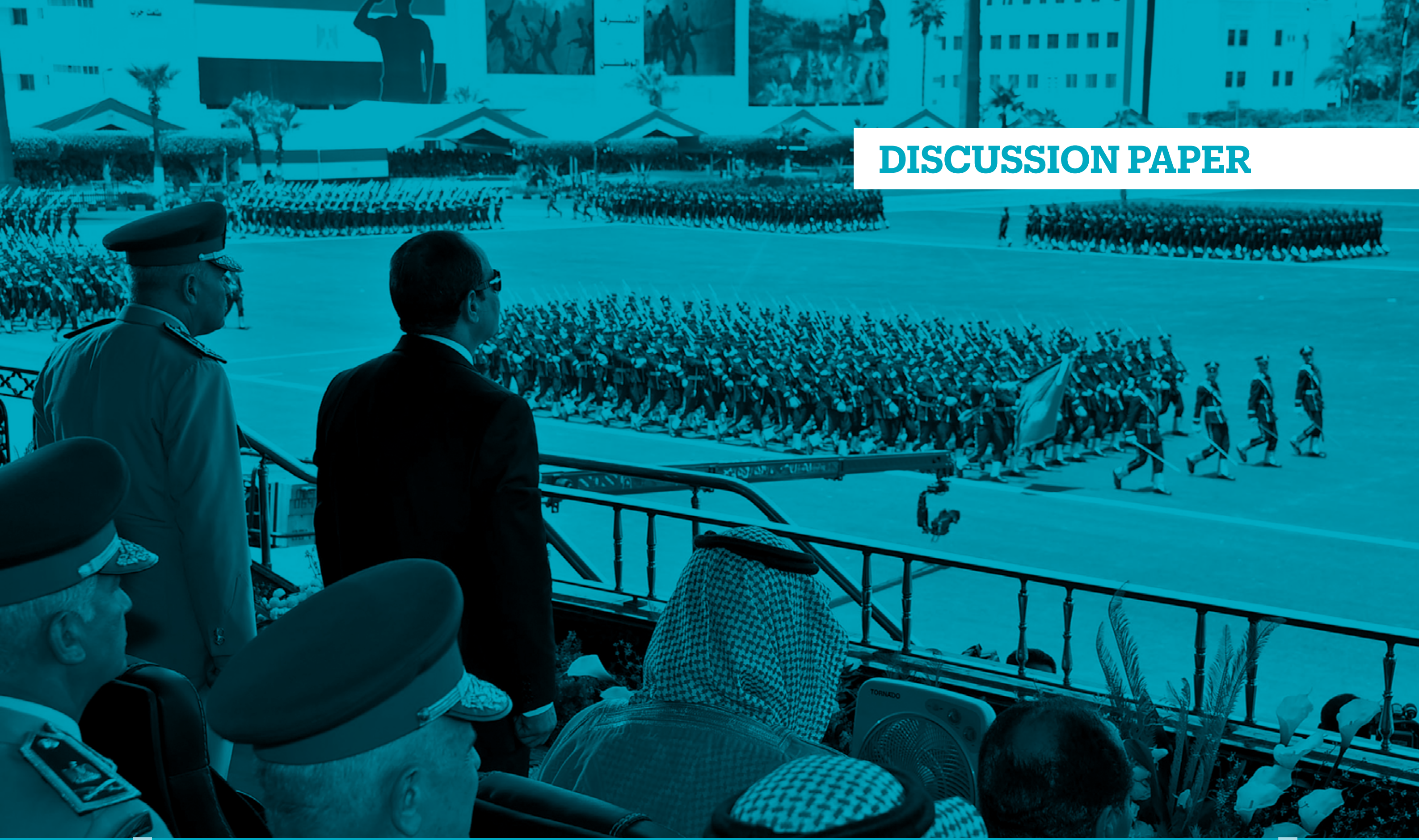


DISCUSSION PAPER

Egypt's Path to Authoritarian Liberalism: An Analysis of the Egyptian Political Economy

Dr Tankut Öztaş

TRT WORLD
re|search centre

DISCUSSION PAPER

Egypt's Path to Authoritarian Liberalism: An Analysis of the Egyptian Political Economy

Dr Tankut Öztaş

TRT WORLD research centre

PUBLISHER

TRT WORLD RESEARCH CENTRE

MAY 2020

WRITTEN BY

DR TANKUT ÖZTAŞ

DESIGN BY

EKREM US

TRT WORLD İSTANBUL

AHMET ADNAN SAYGUN STREET NO:83 34347

ULUS, BEŞİKTAŞ

İSTANBUL / TURKEY

TRT WORLD LONDON

PORTLAND HOUSE

4 GREAT PORTLAND STREET NO:4

LONDON / UNITED KINGDOM

TRT WORLD WASHINGTON D.C.

1819 L STREET NW SUITE 700 20036

WASHINGTON DC

www.trtworld.com

researchcentre.trtworld.com

Abstract

This paper provides a discussion on Egypt's political economy since the Free Officers Revolution in 1952. It highlights the key phases of its transformation and provides an analysis on how the military regimes in Egypt monopolised power across the Egyptian economy for political gain. The paper postulates that Egypt's current regime under al-Sisi, similar to his predecessors, implemented economic reforms characterised by what this paper refers to as 'authoritarian liberalism'. The discussion starts with the period of Gamal Abd al-Nasser and illustrates the fundamental steps he took to steer Egypt's economy towards a modern but socialist-oriented economy. It then goes on to discuss how his successor Anwar Sadat reversed Nasser's economic policies and liberalised Egypt's economy. Next, an in-depth analysis will follow on Hosni Mubarak's three-decade-old regime before it was overthrown by a popular uprising in 2011. Furthermore, the paper outlines the brief period of democracy and civilian rule in Egypt under Muhammed Morsi. It explains why and how this period failed to deliver a permanent success. Finally, the focus is on key aspects of the regime put in place by new ruler Abdel Fattah al-Sisi. It demonstrates that the shape of the Egyptian economy under the new regime led by al-Sisi is no better than at the time of Morsi. Economic and fiscal challenges, such as the high rate of unemployment, inflation, rising inequality and poverty, continue to be unresolved, and are expected to worsen in the post-Covid-19 era.

Mohammed Elshamy - Anadolu Agency

Table of Contents

Introduction

The January 25th, 2011 uprising in Tahrir Square represents a peak moment of resistance against Hosni Mubarak's 30-year-rule. The protests led to the toppling of the three-decade-old regime, with a hope that it would end autocracy, corruption, and military rule in Egypt. Since the end of Mubarak's rule, however, these hopes are yet to be fulfilled. Instead, Egypt seems to be moving backwards as these hopes have been dashed and another military regime led by Abdel Fattah al-Sisi came to power by orchestrating a bloody coup which overthrew the country's first democratically elected president with a civilian background, Muhammed Morsi. Much of the social and economic issues raised by the protestors in 2011, such as poverty, high unemployment, inequality, and corruption continue to be the main sources of widespread public unrest in Egypt.

While the al-Sisi regime could have addressed some of these vital issues through the financial aid received from the Gulf Countries, this attempt proved to be only a short-term solution. When the main backers of his coup limited the availability of financial aid to his administration due to the oil crisis in 2014, Sisi had no other choice but borrow a large amount of funds from international financial institutions, i.e. the International Monetary Fund (IMF) and the World Bank (WB). These funds were conditioned on the implementation of structural adjustments, which enforced a series of reforms upon Egypt's monetary, fiscal, institutional and regulatory frameworks. These measures, however, exacerbated the existing vulnerabilities and led to further marginalisation of the Egyptian middle and low classes.

It is, therefore, important to understand what the new leadership in Egypt represents today. As it stands, in terms of executing economic policies, al-Sisi's regime is not following the path of Gamal Abdel Nasser, and nurtures no desire to nationalise private firms or implement comprehensive subsidy system, nor does he follow entirely the footsteps of either Anwar Sadat or Hosni Mubarak in their balancing acts of the various geopolitical and socioeconomic dynamics by structuring Egypt's economy through neoliberal policies. The presidency of Abdel Fattah al-Sisi seeks to constrain Egypt's economy within the line of his authoritarian rule by further enhancing the economic order dominated by military elites with the new economic reforms imposed by the IMF, the World Bank and other financial institutions. The deep economic recession which is highly likely to follow the current coronavirus (Covid-19) pandemic, however, will very likely to hit hard Egypt's fragile economy. Egypt does not have a robust monetary and fiscal structure to respond to a substantial external shock. This is an important consideration because if the current economic issues further intensified and the spread of the novel coronavirus is not handled accordingly, this situation may bring Egyptians again to the grip of partisan political feuding and lead to further widespread unrest and nationwide protests. The purpose of this paper is to discuss the present state of affairs of the Egyptian political economy; an exposition of how the authoritarian rule of al-Sisi and the military regime in Egypt monopolise power across the Egyptian economy for political gain.

The Origin of the Political Economy of the Arab Republic of Egypt

The authoritarian structure al-Sisi depends upon today is not unique to his time in power. It is the military elites that for the most part engineered the Egyptian political economy and social life since the revolution of the Free Officers in 1952. When General Gamal Nasser and officers loyal to him assumed power in Egypt by toppling the monarchy, their first goal was to revolutionise all aspects of Egyptian social life – including the role of the state and the economic structure. He attempted to achieve this goal by targeting social orders and norms inherited through Egypt's experience with imperialism, feudalism and monopoly capitalism. The objectives of the reform program Nasser initiated had three layers: 1) to establish a strong national army; b) to achieve social justice through comprehensive land reform; and c) to create a sound democratic society through sustainable economic development (Lenczowski 1965, p64).

The law which had the utmost impact on the Egyptian political economy was the 1952 Agricultural Reform Law. This legislation distributed most of the fertile land among peasants and labourers previously controlled by landlords representing a small percentage of the population. More importantly, the laws abolished titles and privileges and encouraged the creation of a new socio-economic base which became more loyal and compatible with the leadership of the new regime (Lenczowski 1965, p64). Kandil (2012), however, argued that the first set of reform policies which aimed at achieving these objectives had a particular elitist methodology. According to Kandil (2012), Nasser's policies in his early years paved the way for a political-economic transition towards capitalist modernity and an industrialised economy (Kandil 2012, p202). In other words, Nasser's period nurtured a new class structure in Egypt which later became the basis of political, economic and intellectual structure.

The hegemonic bloc that underpinned the political power of Nasser was composed of a socio-political coalition of three classes: the middle petite bourgeoisie, the urban working class, and the rural poor (Ibrahim 2002, p117). However, throughout the 1950s and 1960s, Nasser expanded his sphere of influence by absorbing all marginalised groups from different sectors or classes. More importantly, the Nasserist regime focused on building a new political alliance composed of the bureaucracy, big industrial groups, and organised labour in the 1960s. He achieved this by nationalising much of the heavy industry and service sectors, increasing the number of people employed in the bureaucracy and extending the scope of the land reform he initiated when he assumed power.

Inspired by the Soviet Union and the Arab Socialist Ba'ath Party, Nasser articulated a shared vision among these groups with three consecutive five-year economic programmes and political ideology based on Arab nationalism, pan-Arabism, and anti-imperialism. He intended to create a new middle class to serve as a social base for his new regime. However, the political and economic consensus Nasser engineered based on this structure was shattered after his death by his successor Anwar Sadat. In contrast to his predecessor, Sadat had a close association with members of the old bourgeoisie, private capital, and senior technocrats (Marfleet 2016, p150). Under Sadat, Egypt witnessed the rise of new business elites facilitated by the formalisation of networks of patronage within and outside the bureaucracy. Sadat pursued a strategy that shapes the relationship between senior military officials, the old landowning aristocracy, entrepreneurs who had survived the Nasser era, merchants, traders and commercial intermediaries (Marfleet 2016, p150).

The capitalist structure unleashed by Sadat based on this mix did not believe in an inward-looking Egyptian economy and sought to be part of the emerging global neoliberal economy. It was their unique relationship with international capital which influenced them to favour these conditions. These groups were convinced that if Sadat restructured the Egyptian economy through what became known as the Open-Door Policy (Infitah), it would allow them to access markets they would not have otherwise. During the period of 'Infitah', the import substitution industrialisation strategy (ISI) was abandoned to encourage the role of the export-oriented private sector. A new investment law was enacted in 1974 to attract the petro-dollars from the Arabian Gulf as a form of foreign direct investment. Despite these initiatives, only a small number of private firms emerged in this era, particularly, in the tourism and real estate sectors. The public sector remained the backbone of the economic development in Egypt. As evidence of this, between 1973 and 1982, the public sector expanded over 3.5% per annum (Shafik 1994, p13).

The Open Door Policy failed to change the structure of the economy and the private sector continues to be reliant on the state. The short period of economic expansion in the 1970s has only created a new business elite loyal to the regime. The regulations implemented in this era, such as those concerned with joint ventures between public companies and private investors, which initially appeared to represent a back door privatisation, were, in fact, another route for the government to take control of the emerging private sector for their own political interest (Springborg 1989 p151; Gumuscu 2010 p848). By the 1980s, Egypt's economy was developed into a full-blown rentier economy and this process paved the way for the private elite to generate large profits. Their close relations with international capital and Egypt's military and the bureaucratic elite formed the basis of their emerging economic power. In the aftermath of the 1981 assassination of Anwar Sadat, his successor Hosni Mubarak moved swiftly to consolidate his power over the new dynamic economic relations.

Presidency of Egypt / Handout - Anadolu Agency

Troubled Times under Hosni Mubarak

While Sadat paved the way for the internationalisation of the Egyptian economy, it was his successor Hosni Mubarak who advanced this process. Throughout the 1980s, Mubarak consolidated a new capitalist bloc dedicated entirely to supporting his regime. Similar to the political strategies sought by his predecessor, he restrained the emerging neo-liberal capitalist structure, whereby state-nurtured businessmen would remain under his control (Kandil 2012, p207). These monopoly capitalists were a threat to Mubarak, as they had no intention to limit themselves to the role of decoy they had been cast into by Sadat. More so, they sought to move up the political ladder and bend the new Egyptian leadership for their purposes, rather than being manipulated by it. While it was a delicate task to manage the balance between the bureaucratic elites and the party members associated with these interest groups, Mubarak was successful in reconfiguring the socio-economic dynamics of the country to his advantage.

The path he took was to nurture a new populist bloc in Egypt that gave his rule legitimacy and authority. He achieved this through a new and aggressive accumulation strategy based on terms that excluded subaltern forces, the absorbed new allies, and subdued factions of the capitalist class (Roccu 2012, p16). When Egypt's high import bill led to a crippling drop in foreign currency reserves, and the ensuing debt crisis forced the government to declare its bankruptcy in 1989, Mubarak had no choice but make a sharp neoliberal turn and implement International Monetary Fund (IMF)-tailored Economic Reforms and Structural Adjustment Programme (ERSAP) (De Smet 2014, p27).

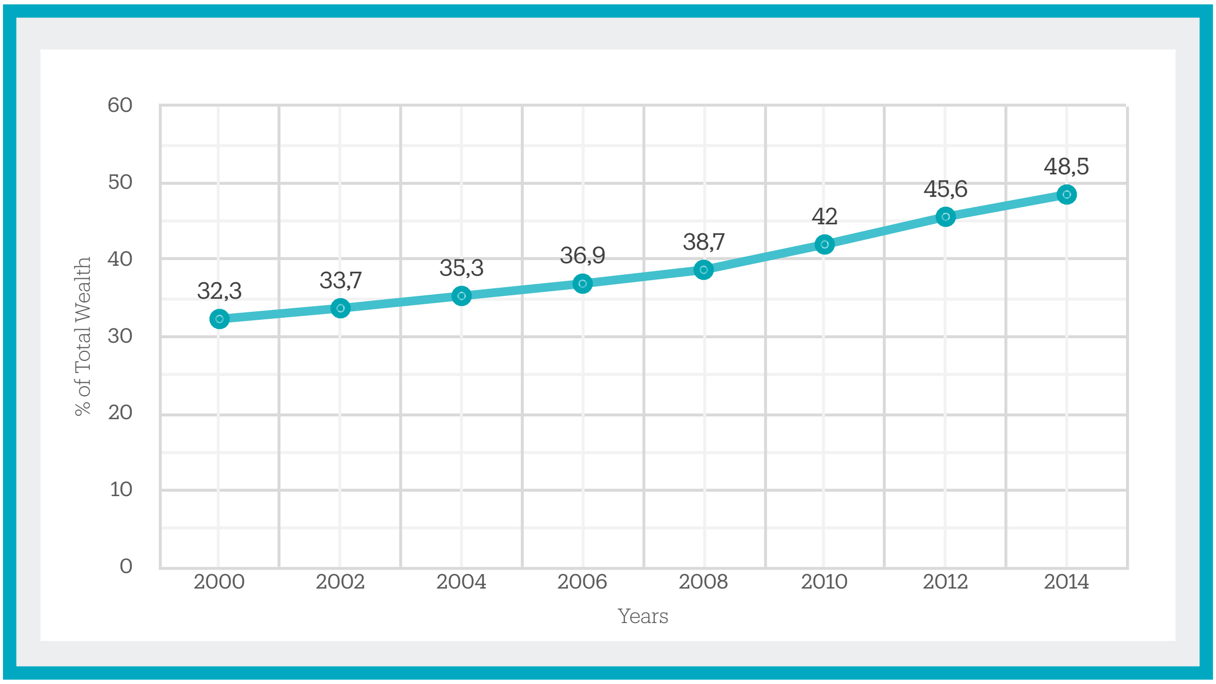
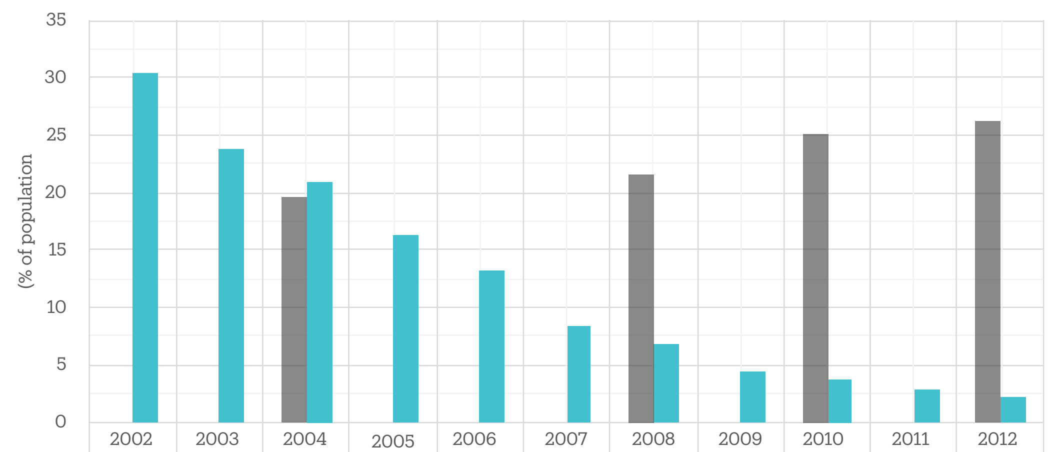


Figure 1, *Wealth Share of the Richest % 1 in Egypt*

Like most of the structural adjustment programmes at the time, the main objectives of the prescribed reforms were to decrease foreign debt and inflation by cutting state subsidies, privatise public companies, liberalise markets and prices, freeze wages, and commercialise agricultural lands (Kandil 2012 p208; De Smet 2014 p27). Mubarak launched these reforms in such a way that it benefited his inner circle but alienated the Egyptian lower and middle classes (Farah 2009 p41; De Smet 2014 p27). These reforms grouped 314 state-owned enterprises in the industrial and trading sectors under 27 holding companies and placed them under market-oriented management (El-Mikawy et al 2000 p63; Wilson 1993 p207). This was a highly important change because public enterprises at the time produced around 10 per cent of GDP and employed about 6 per cent of the labour force (Ikram 2018, p370).

In short, the economic reform process Mubarak implemented helped enhance ties between public enterprises and private firms associated with his family. The last decade of Mubarak's era witnessed intensified attempts to liberalise the Egyptian economy and enhance the crony relations between Mubarak's regime and economic elites close to his family, in particular, his son Gamal Mubarak who was long seen as his successor. The new wave of liberalisation in the first decade of the millennium, thereby, formed the backbone of a crony capitalist system which not only had a deep impact upon the living standards of the lower and middles classes but also conflicted with some of the military elites who did not share the worldview and interests of Mubarak's son and his circle.

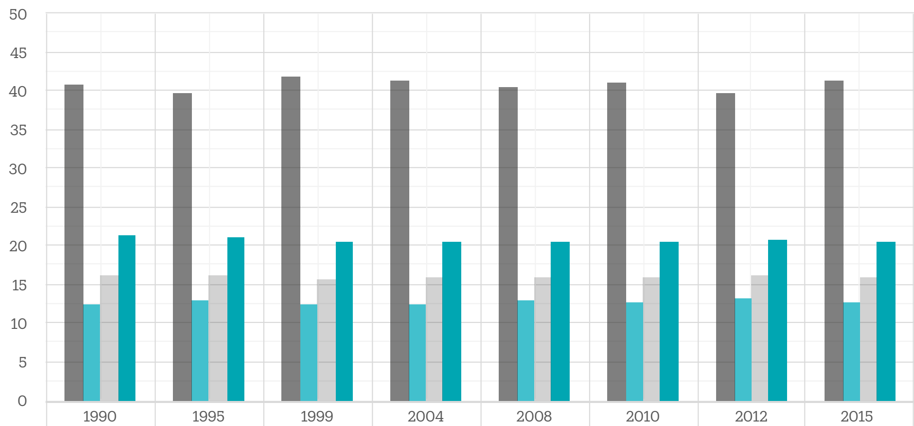
Figure 1 below demonstrates that in years between 2000 and 2012, the share of wealth of the richest 1 per cent substantially increased, thereby deepening the inequality between the high- and low-income earners. Figure 2, on the other hand, shows the percentage of the population living below the national poverty line. This figure shows an upward trend line in Egypt and increased from 19.6 per cent in 2004 to 26.3 in 2012. The



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Egypt			19,6				21,6		25,2		26,3
Turkey	30,3	23,8	20,9	16,4	13,3	8,4	6,8	4,4	3,7	2,8	2,3

Figure 2, *Poverty Headcount Ratio at the National Poverty Lines for Turkey and Egypt, (% of Population)* chart in Figure 3 illustrates that there was also no substantial change in income share held by quintiles in Egypt. The evidence shows that the last decade of Mubarak's rule did not offer much to both lower and middle classes. This state of affairs mobilised them as a mass protest movement, ultimately forcing Mubarak to give up power. In other words, the intensification of the neoliberal reform process, after 2006 in particular, primarily benefited the cronies of Mubarak's family, and thus the way the reform process was set in motion in the new millennium fed the growing anger among the masses. It was seen as a process that induced more corruption, the concentration of economic and political power, inequality, poverty and unemployment. From 2005 to 2010 various demonstrations occurred, such as the general strike which was launched in the industrial city of Mahalla on 6 April 2008, to pressure the regime into raising the national minimum wage, food allowances, industrial safety, and work conditions. The harsh police crackdown such as against these demonstrations set the scene for the January 2011 uprising in Tahrir square.

The evidence shows that the last decade of Mubarak's rule did not offer much to both lower and middle classes. This state of affairs mobilised them as a mass protest movement, ultimately forcing Mubarak to give up power.



	1990	1995	1999	2004	2008	2010	2012	2015
Income share held by highest %20	41,1	39,9	42,1	41,4	40,8	41,2	39,8	41,5
Income share held by second %20	12,5	13	12,5	12,7	13	12,9	13,3	12,8
Income share held by third %20	16,3	16,4	15,8	16,1	16,2	16,1	16,4	16
Income share held by fourth %20	21,4	21,2	20,6	20,8	20,8	20,8	21	20,6

Figure 3, *Income Share by Quintiles in Egypt*

A Brief Reprieve from Authoritarianism: Egypt under Morsi

On 11 February 2011, protestors gathered in Tahrir square welcomed the announcement of 82-year-old former air force commander Hosni Mubarak's resignation from the presidency. The authority and powers of the president's office were transferred to the Supreme Council of the Armed Forces (SCAF) until the new general and presidential elections take place in the country. After three rounds of elections, the Freedom and Justice Party won 47.2% of the votes and gained 235 seats in the Egyptian parliament. It was expected that the newly established, Muslim Brotherhood-affiliated Freedom and Justice Party (FJP) would perform well, but such a staggering victory was a surprise to secular democracy activists. What was more alarming for the military elite, with their secular and international leanings, was that the Islamic Alliance - a coalition of three hard-line Salafist parties, led by the al-Nour Party - came in second with 24.3% of the votes and 121 seats. In third and fourth place were the Wafd Party (7.6% and 38 seats) and the Egyptian Bloc, a coalition of three secular parties: the Tagummu' Party, the Social Democratic Party, and the Free Egyptians (6.8% and 34 seats).

The results of the 2012 parliamentary elections confirmed that a political leadership without a military background would dominate the Egyptian political scene after the fall of Mubarak. While the FJP had its own problems in terms of articulating an inclusive and well-defined political ideology or agenda, the leftist, liberal and secular parties did not fare better in a country where 'liberalism' continued to have a negative connotation (De Smet 2016, p367). Given this situation,

Results of Egyptian Parliamentary Elections in 2012

Party	Seats	% of the Vote
Freedom and Justice Party	235	47.2
al-Nour Party	121	24.3
New Wafd Party	38	7.6
Egyptian Bloc	34	6.8
Al-Wasat Party	10	2
Reform and Development Party	9	1.8
Revolution Continues	7	1.4
Other parties	18	3.6
Independents	26	5.2
Seats appointed by the military council	10	

***Table 1,** Results of Egyptian Parliamentary Elections in 2012* in the first Egyptian democratic and free parliamentary elections, the FJP wisely positioned itself as a voice for the poor through its years of activities in civil society. They put forth an economic platform, which was oriented towards a free-market design, but pursued policies that contradicted this aim. The reason for such ambiguity was that the leadership cadre of Muslim Brothers (which the FJP relied heavily on) was split into two groups: those believed in allying with the existing capitalist structure, and those who did not trust these factions, thereby adamant to satisfy the needs of the network of socio-political and economic groups close to them (Gamal 2019, p3 – 4).

Of further concern was that the economic model that the FJP was proposing encountered strong opposition from other political and social movements that took part in the vast protests in Tahrir square. The volume and tone of these criticisms became louder and harsher after the election of Morsi as the first democratically elected President of Egypt. The protestors accused Morsi's administration of attempting to "Brotherhood-ise" state institutions (Black, 2013), thus hijacking the revolutionary momentum, which led the fall of three-decade rule of Mubarak (Fayed & Saleh, 2013). The foremost concern of these groups of activists who were mainly associated with the secular liberal, nationalist, and 'old' leftist opposition forces in Egypt, was the nature of the political Islamist background of Morsi's administration (Kirkpatrick, 2012). However, these groups neither proposed nor had an all-inclusive and well-coordinated political and economic leadership alternative. In fact, their political contentions transformed these groups to be perceived by some observers as a reactionary force against any potential political leadership, including the democratic one at hand.

In contrast to these criticisms, which were expressed loudly in amongst secular and liberal Egyptians, the FJP's political and economic policies were also intensely critiqued and opposed in the parliament by the main opposition, the Al Nour Party, for not sufficiently referencing Islamic law (Halime, 2012). The Al Nour party is known in Egypt as Salafists with ultra-conservative Islamist ideology, which believes in the strict implementation of Sharia law. Morsi's presidency, therefore, was confronted by both secular and ultra-conservative political groups when trying to accomplish objectives of the uprising's demands for social justice and economic prosperity. Morsi and the FJP leadership were struggling to convince opposition groups that they sought neither to implement strictly Islamist policies nor ones that conflict with Islam.

Such a political conundrum placed Morsi's administration under great pressure as they appeared to be making decisions without the consent of the majority while negotiating the delivery of a $4.8 billion loan with the IMF. Particularly, the public's aversion to the deal with the IMF was pumped up by media associated with the previous regime, which emphasised that the austerity measures that the loan was conditioned upon would put an end to many important subsidies, such as on food and fuel (Dalacoura 2016, p73). The letter that seventeen Cairo-based groups sent to the head of the IMF and Egypt's Prime Minister upon reaching a preliminary agreement critiqued the negotiations for lacking transparency and failing to obtain the support from the majority that the IMF required as a necessary condition for financial assistance (as cited in Jadaliyya, 2012). The letter emphasized that the austerity measures entailed may aggravate the living conditions of nearly 40% of the population, who lived on less than $2 a day at the time (Batrawy, 2012).

More importantly, this situation pushed Morsi into a dilemma about how to manage an economy that urgently required substantial funding to balance its budget and pick up recovery pace. On the one hand, if Morsi struck a deal with the IMF which required him to cut some of the essential subsidies which at the time constituted roughly a quarter of the country's budget, he would be perceived by the protestors as the president who exacerbated economic conditions after the fall of Mubarak. On the other hand, if he failed to negotiate and reach a deal with the IMF and so tackle the growing deficit problem in the country's fiscal and balance of payments, he was going to be accused of being inept and incompetent as a president. The terms and conditions of the loan agreement, including the government's economic reform program which aimed to limit subsidies to address the problem of budgetary deficit, became the most pressing policy problem that Morsi had to confront during his presidency (Dalacoura 2016, p73).

In essence, Morsi's administration was in a power struggle with the hegemonic structure which was still intact despite Mubarak's fall. According to De Smet (2016), this structure was composed of military officials, top bureaucratic elites and monopoly capitalists who made their fortunes because of their special relationship with the first two groups. De Smet (2016) argued that this structure stoked fear among the secular and liberal opposition forces about the danger of the imminent radicalisation of Egyptian society and the complete economic fallout in Egypt. Hence, they continuously tried to block the possibility of Morsi reaching a deal with the IMF or finding urgently needed funds from elsewhere by accusing him with treachery (Hashem, 2012). In the end, General Abdel Fattah al-Sisi, who was acting as the Minister of Defence under Morsi's administration, led and organised these military and bureaucratic elites to overthrow Egypt's first democratically elected President. On 3 July 2013, they orchestrated a military coup and removed Mohamed Morsi from power and put an end to a brief and hopeful democratic interlude that started in 2011.

Mohammed Elshamy - Anadolu Ajansı

The Rise of the Authoritarian Neoliberal Regime under Abdel Fattah al - Sisi

The military coup led by Abdel Fattah al-Sisi not only stopped the reform process initiated after the uprising in 2011 but brought back the same conflicting policies that catalysed the revolution in the first place. The country is now led by the same military elites and private investors who grew their roots in the Mubarak regime (Joya 2011, p372). The military elite that supported the intervention justified their actions as an effort to achieve 'national reconciliation' and refused to accept the labelling of their takeover as a coup (Kirkpatrick, 2013). The coup leader, Abdel Fattah al-Sisi, claimed when declaring their takeover that "the armed forces, based on its insightfulness, felt that the Egyptian people are calling for help, not calling on it to hold the reins of power but to answer the demands of the revolution" (as cited in Daragahi & Saleh, 2013). As it stands, the country has not experienced a revival or credible social and economic development. The current military regime certainly failed to deliver "the demands of the revolution" by overcoming fundamental economic issues such as high rates of inflation and unemployment, as well as rising inequality and poverty.

Based upon this background, however, the Egyptian administration under al-Sisi should not be considered as a natural or automatic continuity of the Mubarak era. The study conducted by Khalil & Dill (2019), argued that the post-revolutionary political economy under al-Sisi's regime involves both statist and neoliberal approaches. The authors presented a discussion that the hybrid form is not a coincidence, but rather a project that has been intentionally pursued by the military elites to attract international capital, while maintaining their long-standing control over society and the economy. In other words, the military's objectives towards the economy since the coup that overthrew Egypt's first civilian president Morsi has been based on an approach which is negotiate or amend policies that will only become instruments of their authoritarian rule.

To illustrate this further, it is important to consider that Egypt's new regime installed by al-Sisi used $12 billion US dollars of aid it received from the Gulf countries, in particular Saudi Arabia, United Arab Emirates and Kuwait, to boost the availability of subsidies for essential welfare needs. There were three objectives in mind: Firstly, the regime intended to cover up the widespread crackdown on protestors against the coup by appeasing the masses that supported their ascension to power. Secondly, the regime attempted to win time in order to cultivate the loyalty of military elites and capital groups associated with the presidency of al-Sisi. Thirdly, there was an attempt to gain legitimacy in the international arena and obtain the trust of oil rich Gulf countries to attract investment and funds.

Mired in a debilitating energy crisis since 2014, the regime started to struggle to obtain the financial support it was receiving from the Gulf countries, as these countries were also hit by the oil crisis. Egypt's major industries were largely disrupted due to the frequent blackouts and shortage of fuel. This situation left al-Sisi's regime with no other choice but negotiate external funding from the IMF in order to stabilise the economy and attract investment, in particular, for the energy industry. In 2016, the IMF and Egypt reached a three-year extended funding program (Extended Fund Facility - EFF) for the amount of $12 billion to address the imminent economic challenges and rescue its failing economy (IMF Press Release, 2016). The deal allowed Egypt to secure an additional $3 billion from the World Bank, $1.5 billion from the African Development Bank, and $6 billion from bilateral donors (Momani 2018, p1).

However, Egypt's agreement with these international institutions as well as private financial companies, was based on the implementation of structural adjustment programs. In particular, al-Sisi's administration had to comply with the IMF's three-year Extended Fund Facility (EFF) program, which required the country to adopt a series of structural reforms to address immediate macroeconomic vulnerabilities. According to Momani (2018), the reform program focused on three areas: monetary, fiscal, and structural (See Table 2). Her study illustrated that the objective of these adjustments was to eliminate economic vulnerabilities, such as overvalued exchange rate; low levels of foreign exchange reserves; large fiscal deficits; and a high level of public debt.

To achieve these objectives, the conditionality was to reduce welfare services and increase taxes in order to slash the budget deficit and liberalise both exchange rates and interest rates to boost exports and attract international capital. Further conditions included the need to implement a series of measures designed to deregulate and privatise public sector service, and industrial enterprises to ensure the desirability of Egypt as a destination for foreign direct investment. While these reforms would come with a price such as an increase in inflation, unemployment and poverty, al-Sisi had no other policy option than adopting the risky program.

Upon further inspection of the latest agreement with the IMF, Khalil & Dill (2019) noted in their study that despite the change in leadership class in Egypt, the tax policy post-2011 has advanced the Mubarak-era economic plans, as if Mubarak's National Democratic Party (NDP) was in charge of implementing them. Their study demonstrates that the tax policy al-Sisi implemented was designed to protect the interest of the capitalist class. They surveyed tax-to-GDP ratios of countries with similar-sized economies to that of Egypt. Their findings suggested that in contrast to these economies, Egypt's tax to GDP ratio has remained significantly low. As indicated in Figure 4 below, the ratio has fallen from 15.66 % in 2009, to 12.38 % in 2012 and remained under 14 % before it increased again in 2017.

Initially, al-Sisi raised taxes by 5 % on higher incomes to fulfil his promises to achieve a just economy in Egypt (EY Global Tax Alert, 2015). His approach also targeted investors by implementing a 10 % tax on capital gains made from the stock market (El-Gowely & Farouk 2014; Marshall 2015, p10). While these tax reforms allowed al-Sisi to gain popularity among the masses, the enthusiasm did not last long. When faced with various objections and protests by stock market investors and high-income earners, al-Sisi retreated from the aforementioned taxes. Instead, he chose to scrap the capital gains tax completely and slashed taxes on higher incomes and corporate profits from 25 % to 22.5 % (EY Global Tax Alert, 2015). Hence, many of the essential subsidies, including the energy subsidy provided for poor and vulnerable Egyptians, were withdrawn.

To achieve these objectives, the conditionality was to reduce welfare services and increase taxes in order to slash the budget deficit and liberalise both exchange rates and interest rates to boost exports and attract international capital.

Extended Fund Facility (EFF) Program

	Economic Issues	Requirements of the IMF's 2016 EFF Program	Status
Structural	Unstable Economic Growth and High Unemployment	Industrial licensing system	Achieved
		Providing funds for small and medium-sized enterprises	Partially achieved
		Amendments on bankruptcy law	Achieved
		Improving conditions for better female labour participation	Not achieved
Monetary	Lack of Foreign Currency Reserves	Providing funds for small and medium-sized enterprises	Partially achieved.
		Changing bankruptcy law	Achieved
		Improving conditions for better female labour participation	Not achieved
Fiscal	High Government Deficit and Public Debt	Making roads safer for public transportation	Not achieved
		Cut in energy subsidies	Achieved but energy prices severely increased
	Reforming Social Protection Schemes	Controlling and restructuring public sector wage bill	Not achieved
		Increasing the availability of the food subsidies including Takaful and Karama	Not achieved. Instead, the government cut food subsidies
		Maintain spending on social programs at around 1% of GDP	Not achieved
		Providing vocational training for youth	Partially achieved
		Providing new subsidies on essential good and services such as free transportation for children, infant formula, free school meals and children's medicines	Partially achieved: The government listed its program and made funding available

***Table 2,** Extended Fund Facility (EFF) Program*

Source: (Momani 2018, p3)

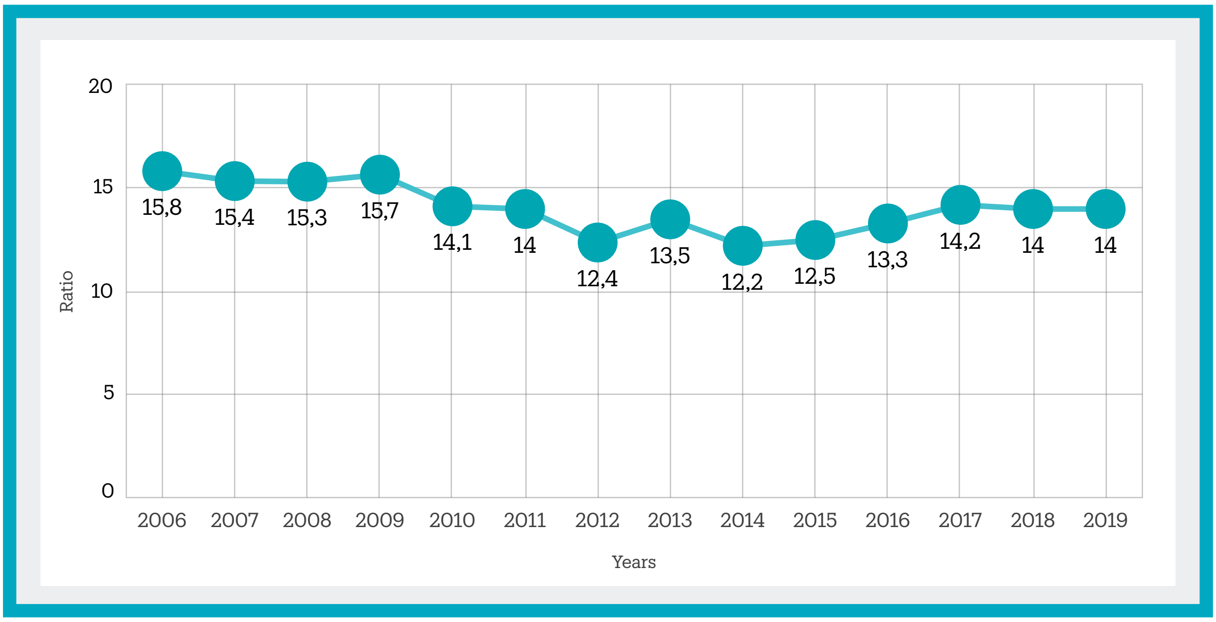


***Figure 4,** Tax to GDP Ratio* *Source: World Bank national accounts data, and OECD National Accounts data files*

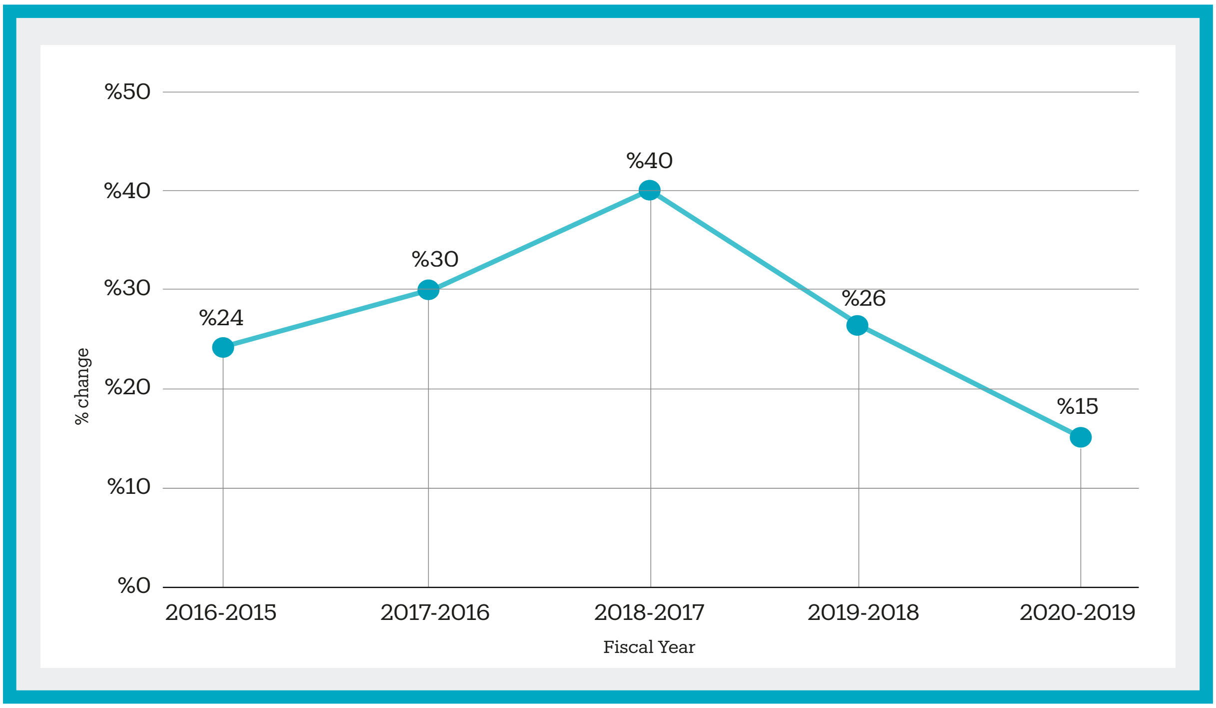


***Figure 5,** Change in Egypt's Electricity Prices (Annually %)* *Source: Reuters, 2019*

The case of Egypt is unique in the sense that the country urgently needs to generate income from taxes by widening its tax base. However, the ruling administration has failed to increase taxes on corporate income or implement progressive taxation reform. Instead, Egypt implemented policies as part of the IMF plan with reformed taxation on consumption, such as replacing general sales tax by the value-added tax (VAT) with a rate of 14% (Momani 2018, p7). From these figures, it is evident that the IMF's plan did not consider the unique characteristics of the Egyptian political economy. These new taxes, which were approved by the Egyptian Parliament in August 2016, covered most of the previously exempt foodstuffs. Together with these additional taxes and new measures such as removing food and energy subsidies, prices in the country substantially increased (Esterman 2016; Khalil & Dill 2019). The price of electricity, for instance, has doubled over the past five years. Figure 5 above illustrates average increase of 14.9% in 2019, 26% in 2018, 40% in 2017, 30% in 2016 and 24% in 2015 (as cited in Reuters, 2019).

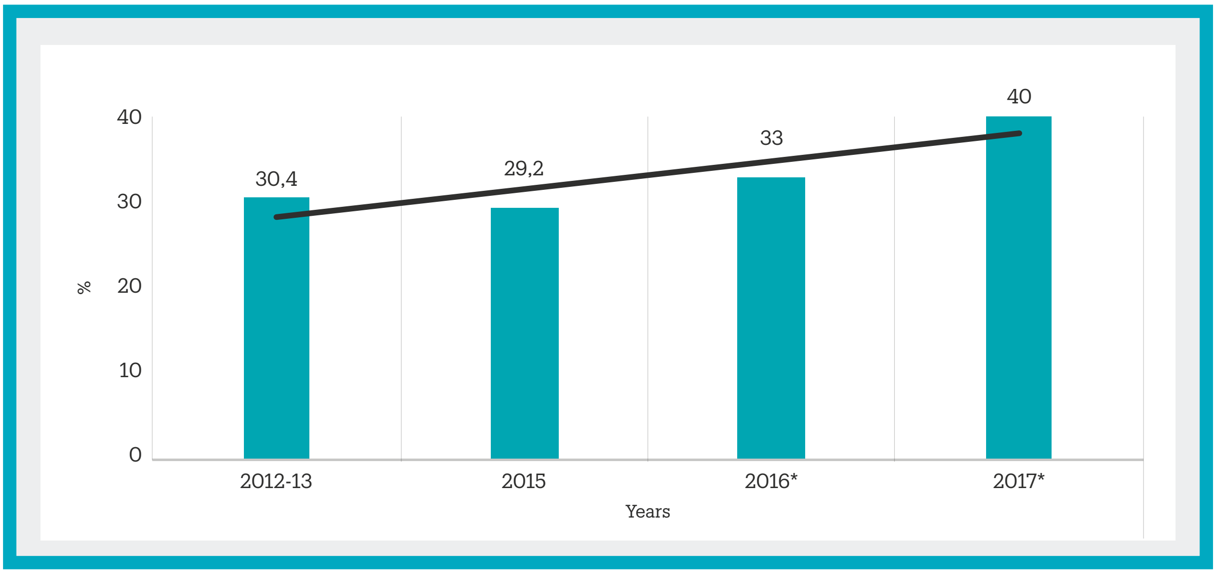


Figure 6, *Poverty Rates in Egypt (World Bank Estimates) Source: *Denotes projected (not actual) poverty estimates, as seen in the Performance and Learning Review (2019) report p7*

These reforms, subsequently, led the overall cost of living in Egypt to increase and the rate of inequality between rich and poor to intensify. At a time when the Egyptian population is nearing a hundred million with a significant unemployment rate, such a deepening gap create further challenges for the Egyptian people to overcome the problems of poverty and self-sufficiency. A recent World Bank study indicates that about 60 % of Egypt's population is either poor or vulnerable (World Bank Press Release, 2019).

Figure 6 illustrates the national poverty rate between 2012 and 2017. While there are no official figures for the actual poverty rates confirmed by the World Bank, the performance and review report for Egypt published in 2019 estimated the poverty rate for the years 2016 and 2017. It demonstrated that the prescribed economic program by the IMF was expected to lead poverty levels to surge significantly in 2016 and 2017. The expected rise in poverty levels was later confirmed with an official report titled Household Income, Expenditure, and Consumption Survey, prepared by Heba al-Laithy, a statistics professor at the Cairo University and advisor for the Central Agency for Public Mobilization and Statistics (CAPMAS). According to the summary of this report on the local news website Mada Masr, Egypt's poverty rate increased 4.7% to 32.5% from 2017 to 2018, up from 27.8% in the previous 2015/2016 study. The author of the report, Heba al-Laithy, confirmed when contacted by Mada Masr that "the austerity measures were behind the country's increasing poverty rates".

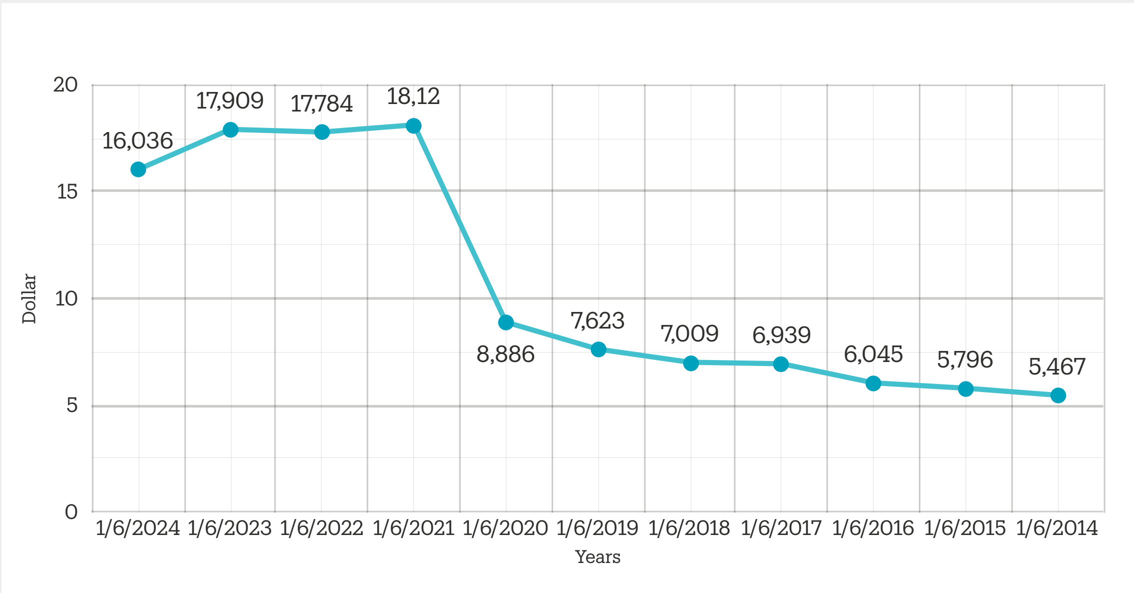


***Figure 7,** Yearly Currency Change US Dollar to Egytian Pound* *Source: World Bank national accounts data, and OECD National Accounts data files*

The reform process did not only force Egyptian policymakers to change the essentials of the welfare system, but it also required policies such as currency liberalisation. In the fiscal year of 2016/2017, the value of Egyptian pound depreciated more than double against the dollar when Egypt's central bank floated the pound in the currency markets as part of the IMF's program (see figure 7). The bank also hiked the interest rates by 500 basis points in the same period (see figure 8). As indicated in Figure 9, both these policies led the inflation rate to soar significantly as they added pressure on prices of goods and services which were either imported or heavily relied on credits and loans. Respectively, income levels of a majority of Egyptians fell and they had much less purchasing power in contrast to the time of President Morsi. Al-Sisi's government has hitherto failed to sustain the living standards and prevent the rise of inequality.

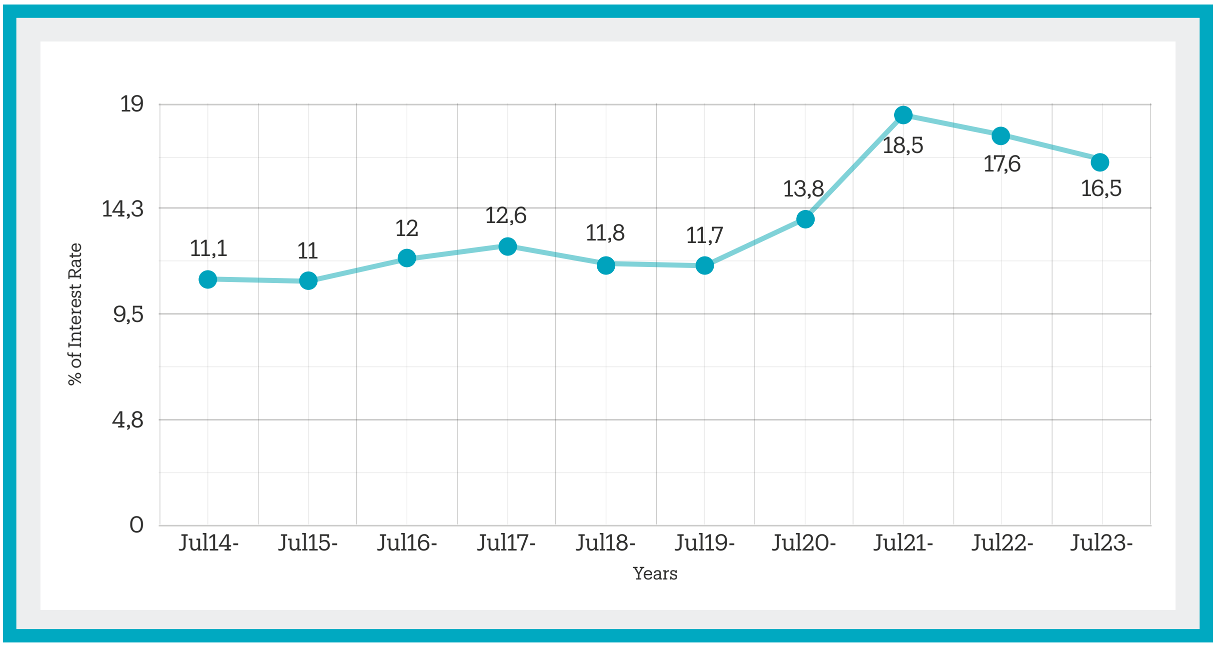


***Figure 8,** Egytian Interest Rate* *Source: Central Bank of Egypt*

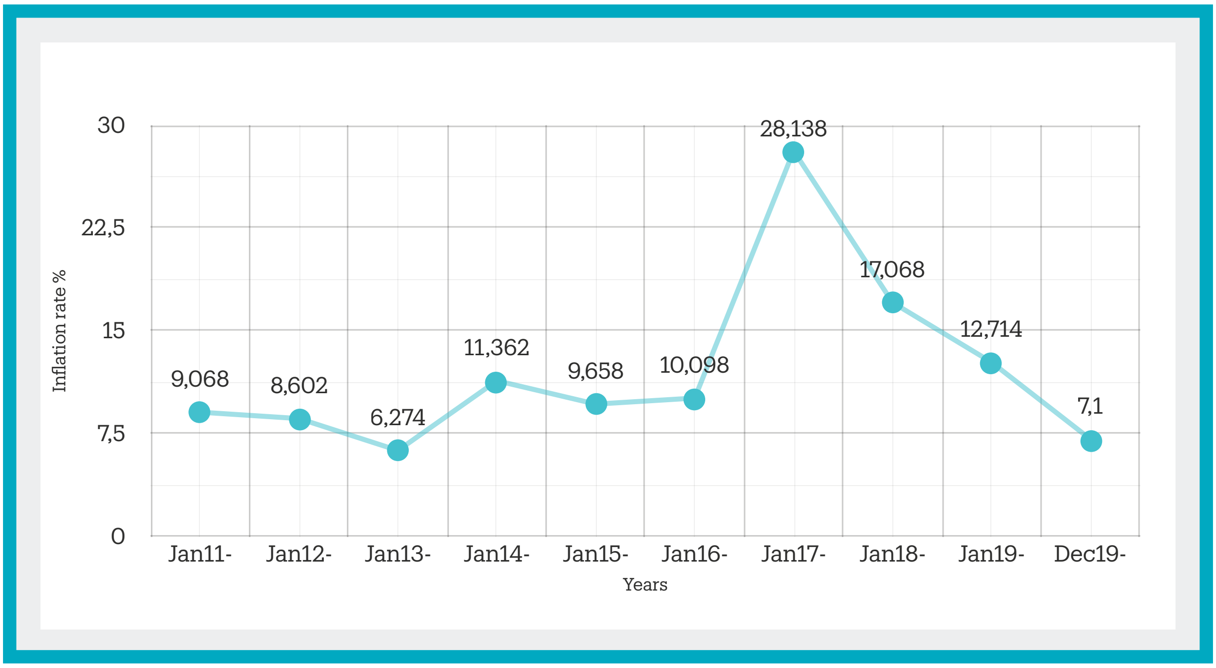


***Figure 9,** Inflation Rate* *Source: International Monetary Fund, International Financial Statistics and data files*

Conclusion

Egypt's political economy has evolved through three phases since the Free Officers took charge of the country in 1952. The first phase was the transformation of the capitalist mode engineered by the monarchy and the various imperial powers to a socialist nationalisation under Gamal Abd al-Nasser. In the second phase, the closed economy that Nasser tightly controlled was liberalised by his successor Anwar Sadat. Finally, under the long-lasting rule of Hosni Mubarak, Egypt's political economy was adopted to a nominally free-market system that combined an extensive residual role for the state in ownership and capital expenditure along with crony capitalism (Sayigh 2019, p32).

While Mubarak was ousted by the uprising movement in 2011 and replaced by Egypt's first civilian and democratically elected President, Muhammed Morsi, the period under Morsi was too short to make a significant change to the political economy of Egypt. In this brief period, Morsi did not have much choice but to embrace the realities of the free market economy and unsuccessfully seek funds from international financiers to respond to growing public debt and other issues he inherited from his predecessor. While the shape of the Egyptian economy under the new military regime led by al-Sisi is no better than at the time of Morsi, with the support of the military, he maintains his authority over the masses. Al-Sisi's approach towards a welfare state after the coup was no more than a tactical strategy. Economic issues, such as the high rate of unemployment, inflation, rising inequality and poverty, remain unresolved.

Al-Sisi and his government are currently implementing the IMF's three-year Extended Fund Facility (EFF) program but use its agenda to bolster the authoritarian structure in Egypt. There is no significant change in the economic wellbeing of the country. Instead, the cost of living in Egypt for the middle and lower socio-economic groups has increased over this period. The rate of inequality between rich and poor has intensified and there are now more challenges for people living below the poverty line. The current structural changes have made the Egyptian economy more fragile to external shocks. The looming global recession due to the coronavirus pandemic (Covid-19) will add an extra burden, as Egypt's stability and revenue streams heavily depend on external funding, tourism revenues, income from the Suez Canal and petroleum and gas extraction. The possible global economic downturn will hit all these sectors. Finally, the possible coronavirus-induced economic fallout is highly likely to aggravate the discontent among Egyptians and challenge the durability of the regime.

Bibliography

Batrawy, A., (2012). "Egyptian groups reject $4.8 billion IMF loan," *Associated Press*, November 12. Retrieved from: https://www.yahoo.com/amphtml/egyptian-groups-reject-4-8-billion-imf-loan-185847670--finance.html

BBC News (2012,) "Egypt's Islamist parties win elections to parliament," *BBC*, January 21. Retrieved from: https://www.bbc.com/news/world-middle-east-16665748

Beesan Kassab, B., (2019) "Austerity measures a major cause of poverty increase, statistics agency advisor says," *Mada Masr*, September 4. Retrieved from: https://madamasr.com/en/2019/09/04/feature/economy/austerity-measures-a-major-cause-of-poverty-increase-statistics-agency-advisor-says/

Black, I., (2013) "Mohamed Morsi: the Egyptian opposition charge sheet," *The Guardian*, July 3. Retrieved from: https://www.theguardian.com/world/2013/jul/03/mohamed-morsi-egypt-president-opposition

CAPMAS (2017), the Central Agency for Public Mobilization and Statistics. Retrieved from: https://egypt.opendataforafrica.org/data#source=CAPMAS

Dalacoura K. (2016) Islamism and Neoliberalism in the Aftermath of the 2011 Arab Uprisings: The Freedom and Justice Party in Egypt and Nahda in tunisia. In: Akçali E. (eds) *Neoliberal Governmentality and the Future of the State in the Middle East and North Africa*. Palgrave Macmillan, New York. Retrieved from: https://doi.org/10.1057/9781137542991_5

Daragahi, B. & Saleh, H., (2013) Egypt: The second revolution", *Financial Times*, July 5. Retrieved from: https://www.ft.com/content/e341452a-e574-11e2-ad1a-00144feabdc0

De Smet, B., (2014). "Revolution and Counter-Revolution in Egypt," *Science & Society, Guilford Press*. Vol. 78, No. 1, pp. 11-40. Retrieved from: https://www.jstor.org/stable/24583605

De Smet, B., (2016). *"Gramsci on Tahrir: Revolution and Counter-Revolution in Egypt,"* Pluto Press. London.

El-Gowely, N., & Farouk, E., (2014). "Egypt imposes 10 pct tax on capital gains, dividends," *Reuters*, July 1. Retrieved from: https://www.reuters.com/article/egypt-tax/update-2-egypt-imposes-10-pct-tax-on-capital-gains-dividends-idUSL6N0PC42Q20140701

El-Mikawy, N. et al (2000). "Institutional Reform of Economic Legislation in Egypt," Discussion Papers 281244, University of Bonn, Center for Development Research (ZEF). Retrieved from: http://ageconsearch.umn.edu/record/281244/files/zef_dp30-00.pdf

Esterman, I. (2016). "Brace Yourselves for Higher Electricity Prices." *Mada Masr*, August 10. http://www.madamasr.com/en/2016/08/10/feature/economy/brace-yourselves-for-higher-electricity-prices/

EY Global Tax Alert (2015) "Egypt reduces income tax rate and tax on dividend distributions," EY Global Tax Alert Library, September 1. Retrieved from: https://www.ey.com/Publication/vwLUAssets/Egypt_reduces_income_tax_rate_and_tax_on_dividend_distributions/$FILE/2015G_CM5724_Egypt%20reduces%20income%20tax%20rate%20and%20tax%20imposed%20on%20dividend%20distributions.pdf

Farah, N. R. (2009). *Egypt's Political Economy, Power Relations in Development*. Cairo: The American University in Cairo Press.

Gamal, W., (2019) "Lost Capital: The Egyptian Muslim Brotherhood's Neoliberal Transformation," *Carnegie Middle East Centre*, February. Retrieved from: https://carnegieendowment.org/files/2-1-19_Gamal_Muslim_Brotherhood.pdf

Global Wealth Databook 2014, Credit Suisse Research Institute. Retrieved from http://economics.uwo.ca/people/davies_docs/global-wealth-databook-2014-v2.pdf

Gumuscu, S. (2010). Class, Status, and Party: The Changing Face of Political Islam in Turkey and Egypt. *Comparative Political Studies*, 43(7), 835-861. Retrieved from: https://doi.org/10.1177/0010414010361341

Halime, F., (2012) "Egypt's IMF Loan Tests its Islamist Government's Boundaries," *the Atlantic Council*, November 1. Retrieved from: https://www.atlanticcouncil.org/blogs/menasource/egypt-s-imf-loan-tests-its-islamist-government-s-boundaries/

Halime. F., (2012) "Islamists and the IMF," *The Cairo Review of Global Affairs*, November 5. Retrieved from: https://www.thecairoreview.com/tahrir-forum/islamists-and-the-imf/

Hashem, Abu. (2012) "Morsi intends to subjugate Egypt to the humiliating conditions of the IMF," *The Khilafah*, September 2. Retrieved from: http://www.khilafah.com/morsi-intends-to-subjugate-egypt-to-the-humiliating-conditions-of-the-imf/

Ibrahim, S. E. (2002). *Egypt, Islam, and Democracy: critical essays, with a new postscript*. Cairo: American University in Cairo Press.

Ikram, K., (2018) *The Political Economy of Reforms in Egypt: Issues and Policymaking since 1952*, the American University in Cairo Press.

IMF Press Release, "IMF Executive Board Approves US$12 billion Extended Arrangement Under the Extended Fund Facility for Egypt," IMF, No: 16/ 501, November 11. Retrieved from: https://www.imf.org/en/News/Articles/2016/11/11/PR16501-Egypt-Executive-Board-Approves-12-billion-Extended-Arrangement

Jadaliyya Reports, (2012). "Letter to IMF From Egyptian Parties, NGOs, Syndicates and Political Movement," *Jadaliyya*, November 11. Retrieved from: https://www.jadaliyya.com/Details/27385

Joya, A., (2011). "The Egyptian Revolution: Crisis of Neoliberalism and the Potential for Democratic Politics." *Review of African Political E*conomy 38 (129): 367–386. Retrieved from: http://hdl.handle.net/10.1080/03056244.2011.602544

Kandil, H. (2011). Islamizing Egypt? Testing the limits of Gramscian counterhegemonic strategies. *Theory and Society*, 40(1), 37-62. Retrieved from: https://doi.org/10.1007/s11186-010-9135

Kandil, H. (2012) Power Triangle: Military, Security, and Politics in the Shaping of the Egyptian, Iranian, and Turkish Regimes. *PhD Thesis*, Los Angeles: University of California. Retrieved from: https://escholarship.org/uc/item/4cs059vp

Khalil, H., & Dill, B., (2019) "Negotiating statist neoliberalism: the political economy of post-revolution Egypt," *Review of African Political Economy*, 45:158, 574-591. Retrieved from: https://doi.org/10.1080/03056244.2018.1547187

Kirkpatrick, D., (2012). "In Egypt Race, Battle Is Joined on Islam's Role," *The New York Times*, April 24. Retrieved from: https://www.nytimes.com/2012/04/24/world/middleeast/in-egypt-morsi-escalates-battle-over-islams-role.html

Kirkpatrick, D., (2013) "Army Ousts Egypt's President; Morsi Is Taken Into Military Custody," *The New York Times*, July 3. Retrieved from: https://www.nytimes.com/2013/07/04/world/middleeast/egypt.html

Lenczowski, G., (1965) "The Objects and Methods of Nasserism," *Journal of International Affairs* Vol. 19, No. 1, The Arab World: Paths to Modernization, pp. 63-76. Retrieved from: https://www.jstor.org/stable/24363338

Mada Masr, (2019) "Officials delayed survey results showing Egyptians face highest poverty rate since 2000" *Mada Masr*, July 30. Retrieved from: https://madamasr.com/en/2019/07/30/feature/economy/sources-officials-delayed-survey-results-showing-egyptians-face-highest-poverty-rate-since-2000/

Marfleet, P., (2016) "*Egypt: Contested Revolution*," Pluto Press. London.

Marshall, S., (2015). "The Egyptian Armed Forces and the Remaking of an Economic Empire," Carnegie *Middle East Center*. Retrieved from: http://carnegie-mec.

org/2015/04/15/egyptian-armed-forces-and-remaking-of-economic-empire/i736

Momani, B., (2018). "Egypt's IMF Program: Assessing the Political Economy Challenges," Brookings Institution. Retrieved from: https://www.brookings.edu/wp-content/uploads/2018/01/imf_egypt_momani.pdf

Performance and Learning Review (2019) "the Country Partnership Framework for the Arab Republic Of Egypt for the Period Fy15-Fy19", *The World Bank*, April 3, Report No: 135709EG. Retrieved from: http://documents.worldbank.org/curated/en/631951556806695755/pdf/Egypt-Arab-Republic-of-Performance-and-Learning-Review-of-the-Country-Partnership-Framework-for-the-Period-of-FY15-FY19.pdf

Reuters, (2019) "Egypt to raise power prices by 14.9% for FY 2019-2020" *Reuters*, May 21. Retrieved from: https://www.reuters.com/article/egypt-electricity/update-1-egypt-to-raise-power-prices-by-149-for-fy-2019-2020-minister-idUSL5N22X2NL

Roccu, R. (2012). Gramsci in Cairo: neoliberal authoritarianism, passive revolution and failed hegemony in Egypt under Mubarak, 1991-2010 (Doctoral dissertation, London School of Economics and Political Science (University of London), 2012). Retrieved from: http://etheses.lse.ac.uk/369/1/Roccu_Gramsci%20in%20Cairo.pdf

Sayigh, Y. (2019) "Owners of the Republic: An Anatomy of Egypt's Military Economy," *Carnegie Middle East Center*. Retrieved from: https://carnegieendowment.org/files/Sayigh-Egypt_full_final2.pdf

Shafik, N. (1994). "Multiple Trade Shocks and Partial Liberalization: Dutch Disease and the Egyptian Economy," Economic Research Forum for the Arab Countries, Iran, and Turkey, Working paper: 9503. Retrieved from: https://idl-bnc-idrc.dspacedirect.org/bitstream/handle/10625/34270/126337.pdf?sequence=1

Springborg, R. (1989). Mubarak's Egypt. Boulder, CO: Westview.

Wilson, R. (1993) "Whither the Egyptian Economy?," *British Journal of Middle Eastern Studies*, Vol. 20, No. 2 (1993), pp. 204-213. Retrieved from: http://www.jstor.org/stable/195881?origin=JSTOR-pdf

World Bank Press Release (2019) "World Bank Group to Extend Current Strategy in Egypt to Maintain Momentum on Reforms," *World Bank*, April 30. Retrieved from: https://www.worldbank.org/en/news/press-release/2019/04/30/world-bank-group-to-extend-current-strategy-in-egypt-to-maintain-momentum-on-reforms

TRTWORLD
research
centre

TRTWORLD
research
centre