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# THE ECONOMICS OF EGYPT'S RISING AUTHORITARIAN ORDER

Amr Adly

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## About the Author

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Adly is the author of *State Reform and Development in the Middle East: Turkey and Egypt in the Post-Liberalization Era* (Routledge, 2012). He has also written several other academic publications that have appeared in *Business and Politics*, *Turkish Studies*, and *Middle Eastern Studies*, in addition to articles in several other periodicals and newspapers in English and Arabic. Before joining Stanford, Adly worked as a senior researcher at the Egyptian Initiative for Personal Rights, heading the unit for social and economic rights, and at the Egyptian Ministry of Foreign Affairs as a diplomat.

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## Summary

Egypt's economy is in crisis as the new military-backed regime seeks to reestablish its authority. Fiscal restructuring and austerity measures are necessary to spur economic recovery, but they may be politically difficult to pass at this time. The new regime, therefore, will have to broaden its base and forge a more inclusive coalition of supporters in order to stabilize Egypt, retain power, and restore economic growth.

### Egypt Between Populism and Austerity

- Years of political turmoil following the overthrow of then Egyptian president Hosni Mubarak in 2011 have exacerbated many of the country's economic problems.
- Annual rates of growth have declined and there has been massive capital flight, which has worsened budget, balance of payment, and foreign reserve deficits.
- Despite the need for austerity measures, the leadership may not take those unpopular steps because they could undermine support for the new regime.
- The government, funded by its Arab Gulf allies, has already enacted two stimulus plans to generate employment and tackle other challenges. Most of these projects target the lower middle class and urban poor by providing low-income housing or pouring money into the modernization of slums in large urban centers.
- It is unlikely that the new regime will continue to pursue a populist approach that entails providing economic entitlements while political liberties and rights are revoked.

### The Difficult Path Ahead

- The country's fiscal problems are not necessarily unmanageable. If the Egyptian economy resumes growth following the ascendancy of Abdel Fattah el-Sisi to the presidency, fiscal restructuring can proceed with bearable political cost.
- If domestic and foreign investment recover, generating higher rates of growth after three years of virtual recession is possible.
- No investor, regardless of nationality, would put money into an ailing economy in a politically unstable country. Because of this, the Egyptian



government and its Arab Gulf allies will have to continue massive stimulus projects to kickstart growth and attract investors.

- Most of these projects will have a trickle-down effect, with money flowing from the military, the direct recipient of Gulf funds, to small- and medium-sized enterprises. They may be the first in a series of measures targeting these enterprises as part of a strategy to create a broader base of support.
- But forging a more inclusive coalition requires more than trickle-down processes. The government will have to reconfigure—if not partially undo—the cronyistic networks inherited from the Mubarak era.

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## Introduction

In March 2014, Field Marshal Abdel Fattah el-Sisi announced his intention to run for the Egyptian presidency. Elected in May with an overwhelming majority, he is officially the country's next president—and he will face a host of challenges.

Economically, Egypt's leader will be caught between a rock and a hard place.

The country's economy has been stagnant since the January 2011 revolution that overthrew then president Hosni Mubarak. Deficits of all kinds—budget, balance of payments, and trade—have reached alarming levels. Hopes for economic recovery have faded away in the face of a never-ending and badly managed process of political transition.

Given those conditions, Sisi will inevitably have to enact austerity measures and expenditure cuts to stabilize the economy. Yet, fiscal austerity measures may be politically difficult to pass because there is no broad consensus on the steps needed and the country's fragile security situation makes progress difficult.

Will Egypt's socioeconomic problems overwhelm the next government and doom it to failure? Or will Sisi be able to leverage his popularity to build a coalition that supports the country's rising authoritarian order?

Ensuring economic recovery, in terms of higher growth and investment and thus employment rates, is imperative for Egypt's next ruler. It is also a precondition for any serious, comprehensive, and much-needed fiscal restructuring in the medium term. Both processes must occur in parallel. By slashing deficits, fiscal restructuring will liberate more resources for private investment, which is necessary to generate economic growth and jobs. However, this restructuring must be accompanied by political and security stabilization for economic recovery to occur. Otherwise, fiscal restructuring will only push the economy into a deeper recession. Hence, it seems that political stability is the only way out of a vicious cycle of recession and further social strife.

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**Economically, Egypt's leader will be caught between a rock and a hard place.**

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## Mubarakism Without Mubarak?

Many observers have emphasized Egypt's shift from a full revolution to the almost-full restitution of the prerevolutionary regime. Since Mubarak's overthrow, political and civil liberties have been severely curbed, human rights violations have been committed on an unprecedented scale, and the political sphere that briefly emerged in the revolution's aftermath has come to seem like

part of a bygone past. Now, a constellation of old interests within the state bureaucracy, civilian as well as military, and oligarchic networks is on the rise, and the country is witnessing the most serious and consistent effort to reestablish political authority since Mubarak's ouster.

For many, this is Mubarakism without Mubarak. The old state-dominated system, with the same socioeconomic biases and autocratic leanings, has been

reborn under the guise of a new military-supported dictatorship. Mubarak-era parties have forced their way back onto the political scene. The popular uprising against the Muslim Brotherhood's short-lived regime, ultranationalist propaganda, and considerable xenophobia all seem to be providing an excellent pretext and context for the return of the old powers and interests.

Yet, popular unrest has not completely burned out. Months after Sisi and the military ousted Egypt's then president, the Muslim Brotherhood-backed Mohamed Morsi, in July 2013, protest movements are still alive and

kicking. Labor unrest has resumed in the form of successive strikes and sit-ins. According to the International Development Center, Egypt witnessed 2,782 labor protests in the first three months of 2013 in comparison to 2,532 in 2012 as a whole and 2,782 in 2010.<sup>1</sup> The government's decision to raise the minimum wage as of January 2014 proved to be an invitation for more strikes in critical, primarily state-owned and state-run industrial and service sectors such as public transportation, the textile industry, and the postal service, as well as among medical doctors and pharmacists.

Together with this socioeconomic protest movement, which has proved to be the only persistent factor in Egyptian politics since 2004, post-Morsi Egypt continues to face Islamists' protests. Mass repression by the military-led government failed to eradicate these demonstrations. Continuous student unrest in major universities as well as small and scattered, but frequent, protests against the military takeover in villages, towns, and neighborhoods indicate that the public sphere has yet to be brought completely under military and police control.

Securing popular support, or at least ending widespread discontent, is necessary for the construction of a military-backed regime under Sisi. How successful that is will depend in large part on the economic policies that Sisi's government enacts.

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## Fiscal Challenges

Egypt's public finances have suffered from the chronic structural problem of deficits since the second half of the 1990s. Following a brief deficit slashing in the early 1990s after the implementation of an International Monetary

Fund-sponsored stabilization package, the public deficit increased again. The primary cause of this recurrent widening of the budget deficit was the steady decline in state revenue from around 30 percent of Egypt's gross domestic product (GDP) in the late 1980s to almost 20 percent by 2000.<sup>2</sup>

Revenues decreased for a variety of reasons. External rents (in the form of oil and natural gas sales, Suez Canal fees, and grants and other forms of aid) either declined or stagnated. The economy was becoming more privatized and thus beyond the Egyptian state's limited capacity to tax. And public expenditure remained constant, hovering around 30–32 percent of GDP.<sup>3</sup> Expenditure proved rigid because approximately two-thirds of the total was spent on mandatory interest expenses, irreversible wages, and politically explosive universal subsidies.

The government relied heavily and progressively on domestic sources of debt, which Mubarak and his economic team deemed less dangerous than external debt. The state soon became the largest debtor of the Egyptian banking sector. Overall public debt reached around 90 percent of GDP by 2010, with domestic debt constituting the greatest percentage.<sup>4</sup>

Such chronic structural problems were brought under control during Mubarak's time. The regime's approach was based on the increasing liberalization of the economy and the concentration of wealth and assets in the hands of a few cronies that were closely tied to ruling elites. The weaknesses in the fiscal system did not impede former prime minister Ahmed Nazif, who served under Mubarak from 2004 to 2011, and his neoliberal team from generating high rates of growth, attracting foreign investment, and amassing considerable foreign-exchange reserves, which had reached \$35 billion by the end of 2010.<sup>5</sup>

The budget deficit rose to around 12 percent of GDP in fiscal year 2012–2013 as government revenues decreased and social expenditure (wages and subsidies) increased. The decline in annual growth rates and massive capital flight that followed the January revolution have made things worse for the country's balance of payment and foreign reserves. By December 2012, Egypt's foreign reserves stood at less than half of their January 2011 total.<sup>6</sup> The country has had to increasingly rely on foreign aid and credit to secure basic imports.

Beyond these issues, Egypt's new president will find himself face-to-face with the problem of fuel subsidies. With rising local consumption of natural gas and oil, Egypt became a net oil importer as early as 2006 and a net energy importer (including natural gas) in 2012. As a result, it has become more vulnerable to rising international oil and gas prices, which has led to an unprecedented expansion in energy subsidies. Fuel subsidies have accounted for almost 20 percent of total government expenditure since 2008. These subsidies have both contributed to the country's rising budget deficit and increased the percentage of current expenditure, leaving a meager share of public funds for investment.

Around 55 percent of the subsidy bill goes to one product—diesel. Egypt imports over 80 percent of its diesel consumption. Most of the consumed diesel (around 80–85 percent of the total quantity) is a production input that goes into industries, transportation (both public and of goods and services), and agriculture.<sup>7</sup>

With the 2011 revolution and the extended political turmoil that has ensued ever since, such structural problems have become pressing. But the political capacity of Egypt's incumbent rulers to make the necessary changes has diminished.

Any tackling of fuel subsidies, for instance, is likely to have a magnified socioeconomic impact. The meaningful slashing of these subsidies requires the (partial or full) liberalization of diesel prices in a way that will raise production and distribution costs in a variety of economic sectors. Given the state's limited capacity to control prices, most of this rising cost will likely be shifted to end consumers, resulting in a general increase in prices that will in turn put more pressure on the standard of living of the already-impoorished majority of Egyptians.

The same applies to the other proposed remedies to Egypt's chronic deficit. Any increase in taxation will likely occur through the imposition of more indirect taxes, given the state's limited administrative capacity to directly tax businesses and property holders. There has been talk within the treasury of the need to impose a value-added tax, which would also raise prices and contribute to an increasing inflation rate.

However, the country's fiscal problems are not necessarily unmanageable. Indeed, if the Egyptian economy resumes growth following Sisi's ascendancy to the presidency, fiscal restructuring can happen with a bearable political cost. With higher rates of growth, the cost of increased revenues and decreased subsidies can be gradually shifted to end consumers. This approach may prove a good one if subsidy reduction goes hand in hand with some targeting of the poor through cash transfers or coupons. It would put most of the cost on the (upper) middle classes, which have been the primary consumers since the last years of Mubarak's rule. Yet, these very strata are the ones most likely to benefit disproportionately from any possible economic rebound in Egypt.

And such a rebound is indeed feasible. After all, Egypt's political turmoil has led to the disruption of price signals and the fleeing of foreign and local investment, but it has not seriously damaged the country's physical and human infrastructure. Once consumers regain some trust in it, Egypt's economy will grow at higher rates. This sort of economic rebound usually has to do with capacity underutilization during times of recession.

## Two Economic Approaches

From his few public statements, Sisi seems quite conscious of Egypt's dire economic situation and the need to restructure and reform public finances. The candidate has no illusions about the unsustainability of the economic setting inherited from Mubarak's time, especially after three successive years of low growth rates due to persistent political turmoil. In office, Sisi—along with his military backers—is likely to be confronted with two possible approaches to the economy: populist authoritarianism and bureaucratic authoritarianism.

The first option, the all-too-familiar populist authoritarianism, characterized the rule of then president Gamal Abdel Nasser in the 1950s and especially the 1960s. Populist authoritarianism is a concept developed by Egyptologist Robert Bianchi in his 1989 work *Unruly Corporatism: Associational Life in Twentieth-Century Egypt*. It refers to an authoritarian order that is established based on an exchange of political rights for economic entitlements. These populist systems serve a broader social coalition of beneficiaries and thus are more durable and stable than bureaucratic authoritarian systems.

Only macroeconomic populism can justify the reimposition of political authoritarianism in the medium and long term. If the rising military-backed regime takes away political liberties and rights, it will have to provide economic entitlements in return.

Macroeconomic populism has appeared in many instances since July 2013. Salary increases mandated by the imposition of minimum-wage requirements for state employees have frequently taken place. Fuel subsidies were not slashed despite the growing deficit. Indeed, one-quarter of total public expenditure goes to wages and salaries, and another quarter flows into oil and food subsidies.

The interim military regime seems as desperate as the governments of Mubarak and Morsi before it to keep the old Nasserist constituencies, mainly state employees, as appeased as possible. Most government measures target those working for the state's civilian and military bureaucracies and state-owned enterprises—a total of around 6 million employees, which is a significant share of the total workforce and the overall population if their families are counted as dependents. These groups also include state security and the two law-enforcement bodies, the military and the police force.

However, because of considerable restraints on public resources, a populist approach is unlikely to be sustainable. These restrictions will prevent Egypt's new rulers from distributing public resources to bolster their popularity. They will likely also force Sisi's government to enact unpopular austerity measures.

Under bureaucratic authoritarianism, austerity measures would be put in place to slash the ever-growing budget deficit and reduce alarmingly inflated

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**Sisi is likely to be confronted with two possible approaches to the economy: populist authoritarianism and bureaucratic authoritarianism.**

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public debt.<sup>8</sup> As severe as the fiscal crisis is and as imminent as austerity measures are, such macroeconomic policies can and will undermine the establishment of popular authority.

Egypt has needed significant fiscal reforms since Mubarak's last years. Yet even Mubarak, whose regime enjoyed relative stability for decades, shied away from taking any unpopular measure, such as reducing fuel subsidies or increasing indirect taxation. Given the current absence of political consensus, enacting unpopular economic measures may fuel political opposition and provide socioeconomic substance to ongoing political protests by the Muslim Brotherhood and its allies or any other revolutionary groups.

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Bureaucratic authoritarian policies would mean the final breaking of Egypt's Nasserist distributional coalition, as austerity would directly translate into higher prices and lower standards of living for the majority. The hammer would fall hardest on the middle classes and the urban and rural poor.

In this case, the military would be representative of the old top strata of Mubarak and his son Gamal's now-defunct neoliberal project. The military-backed future president cannot afford to represent the interests of the Mubarak-era coalition of cronies and ruling elites, which proved too exclusionary and unpopular to sustain a legitimate political order.

Sisi has his own set of advantages. Armed with substantial popular support and propelled by the media's portrayal of him as a candidate of national consensus, Sisi should be able to sell some of the unpopular measures and afford the political cost of passing them.

Moreover, unlike Morsi, Sisi will have the implicit (and sometimes explicit) support of the civilian and military bureaucracy as well as of big family businesses and conglomerates. His ascent to power since July 2013 has proved to be part of a bigger regional strategy that secures the continuing inflow of badly needed foreign capital into the Egyptian economy. All told, these advantages are necessary and often sufficient factors for political stabilization and economic recovery.

But it is clear that Egypt's president cannot afford either pure populist or bureaucratic authoritarianism. Sisi will soon find himself forced to enact measures that neither Mubarak nor his successors dared take against some of the potential—if not actual—support bases of his new military-backed regime.

## Plans to Spur Economic Recovery

To date, Sisi's economic team has only one plan: to get the "wheels spinning" again and secure economic recovery in the immediate future. Generating

higher rates of growth after three years of virtual recession is possible—at least theoretically—if domestic and foreign investment recover. But because no investor, regardless of his or her nationality, would put money into an ailing economy in a politically unstable country, the Egyptian government itself and its Arab Gulf allies will have to make the first push.

This has already been the case with two stimulus packages that the government launched in 2013–2014. These packages aim to regenerate growth, boost the regime's popularity among broad social strata, and possibly broaden the social coalition that is to support Egypt's rising authoritarian order.

The first stimulus package was financed domestically by liquidating half of the Gulf War deposit, a fund that accumulated in the early 1990s as part of the Gulf monarchies' support to Egypt for joining the international coalition against Iraq. According to the Egyptian government, the current value of the deposit, which is kept in a special account at the Central Bank of Egypt, is around 60 billion Egyptian pounds (\$8.5 billion). The total worth of the first stimulus package hovered around 29.7 billion Egyptian pounds (\$4.2 billion). Nearly 79 percent of the total expenditure was earmarked for infrastructure and social projects—6.7 billion Egyptian pounds (\$950 million) for the development of roads and transportation; 4.4 billion Egyptian pounds (\$624 million) for supporting national industry; 4.1 billion Egyptian pounds (\$581 million) for fresh water supply, sanitation, and natural gas delivery; 3.1 billion Egyptian pounds (\$439 million) for social housing; 2.9 billion Egyptian pounds (\$411 million) for the local development of villages and towns; and 2.2 billion Egyptian pounds (\$312 million) in arrears to the construction sector.<sup>9</sup>

Whereas the first stimulus package was domestically financed, the second has been almost totally funded by a United Arab Emirates (UAE) grant (69.2 percent) and foreign soft loans (30.8 percent). Egypt and the UAE signed an agreement on October 26, 2013, according to which the UAE provided a grant of about 35 billion Egyptian pounds (\$4.9 billion). Fifteen billion Egyptian pounds (\$2 billion) of the grant served as cash budget support, and the remaining 20 billion Egyptian pounds (\$2.9 billion) was allocated to infrastructure projects and social spending. According to a report by the Egyptian government, the UAE grant is to be used to build 50,000 low-income housing units, 25 wheat storage silos, and 100 new schools. It will also extend sanitation to 151 villages and bring electricity to 70 villages.<sup>10</sup>

These plans indicate that Gulf supporters of the July coup are well-aware that Egypt is too big a country to be dependent on foreign creditors in the medium term. As a result, while Gulf grants provide money to secure Egypt's basic fuel imports and keep the state financially afloat, the primary target of this massive capital inflow is economic recovery.

This sort of recovery can only happen in the short and medium terms through the direct intervention of the state. It requires massive investment in large



infrastructure projects that would generate jobs, stir economic activity by engaging a broad base of producers and distributors, and boost public consumption.

The military's bureaucracy and its economic units plan to play a central role in this push for economic recovery. There are many explanations for the army's decision to play such a prominent part. One may be that the military, a political actor since the rule of then president Anwar Sadat in the 1970s and an influential economic actor as well, is looking to tighten its grip on more economic resources at a time when Mubarak's old cronyistic networks have been dealt a strong blow. Another may be purely functionalist—the new rulers do not trust the civilian bureaucracy for good reasons that have to do with inefficiency and corruption, so they prefer to mobilize their own bureaucracy instead.

In general, the military is stepping into a great many infrastructure and public-works projects that will be partly financed by the Gulf-funded stimulus plans. This has been the case with a megaproject to modernize squatter settlements in big cities, the building of a number of highways, and an initiative to build 1 million housing units that is funded by the UAE's largest contractor, Arabtec Holding, a unit of Abu Dhabi government investment vehicle Aabar Investments.<sup>11</sup> The total value of the project is estimated at 280 billion Egyptian pounds (\$40 billion).

Most of these projects are aimed at tackling a complex combination of political, social, and economic challenges. Many of the initiatives have a social mission that targets the lower middle class and the urban poor, be it by providing low-income housing or pouring money into the modernization of slums in big urban centers. They are also all designed to generate employment.

Moreover, most of these projects will be carried out through subcontracting, especially in the construction sector. Subcontracting means that there will be a trickle-down effect from the military, the direct recipient of Gulf money, to small- and medium-sized enterprises. It may prove to be one in a series of measures targeting small- and medium-scale capitalism in Egypt.

## The State and the Private Sector

The absence of indigenous big capital in the interim government's plans is noteworthy. Before Mubarak, the state played the primary role in the economy. But following three decades of gradual yet consistent liberalization, deregulation, privatization, and private-sector growth, the state role with regard to the production and distribution of goods and services changed dramatically. Now, the greatest share in the total output, value added, and employment has shifted to some variant of the private sector, be it micro, small, big, formal, or informal. The private sector is by and large predominant in transformative industries, commerce, tourism, telecommunications, and agriculture.

Some observers have contended that the military's increasing role in the economy represents a partial undoing of Mubarak's economic liberalization, claiming that big private businesses are being replaced by direct military involvement. This argument may be true to some extent, but it is doubtful that the military-backed regime could do without big businesses altogether. Despite the strong invocations of the Nasserist historical experience that are being used to legitimize Egypt's rising military-backed authoritarianism, it is very unlikely that a Nasserist-like state-centered distributional coalition will emerge. The military's increased economic activity is less a reflection of its intention to replace big businesses and more a product of the private sector's unwillingness to inject money into the economy in such uncertain times.

Even though public-sector workers are the most unionized and best organized, Egypt's younger and bigger workforce is in the private sector. Given the country's dependence on cheap labor to attract foreign investment and maintain export competitiveness, and given the socially conservative character of the military, it is quite improbable that the state will address labor concerns in an attempt to establish a neo-corporatist or neo-Nasserist setting in which business, labor, and state groups work together to shape economic policy. Moreover, providing economic concessions to private-sector workers would undermine the military's goal of fostering immediate economic recovery by antagonizing a variety of small, medium, and large enterprises. Many of the people in these enterprises are strong supporters of the military and Sisi in the quest for stability (*istiqrar*), and they regard labor activism in general as the main demonstration of social unrest since 2011. One potential outcome is that the lines between business tycoons and the military will be redrawn, giving rise to a new division of labor, especially with regard to land allocation and the receipt of foreign investment.

The new authority will likely seek an odd mixture of populism with regard to state employees and public-sector workers, whose wages will increase steadily, and wage suppression against less organized and less unionized private-sector workers. This combination of selected or targeted populism on the one hand and economic liberalization on the other is not strange in developing countries. In fact, it tends to be the rule rather than the exception.

The military will never risk losing its state-worker base of beneficiaries, even if maintaining this base translates into a bigger wage bill that fuels the budget deficit and inflation. However, this approach depends on a healthier productive base in the private sector that can generate revenues for the state through direct or indirect taxation—and that, in turn, can only happen at the cost of the broader labor force in the private sector. This reality forces state elites into a partnership with private capital, much as was the case during the last decade of Mubarak's rule.

## A Conservative Social Coalition for a Rising Authoritarian Order

Economic recovery is unlikely to happen on its own. It must be accompanied by the restoration of some political stability, which remains uncertain with Sisi's rise to power. Rather than re-creating Mubarak's exclusionary coalition, which can hardly play in favor of sustaining Sisi's rule, the new leadership needs to broaden the capitalist coalition inherited from Mubarak's time by enabling more producers and improving access to production assets such as land as well as to bank loans and more competitive markets.

The Egyptian economy suffers from the "missing middle" syndrome, meaning it lacks a robust medium-sized-enterprise sector because small enterprises never have the chance to grow into midsized ones. The private sector is composed of a handful of large, multisectoral, primarily family-owned conglomerates and a great number of very small enterprises that often lack access to capital, land, information, and markets.

Creating a coalition of growing and competitive small- and medium-sized enterprises takes more than just subcontracting. It requires deep, far-reaching institutional and policy reforms that guarantee a generally better business environment and more equitable access to assets and markets. The military will have to breed a stratum of medium and small capital that is competitive, efficient, and capable of growing. This broadened capitalist alliance is likely to join the existing beneficiaries of economic liberalization, mainly the middle-class strata that have profited from the increased globalization of the Egyptian economy since the late 1990s.

There are signs that the rising regime has plans (or at least intentions) to widen its base of economic beneficiaries. The Gulf-funded stimulus packages may prove a good way to forge some political-economic symbiosis between the "military inc." and the broader base of small- and medium-sized capital, the very core constituencies of stability.

This was the case, albeit in a very different context, in Turkey after the 1980 coup. Following the military's heavy-handed reconfiguration of the political and economic order of the country, the rising center-right party led by Turgut Özal, who served as prime minister from 1983 to 1989 and president from 1989 to 1993, was able to establish a broad conservative alliance that included big and small capital as well as considerable strata of the middle classes. Even though his policies strongly antagonized labor and the countryside in general, this coalition helped Özal sustain his rule for almost a decade.

Central to establishing a broader coalition is deciding what sort of political representation the soon-to-be allies will have. How small and medium capital is to be represented remains an open-ended question that depends on the margins of political freedoms that the new order will tolerate and the institutional channels through which interests will be aggregated and represented. Cases

of left-leaning social coalitions, such as the ruling Workers' Party in Brazil, or right-leaning ones, such as Özal's party in Turkey, all occurred in relatively open political systems.

So far, it is not clear whether Sisi will be tied to his supporters only through the ballot box or through other forms of representation, such as a dominant political party, as well. It is still unclear whether the military plans to revive the Federation of Egyptian Industries and the Federation of Egyptian Chambers of Commerce as mediums between the state and small and medium capital holders in the industrial and business sectors, respectively.

## A Difficult Road Ahead

Since 2011, Egypt has been facing one of the—if not *the*—direst sociopolitical crises in its modern history. If the transitional period has proved anything, it is that the establishment of legitimate and functioning political authority after the revolution is a very challenging task.

But that reality does not mean that Egypt is destined to experience chronic anarchy or that all kinds of political authority are doomed to fail. Sisi has a chance to help his regime succeed by forging a new social coalition for the post-Mubarak order, although this will by no means be an easy task for Egypt's future president.

To start with, forging such an alliance requires reconfiguring—if not partially undoing—the cronyistic networks inherited from the Mubarak-era transformation to nonmarket capitalism. Indeed, the military can move against some Mubarak-era interests but only to the extent of not hampering the desperate efforts of economic recovery that depend heavily on the very networks that would need to be undone in any serious attempt to broaden the ruling coalition.

Of course, Sisi may have the power to negotiate with big capital and ask for some economic price in return for the stabilization and pacification of the country. This approach would require rethinking big businesses' contributions to state revenue via taxation as well as breaking many anticompetitive practices that crowd out medium and small capital.

The other source of difficulty would be the fact that reconfiguring access to assets would require reevaluating the military's own role in the economy, especially when it comes to land allocation and the crowding out of the private sector in certain activities. In other words, Sisi's capacity to broaden the social coalition on which his rule should stand depends on his willingness and ability to either persuade or force his core supporters to make concessions. This may seem oxymoronic and simply impossible, unless

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of course the ruling elites have a sense of grave danger and are convinced of the need to give up something so that their hegemony may continue.

Whether Egypt's new elites would be willing to make these concessions remains to be seen. After all, it is by no means novel for conservative and even counterrevolutionary forces to meet at least some revolutionary demands in order to avert the bigger danger of a full-fledged uprising.

Egypt's deep sociopolitical crisis may provide the incentive and context for Sisi to broaden his economic support base. Yet, the fact that Egypt desperately needs these reforms does not necessarily mean they can be implemented—assuming that the strong presence of the need implies that the need can be met is falling into a functionalist trap. In fact, successive Egyptian leaders have failed to accomplish this mission since the time of Sadat and Mubarak.

## Notes

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- 5 Ibid.
- 6 Ibid.
- 7 The Egyptian Initiative for Personal Rights, “Energy Subsidies in the Egyptian Budget: A Model of Social Injustice,” 2011, <http://eipr.org/pressrelease/2012/01/30/1358> (Arabic).
- 8 The concept of bureaucratic authoritarianism was first molded by Guillermo O’Donnell to describe a series of violently repressive military dictatorships in Latin America’s southern cone that rose to power in the 1960s and 1970s. O’Donnell’s thesis tended to explain the breaking of previous distributional alliances that included labor and inwardly oriented industrialists in favor of a more liberalized economic setting that is more integrated into the world economy. See Guillermo O’Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley, Calif.: University of California, Institute of International Studies, 1973).
- 9 Ministry of International Cooperation, “The Egyptian Economy in Half a Year: Challenges, Measures and Future Vision” (Arabic), 2013, 7–8, [www.slideshare.net/MOICEgypt/ss-30080304](http://www.slideshare.net/MOICEgypt/ss-30080304).
- 10 Ibid., 9.
- 11 Aabar Investments is the largest shareholder in Arabtec and is wholly owned by major Abu Dhabi sovereign fund International Petroleum Investment Company (IPIC).

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