

# *Economic Growth, Fragility and Resilience*

## Fragility and Resilience in Revolutionary Egypt

By: Pauline H. Baker  
February 2017



CREATIVE



## CONTENTS

02	Executive Summary
03	Background
04	Summary & Findings from the Quantitative Data
06	The Story Behind the Data
08	The Quest for Political Legitimacy
	Women: Black Swans of the Revolution
	Poverty and Economic Development
	The Political Economy of Military Rule
19	Fragility versus Resilience: Signposts of the Future
20	A Note on Methodology and Data
23	Endnotes

*Series: Economic Growth, Fragility, and Resilience*  
*Editor: Dr. J Wright*

*This manuscript is produced by Creative Associates International in Washington, D.C. Contents are copyright of Creative Associates International. © 2017*

## EXECUTIVE SUMMARY

This paper focuses on the three years of political turmoil in Egypt that began in February 2011, when President Hosni Mubarak was forced out of office following mass anti-government demonstrations and ended in June 2014, when General Abdul Fattah al-Sisi was inaugurated as the country's fifth president. Although the forces unleashed during this period have not fully run their course, the two events encapsulate the period referred to here as "revolutionary Egypt."

Most analysts focus on the tension between democracy and autocracy as the defining issue. Perhaps a more pertinent question is whether the country will become more fragile or more resilient under Sisi's rule. Although Egypt resembles other states in the region, appearing initially to be on a course toward chaos and instability, it set itself apart by showing

signs of both fragility and resilience during this period. Which way it tilts will ultimately determine whether it democratizes or not.

Many key questions arise. After three changes of government in as many years, has the regime achieved political legitimacy? Is the military capable of becoming a progressive force or does it have vested interests it will protect at any cost? Could democratization emerge from strongman rule and, if so, what would be the route of recovery? What roles have economic growth and inequality played in the country's political turmoil? And what explains the most distinctive development of all: the dramatic rise in women's political activism? Finally, has revolutionary Egypt experienced fundamental political transformation or has a traditional Pharaoh merely been replaced by a modern-day Bonaparte?

## BACKGROUND<sup>1</sup>

It took only eighteen days for huge public demonstrations in Cairo's central Tahir Square and other cities to bring down President Hosni Mubarak, who had ruled Egypt for nearly three decades. Millions of protesters from a range of socio-economic and religious backgrounds demanded his resignation in a popular uprising that began January 25, 2011. By February 1, 2011, Mubarak was out. He was forced to turn power over to an interim military council, which laid out a plan for a transition to democracy.

Parliamentary elections that were conducted a few months later resulted in a landslide victory by the Muslim Brotherhood, the best-organized opposition in the country, which was able to fill the political vacuum. On June 30, 2012, Mohammed Morsi, the Muslim Brotherhood candidate, was elected president. He was the first Egyptian head of state that did not come from the military, the first elected Islamist head of an Arab state, and the first democratically elected president in Egypt's history. His tenure was short-lived, however. Opposition quickly grew, due to the declining economy and sweeping authoritarian powers he appropriated while in office. Morsi's 12-month rule included a rise in violent crime; incidents of vigilante justice; power outages; shortages of fuel, medicines and bottled water; and a declining economy. Morsi also dismissed top military and intelligence officers, and stoked fears of an onset of Islamic fundamentalism. Renewed clashes broke out across the country, more violent than before, linking liberal activists and Mubarak loyalists who both called for Morsi's ouster.

This gave an opening for the military to launch a coup d'état in July 2013, calling it a second revolution in response to public demands and a necessary intervention to avert civil war. Approximately a year later, following a brutal crack-down on protesters in which hundreds were killed and thousands arrested,

another election was held in May 2014. The leader of the coup, General Abdul Fattah al-Sisi, whom Morsi had earlier selected as his Defense Minister, won in a landslide. The turnout was far lower than expected, but this was a temporary setback. Sisi was firmly in power; Morsi and his followers were arrested, and the Muslim Brotherhood was banned. Not since Gamal Abdel Nasser had overthrown the Egyptian monarchy in 1952 had the country experienced such dramatic political change in so little time.

There are basically two ways to view these events. One interpretation holds that a new political era has emerged that will make Egypt stronger and more prosperous than ever, an antidote to religious extremism in, and political unravelling of, other states in the region, such as Syria, Iraq, Yemen and Libya. Marking the first anniversary of the end of the Muslim Brotherhood's rule, Sisi claimed that "Egypt protected Arabism and preserved Islam against what was being plotted against Arab nations, the unity of its people and attempts to defame Islam by linking it to violence and terrorism."<sup>2</sup> He promised that the poor would see better living conditions within two years and called on the private sector to accept lower profit margins or else, he warned, the army itself would offer high quality goods at lower prices. Among the majority, Sisi seemed to be genuinely popular, promoting his image as a savior who rescued the state from anarchy, economic collapse, and militant Islam. He vowed to lead the country toward democracy, though no details were given on how that will happen.

An alternative interpretation holds that Sisi intends to protect the interests of the security establishment that prevailed under Mubarak and eliminate all threats to its survival, a course that will deepen state fragility. There is ample evidence to support this view. Egyptian courts have sentenced to death hundreds of leaders and

supporters of the Muslim Brotherhood based on hasty trails, dubious judicial procedures and weak evidence. Morsi himself has been charged with terrorism, incitement to violence and murder. Thousands of other dissidents from a range of political backgrounds, including journalists, students, and activists with no ties to the Muslim Brotherhood, have been jailed. Media organizations and human rights groups have been shut down. Properties owned by members of the Muslim Brotherhood have been seized on the grounds that they were tied to a terrorist organization. Such steps suggest that Sisi's intention is to rule with an iron fist, not an open hand of political inclusion. Such a course of action would take the country down the path of a strongman state with low political legitimacy, high group grievance, and a poor human rights record—traits that would leave it vulnerable to continued unrest.

In truth, the revolutionary period has left Egypt sitting on a knife's edge. The economy has taken a turn for the worse, tourism has been devastated, and unemployment has soared, as shown in Figure 1. One quarter of the population still live below the poverty line of \$2.00 a day and another quarter live just a little above that line.<sup>3</sup> New economic measures intended to reduce the budget deficit and qualify Egypt for World Bank loans are bound to hit hard, particularly the poor and the unemployed. Politically, the country remains deeply divided into the three major political groups which shaped the revolution: the young liberal revolutionaries who have been marginalized, the Muslim Brotherhood which has been decimated, and the old guard security and bureaucratic elites. Though the latter have the upper hand, neither of the other two has been completely vanquished and, together, they represent a significant disaffected population. Already, there are warning signs of armed resistance to the Sisi government, with attacks in the Sinai and bombings in Cairo and other cities. Egypt remains in crisis.

The remainder of this paper delves more deeply into elements of the revolution and its aftermath. In Section II, quantitative data findings are presented that compare Egypt country data with the general findings of an earlier

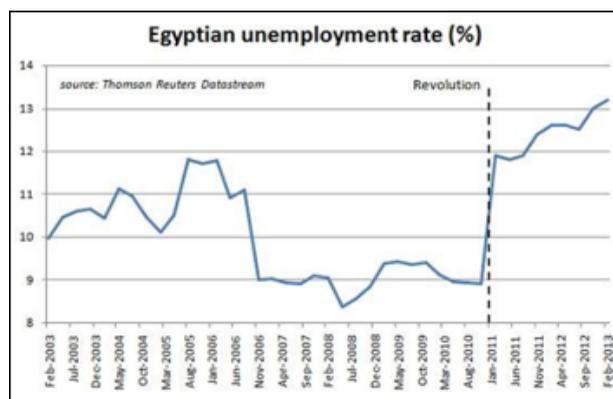


Figure 1

paper, entitled *Exploring the Correlates of Economic Growth and Inequality in Conflict Affected Environments: Fault Lines and Routes of Recovery* (Creative Associates, 2014), hereafter referred to the “*Correlates Paper*.” In Section III, qualitative analysis focuses on four prominent themes of revolutionary Egypt:

A) the quest for political legitimacy, B) the political assertiveness of women, C) poverty and economic development, and D) the political economy of military rule. Finally, Section IV contains a broad assessment, based on both the quantitative and qualitative analyses, focusing on Egypt's fragility and resilience with signposts of future trends.

## SUMMARY & FINDINGS FROM THE QUANTITATIVE DATA

This section contains a summary of the six main findings in the original *Correlates Paper*, followed by a discussion of how the findings for Egypt either are consistent or inconsistent with them.

**1. The central importance of state legitimacy.** In the *Correlates Paper*, of the eight indicators measured for 91 countries from ratings taken from the *Fund for Peace's Fragile States Index*,<sup>4</sup> one stood out as a leading early warning factor, perhaps even a “driver of the drivers,” pulling other indicators in whichever direction it moves: political legitimacy. If there is one “canary in the coalmine” that analysts should look for in anticipating the onset or continuation of violent conflict, a change in the state’s legitimacy is probably the one to watch most closely.

- The quest for political legitimacy was the most constant theme in the turbulence that occurred in revolutionary Egypt. Shifting alliances made strange bedfellows, with some groups, such as women and conservative Muslims, flipping between making revolutionary demands, on the one hand, and exuding enthusiastic support of the existing regime, on the other. The political landscape was complex. Divisions were not along ethnic, sectarian or linguistic lines, as in many other states in the region, but along ideological, religious, generational and gender lines. To complicate matters, there were divisions within these groups. For example, Egypt has three Islamic factions: the Muslim Brotherhood, the Salafist Nour Party, and the Ansar Bayt al-Maqdis, an armed insurgency which emerged in 2011 in the Sinai after the downfall of Mubarak. To date, the quest for legitimacy has not been resolved, despite elections, the last of which (in

2014) most observers viewed as predetermined in favor of the military.

**2. Gender inequality, conflict and stability seen in a new light.** Based on data from a variety of sources, one of the most interesting findings of this study was that gender inequality was closely correlated with conflict risk. Statistically, gender inequality was even more strongly correlated with state instability than income inequality across the entire population. This suggests that economic development policies should strive for gender equality not only to relieve extreme poverty among a vulnerable population or to achieve equity on ethical grounds, but also as a strategy to stabilize states.

- Egypt fulfilled this finding in more ways than one: women were as active in the revolutionary demonstrations in Tahir Square as they were in the enthusiastic support of Sisi three years later, a political turnaround that was significant, if not surprising, given the serial sexual harassment, including a marked increase in rapes during the upheaval.

**3. Growth and equality—two different development goal—shave a differential impact on conflict risk over different time spans.** Growth, as measured by macroeconomic indicators, seems to have less of an impact on promoting long term stability than usually thought. Growth may be important for economic development, but does not appear to be as critical for promoting political stability. Reducing inequality seems to be a more influential long-term contributor to instability overall. This may explain why middle income and rapidly growing economies with good macroeconomic performance often remain fragile states. To be more stable, such states also need to address inequalities within their societies.

- The timeframe of this analysis (three years) is too short to make firm conclusions or projections

on the long term impact of economic growth and inequality. But some interesting insights were revealed about the impact of these factors on women, who were the “Black Swans” of the revolutionary period.v The unprecedented activism of women who had not previously played an assertive political role was striking. The data suggests that women’s activism may have been a result of the contradiction between their educational achievements, on the one hand, and their low employment and social status in a deeply patriarchal society and informal economy, on the other. This status incongruity was punctuated by a significant rise in sexual attacks against women during the revolution, often in public and caught on video. By the time Sisi was president, women’s issues had claimed center stage. On the first day of his presidency, Sisi ordered a crackdown on sexual harassment, made a public apology to women, and personally visited the victim of a brutal attack that occurred during the presidential inauguration.

**4. Extreme poverty may not only be a consequence, or characteristic, of state fragility, but possibly a conflict driver itself.** This is an underappreciated aspect of state fragility. Political stabilization strategies have tended to target urban populations, especially unemployed youth and the middle class, which are more often the sources of public protest and political mobilization. By contrast, the “poorest of the poor” are usually deemed to be politically docile. Thus, political (and military) stabilization policies tend to direct more resources toward the relatively better-off segments of the population. Given the political salience of gender inequality found in this research, more study is needed to examine whether the urban bias is sound. Are women marginalized, in part, by a misplaced emphasis on urban and middle class populations in political stabilization strategies? Could economic development policies correct the bias by

strengthening the role and influence of women?

- One of the most interesting findings of the Egyptian case study concerns the impact of inequality on women’s political activism. The educational advancement of women, without corresponding economic improvement or labor market participation, likely led to a frustration that was expressed when the opportunity arose in public demonstrations in Tahrir Square, in which women participated in great numbers. Though there were feminist organizations prior to the revolution, they did not succeed in mobilizing large scale mass protest until the general uprising. When the opportunity appeared, women rose to the cause. However, they met with unanticipated abuse both from their male counterparts and the authorities. This thrust the widespread practice of sexual abuse in Egypt into the public view, where incidents of organized attacks were exposed and documented as never before. When the Muslim Brotherhood came to power, women’s rights were further threatened. Sisi was thus deemed, by contrast, a rescuer of women even though earlier he had approved “virginity tests” being performed on female protestors as a way, he held, to protect the army from accusations of rape. Campaigning hard for their votes, Sisi succeeded in getting women to support him because of their fear that the Muslim Brotherhood would set back women’s rights.

In addition, the rural poor, estimated to represent about half the population, also supported Sisi and will expect him to deliver on election promise to improve their well-being. Yet the pressures for reforms that will negatively impact the poor, such as ending subsidies and raising prices, are strong and Sisi implemented them soon after coming to power, risking a popular backlash. The most acute poverty is concentrated in Upper Egypt, a large rural

area located, despite its name, in the south. It contains around 40 percent of the population and roughly 70 percent of the poor, with the country's highest rates of illiteracy, malnutrition and infant mortality.

#### 5. Three indicators of state decay were identified:

A possible fault line for detecting state decline was a cluster of three indicators: the loss of political legitimacy, growing group grievance, and poor macroeconomic performance. This combination of factors was correlated with impending instability. These three correlates of political decay represent the kind of governance benchmarks which are pulling the Sisi regime down:

- Political legitimacy declines with every repressive step the ruling regime or the judiciary takes;
- The wholesale crackdown on the Muslim Brotherhood, continued sexual violence against women, and discrimination against Coptic Christians are stoking the flames of group grievance which will not be easily assuaged;
- The economy has suffered considerably from the upheaval, one third of the population live under the poverty line, and another third live barely above it. The country is dependent upon foreign aid from the Gulf States, tourism is down, and unemployment is high, especially among the youth.

#### 6. A possible route of recovery was a cluster of six

**factors:** improved state legitimacy, better public services, decreased demographic pressures, reduced inequality, good macroeconomic growth, and respect for human rights. Note that both economic factors (growth and inequality) are present in this profile, suggesting that both are needed—the first (growth) for short-term recovery and the latter (reduced inequality) for sustainable peace and security.

- Evidence suggests that if this cluster of indicators was improved, it could tip the

balance in Egypt toward resilience and gradual democratization, building upon the elements of resiliency identified elsewhere in this paper. As will be discussed below, this cluster represents the signposts of the future—improvement in each of the six factors will likely increase the recovery, of Egypt in the long term, though robust democratization may be delayed or constrained by other factors, such as the role of the military.

## THE STORY BEHIND THE DATA

### THE QUEST FOR POLITICAL LEGITIMACY AND RISING GROUP GRIEVANCE

Political legitimacy is an elusive concept that is often difficult to measure. One of the few indices that capture this important variable is The Fund for Peace's Fragile States Index (FSI). Indicator 7, one of twelve indicators of state fragility, is assessed based on a range of factors, including corruption, government effectiveness, political participation, electoral processes, level of democracy, illicit economy, drug trade, protests and demonstrations, and power struggles. (Note that a high score for any of the FSI variables indicates high risk or, in this case, low legitimacy, while a low score indicates more legitimacy.)

As shown in Figure 2,<sup>5</sup> legitimacy was improving from 2005 until 2010, the year that mass public demonstrations broke out. Then legitimacy worsened sharply, seemingly in response to the rise in conflict risk. Legitimacy reached another low point in 2012, when Morsi was removed from office by the military. There was a slight improvement afterwards, when it was not clear in which direction the country was headed, but then another downturn in 2013, when it became evident that the military was not going to turn over to a civilian government. Sisi resigned from the army in order to run for president as a civilian. However, even though he won by a landslide, lower than expected voter turnout revealed a far weaker mandate than he had hoped for.

In fact, fewer voters had turned out for Sisi's election than for Morsi's. Sisi and the military-backed regime then imposed one of the most repressive regimes in Egypt's history. By the beginning of 2014, legitimacy was again in decline.

The dip in political legitimacy in 2012-2013 reflected the fact that the Muslim Brotherhood, despite handily winning an election, had become rapidly unpopular when it imposed an authoritarian regime of its own. President Morsi appointed new regional leaders in 13 of the 27 governorships, including Islamist allies linked to the 1997 massacre of tourists in Luxor. This prompted more local protests and the resignation of the Luxor governor. The incident, combined with other actions that effectively undermined constitutional checks on executive authority, removed the Muslim Brotherhood from institutional accountability. The military responded by removing Morsi after mass protests, replacing him

with an interim president, Adly Mansour. However, supporters of the Muslim Brotherhood continued to demonstrate in Cairo, claiming that Morsi was duly elected. Security forces stormed the protest camps, killing large numbers of people that may have run into the thousands. Finally, the courts banned the Muslim Brotherhood altogether, and ordered the confiscation of its assets. The government declared the Muslim Brotherhood a terrorist organization, jailed its leaders, and sentenced to death its top leader along with 13 other members and supporters of the group. Nearly 700 detainees were also sentenced to death.

Not surprisingly, as seen in Figures 2 and 3, political legitimacy declined (i.e., went up on the scale) as both conflict risk and group grievance increased. Typically, group grievance is a result of ethnic or sectarian discrimination against minorities. Approximately 20 percent of the Egyptian population consists

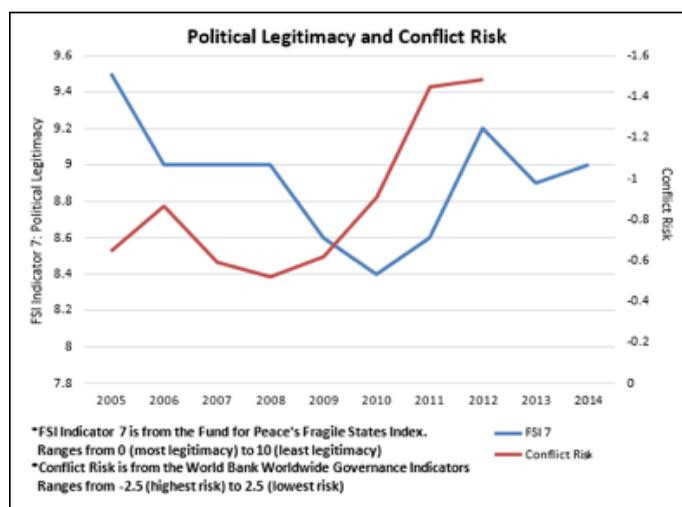


Figure 2

of minorities, many of whom have suffered from marginalization and discrimination: Nubians, Berbers, Coptic Christians, Bedouins, Baha'is and Shiites. However, group grievance during this period refers principally to the Muslim Brotherhood which went from the heights of an historic electoral victory to the depths of pariah status, vilified as terrorists by the military. The government banned the party, seized its assets, and imprisoned its followers and leaders.

#### WOMEN: BLACK SWANS OF THE REVOLUTION<sup>6</sup>

One of the most distinctive features of the Egyptian revolution was the activism of women. Egyptian women demanded protection after they became targets of street gangs that committed sexual assaults on individual women, and of security forces who, among other things, conducted so-called “virginity tests” on the victims during the disturbances. Many of these

street attacks were captured on video and posted on the Internet. One iconic image of the disorder during the Egyptian revolution was a video of a woman in a blue bra, who was stripped, dragged and beaten during the attack. The video enraged the public. Sexual harassment is not a new phenomenon in Egypt, despite advances made by women educationally and professionally, but it escalated significantly during the revolution.

Under Gamal Nasser, women had achieved positions in universities, parliament and the judiciary, though there was still a disproportionate lack of female political representation. This changed in the 1970s, when the status of women began to deteriorate. In part, this was due to the influence of Wahhabism that began to spread in Egypt after the 1973 war, which raised the price of oil and forced millions of Egyptians to emigrate to the Gulf States. When they returned, they

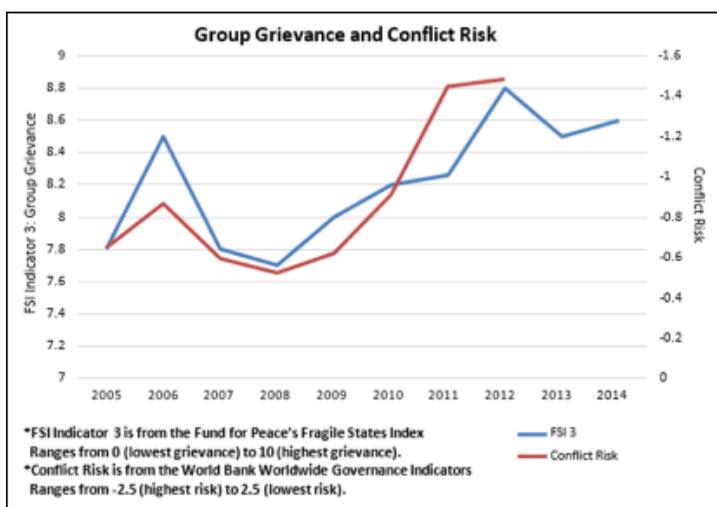


Figure 3

brought conservative ideas with them. Women were seen more often wearing head scarves. Harassment also began to increase to epidemic proportions. A 2008 study revealed that 83 percent of Egyptian women interviewed had reported having been a victim of sexual harassment at least once and 50 percent said they had experienced it on a daily basis. Indeed, a Thomson Reuters Foundation survey released in November 2013, found that Egypt ranked as the overall worst country for discrimination of women among 22 Arab countries.

During the disturbances, Egyptian women braved snipers' bullets and sexual attacks, both from security forces as well as fellow revolutionaries who took advantage of the lawless atmosphere. Sexual violence against women became an organized form of political retribution against those who had participated in anti-Mubarak demonstrations. It was alleged that thugs known as "baltagiya" would be paid by security forces to identify a woman attending a demonstration, form a circle around her ostensibly to "protect" her, and then turn on her. This practice became common throughout the disturbances. Between February 2011 and January 2014, according to women's groups, at least 500 Egyptian women were sexually assaulted by mobs and thousands were reportedly subjected to sexual harassment.<sup>vii</sup> The Morsi government was seen as setting the clock back for women rights, as it attempted to rewrite the constitution to remove women from positions of power, including the only female judge on the Supreme Constitutional Court. Morsi also tried to reverse the ban on female genital cutting, overturning the law that punishes doctors who carried out the practice.

Muslim Brotherhood sympathizers were also reported to have conducted "revenge attacks," going on a sexual assault and rape spree against women who celebrated the election of Sisi. Women were even attacked on the day of Sisi's inauguration. In one

incident that day, a woman was brutalized in Tahrir Square on June 8, 2014, after being stripped naked and beaten. She survived after a police officer managed to rescue her. A video recording of the attack went viral on YouTube. But rather than intimidate women, it further politicized them. More women's demonstrations ensued. A 2014 report by a coalition of rights groups accused successive governments of not taking sufficient measures to stop the sexual violence. It documented over 250 cases that took place between 2012 and 2014, in which not a single perpetrator had been brought to justice.<sup>7</sup>

What made women become so assertive at this time? One explanation is the incongruity between their higher educational status and their lower economic status, a contradiction that brought them into the streets. While female illiteracy is roughly 50% and concentrated in rural areas, urban women have advanced significantly. Although they are more likely than men to attend university, they have been blocked in pursuing higher economic opportunities or in receiving political appointments. Given the primary of informal employment, women suffer most during tough economic times as they often lack job security that public sector employment offers, are the first to be laid off when the economy declines, and are not hired in positions commensurate with their qualifications. For example, between 1998 and 2006, the percentage of Egyptian women possessing a university degree rose from six to twelve percent, but their rate of unemployment increased from nineteen to twenty seven percent.<sup>8</sup> Figures 4 and 5 show the strikingly close correlation between female youth unemployment, general female unemployment and conflict risk.

This is not surprising, given the obstacles women face. Women are far more dependent upon the public sector for jobs than are men because few women are employed in the private sector, where female

harassment is common. In addition to a low labor force participation rate of approximately 23%, women also have a much higher unemployment rate: more than half of unemployed Egyptians are female.<sup>9</sup>

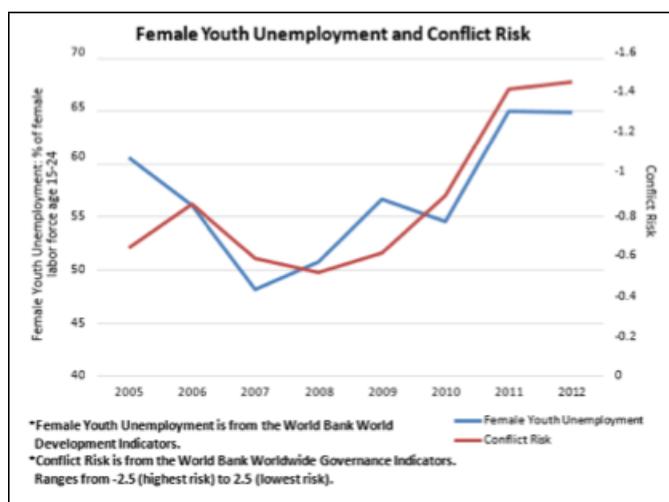


Figure 4

Although there was organized lobbying for women's rights prior to the revolution, women did not succeed in mobilizing mass protest that captured widespread public attention until the general uprising. When the opportunity appeared, women seized the day. They supported the overthrow of Mubarak but were skeptical of the long term intentions of the Morsi regime. Compared to the chaos of the early days of the revolution and the anti-feminist stand of the Muslim Brotherhood, Sisi looked like a savior to women. They became his fervent supporters, turning out to vote for him in the 2014 presidential election, and dancing in the street when the results were announced.

Sisi rewarded women for their electoral support with new legislation criminalizing sexual violence that was enacted days before he became president. This was the first time rape was criminalized in Egypt. After his swearing in, Sisi ordered swift arrest of the suspects in the inaugural day attack. And on his third day in office, Sisi personally visited the videotaped victim in hospital and apologized to her and to all Egyptian women, a highly unusual demonstration of support for women in a patriarchal society. None of his predecessors had ever made such a personal gesture on behalf of women's rights.

But saying sorry is not enough. Women have crossed a political threshold. Gender politics are now part of the national agenda and women have been placed on the political map. They are an organized constituency, tapping into social media, documenting abuses, and broadening their agenda to include not only stopping violence against women, but reducing female genital cutting, reforming the prison system, gaining larger representation in government, challenging cultural norms, and criticizing the way that the media depicts women.

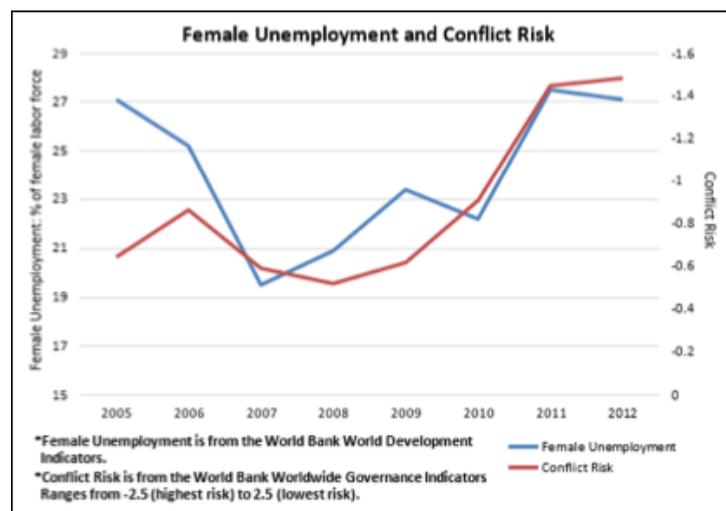


Figure 5

The literature on economic and political development has extensively documented the benefits of securing women's rights and educating girls. Women who enter the labor force increase productivity, improve the health of the nation, and lower population growth by spacing out the birth of their children. Women's equality is also correlated with lower conflict risk. Equality for women means establishing the rule of law, expanding human rights, promoting democratic practices and obtaining greater societal inclusion.

In the context of the Egyptian experience, women were the "Black Swans" of the revolution, exerting a disproportionate and unanticipated impact on the course of events. No other country in the Arab Spring has experienced a similar phenomenon. Mona Eltahawy, an Egyptian-American writer and activist, wrote in a New York Times op-ed (June 21, 2014) about how consequential women have been and will continue to be. "The real battle," she said, "the one that will determine whether Egypt frees itself of authoritarianism, is between the patriarchy—established and upheld by the state, the street and at home—and women, who will no longer accept this status quo."

## POVERTY AND ECONOMIC DEVELOPMENT

Long term economic trends cannot be identified in the short period studied here. However, as noted earlier, inequality appears to have had an impact on generating political action by women. In addition, the sexual harassment that women suffered in daily life, and which increased dramatically during the demonstrations, played a role. Women were shocked into action by a pattern of abuse that incentivized them to take political action.

Economic decline also led to dissatisfaction among the general population. As one commentator put it, "Both Hosni Mubarak and his successor, Mohammed Morsi, weren't only ousted from the country's highest office because they suppressed political and constitutional rights. They also fell because fitful economic reforms failed to address poverty and near-poverty (affecting about 50 percent of the population), high unemployment (13-plus percent), extremely high youth unemployment (25-plus percent), and unchecked inflation (11-plus percent)"<sup>10</sup> Figure 6 provides a snapshot of the ailing economy in 2013. Figure 7 shows

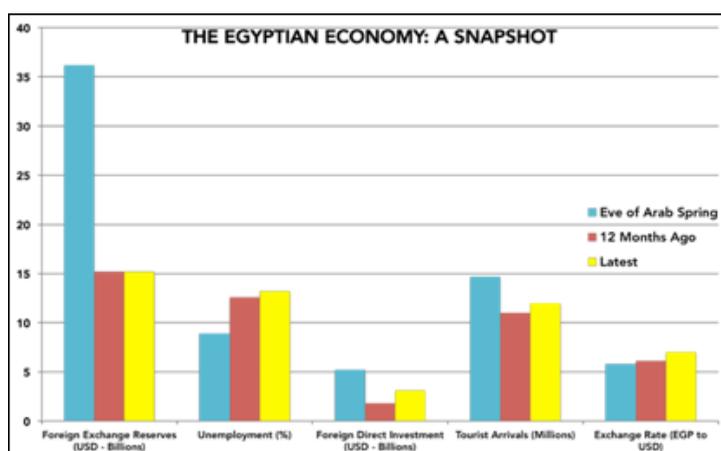


Figure 6

Source: Alessandria Masi, "It's The Economy, Stupid!" *Vocativ*, June 1, 2013.

the impact of the revolution on declining trade and foreign exchange.

Both illustrations show how the economy was failing during the revolution. In the future, a weak economy could be the “third rail of Egyptian politics,” the one unifying force that could generate protest across political factions. The slogan of the revolution, it should be recalled, was “bread, freedom, and social justice.” The public was suffering from fuel shortages, power cuts, and rolling strikes—products of an exclusive system of state capitalism that was controlled by bureaucratic, military and oligarchic elites. Despite three regime changes during the revolution, that system has essentially remained intact.

It is a system that consists primarily of five main traits.<sup>11</sup> First, there is, as the World Bank put it, “a severe paucity of formal, full time-time employment.”<sup>12</sup> This means that short-term fixes are not likely to work. For example, the decision by the Sisi administration to raise the minimum wage for public sector employees in response to popular unrest will affect only a small, privileged proportion of the labor force which is already relatively well positioned, widening the gap between the public and private sector employment.<sup>13</sup> Even if the minimum wage increase is extended to the private sector, it would leave out the 63 per cent of the labor force that work in the informal sector, that are self-employed or that survive on subsistence agriculture. Such a high percentage of employment in the informal sector is itself a sign of fragility, as there is less job security, fewer benefits, and rarer pay increases. Second, as a result of the discrepancy between public and private sector incomes, there is “a deep-rooted preference for public sector work,”<sup>14</sup> a long-term trend that continues with the youth today.

Third, there is the aftereffect of the state guarantee of employment for university graduates, a measure which was introduced during Egypt’s socialist period in 1961. In 1964, the job guarantee was extended to include secondary school graduates as a way to generate political support from the country’s educated elite who enjoyed high job stability, social

insurance, and access to goods and services and accommodations. Naturally, the program increased demand for education. The policy was supported by high economic growth from the oil boom, revenues from the Suez Canal, and remittances. Indeed, the economy grew on average at a rate of 9% per annum from 1974 to 1981. But the scheme became a burden on the state over time. Gradually, by the 1980s, public enterprises began to ignore the requirement as the bureaucracy became bloated and uneconomical. Government employment was deliberately delayed and long waiting lists, up to five years, became common. Finally, in 1991, Egypt adopted a program in which the guarantee was only partially in effect. But the tightly regulated private sector could not pick up the slack. This situation fed economic frustration, especially among families from lower socio-economic backgrounds who had invested in higher education for their children based on aspirations that could not be fulfilled. The state’s job guarantee therefore resulted in a rise in unemployment or underemployment when it was phased out. But it also had a serious social effect as well, including a decline in social mobility and a delay in men’s age at first marriage, largely because they could not find respectable jobs acceptable to a bride’s family.<sup>15</sup>

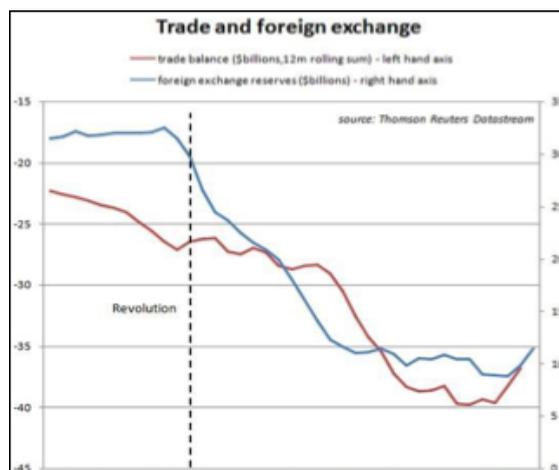


Figure 7

Finally, the economic system in Egypt remains distorted to favor a small circle of firms, many of them linked to the military or political officials. There is not a level playing field for new entrepreneurs. Restricted access to land, capital, credit, and other resources; a few dominant players; and the importance of personal connections all work to constrain dynamism in the private sector and reinforce inequality. The economic dominance of the military, discussed below in Section D, also restricts competition, efficiency, and labor productivity. That leaves a small window of opportunity in the informal sector. Less than one in six private sector workers has either a formal contract or social insurance, and formal employment in the private sector has been trending downward for the last 15 years.<sup>16</sup> In addition, the private sector is populated mostly by small companies. In 2006, 95 percent of all Egyptian firms employed fewer than 10 workers.<sup>17</sup>

Perhaps the best way to sum up the economic situation is to cite the polling data on people's attitudes toward the future. The World Bank reported that "a recent Gallop poll found that 80 percent of Egyptians believe that Egypt is worse off today than it was prior to the January 25th revolution, and only 50 percent believe that it will recover in the next five years."<sup>18</sup>

After his crackdown on the Muslim Brotherhood, Sisi's highest priority, therefore, is strengthening the economy. He needs to phase in economic reforms to attract foreign investment and qualify for IMF loan and to create jobs. But the political backlash that reforms could stimulate might be severe. There is not much room for softening the blow with more public spending on health and education, unless the Gulf States agree to support Egypt in this endeavor for years to come. At the end of the revolutionary period, the budget outlines were the same as always: twenty-five percent of the budget went to support public sector salaries and fifty percent went to service debt and support subsidies.

Other economic challenges come from mounting

demographic pressures due to population growth, urban sprawl and water shortages. Egypt's inefficient irrigation system is putting strains on farmers who are finding it difficult to comply with government goals to produce wheat to supply the country's \$4.5 billion subsidized food program. The subsidy sets the public price of bread at less than one U.S. cent per loaf. Egypt has become the world's largest importer of wheat, with purchases of around 10 million tons a year. The CIA World Factbook projects that at the current population growth rate, Egypt over the next few years will be adding 1.6 million per annum to its 87 million people. That will outpace the farmers' abilities to feed the burgeoning population due to both land and water shortages. Improving yields and allocating more land to farmers would increase production, but not enough to relieve mounting competition between farmers and urban dwellers.

The heart of poverty in Egypt is located in Upper Egypt, located in the south, despite its name. It contains approximately 40 percent of the country's population and 70 percent of its poor, with the highest rates of illiteracy, malnutrition and infant mortality. Climate change is expected to make it even harder for the government to feed the population, because of water scarcity. The choices facing the Sisi government with regard to agriculture are costly and carry high political risk: overhauling irrigation systems; getting farmers to switch to more profitable crops such as fruit which need less water but require refrigeration and storage; reducing population growth; increasing imports; or cutting back on bread subsidies, a step that could spark anti-government protests.

Yet, for all the economic challenges, there are some signs of economic resilience. The stock market has grown, not fallen as might be expected in revolutionary situations. There has been no recession, which economists say is common in uprisings. Friendly

states, including the U.S., have continued aid to Egypt despite misgivings over human rights abuses, and the Gulf States have virtually bailed out Egypt. Some of the foreign debt has been repaid. The 2014/2015 budget contains deep cuts in energy subsidies to shrink the national deficit and taxes on the rich have been imposed. The Fitch Rating agency upgraded Egypt's economic outlook from negative to stable in January 2014. Finance Minister Hany Dimian told Reuters that growth is expected to rise gradually from two percent in FY 2013 to three percent in FY 2014 and to four to five percent within the next three years. Oil and gas reserves are yet to be exploited and are potential sources of future revenue.

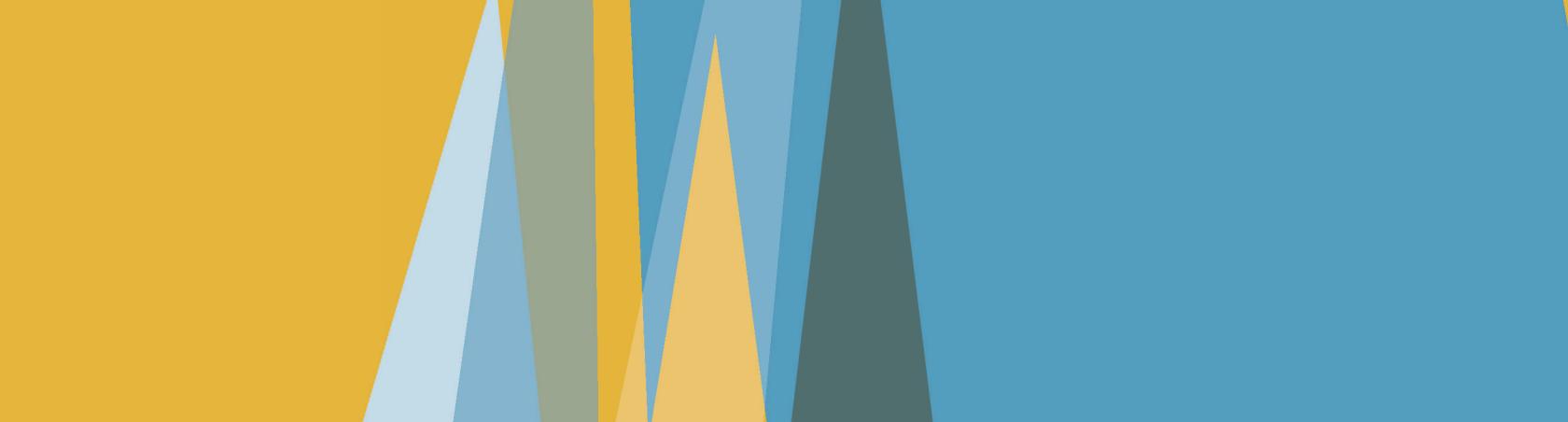
For the moment, the violence-weary general public seems willing to tolerate restrictions on civil liberties and tightening economic conditions in return for political stability and the prospect of future economic improvement. But it is uncertain how long their patience will last. Good economic performance—manifested both through greater overall growth and the reduction of poverty—could go a long way toward determining whether Sisi, once he becomes more secure in office, would feel that he could relax repressive measures, earn political legitimacy, diminish group grievance, and provide better public services. Improving the economy, important as it is, would not be sufficient to bring fundamental change without good governance. On the other hand, an ailing economy could revive anti-government feelings across the political divide, just as it had in two prior regimes.

#### THE POLITICAL ECONOMY OF MILITARY RULE

Reforming the economy is as much of a political issue as an economic one, especially in Egypt, where the army's share in the economy is significant and secretive. There is no authoritative estimate of the scope of the army's economic assets, but estimates

vary from five percent to forty percent of Egypt's total assets. What is known is that those interests are vast. The military manufactures a range of products, from industrial scale weapons systems, energy plants and technology products to basic consumer goods such as furniture, bottled water, television sets, refrigerators, and food. It owns restaurants, football grounds, petrol stations and large plots of prime real estate. The army also supervises subsidiaries of state-owned holding companies and owns shares in public-private ventures, some of which are tied to multinational conglomerates. Not surprisingly, the economy has often been labelled "Military Inc." The army has representatives in nearly every government agency and important economic post. Moreover, industries owned by the military are neither taxed nor audited, giving them a huge comparative advantage over the private sector. With an estimated two million personnel, including 470,000 in the army, the Egyptian military is the largest, and also perhaps the richest, national armed force in the entire MENA region.

Their grip on the economy appears to have been strengthened by the political upheavals. Before the revolution, the military had to compete with the Mubarak family and other oligarchs around him in shaping policy. Mubarak balanced the interests of his personal circle of friends and cronies with those of the security establishment. However, from 2004-2010, Mubarak's Prime Minister, Ahmad Nasif, began to adopt reforms that would have dismantled the army's control over some public sector enterprises. Observers have speculated that this may have shaped the military's decision to withdraw support from Mubarak when the revolution broke out. Protection of the military's economic interests was also a possible motive behind the army's ouster of the Morsi regime, as he had also begun to distance himself from the military. For example, he backed a plan for developing



the Suez Canal that included new port and terminal expansions, the construction of an airport and an industrial zone. Such a project would normally result in lucrative contracts for the military. However, Morsi and his backers in the Muslim Brotherhood financed the initiative with funds from Qatar, the main foreign funder of the Brotherhood, raising the prospect of bypassing the military. Media sources complained that Morsi was selling out to a foreign power and Sisi, then still the Defense Minister, described the project as a national security issue. While there were complex reasons that played into the decision to launch the coup that removed Morsi from power, the military's protection of its own economic interests was probably a significant consideration.

After Morsi's downfall, the military took control of the Suez project, as well as other large economic initiatives, most of which are being funded by Saudi Arabia, Kuwait and the UAE. In June 2014, for example, the UAE agreed to fund a range of development projects, including a contract with a state-run construction company headed by a retired Egyptian army officer to build 25 wheat silos as part of the UAE's \$4.9 billion aid package, which would lower Egypt's food import bill and relieve the pressure on food supplies. The Egyptian Defense Ministry also got a contract to develop an exclusive, high-end complex in Cairo which will house expensive residences, luxury shops and a golf course. At the other end of the spectrum, the military announced it would build one million low-income housing units. A recent law allows the award of contracts to the military without a bidding process, effectively removing transparency, competition and accountability from such transactions.

This underlines that fact that the original aims of the revolution, including overthrowing the autocratic and incestuous system of state capitalism that empowered

top elites, have not been realized. Indeed, by the end of the revolutionary period, ruling generals were running the economy under a cloak of secrecy without even token rivalry by competing elites. Analysts have raised doubts about the sincerity of Sisi's promises to institute economic reforms that will change this economic structure. While he has made moves to reduce the debt, end fuel subsidies, and impose more taxes on the rich, these steps merely nibble at the edges of the centralized economy. Generous support by the Gulf States could further forestall the reform agenda. Their interest is to secure Egypt as an ally in the wider regional struggle against Shiite forces, led by Iran, and to make the world's largest Arab country a frontline state in the battle to defeat Islamist extremism.

Finally, a puzzling finding shed some light on the issue of corruption in revolutionary Egypt. An inverse relationship was found between perceptions of corruption and conflict risk, as seen in Figure 8. This was surprising. One would expect to find less corruption as political participation and public competition increased. But the data suggests that this happens after a stable government is established and some efforts to curb corruption are instituted. In the Egyptian case, as far back as 2005, threats to military privileges—first through some reform efforts by the Mubarak regime, and later through subsequent regimes—did not have the intended effect.

The inverse correlation between corruption and conflict risk may be explained by the insecurity that arose among rival elites.<sup>19</sup> Incumbents' fear of being overthrown intensified the risk of conflict as the revolution continued. This suggests that factionalization of elites may have been more intense than appeared on the surface. If so, it may account for how the popular uprisings could so quickly succeed in splitting elite groups, especially the separation of military and civilian

leaders. Factionalized elites could similarly contribute to the undoing of the Sisi regime if he does not fulfill economic expectations, loses control over the security situation, or shakes up the power structure too fast.

This hypothesis concerning factionalized elites does not necessarily imply that military domination, or the corruption it breeds, will automatically diminish with economic growth or political stability. To the contrary, the opposite could occur given the vast economic

interests the military controls, the tens of billions in foreign aid pouring into the country, and the lack of institutional oversight over the military. Corruption may well increase with fewer rivals, solidifying military hegemony—or Bonapartism.

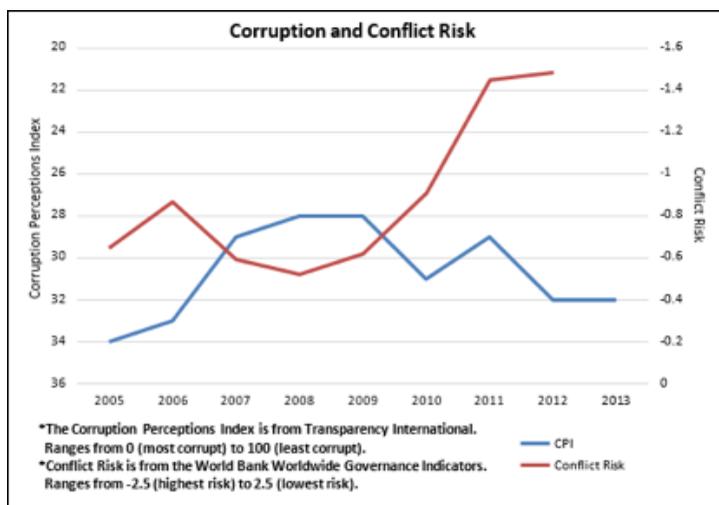


Figure 8

## FRAGILITY VERSUS RESILIENCE: SIGN POSTS OF THE FUTURE

The main findings of the Correlates Paper, as briefly recapped in Section II, all had relevance to, and were, in varying degrees, validated by the case study of Egypt. The quest for state legitimacy was a recurrent issue in revolutionary Egypt and it is yet to be resolved. Gender inequality was strikingly evident during the turmoil. Together with a pattern of sexual abuse, economic inequality stimulated women's unprecedented activism.

The ailing economy was also a driver of unrest. In 2011, 25 percent of the Egyptians lived in poverty, the fiscal debt was soaring, and double digit unemployment was worsening, especially for the youth and women. In addition, Egypt exhibited the three primary traits of state decay identified in the Correlates Paper: low political legitimacy, the rise of group grievance (especially among the Muslim population and women, although there were also lingering grievances among minority populations), and lagging economic performance. Indeed, so weak was the economy that some analysts have concluded that economic collapse would have been likely if the Gulf States had not supplied a quick lifeline.

Finally, the six factors identified in the Correlates Paper as a possible route of recovery apply to Egypt: 1) improved state legitimacy, 2) better public services, 3) decreased demographic pressures, 4) reduced inequality, 5) good macroeconomic growth, and 6) more respect for human rights. This cluster of factors constitutes, in essence, the signposts of the future.

Taken together, these conclusions point to a larger insight regarding Egypt's comparative experience. Egypt stands apart from other countries in the Arab Spring in that it contains elements of both fragility and resilience. At the end of the revolutionary period, Egypt is capable of tilting in either direction.

Some signs of resilience are very encouraging: economic buoyancy, the holding of two elections, adoption of a liberal constitution, forging alliances with states willing to finance recovery, preventing the proliferation of independent militias, and the containment of ethnic-based secessionist movements. The country's most distinctive quality is its strong sense of national identity and citizens' pride in belonging to one of the world's oldest civilizations. Despite deep divisions, there remains a common identity as Egyptians.

However, on the other side of the ledger, there are serious liabilities. For countries that have undergone revolutionary upheaval, state resilience means having the capability to make a fundamental transition from a strongman state with weak institutions to an institutional democracy governed under the rule of law. Leaders cannot secure such a transformation simply by meeting emergency needs, injecting foreign aid, or imposing authoritarian controls. Egypt could become a modernizing autocracy that would navigate change toward democracy gradually, like South Korea or Turkey, but it is unclear that Egypt's leaders would, or want to, adopt this path.

Thus far, the trends are not promising. Mounting demographic pressures, a bloated bureaucracy, vested military interests, a bitterly aggrieved society, mounting economic problems, a large population living in poverty, extensive corruption, and incipient armed resistance are liabilities that must be addressed. Indeed, with respect to security, there have been numerous bombing and attacks in the Sinai and in Egyptian cities.

There are also growing signs of politicization of the main branches of government. New rules for nominating candidates for Parliament have been enacted, giving government a disproportionate role in determining who is allowed to run. The judiciary, used to decades of

authoritarianism, has joined the government in a “war on terror” that has targeted the Muslim Brotherhood and other dissidents, by conducting mass trials, liberally issuing death sentences, violating due process, and allowing trumped up charges for presumed enemies of the state.

Perhaps most worrying is Egypt’s human rights record. The state’s infamous security forces are active again. Human rights organizations cite their use of torture, rape and deaths in detention. Egypt’s human rights record was described by Amnesty International as “failing in every way.” Human Rights Watch implicated senior officials, including President el-Sisi, in widespread and systematic killing of protesters following the ouster of Morsi, describing their activities as likely amounting to crimes against humanity.<sup>xx</sup> Journalists, civil rights organizations, and even Muslim preachers have been harassed and detained on a scale never before seen in Egypt. The Egyptian Center for Economic and Social Rights reported that at least 80 civilians have died in custody and more than 40,000 people were detained or indicted between July 2013 and May 2014.

The aftermath of the revolution—perhaps even the revolution itself—is not over. But the shift toward greater authoritarianism, if sustained, will keep the country on the path of fragility. If Sisi is to reposition the country toward greater resiliency, then he must tackle the six issues in the recovery cluster described above.

A good place to start would be in promoting the rights of women. They represent a pro-military constituency with high expectations. If women’s literacy rate were to be increased, if more women were employed, and if perpetrators of sexual violence were regularly held to account under the law, then half the population would become more productive, poverty would be alleviated, the population growth rate would decline, human rights would improve, and human security would be enhanced

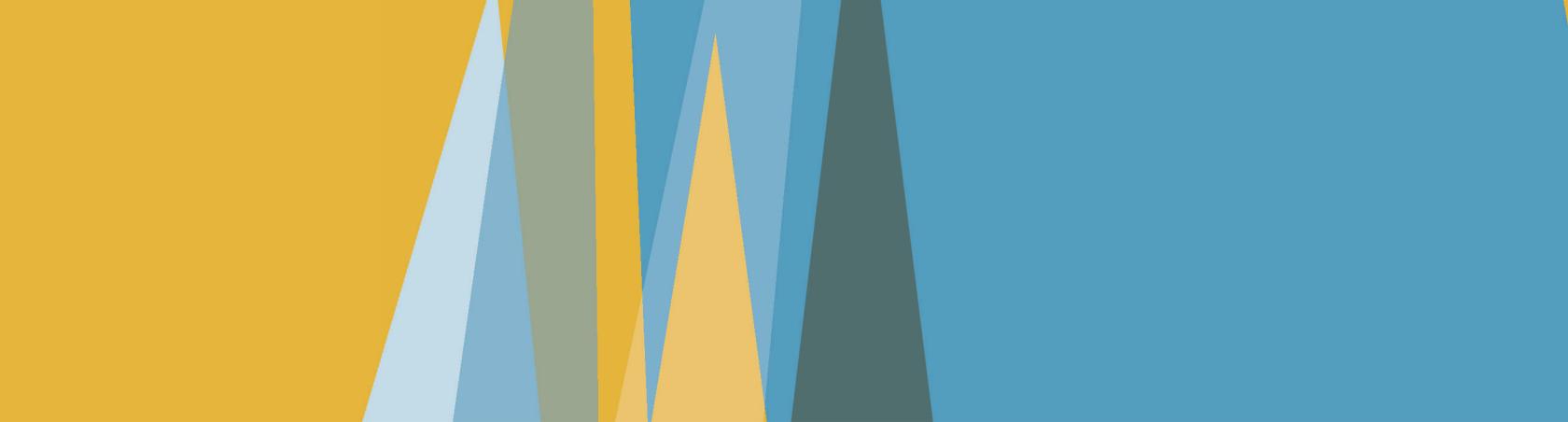
by a sense of safety and well-being on the streets. Respecting women’s rights means respecting civil rights of the general population. This could help create a wider basis for political participation, including members of the Muslim Brotherhood and other dissidents who have committed no crimes to freely express themselves.

Women often spearhead resilience in fragile states. If gender equality is correlated with a reduction in conflict risk, as our research suggests, then the country’s agenda should prioritize women’s rights not only to relieve poverty and achieve equity, but to fulfill Egypt’s full political and economic potential. The route of recovery might be circuitous, the path probably will not be linear, and the setbacks might be numerous. But it would be a powerful sign that the military-backed regime may be repositioning itself in the right direction, notwithstanding a dubious start and enormous challenges ahead.

## A NOTE ON METHODOLOGY AND DATA

This paper relied on both quantitative and qualitative data. The quantitative data was derived from the following sources: The Fund for Peace’s Fragile States Index, the World Bank’s Worldwide Governance Indicators, the World Bank’s Development Indicators, Transparency International, the United Nations Human Development Reports, and the United Nations MDG Statistics. Some graphs were produced by the Thomson Reuters Datastream and Vocativ, from open sources on the Internet. The particular sources are indicated in each graph. All other information was acquired from open sources as indicated in the endnotes.

This paper does not cover all the relevant issues that could be studied in Revolutionary Egypt. For example, little attention was paid to the role of minorities and to the threat of terrorism.



The principal framework of analysis was assessing the balance, or imbalance, between fragility and resilience during the three year period defined as revolutionary Egypt. This departs from the predominant lens used by the media which focuses on the tension between democracy and authoritarianism. Both are referred to in the paper, but Egypt, like many other countries undergoing radical transitions, must first deal with existential issues, such as preventing civil war, territorial disintegration or economic collapse. Still, many states undergoing upheavals utilize democratic practices, such as elections, constitution-writing, and public mandates, to facilitate change. To the extent that this can be done, then it should be encouraged. But, in reality, state building or state resilience, is a long term effort which takes time and patience.

The basic task of this paper was to assess where Egypt is on that journey. The answer is “somewhere in between” fragility and resilience, but leaning in the former direction. The hope is that Egypt’s rulers will make a midcourse correction, drawing on the considerable assets within society that naturally incline the country toward a path of transformation and resiliency.

An emphasis was placed on the role of women, not because it was the author’s agenda but because of what occurred in Egypt. No other country undergoing the unrest of the Arab Spring saw women play such a prominent role in the demonstrations. Nor has any other state had the same pattern of repeated sexual abuse break out during revolutionary upheaval. Egypt has an opportunity to make a break-through on women’s rights as a way to help free up the economy, relieve poverty, curb population growth, and improve human rights.

Finally, it should be clarified that the author is solely responsible for the statements and conclusions made in this paper.

## ENDNOTES

<sup>1</sup> I am grateful for the excellent support of Charles Fiertz, my research assistant who collaborated on the methodology, data processing and review of this study.

<sup>2</sup> "Egypt protected Islam from extremism on 30 June: Sisi," *Ahramonline*, 30 June, 2014.

<sup>3</sup> Mohammed Samhouri, "Economic Challenges Facing Egypt's Next President," *Sada: Analysis on Arab Reform*, Carnegie Endowment for International Peace, May 15, 2014.

<sup>4</sup> In 2014, The Fund for Peace changed the name of the Failed States Index to the Fragile States Index. The latter name is used throughout this paper.

<sup>5</sup> World Bank data only went up to 2012 at the time of this writing. To avoid duplication of data, the FSI was not used to measure conflict risk. Instead, the World Bank's Worldwide Governance Indicators were used. The World Bank wrote that "the quality of governance is not only a key casualty of war but also a major driver of conflict and fragility" in MENA states. "Econometric analysis suggests that, within MENA, poor governance increases conflict risk...a particularly salient finding for MENA given that the countries in the region have consistently received some of the lowest governance scores in the world." See "Reducing Conflict Risk: Conflict, Fragility and Development in the Middle East and North Africa," The World Bank, Sustainable Development Department, Middle East and North Africa Region, Executive summary, (no date).

<sup>6</sup> "Black Swans" refer to unpredictable and unforeseen events that have a serious impact on a society or a process.

<sup>7</sup> Margaret Wente, "Egypt's Shame: violent assaults on women," *The Globe and Mail*, June 12, 2014.

<sup>8</sup> "Sexual violence against Egypt women goes unpunished: report," *Daily News*, April 16, 2014.

<sup>9</sup> Much of the statistical economic data cited in this section is derived from *More Jobs, Better Jobs: A Priority for Egypt*, The World Bank Group, June 2014, #88447.

<sup>10</sup> Ben W. Heineman, Jr., "General Sisi's Greatest Enemy: The Egyptian Economy," *The Atlantic*, March 27, 2014.

<sup>11</sup> *More Jobs, Better Jobs*, op. cit.

<sup>12</sup> *Ibid.* p. 153.

<sup>13</sup> The minimum wage for public sector employees was raised from US\$107 to US\$174 per month as of January 1, 2014. The measure is expected to affect about 4.9 million government workers.

<sup>14</sup> *Ibid.* p. 169.

<sup>15</sup> Christine Binzel, *Decline in Social Mobility: Unfulfilled Aspirations among Egypt's Educated Youth*, Institute for the Study of Labor, Bonn, Germany, November 2011, Discussion Paper No. 6139.

<sup>16</sup> *More Jobs, Better Jobs*, op. cit., p.174.

<sup>17</sup> *Ibid.* p.174.

<sup>18</sup> *Ibid.* p. 169.

<sup>19</sup> This explanation is consistent with the theory pioneered by Douglass North, called Limited Access Orders. It holds that in less developed countries, society organizes itself to control political violence among elite factions by dividing up the economy, with each faction taking a slice of the rents, limiting action by others. The division is seen as a form of corruption, even if it limits violence. When the arrangement breaks down, or is seen to be breaking down, elites are insecure. Corruption decreases but conflict risk increases.

<sup>20</sup> "'Systematic' Killings in Egypt Are Tied to Leader, Group Says," *New York Times*, August 12, 2014.

**Creative Associates International** works with underserved communities by sharing expertise and experience in education, economic growth, governance and transitions from conflict to peace. Creative is the largest minority women-owned company that works with the U.S. government.

Based in Washington, D.C., Creative is working in more than 20 countries and has 15 field offices. Since 1977, it has worked in 85 countries and on nearly every continent. Recognized for its ability to work rapidly, flexibly and effectively in conflictive environments, Creative is committed to generating long-term sustainable solutions to complex development problems.



Creative Associates International  
5301 Wisconsin Avenue NW, Suite 700  
Washington, DC 20015  
202.966.5804  
[CreativeAssociatesInternational.com](http://CreativeAssociatesInternational.com)