

THE ECONOMICS OF EGYPT'S RISING AUTHORITARIAN ORDER

AMR ADLY

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.

ABOUT THE AUTHOR

Amr Adly is a postdoctoral fellow at the Center on Democracy, Development, and the Rule of Law at Stanford University, where he is leading a research project on reforming the regulatory environment governing entrepreneurship after the Arab Spring in Egypt and Tunisia.

CONTACT

Tarek Zeidan
Director of Communications
tzeidan@carnegie-mec.org
+961 1 99 14 91

Carnegie-MEC.org

 @CarnegieMEC

 facebook.com/
CarnegieMEC

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

The Carnegie Endowment for International Peace is a unique global network of policy research centers in Russia, China, Europe, the Middle East, and the United States. Our mission, dating back more than a century, is to advance the cause of peace through analysis and development of fresh policy ideas and direct engagement and collaboration with decisionmakers in government, business, and civil society. Working together, our centers bring the inestimable benefit of multiple national viewpoints to bilateral, regional, and global issues.

© 2014 Carnegie Endowment for International Peace. All rights reserved.

The Carnegie Endowment does not take institutional positions on public policy issues; the views represented here are the author's own and do not necessarily reflect the views of Carnegie, its staff, or its trustees.