TOO BIG TO FAIL
Egypt’s Large Enterprises After the 2011 Uprising

Amr Adly
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Summary

Large private enterprises are vital to Egypt’s economy and stability. After the 2011 uprising, they lost political sway due to their ties to the regime of former president Hosni Mubarak. However, Egypt’s economic crisis pushed successive regimes to reverse measures taken against these enterprises, affirming their role in economic revitalization. Though cut off from patronage networks after Egypt’s 2013 coup, enterprises are more autonomous from the state today. This may create advantageous openings if the state’s dependence on them grows.

Key Themes

• Large Egyptian enterprises have grown in size and significance since the 1990s and remain critical for Egypt’s economic health and stability.
• Following the 2011 uprising, many businessmen who were influential under the Mubarak regime saw their political role sharply reduced.
• As economic conditions deteriorated after the uprising, measures directed against large enterprises and their owners were reversed, on the grounds that these enterprises were vital for economic growth.
• Since the military takeover in July 2013, large private enterprises have been progressively excluded from rent seeking and patronage networks, in favor of new enterprises closer to the military.
• The increasing autonomy of large enterprises from the state may be a blessing in disguise by inducing them to push for measures that advantage the private sector as a whole.

Main Findings

• Although large private enterprises lost political influence, successive Egyptian governments after 2011 recognized their importance for economic growth and employment. This is especially the case given Egypt’s current economic crisis.
• The reaction against large private enterprises after the 2011 uprising underlined the profound risks influential businessmen may face when entering into relationships of favoritism with political authorities.
• Large private enterprises gain from relying less on political connections to secure profits and market share. This autonomy can push them to defend their collective interests and become more market oriented.
• Of key importance to large enterprises will be how they can exploit their economic autonomy to compensate for their growing political exclusion.

• The weak response to efforts by the post-2013 regime to encourage the private sector to invest in the Egyptian economy suggests improved mechanisms of interaction and communication are needed for the regime and large businesses to coordinate on investment issues.
Introduction

Since the overthrow of former Egyptian president Mohamed Morsi by the military in July 2013, the regime of President Abdel Fattah el-Sisi has continued to struggle to consolidate its authority amid ongoing economic challenges. Five years after the 2011 uprising, Egyptians do not feel better off, as the poverty level in the country has risen. Because economic factors will have a significant impact on social and political stability, the regime’s relationship with Egypt’s class of influential private businessmen will be vital.

Large enterprises are a major economic force to be reckoned with in terms of their ability to invest in Egypt, attract foreign capital, and generate economic growth. Yet after the 2011 uprising and until the 2013 military-led takeover, measures were taken that were directed against these enterprises. However, because the Egyptian economy continued to suffer from low growth rates, large budget and trade deficits, and a precarious balance-of-payments position due to reduced foreign direct investment and tourism revenues, the government sought ways to revive the economy. Most of the actions that had adversely targeted influential businessmen and their companies were reversed and guarantees given for them to resume working normally.

Even though the uprising and its aftermath hardly reduced the economic weight and power of big businesses, their political sway was considerably diminished compared to the time of former president Hosni Mubarak. Most decisionmaking shifted to the military and other parts of the state bureaucracy. The old networks of rent seeking and patronage, from which the owners of large enterprises had benefited, were largely dismantled or significantly altered to the exclusion of the previous beneficiaries.

Ironically, such a situation may have potentially positive, albeit unintended, consequences for Egypt’s political economy. Greater economic autonomy of big business from the state means that large enterprises will have to rely less on political connections to secure profits and market share. They will instead become more market oriented. Moreover, the absence of strong particularistic interests and informal ties with the state may lead these enterprises to develop a broader concept of their collective welfare. This may encourage greater transparency and market operations free of state intervention. In turn, influential businessmen may, together, seek to shape an institutional environment that is friendly to the private sector in general, as opposed to a limited number of their
members. This may become all the more crucial as a new group of businessmen connected to the current regime is brought in and threatens the position of existing large enterprises.

It is too early to say whether this increasing economic autonomy will translate into political autonomy in the future. Large enterprises are not likely to play a visible political role in the current context in Egypt. They have learned the hard way that being too close to political power—through membership in the ruling party or service in the executive or the legislature—is unpopular among many Egyptians and can prove costly.

Since they began to play an important economic role in the mid-1970s, large private enterprises have passed through different phases in their relationship with the Egyptian state. They have grown in size, especially during the 1990s, becoming progressively less dependent on the state for the generation of profits and occupying key positions in vital sectors. During the first decade of this century, some large enterprises became transnational, ensuring even greater autonomy from the state. Ironically, this coincided with their political disempowerment after the 2011 uprising. How big businesses will emerge from the interplay between their increasing economic autonomy and their continued political exclusion will be a vital question for the sector in the coming years.

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Large enterprises are not likely to play a visible political role in the current context in Egypt

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The Birth of Egypt’s Class of Influential Private Businessmen

To understand the current economic weight that big business enjoys in Egypt, one needs to reconstruct the history of the private sector since the inception of market reforms in the mid-1970s. In 1974, then Egyptian president Anwar Sadat opened up the Egyptian economy to foreign investment through a policy usually referred to by its Arabic name of Infitah, or “opening.” This was the starting point for Egypt’s transformation toward a market-based economy dominated by the private sector. The push for private-sector development and partial trade and capital liberalization was motivated primarily by the economic and fiscal crises that Egypt was facing at the time. It was also a sign of the country’s foreign policy realignment toward the United States following the October 1973 Arab-Israeli War.

Initially, the government facilitated only foreign and Arab investment in Egypt. It focused on attracting capital surplus from the West and the Gulf Arab states as a means of redressing payment imbalances and foreign currency shortages. This was most apparent in the first investment law of 1974. In 1977,
the investment code was amended by another law, which extended the same incentives and guarantees to Egyptian private-sector enterprises. Partial trade liberalization and new guarantees against expropriation and nationalization allowed the emergence of Egyptian private enterprises that linked the Egyptian market to the outside. Egyptian commercial agencies acted as local distributors of goods and services provided by foreign companies.

Throughout the 1980s and 1990s, private-sector firms grew bigger and became more concentrated while expanding their share in economic output. During that period, early forms of intermediation through trade and brokerage developed into more capital-intensive and higher-value-added activities. Large private enterprises engaged in manufacturing, agriculture, tourism, construction, and the import of technology. Some large businesses played an increasingly significant role in the export of fruit and vegetables, taking this over from the public sector, as well as of manufactured goods such as ready-to-wear clothing.

By the beginning of the 1990s, Egypt’s economy was dominated by the private sector. Mubarak signed a standby agreement with the International Monetary Fund in 1991, leading to a reduction in the budget deficit and inflation rates and the imposition of budget constraints on state-owned enterprises (SOEs). Meanwhile, Egypt and the World Bank agreed on a structural adjustment program that aimed for the gradual privatization of SOEs and the removal of regulations that discriminated against the private sector. Even though the privatization of SOEs went slowly throughout the 1990s and early 2000s, the contribution of private-sector enterprises to Egypt’s gross domestic product (GDP) expanded continuously between 1990 and 2010. This happened through the deregulation of many sectors once dominated by SOEs, such as banking and telecommunications, that were opened up for the first time to both domestic and foreign private enterprises.

The state encouraged this process by providing direct and indirect subsidies to private enterprises, especially in manufacturing, tourism, financial services, telecommunications, agriculture, real estate, and construction. These took the form of tax rebates, investment incentives, land allocations at below-market rates, and generous energy subsidies. Overall, the contribution of private-sector enterprises of all sizes to total GDP, investment, and employment grew continuously, so that by the early 2000s private-sector companies were responsible for the largest share of total output in most productive sectors (see table 1).

The Egyptian state encouraged the growth of the private sector by providing direct and indirect subsidies to private enterprises.
### Table 1: Composition of Egypt’s Non-Hydrocarbon GDP in Selected Years (Percent)

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<tbody>
<tr>
<td></td>
<td>Type of Ownership</td>
<td>Public</td>
<td>Private</td>
<td>Public</td>
<td>Private</td>
<td>Public</td>
</tr>
<tr>
<td>Total GDP</td>
<td></td>
<td>28</td>
<td>72</td>
<td>21</td>
<td>79</td>
<td>23.1</td>
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<tr>
<td>Agriculture</td>
<td></td>
<td>1</td>
<td>99</td>
<td>0</td>
<td>100</td>
<td>0.1</td>
</tr>
<tr>
<td>Manufacturing*</td>
<td></td>
<td>42</td>
<td>58</td>
<td>21</td>
<td>79</td>
<td>13.5</td>
</tr>
<tr>
<td>Electricity</td>
<td></td>
<td>100</td>
<td>0</td>
<td>100</td>
<td>0</td>
<td>91.1</td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td>29</td>
<td>71</td>
<td>41</td>
<td>59</td>
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<td>Transportation†</td>
<td></td>
<td>52</td>
<td>48</td>
<td>36</td>
<td>64</td>
<td>21.8</td>
</tr>
<tr>
<td>Communications</td>
<td></td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>5</td>
</tr>
<tr>
<td>Suez Canal</td>
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<td>100</td>
<td>0</td>
<td>100</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Wholesale Trade‡</td>
<td></td>
<td>10</td>
<td>90</td>
<td>5</td>
<td>95</td>
<td>4.2</td>
</tr>
<tr>
<td>Restaurants and Hotels</td>
<td></td>
<td>15</td>
<td>85</td>
<td>2</td>
<td>98</td>
<td>1.4</td>
</tr>
<tr>
<td>Real Estate</td>
<td></td>
<td>5</td>
<td>95</td>
<td>4</td>
<td>96</td>
<td>4.1</td>
</tr>
</tbody>
</table>


* Data for the 1990s referred to industry rather than manufacturing solely.
† Data for the 1990s reported combined figures for transportation and communications before being separated in the 2000s.
‡ Data for the 1990s referred to trade without specifying whether it was wholesale or retail.
The expansion of large private enterprises advanced significantly starting in 2004. At the time, Mubarak appointed a cabinet that was committed to further liberalizing trade and capital movements, as well as privatizing SOEs and encouraging foreign direct investment in Egypt. According to a World Bank report in 2009, the private sector contributed around 75 percent of Egypt’s non-hydrocarbon GDP.4

Private-sector enterprises also expanded their role in key sectors. In manufacturing, for instance, their share of output went up from 58 percent in 1991 to 85 percent in 2001, where it remained until 2010. The story was not very different in the construction sector, where the contribution of private construction enterprises to output increased from 71 percent in 1991 to 89 percent in 2010. During the 1990s, private-sector enterprises also dominated retail and wholesale trade as well as tourism, including restaurants and hotels, controlling 99 percent of output in the tourism sector by 2010.5

Between 1990 and 2010, the private sector’s share of investment surpassed that of the public sector in terms of gross capital formation as a percentage of GDP. Gross capital formation refers to the increase in fixed assets of an economy and can include land improvement; the purchase of machinery, plants, and equipment; the construction of transportation infrastructure and facilities; and increases in inventories of goods used for production.6 The private sector’s contribution to gross capital formation increased from an average of 7 percent in 1990–2000 to 10 percent in 2001–2010. Meanwhile, the contribution of the public sector declined during the same periods from 15 percent to 9 percent.

The transformation of Egypt toward a private sector–dominated economy went hand in hand with the high concentration of capital and output in large business conglomerates. In 2014, the annual turnover of ten of Egypt’s largest conglomerates stood at 4.45 percent of total GDP.7 The reality was doubtless different, however, as most big businesses are privately traded, so their financial reports were not disclosed, making it difficult to accurately assess their revenues, profits, or employment figures.

Despite the absence of public business information, personal net wealth may help reflect how some large business families have benefited from developments in the private sector. For example, in 2015 Forbes Middle East estimated the combined net wealth of two brothers of the Mansour family, Mohamed and Youssef, both part owners of the multinational Mansour Group, at $5.7 billion. This was equivalent to roughly 2 percent of GDP in 2014.8

Nevertheless, the relative share of large private enterprises in terms of total employment is not great, mainly due to the capital-intensive nature of their investments. That said, some of the largest business conglomerates do hire tens of thousands of workers. For instance, the Elaraby Group dominates
the electronics market in Egypt and employs around 20,000 people. Qalaa Holdings, a leading investor in energy, mining, cement, agriculture, and transportation and logistics, employs around 39,000 people, according to its 2013 financial report. The Ghabbour Group, the largest automotive producer and distributor in Egypt, has hired more than 5,000 people. In a similar vein, MANFoods, the Mansour-owned company running McDonald’s Egypt, employs 3,000 people, while 13,000 others work in jobs producing and distributing goods for the company.

Large Egyptian enterprises also play a significant role in foreign currency-generating sectors such as manufacturing, agriculture, and tourism. The manufacturing sector is dominated by private enterprises, and on average manufactured goods accounted for 40 percent of total Egyptian exports between 2004 and 2010, according to the World Trade Organization. At the same time, the greatest share of manufactured value added—estimated at 93 percent in a 2011 study—was supplied by large private enterprises. The agricultural sector is almost wholly controlled by large private enterprises, as is tourism, another capital-intensive sector.

Bank credit is another good indicator of the importance of large private enterprises. Credits to the private sector accounted for 41.2 percent of total bank credits between 2001 and 2014. However, this expansion in private-sector credit proved highly concentrated, as only a few extremely large enterprises benefited. Credits to small and medium-sized enterprises accounted for only 5 percent of the total during the same period. This greater concentration of credit in large conglomerates reflected a trend that had already begun during the 1990s, when a few large conglomerates came to dominate the economy.

In parallel to this, even as they expanded their activities in the Egyptian market during the first decade of this century, these conglomerates extended their operations abroad and became increasingly transnationalized. The activities of the Sawiris family, with its ORASCOM conglomerate, illustrated this tendency. ORASCOM Telecom Holding expanded into tens of developing and developed markets in the 2000s, including Iraq (2003), Bangladesh (2004), Pakistan (2004), Italy (2007), and even North Korea (2008). ORASCOM Construction Industries, similarly, expanded cement production in Egypt and a number of neighboring countries and emerging markets, such as Algeria. The cement facilities owned by the company were sold to the French cement giant Lafarge in 2008, before the global financial crisis, for $12 billion and a share in Lafarge. This was the biggest single business deal in Egypt’s history. In 2007–2008, ORASCOM’s telecommunications and construction arms completely transnationalized by registering in Italy and the Netherlands and leaving the Cairo and Alexandria stock exchanges, which function as one.
Another large private company, Elsewedy Electric, transnationalized its operations during the same period, albeit in a less dramatic way than ORASCOM. In the 2000s, Elsewedy owned and operated plants in Algeria, Ethiopia, Ghana, Italy, Nigeria, Qatar, Spain, Sudan, Syria, Yemen, and Zambia. According to the company’s annual financial statements, 80 percent of all its assets were located in Egypt in 2006, while 20 percent were outside. However, this ratio had markedly changed by 2015, with 56 percent of its assets in Egypt and 44 percent elsewhere.

At the start of the twenty-first century, Egypt had a consolidated class of big business owners in important manufacturing and service sectors. There had been a general movement from trade-related activities in the mid-1970s, when the Infitah was launched, into more capital-intensive ones, especially by the 1990s. Large enterprises garnered significant economic weight and, following from this, developed a greater stake in the policies affecting them. This would set the stage for the heightened political role the owners of these enterprises would play in the 2000s, when they would greatly influence economic decisionmaking.

The Politicization of Big Business in the 2000s

It is hard to understand how big private enterprises have been related to the state in Egypt without going back to the 1990s and 2000s. These relations were diverse and changed over time. However, they were quite consequential for the political influence that private business had over state policies and regulation of the economy and for the image of business vis-à-vis the broader public. This was especially the case during the buildup to the 2011 revolution and in subsequent developments in state-business relations and the role of private business in politics.

Although big business was politically subservient to the state throughout most of the 1990s, its political role in Egypt’s executive and legislative branches grew in the first decade of this century, until the uprising of 2011. Neither relationship was ideal, as the rapport between large private enterprises and the state should be based on some degree of mutual autonomy.

During the 1990s, large private enterprises were highly dependent on the state to make profits—be it through trade protection, access to public procurement contracts and state-owned land, or acquisition of privatized state-owned enterprises. However, these businesses lacked any significant political representation in the circles of power where decisions were made and implemented. Cabinets and the inner circle around the president, where most informal power was vested, were almost completely made up of bureaucrats from military and civilian security and intelligence backgrounds, with little room for independent technocrats or businessmen.
This changed in 2004 when, in an unprecedented move since the 1952 Egyptian Revolution, Ahmad Nazif was appointed prime minister of a government made up mainly of businessmen and neoliberal-oriented technocrats. These individuals took on an increasingly active political role in the cabinet and legislature. The trade and industry portfolio was assigned to the business tycoon Rachid Mohamed Rachid, president of Unilever Middle East, a subsidiary of the British-Dutch Unilever multinational corporation that produces and distributes a wide array of consumption products, including soap, food, and cosmetics. The tourism portfolio was assigned first to Ahmad al-Maghrabi and then, in 2007, to Zohair Garana. Both were prominent businessmen. Maghrabi, a partner in one of Egypt’s largest real-estate development companies, was placed in charge of the Housing Ministry in 2007. Similarly, Amin Abaza, the owner of one of the largest agribusinesses in Egypt, became agriculture minister. Hatem al-Gabally, a shareholder in and manager of a number of private hospitals and laboratories, was appointed health minister. Almost all of the new ministers were heads of family-owned enterprises in the fields covered by their ministries.

At the same time, powerful business figures came to play prominent roles in the then ruling National Democratic Party (NDP), pushing for a business-friendly agenda in the legislature. The most notorious symbol of the advent of private businessmen as political actors was the steel tycoon Ahmad Ezz. He became a central figure in the ruling party and headed the parliamentary budget committee. An increasing number of businessmen joined the NDP and entered the parliament after the 2000, 2005, and 2010 elections. As private-sector business figures became more visible and vocal in the Mubarak regime, the NDP shifted toward serving the interests of the rising bourgeois class. The period between 2004 and 2011 was marked by an unholy marriage of private wealth and political power. The rising influence of businessmen over state decisions and laws translated into the advancement of the particular interests of politically connected businesses. This helped explain why the privatization of state-owned enterprises, trade liberalization, and the deregulation of state-dominated sectors proceeded apace after 2004. A prominent example of this was Ezz’s amendment of the antitrust law in 2007 to benefit his company, which then held 61 percent of the steel market. Ezz was not alone. In many cases, private businessmen who were personally close to or partners of the Mubarak family also gained from their positions.

Overall, the phenomenon of big businessmen sharing power with Egypt’s well-entrenched bureaucratic elite during the last decade of Mubarak’s rule was closely tied to preparing the way for Gamal Mubarak to succeed his father as president. The succession project emerged from the shared interests of large private businesses. Their aim appeared to be to consolidate the liberalization
and deregulation of the economy. However, aside from this seemingly collective objective, the most powerful businessmen were also pushing for the political protection of their own privileged access to assets and market shares in a period when Egypt was becoming more capitalistic and the economic environment was characterized by significant cronyism. The succession question also reflected tensions in the elite, as the circle of businessmen around Gamal Mubarak appeared to be antagonistic toward other influential groups, especially from the civilian and military bureaucracies. There was competition for access to state-owned assets as well as disagreement over the scope and pace of privatization and liberalization.

The 2011 uprising abruptly ended the succession project. After a sharp rise, the influence of powerful private businessmen fell just as suddenly, as Gamal Mubarak went to jail and several of those who had wagered on his taking power did the same or were otherwise sidelined. For a brief moment, the businessmen had wielded great power, at odds with Egypt’s post-1952 trajectory. The country’s previous realities would soon reassert themselves.

Large Enterprises After the 2011 Uprising

Following the 2011 uprising, political power was transferred, on an interim basis, to the Supreme Council of the Armed Forces (SCAF), the highest body of the Egyptian military. The NDP was dissolved by court order, and the parliament was disbanded. The Nazif cabinet left office even before Hosni Mubarak stepped down. The upshot of all this was that there were no businessmen in the subsequent cabinet of prime minister Ahmed Shafik.

That was not all. Many of the big businessmen once close to the Mubaraks or the NDP were soon prosecuted on corruption charges. The first to fall was Ezz, who was arrested and jailed for almost three years. Moreover, his assets were frozen, and for a time, the fate of his Dekheila steel mill remained uncertain as its acquisition came under scrutiny amid allegations of corruption.

Ezz was soon followed by businessmen-ministers who either were arrested on corruption charges—such as Maghrabi, Garana, and Abaza—or fled the country fearing imprisonment, such as Rachid. Maghrabi’s trial sent shock waves through the real-estate and construction sectors. The former minister of housing faced accusations of illicitly allocating state-owned land in desert areas east and west of Cairo to Mansour and Maghrabi (M&Ms), the company he owned with Yasseen Mansour, one of the Mansour brothers. The company was later threatened with the expropriation of its land, although after a trial, this was never carried out. Fearing prosecution, Mansour, the chairman of M&M, left Egypt. A prominent urban developer, Mahmoud al-Gammal, chairman of the Sixth of October Development and Investment Company and Gamal Mubarak’s father-in-law, was also targeted. His accounts were frozen and he was put on trial.
In addition, the networks of rent seeking and patronage that had existed under Mubarak were severely disrupted. The military took its distance from the big businessmen, whom it viewed as a political liability due to their corrupt dealings with the Mubarak state. Administrative courts were active in annulling earlier public contracts that had privatized state-owned enterprises or allocated state-owned land, posing a considerable threat to private property rights. The state bureaucracy was largely paralyzed, as many officials became increasingly hesitant to sign documents for fear of the legal consequences. This phenomenon came to be called “shaky hands syndrome.” 28 All of these factors combined to undermine the relationship that had been in place between large business conglomerates and the state since the 1990s.

Aside from the heightened political risks associated with the collapse of the Mubarak regime, the economy entered a period of great uncertainty after the uprising. Economic growth declined, the public debt and inflation rate rose, and there was a shortage of foreign exchange. This affected all Egyptians, but particularly the business community. Large businesses froze their expansion plans. Local and foreign investment plummeted. As economic confidence dwindled, there was evidence of considerable capital flight from Egypt after 2011. According to government estimates, there was a massive exodus of capital of around $12.8 billion from Egypt’s treasury bill market, the stock market, and the banking system in 2011 and 2012. 29

The tide soon turned. By late 2011, Egypt’s precarious economic situation pushed SCAF to show more restraint with regard to large Egyptian enterprises, as well as foreign and Arab investors. The military sought to provide guarantees that the earlier neoliberal measures introduced under Mubarak would not be reversed. It moved against labor strikes and sit-ins by issuing a decree in 2011 that raised the penalties for unauthorized strikes, road blockages, and the interruption of transportation. 30 SCAF also refrained from issuing a revised law on trade unions, which had been formulated in cooperation with the independent trade-union movement under a labor-friendly labor minister. The law had aimed to expand freedoms for the establishment of independent unions and end the monopoly of the state-controlled labor federation. 31

In a similar vein, the two post-uprising governments of Essam Sharaf (March–November 2011) and Kamal al-Ganzouri (December 2011–July 2012) appealed against the Supreme Administrative Court’s decisions annulling earlier privatization contracts and ordering the government to recover state assets. 32 The government feared that such steps would amount to renationalizing private property, which would have had a freezing effect on big business.

In January 2012, just before the newly elected parliament began its work, SCAF, which had assumed transitional executive and legislative power after
Mubarak’s exit in February 2011, issued another decree. This measure allowed financial settlements with private businessmen who had been tried on charges of corruption and the illicit acquisition of public assets. The decree opened the door for the dismissal of charges and the annulment of lower courts’ verdicts in return for financial compensation paid to the state treasury, or asset retrieval when a court had determined that the asset had been acquired illegally from the state.33

All of these measures were indicative that SCAF—and, more generally, the state—had recognized the economic importance of large Egyptian private enterprises. Economic growth, investment, and the prevention of further capital flight all required regaining their trust. Moreover, attracting badly needed foreign direct investment hinged on avoiding any semblance that the state was intending to expropriate the property of businessmen with ties to the former Mubarak regime. Egypt had to prove its continuing commitment to the neoliberal measures undertaken during the former president’s time. For instance, nothing happened to Ezz’s Dekheila steel mill while he was in prison. His company kept operating more or less normally during that time.

Another example that illustrated the shifting mood of the government involved Mohammad Aboulenein, a ceramics tycoon and longtime loyalist of the Mubarak regime and the NDP. When workers staged a strike at his factory in August 2012 and were close to taking control of it,34 they called on the newly elected president at the time, Mohamed Morsi, to intervene on their behalf. The government was alarmed by the spectacle of a factory takeover at a moment when the president was trying to stabilize the economy. Instead, it offered to mediate between Aboulenein and his workers.35 The judiciary and the public prosecutor were equally uncooperative with the workers’ attempts to seize factories and impose a system of self-management.36

The irony is that the government’s behavior occurred at a time when owners of large enterprises had lost much of their political influence. The only examples of businessmen who tried to use their wealth for political ends after the 2011 uprising were Naguib Sawiris and Rami Lakah. Sawiris formed the Free Egyptians Party, which supported a secular and economically liberal platform. Lakah co-founded the Reform and Development Party with Mohammed al-Sadat, a nephew of the late Anwar al-Sadat. Neither Sawiris nor Lakah had ever joined the NDP, and both were Christians. Sawiris’s political role after 2011 was related to his appeal to Coptic Christian electors alarmed by the rise of political Islam.37 But both cases were exceptions confirming the rule that businessmen were no longer politically active as they had been in the years of Mubarak rule.

Egypt had to prove its continuing commitment to the neoliberal measures undertaken during Mubarak’s time.
Overall, the 2011 uprising proved disruptive to many big businesses, both economically and politically. The downfall of Mubarak and the dissolution of the NDP destroyed old relationships of power and privilege. But economic realities would impose flexibility on all parties. Like SCAF, the Muslim Brotherhood–led government that followed would pursue a policy of improving relations with big business to relaunch economic growth.

**Big Business Under the Muslim Brotherhood**

Under Morsi, who was in power from July 2012 to July 2013, the government adopted an uneven policy with regard to large enterprises. It made gestures of goodwill, as had SCAF, but it also fought businessmen who politically opposed the Muslim Brotherhood while seeking to advance the economic interests of Brotherhood members. The government’s actions were based on calculations that often changed overnight, given the intense atmosphere of national discord that existed at the time of Morsi’s rule. Overall, the Brotherhood-backed administration did not welcome the return of large businesses to play a direct political role. This reinforced the trend that the January revolution set of tolerating little direct role for private businesses in politics—a trend that will prove consequential for the future of Egypt’s political economy.

The first thing to note is that the Brotherhood-backed regime recognized the economic weight and importance of large private enterprises for any relaunch of the economy. During the president’s term in office, economic recovery became even more urgent. By the end of 2012, Egypt’s foreign currency reserves had declined to $15 billion from $36 billion in January 2011.38 The country was in need of massive inflows of capital, and the government sought ways to revive the economy. In light of this, Hassan Malek, a powerful Muslim Brotherhood–affiliated businessman who was also the alleged manager of the Muslim Brotherhood’s funds, established the Egyptian Business Development Association, or EBDA.

EBDA sought to assist the Muslim Brotherhood by contributing to economic recovery efforts.39 Malek did so by seeking reconciliation with all businessmen, except those who were indicted for corruption or supported the remnants of the old regime. In pursuit of this goal, the membership of EBDA underwent considerable transformation in a short period of time. Following Morsi’s election, it was expanded to include large Egyptian, Arab, and multinational corporations operating in Egypt, such as Shell and ExxonMobil.40 EBDA offered a forum for those companies to build mutual trust, and it opened a back door to the presidency on economic policies. This was facilitated by the fact that Malek also headed an official committee affiliated with the presidency in charge of reaching out to businessmen.

EBDA’s membership reflected Malek’s ecumenical mind-set. It included businessmen who had been close to the Mubarak regime, notably Mohammed...
Farid Khamis, the owner of the Oriental Weavers Group, one of Egypt’s largest producers and exporters of rugs. Safwan Thabet was also a member of the association. Thabet had been a member of the NDP under Mubarak and the owner of Juhayna, one of Egypt’s largest food companies. Many of these businessmen accompanied Morsi on his 2013 visit to China, which was aimed at encouraging foreign investment. Malek also mediated between the Muslim Brotherhood and the Sawiris family to resolve issues of contention primarily related to Naguib Sawiris’s political activism. ORASCOM joined EBDA in April 2013, three months before Morsi’s removal.

Malek also reached out to Yasseen Mansour in London in an attempt to persuade him to return to Egypt. In parallel, the Shura Council, the upper house of the former Egyptian parliament, made an important decision. The council, which had a Muslim Brotherhood majority and enjoyed full legislative power according to the 2012 constitution, amended the main law organizing private-sector investment to allow more channels for reconciliation with investors through the Ministry of Investment.

The tensions between Sawiris and the Muslim Brotherhood revealed another side of the Brotherhood-led government’s relations with powerful businessmen. Even as the government sought to normalize ties with many large enterprises, its connections with politicized businessmen and networks were fraught with tension. This is the second trait that marked the interaction between the state and private business.

Naguib Sawiris stands as a central example of a wealthy businessman with a pronounced ideological position and an ambition to play a public role. After Mubarak’s removal, Sawiris was overtly critical of the Muslim Brotherhood, as well as of the Islamist camp in general. He became more vocal and active in opposing Morsi after the president’s controversial constitutional declaration in November 2012 granting himself broad powers, which caused major polarization in Egyptian society. Sawiris expressed his views in media outlets he owned and through his political party, the Free Egyptians, which ORASCOM financed. In retaliation, the government targeted ORASCOM Construction Industries with a tax-evasion case. The patriarch of the Sawiris family, Onsi, as well as Naguib’s younger brother Nassef chose to leave the country. Malek mediated in search of a solution. This involved freezing the tax-evasion case in return for Naguib Sawiris selling his satellite channel ON-TV, which he did. Onsi and Nassef Sawiris came back to Egypt. However, things did not end there. Naguib Sawiris allegedly played a role in Morsi’s downfall by financing the Tamarod campaign, which opposed the president.

Major opposition by businessmen to the rule of the Muslim Brotherhood also came from the old NDP networks that had mobilized in support of Ahmad
Shafik’s presidential campaign against Morsi in 2012. Ahmad Ezz reportedly played a significant role in supporting Shafik from prison. However, these NPD-affiliated networks were made up mostly of businessmen who owned medium-sized businesses and had occupied positions in the party and local government under Mubarak. They were less wealthy than the owners of the large conglomerates, owning multimillion-dollar, rather than multibillion-dollar, enterprises. Their networks mobilized against Morsi again after he won the election, allegedly providing food and transportation for demonstrators on June 30, 2013, the day Morsi was ousted.

During Morsi’s time, there were indicators of attempts by large Muslim Brotherhood–affiliated businessmen to expand their economic activities. However, these efforts failed given the short duration of Morsi’s tenure. The experience of Khairat al-Shater perhaps provides some insights into the Muslim Brotherhood’s plans for big business. Shater was the Muslim Brotherhood’s strongman and allegedly its economic manager, alongside Malek. He established a supermarket chain named Zaad, whose branches expanded considerably in 2012 and 2013. Zaad was supposed to become a major retail outlet for foodstuffs and other consumer goods. Shater also began negotiating the takeover of two of the largest supermarket chains in Egypt, Metro and Kheir Zaman, owned by the Mansours, however the deal eventually fell through.

It appears that Zaad was part of a broader political project in support of Muslim Brotherhood rule. A network of supermarkets would be established in middle-class and poor neighborhoods and distribute food at low cost. This would boost the Brotherhood’s appeal.

The insertion of Muslim Brotherhood–affiliated businessmen into the existing business networks was not always intended to replace old members. Rather, the objective was to integrate better with them. For instance, there were reports in 2013 of a partnership between Shater and the businessman Rami Lakah to establish a privately owned airline that would operate in Egypt and the region. Lakah, a Catholic of Syrian origin, was an important figure in the 1990s and embodied the Mubarak-era business class.

Other business networks belonging to the military or the intelligence services also remained intact during Morsi’s term. This was possibly part of a broader political deal reached between the Muslim Brotherhood and the military in 2012, when a new constitution provided legal guarantees for the military’s political and economic autonomy. Yet none of the Muslim Brotherhood’s plans materialized. The settlement reached with the military was short-lived, lasting until Morsi was ousted by the military and imprisoned.

The Muslim Brotherhood government, like SCAF before it, recognized the economic importance of large enterprises for spurring economic growth and attracting investment. However, it was also wary of ceding a political role to
big businesses, which the government did not trust. Little would change in this attitude when Morsi was overthrown, as the political ambitions of influential businessmen would remain a source of concern for the military-led regime.

Large Enterprises After the July 2013 Takeover

After the military takeover in July 2013, the contours of the relationship between big business and the state changed once again. It is difficult to discern a coherent and consistent approach on the part of the new regime of Abdel Fattah el-Sisi, who was elected president in June 2014. However, the interaction between the state and large enterprises was characterized by a number of regime priorities.

Removing Big Business From Politics

The first was the military’s opposition to the direct involvement of big businessmen in politics. This was most apparent when Ezz was prevented from returning to the parliament elected in late 2015. The steel magnate was released from prison, was acquitted of most corruption charges, and resumed managing his economic empire. However, the judicial committee overseeing the elections, almost certainly under the guidance of the regime, excluded him for technical reasons. The parliamentary elections were then postponed due to an administrative court ruling. When a new date was set, Ezz applied for a second time, and again he was excluded on technical grounds.51

Similarly, under Sisi, no ruling party similar to the NDP was established. Instead, an amorphous bloc of parliamentarians who favored the president was formed. This prevented many of the old NDP-affiliated businessmen from resuming their roles as intermediaries, partners, and clients of the new regime. Moreover, former prime minister Shafik, who for a time had represented a hope for former NDP members, was prevented from returning to Egypt. He remains in the United Arab Emirates as of this writing, filing plea after plea to be allowed to return home, but to no avail.

These measures opposing politicized big business can be interpreted in a number of ways. The military-backed regime may have believed that a political role for prominent businessmen—or even their high public visibility—would be unpopular, recalling the days of the businessmen-dominated NDP, parliament, and cabinet under Mubarak. That may also be why Sisi did not create a new official party, which he feared might have served as a magnet for clientelism and corruption, damaging the president’s reputation.

Another interpretation could be, simply, a lack of trust. The big businessmen under Mubarak belonged to networks different from those of the Sisi regime. A third explanation could be that Sisi wanted to avoid any potential opposition from a parliament and party dominated by businessmen.
Again, the only exception was Naguib Sawiris and his Free Egyptians Party. The party won around 10 percent of parliamentary seats in the 2015 elections, making it one of the largest blocs in a highly fragmented legislature. There are signs that the military-backed regime did not regard this with much favor. It was notable that the Free Egyptians were kept out of the pro-Sisi In Support of Egypt bloc. The leader of the pro-regime bloc in the newly formed parliament accused Sawiris of using his money to lure independent politicians into joining the Free Egyptians Party so that he would have a majority to form a government. In late December 2016, Sawiris was effectively removed from the Free Egyptians Party he had founded and heavily funded since 2011, when the party eliminated its board of trustees, of which he was a member. The move was viewed as an internal coup organized by Egypt's security apparatus to limit Sawiris's political influence. A leader of the campaign said the party's general assembly had made the decision because Sawiris had rejected a rapprochement with the authorities, preferring to emphasize the party's role as an opposition force in the parliament.

Subjugating Private Business to State Plans

A second priority in the interaction between the state and influential businessmen after July 2013 was the military's efforts to push large enterprises into a subservient role. It did so by expecting them to contribute financially to its major projects and development plans. This was the case when Sisi urged enterprises to contribute to the Long Live Egypt fund. The fund was launched in late 2014, after Sisi's election, with the aim of collecting EGP100 billion ($5.4 billion) to finance public-works projects. But by the end of 2016, the fund had secured only some EGP6 billion ($324 million), despite intensive campaigning and presidential backing. This caused tension between the political leadership and large businesses, to which the president referred several times, especially in 2015 when his expectations of donations were still high.

Fostering Business Investment and Job Creation

A third priority in the relations between big business and the state after Sisi came to power was the continuation of efforts to encourage businesses, both large and small, to invest in the economy and generate jobs after the economic slowdown that followed the 2011 uprising. This replicated the behavior of both SCAF and the Muslim Brotherhood–led government. It entailed creating a climate propitious for investors by providing them with various forms of guarantees and protecting private property rights.

On the eve of a March 2015 investment conference, the government amended a 1997 investment law. The new legislation offered both Egyptian and foreign investors a variety of incentives, tax breaks, and exemptions. Another new law was in preparation at the start of 2017, to extend more incentives and
guarantees to private investors. These decrees followed earlier ones issued by
the military-backed regime in 2013 and 2014 to curb economic uncertainty.

For instance, a 2014 decree set conditions ensuring that public contracts—
whether involving the purchase of state-owned land, privatized companies,
or other assets—would not be challenged before administrative courts.57 Two
notable cases were the annulment of land allocation con-
tracts with the Talaat Moustafa Group, which had pur-
chased land to develop its Madinaty residential project in
2009, and with the Saudi businessman Prince Al-Waleed
bin Talal, who was allocated the equivalent of 96,000 acres
in the western desert near Toshka Bay for land reclama-
tion.58 In both cases, the government chose to reallocate
the land to the same investors through new contracts that the government
portrayed as more balanced.59 These contracts were challenged before adminis-
trative courts, but once the 2014 decree was issued, all such cases were closed.

From the time of Mubarak, challenges like these had been a source of
uncertainty for private property rights. A number of contracts privatizing
state-owned enterprises were annulled, some of which included Arab investors.
This trend intensified following the 2011 uprising. After July 2013, however,
the military-backed regime attempted to reverse such challenges before the
administrative court.60

However, the government’s attempts to reassure large enterprises, both
domestic and foreign, and improve the business climate were unsuccessful.
Total investment, measured as a percentage of gross capital formation in
GDP, was 14.2 percent in 2015, compared with 19.5 percent in 2010, before
the uprising.61 Net foreign direct investment as a percentage of GDP did not
recover either. It dropped from 5.8 percent in 2009 to 2.1 percent in 2015.62

The weak investor response could be explained by a number of factors. These
include a shortage of foreign currency, which sent the economy into a spiral of
low growth and high inflation; a slump in the price of oil, which discouraged
Gulf investment; the global economic slowdown; and uncertainty regarding
the government’s macroeconomic policies. It could also be explained in politi-
cal terms by the absence of formal and informal channels of communication
and policy coordination that had previously existed between the state and big
business under Mubarak, especially during his last decade in office.

Increasing the Military’s Economic Role

A fourth trend in relations between the state and large businesses after the mili-
tary removal of Morsi was the expanding role of the military and military-affil-
iated networks in economic activity. Starting in the 1970s, the military began
its involvement in civilian economic production. The National Service Project
Organization (NSPO), which is controlled by the military, was established
by presidential decree in 1979. It currently owns twenty-one companies that
operate in multiple sectors. However, there has been a visible expansion in the military’s role since the 2013 coup, as military-affiliated companies, whether owned by the NSPO or by other military agencies, substantially expanded their activities and entered new economic sectors, including housing, fish farming, the manufacturing of vaccines and infant milk formulas, and even education.

After Sisi launched a major initiative in 2014 to increase social housing, the military, through its engineering arm, played a central role in delivering the housing units in cooperation with the Ministry of Housing. It delivered 145,000 units in May 2016 and was assigned another 145,000 units by the ministry to be delivered sometime in 2017.

The military has also played a significant role in building roads. The Ministry of Defense was assigned a large number of road construction projects between 2015 and 2016. These included construction of a new regional ring road connecting cities of the Nile Delta, building of the Cairo–Ain Sokhna road, and improvement of the Cairo–Ismailia road. The military has been involved as well in the expansion of other major highways and road infrastructure.

The expansion of the military’s economic role had significant implications for relations between the state and big business, for it led to a reconfiguration of patronage networks that had existed under Mubarak. Since 2013, the state has mainly contracted military-affiliated companies, effectively keeping large private enterprises away from many public procurement contracts.

Competition for state-owned land has intensified as the military and its companies have entered the real-estate sector, primarily through the project to establish a new administrative capital to the east of Cairo. In 2016, a presidential decree allocated 15,400 acres to the Armed Forces Land Project Organization, the military agency in charge of managing land owned by the armed forces, for the future development of the new capital. The decree also gave the military the right to establish for-profit enterprises in partnership with private Egyptian or foreign companies.

As public contracts and state-owned land for investment are progressively being diverted to military agencies and companies, increasing their market shares, this will likely have a mostly unintended—albeit potentially beneficial—impact on large enterprises. It will wean these companies off their old relationships of dependence on the state that were so prevalent after Egypt initiated its transformation toward a market-oriented economy in the mid-1970s.

However, the reconfiguration of patronage networks has not completely sidelined large enterprises in public procurement contracts. Specialized enterprises in particular have remained indispensable for the military-backed regime to carry out its megaprojects. This has resulted in some of these projects being given to companies such as Elsewedy Electric and ORASCOM Construction.
Industries (OCI). Elsewedy is the largest producer of electrical cables in Egypt and the Middle East, with revenues in 2015 estimated at EGP19 billion ($1.1 billion). OCI, in turn, with annual revenues of EGP48 billion in 2014 ($2.7 billion),69 was contracted to construct the Ministry of Interior’s building in the new administrative capital, at a cost of EGP1 billion ($53.1 million).70 The company has also been contracted to dig six tunnels beneath the Suez Canal. It is interesting that the tensions between the regime and the Sawiris family have not affected the long-standing cooperation between the state and OCI in implementing public-works projects.

Overall, in the years following the military takeover of July 2013, the new regime has been adamant about not allowing big business to play a direct political role in Egypt, or even to exert influence over economic policymaking. Given the high concentration of power in the hands of the executive and the lack of formal or informal representation of big business interests in the regime, not to mention the allocation of more public contracts to military-owned companies, tensions between big business and the state have remained high. This lack of mutual trust has hampered influential businessmen’s responsiveness to government initiatives, creating doubts about the nature of the interaction between large enterprises and the state down the road.

Conclusion: The Future of Big Business in Egypt

Since Egypt’s 2011 uprising, relations between large enterprises and the state have been undergoing profound transformations, possibly with far-reaching consequences for Egypt’s future political economy. The current economic crisis, coupled with the reconstitution of political authority after the uprising, is recasting relations between large private enterprises and the state at a critical juncture for the country.

Three main features have characterized this interaction. First, businessmen who were influential under the Mubarak regime have seen a reduction in their political role and their ability to influence and implement policies. Second, large private enterprises have been progressively excluded from rent seeking and patronage networks, in favor of newcomers close to the military-backed regime. And third, despite their setbacks, large enterprises retain considerable economic weight and remain critical for the health of the Egyptian economy.

These enterprises have been particularly essential in driving economic growth and expanding the export sector and tourism, which attracts much-needed foreign exchange. They have also made it possible to lure foreign direct investment and develop high-technology

Large Egyptian enterprises have become more aware of the risks of engaging too closely with political power and exerting visible authority over policy.
and capital-intensive sectors, creating jobs. In a country, such as Egypt, with a large population, this ability has vital repercussions for social stability. All this makes it imperative that the government create the proper conditions for large private enterprises to function well and thrive regardless of their direct political influence.

At the same time, large Egyptian enterprises have become more aware of the high risks of engaging too closely with political power and exerting visible authority over policy to advance particularistic interests. The mingling of private and public during Mubarak’s last decade in power was a key factor in the backlash against many influential businessmen and their prosecution after the president’s removal. In the coming years, this awareness may lead big business to limit the focus of its policy activism and influence to corporate institutions—whether business associations or chambers of commerce and industry—instead of aiming to occupy executive or parliamentary posts.

Although patronage networks are being reconfigured toward new beneficiaries, this does not mean that large enterprises that benefited under Mubarak will necessarily be replaced by newer ones. Thanks to their large size and extensive global connections, these enterprises have proved resilient, despite their exclusion from state rent havens after 2011. That is why a new layer of politically connected enterprises may appear alongside their predecessors, and the two may coexist for a time. However, the emergence of new business networks that have good relations with the current regime and are armed with access to rent and power may be a recipe for rising tension with the large Mubarak-era enterprises. This may push those enterprises to adopt an agenda emphasizing transparency, a level playing field, and less intervention by the state in the economy. Yet it is too early to say for certain whether this will take place.

Whatever happens, the paradox inherent in the present situation—where Mubarak-era big businessmen are seen as vital to Egypt’s economic revival but are also constrained when it comes to influencing the country’s politics—may become increasingly untenable. Large enterprises will become less reliant on political connections to secure profits, market shares, and rent; these enterprises’ growing transnationalization will allow them to be shielded from upheavals at home; and influential businessmen will begin exploiting their enterprises’ impact on economic revival. As all of these developments take place, the role of large enterprises will likely expand further.

However, the way they manage their ties with the state will require an understanding of the pitfalls of past interactions. It will also invite a broader understanding of how the private sector—large enterprises in particular—can benefit collectively from its contribution to the Egyptian economy, away from the cronyism of the past. A more balanced relationship between enterprises and the state would benefit both, inducing them to develop institutional avenues of mutual cooperation. The Egyptian economy can only gain as a consequence.
Notes

1. According to the Central Agency for Public Mobilization and Statistics, the number of people below the poverty level in Egypt (referring to those who earn less than $2 a day) has risen from 21.8 percent in 2008–2009 to 27.8 percent in 2015, which is the highest share since 2000. See Medhat Wehbe, “Al-ahsaa: 27% min sukkan Masr la yastati’oun al-wafa’ fi hitiyajaathum al-assassiyya, wa nisbet al-fuqr hiya al-a’la munthu a’m 2000 …” [Statistics: 27% of Egypt’s inhabitants are unable to satisfy their basic needs and the poverty level is the highest since 2000], Al-Yom Al-Sabe’, July 26, 2016, http://www.youm7.com/story/2016/7/26/لا_صر_من_سكان_مصر_لا_ يستطيعون_الوفاء_باحتياجاتهم_الأساسية/3286182/.


10. For details on Qalaa Holdings, see the company’s official website, http://www.qalaaholdings.com/industries/energy.


16. Hanieh, Lineages of Revolts, 63 and 92.


21. Ibid., 22.


26. “Al-Maghribi yanfi al-tala’ob fi ijraat takhsis 113 fadan li sharikatoh wa qarar al-

27. Mohamed El-Alem, “Ba’d qarar al-naib al-aam biltahafoz ala amwal rajul al-a’mal Mahmoud Al-Gammal wa akherin, taageel aoula galasat nazar al-qarar lil ghad” [Following the decision of the public prosecutor to freeze the funds of businessman Mahmoud Al-Gammal and others, the first session is adjourned before the decision tomorrow], Al-Youm Al-Sabe’, November 10, 2015, http://www.youm7.com/story/2015/11/10/2663342/.


39. Author interview with a source affiliated with EBDA on condition of anonymity, Cairo, Egypt, March 4, 2014.


42. Author interview with a source affiliated with EBDA on condition of anonymity, Cairo, Egypt, March 4, 2014.


48. Author interview with a source affiliated with the dissolved National Democratic Party on condition of anonymity, Cairo, Egypt, May 14, 2014.


50. Khaled Hosni, “Al-Shater ya’tazem tasees ustul lil tayaran fi misr” [Al-Shater intends


65. Ahmad Farhoud, Asma Lotfi, Khaled al-Raes, and Moha Allam, “Nanshor tafaseel
iftitah 32 mashroua jadidan nafazhatha al-haya al-handassiya lil quwat al-musalaha bimadinet baddr” [We publish details on the inauguration of 32 new projects implemented by the engineering agency of the armed forces in Badr City], Moheet, May 12, 2016, http://www.moheet.com/2016/05/12/2424552/-23-افتتاح-
ننشر-تفاصيل-مشروعا-جديدا-نفذته.html#.WGtmkndh2CQ.


67. Mahmoud Waque', “Bel amr al-mubasher al-quwwat al-mussalaha tusaytir `ala tanfeez al-mashrou'at al-a'ma” [By direct order, the armed forces take over the implementation of public projects], Shabakat Yanair, March 9, 2016.


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TOO BIG TO FAIL
Egypt’s Large Enterprises After the 2011 Uprising

Amr Adly