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EGYPT'S REGIME FACES AN AUTHORITARIAN CATCH-22

Amr Adly

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Amr Adly is a nonresident scholar at the Carnegie Middle East Center, where his research centers on political economy, development studies, and economic sociology of the Middle East, with a focus on Egypt. He previously taught political economy at the American University in Cairo and at Stanford University, was an economic researcher at the Ministry of International Cooperation in Egypt, and director of the Social and Economic Justice Unit at the Egyptian Initiative for Personal Rights. He is the author of *State Reform and Development in the Middle East: Turkey and Egypt in the Post-Liberalization Era* (Routledge, 2012).

Summary

The regime of Egyptian President Abdel Fattah el-Sisi is stuck between a rock and a hard place. The country's current economic crisis deprives the regime of the financial and economic resources needed to sustain a solid social base among public sector employees, and hence hinders the consolidation of authoritarian rule. But at the same time, the regime's reliance on this group gives it little latitude to pursue economic reform. The regime may survive, but at the high price of continued repression and an inability to alleviate worsening socioeconomic conditions.

A Self-Defeating Alliance for the Sisi Regime

- Past Egyptian authoritarian regimes consolidated power through rules governing interaction in state bodies and between the state and the society. They sustained themselves by depending less on repression and more on efforts to establish institutions of control through which the interests of key constituencies could be represented.
- Despite relative stabilization of the country following the military takeover in 2013, Egypt's macroeconomic situation has improved little.
- To secure its power, the Sisi regime has relied on an alliance between the military, the security forces, and public sector employees that formed in opposition to the January 2011 uprising against Hosni Mubarak, as well as repressive tactics.
- Egypt's economic and fiscal challenges deny the regime the resources needed to maintain support among public sector employees. To avoid alienating the public sector, the Sisi regime will not pursue reform that would make resources available. This catch-22 will continue to hinder its consolidation efforts.

Egypt's Economic Challenges

- Egypt's economic crisis is structural and has deep sociopolitical roots. Overcoming this crisis, therefore, requires structural solutions.
- Egypt's economy is highly dependent on external factors—above all the health of the regional and global economic orders—that face great uncertainty in 2016.

- Policy options to increase revenues and ameliorate the economy are limited. The regime has shown an inability to undertake the necessary measures to address its fiscal problems or relaunch economic growth.
- The regime could take one of two paths. It could maintain the current situation, which would lead to social and economic decay, or it could reform the state bureaucracy in a way that would endanger its base of support. Either way, the regime would face obstacles to consolidating its power.
- Given the dearth of economic alternatives, the regime can work on creating a more open political climate, allowing greater freedom of expression. This may defuse mounting disenchantment with Egypt's socioeconomic conditions and help build a consensus around austerity measures, which will be unpopular.

Introduction

Egypt's current economic crisis will have a significant impact on the military-backed regime of President Abdel Fattah el-Sisi in the coming years, and it puts the regime in a catch-22. The country's economic and fiscal challenges deny its leadership the resources needed to maintain its base of support among public sector employees, but at the same time, the regime is reluctant to introduce reforms to address these constraints because they risk alienating that same key constituency. Attracting the domestic and foreign private investment needed to relaunch economic growth would require the regime to shrink the state bureaucracy and narrow the scope of its intervention, and to restructure its functions to limit corruption and extortion, reduce the costs of doing business, and improve the competence of market regulators.

However, such measures would threaten the broad base of public employees as well as certain influential bodies and networks in the state apparatus. Downsizing the public sector would be opposed by those who might lose jobs, especially in times of high unemployment and sluggish growth—which averaged 2.1 percent between 2011 and 2014.[1] In addition, abolishing or simplifying regulations and procedures to facilitate doing business would deprive regulatory bodies of the resources from which they traditionally have benefited. Officials have also often abused the regulation of some economic sectors to generate rent through bribery and extortion, to protect public sector monopolies, to limit competition from the private sector, and to legally collect fees for otherwise unnecessary procedures.

Without a broad constituency that identifies its own interests with government policies, the Egyptian regime may survive, but at the price of continued repression and deteriorating economic conditions.

The regime's increasing lack of financial and economic resources will deprive it of the ability to sustain the solid social base of support needed to consolidate its authoritarian rule as past regimes have done. Without a broad constituency that identifies its own interests with government policies, the regime may survive, but at the price of continued repression and deteriorating economic conditions.

Authoritarianism Reimposed

Before the 2011 revolution that overthrew Hosni Mubarak, Egypt had consolidated authoritarian rule, which enabled ruling regimes to maintain sociopolitical stability for decades. Authoritarian consolidation entails putting in place recognized and predictable rules of control to govern the interaction between different groups in the state apparatus, as well as between the state and society. It derives from the institutionalization of state-controlled channels of interest aggregation, representation, and intermediation between state and society, especially groups whose support the regime seeks. Before the 2011 revolution, this was achieved through corporatist state bodies that monopolized interest representation on behalf of labor and business—for instance the Egyptian Trade Union Federation and the Federation of Egyptian Industries—as well as through the ruling National Democratic Party (NDP), which regulated patronage distribution and mediated with local communities and social groups.

Authoritarian consolidation allows a regime to sustain itself by depending less on frequent resort to repression of dissent and political opposition. In that way, the regime is less vulnerable to social and political instability in the form of public protests, mass demonstrations, strikes, and even coups, which raise the risk of abrupt changes in the structure of state power or the composition of the political leadership.

Authoritarian consolidation does not appear to be under way or possible in Egypt today. The Sisi regime has not created and preserved a broad and solid social constituency that identifies its own interests with the policies adopted by the regime. The regime has so far relied on a sociopolitical alliance made up of the military and security forces and groups of public sector employees that was formed in opposition to the January 2011 uprising against Mubarak, to secure its own legitimacy and maintain social stability.

Authoritarian consolidation does not appear to be under way or possible in Egypt today.

In addition, following the military takeover in July 2013, the military and security forces engaged in significant repression to neutralize major opposition groups—namely the Muslim Brotherhood and its Islamist allies, together with activist groups such as the April 6 Youth Movement. By 2015, they had reclaimed much of the public sphere lost to civil society and the political opposition after the 2011 uprising. Tighter security controls were imposed on university campuses, and the authorities curtailed the activities of civil society groups and nongovernmental organizations, as well as their funding. All forms of public protest were outlawed, leading to a reduction in demonstrations and labor strikes in particular.[2]

The government also expanded its formal and informal control over privately owned media, compelling outlets to voice a pro-regime line and to engage in self-censorship. Similar restrictions were imposed on social media. The authorities arrested several activists because of opinions expressed on their Twitter or Facebook accounts. Some pro-regime parliamentarians have even called for a law to regulate social media and to place it under some form of official surveillance.[3]

The military's latitude to engage in such actions resulted from Egypt's polarization in 2012 and 2013, when Mohamed Morsi was president. This period was characterized by heightened tensions resulting from the inability of civilian elites, Islamist and secular, to reach a consensus on the foundations of a postrevolutionary order and the relationship between state and religion. The discord was exacerbated by the passage of a controversial constitution in 2012, backed by the then president. The ensuing instability led to the buildup in opposition to Morsi, and his removal from power by the military.

Other developments in 2013 and 2014 gave the military the leeway to expand its control over Egyptian society. Civil unrest and terrorist activities in the Sinai Peninsula and elsewhere in Egypt raised fears that the country was slipping into chaos. At a time when other states in the region were collapsing—particularly Iraq, Libya, Syria, and Yemen—the regime was able to exploit these anxieties to crack down on its opponents.

However, these factors did not persist and could not contribute to the consolidation of authoritarian rule. That is especially true now that the danger posed by the Muslim Brotherhood and militant groups with which it is allegedly affiliated in the Nile delta and Cairo has been curbed. Moreover, terrorist attacks in Sinai have shown little risk of expanding into the Nile valley and the delta, suggesting their probable containment.

Yet the regime's resort to suppression of dissent has remained as frequent as it was in 2013.[4] Indeed, the scope of police repression has expanded, taking its toll on the regime's image and domestic legitimacy, even straining relations with the lawyers', physicians', and journalists' unions that supported it when it took power. The crackdown has also drawn criticism from Western countries close to Egypt,[5] as well as from international human rights organizations.[6]

Meanwhile, the regime has failed to put in place institutionalized channels for mediation and interest representation of the social groups whose support it seeks to maintain. No ruling political party was created like those in place when Gamal Abdel Nasser, Anwar Sadat, and Hosni Mubarak were president. The parliament elected in late 2015 is fragmented, with an amorphous pro-regime bloc that seems very unreliable when it comes to supporting the government's economic policies. These factors suggest that authoritarian consolidation is not forthcoming.

Egypt's Economic Crisis

Egypt's military-led regime has based its attempts at consolidating authoritarianism on winning over public sector workers. This has renewed former president Gamal Abdel Nasser's original bargain, which formed the basis for authoritarian order after the military takeover/revolution in July 1952. The bargain held that the state would provide economic entitlements in return for the population ceding many of its political rights. It paved the way for socioeconomic reforms, including land redistribution to middle peasants; the Egyptianization, and later the nationalization, of industries and services; and the expansion of the public sector after the adoption of the first five-year plan in 1960.[7] Nasser's reforms created a fairly large class of individuals dependent on the state, as well as a middle class that enjoyed free university education with graduates who found employment in the bureaucracy and state-owned enterprises.

Decades of fiscal crises and the failure of successive waves of liberalization and privatization to create a vibrant market-based economy under Sadat (1970–1981) and Mubarak (1981–2011) eroded the state's ability to fulfill its side of the Nasserite bargain by pursuing state-led development. They also prevented Egyptian regimes from nurturing a social stratum with a vested interest in a liberal market economy—with the exception of a few big businessmen and business families that emerged during Mubarak's last decade of rule. The presence of this class of crony capitalists helped erode Mubarak's legitimacy in a way that precipitated, at least partly, the January 2011 uprising, especially when the privatization of state-owned enterprises intensified between 2004 and 2011.

The current revival of the alliance between the military and the state bureaucracy, which weakened under Mubarak, requires economic and financial resources for the state to redistribute to public sector employees to cement its base of support. However, because Egypt's declining economic situation does not permit this indefinitely, the regime has had to consider introducing austerity measures, which would further restrict the benefits enjoyed by the public sector.

Despite the relative stabilization that followed the military takeover, Egypt's macroeconomic indicators have improved little. There have been no strong signs of a rebound or a return to the growth rates that prevailed prior to 2011. Unemployment hovered around 12.8 percent of the labor force in the third quarter of 2015, according to official sources, which is likely a conservative estimate.[8] Investment, domestic or foreign, has not yet recovered to the levels of 2010. Egypt is facing a widening external financing gap (the difference between foreign currency revenues entering the economy and the amount of foreign currency, mainly U.S. dollars, needed to pay for imports), estimated at $20 billion by the International Monetary Fund for the period 2014–2016.[9]

The political turmoil since 2011 has also led to low growth rates, shrinking foreign reserves, high levels of unemployment, and diminishing rates of investment, measured by the ratio of gross fixed capital formation to gross domestic product (GDP).[10] All this comes on top of an ever-widening budget deficit and alarmingly large public debt—mainly internal, but also external—that reached over 101 percent of GDP in 2015, according to the Central Bank of Egypt.[11] These indicators suggest that the economy is in serious danger of a deeper recession, which would generate higher levels of unemployment.

Even though these problems came to the fore after the January 25, 2011, uprising, they were hardly new. Rising deficits and debt and foreign currency volatility have been chronic structural problems since the late 1990s. The political turmoil that followed Mubarak's removal only made addressing them more urgent.

Low growth rates since 2011 have led to a contraction in tax revenue at a time when the government has needed to expand social spending. Moreover, prospects for an economic recovery have been hindered by a worsening shortage of foreign currency. Fees from the Suez Canal stagnated in the wake of the Chinese economic slowdown—with trade between China, Europe, and the United States constituting a major portion of maritime traffic through the canal. Tourism revenues have contracted as a result of the downing of a Russian airliner over the Sinai Peninsula by terrorists in October 2015 and the EgyptAir crash in May 2016. And export earnings have declined because of lower oil prices (crude oil constitutes 40 percent of total exports) and the economic recession in the European Union, Egypt's largest trading partner.[12]

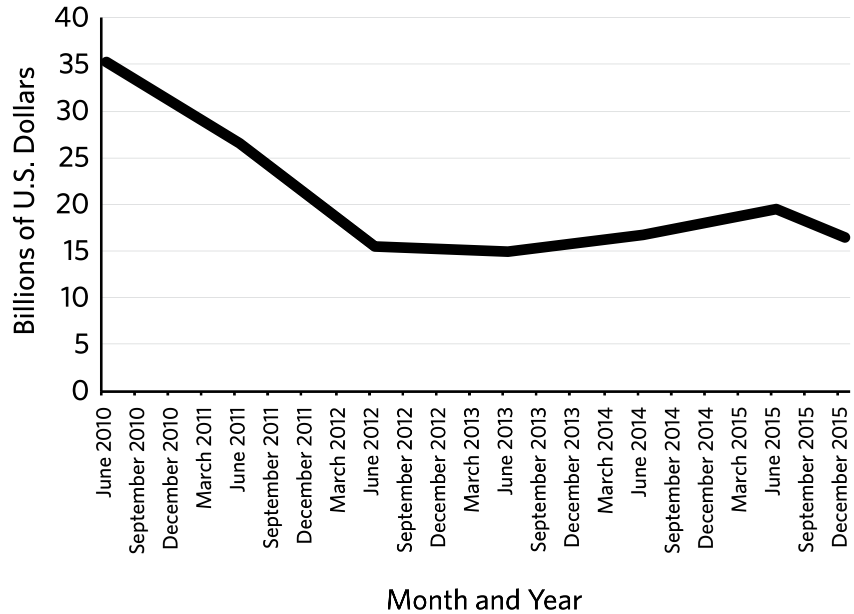
The current revival of the alliance between the military and the state bureaucracy requires economic and financial resources for the state to redistribute to public sector employees to cement its base of support.

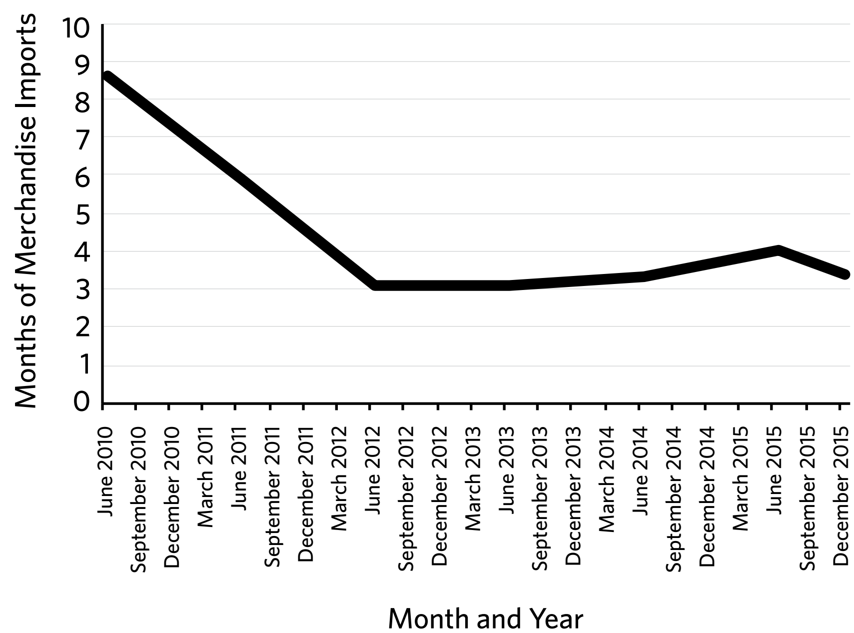
Together, these trends have driven a decline in Egypt's net foreign currency reserves from $35 billion in June 2010 to some $16 billion in December 2015,[13] which is barely sufficient to cover three months of imports (see figure 1). The central bank has used the reserves to finance the import of fuel and foods and to support the value of the Egyptian pound.

In 2013–2014, massive capital inflows from the Gulf Cooperation Council (GCC) countries, namely Saudi Arabia and the United Arab Emirates, injected around $25 billion into Egyptian state coffers—as cash, in-kind aid, and cheap credit. This helped absorb the political backlash of worsening economic conditions.[14] According to the Central Bank of Egypt, the share of foreign grants to total government revenues jumped from 3.3 percent in 2011 to a staggering 21 percent in 2013–2014, the year after the military takeover. The share fell back to 5.5 percent in 2014–2015.[15]

It is noteworthy, however, that the capital inflows from GCC countries during this period were not sufficient to offset the decline in foreign reserves for long, and were only enough to help keep the state afloat for two years, if one looks at the trends for the years 2013 through 2015. With declining international oil prices and increasing deficits in most GCC countries, the outside assistance soon proved unsustainable. This explains the decline in the percentage of foreign grants to total government revenues in 2014–2015, and the almost complete termination of budget support to Egypt in 2015.[16] What aid continues to flow from the Gulf is now provided mainly in the form of investments, long-term loans, and in-kind aid, mainly oil.[17]

Figure 1: Egypt's Net International Reserves (2010–2015)





Source: Central Bank of Egypt, "Gross and Net International Reserves With the CBE," in *Monthly Statistical Bulletin* no. 226 (January 2016): 61, http://www.cbe.org.eg/MonthlyStatisticaclBulletin-DL/Bulletin_2016_1_Jan.2016[1].pdf.

A Financially Unsustainable Alliance

The regime's economic policies since 2013 have been driven primarily by a preoccupation with consolidating itself by directing enough resources toward the coercive institutions of the state while at the same time securing the support, even if passive, of public sector employees, to better neutralize them.

The first component of this strategy led the government to raise the salaries, benefits, and pensions awarded to the police, army officers, and judges, despite fiscal constraints in 2013 and afterwards. The same motivation is behind the increase in the economic role of the military and its subsidiaries, the creation of market niches for them, as well as the expansion of investment and pension funds and companies owned by the Ministry of Interior. One notable example is President Abdel Fattah el-Sisi's decision to issue a decree (no. 86 of 2015[18]) in July allowing the Interior and Defense Ministries to establish for-profit companies specializing in the provision of private security services.

The second component of the strategy—deriving from the old Nasserite alliance between the military and middle and upper bureaucrats—is the neutralization of the broad base of public sector employees, estimated at one-third of the total workforce, in a way that spares the regime future social antagonism. In order to attain this objective, the regime has maintained huge wage and subsidy bills that, together with the servicing of the public debt, have absorbed 75 percent of total government expenditures, according to the Ministry of Finance.[19]

There are an estimated 6 million public sector employees in Egypt,[20] distributed among central and local government bodies, public authorities, and state-owned enterprises. As of 2012, the state employed 39.6 percent of wage earners, compared to 54.4 percent who worked for the private sector in a formal or informal capacity.[21] But despite the greater share of private sector wage earners in the total labor force, they are not politically influential because of the largely informal nature of private sector employment in Egypt.

Workers hired on an informal basis usually work seasonally or irregularly, with no formal contracts, social security, or private health and retirement schemes. Moreover, most of the informal workforce is unskilled—active in agriculture and fishing, construction, and urban menial services, as street vendors, peddlers, and housemaids. According to a study by the Central Agency for Public Mobilization and Statistics conducted in 2014, private sector workers employed informally represent 46.3 percent of total workers in Egypt, versus 26 percent who are employed formally. Indeed, around 91 percent of those working on a temporary basis and 78.8 percent of those who work seasonally come from the informal private sector.[22] This means that the majority of legal workers, with contracts and who are eligible for social security, are employed by the public sector. In 2006, the year of Egypt's last census capturing such information, more than 70 percent of those engaged in formal employment were estimated to be working in the public sector.[23]

By virtue of their concentration, public sector employees are better positioned than their private sector counterparts to engage in collective action and to counter moves by the government to undermine their relatively privileged position. This helps explain why public sector employees have been overrepresented in labor protests in Egypt since 2004 compared to private sector employees—participating in 68 percent of protests in the 2007–2008 period, for example.[24] Between 2004 and the 2011 uprising, the privatization of state-owned enterprises was one of the factors behind such protests. Although privatization came to a complete halt with Mubarak's removal, public sector employees continued demonstrating for other reasons, usually related to labor conditions, salaries, and benefits. According to the Egyptian Center for Economic and Social Rights, employees of state-owned enterprises staged 86 percent of total labor protests in the 2013–2014 period.[25]

Such figures help explain why the military-led regime was so keen to neutralize this constituency after it took power. Public sector wages continued to constitute one-quarter of total state expenditures after 2011. Most attempts to bring down the wage bill in 2014 and 2015 did not materialize, according to Ministry of Finance data. Wages constituted an average of 27 percent of total expenditures during the period between 2000 and 2014.[26]

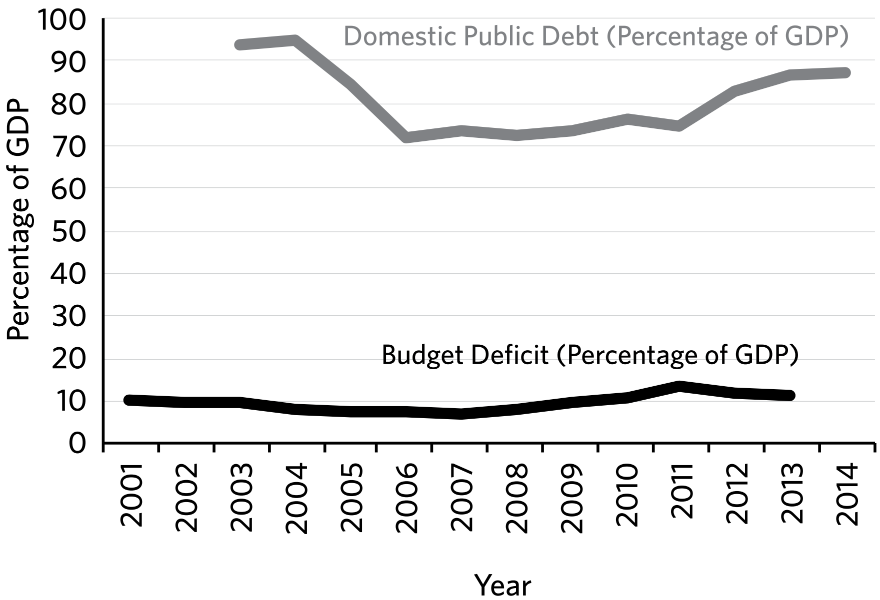
The problem with the regime's approach is that there are not enough revenues to keep state-dependent workers and their families satisfied without substantial, uninterrupted capital inflows from abroad. Egypt's budget deficit and public debt have been increasing since 2011, in a manner that is, quite simply, unsustainable (see figure 2). A budget deficit that hovers around 13 percent means greater inflation, higher interest rates, and the crowding-out of productive sectors from access to bank credit, leading to further economic deterioration.

Egypt's budget deficit dropped to less than 10 percent of GDP between 2006 and 2008. However, it began increasing again in the aftermath of the 2008 global financial crisis, before the situation rapidly deteriorated after the 2011 uprising—with the deficit increasing from 9.8 percent of GDP in 2010 to 13.7 percent in 2012.

The increase in the budget deficit was due to plummeting revenues resulting from the economic slowdown and the political disorder that followed the protests against the Mubarak regime. This was combined with mounting popular demands for higher social expenditures by raising public sector wages and subsidies, absorbing more people into the state bureaucracy, and other measures. In 2013 and 2014, the deficit was estimated at 12.2 percent and 11.5 percent of GDP, respectively—still above the 10 percent target set by the government. However, these figures are conservative when the capital inflows from GCC countries are taken into account. According to Egypt's finance minister at the time, the deficit in 2014 without the inclusion of such inflows was a staggering 14 percent of GDP.[27]

The increase in the deficit translated into a significant rise in the domestic debt, which jumped from 73.6 percent of GDP in 2010 to 87.1 percent in

Figure 2: Egypt's Budget Deficit and Domestic Debt as a Percentage of GDP (2001–2014)



Sources: For the 2001–2011 data, see the Central Bank of Egypt, "Statistics: Time Series," accessed on June 28, 2016, http://www.cbe.org.eg/en/EconomicResearch/Statistics/Pages/TimeSeries.aspx; and for the 2011–2014 data, see the Central Bank of Egypt, "Main Macroeconomic Indicators," in *Monthly Statistical Bulletin* no. 226 (January 2016): 17, accessed June 28, 2016, http://www.cbe.org.eg/MonthlyStatisticaclBulletinDL/Bulletin_2016_1_Jan.2016[1].pdf.

2014—the highest in ten years. The state was the largest borrower from banks, crowding out the private sector, which is now struggling with higher interest rates to obtain bank credit. In an already difficult economic climate, the private sector's diminished capacity to gain credit further reduces the chances of an economic recovery.[28]

Egypt's ongoing fiscal crisis and its proposed remedies are likely to further deprive the regime of the resources necessary to sustain its public sector base of support. The Egyptian pound lost around 60 percent of its value between February 2011 and April 2016, despite massive Saudi, Qatari, and Emirati aid between 2012 and 2015.[29]

In order to bolster its fiscal position, the government plans to introduce a value-added tax. But such a step will only increase the burden on consumers, public sector workers included, which risks provoking a backlash. Similarly, the government has tried, but failed, to adopt or enforce minimal redistributive policies, such as directly taxing real estate or introducing a more progressive income tax. The real estate tax has not come into effect. Although the tax code was amended in 2014 to cover more housing and land units, the Ministry of Finance postponed collecting the tax. The delay is probably due to the limited administrative capacity of the collecting agencies and, possibly, their reluctance to move against the interests of large property holders. A capital gains tax, levied in 2014, was also suspended for two years. Moreover, income tax rates were reduced from 25 percent to 22.5 percent.[30] Meanwhile, a temporary high-income tax imposed in 2013, levying an extra 5 percent on high-income brackets for three years, was rescinded before coming into effect.[31]

Given the government's inability to levy taxes and raise revenues, it is no surprise that it has resorted to negotiating loans with the International Monetary Fund and the World Bank to reduce the external financial gap and foreign currency shortage.

Raising taxes is not the only problem the Egyptian state has faced in trying to ameliorate its public finances. It has also had trouble bringing spending under control, with the government unable to introduce effective austerity measures to reduce the budget deficit. Some partial austerity measures were adopted in 2014, following Sisi's election as president, but they were far from radical and were discontinued in 2015. In July 2014, for instance, Sisi issued a decree raising domestic oil prices and partially slashing the fuel subsidy. The original Ministry of Finance plan, on which the decree was based, aimed to phase out all fuel subsidies within five years. Yet, the second phase of subsidy cuts was halted in the 2015–2016 fiscal year because the government preferred to keep things as they were—taking advantage of low global oil prices while avoiding the potentially unpopular measure of raising energy prices. As has often been the case, the implementation of economic policy was governed by short-term security concerns, focused on averting popular discontent.

Raising taxes is not the only problem the Egyptian state has faced in trying to ameliorate its public finances. It has also had trouble bringing spending under control.

A Much-Needed, Yet Alienated, Private Sector

The Egyptian regime is left with the option of trying to create the conditions for an economic recovery through meaningful and institutionalized engagement between the state and the private sector—mainly big business groups. Large conglomerates, usually family owned, came to dominate Egypt's key economic sectors—including construction, real estate, manufacturing, tourism, telecommunications, and agriculture—by the late 1990s, and continue to do so today. However, under the present regime, the private sector has been marginalized, even antagonized, in the awarding of public contracts and in economic decisionmaking, even as the economic role of the military has expanded. There is a high price to pay for such behavior, with the private sector accounting for around 75 percent of Egypt's non-hydrocarbon GDP, according to the 2012–2013 annual report of the Central Bank of Egypt.[32]

The creation of an environment friendly to the private sector requires the introduction of major reforms in the state bureaucracy—affecting its structure, scope of intervention, and size. Yet such changes could undermine, or at least endanger, the very coalition the military-backed regime has sought to keep in place.

The difficulty of adopting reform was evident in 2015, when parliament rejected a civil service law passed earlier by the government.[33] The law would have cut government spending by downsizing the public sector and introducing measures to encourage public employees to retire. It also aimed to show the regime's commitment to creating a more investment-friendly environment in Egypt by simplifying procedures and decreasing the number of government agencies from which investors needed to get licenses and permits. However, the law was met with resistance from day one. Public sector employees went on strike and demanded its cancellation or amendment. The government reacted by calling on them to wait for parliament to decide, which it did months later when the law was rescinded. In a situation that was likely to lead to a clash with its own supporters in the state bureaucracy, the regime again backed down.

Beyond the difficulty of adopting policies that can encourage more private investment, Egypt's military-backed regime does not possess formal or informal channels of representation and coordination with big business groups—a sharp contrast with the situation under Hosni Mubarak. During Mubarak's last decade in power, the ruling NDP included many key businessmen who became members of the party's parliamentary bloc.[34] The cabinet of Ahmed Nazif (2004–2010), the last under Mubarak, also included businessmen in key posts—or at least business-friendly officials who could establish ties with big business.

There are many indications that big businessmen and business families are being alienated from Sisi's regime, and that their ties with the state are characterized by mutual distrust.[35] One example is the failure of the president to persuade Egypt's business community to donate money to the Long Live Egypt Fund—a public donation fund established upon Sisi's initiative in June 2014 to collect 100 billion Egyptian pounds ($11.2 billion) to finance public works and infrastructure projects. Only 4 billion Egyptian pounds ($449 million) was collected, including 1 billion ($112 million) from the military, according to Sisi himself.[36]

The creation of an environment friendly to the private sector requires the introduction of major reforms that could undermine the coalition the military-backed regime has sought to keep in place.

Relations between the business sector and the state have been further exacerbated by the state's legal action against a number of big businessmen. A tax evasion case against the Sawiris family, Egypt's wealthiest business family,[37] ended with the family being obliged to pay 7 billion Egyptian pounds ($786 million) to the authorities. Salah Diab, a business tycoon who owns Egypt's largest private daily newspaper, *al-Masry al-Youm*, was released after spending three years in jail on corruption charges. Ahmed Ezz, the Mubarak-era steel magnate and a leading figure in the former NDP, was twice excluded from parliamentary elections in 2015 by judicial verdict, which was interpreted as a regime veto against his running. Even if these actions were not motivated by a single purpose, the very fact that big businessmen were targeted indicated that they had lost the protection they once enjoyed under Mubarak.

Similarly, the political participation of big businessmen in parliament has not been smooth. The Free Egyptians, a party funded by Naguib Sawiris that won 65 seats in parliament (around 10 percent), was excluded from the pro-Sisi In Support of Egypt parliamentary bloc.[38] In a sign of where the regime stood, pro-regime media accused the party of being a representative of the special interests of the Sawiris family and the embodiment of collusion between big business and political power.[39]

The tension between Sawiris and the state appears to have extended into the economic sphere. In March 2016, the Central Bank of Egypt vetoed Sawiris's attempt to acquire and merge two investment banks. The businessman accused "security agencies" of blocking the deal.[40] The central bank denied this, saying that Sawiris's company did not meet the technical qualifications for the merger. Whatever the truth, the incident was a further demonstration of how relations between the state and the business community have deteriorated.

Military-Led Development: Mission Impossible

In its pursuit of economic development, the regime finds itself blocked on many sides. Its poor relations with the private sector have made it less likely to adopt policies that can help relaunch economic growth. The regime's unwillingness to estrange its base of support in the public sector has made it unable to introduce reform, which is all too necessary given Egypt's fiscal constraints. The regime's response to these challenges has been to try driving growth through an unprecedented expansion of the economic role of military-owned companies. This serves not only to keep the military happy but also to retain control over public works projects deemed sensitive for the regime's legitimacy and popularity.

The regime's response to its economic development challenges has been to try driving growth through an unprecedented expansion of the economic role of military-owned companies.

Since 2013, and especially in the aftermath of the July takeover, the military has been expanding its economic activity into infrastructure and public utility projects, in direct partnership with Arab and foreign companies. The aim has not been solely to increase profits or win a larger share of the market, as some have argued.[41] Rather, it has been closely tied to supporting the resurgent authoritarian state by pushing for public investment and implementing projects in vital sectors such as energy, infrastructure, housing, and transportation.[42] For example, the government has financed a two-year emergency plan with General Electric, and a ten-year plan with the German giant Siemens, to expand electricity production—a key benchmark for the regime's credibility among Egyptians after they suffered frequent power outages and fuel shortages between 2011 and 2014.[43]

At the same time, making money is never far from the military's business considerations. For instance, there are many signs of its interest in using its control over state-owned land, mainly in the desert, to establish for-profit companies to exploit these areas, either solely or in partnership with private domestic as well as foreign companies.[44]

In February, for example, Sisi issued presidential decree no. 57 of 2016,[45] which allocated 16,000 *feddans* (roughly 8,000 hectares) to the Armed Forces Land Project Organization (AFLPO, or Guihaz Mashrouat Aradi al-Quat al-Mussalaha). These massive plots of land are intended to be the site of Egypt's new administrative capital, a plan launched by the president during the Sharm el-Sheikh conference in March 2015. The decree established a joint-stock company owned and run by the AFLPO and another economic arm of the military, the National Service Projects Organization. The company will be in charge of implementing the project in partnership with Arab and non-Arab foreign companies that have yet to be designated.

The expansion of companies with ties to the military threatens to crowd out large Egyptian private enterprises, or subject them to unfair competition. Already, there are signs that large businesses have been sidelined in the allocation of government procurement contracts.[46]

At the same time, certain private companies or investors have seen another benefit in collaborating with military-owned companies and their subsidiaries. Private companies regard such partnerships as a way of circumventing red tape in the civilian administration, because military-owned companies are subject to military regulations. The downside of this, however, is that it adds to the legal uncertainties for private companies, since their military-owned partners are not answerable to civilian commercial or investment laws.[47] Such a situation risks reinforcing the cronyism and rent seeking that has had such a negative effect on Egypt's economy. An expansion of military-owned companies into the real estate and land development sectors, coupled with the military's wide latitude to take political decisions, may lead to the abuse of power. It also creates potential conflicts of interest, because the military's oversight of public land development should be centered on enhancing the public good, while its role as a market actor is directed primarily at maximizing profits for military-owned companies.

Even though economic activity by the military may generate some growth, it is unlikely to constitute a sustainable strategy for economic recovery given that Egypt's private sector is too big to ignore, or to do without. The channeling of future private investment into the economy through ill-defined partnerships with the military may also prove risky, as it will be highly dependent on the military's political role, which is subject to uncertainty.

Another shortcoming of military-led development is the potential for the misallocation of scarce public resources to gain popularity or appease key constituencies. For example, there are already fears that the New Suez Canal project, inaugurated in August 2015, was driven to a great extent by political imperatives (to bolster the regime's status) rather than economic feasibility. Public borrowing through the issuance of bonds financed the digging of the second canal, and more than 64 billion Egyptian pounds ($7.2 billion) was collected in one week. Egypt's treasury is the guarantor of these bonds, paying annual interest of 12 percent on a quarterly basis, plus the principal due in 2019.[48] In 2014, the Egyptian government projected a 251 percent increase in revenue from the Suez Canal by 2023.[49] However, in the months since the opening of the second canal, there has been an actual decline in revenues due to the global economic slowdown.[50] This has cast doubt on the reliability of the government's projections, which were used to assess the feasibility of the New Suez Canal project in the first place.

Between a Rock and a Hard Place

Egypt's economic crisis is structural and has deep sociopolitical roots. Overcoming this crisis, therefore, requires structural solutions. Political turmoil in Egypt and throughout the Middle East, plunging oil prices, and slow growth rates worldwide have all exacerbated existing problems. In the likely event that Egypt's economic challenges worsen, the country may no longer remain as stable as it has been in the past two years.

Faced with a continuing crisis, the military-backed regime would likely respond in one of two ways. One approach is to keep things as they are, for the longest time possible. In a misguided attempt to retain the support of public sector workers, the regime might maintain spending at current levels, despite growing deficits, an expanding public debt, and a shortage in foreign currency reserves. This would increase the need for external borrowing in order to finance current expenditures on wages, subsidies, and basic imports of fuel and foods, leading to a further deterioration in the country's balance of payments position. Such actions would also translate into higher inflation and, therefore, the erosion of the standard of living of the urban poor and middle classes. This, in turn, might ignite social protest that the regime has been determined to restrict, or preempt, since 2013. More instability and the probable resort to even more extensive repression would, thus, preclude all attempts at authoritarian consolidation.

A second scenario could be for the Egyptian regime to introduce the necessary reforms to spur economic growth by attracting private domestic and foreign investment. This would require firm action against vested interests in the state bureaucracy in a way that would be likely to endanger the regime's own base of support. Massive restructuring and downsizing of the bureaucracy would lead to a resurgence of labor strikes and other forms of public protest.

The regime would have two options for dealing with such protests: it could increase repressive measures, which would push it into conflict with its own base of support, or it could negotiate with public sector workers and other representative institutions. However, this would imply a greater relaxation of restrictions on collective action and on the independent representation of interests in the bureaucracy, which would undo many of the harsh measures taken by the regime to suppress public demonstrations and almost all forms of dissent since 2013. More flexibility would also represent a crack in the current authoritarian order and its shift toward a softer form of authoritarianism, like that which existed under Hosni Mubarak during his last decade of rule. The danger, as perceived by the regime, however, is that this might only invite more public protests and independent collective action by other social groups.

The regime's current approach of banning all kinds of opposition while failing to create channels of interest representation and mediation can only undermine steps toward authoritarian consolidation. In this context, repression would simply provoke more instability, while negotiations would merely underline the vulnerabilities of the regime. At a time when Egypt's economic problems make it exceptionally difficult for the regime to sustain support in society, it is increasingly apparent that its ability to consolidate its power and return to the situation that prevailed under Mubarak, when authoritarianism was more institutionalized and flexible, is not an option without the regime making concessions to society.

The regime's current approach of banning all kinds of opposition while failing to create channels of interest representation and mediation can only undermine steps toward authoritarian consolidation.

Conclusion

Egypt's economy is highly dependent on external factors—above all the health of the regional and global economic orders—that face great uncertainty today. The country's policy options to ameliorate its economic situation and spur growth are limited. The regime has shown an inability to raise revenues through taxes, let alone introduce austerity measures. However, even if it were able to cut spending, this would come at the expense of economic recovery, in a way that would likely hamper economic growth and job creation. The only real hope is that the global economy will recover in the foreseeable future, which is outside Egypt's capacity to affect.

Given the dearth of economic alternatives, the regime can work on creating a more open political climate. Egypt is in need of a vibrant public sphere, one allowing wider latitude for freedom of expression—even along the lines of what existed under Mubarak. This may defuse, at least partly, and only momentarily, mounting disenchantment with Egypt's socioeconomic conditions. But it would also help create a healthier public environment for consensus building around future austerity measures, which are bound to be unpopular.

Yet Egypt's regime is caught in a dilemma requiring a more durable solution. The economic crisis the country faces, and the reforms needed to emerge from this crisis, together ensure that authoritarian consolidation will not take place any time soon. Sooner or later, the regime will need to address the sensitive question of how to reconstitute Egypt's political order and improve economic performance.

The reimposition of authoritarian rule since 2013 has centered political authority largely in the president's office. However, even authoritarian systems need to be based on rules around which public life and interest aggregation and mediation can be organized. Institutionalizing such rules will, by necessity, become a priority for the Sisi regime, even if this imposes significant changes in its configuration and behavior, as well as its political and economic foundations.

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