

BTI 2008 | Egypt Country Report

Status Index	1-10	4.88	# 81 of 125	
Democracy	1-10	4.40	# 79 of 125	➔
Market Economy	1-10	5.36	# 66 of 125	↗
Management Index	1-10	4.16	# 92 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

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Key Indicators

Population	mn.	74.0	HDI	0.70	GDP p.c.	\$	3,858
Pop. growth ¹	% p.a.	1.9	HDI rank of 177	111	Gini Index		34.4
Life expectancy	years	71	UN Education Index	0.73	Poverty ³	%	43.9
Urban population	%	42.8	Gender equality ²	0.26	Aid per capita	\$	13.4

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, the Egyptian political leadership initiated two waves of constitutional amendments. However, these largely cosmetic changes did nothing but quicken the erosion of public and opposition support for the president and the government's reform plans. The 2005 elections saw the strengthening of the Islamist opposition, which has increasingly become the primary challenger to the ruling elite partially due to its greater visibility after an increase in media freedom over the last two years. But both the opposition and the general public still lack the instruments to push their demands through to achieve reform. The regime employs a large repertoire of instruments to maintain its stability. While the Egyptian economy has continued to improve from 2005 to 2007, stagnation still characterizes Egypt's political development. Polarization between the ruling party and the opposition parties, especially the illegal Muslim Brotherhood, define national politics. The democratization strategy adopted by the ruling elite in early 2005, which paved the way for the first competitive presidential elections in Egyptian history, led to minimal change on the fringes of the political arena and was more or less abandoned in late 2005 after the rise of the Muslim Brotherhood in the parliamentary elections. Partly in response to outside pressure, the ruling party agreed to begin instituting a series of internal reforms. Young technocrats were brought into government and efforts have been made to modernize the National Democratic Party (NDP) structures. However, the policies and programs of the reformist group have proven both fragile and contrary to the demands of major conservative political forces. Public support for the party's reform orientation is withering away as demands for amendments to the constitution, a limitation of presidential terms and more freedoms went unfulfilled. The government remains to a large extent disconnected from its critics. It has taken rigid measures to contain the Muslim Brothers as well as other opposition movements and individual voices. Violation of human rights and the rule of law continue to weigh heavily upon

Egypt's prospects for democratization. The government's resistance to substantive political reform and the inability of opposition parties and civil society actors to develop alternative visions and mobilize broader support has resulted in the stagnation of Egyptian politics. There has been a second wave of constitutional amendments since 2005 initiated by President Hosni Mubarak in December 2006 and adopted by the NDP parliament majority in March 2007 that constitute a setback for political reform. In contrast, economic developments show improvement. The Egyptian government has introduced a number of new laws to improve competition, fight monopolies, and improve the private property and welfare systems. Although the regime appears more interested than ever before in improving the economic framework to accommodate a market economy, some restraints prevail. There are two key considerations keeping these restraints in place: fears that the reforms' neoliberal focus might galvanize social unrest; and the regime's desire to maintain control over key industries. While the political leadership posits privatization as the ultimate key to economic growth, it does not address problems such as unemployment, poverty, illiteracy, disparities in the distribution of wealth and the weak middle classes.

History and Characteristics of Transformation

Egypt first embarked on the road to democratization and a market economy three decades ago, with then-President Anwar al-Sadat's "infitah," or open-door policy. Thirty years down the road, however, the transformation process has yet to yield substantial results. The nature of Egypt's system of government remains authoritarian. Opposition movements, if not co-opted and controlled by the authorities, remain weak. Most of the 21 parties in the so-called legal opposition camp are mere pawns in the hands of the regime, which uses them to keep up a pluralist facade. Even those who present candidates for election do not challenge the regime but rather do it a service by granting these elections a pluralist appearance and splitting the opposition vote. Altogether, only four of them have a certain standing of their own: the Wafd Party, the leftist Tagammu Party, the nationalist Nasserist Party and the Ghad Party. While the Ghad gained prominence recently, in the aftermath of 9/11 and especially during the "Cairo Spring," the other three uphold their traditions and heritage. Yet, in Egypt tradition and heritage mean also being part of the system. Since 1952, leaders of these opposition parties have played their part in a superficial game of political pluralism. Not infrequently, they are also personally intertwined with leading regime figures, even through intermarriage. These bonds beget pay-offs, favors and bribes and prevent concerted opposition to the regime. Younger political aspirants, particularly females, find infiltrating this elitist, male-dominated entity still crested by aging "historic" leaders. However, there are signs of change in the political landscape. The elections to the People's Assembly ('Majlis al-Sha'b) in late 2005 enhanced opposition

representation, which since then has been among the highest in Egyptian history (27.3%). However, the secular opposition won a paltry twelve seats combined, whereas the Muslim Brotherhood, which is denied formal party status, won 88 representatives in the first chamber (an increase of 71 seats from the 2000 elections). Therefore, the ruling National Democratic Party (NDP) won only a pyrrhic victory. While it once again successfully prevented real party pluralism, its continued oppressive policies realigned the political landscape into a virtual two-party system: itself and the Muslim Brotherhood.

The regime exploits regional instability to justify its grip on power. The impact of 9/11 is ambivalent. The regime was pressured by the United States to take political reform measures; however, it has made the global war on terrorism into the umbrella under which it can push through its own repressive measures. Furthermore, since the 2003 Iraq war, the regime has threatened that any uncontrolled changes in Egypt could lead to disorder similar to that in postwar Iraq. Western pressure on President Mubarak to democratize has yielded few real results. By continuing its substantive financial support to the regime however, which strengthens the stability of the regime and fails to stimulate reform, the international community de facto condones its autocratic nature. Facing an increasingly fragile regional situation (Lebanon war in 2006; deterioration of the Israeli-Palestinian conflict since Hamas came to power in early 2006; Iran's nuclear program; civil war in Iraq), stability has become an even more important factor and an impediment to further change.

Egypt's economy shows signs of improvement in consolidating privatization and liberalization. Since the formation of the Nazif cabinet in 2004, the neoliberal reformist group has been strengthened. Economic transformation may be slow, but it is real. The Nazif government has introduced new regulations to better organize market competition, limit monopolies and corruption, and protect property rights. It has taken measures to stabilize the financial market, strengthen the currency and increase exports and reserves as well as foreign investment. However, the government has still not addressed the obstacles in transforming Egypt's economy into a more socially responsible market economy. Egypt suffers from high poverty and illiteracy rates, weak education and health systems, unemployment (especially of young Egyptians), high public sector expenditures, women's repression, and the unequal distribution of wealth.

Transformation Status

I. Democracy

1 | Stateness

Since the explosion of radical Islamist movements in the first half of the 1990s, mainly Al-Jamaa al-Islamiyya and Al-Jihad, the state's monopoly on the use of force is quite effective and covers the entire territory. However, after a seven-year hiatus after the Luxor attacks on tourists in 1997, terrorism returned to Egypt in 2004 with attacks killing 34 tourists in Sinai, and 2005 when two attacks in Cairo, killed three tourists. The Sinai attacks, apparently led by Nasser el-Khamis Melahy, proved the emergence of a hitherto unknown group that according to observers is rooted in the socially problematic Sinai, which since the 1979 peace treaty with Israel has the status of a semi-detached region. This group could provoke further unrest in the future and threatens the security of the state. The military and security apparatus plays a crucial role as a guarantor of regime stability. As long as the military receives sufficient financial and technical support and the military elite continues to benefit from privileges, the regime can rely on its support.

Monopoly on the use of force

The idea of the nation-state, or more precisely the "Pharaonic State" with a strong presidency, is widely accepted, although the perception of the role of the president seems to be undergoing tentative changes. In general, there is fundamental agreement on the legal definition of citizenship in Egypt. Both Muslims (90% of the population) and Christians (9% Copts, 1% other Christians) are citizens of the state and enjoy the same rights according to the constitution. However, the constitution's second article stipulates that the Shari'ah, Islamic law, is the fundamental source of legislation and therefore ultimately contradicts the secular bond of citizenship. Since this article's addition in 1980, secular intellectuals and political parties have been rallying in vain for its abolition, and in a break with the past, the topic is increasingly discussed in the media. Despite formal equality, the dominance of the Muslim population affects the acceptance and political and social integration of Christians. Tensions erupt occasionally between the two religious groups.

State identity

The state functions as a secular order with modern institutions. However, since 1967, the ruling elite has used Islam as a basis of legitimacy and thus integrated, in one form or another, religious dogmas into the legal and political sphere. Egyptian legislation is based on civil laws and Islamic legal principles. Islamic institutions, especially al-Azhar University and the Grand Mufti, who is directly appointed by the president, serve to legitimate political power. The majority of Egyptians are deeply religious, a fact that the regime has to take into account in its policies. The regime competes with moderate Islamist movements, such as the Muslim Brotherhood, which draw increasing popular support.

No interference
of religious
dogmas

The state's fundamental infrastructure extends to the entire territory of the country. Especially the civil judiciary enjoys a high level of independence. But the operational capacities of other parts of the state infrastructure contain notable deficiencies. One example is the tax system, which despite recent reforms is still prone to corruption. The practice of tax assessment is widespread, due to limited control capacities. The extreme centralization of the Egyptian state renders its administrative, institutional and political networks rigid, inefficient and unable to develop internal incentives to modernize. Other major negative symptoms are the absence of mechanisms of democratic control over state institutions and their elitist character, both of which ultimately lead to a loss of responsiveness to citizens' needs. A high volume of employment in the state sector is still a source of stability for the regime, but over the years, this patronage policy has led to over-employment and aggravated the ineffective functioning of the public sector as well as the pension burden.

Basic
administration

2 | Political Participation

Egypt held its first competitive presidential elections on 7 September 2005, following constitutional amendments ratified in a public referendum on 25 May 2005. In order to steal the opposition's thunder and respond to external pressure, Mubarak had initiated amendments constituting the most substantive reform of his presidency. Until then, the presidential candidate was nominated by a two-thirds majority of the People's Assembly and confirmed in a national referendum. Facing the hegemony of the National Democratic Party in parliament, the nomination of President Mubarak had never been challenged, and he has been the only candidate to run in successive presidential elections since 1981. There is no limitation on the president's term in office.

Free and fair
elections

In the September 2005 elections, a total of 15 candidates ran for direct election by the voters. As a 2005 Policy Brief of the Al Ahram Center for Political and Strategic Studies put it: "The president, like other candidates, had to go to the political marketplace to ask for votes, explain his program, and respond to evaluations of his policies. The awe of the Pharaoh has gone, and the humanity of

politics has become possible.” However, retrospectively, this expression of what became known as “Cairo Spring” seems rather optimistic. The amendments include provisions that limit their real impact: for example, only parties that are represented with more than 5% of seats for more than 5 years in parliament have the right to nominate a candidate (none of the legal opposition parties has more than 5% of seats). Independent candidates need 300 signatures (amongst them 65 of the People’s Assembly and 25 of the Shura Council, both dominated by the ruling NDP, as well as significant support of representatives of the 26 governorates). Thus, these amendments have changed nothing. President Mubarak won his fifth term with a majority close to 88% (93% in the last uncompetitive vote in 1999). The Ghad Party’s Ayman Nour came in second with 600,000 votes.

Members of parliament are elected on a regular basis by direct, secret and universal ballot elections. The constitution does not mention the principle of “free” elections. Furthermore, the president appoints ten members of the People’s Assembly. Thus, much of the apparent pluralism in parliamentary elections held in Egypt is cosmetic. The rights of parliament are restricted. According to the constitution, legislative rights are shared between parliament, the government and the president. In political practice, most of the laws are proposed by the president and passed by parliament without debate, even though there are some recent examples of criticism of suggested laws or constitutional amendments since the strengthening of the opposition in 2005. Parliament can be dissolved by a referendum called by the president.

Since 1980, Egypt has had a bicameral parliament. In both the People’s Assembly (454 seats, 444 elected by popular vote, 10 appointed by the president) and the Consultative Council (264 seats, 176 elected by popular vote, 88 appointed by the president) the ruling NDP currently has a two-thirds majority. Yet, this majority needs further explanation. After all, out of the 400 candidates fielded by the NDP in the 2005 parliamentary elections, only slightly over 100 won. The NDP could only secure the majority within the People’s Assembly by reintegrating large numbers of defecting candidates who ran and won as independents, incidentally a good example for the mechanisms of patronage. The participation rate in elections is low (24% of registered voters in 2000; 26.2% in 2005). The dominance of the NDP is further strengthened by the fact that President Mubarak serves simultaneously as head of the state and of the NDP. Parliamentary and local elections are regularly manipulated in favor of the ruling party. During the 2005, campaign 1,000 people were arrested and accused of different forms of violence. However, these were also the first elections that saw a total judicial supervision and were monitored by civil society organizations. Although article five of the constitution states that Egypt is a multiparty system, the Political Parties Affairs Committee, which manages the entry of new political parties, has

been very restrictive despite a revision of the 1977 Political Parties Law in 2005. The law prohibits the legalization of parties based on religious or ethnic identities. Therefore, Islamist movements (most importantly the Muslim Brotherhood), which have a large constituency among the Egyptian public (although their potential is contentious amongst analysts), are not permitted to function as political parties. Since the initiation of political pluralism in 1976 until the 2005 parliamentary elections, the overall composition of the legislative branch and the dominance of the NDP had not been challenged. The 2005 elections slightly changed that picture: the NDP lost some of its hegemony to the rise of the formally unaccepted Muslim Brotherhood, which increased its representation in the People's Assembly from 17 seats in 2000 to 88 seats in 2005. At the same time, the legal secular-liberal opposition (the Wafd, Tagammu', the Nasserist Party, and Al-Ghad) as well as minority representation (women and Copts) weakened. The majority of Coptic members of parliament are appointed by the president rather than elected. In the 2005 elections, Coptic representation decreased from seven seats (three elected and four appointed) to six seats (one elected and five appointed). The 2005 elections established a de facto two-"party"-system of the NPD and the Muslim Brotherhood.

This development puts the ruling elite under pressure: it must consider how to deal with the Brotherhood, which until now has not only been denied legal status, but whose members have been constantly harassed. In the current debate about reform, the Muslim Brotherhood increasingly functions as an opposition to the ruling party in parliament as well as in media and the public, and analysts discuss the pros and cons of granting the Brothers a legal status at last. The regime's immediate reaction to the rise of the Brotherhood was to halt its reform policy. Observers regarded late 2005 and early 2006 as the most rigid wave of repression of opposition and violation of the rule of law since 1981. In February 2006, President Mubarak ordered a two-year-postponement of local elections that were scheduled for April 2006. The step was primarily seen as an effort to preserve the ruling NDP's monopoly on power at a time when its grip began to falter, as well as to block the Muslim Brotherhood from promoting an independent candidate for the presidential elections in 2011. On 1 May 2006, the government published its decision to prolong the opposition's main object of complaint, the much-hated emergency laws, for another two years. Even though there is more opposition in the People's Assembly than ever before, it has taken little effect so far, as the rights of parliament are limited. In other words, the president appoints the government. He appoints and dismisses the head of the Council of Ministers and his deputies as well as the cabinet ministers and their deputies. As the executive dominates the whole political system, the NDP still has very strong resources to maintain its power. Egypt remains an authoritarian regime favoring intermingling of state and party structures.

Egyptian rulers do not attain office through free elections. However, they have the effective power to govern the state. The decades of NDP hegemony have led to a clientèle system between the ruling elite, state employees, and other interest groups. The regime has always attempted to serve special-interest groups and has constructed shifting allegiances depending upon the nature of the economic and social policies being implemented. The most influential sectors are the military establishment (which has built up a strong economic backbone over the last two decades), rural elites and powerful entrepreneurs strengthened by the neo-liberal orientation of the Egyptian government in recent years. All in all, the Egyptian regime – structurally in power since 1952 – has plenty of experience, and despite a number of social problems the Egyptian state has maintained rather surprising stability over the years.

Effective power
to govern

The state of emergency, which was extended again on 1 May 2006 for two more years, limits the rights of political and civic groups to associate and assemble freely. Political parties, even when legal, are highly restricted in their activities. The emergency law prohibits parties from organizing public meetings without prior permission from the Ministry of Interior. Security forces have unsupervised powers to arrest and detain individuals, a practice systematically applied in the case of Islamist groups whose members are usually arrested prior to parliamentary and local elections. According to the Egyptian Organization for Human Rights, security forces frequently use arms to disperse gatherings and demonstrations and randomly arrest protesters who are subsequently beaten, insulted and humiliated. Violations are a regular feature of the investigations following arrest. The legal framework for NGOs in Egypt is governed by law number 84 promulgated in 2002, which requires civic associations to register with the Ministry of Social Affairs. The law gives the ministry free reign by granting it the right to disband by administrative decree any association deemed to perform illegal activity. Furthermore, it prohibits NGOs from taking part in political or professional associations' activities as well as from receiving (foreign) funding, which they need badly, without governmental approval.

Association /
assembly rights

Beyond the legal framework, both political parties and NGOs face various internal dilemmas. Opposition parties are artificial structures unable to function as modern political parties and suffer from societal marginalization, a lack of a vision that transcends criticizing the ruling elite and a lack of political leadership. NGOs are urban-centered and, apart from traditional religious networks, socially marginalized. Surprisingly at first glance, the regime is encouraging the number of NGOs to mushroom since their sheer number keeps them weak. In other words, President Mubarak prefers 20,000 small, non-political, under-financed and under-staffed NGOs to 20 big ones with clear political agendas, committed members and transparent funding. Thus, the very few strong NGOs such as the prominent Egyptian Organisation of Human Rights (EOHR) are under strict

surveillance and/or outweighed by parallel state-sponsored institutions, for instance the National Council of Human Rights (NCHR), founded with much fanfare in 2004 under the chairmanship of former U.N. Secretary General Boutros Boutros Ghali. In general, the third sector is still controlled and ineffective. However, opposition parties, NGOs and intellectual groups have managed to retain their ability to criticize authorities and have thus managed to keep political dialogue flowing. These two factors distinguish Egypt from other more authoritarian states in the Middle East. The most famous example that has attracted the foreign media since late 2004 (giving it a certain degree of protection) is the “Egyptian Movement for Change,” better known by its slogan “Kefaya (Enough).” Kefaya is an agitational movement that holds demonstrations in central Cairo and elsewhere to announce its opposition to President Mubarak’s rule (and the possible succession of his son Gamal) and the concentration of power in the hands of the president.

The constitution guarantees all citizens freedom of opinion and expression in all forms. It also guarantees freedoms of the press, publication and mass media. However, the state of emergency restricts basic personal liberties and imposes censorship on the mass media. In 2004, the government abolished press laws that previously allowed fines and imprisonment for criticism of the president and other members of the executive branch, as well as for defamation and insults. This has led to a greater degree of freedom of expression.

Freedom of
expression

The state of media and journalism in Egypt is currently ambivalent. On the one hand, there has been an explosion of satellite television (especially Al Jazeera), that reaches even the poor in abandoned areas of the country, and of privately owned newspapers. There is free access to the Internet and the blogger scene is growing (although in 2005, only 5% of the population used the Internet). The year 2005 saw what has been called “an almost utter collapse of taboos.” Especially the presidency has become a target of profound criticism. However, discussions about Islamic Shari’ah being the source of law have also become prominent. State media is still dominant, but in crisis: The print sector has been facing a huge loss of readership in recent years. State newspapers are badly managed, over-staffed, corrupt and suffer from a sharp decline in standards. Most of them have become more “governmental (and if not, their editors must increasingly answer to the state authorities).” Even though the number of privately owned newspapers is growing, most of them are extremely vulnerable. They are protected neither by law nor by custom, and are usually non-institutionalized, under intense pressure to make money and facing a volatile readership. With regard to content, they often focus on the sensational rather than on quality journalism. What is still to a large extent missing in Egyptian media is objective information that informs the public rather than mobilizes it. However, the (urban) Egyptian population now has better access to a broader range of

media and also has become more demanding. There is a new generation of young journalists that are products of a different time and take their job ethics seriously. Despite these positive signs, there are still numerous cases of violations of the freedom of expression. For example, in early 2007, a young blogger was sentenced to four years in prison in Alexandria for insulting Al Azhar's religious authority and the presidency.

3 | Rule of Law

The Egyptian Constitution and the country's political practice concentrate power in the hands of the President and the executive branch. Although the three branches are institutionally differentiated, both parliament and the judiciary must tolerate continuous interventions by the executive. The President is empowered to claim a state of emergency and, even more problematic, to transfer proceedings from civilian to military courts, which violates the independence of the judiciary as well as the civil liberties of Egyptian citizens. Two problematic institutions provide further illustration of the failure of a pluralist party system in Egypt: the Party Committee, which has the right to legalize political parties and supervise their activities once they are established, as well as the party tribunal, which was recently established to give those parties whose application for a formal status failed the right of appeal. Both are dependent on the executive power of the NDP ("quasi-governmental institutions," as one expert qualifies them), thus making their operation an infringement of the principles of separation of power and judicial independence. Despite the Constitutional Court's powerful role, there is no real system of checks and balances.

Separation of powers

The Egyptian Constitution formally guarantees the independence of the judiciary, which it has de facto managed to maintain in practice. The role of the judiciary has been steadily expanding. During the period of review, its role in the 2005 elections (exclusive judicial supervision of the polling stations, and of the process of counting votes) must be underlined. However, the relatively high degree of independence of the civilian judiciary has induced the regime to create a parallel network of special courts. Next to constitutional and an administrative jurisdiction, there is an independent judiciary under the Minister of Justice (the so-called "Majlis al-Dawla," or State Council), and military and/or special tribunals ("value tribunal" and "state security courts"). These special courts in the hands of the executive severely violate citizen's rights, as they give the regime free rein to make arbitrary judgments.

Independent judiciary

Egypt is ranked 70th out of 163 countries in Transparency International's Corruption Perceptions Index 2006. Egyptian laws provide various penalties for officeholders who abuse their positions. The Administrative Control Authority, a governmental institution, investigates corruption cases in public offices and

Prosecution of office abuse

reports to the Supreme Court, which is then in charge of prosecution. An anti-corruption campaign since 2003 had resulted in convictions of some prominent figures, including a former minister and a former governor. However, the campaigns are often politically motivated and opposition figures are prosecuted in order to undermine the challenge they pose to the ruling elite.

The constitution guarantees freedom of worship and religion, freedom of opinion and expression and the right to peaceful and unarmed private assembly within the limits of the law. In practice however, civil liberties are subject to systematic violations by the regime, which has been operating under a state of emergency for almost three decades since former President Sadat's assassination in 1981. The creation of the NCHR whose official mandate is to monitor the performance of the Egyptian government in human rights and to report parliament's second chamber, the Consultative Council was – in addition to previously mentioned reasons – a reaction to U.S. pressure.

Civil rights

4 | Stability of Democratic Institutions

The existence of modern democratic institutions and structures is guaranteed by the Egyptian Constitution. However, their functioning, including that of the administrative system and the system of justice, does not follow democratic principles. On the one hand, they are subject to intervention and manipulation by the executive branch, and on the other hand, over-bureaucratization renders them largely incapable of performing effectively. During the last period of review, the NDP government started different campaigns to enhance the administrative system's performance and to increase its transparency. Positive results have yet to materialize.

Performance of democratic institutions

The failure of state institutions to meet standards of neutrality and democracy has damaged Egyptian citizens' acceptance of them. Public perception is dominated by accusations of corruption as well as submission to the interests of different elites. The systematic intervention of the executive branch in the workings of parliament and the judiciary has led to the emergence of a dominant public opinion that sees both members of parliament and judges as marionettes of the regime. With the exception of the Muslim Brotherhood, the picture does not differ much as far as opposition parties and civic organizations are concerned. Only the Brotherhood is not perceived by the majority of the people as being corrupt, manipulated, or in short, as being part of the system in the manner of the legally recognized opposition parties. Corruption scandals in civil society are becoming a well-documented and well-known reality. Recently even the presidency, which often does not act democratically as an institution but has nevertheless been respected for traditional reasons, is a target of criticism.

Commitment to democratic institutions

5 | Political and Social Integration

Under the monarchy between the end of the First World War and 1952, Egypt went through a period of substantial political pluralism. Today, both party and political pluralism are very limited and function to preserve the status quo rather than to trigger reform impulses. Society is denied a genuinely representative government. Until the Political Parties Law was changed in 2005, parties had to meet harsh criteria to be legalized; even after the reform of the law, political parties remain controlled. The state (i.e. representatives of the overly dominant NDP) supervises and controls the party system through the Political Parties Committee and other administrative and legal mechanisms. The NDP, headed by President Mubarak, dominates the political sphere with its stronghold over the legislative and the executive branches. According to a report by the German Konrad Adenauer Foundation, 21 parties were accredited in July 2005 (though some of them were temporarily denied any form of activity by the authorities), seven of them being admitted since the year 2000. Only one of them, the liberal Al-Ghad, legalized in 2004, is represented in parliament. Other major legal opposition parties represented in parliament are the liberal Wafd Party, the leftist Tagammu'/National Progressive Unionist Party, and the Arab Nasserist Party. The strongest opposition group in parliament is the Muslim Brotherhood representatives. Beyond the structural dominance of the NDP and the prohibitions of the emergency law that restrict their ability to play active roles, opposition parties are structurally weak, its leadership is aging and uninspired and they lack the large constituencies necessary to mobilize popular support. In addition to the four major opposition parties and the Muslim Brothers, a few other small parties do exist, but their political relevance is insignificant.

Party system

Apart from various organizations that serve the interests of Egyptian business people, professional associations and the state-controlled Union of Egyptian Workers, there are approximately 20,000 registered civic associations. However, the diversified topography of vital social interests remains underrepresented relative to Egypt's population and in comparison with other countries of the Middle East. The majority of Egyptian citizens – the poor, the weak, the marginalized and rural people – are excluded from the system of interest groups. The exclusion of large segments of the Egyptian population has resulted in social unrest, radical currents or political apathy. In the 1950s and 1960s, the state used to support and advocate for these groups; however, since the initiation of the Open Door Policy in 1976, the state has been retreating from different social spheres and no viable substitutes have taken its place. Interest representation is the monopoly of powerful political and economic elites. Civil society associations lobbying for the weak are marginal. From 2003 to 2005, and mainly under the patronage of First Lady Susan Mubarak, middle-class professional women have

Interest groups

gained influence as a powerful interest group and have successfully lobbied for legislative reforms in relation to personal status law.

The state tries to maintain a monopoly on conducting polls, and credible data is therefore rare. Hence, the exact levels of acceptance and/or changes in attitude are difficult to monitor. Democratic norms and procedures are contested in the Egyptian public sphere because of their systematic instrumentalization by the ruling elite. Concepts such as democracy, good governance and pluralism automatically evoke distrust among the majority of Egyptian citizens. Especially if claims for democracy and good governance come from the west, Egyptians' reaction will most likely be cold. This stems from Egypt's colonial heritage, and most recently from the U.S. democratization campaign after 9/11. Religious-based perceptions of society and polity, which ultimately stand for an alternative normative order, appeal to a large portion of the population. The vast majority of the population is disconnected from the political system of the ruling elite. Calls for a fundamental amendment to the Egyptian Constitution are increasing and supported by large segments of society. This pressure led the president to initialize two successive constitutional amendment processes, one of them concluded in 2005, the second one scheduled in March 2007 (beyond the period of review).

Consent to
democratic
norms

With the state is retreating from the social sphere as part of the process of liberalization, civil society has a crucial role to play in implementing what is called a "new social contract" in the 2005 Egypt Human Development Report. However, socialism has weakened social self-organization. Amongst the citizens, self-organization encounters distrust. Furthermore, the regime faces a dilemma: as it is withdrawing from the social sphere it sees the need for alternatives, but at the same time wants to keep civil society development under control. Through an efficient conglomerate of legal and political measures, the state controls the scope and content of civic organizations' activities. Traditional and modern Islamist networks such as charity organizations and cultural centers – many of them affiliated with the Muslim Brotherhood – are better rooted in the social fabric and therefore potentially more able to amass social capital than other non-governmental actors. However, due to the authoritarian control of the Egyptian regime Islamists do not yet have legal and institutional tools to help make this potential a reality. The above mentioned 2005 Development Report aims at a fundamental change in attitudes at this point, trying to define "new roles for all stakeholders, actors and players" in Egypt's development process. The 2007 Egypt Human Development Report currently in drafting will focus more specifically on the role of civil society.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Overpopulation, poverty and illiteracy are the most important socioeconomic barriers impeding Egypt's transformation. Egypt is the most populous Arab country with an estimated population of 80 million in 2007. According to UNDP figures, the estimated population growth rate from 2004-2015 will be 1.8%. Just under 34% of the population is under the age of 15, 4.7% at the age of 65 and older. The United Nations estimates that 16.7% of Egypt's population lives below the poverty line. Egypt is also one of nine countries with the highest illiteracy rates in the world, with adult illiteracy at 28.6% in 2004. Egypt ranks 44th on the United Nations Human Poverty Index 2006 (HPI). The level of inequality in income and consumption is 34.4% (2001 – no new figures available), according to the Gini Index of the UNDP. There is no data available to rank Egypt in the 2006 UNDP Gender-related Development Index (GDI). Despite recent improvements, women have yet to gain equality with their male counterparts. Religious minorities live on the margins of society.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	87,851	82,924	78,845	89,369
Growth of GDP	%	3.2	3.1	4.2	4.9
Inflation (CPI)	%	2.7	4.5	11.3	4.9
Unemployment	%	10.2	11.0	-	-
Foreign direct investment	% of GDP	0.7	0.3	1.6	6.0
Export growth	%	-7.8	13.8	25.3	22.5
Import growth	%	-6	1.3	17.2	23.8
Current account balance	\$ mn.	622.4	3743.3	3921.7	2102.8
Public debt	\$ mn.	25,874.9	27,265.8	27,352.7	24,892.3
External debt	\$ mn.	30,001.3	31,382.8	30,291.5	34,113.5

		2002	2003	2004	2005
External debt service	% of GNI	2.3	3.3	2.9	2.8
Cash surplus or deficit	% of GDP	-5.7	-	-	-
Tax Revenue	% of GDP	13.7	-	-	-
Government consumption	% of GDP	12.5	12.7	12.8	12.8
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.4	2.2	2.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.8	2.8	2.8	2.8

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Since 2004 the Nazif government has taken 17 key structural reform measures. In spite of the new laws and regulations, the institutional framework of the market economy in Egypt still suffers from structural deficiencies. In the Index of Economic Freedom 2007 by the Heritage Foundation and the Wall Street Journal Egypt scores well in the 7 factors of economic freedom (fiscal freedom, freedom from government, monetary freedom, top income and corporate tax rates, government tax revenue relative to GDP, total government expenditures). However, Egypt's market framework is deficient in a number of areas (business freedom, financial freedom, property rights, anti-corruption, tariff rates and non-tariff barriers). The substantial informal market poses another challenge. Egypt's informal market score according to Transparency International was 3.5 in 2006.

Market-based competition

During the period of review an anti-monopoly law entered into force on May 2005. For the first time, a legal framework has been established to ensure freedom of competition. However, generally speaking, action depends on the influence of the corporate entity and whether it has access to one or more of the inner circles of the ruling elite.

Anti-monopoly policy

The liberalization of foreign trade has continued during the period of review with numerous reforms of the trade regime. After a cut in the average weighted tariff rate from 14.6% to 9.1%, a reduction in the number of tariff bands, and the elimination of import fees and surcharges in September 2004 the average tariff rate was further reduced to 6.9% beginning in 2007. In this period, the

Liberalization of foreign trade

government seems to have been strategically committed to furthering Egypt's integration in the world economy. However, non-tariff barriers (e.g., import restrictions, import bans, burdensome and non-transparent sanitary and phytosanitary measures, custom procedures, customs corruption) reflect the government's tendency to protect parts of its industry, partially motivated by the political influence of local corporate interests and partially out of a pseudo-nationalist understanding of the need to protect the Egyptian industry.

Egypt has initiated a five-year program to modernize its banking sector with the goals of privatization and. The European Union is playing a major role through its Financial and Investment Sector Cooperation program (FISC) running from 2005 to 2008 with an allocation of €15 million for technical assistance. According to the 2006 Index of Economic Freedom, the central bank listed 55 banks operating in 2004. Four 100% state-owned commercial banks (National Bank of Egypt, Bank Misr, Banque du Caire and Bank of Alexandria) dominate banking in Egypt. But this has begun to change. The Bank of Alexandria was put on sale in October 2006. Deutsche Bank and BNP Paribas were amongst the bidders, and Italian Sanpaolo IMI made the race with a bid of \$1.6 billion for an 80% stake. One of the shortcomings addressed only recently is the limited access to credit for the private sector, especially for small- and medium-sized enterprises.

Banking system

8 | Currency and Price Stability

Controlling inflation and pursuing an appropriate foreign exchange policy are recognized as central economic objectives of the Egyptian government. In 2002 and 2003, the inflation rate was less than 4%. Because of the pass-through effect of the large nominal depreciations of 2001 and 2003, inflation temporarily rose (10.3% in 2004, and 11.4% in 2005), but dropped again in late 2005 to below 5% and further to about 5% in 2006. In contrast, the foreign exchange policy is subject to fluctuations. In 2003, the Egyptian pound was floated after almost a decade of being pegged to the dollar. The government since then has been trying to raise confidence in the convertibility of the Egyptian pound through various measures.

Anti-inflation /
forex policy

The current Egyptian government attempts to preserve macroeconomic stability in fiscal and debt policy. But public debt continues to rise. By the end of 2005, it was at 70% of GDP. (The external debt relative to GDP is relatively low). Since 1998 gross domestic debt has been increasing at an annual average of 12%. A culture of macroeconomic stability has prevailed since the 1990s in Egypt. However, the history of permanent state intervention in the functioning of the market economy as well as severe unsolved social crises make government intervention a constant possibility. Moreover, the sustainability of public debt is questionable.

Macrostability

9 | Private Property

In general, property rights and the regulation of the acquisition of property are adequately defined and protected under Egyptian law. However, the legal code is complex and can create delays. In practice and due to the undemocratic character of the political and social order and the high levels of corruption in government agencies and the lower courts, delays and violations of these rights and unjust implementation remain an integral part of reality.

Property rights

Although Egypt embarked on the road of privatizing its economy in 1976, and started a World Bank / IMF-funded Structural Adjustment Program in 1991, the state sector is still substantial. State companies control different strategic sectors such as electricity and water supplies. However, the state has changed its approach to “strategic sectors” since 2005 as part of a revitalized privatization program. Other sectors, such as the iron and steel industry and the textile industry are dominated by a small number of influential local corporate entities. Starting a business takes an average of 19 days (compared to the world average of 48 days). Obtaining a business license and closing a business are still difficult. The national bureaucracy and general regulatory environment pose major impediments to the private sector, which theoretically is seen as the backbone of economic development. The Nazif government has tried since 2004 to boost privatization. Between July 2004 and March 2005 17 non-financial companies were privatized. Analysts see this as a dramatic pickup in the pace of the privatization program. The new Ministry of Investment, headed by one of Egypt’s leading reform advocates, is playing a major role in this process. Positive examples of privatization measures in former state-controlled sectors are telecommunications and tourism. A prominent example is the German airport management company Fraport AG that won the contract to run Cairo International Airport in February 2005.

Private enterprise

10 | Welfare Regime

Since the initiation of economic liberalization and privatization measures, compensatory welfare structures exist in Egypt. Different governmental funds, partially financed by Western donors, attempt to help the high number of marginalized citizens. However, social safety nets do not meet the needs of the population. With the levels of government expenditures in health and education (2.5% and 5% of GDP respectively) the safety nets have literally no chance of compensating the one-third of the population living in poverty nor to keep the pace with population growth and the accompanying hikes in enrollment. As a second pillar of the social safety net in which Islamic movements are playing an increasing role, private health expenditure reached 3.3% of GDP in 2003. During

Social safety nets

the period of review the government, in collaboration with the UNDP, tried to develop a strategic vision of how to combat poverty in the country in its 2005 Egypt Human Development Report. The lead author of the report describes the general strategy as an attempt to “identify engines of growth to match the poorest as a paradigm of development (...) that has never been supported in Egypt before,” as the ruling elite almost exclusively focused on the minority of big deals in the past.

According to the Egyptian Constitution, the state is the guardian of opportunity for all covered by its welfare system. But over the years the regime has favored the interests and demand of some social groups over others. Those who were living under the poverty line remained so, and others (e.g., the large bureaucracy) benefited from state services. While economic growth is accelerating modestly, progress in human development is uneven. According to an International Labor Organization study, young people are particularly vulnerable to poverty. One positive development is women’s increased access to education, especially higher education, and public office. According to a 2006 Freedom House Study on Women’s Rights in the Middle East and North Africa, women’s literacy is expected to improve further. The Christian (mostly Coptic) minority is underrepresented in the public sector.

Equal opportunity

11 | Economic Performance

After a period of stagnation between 2000 and 2003 growth has been accelerating in 2004, with strong foreign earnings being a key driving force, and with the implementation of a series of reforms in the exchange rate system, the trade regime, the public sector, the financial sector, privatization and transparency. In a 2006 assessment, the U.S. Embassy in Cairo forecasts an ongoing strong component of foreign investment as well as a rebound in private investment. Economic recovery is complemented by a growing domestic demand. Real GDP growth has increased from 3.5% (2003-2004) to 5% (2004-2005) and further towards 6% in 2006. Real per capita GDP is significant, but does not translate into increased income for all segments of the population. The economic recovery in the period of review has had no significant impact on employment. The official unemployment rate ranges between 10 and 15%, and the level of youth unemployment is significantly higher. Outside observers estimate the unemployment rate to be much higher, at about 20%. Inflation rates temporarily rose to 10.3% in 2004, and 11.4% in 2005, but in late 2005, they dipped below 5%, only to rise above 5% in 2006. Foreign debt and debt service is relatively low and decreasing. External debt sharply decreased from 38% of GDP in June 2004 to 30% in June 2005. But public debt is continuing to rise. By the end of 2005, it was at 70% of GDP. Since 1998, it has been increasing at an annual average of

Output strength

12%. Following consultations with the IMF, the government agreed to a multi-year framework to reduce the budget deficit. The European Union remains Egypt's main trading partner, accounting for 32.4% of Egypt's imports and 37.2% of its exports. Its leading merchandise export is crude oil and petroleum products, followed by steel and textiles. Figures on trade balance are inconsistent because of problems of source data and definitional discrepancies among governmental offices. Economic reforms are on the way and will most likely continue to be implemented by the government but have yet to result in real economic transformation.

12 | Sustainability

Ecological concerns are relatively new on the public agenda in Egypt. A Ministry of Ecology was created in the 1990s; however, it is considered one of the most marginal positions in the cabinet. Ecological awareness among the population is low. However, perceptions have slowly started to change. The 2005 National Human Development Report, a joint report by UNDP and the Institute of National Planning, that claims to develop a new vision for Egypt, addresses environmental protection as a key issue for future development. The discussion process on the constitutional amendments initiated by the President in late 2006 also covers the topic, and environmental protection was included in the amended Egyptian Constitution (beyond period of review). Whether this will actually have an impact on policy-making remains to be seen. Egypt might follow the examples of other transformation countries, for example, China, with a "development first" approach.

Environmental
policy

The Egyptian education system is extremely defective. The country is facing a significant population growth and a society with a youthful majority. Education infrastructure cannot absorb these young Egyptians that could constitute the productive category of its economy. Despite improvements the adult (> 15) illiteracy rate in Egypt is still at 28.6% (youth illiteracy is lower, at 15.1%). The total unemployment rate was at 9.9% in 2004, but youth unemployment significantly exceeds adult's unemployment rates. Public education institutions for basic and advanced education are characterized by structural difficulties, as well as unequal distribution – services are concentrated in urban centers, leaving rural areas bereft. The ruling elite has identified these problems, but has not effectively addressed them. Public expenditure on education was less than 2% of GDP in 2002 and 2003, but has improved to 5% of GDP in 2004 (near the average education expenditure of 132 countries in 2000 – 2002). Conservatism and to a certain extent trust in the elders rather than the youth dominate the Egyptian mindset. Public expenditure on research and technology between 2000 and 2003 was less than 0.2% of the GDP.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

The high rate of poverty (an average of 43.9% living below \$2 a day from 1990 – 2004) among the Egyptian population and the poor performance of the education system constitute structural constraints on governance. Human as well as natural resources are available, but not exploited effectively yet. Labor productivity, especially of the large public sector, is traditionally low and government spending on wages is significant. However, the network of state institutions and agencies, mainly due to the centralist structure of the Egyptian state, covers almost the entire territory. Egypt has proved to be a remarkably stable country despite social cleavages. However, the stagnation in political reform is an impediment to the country's transformation towards democracy and a social market economy.

Structural
constraints

In terms of its regional history, Egypt belongs to the small number of Middle Eastern countries where traditions of civil society and citizens' engagement in public matters are well rooted. However, the Revolution of 1952 precipitated a transition to authoritarianism. It put an abrupt end to the liberal movements that had developed over the first half of the century and institutionalized the state's control over society to an unprecedented extent. Socialist experiments also had a destructive effect on citizen's self-organization. The top-down initiation of political and economic liberalization under later President Sadat and his successor Mubarak has partially reopened the gate of citizen engagement. As the state withdraws, the potential for civil engagement is growing. The government sees the necessity for alternatives to a state regulatory framework and rhetorically supports the strengthening of private leadership and a stronger role for civil society. However, a more liberal approach to civil society engagement constitutes a threat to the regime. Until now, neither the opposition nor actors outside the political system have the instruments in hand to challenge the ruling elite. However, a public debate that is increasingly nourished by more open media might have an impact on the regime's reluctance.

Civil society
traditions

There are conflicts along religious lines between the Muslim majority and Christian minority. Political Islam has become a source of conflict in the

Conflict intensity

political realm. The Egyptian state, however, has until now managed to contain the situation. Social dividing lines also engender conflict. There is a social polarization between the rich economically and politically dominant minority (20% of the population gets almost 44% of the GDP) and an excluded majority, of which 30% lives in poverty. The situation might deteriorate with the government's neo-liberal approach to market economy that does not sufficiently address the deepening social cleavages. Overpopulation and an exponential increase in building and population densities in the urban areas are equally important problems. There is a significant imbalance between rural and urban areas as rural populations emigrate toward urban centers in search of employment. Despite the hegemony of the NDP ruling elite, the (Islamist) opposition inside parliament was strengthened in the 2005 elections. The 2006/2007 deliberations on the second wave of constitutional amendments and the critique of the opposition on how the ruling party organized the constitutional amendment process was a clear sign of a polarization between the ruling elite and the opposition. Another potential conflict lies in the question of succession. President Mubarak will most likely not run again in the 2011 elections and the question of his succession will therefore dominate the political arena in the years to come. The regime's objective will be to preserve stability in the country. Without any doubt, the opposition and the public want to have their say in who is going to rule Egypt into the post-Mubarak era.

II. Management Performance

14 | Steering Capability

A general consensus has been achieved around the need for reforms. The ruling elite tried to address its chronic lack of a vision for Egypt's future by setting up a long-term strategy for development in the Egypt Human Development Report 2005. It claims to pursue the goals of democratization in the political sphere and the transformation to a market economy in the socioeconomic sphere. Political reform is clearly subordinate to economic reform. Priorities of the 2005/2006 Fiscal Year budget comprises in addition to traditional social objectives building transparency, modernizing the economy, fiscal decentralization, promoting investments, stabilizing prices, increasing employment and improving services while focusing on sectors with a comparative advantage. However, 50% of total expenditures will go toward subsidies, grants and social benefits. (Nearly one-fourth of the budget will go to paying public sector wages). In the political realm,

Prioritization

democratization means nothing more than restricted pluralism and a cosmetic façade of modern political institutions and practices that by no means reflect the popular will. The transition to a market economy is approached in a neoliberal sense, that is, as a continuous retreat of the state, whereas social security nets, which are supposed to compensate for the societal costs of privatization, are extremely underdeveloped. Lastly, the political leadership tends to opt for short-term interests even if they contradict long-term objectives in order to serve interest groups. The ruling elite has often reacted to social unrest and new waves of terrorist attacks on Egyptian territory (note that tourism is Egypt's largest foreign exchange earner) in a backwards manner, for example, by blocking privatization measures or limiting citizen's rights.

During the period of review the government has been effective in initiating substantive reforms in the economic sphere. Since the state infrastructure covers the whole territory, the bureaucracy in principle guarantees area-wide implementation. But administration is defective and delays frequently occur in the implementation process, affecting Egypt's development and its regional and global competitiveness. In addition, the high degree of centralization over the years has become an impediment to development. The main aim of the 2004 Egypt Human Development Report was thus to explore the potential of political, administrative and fiscal decentralization.

Implementation

Generally speaking Egypt has always been a comparatively conservative country and its perception of time is different from other regions in the world. The country works at a slower pace, a cultural fact with an important impact on transformation and change. The political leadership, which is neither democratically elected nor accountable to the legislative branch or the judiciary, still shows little responsiveness to popular needs. As it has strong mechanisms in hand to maintain the stability of the regime, accountability is de facto nonexistent. There is practically no effective means for the citizens to take the president or the government to task for their policy choices. Thus, the ruling elite has no real incentive for policy learning. The West is, to a large extent, part of the problem, as pressure on the Egyptian regime to speed up reforms is low despite continuing substantial aid. The scale of policy innovation is minimal, apart from the reformist group of the ruling NDP and the partial integration of younger technocrats in the current cabinet.

Policy learning

15 | Resource Efficiency

Government administrative personnel is not used effectively. Employment in the state sector is high and performance is low. However, as the state apparatus is one of the pillars of the regime's stability a reduction of state employment and the reform of Egypt's largest interest groups would be risky. Related to this, the

Efficient use of assets

state spends large parts of the budget on wages, grants, and subsidies. Expenditures on Research and Development are remarkably low. Expenditures on the education system have increased, but still do not keep pace with the growing population. The insufficient development of human resources constitutes a core problem in Egypt. Especially women are still marginalized and widely ignored as a serious engine for development and growth. Youth, the majority of the population, do not receive sufficient attention in economic reform measures. Regarding the budgeting process, the Nazif government overhauled the budget accounting methodology, somewhat improving transparency. The domestic debt burden gives cause for concern however. Like the human factor, economic resources are not sufficiently exploited, though new sectors – such as gas resources – have begun to be explored recently.

In general, the Egyptian government tends to be coherent in its policy decisions. The strong position of the president and his formal control over government as well as his personal ties to the reformers in the cabinet through his son Gamal, who is amongst the reform-oriented liberals and who is assembling many of them in the Party Policy Committee over which he presides. Anti-reform groupings inside the party and interest groups of the military, economic, and traditional rural elites have the potential to interfere and the government still reacts to these demands. However, in sum, the government has managed to coordinate its policies and contain conflicting interests. The reality is that the majority of the population is simply excluded and cannot represent its interests.

Policy coordination

Egypt's score on Transparency International's Corruption Perception Index (CPI) has improved from 1.1 in the late 1990s to 3.3 in 2003. The government has initiated various anti-corruption measures; however, they are quite limited, and since 2003, Egypt is stagnating in the Transparency Reports (3.2 in 2004; 3.4 in 2005; 3.3 in 2006). Accountability of public officeholders or of persons with leading positions in strategic economic sectors is not an integral part of daily politics in Egypt. The Egyptian public opinion perceives the government as being at least partially corrupt. Egypt ranks 70 out of 163 countries in the 2006 Transparency International Corruption Perceptions Index. Limited access to information through the media – which is either state-owned or tends to focus on scandal-mongering rather than on presenting facts – also impedes public initiative to hold their officials responsible for their actions.

Anti-corruption policy

16 | Consensus-Building

The Arab Human Development Reports that were initiated in 2002 have an impact on the topics discussed in Egypt. More specifically, the Egypt National Human Development Reports Series launched in 1994 recently started to address the obstacles that must be overcome to improve human security, growth and

Consensus on goals

development in Egypt, and aim at establishing a “strategic framework for human development” as well as “a realistic agenda for action.” Major political forces, including both the government and opposition movements, share the rhetoric of transformation. In the economic realm, there is a broad consensus on the problems to be addressed in order to achieve a market economy. Opinions differ as to the extent and the method of achieving a social market economy. Prime Minister Nazif and his cabinet’s neoliberal approach represent one option and the leftist opposition another. The sphere of political reform presents a different picture. The regime has only made very modest steps despite continuous demands from the opposition and civil society for fundamental constitutional amendments. However, the government has not been willing to tolerate anything more than minor reforms on the fringes of political power, whereas opposition parties and civil society actors go further in their demands, calling for constitutional reform and an end to the restrictive practices of the ruling elite.

As the ruling elite managed to contain the opposition in and outside parliament, the most influential veto actors to political and economic reform are probably to be found within the ruling NDP. The party is not a monolithic player. Since 2004 a neo-liberal and technocratic prime minister, surrounded by a number of like-minded ministers, has innovated the office. Gamal Mubarak, the President’s son, belongs to this younger generation of NDP representatives. In 2002 his father made him the head of the Policy Committee, one of the top postings within the party. Many of the current liberal ministers were members of his Policy Committee. This grouping is competing with what a 2005 Al Ahram Center for Political and Strategic Studies paper calls the “bureaucratic paradigm,” represented by the state and the NDP. The bureaucrats are the largest interest group and political force in the country. Their convictions are deeply rooted in Egyptian history and go back to the Pharaonic period, when the all-powerful Pharaoh was regarded as the guarantor of the fate of the people. The bureaucrats regard themselves as the guardians of the state and thus reject changes in the system, or only accept changes that strengthen the state and make it more capable of leading and guiding. The classical security paradigm of authoritarian regimes is still dominant within the Egyptian ruling elite. In this context, the military represents an important veto power. Other reform-oriented actors in civil society, such as opposition parties and in intellectual circles, are politically irrelevant.

Anti-democratic veto actors

Generally speaking, historically there has been no urgent need for the ruling NDP to reconcile conflicting interest groups nor to organize consensus through the means of dialogue and political leadership. Opposition in and outside the political system, cleavages along religious lines or divisions between rich and poor were simply suppressed through the structural dominance of the NDP, or by rigid measures of the security and special court apparatus, but never resolved.

Cleavage / conflict management

This containment works, as long as the ruling elite maintains its strength. Once it is weakened, divisions may break out easily.

Civil society is weak in Egypt. Civil society actors are either integrated into the political process in a subordinate role – where they serve to legitimate the regime’s interests and policies, thereby making some political gains (namely, fewer legal restrictions on their activities) – or they are excluded, particularly if they are critical of the regime and the regime thus sees no possibility of softly incorporating their perceptions and interests. The engagement of civil society is only permitted in a framework controlled by the state. Thus, one cannot expect civil society to be a driving force for change in the near future. The system is reluctant to integrate outsiders into the policy-making process. An exception is the opening of the government and ministries to liberal-oriented businesspeople. However, large parts of what Al Ahram Center calls the “democratic paradigm” – pre-1950 liberals, the globalized intelligentsia, the small but growing middle class, the media, and the modern civil society – remain excluded.

Civil society participation

There is no process that may address issues related to past injustices.

Reconciliation

17 | International Cooperation

In the Middle East, as well as globally, Egypt belongs to those few countries that have been receiving substantial foreign aid over a long period (since the end of the 1970s, e.g., the United States spent a total sum of more than \$25 billion in economic assistance). Egypt was the first country in the Middle East that concluded a peace treaty with Israel, a step that gave the country great credit in the west. The government attempts to work bilaterally and multilaterally with Western donors and Japan to secure foreign aid. However, apart from a limited number of economic sectors where cooperation with donors has led to substantial policy improvements, especially in the sphere of investment, Egypt has failed to meet donors’ expectations. Foreign donations have an ambivalent impact, as they tend to cement the status quo and do not provide incentive for the regime to undertake reforms.

Effective use of support

For major international actors the Egyptian leadership is perceived as one of the most reliable partners in the Middle East. Part of Egypt’s credibility is due to the ability of the ruling elite to maintain stability in the country, despite severe societal problems. However, Egypt remains an authoritarian regime, and is thus intrinsically vulnerable to an eruption of popular discontent. The ruling elite failed to meet donor’s expectations with regard to democratization. But as the regime guarantees stability in an ever more unstable Middle East during the period of review (the war in Lebanon in July 2006, civil war in Iraq, the Iranian nuclear program, deterioration of the intra-Palestinian and Israeli-Palestinian

Credibility

situation) the value of stability has increased from a Western perspective. The European Union in its Neighborhood Policy (ENP) approach, which complements the Barcelona Process, is trying to strengthen conditionality in order to pressure for political, economic and social reform. The stabilizing role of Egypt has been central in the Israeli-Palestinian front, as well as in relation to regional attitudes toward occupied/liberated Iraq. However, Egypt's role as a leader in the region is currently challenged. Especially on the Israeli-Palestinian and intra-Palestinian issue, Egypt's influence is declining while Saudi Arabia's rises. This does not necessarily weaken the credibility of the regime, but might reduce its usefulness to the West.

Egyptian diplomacy from 2005 to 2007 continued its orientation toward accelerated levels of regional cooperation, especially in the economic sphere. Egypt has trade agreements with almost every Arab country. Egypt is one of the four parties of the Agadir Agreement signed in 2004 for the Establishment of a Free Trade Zone between the Arab Mediterranean nations (that also comprises Morocco, Tunisia, and Jordan). Similar attitudes structure the Egyptian role in the European-Mediterranean Partnership (EMP) since its establishment in 1995. In June 2004 the Association Agreement between Egypt and the European Union entered into force. In the beginning of 2007, Egypt signed the first National Action Plan with the European Union in the framework of the European Neighborhood Policy. The Plan was established after the 2004 EU enlargement as an additional, bilateral instrument to the EMP. Egypt has initiated various cooperation projects with regional partners. Recent years have also witnessed a new openness toward Israel, politically and economically. Egypt plays a leading role in regional organizations such as the Arab League, which has its headquarters in Cairo and is presided over by Egyptian Secretary General Amr Moussa. It also plays a leading role in the Organization of the Islamic Conference, although the significance of both institutions has been decreasing systematically. Egypt also attempts, at least rhetorically, to champion calls for compliance with international law and the rules of international organizations. It ratified international conventions on human, women's and children's rights. However, it is more difficult to find evidence of this progressivism on the ground. Egypt borders Israel and the Gaza Strip, and vigilantly monitors the Sinai in order to prevent smuggling and deter terrorists. Egypt has settled a border dispute with Sudan in the 1990s, but has faced an influx of refugees due the fragile state of its southern borders. According to CIA figures more than 13,000 refugees from Sudan lived in Egypt in 2006, many of them in Cairo, under precarious conditions. Egypt is also a transit country for women trafficked from Eastern Europe to Israel, and a transit point for drugs moving to Europe, Israel and North Africa.

Regional cooperation

Strategic Outlook

Despite two waves of constitutional amendments in 2005 and 2007 (March 2007, beyond the period of review) political reform still advances at a slow pace. However, with a somewhat freer media, political reform is addressed more openly than ever before. The Nazif cabinet has undertaken a number of reforms since 2004 to establish a market economy and this process is likely to continue, though the government's economic policy has thus far generally neglected social issues.

Strategic priorities for Egypt are as follows:

reform of the political system, which should include (taking into account the constitutional amendments that have already been adopted in March 2007, i.e., beyond the period of review): reducing the executive branch's power and establishing better checks and balances; placing the accreditation of political parties under the auspices of the independent judiciary; and ending the state of emergency that seriously infringes upon civil society's potential and citizens' rights; increased efforts from the ruling elite to take demands for political, economic and social reform seriously and make reform a shared agenda (strengthen consensus-building on the level of ideas with the opposition rather than isolating it); increased efforts from the ruling elite to address the Muslim Brotherhood which is the de facto second strongest party in parliament with substantive support amongst the electorate; increased allocation of resources to education for a fast-growing young population, in both urban and rural areas (decentralized approach); increased financial resources allocated to research and development; working toward a more balanced approach to social market economy that would address the young, the women, and the (ultra) poor; and lastly, the development by opposition parties and movements of concrete alternative concepts for the country rather than simply criticizing the regime.

In contrast, the strategic priorities for the international community as regards Egypt should be:

to increase pressure for political reform and respect of human rights, for example, through greater conditionality of foreign aid (for the European Union; make use of the conditionality inherent in the European Neighborhood Policy, and limit the number of priorities of cooperation); to strengthen democratic opposition parties and civil society that, once supported by outside entities, are less vulnerable to attacks by the regime (namely, the international community should press for the release of Al-Ghad founder and presidential candidate Ayman Nour who is in prison for dubious reasons); to strengthen human interaction with foreign countries, especially as regards young Egyptians; to

strengthen the freedom of press and the overall quality of journalism (e.g., through programs to educate journalists); to find a way to enter into dialogue with political Islam/the Muslim Brotherhood; and lastly, to encourage Egypt to continue to play a major role as a regional actor, especially in the intra-Palestinian conflict and the broader Arab-Israeli conflict.