

# Egypt

|   |            |                                      |             |
|---|------------|--------------------------------------|-------------|
| <b>Status Index</b><br>(Democracy: 4.12 / Market economy: 4.46) <b>4.29</b>   |            | <b>Management Index</b> <b>3.88</b>  |             |
| <b>HDI</b>  | 0.659      | <b>Population</b>                    | 71.3 mn     |
| <b>GDP per capita (\$, PPP)</b>   | 3,950      | <b>Population growth<sup>1</sup></b> | 2.1 %       |
| <b>Unemployment rate</b>  | 10-14.9 %* | <b>Women in Parliament</b>           | 4.3 %       |
| <b>UN Education Index</b>   | 0.62       | <b>Poverty<sup>2</sup></b>           | 3.1 %       |
|   |            | <b>Gini Index</b>                    | 34.4 (1999) |
| Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$1 a day (1990- 2003). * UNDP/ILO 2002. |            |                                      |             |

## A. Executive summary

Egypt's development in the last two years has been marked by persistent political stagnation on the one hand and by gradual improvements in the economic realm on the other. Continuous polarization between the ruling National Democratic Party (NDP) and opposition parties and movements within civil society characterizes national politics. The "democratization in spurts" strategy adopted by the ruling elite for the past three decades led to no more than minor transformations on the fringes of the political sphere.

In the last two years, partially in response to regional and international circumstances, the NDP undertook a series of internal reforms. There was a significant injection of young technocrats into government, accompanied by efforts to modernize party structures. The policies and programs of the reformist group—mostly mid-career professionals, businessmen and university staff members, centered around the president's son, Gamal Mubarak—however, have proved both fragile and in blatant contradiction to the demands of the country's major political forces. The public legitimacy previously given to the party's reform orientation, which emanated from the credibility it acquired by initiating new discussions within the party, is currently withering away. Several structural limits of the NDP's approach are becoming more apparent. The NDP ignores the wide consensus that exists outside its own constituency concerning the three reform imperatives needed to render the dream of democratization a realistic project: amending the constitution; revising the selection process of the president, setting a limit on terms of office and minimizing his powers as head of the executive; and, finally, changing the laws obstructing political party and syndicate life. Throughout the last two years, the inability of opposition parties and civil society actors - liberal as well as religious - to mobilize broader constituencies behind these reform imperatives - and the resulting absence of internal pressure on the ruling elite - has resulted in a complete stagnation of Egyptian politics.

A slightly different picture can be drawn when looking at economic developments. Between 2003 and 2005, the Egyptian government introduced a number of new laws on competition, monopoly, private property, and welfare regimes. These measures should partially help to get the economic sphere better organized according to the structuring principles of a market economy. However, government policies on economic reform are dominated by a neo-liberal approach. Privatization is posited as the ultimate key to economic growth, whereas gross disparities in the distribution of wealth in Egypt, unemployment, poverty and the increasing marginalization of the middle classes are absent from all discussions. Although the current social climate in Egypt seems conducive to the rise of politically extremist currents, radical Islamism is constantly losing ground.

## **B. History and characteristics of transformation**

Almost three decades ago, with the 1976 initiation of the Open Door Policy by President Anwar al-Sadat (who governed from 1970 until 1981), Egypt embarked on the road to democratization and a market economy. Since that time, however, the ruling elite - including both its military and technocratic components - has not favored only a restricted degree of political pluralism and a Thatcherist-style course of privatization. It succeeded in violently marginalizing all elements of the political opposition - regardless of ideology - that it feared might have appeal to the public.

The Egyptian constitution, which was issued in 1971 and amended several times since then, vests enormous authority in the president as the head of the state so that the executive branch effectively presides over both the legislative branch and the judiciary. Only one article in the constitution, article 85, provides checks and balances on the president's power by enabling the People's Assembly to impeach him by a two-thirds majority. In reality, however, given the strong hold of the president and his ruling party over the parliament, article 85 lacks any political relevance. Despite the rhetoric of democratization and political pluralism of the last three decades, the election of the president remains an uncompetitive process. The People's Assembly nominates the presidential candidate by a two-thirds majority, and he is then confirmed in a national referendum. The upcoming presidential elections in October 2005 will follow the same pattern, in spite of the ongoing campaign of various opposition parties and movements rallying for a constitutional amendment that would allow direct pluralist presidential elections.

The major legitimating strategy for the Egyptian model of "democratization" has been twofold. It systematically evokes, both in discourse and in policy statements, the worn-out mantra that economic reforms must come before political reform, while at the same time maintaining that the population should be prepared for democracy. Substantial differences between the apologetic appraisals for the restricted pluralism that dominated the political sphere during the 1970s and

1980s and the allegedly reform-oriented NDP of 2004, with its overemphasis on economic modernization, are difficult to identify. Once again, the Egyptian regime appears to have assumed the mantle normally worn by democratic governments in liberal polities in the last two years, having nominated itself as the legitimate representative of the real needs of the Egyptian society: economic prosperity, rather than political freedom.

In defending its approach, the regime instrumentalizes two additional notions: Egyptian particularity and regional exceptionalism. In the case of the former, the formula “Egyptian way to democratic transformation” is systematically put forward by leading regime figures to justify the cosmetic and minor nature of the steps taken as the gradualism needed to introduce democratization measures to an Arab-Muslim society whose majority is not demanding democracy. However, gradualism without an approach that clearly spells out the period and scope of changes - such as amending the constitution and opening up the political sphere for new parties by abolishing existing restrictive mechanisms - remains a corrupt, apologetic defense of authoritarianism.

Regarding regional exceptionalism, the Egyptian regime has worked to frighten the population since the fall of Baghdad, claiming that any uncontrolled change will ultimately lead to disorder similar to post-war Iraq. Unstable regional conditions are permanently invoked to discredit calls on the ruling elite to permit deeper political reforms as irresponsible gibberish that has the potential to endanger Egypt’s security. Looking at the last two years, one can hardly ignore the fact that the various democratization-containment strategies employed by the regime have been extremely effective in Egypt. After all, Western pressure on Mubarak to democratize has remained firmly in the realm of rhetoric, rather than moving toward political conditionality. Democratic opposition movements with large constituencies remain absent in Egypt.

The transformation to a socially responsible market economy is just as problematic and ambivalent as the democratization process. Since 1976, the state has been retreating from the economic sphere and attempting to consolidate privatization and liberalization. However, throughout the past three decades - with the exception of the first half of the 1990s - the performance of all major economic sectors has been deteriorating. Lack of vision, insufficient market regulations, and divergent perceptions and interests within the ruling elite have created the conditions for the emergence of an everything-goes capitalist transformation, in which various monopolies, including state monopolies, dominate the economy. In the past two years, the government introduced new regulations to better organize market competition, limit monopolies and corruption, and protect property rights. However, major social problems such as poverty, illiteracy, unemployment, and unequal distribution of wealth have yet to become an integral part of the government’s agenda. All of these issues are key to

articulating transformation strategies toward a socially responsible market economy that would have the support of broad segments of the public and not merely that of the elites.

## **C. Assessment**

### **1. Democracy**

During the period under review, the major outcome of the ruling elite's approach to democratization has been overarching political stagnation. Leaving modern rhetoric and creative cosmetics aside, the system of power relationships as well as the constitutional and legal arrangements organizing political participation remains essentially unchanged: semi-authoritarian in nature. Opposition movements, if not co-opted and controlled by the authorities, are socially isolated. Any attempt to criticize the regime for its lack of commitment to reform, or to publicly articulate alternative political views originating from liberal and religious civil society actors, is chalked up by the ruling elite to one of two things: the criticisms or views represent the demands of a handful of isolated intellectuals who have no understanding of what the masses really want, or that they represent a dangerous attempt on the part of Islamist movements to take over society and control the state. Regional and international conditions, unfortunately, favor this undemocratic instrumentalization of the opposition's critiques.

#### **1.1. Stateness**

Since the crash 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 uncontested and covers the entire territory. A small-scale uprising of Upper Egyptian drug dealers, known as al-Nikhila events, was contained in 48 hours by the security forces.

In general, there is fundamental agreement about the legal definition of citizenship in Egypt. Both Muslims and Christians are citizens of the state and enjoy the same rights according to the constitution. However, the constitution's second article confers upon Shariah, Islamic law, as the basic source of legislation and therefore ultimately contradicts the secular bond of citizenship. Throughout recent decades, secular intellectuals and political parties have been rallying in vain for the abolition of the second article. The regime continues its practice of instrumentalizing religious sentiments of the Muslim majority as a legitimating strategy. Although the living conditions of Copts are not substantially different from Muslims, the question of Coptic political representation remains problematic. For example, the majority of Coptic members of Parliament are appointed by the president rather than elected.

This shows one of the structural dilemmas of the Egyptian political system. 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 state's fundamental infrastructure extends to the entire territory of the country, but its operation is to some extent deficient. 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 total loss of responsiveness to citizens' needs.

## **1.2. Political participation**

Presidential elections are uncompetitive. The presidential candidate is nominated by a two-thirds majority of the People's Assembly and confirmed in a national referendum. Pluralist parliamentary elections are held in Egypt, but much of the apparent pluralism is cosmetic. Since 1980, Egypt has had a bicameral parliament. In both the People's Assembly and the Consultative Council the ruling NDP currently has almost 90% of the seats. Since the initiation of political pluralism in 1976, the overall composition of the legislative branch and the dominance of the NDP have not changed. 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. Since its establishment in 1976, the committee has only approved three parties. Moreover, the Political Parties Law of 1977 prohibits the legalization of parties based on religious or ethnic identities. Therefore, Islamist movements, which have the largest constituency among Egyptian public, are not permitted to function as political parties. Parliamentary and local elections are regularly manipulated in favor of the ruling party. The dominance of the NDP is further strengthened by the fact that Mubarak serves simultaneously as head of the state and of the NDP. The major outcome of this situation is an authoritarianism favoring intermingling of state and party structures.

Egyptian rulers are not democratically elected. The regime has always attempted to serve special-interest groups and constructed shifting allegiances depending upon the nature of economic and social policies being implemented. The current neo-liberal orientation of the Egyptian government favors both the interests of local entrepreneurs and global corporations. However, the impact of these groups

on governmental decisions should not be overestimated. At the end of the day, they have to compete with other traditionally powerful interest groups, such as the military establishment and influential local rural elites.

The state of emergency, which was extended by the People's Assembly on February 23, 2003 for three more years, limits the ability of political and civic groups to associate and assemble freely. Political parties, when legalized, 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 relevant in the case of Islamist groups whose members are normally arrested prior to parliamentary and local elections. The legal framework for NGOs in Egypt is governed by law number 84 from 2002, which requires civic associations to register with the Ministry of Social Affairs. The law opens up the gate to political manipulation by granting the ministry 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 is badly needed, without governmental approval. Apart from the legal framework, both political parties and NGOs face various internal dilemmas. Opposition parties are artificial structures that are unable to function as modern political parties and suffer from societal marginalization. NGOs are urban centered and, apart from traditional religious networks, socially marginalized. In general, the third sector is controlled and ineffective. However, opposition parties, NGOs and intellectual groups have managed to retain their ability to criticize authorities and to keep political articulation open. These two factors distinguish Egypt from other more authoritarian states in the Middle East.

The constitution guarantees all citizens freedom of opinion and expression in all forms. It also guarantees freedoms of the press, publication and mass media. The state of emergency restricts basic personal liberties and imposes censorship on the mass media. However, 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 step will certainly enhance opinion and freedom of the press.

### **1.3. 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 suffer from continuous interventions by the executive. Most relevant is the fact that parliament's ability to challenge the government and amend legislation remains restricted.

The high degree of independence of the civilian judiciary has led the regime to create a parallel network of courts. The so-called military and state security courts used to report directly to the president. They heard cases involving violations of security measures, with the latter being subject to broad interpretations that might encompass political crimes, terrorism and espionage, as well as economic crimes and irregularities in public institutions. In June 2003, Parliament approved a measure sponsored by the NDP that abolished the state security courts, but kept the system of military courts intact. Although partial, the new legislation certainly represents a step in the right direction of promoting the rule of law. In this context, the independent roles played by both the Supreme Court, which serves as the final court of appeals for all lower court cases, and the Supreme Constitutional Court, which supervises the constitutionality of laws and regulations, should also be emphasized.

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 reports to the Supreme Court, which is then in charge of the prosecution. An NDP-led anti-corruption campaign throughout the last two years has resulted in convictions of some prominent figures, including a former minister and a former governor. However, the campaign is politically motivated and tends to bring to justice only those figures of the ruling elite who were excluded by internal conflicts or affiliated with the outer, weaker circles of the 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 state. The Egyptian Organization for Human Rights estimates the number of citizens detained without charge in alleged political offenses to be between 13,000 and 16,000. The creation of the National Council for Human Rights in June 2003 represents a positive development whose practical outcomes remain to be seen. The council's mandate is to monitor the performance of the Egyptian government in human rights and to report Parliament's second chamber, the Consultative Council.

#### **1.4. 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, an apparent over-bureaucratization renders them largely incapable of performing effectively. During the period of

review, the NDP government started different campaigns to enhance the administrative system's performance and to increase its transparency. Positive results are yet to be seen.

The inability of state institutions to function effectively in accordance with neutrality and democracy has resulted in a limited acceptance of these institutions among the majority of Egyptian citizens. 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 creation of a dominant public opinion that sees both members of parliament and judges as marionettes of the regime. The picture does not differ much as far as opposition parties and civic organizations are concerned. Corruption scandals in civil society are becoming a well-documented and well-known reality. Only the presidency, which often does not act democratically as an institution, is respected. Reasons for this fact are to be found in the Egyptian political culture that portrays the president as the protector of the nation.

### **1.5. Political and social integration**

The party system is fundamentally established and it shows a moderate degree of fragmentation. The NDP dominates the political sphere with its stronghold over the legislative and the executive branches. Major opposition parties are the liberal Wafd Party, the leftist National Progressive Unionist Party, the Arab Nasserist Party, and the newly established (October 2004) liberally oriented al-Ghad Party. Apart from 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, have aging leadership and lack large constituencies to mobilize popular support. In addition to the four major opposition parties, a few other small parties do exist, but their political relevance does not exceed the spatial borders of their headquarters.

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 16,000 registered civic associations. In spite of this, in terms of numbers and in comparison with other countries of the Middle East, the diversified topography of vital social interests is underrepresented. Bluntly, the poor, the weak, the marginalized and rural people are excluded from the system of interest groups. In the 1950s and 1960s, the state used to serve as the major representative of these groups; however, since the initiation of the Open Door Policy in 1976, the state has been retreating from different social spheres with no viable substitutes taking its place. Interest representation is the monopoly of powerful political and economic elites.

The exclusion of large segments of the Egyptian population has always resulted in social unrest, radical currents, and political apathy. From 2003 to 2005, and mainly under the patronage of the First Lady Susan Mubarak, middle-class professional women are increasingly functioning as a powerful interest group and have successfully lobbied for legislative reforms in relation to the personal status law. In January 2002, the parliament revised the personal status law to empower women with the right to divorce their husbands without proving mistreatment. By the end of 2002, Egyptian courts abolished statutes prohibiting women from traveling without the permission of their male custodians. The exclusion of large segments of the Egyptian population has always resulted in social unrest, radical currents, and political apathy.

Democratic norms and procedures are contested in the Egyptian public sphere and do not enjoy a relatively high degree of acceptance 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. Two other factors contribute to this alarming reality. First, religious based perceptions of society and polity, which ultimately stand for an alternative normative order, appeal to a large portion of the population. Second, the Western, mainly American, instrumentalization of the democracy-related vocabulary discredits it to a great extent. In survey conducted in summer 2004 by al-Ahram Center for Political and Strategic Studies, almost 60% of Egyptians see democratic norms and procedures as less important than combating poverty, campaigning against corruption and improving the public education system.

In civil society, self-organization encounters both state restrictions and popular distrust. Through an efficient conglomerate of legal and political measures, the state controls the scope and content of activities performed by civic organizations. Over the last two decades, and especially in the 1990s, these organizations were not able to reach out to larger segments of the population. They remain urban centered and middle class oriented. Traditional and modern Islamist networks such as charity organizations and cultural centers are better rooted in the social fabric and therefore potentially more able to create social capital as opposed to other nongovernmental 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.

## **2. Market economy**

During the period of this review, the Egyptian government enacted new laws and regulations to better organize economic activities. Undoubtedly, the institutional framework of the market economy, especially for protecting private property and enhancing competitiveness, has improved. Major technical shortcomings remain, however. They are visible in combating monopoly and market concentration, and introducing more transparency to the financial sector. The performance of the

market economy in Egypt continues to be determined by low levels of economic growth, high rates of unemployment, the failure of existing welfare regimes to compensate for poverty and other social problems that emerged from privatization, and finally a continuing state monopoly over different economic sectors.

## **2.1. Level of socioeconomic development**

At least one-third of the Egyptian population is fundamentally excluded due to poverty and lack of education. According to the United Nations Development Program (UNDP) Human Poverty Index (HPI), 30.9% of Egyptians live below the threshold level of basic dimensions of human development. The level of inequality in income and consumption is 34.4%, according to the Gini Index of the UNDP, whereas the share of income and consumption of the poorest 20% of the population is less than 9%, and that of the richest 20% reaches as high as 43.6%. From 2003 to 2005, the illiteracy rate remained unchanged at 44.4% for adults and 39.7% for youth. The levels of public expenditure on social security measures intended to help make the transition to the market economy socially responsible are extremely low, even compared with other developing countries. Public expenditure on health is less than 2% of the GDP.

## **2.2. Organization of the market and competition**

In spite of the new laws and regulations on market competition, intellectual property rights, and combating monopoly, all of them debated and partially enacted in 2004, the institutional framework of the market economy in Egypt suffers from two structural deficiencies. First, transparent rules of the game for all market participants and in all economic sectors remain largely missing. Even when such rules exist, there are different gray zones and dynamics that enable local or global actors with enough power to circumvent them. The government tends to make various concessions to corporate interests, especially in their attempts to restrict the formation of monopolies. Second, the informal sector continues to organize at least one-third of economic activity in Egypt.

The formation of monopolies and oligopolies is occasionally regulated. Increasing attention has been devoted to this issue. 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. A recent and publicly relevant example is the case of engineer Ahmed Izz, whose family has held a monopoly position in the iron and steel industry since the 1970s. Through close relations to the ruling elite - Izz is a member of the High Commission of Policies of the NDP, which is headed by Gamal Mubarak - Izz has managed to retain his monopoly over the market and to motivate the government to subject iron and steel imports to a relatively high level of taxation. When the Izz case became public in 2003

and 2004, the government attempted to legitimate its special measures by referring to the strategic relevance of the iron and steel sector.

The liberalization of foreign trade has evolved positively during the period of review. In this period, the government seems to have been strategically committed to furthering Egypt's integration in the world economy. However, differentiated tariffs and special rules for specific sectors continue. 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, the government has been slow and reluctant in abolishing existing special regulations. A case in point is the Egyptian textile industry, which is highly protected by the state and therefore highly uncompetitive.

The functioning of the banking system and capital market in Egypt demonstrates different structural shortcomings. Bureaucracy, corruption scandals and continuous state intervention make the banking system inefficient; and in regional comparisons, especially if the United Arab Emirates and Lebanon are included, these factors make Egypt unattractive for foreign investors. The foundations of the capital market were laid in the second half of the 1990s. However, a clear functional differentiation between it and the banking system is yet to be seen.

### **2.3. Stability of currency and prices**

Controlling inflation and pursuing an appropriate foreign exchange policy are recognized as central economic objectives of the Egyptian government. With an inflation rate of less than 4% in 2002 and 2003 (3.8%, according the World Bank) the government seems to be doing constantly well with regard to this. In contrast, the foreign exchange policy is subject to fluctuations. In recent years, the government has moved between strong intervention in the foreign exchange policy and liberalization measures that have always led to a devaluation of the Egyptian currency. However, a tendency toward less state intervention is apparent (due in part to the influence of a group of neo-liberal policy makers and consultants). The Egyptian central bank is less independent than central banks in Western market economies. Largely it follows and publicly legitimates government policies.

The current Egyptian government attempts to preserve macroeconomic stability in fiscal and debt policy. At the time of this writing, the present debt is \$26.7 billion, and the percentage of the total debt service has been decreasing from 10.7% in 1999 to 10.3% in 2002. A culture of macroeconomic stability exists since the 1990s in Egypt. However, the history of permanent state intervention in the functioning of the market economy, as well as the severe unsolved social crises, keeps government intervention a viable policy option.

## **2.4. Private property**

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

Although Egypt embarked on the road of privatizing its economy in 1976, state companies control different strategic sectors such as electricity and water supplies with no signs of a future privatization whatsoever. Other sectors, such as the iron and steel industry and the textile industry, are dominated by a small number of influential, local corporate entities. Positive examples of privatization measures in former state controlled sectors are telecommunications and tourism. During the period of review, there has been a shift to more adherences to market principles, as opposed to the previous three decades in which different versions of crony capitalism had rendered the economic performance of the country a failure.

## **2.5. Welfare regime**

Since the initiation of economic liberalization and privatization measures, compensatory welfare structures do exist in Egypt. Different governmental funds, partially financed by Western donors, attempt to help marginalized segments of the population. However, social safety nets are extremely inefficient. With the low levels of government expenditures in health and education (less than 2% of the GDP in the first, and less than 4% in the latter) the safety nets have literally no chance of compensating the one-third of the population that lives in poverty.

The Gini Index for Egypt, according to the UNDP, is 34.4. Government measures are insufficient and lack a strategic vision of how to combat poverty in the country. One positive development in the last two years has been the increase of women's access to education, especially higher education, and public office. Both the female literacy rate and economic activity rate have increased in 2003 to 43.6% and 35.7%, respectively. The percentage of female legislators, senior officials and managers is currently 9%. Egyptian women's movements and NGOs have been successful in rallying for gender equality and better access to public offices.

## **2.6. Economic performance**

The performance of the Egyptian economy has not changed drastically over the last two years. The annual growth rate of the GDP remains at 3.2%, whereas the unemployment rate continues to range between 10% and 15%. The trade balance of goods and services of the GDP is currently 23% for imports and 16% for

exports. A slight improvement can be made out in relation to the rate of total debt service, which went down from 10.7% in 1999 to 10.3% in 2002 and 2003. A negative development, however, is reflected in the decreasing rate of foreign direct investment, from \$1.1 billion in 1999 to \$649.9 million in 2002, as well as in the per capita percentage of foreign aid, which fell from 25.2% in 1999 to 19.4% in 2002 and 2003.

## **2.7. Sustainability**

Ecological concerns are new on the public agenda in Egypt. A rather low level of ecological awareness among the population makes it possible to continue defining the objectives of economic performance in an ecologically insensitive way. A Ministry of Ecology was created in the 1990s; however, it is considered one of the most marginal positions in the cabinet, and the minister has no influence on strategic decision-making in the economic sphere. The activities of the Ministry of Ecology tend to concentrate on reducing pollution in urban centers and introducing ecologically sensitive agricultural techniques, mostly funded by the European Union.

The current public expenditure on education was less than 2% of the GDP in 2002 and 2003. Public education institutions for basic and advanced education are concentrated in urban centers, leave various rural areas without service and face structural difficulties. The most important difficulty for public and private educational institutions is the annual increase in new enrollment. Their capacity is less than the annual rate of growth of the population. Public expenditure on research and technology is less than 0.2% of the GDP.

## **3. Management**

The continuous lack of both democratically elected and accountable political leadership, and the general absence of policies designed to improve the performance of state institutions and agencies are major obstacles to Egypt's transformation to democracy and a socially responsible market economy. Government reforms in this field since 2003 have not reached beyond cosmetic changes designed to convince Western donors of the sincerity of the Egyptian leadership.

### **3.1. Level of difficulty**

Apart from the high rate of poverty among the Egyptian population, structural constraints on governance are low. In terms of the education rate of the labor force and the current condition of the socioeconomic infrastructure, Egypt belongs to the upper ranks of developing countries. The network of state institutions and

agencies, mainly due to the centralist structure of the Egyptian state, covers almost 100% of the territory. In this context, no structural deficiencies can be discerned.

In a regional historical perspective, Egypt belongs to a small number of Middle Eastern countries where traditions of civil society and citizens' engagement in public matters are well rooted. Especially between World War I and World War II, Egyptian society experienced a phase of liberal policies and vibrant civic organizations, most of which were devoted to charity. However, the Revolution of 1952 brought about an authoritarian transition. This meant an abrupt end to the liberal experience and institutionalized the state's control over society in an unprecedented way. The top-down initiation of democratization and economic liberalization under later President al-Sadat and his successor Mubarak has partially reopened the gate of citizens' engagement. However, the semi-authoritarian nature of the political sphere and the dominance of the ruling elite hinder this process from flourishing.

Conflicts in Egypt exist partially along religious lines, but mainly take shape along lines of social division. The Copts certainly experience a degree of latent religious and political discrimination. The Egyptian state, however, has always managed to contain it. More relevant is the social polarization between a 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. Largely lines of social division explain the emergence of the phenomenon of radical Islamism in the 1970s, as well as a limited number of popular uprisings that took place in the 1970s and 1980s.

### Profile of the Political System

|  |                               |                              |                     |
|--|-------------------------------|------------------------------|---------------------|
| Regime type:   | <i>Autocracy</i>              |                              |                     |
| System of government:  | <i>Presidential</i>           | Effective number of parties: | <i>1.4</i>          |
| 1. Head of State:  | <i>Muhammad Hosni Mubarak</i> |                              |                     |
| Type of government:  | <i>single party majority</i>  | Parties in government:       | <i>1</i>            |
| 2. Head of State:  | <i>Muhammad Hosni Mubarak</i> | Cabinet duration:            | <i>2004-present</i> |
| Head of Government:  | <i>Ahmed Nazif</i>            | Parties in government:       | <i>1</i>            |
| Type of government:  | <i>single party majority</i>  |                              |                     |
| Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$ ; $p_i$ is the share of parliamentary mandates controlled by party $i$ . |                               |                              |                     |

### 3.2. Steering capability

The ruling elite claims to pursue the goals of democratization in the political sphere and the transformation to a market economy in the socioeconomic realm.

However, democratization does not indicate 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 perceived in a neo-liberal sense 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 sometimes to opt for short-term interests, even if they contradict long-term objectives. The ruling elite have permanently blocked privatization measures in moments of social unrest.

During the period of review, the government has been effective in initiating reforms in the economic sphere. A vision, even if neo-liberal in outlook, can be discerned in their approach to the market economy. In relation to democracy, though, the ruling elite's notorious practice of producing much talk about democratization and extremely little action has led to a condition of permanent political stagnation and public anger.

The political leadership, which is not democratically elected and not accountable to the legislative branch or the judiciary, shows little responsiveness to popular needs. 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 formed in July 2003. Rigidity and stagnation continue to be the hallmarks of the political leadership, whose other side is certainly stability.

### **3.3. Resource efficiency**

Due to the rigid and bureaucratic nature of state institutions and agencies on the one hand and irregularities facing civic and private sector engagement on the other, only some of the available economic and, particularly, human resources are used efficiently.

In general, the Egyptian government acted in a coherent manner throughout the period of review. Interest representation remains, however, the monopoly of economic, technocratic and traditional rural elites. Within this framework, the government has managed to coordinate its policies and contain conflicting interests. The reality is the majority of the population is excluded from the process of interest representation. This fact should not be ignored.

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. 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.

### **3.4. Consensus-building**

One can identify a tendency toward a rudimentary consensus about democracy and a market economy in Egypt in 2003 and 2004. Major political forces, the government and opposition movements all share the rhetoric of democratization. However, the government has not been willing to submit to 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 - consensual rhetoric and contested contents, one is tempted to state. Consensus exists among major political forces about the desirability of the transformation to a market economy. There are significant distinctions between the neo-liberal approach of the ruling elite and the search for socially responsible transformation strategies among opposition actors, especially leftist parties.

Influential reformers in Egypt are positioned within the apparatus of the NDP. However, Mubarak and his group do not have a clear vision of political reforms and remain part of the ruling establishment, which is unwilling to reduce its control over society, even partially. 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. Others (reform-oriented actors in civil society, among opposition parties and in intellectual circles) are politically irrelevant.

The political leadership has traditionally been successful in containing potential divisions between the Muslim majority and the Coptic minority. However, because of the strategic preferences of the ruling elite and the bad performance of the Egyptian economy, social divisions between rich and poor could not be reduced.

The attitude of the political leadership toward civic engagement and social capital has changed positively during the period of review. The government has institutionalized different mechanisms of consultation with civic organizations. However, structurally speaking, two tendencies - co-optation where possible and restriction where co-optation does not work - still dominate the overall attitude of the leadership in this regard.

Civil society actors are either integrated in the political process in a subordinate role - where they serve to legitimate the regime's interests and policies, and certainly make some political gains out of this practice (mainly fewer legal restrictions on their activities) - or they are excluded when critical of the regime and the regime sees no possibility of softly incorporating their perceptions and interests.

### **3.5. 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). 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. The political relevance of this fact is, however, highly contingent. Egypt is a key player in an unstable Middle East, and cutting aid might have serious implications. With regard to aid to Egypt, intensive critical discussions in the U.S. Congress and the first Bush administration (2001-2005) have not resulted in serious cuts.

For major international actors the Egyptian leadership is perceived as one of the most reliable partners in the Middle East. The stabilizing role of Egypt has been central in the last two years on the Israeli-Palestinian front, as well as in relation to regional attitudes toward occupied/liberated Iraq. However, it remains an authoritarian regime, intrinsically vulnerable to popular discontent.

Egyptian diplomacy from 2003 to 2005 continued its orientation toward accelerated levels of regional cooperation, especially in the economic sphere. Egypt is one of the parties of the Aghadir Agreement and it has initiated various cooperation projects with regional partners. In recent years including the period of review, a new openness toward Israel, politically and economically, could also be witnessed. Similar attitudes structure the Egyptian role in the European-Mediterranean Partnership and in regional organizations such as the Arab League and the Organization of the Islamic Conference, although the significance of the last two has been systematically decreasing. Egypt also attempts, at least rhetorically, to champion calls for the compliance with international law and the rules of international organizations. It ratified international conventions on human rights, women and children's rights, etcetera. However, in practice various shortcomings cannot be ignored. Commitment to these conventions remains of partial significance if their stipulations challenge or contradict political realities in Egypt.

### **4. Trend of development**

Between 2001 and 2004 the trajectory of democracy and the market economy essentially remained unchanged. The only outcome of the ruling elite's approach to democratization has been an inevitable setback to square one. Minor transformations cannot lead to a paradigmatic shift in state-society relations and the fundamentals of the organization of the political sphere. Violations of human rights and personal liberties, exclusion of major social groups, lack of good governance and transparency are the essential components of the contemporary

Egyptian reality. Minor improvements, though, could be seen in the economic sphere, especially between 2003 and 2004.

#### **4.1. Democratic development**

State coherence, political participation and the rule of law have remained at their former levels of quality. The basic difference between the 1990s and the four first years of the new millennium is the scope for debating political reforms publicly. It has certainly gained momentum, especially after the Iraq War, yet real changes or developments are missing.

The level of consolidation of democracy has not changed significantly. The Egyptian regime manages political stagnation in an efficient way. Internal and external pressure on Mubarak to move forward on the road to consolidating democracy are either nonexistent or not policy driven.

#### **4.2. Market economy development**

The country's level of development improved slightly from 2000 to 2005 (HDI 1995: 0.608; HDI 2002: 0.653).

The institutional framework has slightly improved as well. Relevant new laws in this context have been previously discussed.

Overall economic development improved slightly from 2001 to 2005. The economic annual growth rate has been 2.8%. Quantitatively, however, the GDP has decreased from \$89.1 billion in 1999 to \$82.4 billion in 2003, according to the World Bank.

### **D. Strategic perspective**

Egypt's political and economic conditions did not evolved significantly in the direction of democracy and a market economy during the period under consideration: instead, the Egyptian reality is one of semi-authoritarian stagnation. It is a stable country in an explosive region; however, it faces a set of major political and socioeconomic challenges. The political leadership - the president and the ruling NDP - has managed to contain opposition movements and to rule undemocratically with limited tradeoffs regionally and internationally.

Egypt is geo-strategically so important that it can neither be ignored nor subjected to pressure by West governments. Government reform policies stop short of introducing substantial changes into the structure of political power and the restrictive patterns of political participation prevailing in the country. Government

officials have a good command of democracy-based rhetoric and know how to celebrate cosmetic changes as if they were major events on the road to democratization. Any hopes that a generational change in the aging political leadership of Egypt might lead to more readiness by the regime to undertake democratic reforms are currently withering away, just as expectations that external pressure might pave the way to democracy.

The experiences of the last two years have proven both scenarios unrealistic. Apparently, the only way to break this cycle of stagnation and end the current stalemate is to mobilize large constituencies for political reform. However, opposition parties and civil society actors are either co-opted or marginalized. Moderate Islamists have the potential to reach out to considerable constituencies; however, they are controlled by the government's security forces and they have rather limited room to maneuver. Popular uprisings, which previously occurred in the 1970s and the 1980s, are exceptional in Egyptian history. The prevailing political culture since the 1950s has been one of submission and fear of the ruler.

The ruling elite's current neo-liberal approach to socioeconomic development might lead to improvements in the overall performance of the market economy and result in a better and more transparent organization of vital economic spheres. However, it ignores the country's poverty, inequality and unemployment in a way that might result in accelerated social conflict. However, the Egyptian regime has often proven its capacity to bargain on long-term economic objectives when social conditions start to become alarming. Preserving power remains its number one objective.

In the public sphere, a gradual consensus about democracy and market economy, which includes Islamist forces as well, is emerging and gaining momentum among small segments of the population. Its political relevance is immense, as it represents the only potentially strategic platform to rally publicly for democratization and a socially responsible market economy. Calls for constitutional reform, competitive presidential elections, the reversal of the government's Thatcherist style of privatization, the legalization political parties, and the formation of ad hoc alliances for change across ideological division lines (secular versus religious) are all encouraging signs in an otherwise stagnant political environment.