This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at [http://www.bti-project.org](http://www.bti-project.org).


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**Executive Summary**

The period under review is divided into three phases. This first phase covers the last six months of President Mohamed Morsi’s regime and runs until June 2013. The second phase represents a period of renewed military supremacy, as it covers the interim presidency of Adly Mansour, the former head of the Supreme Constitutional Court, and runs until June 2014. The third phase covers the first six months of President Abdel Fattah al-Sisi’s regime.

The beginning of 2013 marked the end of Morsi’s presidency and a period of transformation strongly influenced by Islamic groups. The end of Morsi’s presidency and this period of transformation was provoked by three factors. First, the crude nature of power that the Muslim Brotherhood pursued, mostly evidenced in the way the 2012 constitution was elaborated and then interpreted. Second, the perceived arrogance of religious leaders and the clandestine influence of the Muslim Brotherhood’s Supreme Guide, Mohamed Badie. Third, the failure of successive public policy initiatives to address core economic and political problems. These factors led various revolutionary movements to form the Tamarod movement, whose actions culminated in the 30 June 2013 mass protest. Despite the scale of the 30 June protest, President Morsi refused to resign. In response, the military took action and forced him to resign. Although his minister of defense (and later president), al-Sisi, apparently preferred a political solution that would comply with the 2012 constitution.

The enforced displacement of President Morsi was welcomed by a large proportion of the Egyptian population. However, it also led to the most violent event since the beginning of the first transitional period. Supporters of the displaced president established protest camps, but were brutally crushed by a combined police and military force in August 2013. Consequently, the end of the first transitional period was marked by the deaths of hundreds and detention of thousands of people.
The current al-Sisi government has initiated a process of national reconciliation, which has been partially successful. For example, Article 241 of the 2014 constitution requires parliament, during its first term, to issue legislation relating to transitional justice, though this is yet to happen. Furthermore, by January 2015, 1,200 former members of the Muslim Brotherhood signed “papers of repentance” (or reconciliation). However, a new militant Islamist insurgency began in mid-2013.

The Islamic militants are concentrated largely in the North Sinai region and are allied with the Islamic State (IS) group. Their attacks typically target public facilities. Following the renewal of militant attacks, former President Morsi’s Freedom and Justice Party, the Muslim Brotherhood and, most recently, the armed wing of Palestine’s Hamas were declared terrorist organizations by the Egyptian government.

With growing frustration among the Egyptian population following four years of unrest, violence, instability and economic decline, support for the leadership of former minister of defense and now president al-Sisi has grown. This scale of this growth in support has led to the label “Sisi-Mania.” There are strong parallels between “Sisi-Mania” and the relationship of the Egyptian population with Gamal Abdel Nasser. However, al-Sisi has yet to deliver on many of his promises, with his declared priorities being economic recovery and political stabilization. While al-Sisi has impressed many with his fresh style of realism and pragmatism, his rigid security policy reflects Egyptian security policy of the 1990s. The success or failure of al-Sisi’s presidency and the second transitional period will heavily depend on the ability to simultaneously coordinate the conflicting goals of economic and political transformation. In turn, this will depend on successfully integrating respect for human rights into policymaking.

History and Characteristics of Transformation

Egypt embarked on a path of economic liberalization within its state-centered economy decades ago, with the commencement of then-President Anwar al-Sadat’s economic open-door policy (siyasa al-infitah al-iqtisadi) in 1974. This shift took place against the background of severe economic crisis, characterized by high levels of foreign debt, a scarcity of investment capital and stagnating growth, caused by the internal economic contradictions of the country’s development model and the burdens of several wars (1948, 1956, 1967 and 1973). More generally, this situation symbolized a crisis of the Egyptian post-colonial development model of the 1950s and 1960s. This had been based on a military regime characterized by a secular-socialist profile, a one-party-system, state-centered economic development, and an import-substitution strategy of industrialization and modernization, all of which were focused on welfare politics as well as a political paternalism. It is important to stress that this phase of development was secular in nature, as its crisis triggered a crisis of secularism that has been exploited by Islamic movements to change the country’s political culture step by step since the early 1970s.
Economic liberalization during the 1970s and 1980s did not lead the country onto a path of sustainable development, but rather deepened the economic crisis and accelerated the accumulation of foreign debt. This was due to an imbalanced liberalization that preserved the dominance of the state economic sector, allowing privatization only in the spheres of trade, banking, insurance and tourism, but which totally liberalized foreign trade. In consequence, foreign investment was concentrated in nonproductive spheres, while national industries, which had not yet reached internationally competitiveness, were ruined by bulk imports. Moreover, a system of corrupt crony capitalism developed. Reaching a point of illiquidity in 1977, the government secured a stand-by arrangement with the IMF, which forced a reduction in state budgetary expenditures, especially an abandonment of state subventions for basic needs and a privatization of the state economic sector. The resulting “bread riots” of 1977 helped the regime delay reforms until the 1990s.

It was in the context of the 1977 crisis that the government started introducing multiparty pluralism and “real” elections. However, President Sadat took care to secure the hegemony of his National Democratic Party, a trend that also characterized the last three decades of the Mubarak presidency. The nominally existing multiparty system has been nothing more than a democratic facade to be presented to the world and offered no opportunity for real changes in governance. This functioned on the basis of a restrictive Political Party Law, as well as by manipulation in all spheres of the political input process. However, while alternative secular political parties were suppressed, lacking any real chance to participate in parliamentary politics, they also choose to boycott participation in an effort to unmask the authoritarian character of the political system. Meanwhile, Islamic movements formed at the societal grassroots, especially by taking over social tasks from which the state had retreated. By simultaneously propagating an Islamic political culture, their oppositional strategy was in a sense the mirror image of the secular parties. Formally forbidden to form an official political party, they nevertheless participated successfully as independent candidates in elections, thereby capitalizing on their movement’s roots in ordinary peoples’ lives.

While economic liberalization was originally intended to stabilize the economic basis of the authoritarian political system beginning in the early 1970s, it in fact began to erode this basis in the 1990s. The country once again experienced severe economic crisis and high levels of debt. As a result of the 1993 and 1996 debt negotiation rounds with the IMF, the country had to implement a strong structural adjustment program for the first time in its history. General socioeconomic living conditions deteriorated severely over the course of the 1990s and beyond for the bulk of the people; growing labor and social protest was crushed by an increasingly authoritarian regime that justified its policies as anti-terrorism measures. The most recent wave of accelerating economic liberalization and privatization commenced in 2004 with the policies of the Ahmed Nazif government and the background leadership of the president’s son, Gamal Mubarak. According to the Solidarity Center, this policy provoked “the largest social movement Egypt has witnessed in more than half a century. Over 1.7 million workers engaged in more than 1,900 strikes and other forms of protest from 2004 to 2008.” It may not even have been the policy of privatization as such, but rather the way workers were treated in the process that prepared public rebellion. In any case, the regime ultimately faced an intensifying workers’ protest movement that coincided with a civil
rights movement growing quickly broader and stronger, each of which amplified the other. Today, however, the regime has left behind it multiple political and social cleavages as a heritage that will not be easy to overcome.

Until mid-2013, no policy approach proved capable of overcoming the causes of the country’s crisis. However, the now president al-Sisi has managed to unify many Egyptian people around a new nationalist project (“long live Egypt”). The stated goal of this project is economic prosperity and political modernity. The charismatic approach of al-Sisi is often linked to that of Gamal Abdel Nasser during the 1960s. While “Sisi-Mania” continues, despite economic and political tensions, and the thousands of arrests and controversial court rulings, it is still unclear what its effect on governance in Egypt will be.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Although the Egyptian state’s monopoly on the use of force stabilized towards the end of 2012, it has been increasingly challenged since then. Growing polarization between supporters and opponents of the Morsi government, and popular discontent with the lack of progress in realizing the aims of the revolution brought people back into the streets especially during 2013. Challenges to state authority regularly escalated into violent clashes. Dozens of protesters have been killed, which produced a cycle of violence. This culminated in the crackdown on sit-ins by Morsi supporters in Nahda and Raba’a al-Adawiya squares during August 2013, which claimed more than 1,000 lives.

In parallel, challenges to state authority continued in Sinai and intensified especially after the overthrow of President Morsi in July 2013. Raids by the security services in Sinai have escalated under al-Sisi since June 2013. Meanwhile, the Sinai-based group Ansar Beit al-Maqdis intensified militant operations and confirmed its allegiance to the Islamic State (IS) group. On 14 November 2014, the group renamed itself “Wilayat Sina” (“Sinai Governorate”), which is a reference to its new affiliation as regional branch of IS. Security deteriorated also along the Libyan border with repeated armed attacks, for example, on the al-Wadi al-Gedid checkpoint on 19 July 2014.

Across the country and increasingly also in Cairo, the number of militant attacks and bomb explosions has escalated since the ousting of Morsi. Public security and the efficient use of police power remains critical. This has led to a rise in vigilante justice, for example, in Manufiya in June 2013 with private actors filling the current security vacuum. The overall security situation prompted former Minister of Justice Ahmed Mekki and former army chief al-Sisi to speak of an imminent state collapse as early as spring 2013.
In December 2014, police legislation was amended with the introduction of so-called security assistants (“community police”) after draft legislation was approved by the judiciary in October.

The idea of a united Egyptian nation state is generally accepted, with its millenniums-old history widely perceived as an item of national pride. “We are all Egyptians” was an often-heard slogan during the 2011 revolution, and the cross and the crescent are often displayed as symbol of a common “Egyptianness” that encompasses Muslims and Christians. Nevertheless, the last several decades have seen increasing skepticism toward the state, ultimately leading to the revolution and to the uncompromising mass resistance against any policy threatening a new usurpation of power in the post-Mubarak phase.

Following decades of authoritarian public policies, intensive debates between Islamists, secularists and so-called religious minorities have emerged on the issue of national identity. As Egyptians today have the chance to do this in a relatively free manner for the first time in their modern history, these debates will likely characterize public political culture for some time. During the period under review, they have been rather polarized.

The 2014 Egyptian constitution grants access to citizenship with equal rights and duties to anyone born to an Egyptian father or mother (Art. 6) and ensures equal opportunities for all citizens without discrimination. The new constitution (Art. 47 and 50) emphasizes the issue of cultural pluralism more strongly than its 2012 predecessor.

The 2012 constitution set up conflict between secular and religious norms, forming a very hybrid system that was open to manifold interpretations. This was mirrored in the society’s deep divisions in the run-up to the constitutional referendum, a situation that resulted in mass demonstrations and violent clashes since early December 2012. Islamist parties and groups became increasing self-aware following their overwhelming election successes in 2012. After these successes, a creeping Islamization of public life polarized society in a “winner takes all” manner until the power crisis in mid-2013. The 2014 constitution pushed back against the influence of religious dogmas, for example, by passing responsibility for interpreting Islamic Shariah law to the Supreme Constitutional Court. At the same time, the Coptic Pope Tawadros II and al-Azhar’s Grand Imam Sheikh Ahmed al-Tayeb openly support President al-Sisi. Furthermore, the Islamist party, al-Nour, also maintains close cooperation with the regime.
The state’s administrative infrastructure extends to the entire territory. It is divided into 27 governorates, partially subdivided into regions, towns and villages. But in principle the administrative system is highly centralized, with governors and subordinated executive organs ultimately appointed by the president of the republic and serving under his discretion. These executive organs are amended on the local level by popular local councils, whose members are elected and are supposed to monitor executive performance. However, these local bodies, which are by some perceived as remnants of the Mubarak regime, lack political power and can be dissolved by those they are tasked with monitoring. The high degree of centralization combined with the lack of fiscal control of local budgets opens many doors to corruption and arbitrariness. This is in part counteracted by a relatively independent judiciary that pursues corruption cases to a certain extent.

After the popular local councils were dissolved in 2011 without subsequent elections, the local administration of basic necessities such as electricity and water suffered from severe shortcomings. Consequently, a new wave of support for administrative decentralization is in the making. Amendments to the tax law in the area of income, sales, duty and real estate taxes have been applied since January 2013. Former housing minister al-Kafrawy called for qualitative amendments to all local administration law and more decentralization in July 2014.

2 | Political Participation

After the election and voting marathon of 2011 and 2012, only two major voting events took place during the period under review, a referendum on the new constitution in January 2014 and a presidential election in May 2014. Both votes took place after three years of turmoil and repression against supporters of the overthrown President Morsi. People, longing for stability, and social and political security, experienced a climate of forced patriotism and “Sisi-Mania.” Against this backdrop, both votes can be evaluated as relatively free, but not fair.

The constitutional referendum was more a referendum on the Morsi overthrow and a test for Sisi’s presidential campaign, rather than a vote on contents of the constitution. Out of the 39% of Egyptians who participated in the vote, 98% approved the constitution.

During presidential election campaign, the sole presidential opponent, Hamdeen Sabahi, did not receive equal logistical and media support. Al-Sisi won the presidential election with about 97% of the vote, which had an official voter turnout of 47%. The vote was extended by a third day due to disappointing participation rates during the first two and massive pressure was directed towards those who abstained. Low voter turnout mirrored the political mood during the campaign. Certain parties and NGOs had called for the election to be boycotted.
Parliamentary elections were supposed to take place in September 2014, but were re-scheduled for March 2015 due to insufficient security and delays in the implementation of a new electoral law. The latter has received criticism for allegedly favoring old regime members over young democratic activists.

Concerning the effective power to govern, there have been qualitative differences between the one year of the Morsi regime from mid-2012 to mid-2013 and the period of the al-Sisi regime since then. While Islamist groups dominated the elections in the first transitional phase, President Morsi did not succeed in gaining the active support of decisive power groups, such as the Ministry of Interior, powerful entrepreneurs or regional foreign powers and international donors (e.g. Saudi Arabia). Rather, the president polarized the country from which emerged an oppositional that joined together disillusioned voters, some judges, the Ministry of Interior and the army. At least since the beginning of 2013, governance has been paralyzed, with the government having lost its modest support and confronting the Tamarod rebellion. In sharp contrast, the subsequent military leadership has been able to govern with an iron fist and broad public support, despite having removed the president, suspended the constitution, established an interim government and crushed popular Islamist tendencies.

While the 2014 constitution guarantees the freedom of assembly and association “by serving a notification” (Art. 73), as did its 2012 predecessor, these rights have been in danger of being circumvented by special legislation and governing practices that hinder, restrict or criminalize political actions. Military trials of civilians are still allowed by the 2014 constitution, but only where these prosecutions concern allegations of acts against military institutions (Art. 204). After the country’s state of emergency, which since 1981 effectively limited the rights of political and civic groups to associate and assemble freely, was lifted on 30 May 2012, new laws regulating the activities of NGOs as well as public protests, demonstrations and strikes were being introduced in 2012. A new law, which regulates “the right to public meetings and peaceful marches and demonstrations” following more than 100 demonstrations in a month, affirmed in November 2013. It has been implemented rigorously since then. While some form of regulation of public protests is common in many countries, the opposition fears it will be widely used to suppress political activities. The harsh punishment and detention of thousands of, largely, Islamist activists, following unannounced public assemblies and demonstrations, led to large protests by national civil rights organizations as well as condemnation from international organizations and governments.
Egyptian constitutions have granted absolute freedom of belief since 1923 and so does the 2014 constitution (Art. 64). It also guarantees freedom of thought, opinion and expression (Art. 65), and prohibits concretely any kind of censorship, suspension or closure of media (Art. 71). It is committed to international human rights agreements ratified by Egypt (Art. 93). The country’s first law on the “freedom of information” has been in the making since 2012, though no progress has been achieved yet.

Internet freedom is stagnating, criminalizing especially bloggers and online reporters for “reporting on anti-government activism” according to the latest Freedom House report. Independent sources are rare, particularly Arabic language sources.

The freedom of belief in the constitution is, meanwhile, limited to moderate Abrahamic religions. Diverging religions and philosophies are discriminated against. The surrounding legal frameworks, concrete judicial verdicts, political campaigns, and an intolerance and ignorance of other people are, however, serious concerns. Atheism is treated as a crime and associated with a lack of moral integrity, which makes atheists “one of Egypt’s least-protected minorities,” as Sarah Leah Whitson expressed in January 2015.

Special attention has to be paid to a change in the ideological climate concerning freedom of expression, since the ousting of President Morsi. The Islamist government focused on the educational and cultural sphere. They censored, punished and arrested cultural figures, journalists and teachers for insulting Islam or the president. Since the overthrow of the Morsi regime, an enforced political conformity. This political conformity began with verbal, judicial and physical harassment of pro-Islamist groups and their media. However, it was later extended to all political or moral sentiments that did not align with al-Sisi’s project of a new unitary nationalism. Bassem Youssef, who had been on the receiving end of police investigations during Morsi’s presidency, had to stop his popular show al-Barnameg shortly after Morsi was ousted.

3 | Rule of Law

An effective separation of powers has not been in place since the beginning of the transitional process in 2011. Between June 2012, when the Supreme Council of the Armed Forces relinquished executive and legislative power, and 3 July 2013, when he was ousted, President Morsi governed unintentionally without parliament and delegated legislative competences to the Shura council. Two days after 3 July 2013, interim President Adly Mansour dissolved the Shura council. This has left Egypt without any parliament, as no subsequent parliamentary elections have taken place.
The separation of powers is thus reduced to presidential decrees and their approval by the judiciary. The 2014 constitution shows major amendments in reducing the power of the president. According to Art. 159, the (now unilateral) House of Representatives has the right to impeach the president in case he breaches the constitution or commits felony. Art. 161 allows parliament to withdraw confidence from the president by a two-thirds majority. In addition, Art. 189 states that the prosecutor-general is to be appointed by the Supreme Judicial Council instead of the president himself as in the 2012 constitution. However, as long as no parliament exists, it remains to be seen whether these changes have any substantive effect.

Traditionally, the judiciary has been a respected institution, and judges show a high degree of professional consciousness and power of judgment in general. Decades of authoritarian rule have, however, left their imprints on judicial decisions, which in the past have often been circumvented by political manipulations. These political manipulations have taken the form of special courts, especially military courts, the extension or restriction of judicial competences over the supervision of elections, the appointment or dismissal of judges, the political timing of lawsuits, year-long postponement of trials or the direct politicization of judicial decisions themselves. The independence of the judiciary has been protected by all previous constitutions, but the 2014 constitutional revision has made some major improvements. These improvements were based on recommendations proposed in a 2012 conference of the Arab Center for the Independence of the Judiciary and Legal Profession. Besides the higher independence of the prosecutor general, the immunization of administrative acts or decisions as well as exceptional courts are now prohibited (Art. 97). The supervision of elections, which had been highly contested, will be the task of judicial bodies for at least the next ten years (Art. 210). Independent budgets of the judicial bodies shall be fully transparent to parliament. Indeed such improvements have to prove themselves in practice. The recent acquittal of former President Mubarak, his former minister al-Adly and other officials, while supporters of the deposed President Morsi and other democratic activists have received harsh punishments, has been perceived as politically motivated. Several hundred alleged members of the Muslim Brotherhood were sentenced to death, following domestic and international criticism, in trials that failed to comply with proper legal procedures. The opposition figure, Amr Hamzawy, along with 19 other public figures, received a travel ban for “insulting [the] judiciary” in January 2014, after he had criticized the verdict in the NGO foreign funding case. The ban was lifted 10 months later. Leading Islamists received imprisonments over the same charges.
The extensive political corruption of the Mubarak regime was a central reason for the 2011 governmental overthrow, with opposition to regime practices ultimately expressed by the military as well as the Islamic and secular opposition. Whereas President Morsi declared the fight against corruption and office abuse as a high governance priority, there were no signs that the role of political corruption and office abuse had in fact changed during his time in power. Neither has visible progress been made since al-Sisi became the head of state. Typically, cases are often either adjourned or never reach trial. In contrast, more and more members of the former National Democratic Party are acquitted of all corruption charges. Most notably Mubarak and his sons, Alaa and Gamal, were acquitted on 29 November 2014.

In addition, office abuse is especially common in the context of daily police work and especially against women.

De jure, the protection of civil rights has severely deteriorated under the legal force of the 2012 constitution, as the guarantee of such rights was restricted by an Islamic guiding culture. Various articles intervened severely in women’s private and public lives, by underlining their duties toward family without doing the same for men. Additional articles gave a single monopolistic definition of moral values and gave the state the right to safeguard them. The 2014 constitution introduces major improvements, which ensure equal opportunities for all citizens without discriminating between men and women (Art. 9, 11, 53).

De facto, civil rights are under severe pressure since the beginning of the transition process and until the present. Although, for example, the problem of women’s sexual harassment has become an issue of public awareness and is punishable up to five years in prison, more than 1,000 cases were reported between September and December 2014 according to Harrassmap. One major development has been the rigid repression and degrading treatment of homosexuals in public. Above all, the number of political arrests, military trials, cases of torture and disappearances has reached alarming dimensions since the ousting of Morsi, which symbolizes the return to a repressive and degrading police state.

4 | Stability of Democratic Institutions

Political and administrative institutions were all part of an authoritarian regime under the rule of Mubarak. Within the period under review, which represents a second transitional phase that again started from the roots, institutions have typically performed poorly, if they functioned at all. After a year and half with the Supreme Council of the Armed Forces ruling under conditions of emergency law, without an existing parliament and with many cabinet reshuffles, changing governments have been at work since 2 August 2012. The work of President Morsi between July 2012 and July 2013 showed some ambitious efforts, but failed due to poor mediation. The
country is still waiting for a democratically elected parliament, with elections postponed until 2015. This follows after the elected parliament was dissolved in 2012 (lower house) and 2013 (upper house). Regional and local governments, and administrations have yet to be rebuilt on a democratic basis.

After decades of authoritarian rule, a general commitment to democratic institutions is high in theory, but has yet to be built up practice-oriented. Heterogeneous civil movements have reacted very sensitively to all indications that new usurpations of political power might be underway, holding mass demonstrations against military rule as well as against President Morsi’s constitutional declaration in November 2012 and his overall bad performance in June 2013. Islamist tendencies have been totally suppressed, as potential actors of the political process, since July 2013. Given a highly torn society, the military remains the most decisive veto-player, while remaining formally out of democratic control. Al-Sisi, though reassuring the aim of transforming Egypt into a “modern democratic state,” has repeatedly stated on other occasions that Egypt was “not yet ready for democracy” due to the fragile security situation.

5 | Political and Social Integration

After decades in which political pluralism was de facto repressed, a party system has been developing from the ground up since the beginning of 2011. Amendments to the 1977 Political Parties Law in April 2011, and the restructuring of the Political Parties Affairs Committee, which is responsible for recognizing political parties, lay the groundwork for a fast-intensifying party activism. Though the new law abolished an old clause that required new political parties to be distinguishable from existing ones, it has been criticized by many politicians and activists because of its high admission requirements, including a demand for 5,000 founding members from all 29 provinces as well as a high financial charge. The 2014 constitution prohibits political parties “on the basis of religion or discrimination based on sex, or origin, or on sectarian basis or geographic location” (Art. 74), and does not mention any more explicitly the criterion of “class.”

Since 2011, more than 45 parties are active, half of which were approved following Mubarak’s resignation. The party spectrum ranges from Islamic-conservative through liberal to leftist parties, which joined in four electoral blocs during the first parliamentary elections in December 2011 – January 2012. The party system is highly fragmented and unstable, and was polarized originally especially along Islamist-secular lines. The first election resulted in Islamist parties achieving high majorities. This reflected the degree to which these parties were rooted in society as a result of decades of grassroots charity work, as well their skill in campaigning using easy-to-recognize symbols drawn from the popular identity. The leading party of the first transitional phase, Morsi’s “Freedom and Justice Party” was formally dissolved by
Egypt’s High Administrative Court in August 2014. As the National Democratic Party (NDP) was dissolved shortly after the revolution in 2011, Egypt lacks any party with a basic level of professionalism and experience.

The next parliamentary elections will reveal the prevailing degree of voter volatility and party effectiveness. The allocation of seats will, however, focus on individual candidates rather than party lists.

During the last years of Mubarak’s rule, the number of active civil society organizations and movements expanded considerably, with their role gaining a new degree of appreciation among the public. While this was an important factor in Mubarak’s overthrow, the performance of interest groups during the period under review has varied widely. The spectrum ranges from powerful professional associations (journalists, lawyers and engineers, for example) to unions that are still fighting for independence from state tutelage, to youth and women’s associations that continue to struggle for political influence. The coalition of democratic and socioeconomic interests that proved so important in the success of the first revolution seems to have broken down over the course of the last years, as the economic interests of poor people were subordinated to the struggle to institutionalize democracy. The cooperation between interest groups seems to be decreasing to the extent social power struggles are growing. The most powerful interest group is still the military, with al-Sisi promoting an uncompromising national identity. Yet, the huge military-industrial complex not only serves national interests, but also the economic interests of retired generals. Organizations representing the “revolutionary youth,” meanwhile, face widespread repression from the regime, with many of its leaders arrested and organizations, such as the “April 6” movement, banned following allegations of espionage charges.

Approval of democratic norms and procedures was fairly strong in Egypt even under Mubarak, according to a 2008 book by Moataz A. Fattah called “Democratic Values in the Muslim World”. This fact was ultimately reflected in the overthrow of Mubarak. According to the Arab Barometer project, 78.7% of Egyptians favored a democratic system in 2011, a proportion that rose to 84% in spring 2013.

The 2011 Arab Opinion Index identified only 56% of Egyptians as “strongly agreeing” or “agreeing” with the statement that “in spite of having its difficulties, a democratic system is better than other systems.” This value is clearly below the average result of 67% for the other polled Arab countries. However, 27% of Egyptians are “undecided” about democracy, which is significantly higher than the 18% average across Arab countries.

Democracy is not necessarily viewed as a goal for itself, but rather as a suitable means to achieve freedom, justice and welfare. The approval of democratic performance is often strongly tied to the degree to which it is able to achieve these primary goals.
That is, Egyptian citizens do not separate political democracy from economic democracy or social justice.

The level of trust in political and administrative institutions, and especially in political parties, may be considered rather low at the present time, particularly given the public’s decades-long experience of authoritarian rule. Voter turnout has remained low throughout all referenda and elections since the beginning of the transition, failing to transcend 40% during three years of turbulent transition. This reflects a broad lack of confidence in democratic institutions. It is up to the emerging democratic institutions to give many people a feeling for what democracy genuinely means for the first time.

Likewise, public satisfaction with the working of democracy under President Morsi showed steadily declining ratings during the period under review, according to polls from Cairo-based Baseera Center for Public Opinion Research. The president’s approval ratings declined from 78% after 100 days in office to just 32% after 12 months. Dissatisfaction was higher in urban governorates and among youths and older age groups, implying the presence of an urban-rural divide as well as a generational gap. Morsi’s approval rating was also comparatively lower among well-educated people (university graduates: 29%) and higher among people with less education (among people who have completed less than secondary-level schooling: 35%) according to the center’s June 2013 polls.

Considering the multitude of alarming reports on the situation of political and civil rights in post-Morsi Egypt, it is contradictory that al-Sisi’s approval ratings suggested that he was the most popular political figure in 2013 with 45% rising to 2014 with 54%. This shows a significant, but moderate generational gap with 45% approval among youth and 66% approval among adults, according to the 2014 Arab Barometer. This correlates with al-Sisi’s approval rate rising from 82% after 100 days in office to 86% after six months.

While these latest polling results may indicate a perceived or real lack of persuasive political leaders, Egyptians have demonstrated with their protest against the Morsi governance in 2013 that they are not only sensitive of democratic ideals, but will also react immediately to regressive developments, if the government’s response is not too suppressive.

There is a high level of trust between citizens based on personal relations, and a strong sense of solidarity rooted in traditional patterns of interaction. While these patterns are mostly of informal character, this is in part because the formation of voluntary and autonomous organizations was severely restricted under the past authoritarian regime and still is, despite the transition process. The contradiction between the regime’s restrictions and the social need for mutual self-help offered considerable opportunity for Islamic charities in the past, as its agents operated in a gray zone.
between informal and formal organization. Autonomous informal networks and civil society organizations were crucial in preparing the ground for Mubarak’s as well as Morsi’s overthrow. That might explain why the current government openly tries to bring NGOs under its control by using, for example, the highly oppressive NGO law No. 84. The government required all NGOs to register under this law until 10 November 2014. According to the Egyptian Ministry of Social Solidarity, only nine foreign and eight Egyptian organizations had registered by this date, showing the widespread opposition towards this requirement. An even more restrictive law is said to be in the making.

Vital improvements in social capital are obvious, especially concerning women. Civil society organizations, like Harrassmap or Girl’s Revolution, succeeded in breaking longstanding taboos by publicizing public sexual harassment against women and campaigning against their social limitations.

II. Economic Transformation

6 | Level of Socioeconomic Development

Egypt’s overall level of economic development is low. The country depends strongly on volatile external sources of revenue such as tourism, Suez Canal revenues and remittances from workers in Arab oil-producing countries. These revenues fluctuate with the domestic situation in Egypt (in the case of tourism), the global economic situation and labor politics in the oil-producing countries. This makes it difficult to overcome the most important socioeconomic barriers impeding Egypt’s transformation, as there are only minimal domestic economic opportunities. High levels of poverty and illiteracy and traditional gender relation patterns further constrain economic performance.

Egypt is the most populous Arab country, with an estimated population of 87 million (early 2015, CAPMAS). The population is currently growing at 1.6% per year (2013), producing a youth bulge with attendant problems such as a rapidly intensifying need for education, jobs, housing, health care services and so on. The percentage of youth (15-24 years) out of the total population was estimated to be 20% in 2010 and to decrease to 18% in 2025, according to Barry Mirkin. Yet, most recent calculations suggest an increasing fertility rate over recent years, provoking renewed fears about a growing youth bulge.

Poverty and food insecurity rose by 20% between 2009 and 2011, with 25.2% of Egyptians living below the moderate poverty line of less than $2 a day, according to the 2014 World Development Indicators. A 2013 report of the World Food
Programme on “The Status of Poverty and Food Security in Egypt” reports that 23.7% are just above this line and that the average Egyptian spends 40.6% of their income on food. Due to the continuing economic crisis, child malnutrition has become an issue even in the fertile Nile delta region.

Egypt scored 0.590 on the UNDP’s 2012 Gender Inequality Index, having made barely any progress compared to 2006 with 0.603. The overall literacy rate is 73.9%, with a female literacy rate of 65.8% and male literacy rate of 81.7% (World Bank 2014). Egypt scores 0.587 in the U.N. Education Index (2012).

Egypt scored 0.682 in the UNDP’s 2013 Human Development Index (HDI), which is slightly above the average of all countries considered in the BTI. The country scored 30.8 on the World Bank’s Gini index for 2013, which ranked Egypt comparatively well.

### Economic indicators

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2010</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP ($ M)</td>
<td>89685.7</td>
<td>218888.3</td>
<td>271972.8</td>
<td><strong>286538.0</strong></td>
</tr>
<tr>
<td>GDP growth %</td>
<td>4.5</td>
<td>5.1</td>
<td>2.1</td>
<td><strong>2.2</strong></td>
</tr>
<tr>
<td>Inflation (CPI) %</td>
<td>4.9</td>
<td>11.3</td>
<td>9.4</td>
<td><strong>10.1</strong></td>
</tr>
<tr>
<td>Unemployment %</td>
<td>11.2</td>
<td>9.0</td>
<td>12.7</td>
<td>-</td>
</tr>
<tr>
<td>Foreign direct investment % of GDP</td>
<td>6.0</td>
<td>2.9</td>
<td>1.5</td>
<td><strong>1.7</strong></td>
</tr>
<tr>
<td>Export growth %</td>
<td>20.2</td>
<td>-2.6</td>
<td>6.0</td>
<td><strong>-12.3</strong></td>
</tr>
<tr>
<td>Import growth %</td>
<td>23.8</td>
<td>-0.6</td>
<td>-0.7</td>
<td><strong>1.2</strong></td>
</tr>
<tr>
<td>Current account balance ($ M)</td>
<td>2102.8</td>
<td>-4503.8</td>
<td>-3533.7</td>
<td><strong>-5822.5</strong></td>
</tr>
<tr>
<td>Public debt % of GDP</td>
<td>103.3</td>
<td>73.2</td>
<td>89.0</td>
<td><strong>90.5</strong></td>
</tr>
<tr>
<td>External debt ($ M)</td>
<td>29948.2</td>
<td>36541.6</td>
<td>44430.3</td>
<td>-</td>
</tr>
<tr>
<td>Total debt service ($ M)</td>
<td>2231.3</td>
<td>3027.4</td>
<td>3435.0</td>
<td>-</td>
</tr>
</tbody>
</table>
7 | Organization of the Market and Competition

Beginning in 2004, the government under then-Prime Minister Ahmed Nazif accelerated an economic reform and structural adjustment program that was based on a set of policy papers developed by the Policy Committee of the National Democratic Party, headed by Gamal Mubarak, son of Hosni Mubarak. However, what was presented and internationally accepted as major steps toward market-based competition was in fact a corrupt, non-transparent process that helped lay the groundwork for the 2011 revolution.

The 2013 Index of Economic Freedom depicts the period under review through an abrupt decline in the country’s economic freedom ranking, falling from rank 96 in 2011 (with a score of 59.1) through rank 100 in 2012 (score: 57.9) to rank 125 in 2013 (score: 54.8). The same index assigns Egypt rank 13 of 15 countries in the Middle East and North Africa (MENA) region. This economic trend has largely been a function of the transition period’s instability and uncertainty.

Meanwhile there are still major constraints to market based competition. The Egyptian pound is convertible only through onshore banks. The size of the informal sector is estimated to be between 30% and 40%, by Egyptian economists. However, this informal sector is the most booming, job-creating and market-oriented sphere of the Egyptian economy. This is sharp contrast to the similarly sized military-oriented sector of the economy, In this sector, market competition is limited through political control.

High energy and food subsidies (about 171 billion Egyptian pounds in 2012/13, with two-thirds of subsidies supporting energy) still distort market competition. Structural reforms, such as cutting energy demand and export subsidies, have been implemented in the context of a broader economic reform program since 2014.

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### Economic indicators

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2010</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash surplus or deficit</td>
<td>% of GDP</td>
<td>-6.4</td>
<td>-7.7</td>
<td>-</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>% of GDP</td>
<td>14.1</td>
<td>14.1</td>
<td>-</td>
</tr>
<tr>
<td>Government consumption</td>
<td>% of GDP</td>
<td>12.7</td>
<td>11.2</td>
<td>11.7</td>
</tr>
<tr>
<td>Public expnd. on education</td>
<td>% of GDP</td>
<td>4.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Public expnd. on health</td>
<td>% of GDP</td>
<td>2.0</td>
<td>1.9</td>
<td>2.1</td>
</tr>
<tr>
<td>R&amp;D expenditure</td>
<td>% of GDP</td>
<td>0.24</td>
<td>0.40</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>2.9</td>
<td>2.1</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.
The Egyptian market has been dominated by monopolies and oligopolies for decades. Steel and cement producers, importers of basic foods (e.g., wheat and meat) and more recently mobile operators have been at the top of the list.

A legal framework ensuring freedom of competition was established for the first time in May 2005. It created inter alia the Egyptian Competition Authority (ECA), as an official watchdog. Deemed inefficient from the beginning, however, several amendments have been undertaken. While an early attempt in 2008 fell through, due to political interference from the steel magnate Ahmed Ezz, new amendments were undertaken in September 2011 and April 2012. Violations of the anti-monopoly law since then can be fined up to 300,000 million Egyptian pounds (500% of the previous fine) or 10% of the product’s sales revenue. In a landmark ruling by one of Egypt’s economic courts, telecommunication provider Mobinil was fined in June 2014 for having failed to cooperate with the ECA. Complaints of price rigging were filed against cement producers in early 2013 and against the mobile operators Mobinil, Etisalat and Vodafone, in December 2013. Though Egyptian anti-monopoly policy seems to have become more active in recent times, qualitative changes depend on the ECA becoming more independent and effective. This could be achieved, for example, through leadership by a qualified economist and a more proactive role, as the Egyptian Association for Competition recommended in 2011.

Egypt has been a member of the WTO since 1995; however, the latest WTO trade policy review on Egypt dates from 2005. Trade freedom in that review received a score of 73.8, about the average level worldwide. However, nontariff barriers (e.g., import restrictions, import bans, burdensome and nontransparent sanitary and phytosanitary measures, custom procedures, customs corruption and enforcement of intellectual property rights) constitute a burden for free trade. They remain tools by which the government can protect parts of the country’s industry.

While the European Union started talks about enhancing its free trade agreement with Egypt in December 2012, free trade policies between countries of qualitatively different development stages have been criticized, among others, by Egyptian NGOs. This criticism focused on the threat that free trade agreements pose to the socioeconomic development and stabilization of the less developed countries.

Egyptian governments since 2012 have pushed for trade agreements between countries considered part of the developing world. Starting with President Morsi reinforcing economic ties with China in 2012, international trade policy under President al-Sisi has also started free trade agreements with South America (Mercosur), Africa (Kenya, COMESA, SADEC, EALA) and Russia since 2014. Egypt also hosted a conference, which aimed to create a unified African development strategy for the upcoming WTO negotiations in January 2015.
Egypt’s investment regime began to recover in 2013. Between 2012 and 2013, FDI doubled to the equivalent of 2% of GDP in 2013. FDI is close to approaching its, already low, 2010 levels.

Egypt’s banking system remained relatively stable during the period under review, particularly given the extraordinary conditions of political unrest and economic crisis management. It previously proved resistant to the impact of the global financial crisis. The Central Bank of Egypt (CBE) follows conservative fiscal policies and supervises banks closely through its Macro-Prudential Unit. Egypt has limited direct exposure to structured products, and its level of integration with world financial markets is to date low. Four fully state-owned commercial banks (National Bank of Egypt, Bank Misr, Banque du Caire and Bank of Alexandria) used to dominate banking in Egypt. Today, full private-sector ownership, including foreign ownership, is allowed in banking (as well as in insurance). Many large international financial institutions now operate in the areas of commercial and investment banking, mutual funds, insurance and securities trading. Privatization has started for the Bank of Alexandria and the Banque du Caire. Basel II standards have been successfully implemented in 2012, according to CBE.

The banking sector’s capital-to-assets ratio, though it has risen steadily over the course of the last decade, was still a comparatively low 7% in 2013, according to World Bank data. Nonperforming loans reached an all-time low of 9.3% in 2012 as well as 2013, after having been as high as 26.5% in 2005.

8 | Currency and Price Stability

Inflation rates have not been consistent over the last decade. Since 2006, inflation has been high, increasing from 7.6% in 2006 to 9.3% in 2007, before peaking at 18.3% in 2008. Since 2008, it has been declining, falling to 11.8% in 2009, 11.3% in 2010 and to 10.1% in 2011. It has remained below the 10% threshold since, with 7.1% in 2012 and 9.5% in 2013. While this high inflation has increased social unrest in the past, leaving governments reluctant to remove subsidies, the government did cut fuel subsidies in July 2014 without broad protests. By the end of 2014, inflation had increased to the level of about 10% due largely to a rise in 78% increase in fuel prices (despite the current low world oil price, and the subsidized or even free oil deliveries from Saudi Arabia, Kuwait and the UAE). However, the central bank counteracted this effect by raising key interest rates.

The Egyptian pound was floated after almost a decade of being pegged to the U.S. dollar in 2003. The government has since been trying to raise confidence in the convertibility of the Egyptian pound through various measures. Even after the beginning of the popular uprising in January 2011, the central bank managed to keep the exchange rate stable through use of its foreign reserves. However, due to growing
budget deficits and shrinking foreign exchange reserves, the government was in early 2013 again facing pressure to let the pound float. Indeed, the dramatically shrinking foreign currency reserves pose a serious threat to Egypt’s economy. Due to the enormous decline in tourism and FDI in 2011 and 2012, U.S. dollars and euros were hardly available in Egypt in early 2013. A new $4.8 billion IMF loan introducing new austerity measures was discussed for months, but in January 2013 had been delayed due to the expected parliamentary elections as well as the disputed question of whether such loans were compatible with Islamic law. It became dispensable though structural reforms were introduced after Egypt received more than $10 billion from Gulf countries. This sum helped to stabilize the Egyptian pound in 2014.

There is an awareness of the need to preserve macroeconomic stability in fiscal and debt policy. Especially compared to the late Anwar Sadat/early Hosni Mubarak period, Egypt has done relatively well in recent years. However, the extent to which the regime’s attempts to maintain macroeconomic stability actually contributed to this development remains unclear.

Government spending on subsidies which amounted about 171 billion Egyptian pounds in 2012/2013 has contributed to persistent fiscal deficits. Egypt’s current account balance deficit has increased from $1.4 billion in 2008 to $4.5 billion in 2010 to nearly $7 billion in 2012.

Public debt has risen from a decade low of 70.2% in 2008 to 73.2% in 2010 to 89.2% in 2013. External debt increased from $29.9 billion in 2005 to $36.5 billion in 2010, reaching $40 billion in 2012. Total debt service was uneven. It rose from a decade low of $2.1 billion in 2004 to $3.2 billion in 2008, before reaching $3.5 billion in 2011, and then declined to $3.2 billion in 2012.

Cash deficit steadily increased from 4.6% of GDP in 2008 to 7.7% in 2010 to 10.1% in 2011 and reached 10.6% in 2012. Government expenditure rose steadily, but moderately from 10.9% of GDP in 2008 to 11.2% in 2010 to 11.7% in 2013. Total reserves, which stood at $33.6 billion in 2010, dropped severely following the 2011 overthrow, dropping to $14.9 billion in 2011, $11.6 billion in 2012, before recovering to $13.6 billion in 2013.

A fiscal consolidation strategy, introduced in 2014, reduced government expenditure through cuts to public subsidies and compensation for government employees, and tax reform. The government has planned an international investment conference for March 2015 in Sharm al-Sheikh. The aim is to attract future FDI and thereby stabilize the economy.
Property rights and the regulation of the acquisition of property are adequately defined and protected under Egyptian law, based both on Islamic law and the Napoleonic code. However, the legal code for property ownership is complex and creates delays in the judicial process.

According to both the 2012 Doing Business Report and the 2013 Index of Economic Freedom, the unstable political development prevented Egypt from making progress with reforms regarding property rights. Rather “prices for private political-risk insurance have skyrocketed,” and “corruption continues to erode trust in the economic system.” According to the World Bank’s 2014 “Doing Business in Egypt” report, the country “still faces structural challenges that impede private sector activity.” Bureaucratic constraints concerning licenses and permits as well as “informal gifts or payments, anticompetitive practices and regulatory policy” still top the list of difficulties. Mutual trust between public officials and the private sector remains low.

The 2014 report generally confirms the conclusions of the general 2012 Doing Business Report, that “the degree to which regulations and institutions are business-friendly varies fairly widely across different areas of regulation” in Egypt, with Ismailia ranking best.

Egypt ranked 128 out of 189 economies overall in 2014. Its highest rank was for starting a business at highest, where it ranked 50. Meanwhile, its lowest rank was for enforcing contracts, where it ranked 156. For registering property, Egypt ranked 105.

As part of its self-declared fight against terrorism, the government nationalized several enterprises supposedly belonging to members or supporters of the Muslim Brotherhood, such as the successful supermarket chain Seoudi. Such confiscation measures certainly did not help to increase investors’ trust. In military operations on the Sinai, the army destroyed several houses of local residents.

Privatization only started under Prime Minister Ahmed Nazif from 2004 on, inter alia by imposing taxes on public enterprises that were twice as high (40%) as those faced by private ones. As a result, privatization efforts accelerated dramatically until 2011. However, these processes lacked transparency, were infected by corruption and were not governed by market principles. As such, they contributed substantially to the roots of the 2011 overthrow.

Private enterprises are concentrated in the service sector, particularly in trade, banking, insurance, tourism, communication, and for the last several years, education. Productive sectors such as medicine, food and energy, considered to be of strategic importance by the government, have less private participation. The huge military-
industrial complex controlled by the army has been engaged in public-private international joint ventures for about two decades, with increasing public appearance since 2013. For example, Cairo University canceled a contract with a private sector supplier of food and drink in 2014 and gave it to the military which offers these services at lower prices. On a broader scale, army activities include transport, energy, computer technology and more, and are designed to bring foreign capital as well as technology into the country.

Starting a business has clearly become easier over recent years, according to the World Bank’s Doing Business reports 2012 and 2014; to start a business takes an average of seven days, and thereby tops the MENA region. The easiest path for foreign companies to enter the Egyptian economy is nevertheless through joint ventures.

10 | Welfare Regime

The dramatic downward turns in social security in 2005 and again in 2011 have increased the national poverty rate to 25.2% in 2011, with an additional 23.7% of population living in “near poor” conditions, as stated by a 2013 World Food Programme report. This reflects an increase of roughly 50% over the last 15 years.

Public health expenditures averaged 2% of GDP over the last decade, placing Egypt at the bottom of the Arab region with respect to such outlays. The prevailing system of goods subsidies, accounting for more than 10% of GDP, depended heavily on state expenditure and has not been well targeted. By generally subsidizing fuel and food, it funded the upper classes inappropriately, while having relatively small real distributional effects for the poor. Together with a tax system which is only mildly progressive, weak labor rights, and the fact of an informal urban sector that accounts for some 45% of the total labor force (as described by Marcus Loewe in a study on social security in Arab countries), any social safety net has only a marginal existence, and policies in the area have to be restructured from the ground up. As is well known to country experts and has been emphasized in the 2002 Arab Human Development Report, among other sources, grassroots charity organizations, often of Islamic identity, have served as a substitute for the absent public social security system for decades. This helps explain the Islamist parties’ election victories in 2011 and 2012.

The 2014 constitution challenges the state to provide at least 3% of GDP for public health, a percentage “which shall gradually increase to comply with international standards” (Art. 18). Initiatives to reform the subsidy as well as the tax system started in 2014. Egypt’s minister of planning al-Araby announced in December 2014 that future economic growth policy would be oriented towards social justice.
According to the Egyptian constitution, the state is the guardian of equal opportunity for all. The new 2014 constitution eliminates different ideas of equality and equity for men and women, which had been prevalent in the 2012 constitution with its commitment to traditional gender relations. However, the most substantial impediment to equal opportunities between the sexes is rooted in the dominant patriarchal concept of labor division, which is broadly accepted in society and reflected in state policy. This thus constrains opportunities for women to take paid work or seek a role in public life, while indeed dismissing any alternative conceptions of how women might wish to live their lives. While the persistence of unequal gender relations has been demonstrated by, for example, the many instances of sexual assault and harassment that took place during public protests since 2011, this escalation in instances of abuse has also broken old taboos. In particular, women have begun to exercise their rights by, for example, riding a bike or resisting traditional female marriage and child-raising roles.

Women’s access to education has increased, especially in higher education. Although, literacy rates remain lower for women than men (65.8% female literacy rate and 81.7% male literacy rate), while enrollment rates are slightly higher for men, with a female-to-male enrollment of 96.0% in primary, 98.1% in secondary and 96.4% in tertiary education (World Bank, 2014). The female labor force participation rate is also low at 24.2%, a fact that underlines practical constraints.

The regime has favored the interests and demands of some social groups over others in other respects as well. Those who live under the poverty line have typically remained there, while others (e.g., the state political elite, the highest segments of the state bureaucracy and the military) have benefited from state services and enrichment. The Christian (mostly Coptic) minority, which makes up about 7% of the population, is underrepresented in the public sector. As a result of the post-2004 economic reform agenda, members of a small circle of businessmen and corporations have been significantly strengthened.

Egypt scores 30.8 in the World Bank’s Gini index (2008), hinting at a huge income gap separating the different strata of society. While economic growth has accelerated up to 2011, progress in human development is still heavily uneven. Young people, who make up the majority of the overall population, are particularly vulnerable to poverty.
11 | Economic Performance

Egypt has managed to achieve good and rising macroeconomic outcomes between 2004 and 2008. This development has however been social and geographically unbalanced, and declined since 2010 generally.

Egypt’s GDP growth was affected by the global financial and economic crisis. While real GDP growth increased from 4.1% (2004) to 7.1% (2007) and 7.2% (2008), it fell significantly to 4.7% in 2009, recovered to 5.1% in 2010, and plummeted to 1.8% in 2011 due to the country’s unrest. It only slightly recovered to 2.2% in 2013, but is expected to rise above 3% in 2014 and 2015.

According to the 2014 Index of Economic Freedom, “domestic instability and political uncertainty” hurt tourism as well as foreign investment significantly during the transitional period until 2014.

Real per capita GDP growth recovered slightly in 2013, but has not translated into increased income for all segments of the population. Nor has overall economic growth had any significant impact on employment. The official unemployment rate has risen to 12.7% in 2012, but youth unemployment rates are significantly higher. Unemployment rates among university graduates have risen over the last decade. Outside observers estimate the unemployment rate to be about 20%, much higher than the figures contained official reports.

Inflation rates are high, but have declined to 10.1% in 2011, 7.1% in 2012 and 9.5% in 2013 after peaking at 18.3% in 2008, according to the World Development Indicators 2014. The impact that high inflation has on the majority of poor Egyptians is massive. The tax system has been structurally deficient for many years, with tax revenue totaling just 13.2% of GDP in 2012 (in comparison to 21% in Tunisia and 24.5% in Morocco). However, a major restructuring of the country’s tax system as part of an IMF economic reform package has been on the table since December 2012; the first phase was introduced in 2014 without IMF pressure. It is not surprising that overall economic performance remains poor, especially during the first phase of the period under review, as many constraints, described by Ibrahim Saif in a 2011 study of challenges associated with Egypt’s economic transition, continue to be relevant.
12 | Sustainability

Given the region’s low contribution to global CO2 emissions, Egyptian representatives usually perceive themselves more as a victim than a cause of global pollution, particularly considering the risk that climate change and rising sea levels pose for the country’s coastal areas. While this might be true for the country as a whole, many parts of the overcrowded capital Cairo are heavily polluted, and suffer from the daily emissions produced by traffic and industry. Though factories are obliged to undertake environmental impact assessments before starting production, policy implementation by ministries is weak, particularly with those companies belonging to the military complex. Helwan, a former spa in the south of Cairo, now numbers among the most polluted areas in the world, due to excessively polluting steel mills and cement factories. Grabbing of fertile land is another serious problem.

Environmental protection is addressed in the 2014 Egyptian constitution as a national duty and challenges the state to undertake necessary measures to protect the environment. However, articles addressing the issue were criticized by experts for being vague and lacking concrete strategies. The most dynamic incentives and strategies are initiatives led by civil society campaigns. For example, the “green pan campaign” which collects used cooking oil and converts it into bio-diesel has been running since 2014.

President al-Sisi’s strategy for economic development prioritizes huge investment projects, such as the extension of the Suez Canal. However, environmental concerns are usually not taken into consideration in the design of these projects.

The Egyptian education system struggles to address the needs of the country’s growing population. The country faces an annual population growth of 1.7% (2011), with some 40% of the country’s population today aged between 10 and 29, according to the 2010 Egypt Human Development Report. Latest analyses speak of “unprecedented population explosion” in 2012 with 560,000 births more than in 2010. Around one third of young people aged 18 to 29 have not completed basic education; 17% dropped out of school before completing basic education, and 10% never enrolled. The female-to-male enrollment ratio is 96.0% for primary, 98.1% for secondary and 96.4% for tertiary education. However, Egypt’s educational infrastructure cannot absorb all young Egyptians, a group that should constitute the major productive force of its economy. Despite improvements, the adult (older than 15 years) illiteracy rate in Egypt is still about 26% (18% for men and 24% for women). Public education institutions for basic and advanced education are hampered by structural difficulties and characterized by unequal geographical distribution, as services are concentrated in urban centers. The ruling elite has...
identified these problems, but has not effectively addressed them. Public expenditure on education has dropped since 2005 from 4.8% of GDP to 3.8% of GDP in 2008 (more recent data are not available). The 2014 constitution challenges the state to moderately and gradually increase public spending on education to 4% of GDP, to align with international standards (Art. 19). Public expenditure on R&D averaged a meager 0.25% of GDP between 2004 and 2009, but has increased to slightly above 0.4% since 2010, according to the World Development Indicators 2012. Conservatism and patriarchy dominate the Egyptian mindset.
Transformation Management

I. Level of Difficulty

Three sets of structural constraints limit the capacity of an already limited government and state institutions.

The first set refers to natural conditions. This includes the country’s high level of dependence on the water of the river Nile, which has led to conflict with southern neighbors given rising water consumption levels everywhere; and also the prevalence of desert land in the country, which results in the concentration of a large population of around 87 million in the Nile delta, the coastal areas and along the river Nile (only 5% of the country’s territory is inhabited).

The second set of constraints is related to social conditions produced by the country’s elites in the constraining context of world political and economic conditions. The fast population growth of the previous decades has produced an enormous youth population, which cannot be provided with education, jobs and housing on anything other than a basic level. Previous governments delayed or did not focus on related policy needs, such as the necessity of creating a quantitatively and qualitatively adequate education system, or of rebuilding the economy so as to provide a sufficient number of adequate jobs. The genesis of the post-colonial Egyptian state out of a military coup has produced a political regime in which, in Steven Cook’s words, the military rules but does not govern; with the assistance of foreign support, the powerful military has remained a potential veto power, as was seen in the military’s crucial role in the overthrow of Mubarak.

The politics of economic liberalization since the 1970s have mostly served the interests of Egyptian and foreign big businesses, polarizing society economically between aspects of extreme wealth and poverty while destroying the relative economic homogeneity of the 1950s and 1960s. Six decades of authoritarian rule have destroyed the once-lively political culture, with the effect that public political articulation has exploded in a very heated atmosphere since the overthrow. On a related note, public exchange of religious and secular opinions has been suppressed, leaving a country deeply divided in its search for identity. Last not least, traditional
interpretations of gender relations have been supported by state polices for decades, producing additional gender cleavages.

Third, while Egypt’s post-revolution leaders – the military as well as the Morsi presidency – have inherited at least four socially produced packages of cleavage (civil-military relations, secular-religious relations, labor-capital relations and gender relations), they have not mitigated but rather deepened differences, producing intensified cleavages for their own government.

Enduring social conflict, often related to terrorism and an associated counterinsurgency, in Egypt and its surrounding region have produced further structural constraints.

Egypt is characterized by a fairly strong tradition of civil society organization. Independent labor movements developed in the late 19th century, and professional syndicates played an important role in the first half of the 20th century. Liberal women’s and anti-colonial protest movements also gained strength at this time. Last but not least, circles of military officers formed, ultimately overthrowing the monarchy in 1952, thereby representing broad popular opposition. While early civil society organizations were subordinated to the single-party system of the 1950s and 1960s, and in some cases were partially nationalized (unions, women’s movement, etc.), slight tendencies toward liberalization developed in the 1970s. Inspired by the third wave of democratization and the important role played by civil society, civil society organizations spread and intensified their work especially in the fields of human, civil and women’s rights, as well as social care. This latter has been particularly the field of Islamic charity work, contributing a lot to the Muslim Brotherhood’s increasing popularity in the 1990s. In 2004, the Kifaya (Enough) movement emerged in protest against a new presidential mandate for Hosni Mubarak, and the attempt to deliver power to his son Gamal. The accelerated privatization and liberalization program beginning in 2004, often conducted by defrauding workers of their salaries or other such tactics, activated labor movements and triggered the “April 6” youth movement to express solidarity with workers’ activism. Last not least, the brutal police killing of the young Khalid Said in Alexandria in summer 2010, largely because he had posted a film depicting policemen’s drug deals on the internet, initiated the “We are all Khalid Said” movement. All groups cited and many others helped to organize the uprising and are still fighting for civil and social rights in Egypt. Civil society has been at the heart of organizing public discontent against the Morsi government since the beginning of 2013. It was civil society that prepared the 30 June uprising, which was later usurped by the military. Civil society activity remained intensive and innovative also in the second phase of the period under review, but increasingly suffered from political, legal and bureaucratic constraints, such as the banning of “April 6” movement on 28 April 2014.
Apart from occasional attacks against state and tourism targets, the degree of open conflict has been low in recent decades due to the authoritarian regime’s strong grip on power and repressive instruments, at least until the fall of Mubarak.

The first transitional phase after the overthrow saw a period of intensive confrontational power conflicts, polarization, mass mobilization and violence, leaving many people arrested, wounded or dead. Confrontation developed along the civil-military cleavage until June 2012, with continuing mass mobilization against military governance. This was followed by mass protests against the draft constitution, which was criticized for not being representative of the Egyptian people and for endangering freedoms and rights. Subsequently, President Morsi’s constitutional declaration drew intense opposition at the end of 2012, with critics charging Morsi with usurpation of the revolution. The first and second anniversaries of 25 January, the first day of the revolution, were marked by mass demonstrations expressing unrest and dissatisfaction with the lack of progress and the content of change. Ongoing conflicts also include labor strikes, after which workers have been sentenced to multi-year prison terms; sexual harassment against women; and growing sectarian tension between Muslims and Christians. Conflicts intensified heavily, following the overthrow of Morsi in July 2013 and throughout the rest of 2013, between proponents and opponents of Islamic groups and the new military governance, which left hundreds of proponents dead or imprisoned. The “Raba’a clashes” of 14 August 2013 left a deep mark on Egypt’s society. They also contributed to an increase in militant Islamist insurgencies by groups like Ansar Beit al-Maqdis / Wilayat Sina in Sinai as well as security raids by the Egyptian military in the region. Attacks against state institutions continued, leading to a collective awareness that, for the first time in country’s history, the Egyptian army was attacked by Egyptian nationals. Also civilians have been increasingly targeted.

II. Management Performance

14 | Steering Capability

While the Freedom and Justice Party (FJP) had identified security, economy and corruption as the most urgent governance issues in their 2011 parliamentary elections program, it later sensibly proclaimed a “constitution first” position. However establishing a new Islamist branded constitution became a strategic priority under the Morsi presidency without paying heed to the country’s heterogeneous political culture. His November 2012 edict granting himself enormous power and restricting the responsibilities of the judiciary provoked massive protests both within and outside Egypt and triggered mass opposition inside and outside the state apparatus.
ever since January 2013. Only one week before his removal, the president realized the need for proposing constitutional amendments and for national reconciliation under public pressure.

The transitional presidency of Adly Mansour, which lasted one year from July 2013, clearly concentrated on the design of a new transitional roadmap. This roadmap included a vote on an amended constitution, and presidential and parliamentary elections.

Al-Sisi, who took office as the newly elected president on 8 June 2014, did not deliver an electoral program. However, he set clear priorities, including economy recovery, improvement of the country’s physical infrastructure and services, and the stabilization of state institutions and public security. He also promised that people would feel a qualitative improvement within two years. No powerful veto players have openly obstructed his strategy, with the exception of the Islamist groups, during the review period. However, there has been criticism of his commitment to social justice and democratic rights, because of the harsh repression of public protests, especially in the second half of 2013, with the use of protest legislation. However, his argument that a country, with 40% of the population living in or almost in poverty, must prioritize economic recovery over political freedoms is not without logic.

Apart from initiatives to stabilize power, push through a highly controversial constitution and reform public education according to Islamist principles, policy implementation was weak during the presidency of Morsi, and more or less came to a halt during the last six months until June 2013. This weakness was due to several factors, including bad policy communication and political management as well as ignoring proposed policy priorities and polarizing the country. All these factors contributed to an increase in political constraints and opposition, and resulted in a broad inability to act during the late Morsi presidency.

During the transitional period under President Mansour, and the cabinets of Hazem Beblawi and Ibrahim Mahlab the transitional process was implemented as planned, with the exception that presidential elections occurred before parliamentary elections. This change was communicated across the political spectrum with almost only the Islamist groups assessing the process as illegitimate. The harsh crackdown, terrorist branding and legal dissolution of the Freedom and Justice Party and the Muslim Brotherhood, following the removal of Morsi in July 2013, was a controversial response to and cause of this development.

The transitional period as well as the first six months of President al-Sisi’s regime have been characterized by clear prioritization and intensive political agency.

Public security has been reestablished by harsh actions undertaken by the military and security forces directed especially against the militant Islamist groups. These actions became part of a new campaign to fight “terrorism”. While this action
provoked massive criticism from domestic and international human rights advocates, it has contributed to an increased national and international confidence in the stability of Egyptian politics and economics. Economic recovery has been the goal of a number of remarkable policy decisions and projects. Al-Sisi succeeded in implementing a bottom-up reform of the expensive and undifferentiated subsidy system. He cut general fuel and food subsidies in favor of subsidies that targeted the poor. He also introduced minimum incomes for retirees and workers as well as maximum incomes for state employees inclusive himself, which cut salaries for high-ranking staff, such as senior advisers of national banks. This was paralleled by reforming the tax system at the expense of high-income earners and many physical infrastructure initiatives. Such infrastructure projects include the development of a Cairo to Alexandria high-speed train line, an expansion of the Cairo metro, the mega construction of a new Suez Canal (to be completed by August 2015), and the creation of new industrial and technology centers, and free trade areas around the new Suez Canal. An international investment conference intended to attract FDI is also scheduled for March 2015.

However, al-Sisi still has to prove his commitment to other stated priorities, including the “honest democratization” that he proclaimed at the 2015 World Economic Forum in Davos, socially balanced high economic growth, national reconciliation, reduction in corruption are long-lasting and effective.  

Neither the early military government nor the following Mohamed Morsi presidency showed an innovative or flexible style during their time in power between 2011 and mid-2013. They thereby contributed to a broad perception in Egyptian society that nothing had changed since the fall of Mubarak. While these attitudes consequently provoked further social polarization and cleavage, al-Sisi succeeded in introducing a fresh and innovative style, which contributed to the intensively debated “Sisi-Mania.” Al-Sisi impressed many Egyptians by a communicative style that reached out to wide parts of Egyptian society, including young people, different religious groups, various political parties, business people, women, writers and artists. He explained and reasoned his policies, though he showed no disposition toward discussing it. He implemented austerity policies without broad protest, something unseen in Egypt before, and raised enthusiasm for his “Long Live Egypt” fund (which critics perceived as monopolizing social engagement in a less than transparent way). However, al-Sisi has been perceived as authentic and has convinced many Egyptians to invest their money in the extension of the Suez Canal. At the same time, he has uncompromisingly pursued a new nationalism. He incorporates a very complicated mix of innovative and authoritarian approaches.
For the last decade, Egypt has suffered from an inefficient use of human, financial and organizational resources. It is characterized by patriarchal power relations and a distribution of power through patronage. A misguided economic policy provided jobs within the public administration instead of the private sector, but without improving public services. Together, this has led a large proportion of young people, who are deeply socially committed, discouraged and frustrated.

While economic crises and political unrest deepened during 2013 and the first phase of the period under review, with key macroeconomic measures reaching disastrous levels, a major political reshuffle started in 2014 and is still in its beginning. The burdensome and inefficient subsidy system, which failed to reach the poor, has started to be reformed, guided by principles of social justice. The indigenous financing of the New Suez Canal as well as ambitions to reduce the public budget debt to 10.2% of GDP in 2015 suggest a commitment on the part of public authorities toward economic and financial sustainability, but resource efficiency has to be broadened and deepened. This is especially true for the defense budget, which includes all military-industrial expenditure, which is still beyond public control.

While policy coordination was miserable from the beginning of the uprising until mid-2013, at least with respect to the relationship between proposed policy goals and real policies, public opinion appreciated that there is neither bread nor freedom nor justice, to quote the slogans of the uprising and the Freedom and Justice Party’s subsequent campaigns. This situation changed after the confrontations between the Islamist government and its supporters, and the security apparatus in 2013. However, the cost of this was high. Public security, stability and economic recovery are well coordinated on all levels, and the associated policy goals are widely accepted by the public. As long as the “fight against terrorism,” the tendency to shut down public protest remain effective policy tools for achieving political and economic stability, supporters of the current government will continue to perceive these measures as constructive, despite any reservations. Social reconciliation, however, remains an important topic of future policy coordination.

On a low level, baksheesh is a part of daily life in Egypt, corresponding to tips in English-speaking countries. However, since the beginning of the policy of economic liberalization and privatization, a harmful and largely uncontrolled corruption developed, with roots in private capital’s dependence on state officials’ decisions, and in the discrepancies between the income of private businesspeople and state officials. Limited access to information through the media – which were either state-owned or tended to focus on scandals rather than facts – impeded the public’s ability to hold their officials responsible for their actions. With media gaining more freedom over time, outlets such as the al-Masry al-Youm newspaper started to cover the
former regime’s failed anti-corruption policies, and have continued to monitor policies in the area. Since February 2011, Egypt’s Illicit Gains Authority has initiated complex investigations into the wealth accumulated by the Mubarak family, many former ministers, members of the former National Democratic Party, and even chief editors of state-run newspapers. Hundreds of lawsuits on the issue have been filed, with assets frozen or transferred to the Finance Ministry. The Freedom and Justice Party and President Morsi identified corruption as a top policy priority, but were subsequently charged with corruption themselves. Related policy proposals include the establishment of an independent and effective judiciary, strict control of governmental accounting by the Central Accounting Agency and the subordination of this body to the People’s Assembly, publicizing corruption affairs, protecting the public’s right to obtain information, and applying the law of political isolation to anyone who participated in corrupt practices under the former regime. In January 2013, amendments to the anti-corruption legislation were made that would increase penalties and create anti-corruption committees tasked with monitoring government performance and efficiency. At the same time, a policy granting impunity to those who repay illicit gains has been implemented based on amendments to the investment law dating from January 2012.

Hisham Geneina, head of Egypt’s Central Auditing Organization, which is tasked with auditing state spending, estimated the loss of public money through corruption at 200 billion Egyptian pounds in 2013, according to a 2014 report of al-Masry al-Youm. However, while institutional arrangements to monitor government expenditures have improved in recent years, prosecution and judicial judgments are influenced by networks of political elites, which are hard to overcome in short time.

16 | Consensus-Building

The overthrow of the Mubarak regime by a diverse movement calling for freedom, dignity and social justice demonstrated a general consensus among the major political actors, groups and parties oriented towards ending authoritarian and socially marginalizing policies, and starting a structural reform of the political and economic system. However, more than 40 political parties have been founded since that time, stretching across a broad political spectrum from conservative-Islamist to secular-liberal to secular-leftist. In many cases, these new actors’ political profiles have yet to be clarified, a process that may intensify in preparation for the next parliamentary elections, though the current electoral law puts more emphasis on individual candidates than party lists. In the political realm, the major players agree on democracy as the principal form of the political system. However, there are severe cleavages on the form this should take. While conservative Islamists argue that civil rights, especially personal freedom rights, should be subordinated to Islamic law, secularists call for a liberal democracy based on modern secular definitions. Al-Sisi
himself has shown no increase in interest in having democratic parties and an elected parliament, and stated in summer 2014 that Egypt was “not yet ready to become a democracy.”

In the economic realm, there is broad consensus over problems that need to be addressed in order to achieve a market economy. However, opinions differ as to extent and in what form social concerns should be addressed by a market economy. Positions range from neoliberal stances to visions of partial public ownership.

Since the displacement of Morsi, the outlawing of major Islamist players and the introduction of rigid security policies targeting the democratic opposition, the likelihood of a return to authoritarian rule and deep state structures is increasing. There are currently no powerful opposition parties able to act. A new wave of militant Islamists are attacking public facilities, including military and security institutions. These militants are aligned with groups affiliated with IS, which threatens the economic recovery of the country. This development as well as the new anti-terrorism-campaign recalls the situation of the 1990s, when it was used to legitimize rigid security policies. It thereby interferes with the aim of democratic renewal in general.

As for anti-democratic actors inherited from the Mubarak regime, the most significant remaining potential anti-democratic actors include those parts of the military controlling complex economic assets that remain outside public control. However, as long as the military is not threatened with loss of its unique role it will probably not manifest its potential as a veto power. Totally subordinating the military to civilian control will be a prolonged task, however, demanding the negotiation of deals on the future of the military-industrial complex.

It is too early to evaluate the potential veto power of the small but powerful business elite created under the old regime. Problems concerning this group will depend heavily on the seriousness of the anti-corruption and anti-monopoly policies proclaimed by Morsi as well as al-Sisi and their effective implementation.

Remnants of the old regime, the so-called feloul, are increasingly rehabilitated and may get renewed influence by the coming parliamentary elections, which will be dominated by individual rather than party seats.

After the fall of Mubarak, the major remaining cleavages include civil-military relations, secular-religious relations, labor-capital relations and gender relations. While all cleavages were intensified during the period of military governance lasting until July 2012, President Morsi successfully moderated the civil-military cleavage by compromising with regard to the military’s role as manifested in the constitution, and by leaving the military’s economic empire largely untouched. However, other cleavages have further intensified since Morsi took office and have been in a latent state of crisis since then. The president’s inability to identify the sentiments of
considerable parts of society and to moderate them in an anticipatory fashion led to a deep crisis in 2013, which has intensified secular-Islamist cleavages. Apart from this enduring crisis, conflict management ameliorated during the transitional period and especially since al-Sisi took office. In particular, he initially succeeded in reaching out to all parts of society, with the notable exception of the Muslim Brotherhood and certain parts of the “revolutionary youth.” This tendency is partly demonstrated by the prevalent “Sisi-Mania” mood as well as the violence during the revolution’s January 2013, 2014 and 2015 anniversaries. While January 2013 saw massive protests against the government of “the rule of supreme guide,” people rallied in favor of al-Sisi in January 2014. The fourth anniversary in January 2015 witnessed relatively minor clashes, though these clashes still left more than 25 peaceful demonstrators dead and more hundreds injured. Meanwhile, Islamist militants claimed responsibility for large bomb attacks in Sinai, which killed and wounded dozens of people, including civilians, at the end of January 2015. This overall development indicates that the Ministry of Interior and the security apparatus are either overstretched or unwilling to manage peaceful regime opposition adequately. However, it also indicates that militant Islamist insurgencies cannot be countered by military means alone.

Civil society did not become more involved in agenda setting, policy formulation or decision-making after the fall of Mubarak. While al-Sisi repeatedly called on all social forces to participate in discussing the country’s political problems and respective ways of problem solving, implementation has remained weak. Apart from singular successes, such as the introduction of a sexual harassment legislation, itself a major achievement of civil society engagement, the state’s grip on civil society has remained rigid. The state continues to set the agenda and content of policies. Public protest remains unwelcome as well as all activities concerning a widening of political freedoms. Labor unions are still denied independence, while the presidency gives strict priority to economic recovery.

The 2011 upheaval was largely driven by popular feelings of having suffered political and economic injustice under Mubarak. More than 850 people were killed during the initial uprising of January to February 2011 (“Martyrs of the Revolution”), and many more were killed or injured during the revolution’s anniversaries and the various incidents in between. Special attention has to be paid in addition to the hundreds of victims, including supporters of Islamist groups either imprisoned or awaiting trial and secular activists since July 2013.

While leading politicians and officials of the former Mubarak regime, including Mubarak himself, his interior minister, his sons and many others have been acquitted, the victims of the Mubarak regime, the uprising and the following turmoil are still awaiting judicial justice.
The many abuses of protesters, including murder, torture and the sexual assault of women (including “virginity tests” committed by the military during its time in power), starting with the violent dispersal of sit-ins at Tahrir Square in March and April 2011, ranging through the clashes in October, November and December 2011, and including many more incidents, have led to prosecution in only a few cases. As all these cases fall under the jurisdiction of the military courts (which are also included in the new constitution), the military has achieved a de facto immunity. Concerns are also raised over potential basic rights abuses by the army during its fight against insurgents on the Sinai peninsula, which includes the killing and arrest of civilians as well as the destruction of private property.

Article 241 of the 2014 constitution claims that in “its first legislative term after the introduction of the constitution, the House of Representatives shall issue a law on transitional justice that seeks to uncover the truth, holds individuals and organizations accountable, proposes a framework for national reconciliation, and provides compensation for victims, in accordance with international standards.” However, the formation of a new parliament has been postponed.

President al-Sisi, meanwhile, started the preparation of procedures to compensate victims’ families and commemorate them “as a motive to move forward.” More than 600 prisoners, especially youths, were released on the occasion of the fourth anniversary of the uprising, along with more than 1,200 members of the Muslim Brotherhood after they had signed papers of repentance and reconciliation. The Muslim Brotherhood’s leadership, however, perceived this as an attempt to justify the 2013 military coup. The Muslim Brotherhood’s leadership rejected any reconciliation under these conditions.

The many arrests and convictions of democratic activists, such as Alaa Abdel Fattah and Ahmed Maher, since 2013 threatened future reconciliation efforts. The judiciary handed down harsh sentences to these activists for what were at worst minor incidents. This has led to a clear distancing between the “revolutionary youth” and the current regime. Exemplary of this estrangement was the sabotage of a memorial for the 2011 revolution in Tahrir Square, erected during Adly Mansour’s presidency, which activists perceived as cooptation of the revolution by the “old, new” regime.
17 | International Cooperation

For decades, the Mubarak regime’s top priority was to maintain an authoritarian regime under the constraining conditions imposed by necessary economic restructuring. It misused international economic assistance in order to realize these aims, without lasting success.

Since the revolution, there have been indications that national self-determination may be valued higher than international assistance insofar as international financial, technical and personal support is welcomed but only under the conditions set by the Egyptian government. This was the case as early as 2011, when the Supreme Council of the Armed Forces declared it was not dependent on American military aid amounting to $1.3 billion a year. The military government’s contention that foreign NGOs working in the country had been doing so illegally, resulting in impeachments and expulsion orders in December 2011, has to be seen in the context of such muscle flexing.

This tendency has also manifested in attempts to replace Western financial and economic support with that provided by Arab Gulf states, Russia or China. The much-debated question of an IMF loan in late 2012 and early 2013 was telling.

While such attempts remained nascent under the Morsi presidency, which was marked by short-term crisis management conditioned by inherited as well as self-produced conflicts, they became more significant under the presidency of al-Sisi. He presented a development strategy characterized by a prioritization of economic recovery and security stabilization in contrast to the further development of political freedom. While this prioritization clearly conflicts with democratization, it is arguable that without stability in economic and security affairs the country’s pattern of recent crises will not be broken. It is remarkable, however, that al-Sisi introduced economic reforms that met the IMF conditions for financial assistance, but without drawing on these loans. Instead, al-Sisi used financial assistance provided by other Gulf states to ensure Egypt’s financial stabilization. The new Suez Canal mega project, though promoted as “indigenous,” also draws on international assistance by integrating Russian and Chinese as well as Western know-how to support the creation of industrial, technological and free trade centers around this area.
While maintaining respect for its peace treaty with Israel, it is critical for international community’s perception of Egypt as reliable and credible international partner, as it was perceived under Mubarak, that there is a qualitatively new focus on the country’s democratic and economic performance.

The issues of democracy and human rights have provoked much international criticism. This was equally true for the period of military governance, the Morsi presidency and the al-Sisi tenure.

As the “Morsi constitution” of December 2012 contained fundamental flaws with respect to a liberal understanding and practice of democracy, and continuing violent conflicts revealed a lack of policy consensus, the Morsi presidency gained little international confidence. The displacement of President Morsi in July 2013, which was claimed by previous mass demonstrations though implemented by the military after the president’s refusal to resign, provoked intensive debate, among the political and academic communities, as to whether this had been a military coup that aimed to revive an ancient regime or a second revolution. Relief over the end of Morsi’s presidency was offset by fears of a return to military rule. The decision of the Carter Center in October 2014 to stop its work in Egypt is symbolic of the government’s loss of external credibility concerning democratization efforts. Similarly, the unsolved cases of many international NGOs and foundations led to further irritations. Yet, al-Sisi has ambitions to win back international confidence, as indicated by his speech at the World Economic Forum in Davos in January 2015. Although the beginning of an economic recovery indicates some success, internal and international critiques concerning the situation of human rights and political freedoms continue and have even intensified during his presidency.

In the economic sphere, despite only modest levels of trade integration, Egypt is relatively well-integrated with its neighbors (including generally good relations with Israel on governmental level that were temporarily hampered by disputes over preferred gas supplies). Egypt is a member of the Greater Arab Free Trade Area (GAFTA) and the Common Market for Eastern and Southern Africa (COMESA), both since 1998. In addition, it is one of the four parties of the Agadir Agreement signed in 2004 establishing a free trade zone between the Arab Mediterranean nations (with Morocco, Tunisia and Jordan). In 2005, Egypt signed a free trade agreement with Turkey. Egypt is a member of the southern group of the European Neighborhood Policy (ENP, established in 2004), and the Union for the Mediterranean (established in 2008). In 2008, the country concluded a memorandum of understanding with the European Union on energy cooperation, an association agreement is in effect since 2004.

In political terms, Egypt is one of the few countries in the region that has concluded a peace deal with Israel; it cooperates with Israel, the United States and the European Union on aspects of the Israeli-Palestinian conflict, such as securing the borders
between the Gaza Strip and the Sinai, but had increasing problems keeping its mediator position between Hamas and Fatah after declaring the Muslim Brotherhood a terrorist organization in 2013. Relations with Libya are difficult after the Libyan state collapsed, especially given accusations that the Egyptian army conducted air strikes over Tripoli in 2014.

Egypt hosts the League of Arab States in Cairo with Egyptian Secretary-General Nabil El-Arabi, and is an active member in the Organization of the Islamic Conference (OIC). However, neither of these organizations have much regional or international clout.

While President Morsi had introduced a tentative rapprochement with Iran, President al-Sisi has succeeded in stabilizing relations with the Arab Gulf states as well as the African Union, especially Morocco and Ethiopia. Egypt’s long-standing conflicts with its southern neighbors over the use of Nile River water show tendencies toward resolution, as Egypt signed agreements with Sudan on boosting cooperative agricultural production in January 2013. This agreement is intended to be expanded to other Nile basin countries in the years to come. While Egyptian relations with Sudan and Ethiopia remained hostile during the presidencies of Mubarak and Morsi, because of the effects that Ethiopia’s project on a Blue Nile would have on Egypt, al-Sisi has achieved an improved level of cooperation with Ethiopia by commissioning international consultation on the project.
Strategic Outlook

Expectations increased following the overthrow of President Mubarak’s regime, which was based on military rule, corrupt crony capitalism and personal governance. However, these high expectations met with multiple disappointments, which led to the emergence of new cleavages during the period under review. Problems have arisen in establishing a functioning civil power structure, guaranteeing civil and political freedoms, establishing an inclusive and prosperous economic system, and promoting gender equity. Reconciliation efforts, which started in 2014, still have a long way to go, especially concerning efforts to reach out to the suppressed Islamist groups. As such, a new social contract is desperately needed. However, the main challenge is the simultaneous coordination of economic and political transformation. Typically, the goals of these two forms of transformation conflict with one another. In addition, the coordination of short- and long-term policy goals will be a key task for the government, the opposition and civil society.

Strategic priorities should include the following:

- The government should intensify its efforts in promoting national reconciliation, because future political and economic stability will be based on social stability. To achieve this, the government should bring together all stakeholders to create a common, national strategy for overcoming the current social and political challenges. In particular, the government should make a greater effort to integrate civil society, especially youth organizations into the process by providing incentives, rather than attempting to control them.

- The government should intensify its attempts to reconcile economic transformation with social and political transformation when developing policy strategies.

- Greater recognition of the productive abilities of women, as well as civil society organizations, will have a constructive impact on all forms of development. Opportunities for women to participate in society should not be restricted.

- Long-term strategies to subordinate the military to civil authority must be developed to safeguard Egypt’s fragile democracy.

For their part, opposition parties should aspire to become viable and effective alternatives to the current government. In particular, this will involve opposition parties developing solid political, economic and social reform programs, which do not rely on a single, charismatic leader. Ideally, political parties and civil society organizations should seek to participate in formal institutional arrangements, rather resort to public demonstrations. Although, in the short-term they will have to fight for this right to participate.
Furthermore, the international community should adopt the following strategic priorities when interacting with Egypt:

- The international community should not compromise on human rights issues and political freedoms (e.g. freedoms associated with democratic values), and should be careful of the Egyptian government’s claims to legitimacy based on fighting terrorism. To do this the international community must maintain a high awareness of internal Egyptian politics, while also remaining sensitive to the tension between economic and political transformation.

- The international community should be sensitive to tensions between neoliberal economic development and the effect that this may have on social development (i.e. welfare), especially in the context of financial cooperation agreements. The international community should work toward enabling people to independently participate in the economy, rather than survive on charity.

- International aid should be targeted effectively. In particularly, development support should target groups marginalized by previous development approaches, including the poor, young and women.