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Trading short-term gains for long-term costs: the Egyptian political economy under al-Sisi

Three core principles shape Egypt's political economy. First, the country's political authorities set strategic economic objectives. Second, its power elite directs investments in line with these objectives, generating revenues, job opportunities and private benefits. Third, Egyptian citizens acquiesce to this state of affairs in exchange for livelihood improvements. Since 2014, President al-Sisi uses these principles but relies increasingly on Egypt's military networks (part of the power elite) to boost economic growth. This strategy has produced short-term gains – informal jobs and an array of consumer goods – at the expense of long-term economic prospects including low productivity, inequality, informal unemployment and a weak private sector. Improving Egypt's fiscal and economic prospects requires reducing the role of the state – especially the military – in the economy and lightening the regulatory framework. This is difficult to realise in sectors where the military has a large footprint, such as construction and extractives, because its support is essential for al-Sisi to stay in power. A more promising alternative for European policy makers is to encourage the Egyptian government to limit military influence in sectors where it is largely absent and that have growth potential, such as manufacturing and ICT. If, in parallel, the government develops a regulatory framework conducive to private investment and attractive conditions for foreign funding, greater economic growth and higher fiscal revenues may ensue.

Introduction

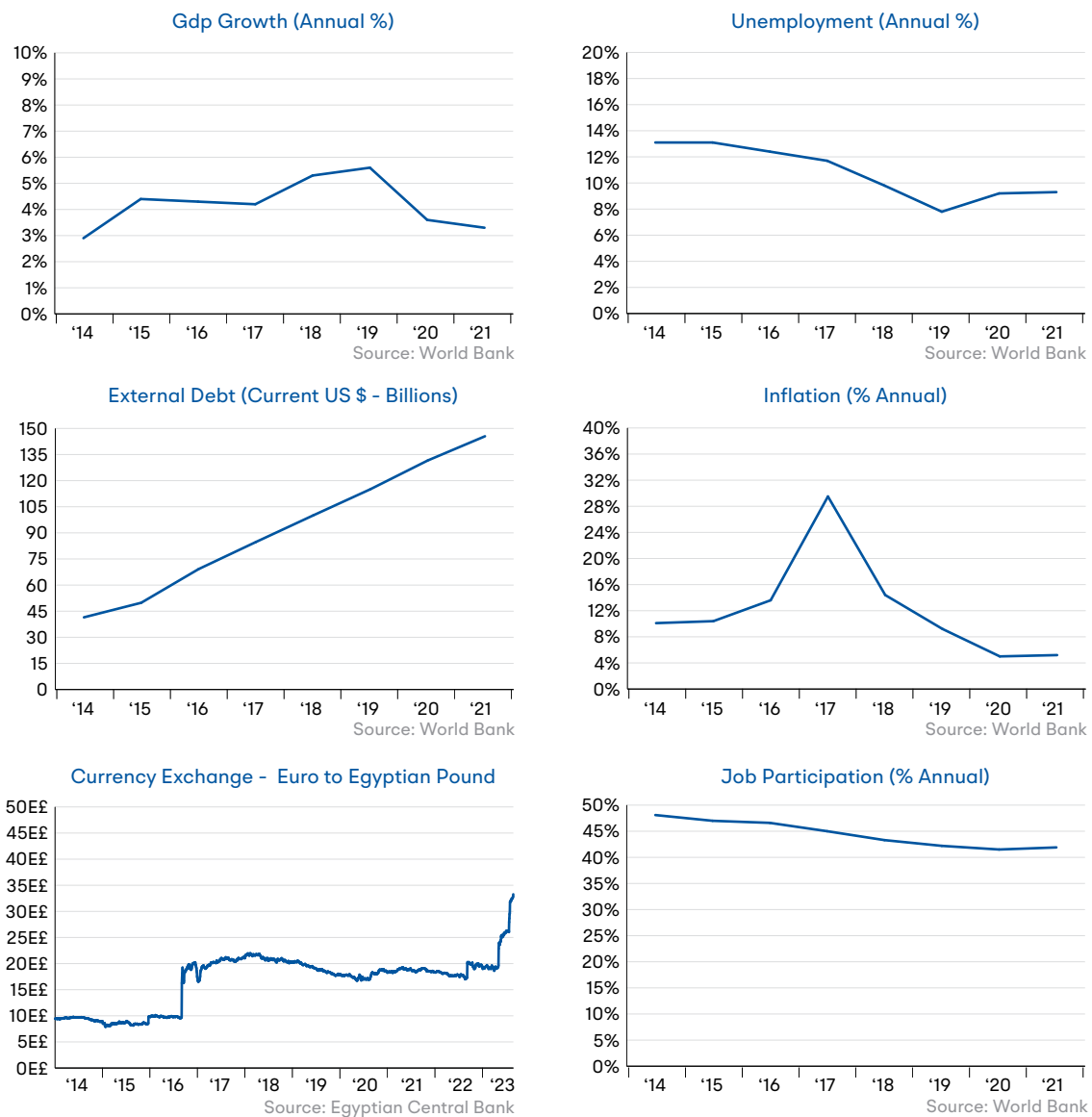
Since the election of al-Sisi in 2014, the main drivers of Egypt's economy have been its construction and extractive sectors.¹ Based on official data, these sectors have done a decent job in boosting the country's GDP that has increased faster than that of many of Egypt's neighbours.² However, a closer

look shows that these twin engines also have substantial weaknesses: they create neither sufficient revenue for the state to finance its

statistics, which are widely used in reports and academic work. They should nevertheless be treated with some caution. The article by Roll, S. and Batsi S. 2022 'More than Window Dressing: On the credibility of Public Statistics from Al-Sisi's Egypt', *OrientXXI*, 27 January, <https://orientxxi.info/magazine/more-than-window-dressing-on-the-credibility-of-public-statistics-from-al-sisi,5330>. (Accessed 18 January 2023) raises a few doubts on the reliability of data by highlighting some apparent discrepancies. Steve Hanke, Professor of Applied Economics at Johns Hopkins, recalculated the official data for Egyptian inflation using his own methodology. This resulted in much higher figures than the official ones: https://twitter.com/steve_hanke/status/1620134881173839882 (Accessed 20 December 2022).

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- 1 The brief is based on a literature review, four expert interviews conducted between June 2022 and January 2023 as well as a research visit to Egypt in November 2022. The author wishes to thank Erwin van Veen (Clingendael) and Stephan Roll (SWP) for their feedback. The contents of the brief naturally remain the author's responsibility.
 - 2 The brief relies on IMF and World Bank data, unless otherwise indicated. Their figures are based on official Egyptian

Figure 1 A snapshot of the Egyptian economy in numbers (2014–2021)



public expenditure, nor do they generate the higher-end jobs that Egypt needs in sufficient numbers to accommodate its new labour market entrants. Making a problematic trend worse, Covid-19 and the war in Ukraine have made imports more costly, which has significantly augmented food and energy prices. This development has been amplified by the Egyptian pound losing value to the euro and dollar. As a result, it has become increasingly difficult for the Egyptian political authorities to collect sufficient domestic resources to implement

its public policies, create jobs and pay back its debts. Instead, Cairo has relied on foreign investments, debt and IMF loans to finance its growth.³ This creates short-term gains at deferred, but significant, long-term costs.

3 See for instance: 'How IMF loans keep Sisi afloat as Egypt sinks deeper into debt', 2023. Middle East Eye, 28 January, <https://www.middleeasteye.net/news/egypt-imf-loans-keep-sisi-afloat-sinks-deeper-debt> (Accessed 14 February 2023).

Box 1. The economic role of Egypt’s military in regional perspective

The influence of the Egyptian military elite in politics and the economy is not exceptional among developing countries. As Schiff points out, the social contract⁴ between the army and political authorities in many non-western countries has emphasised the concordance of civilian and military interests rather than the separation of powers.⁵ Therefore, authorities recognise the political role of the army and, to an extent, the two might even fuse. In such a context, the military supports or defends the status quo as long as it aligns with its own preferences. Senior officers may challenge political authorities when divergence occurs, which in more extreme cases can take the form of a military takeover.

It is no surprise that, between the 1950s and early 1970s, presidents came from the army in several MENA countries, such as Muammar Qaddafi in Libya, Gamal Abd El-Nasser in Egypt, Hafiz al-Assad in Syria, and Saddam Hussein in Iraq. In the years following, the interests of the military network in these countries aligned with those of their political authorities. The army’s political role was institutionalised, and forces obtained the status of ‘guardians’ of the republic and the role of ‘vehicles of modernisation’.⁶ Officers who graduated from military academies became part of the power elite as they rose through the ranks, obtaining influential positions in national governance.

In the 1980s, several MENA countries started to privatise public assets but allowed army-linked companies to retain privileged positions and maintain independent sources of revenue – in part in fear of security threats and/or mutiny. As stressed by Brömmelhörster and Paes,⁷ military-linked companies invested in economic portfolios that were often not directly related to military requirements, such as pharmaceutical companies in China, shrimp farms in Honduras, airlines in Ecuador and banks in Pakistan.⁸ Army-linked companies under Saddam Hussein produced electronics, pesticides, plastic and engines for the civilian market.⁹ In Syria, army-linked companies established semi-monopolies over construction, agricultural production, and manufacturing.¹⁰ The Iranian Revolutionary Guards Corps (IRGC) established its economic dominance via para-statal organisations that are run as private firms but receive public funding and are often run by ex-military.¹¹ Finally, the Israeli military elite has direct investments in the national defence, ICT and aerospace industries. These businesses are crucial to Tel Aviv’s foreign policy because advanced economic technologies represent a key tool in building diplomatic relationships.

4 The social contract is broadly defined here as ‘an agreement between societal groups and their government on their rights and obligations toward each other’ Cfr. Loewe, M., Zintl, T., and Houdret A. 2021. ‘The social contract as a tool of analysis: Introduction to the special issue on ‘Framing the evolution of new social contracts in Middle Eastern and North African countries’. *World Development*, Elsevier, No.145.

5 Schiff, R. L. 2009. *The Military and Domestic Politics*, Milton Park: Routledge.

6 Abdul-Maged, Z. 2018. *Militarizing the Nation*, New York, NY: Columbia University Press, 13.

7 Brömmelhörster, J. and Paes W. 2003. *The Military as an Economic Actor. Soldiers in Business*, London: Palgrave Mc Millan.

8 Abdul-Maged, Z. 2018. *Militarizing the Nation*, New York, NY: Columbia University Press, 20.

9 *Ibid*, 21.

10 *Ibid*, 23.

11 Kevan, H. 2013. ‘The Rise of Subcontract State: Politics of Pseudo-Privatization in the Islamic Republic of Iran’, *International Journal of Middle East Studies*, (1), 45-70.

Reforming Egypt's economy carries political costs, however. Specifically, Egypt's political authorities face a dilemma between maintaining the support of the country's power elites on the one hand and stimulating job-generating economic growth on the other. This is because key political, business and military elites (the 'power' elites, as opposed to cultural, religious or intellectual elites) have strong vested interests in the construction and extractive sectors. Their support also underpins the country's current political settlement, i.e. the way public authority is organised and operates – partly because it provides the government with vital resources to implement public policies that benefit ordinary Egyptians. Within the power elite, the influence of the military has grown under al-Sisi at the cost of the business elite and the private sector at large. Both the IMF and the Egyptian government acknowledged the economic cost of unfair competition in the latest bailout package they agreed.¹² Despite the difficulty of engaging in structural economic reform due to the anticipated resistance of the power elite, it is unlikely that Egypt's political authorities can maintain present levels of public services, subsidies and job opportunities based on revenues generated by the country's current economic configuration. When these decrease, popular discontent is likely to mount. It is for this reason that it is becoming urgent for the Egyptian government to consider changes to its economic approach.

Hence, the challenge for Egypt's political authorities is to navigate between Scylla (the power elite) and Charybdis (the population) without being swallowed by either. It is against this background that the brief seeks to map feasible pathways for incremental economic change. It begins with an examination of Egypt's current political-economic model by assessing its key features, core interest groups and the nature of the social pact. Next, it evaluates

12 England, A. 2023. 'Egypt vows to cut military's outsized role in economy under IMF bailout', Financial Times, 10 January, <https://www.ft.com/content/0ab59ecb-da0b-42d9-a5da-35674c001e28> (Accessed 14 February 2023).

the performance of the Egyptian economy by shedding light on its current strengths, weaknesses and prospects. As a third step, it identifies the main interests of the military elite – the key source of power in relation to both stasis and change – in the national economy. It concludes by analysing the feasibility of different types of reforms within the current power system and offers these to European policy makers.

Unpacking the Egyptian political economy under al-Sisi

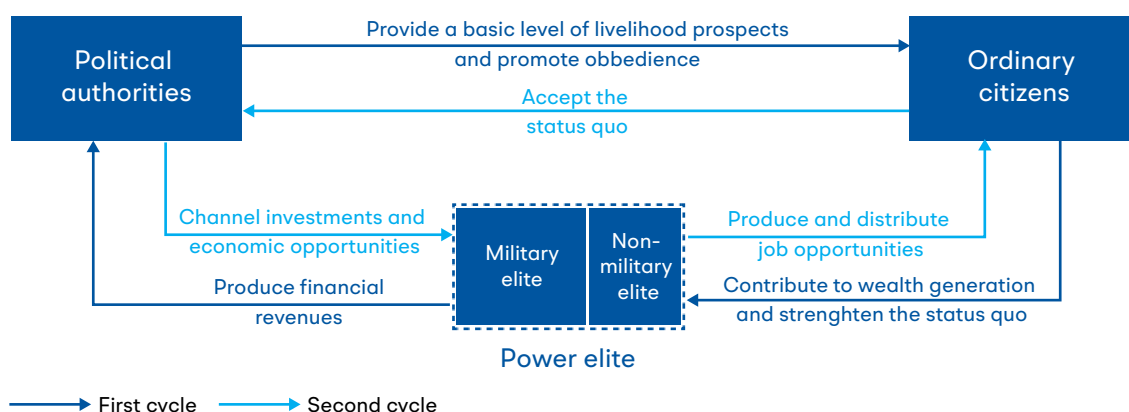
Egypt's political-economic model¹³ under al-Sisi features three key actors: (1) political authorities; (2) the power elite; and (3) ordinary citizens. 'Political authorities' refer to al-Sisi, his inner circle, and ministries that retain the executive power and administrative capability to define the country's political-economic orientation. The 'power elite' refers to a plurality of networks and individuals who compete to obtain political and economic influence and benefit from political authorities' policies. In Egypt, the power elite can be broadly divided into the *military power elite* and *non-military power elite*.¹⁴ In the economic realm, it refers to a network of civil and military-linked influential businessmen who generate financial resources for the political authorities, and job opportunities. 'Ordinary citizens' refers to those Egyptians who are not part of the previous two groups.

Figure 2 below outlines the key dynamics of Egypt's political economy by means of two supply/demand cycles. Starting from the

13 By 'political-economic model', I refer to the power relations and economic exchanges between the three key actors indicated. Otherwise put, the economic dimension of the social contract.

14 Relations within the power elite tend to be complex as individuals compete within their groups. For example, two influential non-military businessmen owning parts of the steel industry might align to reduce the influence of the military elite on politics, but also compete for business opportunities from the political authorities. The two categories of military and non-military elites should be understood as analytical categories rather than as cohesive groups with shared interests.

Figure 2 A schematic overview of core dynamics of Egypt’s political economy



top-left, the first cycle sees political authorities using a carrot-and-stick approach towards its citizens. On the one hand, they provide citizens with a modest livelihood, which equates to a basic level of welfare (i.e., schools, hospitals, fuel subsidies) and, for those in need, financial means to survive (i.e. food subsidies). On the other hand, the political authorities promote obedience among ordinary citizens via stringent measures regulating claim-making, freedom of association and media, as well as public behaviour. Next, ordinary citizens reciprocate by generating financial resources through their labour. Finally, the power elite produces economic revenues, some of which flow to the political authorities to distribute to citizens. The second cycle sees political authorities channelling investments and economic opportunities to sectors most likely to benefit the power elite. In exchange, the power elite produces job opportunities for ordinary citizens. Ordinary citizens, in their turn, acquiesce in the power relations of the status quo.

Figure 2 also highlights that Egypt is a free-market country in name only.¹⁵ In reality, its economy remains largely characterised by statism. Despite most of the labour force

working in the private sector (74% in 2018¹⁶), only one-third of corporate taxes come from private firms (7% of total state revenues and a negligible percentage of GDP).¹⁷ The remaining two-thirds are generated by the Suez Canal and government companies that sell oil and related products.¹⁸ Moreover, economic priorities are implemented indirectly by political authorities themselves through the power elite, which controls all public enterprises. If necessary, the government intervenes directly (sometimes heavy-handedly) in the private sector. The government’s reliance on revenues from capital-intensive extractive sectors, rather than on for example industrial manufacturing, negatively affects the contribution of its exports to GDP by reducing the competitiveness of other exports, which have additionally suffered from being mostly composed of low value-added products.¹⁹

15 As per the Cambridge dictionary, market-oriented countries are defined as having economies that are organised so that companies, prices and production are controlled by the demand for goods and services rather than by the government.

16 Barsoum, G. and Abdalla, D. 2020. ‘Still the Employer of Choice: Evolution of Public Sector Employment in Egypt’. *Economic Research Forum*, April, 5, <https://www.erf.org.eg/publications/still-the-employer-of-choice-evolution-of-public-sector-employment-in-egypt/> (Accessed 20 January 2023).

17 Sayigh, Y. 2022. ‘Retain, Restructure, or Divest? Policy Options for Egypt’s Military Economy’, Carnegie Middle East Center, January, 5 <https://carnegie-mec.org/2022/01/31/retain-restructure-or-divest-policy-options-for-egypt-s-military-economy-pub-86232> (Accessed 24 January 2023).

18 *Ibid.*, 5.

19 Interview with Maged Mandour, Political Analyst.

Cairo's overreliance on raw materials is most visible in the country's chronic and mounting trade deficit over the past decade, which increased from US\$28 billion in 2011 to \$44 billion in 2022²⁰ and which has been dominated by low value-added products in recent years.

Currently, around 70 per cent of domestic and foreign investment is directed to the extractive and construction sectors,²¹ in which the military elite has a strong presence. On the one hand, this capital inflow strengthens the support for al-Sisi within the power elite and produces substantial revenues. On the other hand, it undermines the growth of private sectors such as ICT and manufacturing, which also have the potential capacity to provide long-term employment opportunities for young Egyptians.²² Moreover, many economic sectors are neglected because fiscal resources are mostly allocated to the further growth of the extractive and construction sectors. The government benefits from stable revenues in the present but also faces reduced revenues in the future due to the lack of investment in and lower competitiveness of other economic sectors.

This approach is deeply intertwined with Egypt's social contract. To outline how the links work, I first examine how the political authorities and the power elite justify their power in their official discourse. Von Soest and Grauvogel²³ differentiate between *foundation myths*, *ideology*, *personalism*, *performances*, *international engagement*, and *procedures*. Drawing on this typology, historically Egyptian rulers have not focused on justifying their authority through elections (*procedures*) or by promoting a specific ideological project (like Iran or Israel) or a foundational myth (like Saudi

Arabia). The main sources of legitimacy for Egypt's rulers have been political and economic outcomes (*performances*)²⁴ and *personalism*.²⁵ It follows that the support of ordinary citizens for the government is conditional on the political authorities providing them with a basic livelihood, including schools, hospitals, affordable food and cheap energy, and welfare for the poor. Immaterial outcomes also contribute to defining how Egyptians perceive their government, such as efforts to enhance the country's prestige in international politics and economics. In this context, mega-projects like revamping the Suez Canal, building a new capital or commissioning large-scale infrastructure are vital performative expressions that are intended to demonstrate the state's ability to project a powerful image and generate benefits for ordinary citizens.²⁶ Moreover, it is crucial for the legitimacy of Egypt's power elites to show that positive outcomes are obtained thanks to the leadership of al-Sisi (*personalism*). In this manner, the statist component of the Egyptian government is intertwined with its social contract: adequate performances and personalism in exchange for legitimacy and political acquiescence. It should be noted, however, that the social contract was 'amended' by al-Sisi's presidency to the effect that the political authorities have intensified their surveillance over ordinary citizens to prevent dissatisfaction with government performances turning into calls for regime change.

Egypt's political settlement is built on a similar material/immaterial exchange, especially the relationship between political authorities and the power elite. Without sharing a unifying ideological discourse,²⁷ the power elite requires the government to provide them with economic opportunities and status, as well as endorse their

20 'Egypt - Trade Balance', Focus Economics, <https://www.focus-economics.com/country-indicator/egypt/trade-balance> (Accessed 15 January 2023).

21 Interview with a confidential source.

22 Interview with Robert Springborg, non-resident Research Fellow at the Italian Institute of International Affairs and Adjunct Professor at SFU School for International Studies.

23 Von Soest, C. and Grauvogel, J. 2017. 'Identity, Procedures and Performance: How Authoritarian Regimes Legitimize their Rule'. *Contemporary Politics*, 23 (3), 287-305.

24 *Performances* denote legitimacy generation by satisfying citizens' demands for basic services (i.e. safety, welfare, economic growth).

25 *Personalism* refers to the claim that the destiny of the country and a leader are closely intertwined.

26 Interview with Robert Springborg, non-resident Research Fellow at the Italian Institute of International Affairs and Adjunct Professor at SFU School for International Studies.

27 Morsi and Nasser represent a partial exception due to their reliance on ideology to justify power.

role as influential players in the decision-making process. This makes it critical for the government and the administration to maintain a hold on the reins of the national economy so that it can provide financial opportunities and distribute benefits among the power elite. In this context, intra-elite competition revolves around obtaining benefits (*performances* that grant favours, bestow privileges and create other advantages) from the political authorities. In economic terms, the Egyptian president can be seen as the CEO of a company, with the power elite representing shareholders with different interests and quotas. In turn, investors consist of military networks, private companies, influential bureaucrats and politicians who are all crucial to maintaining the ruler's power. Previous presidents were careful to maintain an even share among shareholders to minimise intra-elite conflicts. Al-Sisi relies more heavily on the military elite which, as a result, has obtained a higher quota and more influence over government policies during his rule.²⁸ The current dominance of the military elite represents the main discontinuity with previous Egyptian governments and creates an imbalance vis-à-vis the interests of other shareholder groups.

'Performances' of the Egyptian economy under al-Sisi

At first glance, Egypt's political economy 'works'. Official macroeconomic figures show that Egypt performed better on main economic indicators than comparable stable MENA countries with a modest natural resource base. Since al-Sisi's elections in 2014, average annual growth has been 4.3 per cent,²⁹ which is 2.8 per cent higher than the MENA average.³⁰ The country also reduced its official unemployment rate from

13.1 per cent (2014)³¹ to 9.3 per cent (2021),³² which is lower than the average MENA increase of 10 to 10.5 per cent over the same period.³³ Egypt similarly reduced its pre-pandemic inflation rate from 10.1 per cent to 5.2 per cent per year.³⁴ Finally, Egypt was one of the few countries in the MENA region to increase its GDP during the pandemic (+3.6% in 2020 and +3.3% in 2021).³⁵ However, a closer look indicates that Egyptian economic growth is built on shaky foundations and will most likely decrease in the near future if the underlying economic structure is not revised.

To begin with, Egypt under al-Sisi has been living beyond its means, which is reflected in consistent deficit spending.³⁶ Despite reducing its annual fiscal budget shortfall from -11.78 per cent (2014) to -6.9 per cent of GDP (2022),³⁷ Egypt still needs to collect external capital to finance its spending outlays. Under the al-Sisi presidency,

28 Sayigh, Y. 2019. 'Owners of the republic: An Anatomy of Egypt's Military Economy', Carnegie Middle East Center, 18 November, https://carnegieendowment.org/files/Sayigh-Egypt_full_final2.pdf (Accessed 14 January 2023).

29 'GDP growth (annual %) - Egypt, Arab Rep. World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=EG> (Accessed 12 January 2023).

30 The figure excluded Iraq, Libya, Palestine, Yemen and Syria GDP growth (annual %). Cfr: 'Middle East and North Africa', World Bank, <https://www.worldbank.org/en/region/mena> (Accessed 12 January 2023).

31 'Unemployment, total (% of total labor force) (modelled ILO estimate) - Egypt, Arab Rep', World Bank, <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=EG> (Accessed 12 January 2023).

32 'Unemployment, total (% of total labor force) (modelled ILO estimate) - Egypt, Arab Rep', World Bank, <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=EG> (Accessed 12 January 2023).

33 'Unemployment, total (% of total labor force) (modelled ILO estimate) - Middle East and North Africa', World Bank, <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS> (Accessed 12 January 2023). It is worth stressing that the unemployment percentage also reflects a low labor participation rate. (Cfr.. Roll, S. and Batsi S., 2022 'More than Window Dressing: On the credibility of Public Statistics from Al-Sisi's Egypt', OrientXXI, 27 January, <https://orientxxi.info/magazine/more-than-window-dressing-on-the-credibility-of-public-statistics-from-al-sisi,5330> (Accessed 13 January 2023).

34 'Inflation, consumer prices (annual %) - Egypt, Arab Rep', World Bank, <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=EG> (Accessed 30 January 2023).

35 'GDP growth (annual %) - Egypt, Arab Rep', World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=EG> (Accessed 30 January 2023).

36 'Egypt: Budget balance between 2017 to 2027 in relation to GDP', Statista, <https://www.statista.com/statistics/377982/egypt-budget-balance-in-relation-to-gdp/> (Accessed 30 January 2023).

37 'Overall Fiscal Balance for General Government for Egypt', Fred Economic Data (Source: International Monetary Fund) <https://fred.stlouisfed.org/series/EGYGGBGDPGDPPT> (Accessed 3 January 2023).

Cairo has mostly relied on external debts. These have correspondingly increased from \$39.62 billion (2014)³⁸ to \$145.5 billion (end of 2021).³⁹ Financial means obtained via greater indebtedness has, fortunately for Egypt, been allocated to increase investment rather than public consumption. In fact, the Egyptian government has directed most borrowed funds to the construction sector,⁴⁰ which has generated growth and job opportunities as large projects are undertaken. However, this growth effect is likely to be temporary and infrastructure by itself does not create conditions for economic expansion in the medium to long term. Instead, Egypt risks entering a vicious circle as political authorities need to continue large-scale investment projects to boost economic growth, increase job opportunities and maintain support from military elites, but lack the domestic revenue to pay for this. The ensuing dependence on foreign investment increases its external debt and interest payments. And so on...⁴¹

A second problem for Egypt's economic model is that its over-reliance on the construction and extractive sectors has created a lot of temporary, informal and low-skilled jobs.⁴² The main reason is that these two sectors

commonly employ many low-skilled and informal workers (even more so in the construction sector, where hiring typically takes place on a project basis). The construction sector employs around 15.4 per cent of all available workers but does not provide a stable source of income for a large percentage of them.⁴³ For example, it is estimated that around 88 per cent of construction sector employees are informal, the second highest percentage after agriculture.⁴⁴ The combination of informality and a lack of stable jobs is reflected in the formal employment rate (*the labour force participation rate*)⁴⁵, which decreased from 48.1 per cent in 2014⁴⁶ to 41.9 per cent in 2021.⁴⁷ This figure is much lower than the average for lower middle-income countries (59% in 2021).⁴⁸ Moreover, of all those with an occupation, 63 per cent are estimated to be in informal employment – the highest

38 'International Debt Statistics' 2016. World Bank, <https://openknowledge.worldbank.org/handle/10986/23328> (Accessed 10 January 2023).

39 'Egypt's External Debt Rises to \$145.5 Billion by End of 2021' 2022. *Egypt Today*, 21 April, <https://www.egypttoday.com/Article/3/115139/Egypt-s-external-debt-rises-to-145-5-billion-by> (Accessed 9 January 2023).

40 Springborg, R. 2022. 'Follow the Money to the Truth about Al-Sisi's Egypt', *Project on Middle East Democracy (POMED)*, January, https://pomed.org/wp-content/uploads/2022/01/2022_01_Final_SpringborgSnapshot.pdf (Accessed 15 December 2022).

41 Interview with Maged Mandour, Political analyst. It worth also noticing that Egypt's tax revenue as a percentage of GDP was 13% in 2020, largely unchanged from 2014 (12.2%). Its tax system also hits the middle and lower classes hardest. Cfr. 'Tax revenue (% of GDP) - Egypt, Arab Rep', World Bank, <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=EG> (Accessed 12 January 2023); 'Egypt's Draft Budget Supportive for Debt Reduction', Fitch Ratings, <https://www.fitchratings.com/research/sovereigns/egypts-draft-budget-supportive-for-debt-reduction-11-05-2021> (Accessed 13 January 2023).

42 Interview with a confidential source.

43 'Unlocking Egypt's Potential for Poverty Reduction and Inclusive Growth', 2021. World Bank, October, 9, <https://openknowledge.worldbank.org/handle/10986/36437> (Accessed 9 January 2023).

44 'Egypt: Share of Informal Employment by Sector 2019', Statista, <https://www.statista.com/statistics/1202880/degree-of-employment-informality-in-egypt-by-sector/> (Accessed 11 January 2023); Cfr for 2017: 'Unlocking Egypt's Potential for Poverty Reduction and Inclusive Growth', 2021. World Bank, October 9, <https://openknowledge.worldbank.org/handle/10986/36437> (Accessed 9 January 2023).

45 As explained in the methodology note of the World Bank, the data does not include 'informal workers'. Cfr. 'Metadata Glossary'. World Bank, <https://databank.worldbank.org/metadataglossary/all/series> (Accessed 9 January 2023).

46 'Labor Force Participation Rate, Total (% of Total Population Ages 15+) (National Estimate) - Egypt, Arab Rep', World Bank, <https://data.worldbank.org/indicator/SL.TLF.CACT.ZS?locations=EG> (Accessed 29 January 2023).

47 'Egypt's Economic Update' – October 2021', World Bank, <https://www.worldbank.org/en/country/egypt/publication/economic-update-october-2021> (Accessed 7 January 2023).

48 'Labor force participation rate, Total (% of Total Population Ages 15+) (Modelled ILO Estimate). Lower middle income', World Bank, <https://data.worldbank.org/indicator/SL.TLF.CACT.ZS?locations=XO> (Accessed 7 January 2023).

percentage in the Middle East.⁴⁹ One could even argue that Egypt's growth over recent years has been 'jobless', in the sense of not having created any substantial growth of formal jobs.⁵⁰ More precisely, Egypt struggles to upskill the country's workforce, create more formal employment and develop its private sector, which consists mostly of small companies without access to credit that can finance expansion.⁵¹

A third problem is that Egypt's economic model favours sectors that generate high levels of pollution, such as hydrocarbons, mining and construction.⁵² This harms the environment by decreasing air quality and biodiversity. Egypt's greenhouse emissions increased over the last eight years at a rate similar to the global average, producing a total of 0.61 to 0.62 per cent of global emissions.⁵³ Egypt also struggles to reduce its air pollution caused by industrial traffic sites and poor management of

domestic, industrial and agricultural waste.⁵⁴ Pollution furthermore degrades the quality of the country's water supply, which is particularly problematic due to its high level of dependence on the Nile for agricultural production.

Businessmen in uniform: The role of the military elite in the economy

Since the presidency of Nasser (1954–1970), the government has established military enterprises to provide for the army's needs as a matter of routine.⁵⁵ All these enterprises have in due course multiplied their revenues by exporting surplus production (1980s) or by selling their goods in the domestic civilian market (1990s).⁵⁶ Military-linked enterprises are currently grouped into three main conglomerates that each include several companies with different areas of interest. The Ministry of Military Production (MoMP), the Arab Organisation for Industrialisation (AOI) and the Ministry of Defence (MoD) exert influence on these conglomerates directly and indirectly via their economic arms. The MoMP oversees a large conglomerate of companies operating in the extraction and processing of raw materials, construction, pharmaceutical and chemical fields. The AOI supervises a conglomerate of companies mostly producing weapons and energy. The most significant MoD conglomerate is the National Service Projects Organization (NSPO)⁵⁷ that includes companies ranging from food production to steel.⁵⁸ Alongside this

49 This is the most recent available data, from: Mabrouk, M. 2020 'Egypt's Sizeable Informal Economy Complicates its Pandemic Response', *Middle East Institute*. 22 June. <https://www.mei.edu/blog/egypts-sizeable-informal-economy-complicates-its-pandemic-response> (Accessed 7 January 2023). The article does not provide a source, but the World Bank reports a similar percentage for 2018 (63.4%). It worth stressing that the World Bank methodological note specifies that the estimation includes citizens with a formal job, who also have a second (informal) job on the side. Ceyhun Elgin, C. Kose, M. A. Ohnsorge F. and Yu S., [Understanding Informality](https://elibrary.worldbank.org/doi/abs/10.1596/978-1-4648-1753-3_ch20), World Bank https://elibrary.worldbank.org/doi/abs/10.1596/978-1-4648-1753-3_ch20 (Accessed 15 January 2023).

50 Assaad, R., Alsharawy, A. and Salemi C. 2022. 'The Egyptian labor market: A focus on gender and economic vulnerability', 75. In *The Egyptian Labour Market*, Assaad, R. and Krafft, C. (eds.). Oxford: Oxford University Press.

51 Interview with a confidential source.

52 An overview of the most polluting sectors can be found on Ritchie, H. and Roser, M., 'Emissions by sector', Our World in Data, <https://ourworldindata.org/emissions-by-sector> (Accessed 20 January 2023).

53 Ritchie, H. and Roser, M. 'What share of global CO2 Emissions are Emitted by the Country? Egypt', Our World in Data. <https://ourworldindata.org/co2/country/egypt> (Accessed 29 January 2023).

54 'Unlocking Egypt's Potential for Poverty Reduction and Inclusive Growth', 2021. World Bank, October, 78, <https://openknowledge.worldbank.org/handle/10986/36437?locale-attribute=fr> (Accessed 25 January 2023).

55 Sayigh, Y. 2022. 'Retain, Restructure, or Divest? Policy Options for Egypt's Military Economy', Carnegie Middle East Center, 31 January, 4, <https://carnegie-mec.org/2022/01/31/retain-restructure-or-divest-policy-options-for-egypt-s-military-economy-pub-86232> (Accessed 14 January 2023).

56 Abdul-Maged, Z. 2018. *Militarizing the Nation*, New York, NY: Columbia University Press, 13.

57 Sayigh, Y. 2019. 'Owners of the republic: An Anatomy of Egypt's Military Economy', Carnegie Middle East Center, 18 November, 89, https://carnegieendowment.org/files/Sayigh-Egypt_full_final2.pdf (Accessed 14 January 2023).

58 *Ibid*, 48.

large network of formally military-owned/run companies, there is an informal network of active and retired officers working within the civilian state apparatus and across state-owned companies.⁵⁹ It is difficult to map out this vast number of individuals, but it is not uncommon to find military officers in crucial positions in public-private joint ventures. For example, retired admiral Osman Rabie has been appointed head of the Suez Canal authority.⁶⁰ In brief, the portion of the economy that is run or commandeered by the military has grown substantially.

In addition, the influence of the military over entire economic sectors adds to its management of others. One can think here of the role played by several public agencies and authorities established since the 1980s to support armed forces activities. Many such agencies and authorities gradually expanded their definition of 'support' to increase their economic influence. For example, the Land Projects Agency was initially tasked with reviewing and approving the construction of buildings, infrastructure and mines/wells in areas of military interest. The official reason was that new roads and the like can affect the army's training and deployment capacity. With time, however, this prerogative has become a *de-facto* veto power that is used in selecting companies working on public projects in large parts of Egypt. Areas of 'military interest' now include 90–95 per cent of the country, i.e. nearly everywhere beyond the highly urbanised Nile valley.⁶¹ These areas also happen to be those parts of the country in which hydrocarbons and precious materials are located, thus increasing military elite influence in two key economic domains. It is in this context that the government

plans to build 48 new cities, roads, railways and luxury resorts, and expand the Suez Canal – land for all of which lies in designated areas of military interest. Moreover, since November 2015, the Land Project Agency have been authorised to form joint ventures with national and foreign private capital.⁶² As a result, its economic influence has further increased under al-Sisi.⁶³ For example, the Administrative Capital Urban Development Company was formed under this new framework, which is partially owned by the aforementioned Land Projects Agency.⁶⁴ Another example is the Engineering Authority that also manages an extensive project portfolio, including the Suez Canal expansion⁶⁵ as well as hundreds of small infrastructure projects (i.e. minor roads, housing and public buildings) that are often outsourced to small and medium-sized companies⁶⁶.

The military elite is also influential in other sectors, albeit to a more limited extent. Some manufacturing industries are partially or wholly owned by the army but compete on the civilian market. For example, it has been estimated that around 10 per cent of the production capacity of water bottles and 16.31 per cent of steel reinforced bars is in military hands.⁶⁷ A military-connected holding owns 20 shopping malls and 17 supermarkets under the 'Sun' label.⁶⁸ Army-linked companies currently sell products ranging from pasta to wooden slabs in the civilian market. In the manufacturing sector, military-

59 Interview with Yezid Sayigh, Senior Fellow, Malcolm H. Kerr Carnegie Middle East Center.

60 'Egypt: Al Sisi Appoints the New Head of the Suez Canal Economic Zone' 2019. State Information Service, 17 August, <https://www.sis.gov.eg/Story/141151/President-Sisi-appoints-new-head-of-Suez-Canal-Authority?lang=en-us> (Accessed 8 January 2023).

61 Sayigh, Y. 2019. 'Owners of the republic: An Anatomy of Egypt's Military Economy', Carnegie Middle East Center, 18 November, 9, https://carnegieendowment.org/files/Sayigh-Egypt_full_final2.pdf (Accessed 14 January 2023).

62 *Ibid*, 25.

63 Shawa, L. 2016. 'The Armed Forces and Egypt's Land', Mada Masr, 26 April, <https://www.madamasr.com/en/2016/04/26/feature/economy/the-armed-forces-and-egypts-land/> (Accessed 26 January 2023).

64 'New Administrative Capital will not Burden State Coffers: Company Head', 2018. Egypt Independent, 20 February, <https://egyptindependent.com/new-administrative-capital-will-not-burden-state-coffers-company-head/> (Accessed 19 January 2023).

65 Sayigh, Y. 2019. 'Owners of the republic: An Anatomy of Egypt's Military Economy', Carnegie Middle East Center, 18 November, 177, https://carnegieendowment.org/files/Sayigh-Egypt_full_final2.pdf (Accessed 14 January 2023).

66 *Ibid*, 207.

67 *Ibid*, 188-189. The estimation for water bottles is based on the Egyptian national production of 2014.

68 *Ibid*, 92.

owned companies also enjoy competitive advantages compared with private enterprise, such as free labour from army conscripts and access to cheaper raw materials from military-run extractive industries.

Pathways of incremental change

Previous sections highlighted the need for economic reforms to sustain the performances of Egypt's public authorities that are necessary to ensure stable governance. They also showed how the vested interests of the power elite make reforms difficult to accomplish. Nevertheless, Egypt has already entered a vicious circle in which the accumulation of financial resources by the military elite reduces the prospects of private sector development that is essential to economic growth. This will force the military elite to cover production and service gaps left by a weak private sector, further reinforcing its inefficiency. Economic sustainability is further threatened by the conflict in Ukraine, as the import of foodstuffs has become much more expensive while inflation has risen sharply.⁶⁹ In this context, business as usual is no longer an option for Egypt's political authorities. Before long, they will have to consider an incremental approach to reform since radical measures are likely to jeopardize their power base. In the interest of maintaining stability, EU countries can contribute by providing expertise, regulatory incentives and insisting on conditionality via the IMF.

- Regarding expertise, EU policy makers could assist Egyptian political authorities via twinning partnerships⁷⁰ to identify and incentivise economic sectors, such as ICT and

manufacturing, that have potential for growth and job generation, and a limited presence of the military elite. Twinning partnerships could focus on creating conditions conducive to investment that involves the sharing and/or transfer of production and managerial know-how, access to distribution networks, and sources of finance.

- Regarding incentives, EU governments can support Egypt by developing favourable frameworks for their own businesses to invest in Egypt (i.e. via export credits, tax exemptions and start-up subsidies) beyond the natural resource extraction and construction sectors, and by (re-)starting negotiations on the Deep and Comprehensive Free Trade Area that date back to June 2013.⁷¹
- Regarding conditionality, EU countries should keep Egypt to its promise of undertaking meaningful reforms to foster a more level playing field for competition between the private and public sector, as set out in its last agreement with the IMF (using their influence and votes). Cairo's commitment extends to setting regulatory boundaries that prevent investment by the military elite in 'new' private sectors. Such an approach can be acceptable to the military elite since it does not undercut its present revenues, but seeing it through is likely to require external support as well as pressure.

The most obvious sector for boosting Egyptian economic growth not dominated by the military is manufacturing. This is because the recent history of economic development in East Asia shows how export-led manufacturing can be conducive to development and the creation of a high volume of high-quality jobs.⁷² In addition,

69 Egypt imports 62.1% of its wheat from Russia and 23.5% from Ukraine. Cfr: Observatory of Economic Complexity (OEC), Wheat in Egypt, <https://oec.world/en/profile/bilateral-product/wheat/reporter/egy> (Accessed 9 January 2023).

70 Twinning partnerships serve to match public sector expertise from EU Member States and third countries to achieve concrete operational results through a peer-to-peer collaborative method. See: Twinning, *European Neighbourhood Policy and Enlargement Negotiations (DG NEAR)*, https://neighbourhood-enlargement.ec.europa.eu/funding-and-technical-assistance/twinning_en (Accessed 9 January 2023).

71 Hallward-Driemeier, M. and Nayyar, G. 2017. 'Trouble in the making? The future of Manufacturing-led', World Bank, 111, <https://openknowledge.worldbank.org/bitstream/handle/10986/27946/211174ov.pdf> (Accessed 18 January 2023).

72 Cfr. Steenbergen, V. and Wihardja, M. M. 2021. 'Pathways to Middle-Class Jobs in Indonesia', World Bank, June, <https://openknowledge.worldbank.org/>

an increase in production could meet growing domestic consumption and reduce Egypt's trade imbalance. However, benefits from a stronger domestic manufacturing sector would take time to materialise because it will first need to catch up with global competitors in terms of know-how, quality standards and branding. Currently, more than half of Egypt's exports consist of primary commodities (52.3%),⁷³ while industrial products amount only to about a third (32%) (2019 data).⁷⁴ This percentage is lower than in comparable MENA countries, such as Jordan (36%), Tunisia (52%) and Morocco (59%). A closer look at Egyptian manufacturing also shows that only 20% per cent of output consists of medium-high, or high, value-added products. Once again, this compares unfavourably with countries like Morocco (around 28–30%) and South Africa (around 24–26%), and very unfavourably with Asian countries that have focused on manufacturing-based growth (in Malaysia the corresponding figure hovers around 43–46%).⁷⁵ In brief, creating the conditions for greater private sector development in manufacturing can generate a positive effect on job creation and growth, but it is a long-term strategy at a time when Cairo needs quick results.

Against this background, the ICT sector seems a better place to realise short term benefits through a private sector growth-based strategy.

[handle/10986/35848?locale-attribute=en](https://doi.org/10.1017/S0022216X22000000) (Accessed 18 January 2023); Tadesse, B. and Shukralla, E.K., 2013. 'The impact of foreign direct investment on horizontal export diversification: empirical evidence' *Applied Economics*, 45(2), 191-199.

73 'Production Transformation Policy Review of Egypt: Embracing Change, Achieving Prosperity', 2021. Organisation for Economic Co-operation and Development (OECD), 8 July, 43, <https://www.oecd.org/dev/production-transformation-policy-review-of-egypt-302fec4b-en.htm> (Accessed 10 January 2023).

74 'Medium and High-Tech Exports (% Manufactured Exports)', World Bank, <https://data.worldbank.org/indicator/TX.MNF.TECH.ZS.UN?view=chart&locations=EG> (Accessed 14 January 2023).

75 'Production Transformation Policy Review of Egypt. 2021. Embracing Change, Achieving Prosperity', Organisation for Economic Co-operation and Development (OECD), 8 July, 42, <https://www.oecd.org/dev/production-transformation-policy-review-of-egypt-302fec4b-en.htm> (Accessed 10 January 2023).

First, the ICT sector already has an international outlook. Second, it features a limited presence of the military elite, despite their interest in entering the sector.⁷⁶ Third, Egypt is already well positioned in terms of infrastructure as 16 undersea cables cross its territory.⁷⁷ Fourth, Egypt produces around 50,000 graduates each year with an IT-related degree (out of 480,000 graduates). It has the human capital to support long-term sectoral growth.⁷⁸ Fifth, Egypt has a well-established network of ICT companies, and the sector already contributes significantly to the Egyptian GDP (5% in 2021),⁷⁹ which is close to the EU average (5.5%).⁸⁰ Over the last decade, Cairo has also become a hub for IT outsourcing⁸¹ and a thriving start-up sector that is successful in attracting venture capital (10.5% of the African total, ranking it fourth).⁸² Finally, a better-developed ICT sector can boost other economic activities, since Egypt is lagging behind in digitalising its commercial companies.⁸³

76 Interview with Yezid Sayigh, Senior Fellow, Malcolm h. Kerr Carnegie Middle East Center.

77 Burgess, M. 2022. 'Why Egypt became one of the biggest chokepoints for Internet cables' *Ars Technica*, 3 November <https://arstechnica.com/information-technology/2022/11/the-most-vulnerable-place-on-the-internet/?comments=1> (Accessed 24 January 2023).

78 'Egypt's ICT industry expected to drive economic growth' 2022. Oxford Business Group, <https://oxfordbusinessgroup.com/reports/egypt/2022-report/ict-innovation> (Accessed 14 January 2023).

79 'Information and Communications Technology; and Digital Economy' International Trade Administration, 8 August, <https://www.trade.gov/country-commercial-guides/egypt-information-and-communications-technology-and-digital-economy> (Accessed 28 January 2023).

80 'Value added by activity', Organisation for Economic Co-operation and Development (OECD), <https://data.oecd.org/natincome/value-added-by-activity.htm> (Accessed 25 January 2023).

81 Willcocks, L., Griffiths C. P. L., and Kotlarsky, J. 2009. 'Beyond BRIC: Offshoring in Non-BRIC Countries: Egypt - A New Growth Market'. School of Economics and Political Science, London, UK: London.

82 'Production Transformation Policy Review of Egypt', 2021. Embracing Change, Achieving Prosperity', 2021. Organisation for Economic Co-operation and Development (OECD), 8 July, 17, <https://www.oecd.org/dev/production-transformation-policy-review-of-egypt-302fec4b-en.htm> (Accessed 25 January 2023).

83 *Ibid*, 33-34.

In conclusion, the economic dominance of military elites and military-linked companies in key sectors of economic activity, such as construction and extractives, makes reform of such sectors difficult since this might jeopardise support for al-Sisi from the power elites. Instead, placing political limits on military involvement in the ICT and manufacturing sector seems a more feasible reform pathway at this point. This would have to go together with targeted regulatory and investment strategies to boost Egyptian fiscal revenues in the medium term. The companion to this brief will examine current conditions of the Egyptian job market in greater detail, with a view to developing concrete recommendations on the mix of public and private initiatives that can boost growth in the infrastructure and ICT sectors.

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