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Egypt's Difficult Transition: Options for the International Community

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Change is under way in Egypt. But, its end is not clear and the road ahead is likely to be long and difficult.

—Bruce K. Rutherford, Princeton University

On June 30, 2013, millions of Egyptians took to the streets demanding that their first democratically elected president, Mohamed Morsi, of the Muslim Brotherhood, step down and calling for new elections. Three days later, on July 3, the minister of defense—surrounded by the country's leading secular politicians, Salafist leaders, and the heads of Al-Azhar (the highest Islamic authority in Egypt) and of the Coptic Orthodox Christian Church—announced the president's ouster. The announcement sparked notably different responses around the country. Tahrir Square was filled with cheering crowds happy to be rid of what they considered to be an Islamist dictatorship. In other parts of Cairo, Nasr City and Ennahda Square, Brotherhood supporters started sit-ins to call for the return of the man they deemed their legitimate president.

On August 14, 2013, security forces moved to break up the Brotherhood sit-ins. Hundreds were killed. Armed clashes occurred all across the country, with more victims. Coptic churches, Christian schools, police stations, and government offices were attacked, apparently by

angry Brotherhood sympathizers.[1] At the same time, other citizens, exasperated by the Brotherhood, joined the security forces in attacking them. The new interim government closed Islamist television stations and jailed Brotherhood leaders. It also passed a stringent law governing demonstrations and even jailed some secular activists who opposed this new limitation on political freedom. Yet the violence continued. Pro-Brotherhood demonstrations did not stop, nor did police repression of the demonstrators. Moreover, antigovernment groups escalated armed attacks against police and military targets, leaving many victims. The Brotherhood denied any role in those attacks and insisted that it had given up violence and was only protesting through peaceful means. Nevertheless, the interim authorities reacted to the attacks by declaring the Brotherhood a "terrorist organization," effectively criminalizing all its members.[2]

The youth who led the January 25 revolution demanded liberty, prosperity, and social justice. In the three years following the revolution very little has been done to meet those demands. What went wrong? Is the hope for democracy in Egypt dead? What can the international community do? Those are the three questions that I address in this chapter.

All major political actors in Egypt made mistakes that contributed to the present situation. However, the hope for democracy, while fading, is not dead yet, and the international community should remain engaged in Egypt. The youth who sparked the January 25 revolution will continue pushing for democracy, and they have learned how to use "people power." They used it twice in three years: first against Mubarak and then against Morsi. On the other hand, all parties need to understand that it will take many years (maybe even decades) for Egypt to build a stable democratic system, and there will probably be more setbacks along the way. Egyptian democrats, and their international partners, should work to ensure that clear steps are taken toward establishing a true democracy, focusing initially on building institutions, and changing the political culture. This needs to be undergirded by a growing economy with a much fairer distribution of income.

1. The Brotherhood denied any involvement and blamed security forces for those attacks.

2. Human Rights Watch (2013a) argues that there is no hard evidence linking the Brotherhood to terrorism and that therefore the terrorism tag is politically motivated.

Historical Perspective: Is National Reconciliation a Realistic Goal in the Short Run?

Immediately following the fall of Morsi, many observers, including me, believed that national reconciliation was possible.[3] However, both sides in the current political struggle in Egypt have toughened their positions and seem prepared for a long existential struggle. Can history shed some light on why dialogue and compromise appear virtually impossible at the moment?

Egypt's political scene is similar to that of most countries with a conservative right wing, a liberal-nationalist center, and a socialist-leaning left wing. Nevertheless, it is important to review modern Egyptian political history (starting in the late nineteenth century) to understand the roots of the different political currents in Egypt and the ongoing struggle over the country's identity and to appreciate the critical role that the military has played in Egyptian political life over the past 130 years.

The oldest political movement in Egypt is the liberal-nationalist (which could be considered centrist), whose ideas derive from Ahmed Orabi's 1879 revolution against the Ottoman khedive and Saad Zaghloul's 1919 revolution against British occupation. Islamists (mainly the Muslim Brotherhood) lead the conservative right wing. Their ideology is based on the work of Hassan al-Banna, who started the movement in 1928, partly in response to Ataturk's abolition of the caliphate in Turkey. The left wing in Egypt derives its inspiration mainly from the work and ideas of Gamal Abdel Nasser, who led the 1952 revolution that deposed the king and succeeded in obtaining the withdrawal of British troops. The military is the strongest and most popular institution in the country and has played an important political role since the late nineteenth century, supporting and even promoting certain political currents and ideologies at different points in time, while always remaining anchored in a strong nationalist tradition.

The brief history presented below shows how Islamism is based on principles that are in sharp contradiction with liberal-nationalism as well as with Nasserism. In a sense, political Islam could be considered as the antithesis of Egyptian nationalism (whether liberal or left-leaning

3. See Ghanem (2013a).

Nasserist), which may explain the deep polarization in Egyptian society today as it is divided between those two very different views of national identity. The bitter and often bloody struggle between nationalists and Islamists has been going on for more than eighty years, leaving many scars on both sides. That is probably why calls for national reconciliation in Egypt today are not gaining much traction.

Liberal-Nationalism: Can Egyptians Claim the Heritage of the Pharaohs?

Modern liberal-nationalist sentiment in Egypt dates back to the late nineteenth century, when Ahmed Orabi, the head of the Egyptian armed forces, revolted against the khedive, who represented the Ottoman Empire. In response to the khedive's claim that he was the legitimate ruler of Egypt and everybody had to bow to him, Orabi famously replied, "Our mothers bore us free; we were not created as slaves to anybody." All Egyptian children are taught this history and learn these words by heart. Orabi's revolution failed, as the British intervened to support the khedive. Orabi's army was defeated in 1882, Orabi was exiled, and Egypt became a British protectorate.

Nevertheless, Orabi continues to be a revered figure in Egypt. He is the first nationalist leader in modern Egyptian history. He also established two traditions: Egyptian nationalism is in conflict with pan-Islamism, which at the time was represented by the Ottoman Empire, and the Egyptian military is a bastion of nationalist sentiment. That Orabi was Egypt's military leader and also its first modern nationalist is important. He was the son of Egyptian peasants who stood up to the Ottoman khedive. His movement had broad-based popular support, as a statement of indigenous Egyptians' rejection of the hegemony of Ottomans and of European powers. Orabi established a nationalist tradition in the Egyptian military. The military is still perceived by the Egyptian public as the "sons of Egypt," who are committed to safeguarding the nation's interests and its dignity.

Orabi's nationalist mantle was taken over by Saad Zaghloul, a civilian, who started a revolution against British colonial rule in 1919. Zaghloul established the Wafd Party, which continued to be Egypt's largest party, winning 179 parliamentary seats out of 211 in the 1924 elections and 157 seats (with 89 percent of the vote) in 1936, until it was dissolved by Nasser in 1952. Throughout its history the Wafd was

in constant conflict with the king and with the British, who effectively ruled Egypt despite its nominal independence in 1922. The party continues to play an important role in Egyptian politics today under the name of the New Wafd.

The Wafd's platform can be summarized as having three prongs: nationalism, secularism, and liberalism.[4] Zaghloul's movement opposed British occupation of Egypt. It developed a view of the Egyptian nation as an old and established civilization with roots going back to the pharaohs, from whom they traced their lineage. Nationalists of the early twentieth century, many of whom had studied in Europe, cultivated Egyptians' pride in their ancient heritage. The idea, therefore, was of an independent Egyptian nation that does not need to be part of a bigger entity formed by pan-Islamism or pan-Arabism.

While the Wafd's nationalism put it on a collision course with the colonial power, its call for a true constitutional democracy put it on a collision course with the king, who saw it as a threat to his prerogatives. Those two conflicts, with the king and the British, actually helped enhance the party's popularity.

Since the Wafd defined Egypt by its history and culture, and not its religion, it was only natural that its platform would be secular and that many Coptic Christians joined the Wafd and reached high leadership positions in it. A rallying cry of the liberal-nationalists of the time was "Religion is for God; the nation is for all." The Wafd Party also had a feminist wing, which was initially led by Zaghloul's wife, Zafiya, who led demonstrations and encouraged Egyptian women to take off the traditional veil.

This does not mean, however, that the liberal-nationalists were opposed to Islam or to Arab unity. Many of their leaders were pious and upheld Islamic traditions. But they considered Islam to be only one of the many variables that define the Egyptian national identity. For them, Egypt as a nation predates Islam. As noted by Rutherford (2008), modern Egyptian liberals are different from those in the West because they accept a role for religion in public life. They support article 2 of the 1971 constitution, which declares that the principles of sharia

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4. The Arabic term for "secular," *elmany,* has been recently given a negative connotation by Islamist thinkers who sometimes appear to use it as a synonym for "atheist" (*kafir*). In this chapter I use the traditional definition of *secular* to refer to a person who believes in separating religion from politics.

will be the main source of legislation. Moreover, the Wafd, under the leadership of al-Nahas (Zaghloul's successor), played a key role in the creation of the Arab League.

The Wafd espoused liberal economic policies. It was supported by businessmen and owners of large landholdings, united by the nationalist narrative and a desire to free Egypt from British rule. On the other hand, it did not provide sufficient support to Egypt's nascent labor movement, nor did it focus on raising standards of living of the masses, particularly landless peasants. This left the Wafd open to attacks from both the left wing and the Islamist right wing.

The first half of the twentieth century was also a period of cultural revival in Egypt. This included a literary revival led by writers such as the Nobel laureate Naguib Mahfouz and a musical revival led by artists such as Um Kalthoum. The Cairo opera was active. The Egyptian movie industry and theater became popular all across the Arab world. A new elite, consisting of writers, poets, musicians, actors, and movie producers, appeared in Egypt. Nearly all members of this elite, who played a crucial role in creating national identity, belonged to the liberal-nationalist tradition.

Nasserism: Could Social Justice and Arab Unity Be Achieved?

Nasserism is Egypt's second secular ideology. It is inspired by the thoughts and actions of Gamal Abdel Nasser, who led the 1952 military revolt against King Farouk and who was president of Egypt from 1956 until his death in 1970. Nasser was probably the most popular Arab leader of the twentieth century, with his popularity spreading beyond Egypt to nearly all of the Arab world. He remains an iconic figure even today.

Nasserism is also a nationalist ideology. One of the key objectives of Nasser's Free Officers was to liberate Egypt from British occupation. However, Nasserism differs from the Wafd ideology in that it stresses the importance of pan-Arabism and Arab nationalism. Nasser's aim was the creation of a united Arab nation led by Egypt.

A distinguishing feature of Nasserism is its emphasis on social justice and its adoption of Arab socialism. Nasser implemented land reform in Egypt, confiscating land from feudalists and distributing it to landless peasants. He nationalized all large industries and the entire banking sector. Nasser's government invested heavily in large public

sector manufacturing enterprises. One of his objectives was to have Egypt produce everything "from the needle to the rocket." Nasser also introduced free universal education and free health care, as well as large rural water and electrification projects. He introduced an article in the Egyptian constitution that requires that one-half of the members of all elected bodies be either peasants or workers. He also introduced laws guaranteeing a public sector job for all university graduates and put in place a large system of price controls and subsidies to protect low- and middle-income consumers.

The Nasserist political system was not democratic.[5] It was a one-party (Arab Socialist Union) system, and no opposition was allowed. All the political parties that existed before the 1952 revolution were banned. The state controlled all media outlets, and strict censorship was put in place. Nasser's opponents (mostly Islamists and communists) were dealt with harshly through a strong security apparatus. Thus Nasser put in place a system of political repression that was maintained and further developed by his successors—Anwar Sadat, Hosni Mubarak, and, to some extent, Mohamed Morsi.

As a nationalist army officer, Nasser could be considered a successor of Orabi. However, his views differed from mainstream Egyptian liberal-nationalist thought in three important ways: he stressed Egypt's Arab identity over its ancient pharaonic one; he prioritized social justice and implemented socialist economic policies; and he did not support multiparty democracy.

Today's Nasserists continue to prioritize pan-Arabism and social justice. However, they now espouse multiparty democracy.

The Muslim Brotherhood: Can Egypt Become Part of an Islamic Caliphate?

While Egypt has always been a deeply religious country, modern political Islam only appeared on the national scene in 1928 with the creation of the Muslim Brotherhood by Hassan al-Banna. The Brotherhood was created as a pan-Islamic social and political movement, partly in response to the fall of the Ottoman Empire and the abolition of

5. According to the Egyptian writer Tawfiq al-Hakim, "Nasserism rested on the basis of the destruction of minds and wills, other than the will of the leader" (quoted in Hopwood 1991, chap. 11).

the caliphate in Turkey by Mustapha Kemal Ataturk. This abolition was seen as an important setback by many pious Muslims, including al-Banna, who considered the caliphate to be a necessity in Islam. This put the Brotherhood in direct confrontation with Egyptian nationalists.[6]

The Brotherhood was based on two important principles. The first was the adoption of sharia law as the basis for conducting the affairs of state and society. For the Brotherhood, "Islam is a state as well as a religion." This is sometimes understood to imply that secular ideas are inherently un-Islamic and therefore Muslims who call for a secular state could be considered nonbelievers. The Brotherhood holds conservative views on gender equality and the role of women in society. They argue for a "modest" dress for women and the separation of the sexes at schools and workplaces. They also believe that cultural products should reflect the Islamic nature of society and have called for censorship of books and movies that they consider un-Islamic. Thus the Brotherhood has always been at odds with Egypt's cultural and artistic elite.

The second principle is to unify Islamic states and free them from foreign imperialism. The Brotherhood considers Egypt to be just one small part of a large Islamic empire (or caliphate) stretching from Spain to Indonesia. A previous general guide (chairman) of the Brotherhood, Mohamed Akef, generated an outcry when he commented in one of his interviews "to hell with Egypt." Of course he meant to emphasize the pan-Islamic ambitions of his organization, but his statement was interpreted by nationalists as indicating that the Brotherhood does not care for Egypt.

The Brotherhood has not presented a detailed economic program. But one can deduce from its pronouncements on economic policies that it would not be much different from that of the liberal-nationalists. The Brotherhood believes in a market economy with social protection and safety nets for the poor. It also emphasizes the fight against corruption.

The history of the Muslim Brotherhood is marred by violence. During the Second World War, the Brotherhood was accused of collaborating with the Axis powers in the hope that they would help rid Egypt of British imperialism. They were involved in several bombings and assassinations. As a result, in 1948 the Egyptian government banned the Brotherhood and arrested many of its leaders. The Brotherhood

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6. For a more detailed history of the Brotherhood, see Wickham (2013).

retaliated by assassinating the prime minister, making the point that they were as powerful as the Egyptian state and could even hit the head of the executive branch of government. Al-Banna himself was later assassinated, probably in retaliation. The Brotherhood was also accused of taking part in the great fire of Cairo in 1952, in which some 750 buildings (mainly nightclubs, theaters, restaurants, bars, and hotels in the downtown area) were burned.

The Brotherhood initially supported Gamal Abdel Nasser and the Free Officers movement that took over power and sent the king into exile in 1952. However, they soon separated from the Free Officers when the latter passed a secular constitution. They were accused of trying to assassinate Nasser in 1954 during a public rally in Alexandria. Nasser retaliated by banning the Brotherhood once again and imprisoning thousands of its members. After another assassination attempt against Nasser in the mid-1960s, the state started another round of repression against the Brotherhood, and several of their leaders were executed. Nasser is considered to have been the Brotherhood's nemesis. Even today anti-Brotherhood protesters often carry pictures of Nasser, and videotapes of his speeches attacking the Brotherhood (which are on YouTube) are widely publicized and shared on secular social-media channels.

When Sadat came to power after Nasser's death in 1970, his main preoccupation was to reclaim the Sinai, which was occupied by Israel in the 1967 war. This required that he start shifting Egypt away from the Soviet camp and closer to the West, particularly the United States, who he believed held "99 percent of the cards in the Arab-Israeli conflict." Naturally, he faced stiff resistance from the left wing, whom he tried to neutralize by opening up to the Muslim Brotherhood. He started releasing members from jail and allowing them to carry out some activities, although they remained officially banned.

Sadat was a devout Muslim, but he was also a military man and a nationalist, in the tradition of Ahmed Orabi. Hence it was probably inevitable that he would clash with the Brotherhood. This happened after he signed the Camp David accords and the peace treaty with Israel. He was assassinated by an Islamist group that is an offshoot of the Brotherhood. Many Egyptian liberal-nationalists as well as members of the armed forces who admire Sadat continue to hold the Brotherhood responsible for his death.

The Brotherhood has officially announced that it now supports democracy and rejects violence. However, its detractors argue that it is difficult to have a true democracy in the context of a religious state that is governed by sharia. They say that it is hard to have a reasonable political debate when one party insists on using quotations from the Quran to validate its point of view. They also point out that many Brotherhood members continue to use violent means against their opponents and that Brotherhood demonstrators are sometimes armed.

Elusive Reconciliation: Is Political Islam Consistent with Egyptian Nationalism and Democracy?

This brief, and admittedly selective, review of Egypt's modern political history suggests three broad conclusions that can help explain the present situation. First, while the differences between liberal-nationalists and Nasserists are mainly around economic policies, the two parties' difference with the Muslim Brotherhood centers on national identity. The former difference can be dealt with in the course of normal political dialogue, but the latter has so far proved impossible to resolve through dialogue. This could explain why both the liberals and the Nasserists supported Morsi's ouster. Second, throughout its history the Brotherhood has been associated with violence. It sometimes instigated violence, but it was also often the victim of violent repression. The current cycle of violence is in some sense a continuation of a war that started in the 1930s and has already claimed thousands of victims on both sides, including a prime minister (Mahmud Fahmi al-Nuqrashi, assassinated in 1948), the Brotherhood's first general guide (al-Banna, assassinated in 1949), and a president (Anwar Sadat, assassinated in 1981). Third, Egyptians have never known true democracy and have lived under more or less repressive systems for millennia. This may explain why they are not particularly shocked by the current wave of repression against the Brotherhood. In fact, it appears that a majority supports it. There is a sense of déjà vu in what is happening in Egypt now.

Is political Islam consistent with democracy? There is no agreement on this point, neither among Egyptian politicians nor among Western scholars. The Brotherhood claims that it is democratic, while its opponents believe that its only aim is to get into power, and once it gets there, it will never leave. Opponents of the Brotherhood subscribe to the view of the United States' former undersecretary of state, Edward Djerjian,

who, following the 1991 Islamist electoral victory in Algeria, described the Islamist political agenda as "one man, one vote, one time."[7] That is, an Islamist party might use democracy to get into power, but once in control it would never hand power back to a secular opposition.

The same debate is currently taking place among Western scholars. Wickham (2013) argues that the Brotherhood has evolved, especially owing to some of its members' participation in political life under Mubarak as leaders in professional associations or as members of parliament. She believes that this experience has made the Brotherhood more open to political debate and dialogue and more accepting of democratic values. In a sense the Brotherhood joined the formal political system to change it but ended up being changed by it. Nevertheless, she warns, one cannot conclude that the Brotherhood has embraced the liberal and inclusive ethos of democracy because its insistence on an Islamic frame of reference implies the existence of an authority above the electorate.

Bradley (2012, p. 71) is less nuanced. He argues that the belief that the Brotherhood has evolved "has more to do with its recruitment of spokesmen who spout to gullible western experts the virtues of its pro-democracy platform" than with any real change in its position. He examines the Brotherhood's 2007 platform and concludes that it does not meet democratic standards. The platform states that laws have to be consistent with sharia and establishes a body of religious scholars to review draft laws. It does not allow women to run for president. And it does not allow non-Muslims to run for president or prime minister. However, the Brotherhood dropped mention of those three controversial points in its postrevolution documents. It is not clear whether this reflected a real change in the group's values and perspectives or was just a tactical move for electoral purposes.

A key question is whether the Brotherhood, or anyone else for that matter, has the right to define Islam for the rest of society. The Brotherhood has been providing mixed messages. On one hand, they have adopted an apparently progressive discourse on freedom and democracy. On the other hand, they continue to hold a traditional, and illiberal, conception of Islam and its role in society. To be credible and assuage liberal fears, the Brotherhood will need to find a way

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7. Quoted in Aliboni (2012).

to reconcile traditional Islam and sharia law with notions of human rights, respect for minorities, women's rights, and individual freedom.

The Mubarak Years: Why Did Egyptians Revolt?

Mubarak presented himself as the only protection Egyptians had against political Islam. And many secular Egyptians were happy to support him. He seemed secure in his position. Only three years before the revolution, Rutherford (2008, chap. 6) reflected the view of most observers when he stated that "in the Egyptian case, the prospects for democratization are poor. The [Mubarak] regime retains a stranglehold on political life which it shows little signs of loosening." How can one then explain the rapidity with which Mubarak fell?

Mubarak's thirty-year rule was characterized on the political side by overreliance on a security apparatus and repressive policies and on the economic side by an unequal distribution of the benefits of growth. He weakened all the secular parties except his own (the National Democratic Party). He continued to cling to power even when he passed the age of eighty, and he appeared to be grooming his son to succeed him. This greatly increased political tensions. Although the Egyptian economy was growing at healthy rates, the middle class did not expand fast enough, and youth were left out of the economic growth, which increased socioeconomic tensions. If Mubarak had stepped down in 2005 in favor of a younger leader (other than his son) who could start to gradually implement democratic reforms and policies to make income distribution more equitable, the 2011 revolution and all the turmoil that Egypt is going through now might have been avoided. However, Egyptians did not see any hope of peaceful democratic evolution, and revolution became unavoidable.

Lack of Progress on Democracy:
How Long Did Mubarak Plan to Stay in Power?

When Hosni Mubarak came to power in 1981, Freedom House classified Egypt as partially free, with a political rights index of 5 and a civil liberties index also of 5.[8] In 2010, Mubarak's last year in power, Egypt was classified as not free, as the political rights index had risen

8. www.freedomhouse.org.

(which implies a deterioration) to 6. This reflects worsening political conditions in the later Mubarak years, as he relied increasingly on the security forces and rigged elections to remain in power.

In 2005 the Mubarak regime made some signs of wanting to gradually open up the political system and start implementing democratic reforms. It introduced a change in the constitution that allowed for multicandidate presidential elections (in previous elections Mubarak ran unopposed). In 2005 Mubarak ran against two other candidates, Ayman Nour of al-Ghad Party and Numan Gumaa of the New Wafd. The regime also allowed Muslim Brotherhood members to run in parliamentary elections as independents; members won 88 seats (60 percent of the seats they competed for) out of a total of 518 and became the largest parliamentary opposition bloc.

But the regime's efforts were unconvincing. Presidential candidates confronted so many constraints that none of the candidates who might have threatened Mubarak were allowed to run. Moreover, the elections themselves were marred by many irregularities. Voter turnout was low, as most Egyptians did not expect the elections to be fair. Official figures put turnout at 23.9 percent, but other observers claimed that actual turnout was much lower. As expected, Mubarak won reelection, with 88.6 percent of the vote, while Ayman Nour received 7.3 percent.

Mubarak's conduct after the presidential election indicated that he was not serious about expanding political rights. Nour contested the election results and requested an investigation of irregularities and a revote. Not surprisingly, his request was rejected. To make things worse, Nour himself was tried on what appeared to be trumped-up charges of forgery and was sentenced to five years of hard labor. The message was clear: the regime would retaliate against those who went too far in claiming their political rights.

The 2005 parliamentary elections were also marred by irregularities, particularly in the runoff phase, when it became clear that the Brotherhood was making important inroads. There were widespread allegations that government employees stuffed ballot boxes, bought votes, and bused nonresidents in efforts to defeat opposition candidates. Police blockaded access to polling stations where the opposition was strong and even opened fire to disrupt voting, which led to several casualties.

The 2010 parliamentary elections, which took place in November and December (a few weeks before the start of the 2011 revolution)

were even worse and are considered to have been the most fraudulent in Egypt's history—which is saying a lot, given the scale of fraud in previous elections. Mubarak's National Democratic Party increased its majority from 330 to 420 seats. The Muslim Brotherhood's share of parliamentary seats fell from 88 to only 1. Fraud was so blatant that it appeared that the regime no longer cared about presenting even a façade of democracy and rule of law.

The regime's policies have probably helped expand the Brotherhood and make it more popular. Most activist youth joined Islamist movements, which provided them with an alternative moral and cultural community.[9] Islamist organizations also provided youth with services, such as libraries and sports facilities, that the Mubarak regime did not deliver. Thus the Brotherhood gradually built its grassroots support and strengthened its organization across the country, especially in poor rural areas.

As a result of lack of political freedom it is not surprising that in 2010 Egypt scored far below all other comparators except China on voice and accountability in the Worldwide Governance Indicators index (table 1-1). Egyptians, especially youth, faced serious constraints to expressing themselves. The result was that most young people refrained from any civic activities or volunteer work. They felt that their voices could not be heard.

Lack of government accountability led to high corruption and added to Egyptians' sense of unfairness. As shown in table 1-1, Egypt ranked in the bottom half of all countries on corruption control in 2010. Among the five comparators, only China had a similar ranking. Egypt's record on corruption control is far below that of Chile, Brazil, Malaysia, and South Africa. Corruption was (and still is) pervasive, ranging from small payments to traffic police to huge sums in return for access to government contracts.

Egypt also scored poorly on government effectiveness. The middle class were (and still are) highly dependent on government services: health, education, transportation, and security. They suffered from the continual deterioration of those services. Children attending public schools are required to pay their own teachers for private tuition in

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9. See Bayat (1998) for a more detailed exposition of this argument.

TABLE 1-1. Selected Governance Indicators, by Country, 2010
Percentile rank

Indicator	Egypt	Brazil	Chile	China	Malaysia	South Africa
Control of corruption	34	60	91	33	61	61
Government effectiveness	40	57	84	60	82	65
Rule of law	52	55	88	45	65	58
Voice and accountability	13	64	82	5	31	65

Source: Worldwide Governance Indicators, World Bank.

order to pass exams, and patients in government hospitals often need to pay bribes to get service.

Revolution became inevitable because Egyptians saw no end in sight. The National Democratic Party announced in 2010 that Mubarak would be once more its candidate in the 2011 presidential elections. Mubarak appeared set on remaining president for life. To make matters worse, he seemed to be grooming his son, Gamal, to succeed him. Gamal held the position of deputy secretary general of the party and headed the all-powerful policies committee. He and a group of businessmen close to him already played a large role in determining the country's policy directions as well as in the appointment of ministers and other high officials. Egypt appeared to be turning into some kind of presidential monarchy, and the Mubarak regime seemed set to continue long after its founder's death.

Noninclusive Growth: Can Rising Inequality Explain the 2011 Revolution?

During the period leading to the January 25, 2011, revolution, the Egyptian economy appeared to be doing well (table 1-2).[10] GDP was growing at 5 to 7 percent a year (supported by high foreign and domestic investment), while the current account was under control and foreign reserves were high. This strong performance continued even during the global financial crisis. In 2009 and 2010 the country's economy was growing at a healthy 5 percent and had reserves equivalent to seven months' imports, despite a decline in foreign direct investment

10. For more on the evolution of the Egyptian middle class see Ghanem (2013b), and for an analysis of the political role of the Arab middle classes see Diwan (2013).

TABLE 1-2. Selected Macroeconomic Indicators, Egypt, 2000–10

Year	Current account balance (% of GDP)	Foreign direct investment, net inflows (% of GDP)	GDP growth (annual %)	GDP per capita growth (annual %)	Gross fixed capital formation (% of GDP)	Total reserves in months' imports
2000	−1	1	5	3	19	7
2001	0	1	4	2	18	7
2002	1	1	2	0	18	8
2003	5	0	3	1	16	9
2004	5	2	4	2	16	7
2005	2	6	4	3	18	7
2006	2	9	7	5	19	7
2007	0	9	7	5	21	7
2008	−1	6	7	5	22	6
2009	−2	4	5	3	19	7
2010	−2	3	5	3	19	7

Source: World Development Indicators, World Bank.

and some deterioration in the current account balance. At 11 to 12 percent, inflation was high by international standards but still within the Central Bank's comfort zone. The problem was not the level of growth but its distribution. In particular, economic growth was not leading to the rapid development of a middle class, youth felt excluded, and rural areas, especially in Upper Egypt, were left behind.

I use here a definition of the middle class developed by Homi Kharas at the Brookings Institution. According to this definition, the middle class consists of "those households that have a certain amount of discretionary income that goes beyond the necessities of life to include consumer durables, quality education and health care, housing, vacations and other leisure pursuits. This group is differentiated from the poor in that they have choices over what they consume. They are differentiated from the rich in that their choices are constrained by their budget; they are price and quality sensitive."[11] By this definition, middle-class Egyptian households are those that spend between $10 and $100 a person per day.

11. See Kharas (2010).

According to estimates available at the Brookings Institution, the Egyptian middle class has grown from 12 percent of the population in 2000 to 22 percent in 2010, which appears to be a positive development. However, this expansion was not sufficient to reduce the absolute number of people living below the middle-class level (hence poor, according to this definition), whose number increased from 60 million in 2000 to 63 million in 2010. Egypt's experience in this regard is very different from that of emerging markets such as Brazil or India, where the middle class expanded at a much faster rate.

Youth suffered from economic exclusion during the Mubarak years, which can be best illustrated by examining labor market outcomes. The Egyptian public sector has traditionally provided jobs to the large numbers of graduates entering the labor market each year; currently, about 850,000 young people enter the labor market annually, and 70 percent of them have completed at least secondary education.[12] This changed with the economic reforms that aimed at controlling government spending and rationalizing the public sector; and given the high fiscal deficit and overemployment in the public sector, it is unlikely that this sector will be able to absorb many new graduates. As a result, it has become increasingly hard for young people to find jobs, and youth with secondary education or above represent about 95 percent of the unemployed in Egypt. The problem is particularly acute for young women, who are 3.8 times as likely to be unemployed as young men. Of the young men and women who do find jobs, only 28 percent find formal sector jobs—18 percent in the public sector and 10 percent in the formal private sector. The vast majority, 72 percent, end up working in the informal sector, often as unpaid family workers. For those who are paid, many have no labor contract, no job security, and no social benefits.

Rural-urban and regional inequalities are also serious problems. Economic growth does not seem to have benefited rural areas and Upper Egypt. The probability of being extremely poor in Egypt is nearly four times as high for people living in rural areas as for those in urban areas. About 6.7 percent of the population of Egypt is extremely poor, defined as unable to afford basic necessities. For urban areas that figure is only 2.6 percent, and for rural areas, 9.6 percent. That is, nearly one of every

12. See Assaad and Barsoum (2007).

ten rural inhabitants in Egypt is extremely poor and food insecure. In addition to the rural-urban differences, poverty in Egypt also varies by region. Upper Egypt has about 50 percent of the country's population but 83 percent of the extremely poor and 67 percent of the poor. The problem in Upper Egypt is especially serious in the rural areas. Urban Upper Egypt has 11.6 percent of the extremely poor and 11.3 percent of the poor; rural Upper Egypt has 71.5 percent of the extremely poor and 55.8 percent of the poor. Lower Egypt has less poverty. About 30 percent of Egypt's population lives in Lower Egypt, and the region is home to 13.7 percent of the country's extreme poor and 27.6 percent of the poor. However, it is important to note that the vast majority of the poor and extremely poor in Lower Egypt also live in rural areas.

Messy Transition: Why Did Things Fall Apart?

Bradley (2012, p. 199) concludes that "the Arab Spring has been a dismal failure." Many Egyptians would agree with him. What went wrong?

The initial success of the 2011 revolution led to a surge of optimism among Egyptians. In 2010, before the fall of Mubarak, 69 percent of Egyptians were dissatisfied with the way things were moving in the country. A year later, 65 percent of Egyptians were satisfied with the way things were moving. Egyptians were looking forward to a new era of democracy, human dignity, and economic well-being.

When Mubarak stepped down on February 11, 2011, he transferred his powers to the Supreme Council of the Armed Forces (SCAF). According to the Egyptian constitution at the time of Mubarak's resignation, when the office of the president is vacant the speaker of parliament acts as interim president. Hence this transfer of power to SCAF had no legal basis. However, it made political sense. The military is the most respected institution in the country, with a 67 percent approval rating, while parliament (especially after the rigged 2010 elections) was considered corrupt and illegitimate. Thus Egyptians were happy to see SCAF take responsibility for leading the transition.

However, the eighteen-member SCAF, which was led by the seventy-six-year-old Mohamed Hussein Tantawi, had no experience in running a country or in leading a political transition. Under SCAF's stewardship the economy declined at a worrisome rate, and political unrest continued. At the time when Morsi was elected in 2012, the country still

had no constitution, and the courts had dissolved the lower house of parliament. And Egypt was moving steadily toward an economic crisis. The Supreme Council seemed relieved to be able to hand over power to the elected president and let him handle the remainder of the transition.

But Morsi's management of the transition was even worse than SCAF's. During the one year of Morsi's rule the economy nearly collapsed, corruption increased, a nonconsensual constitution was passed, and the country became polarized between Islamists and secularists. The youth who started the revolution felt betrayed as their political and economic exclusion during the Mubarak era continued. This led to the rise of the Tamarod (rebellion) movement. Supporters collected millions of signatures on a petition calling for Morsi to step down and for the organization of early presidential elections. They also organized massive anti-Morsi demonstrations in late June 2013. Morsi, supported by the Muslim Brotherhood, refused to compromise and argued that his electoral legitimacy gave him the right to ignore opposition demands.

Finally, in June 2013 the people rose against Morsi, and he was deposed. The head of the constitutional court was named as interim president, and he, in turn, appointed an interim government. The new transitional authorities announced a road map for the future that involved writing a new constitution as well as parliamentary and presidential elections. Nevertheless, Morsi's overthrow led to increased political violence and even more polarization. It remains to be seen whether the interim government will be able to lead the country toward democracy or whether Egypt will slide back to a Mubarak-like era of police repression and constraints on political and civil liberties.

A Leaderless Revolution: How Did Mubarak Fall in Eighteen Days?

The Egyptian revolution had no clear political agenda and no leadership.[13] It was started by secular youth (liberal-nationalists as well as leftists and Nasserists) whose stated objective was to bring down the Mubarak regime and to put in place a system that would ensure "bread, liberty, social justice and human dignity." Those lofty revolutionary ideals were not backed up by a detailed program, and the revolution had no

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13. Ghonim (2013) describes the role that Mohamed el-Baradei, the former head of the International Atomic Energy Agency, played as an agent of change who could not, or maybe would not, take over as the leader and spokesperson of the revolution.

spokespersons to represent its views and push for its demands. Initially, Islamists did not join the revolution. The Brotherhood believed that the revolution was doomed to failure and wanted to avoid becoming a victim of yet another round of repression by the Mubarak regime. The Salafists were not interested in politics, and several Salafist leaders issued fatwas stating that revolting against a Muslim ruler was un-Islamic.

As the revolution progressed and appeared to be nearing victory, the Muslim Brotherhood decided to join. The Brotherhood is well organized and has a large number of disciplined followers. When they joined the secular youth in Tahrir Square, the Mubarak regime appeared to be in grave danger.

Mubarak ordered the army into the streets. Tanks and armored personnel carriers moved into Tahrir Square but did not attack the demonstrators. The military establishment had decided not to support Mubarak. According to the renowned Egyptian journalist Mohamed Hassanein Heikal, SCAF had discussed as early as 2010 what they would do if in July 2011 they discovered that the ruling party had nominated Mubarak's son for the presidency and the people, angered, took to the streets.[14] Heikal states that the generals agreed that in this case they would not obey orders and would not attack the demonstrators. Popular anger came six months earlier than the generals had predicted, and they stuck to their strategy of remaining neutral.

The Mubarak regime could not survive without the support of the military. February 11, 2011, when Mubarak stepped down, was a day of national unity in Egypt. Liberal-nationalists, Nasserists, leftists, and Islamists celebrated together the end of the autocratic regime, and they were supported by the military. They promised a new beginning, when all the political factions would work together to build a democratic and prosperous Egypt. However, this unity proved to be short-lived, and the dream of democracy much more difficult to achieve than the people in Tahrir Square envisioned.

First Phase of the Transition: Could SCAF Have Done Things Differently?

The Supreme Council of the Armed Forces was in charge of the transition, and Field Marshal Tantawi became the de facto head of state. The first political disagreement he had to deal with centered on the

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14. Interview with *Al-Shorouk* newspaper published on January 4, 2014.

timing of elections and the writing of a new constitution. After the dissolution of Mubarak's National Democratic Party, the Brotherhood was the only organized group left in the country and therefore would win in any early election. They pushed for elections to take place before a constitution was written. The liberal-nationalist, Nasserist, and the leftist parties wanted time to prepare and organize their bases. Therefore they argued for agreement on a new constitution before elections. At this point the Brotherhood promised not to field candidates for more than 50 percent of the seats in parliament, so that they would rule only in a coalition government, and they also promised not to field a presidential candidate. The Supreme Council sided with the Brotherhood and started preparing for elections before the constitution.

As the politicians were arguing about constitutions and elections, the revolutionary youth were still on the streets demonstrating against military rule and calling for achievement of the revolution's objectives. The first major clash occurred on Maspiro Street, in front of the national television building, on October 9 and 10, 2011. A group of young Copts were demonstrating against the destruction of a church by extremists. The peaceful demonstration came under attack by security forces who used live ammunition and even crushed some protesters under armored personnel carriers. The result was twenty-four dead and more than 300 injured, nearly all of them Coptic Christians.

This was followed by huge demonstrations in Tahrir Square and on nearby Mohamed Mahmoud Street (leading to the Ministry of Interior) protesting police brutality against families of those killed or injured during the revolution. The repression of the demonstrations reached another level of violence, particularly on November 19. The revolutionary youth chanted against military rule and against Field Marshal Tantawi. They called for the cancelation of the parliamentary elections, which they felt were pointless under the circumstances. It is important to note that the Brotherhood did not participate in those demonstrations. It maintained good relations with SCAF and continued to prepare for the elections. It had already broken its first political promise and was fielding candidates for all the seats in the lower house.

The treatment of women demonstrators was shameful. Many women were sexually assaulted or even raped during demonstrations. Egypt was shocked to learn that army officers carried out humiliating "virginity tests" on female demonstrators whom they detained. Several

human rights groups organized protests and marches to demand gender equality and an end of sexual violence against women.

The incident of "the woman in the blue bra" shocked the nation and probably helped set the stage for continuing revolt by youth against both the military and the Brotherhood. Young people were demonstrating against SCAF and what they considered SCAF's deals with the Brotherhood. On December 18, 2011, during one of those demonstrations, security forces grabbed a female demonstrator, tore her clothes, exposing her bright blue bra, and dragged her through the street. A young male demonstrator who rushed to help his fallen female colleague was savagely beaten by the security forces. His beating, as well as the attack on the woman, was caught on video and widely watched by Egyptians. Hassan Shaheen, the young man who was beaten, is one of the leaders of the Tamarod movement that eventually succeeded in overthrowing the Brotherhood's president.

Notwithstanding the boycott by the revolutionary youth and continued demonstrations and unrest, elections for the lower house of parliament took place as planned in three stages between November 28, 2011, and January 8, 2012. As expected, the results were catastrophic for the secularists. The Brotherhood won 37.5 percent of the popular vote, which translated into 45 percent of the seats in Parliament. The Salafists came in second, winning 27.8 percent of the popular vote and 25 percent of the seats in parliament. Thus Egypt's first postrevolution parliament had a crushing Islamist majority of 70 percent. Elections for the upper house were also carried out on January 29 and February 22. They solicited little enthusiasm, and voter turnout was low. Islamists won nearly 80 percent of the seats, with the Brotherhood holding an absolute majority of about 58 percent.

Secular forces, and particularly the revolutionary youth, felt betrayed by SCAF and by the Islamists. Questions about the funding of Islamist campaigns were raised, and it was alleged that the two large Islamist parties received generous donations from individuals in Qatar for the Brotherhood and in Saudi Arabia for the Salafists. This was a step toward polarization as secular parties played to Egyptians' nationalist sentiments by implying that the Islamists received foreign financing and were therefore agents of foreign interests.

The Brotherhood-dominated parliament elected a constituent assembly to start drafting Egypt's postrevolutionary constitution. It

included 66 Islamists out of 100 members. It had only six women and five Copts. Secular parties boycotted the assembly, and ultimately the courts declared the results unconstitutional because members of parliament had elected themselves to the assembly. Agreement was reached between secularists and Islamists on the structure of the second constituent assembly, but the secularists claimed that the Islamists broke that agreement. Many secular parties followed the call of Mohamed el-Baradei (liberal-nationalist) and Hamdeen Sabbahi (Nasserist) to boycott the second constituent assembly. Other groups, including Coptic Church representatives, also joined the boycott. According to a poll carried out by Al-Ahram news agency, more than 80 percent of Egyptians wanted the constituent assembly to be reformed to better reflect all forces in society. The schism between the Islamists and the rest of society appeared to be getting wider.

In the meantime, a presidential election was held in two rounds, the first on May 23 and 24, 2012, and the second on June 16 and 17. The Brotherhood broke its second political promise and fielded a presidential candidate. In fact, it fielded two candidates. Its preferred candidate was Khayrat al-Shatter, a millionaire businessman and deputy general guide of the Brotherhood. However, al-Shatter had legal problems that could have disqualified him, so the Brotherhood also fielded a second candidate, Mohamed Morsi, president of its political party, Freedom and Justice. This earned Morsi the nickname of "the spare-tire candidate." In the end the Brotherhood was proved right: al-Shatter was disqualified, and Morsi became the official Brotherhood candidate.

The Supreme Council clearly stated that it was not supporting any political group or candidate. However, most Egyptians felt that they were in fact supporting Ahmed Shafik, a former air force general and the last prime minister under Mubarak. The choice of Shafik as the standard-bearer of the liberal-nationalist-military alliance was unfortunate. He was closely associated with the Mubarak regime, and it would have been difficult for the people of Tahrir Square to vote for him. Another liberal-nationalist candidate, Amr Moussa, a former minister of foreign affairs and secretary general of the Arab League, presented himself in the elections, but he did not receive much support from SCAF and its followers.

Morsi won the first-round presidential election and Shafik came in second (table 1-3). Thus the second round was between those two. In

TABLE 1-3. Results of First Round of Presidential Elections, Egypt, 2012

Percent

Candidate	Political current	Share of vote
Mohamed Morsi	Muslim Brotherhood	24.8
Ahmed Shafik	Liberal-Nationalist	23.7
Hamdeen Sabbahi	Nasserist-Socialist	20.7
Abdel Moneim Abul Fotouh	Moderate Islamist	17.5
Amr Moussa	Liberal Nationalist	11.1
Other		2.2

Source: Egyptian Supreme Committee for Elections.

that first round of voting Islamists (Morsi and Abul Foutouh) received 42.3 percent of the vote. The liberal-nationalists (Shafik and Moussa) received 34.8 percent, and the Nasserist Sabbahi 20.7 percent. Sabbahi's strong showing demonstrates that the Nasserist and leftist message still attracts substantial support in Egypt, particularly among the working class. It is noteworthy that Sabbahi won pluralities in Egypt's two largest cities, Cairo and Alexandria.

Morsi won the second round of presidential elections with 51.7 percent of the vote to Shafik's 48.3 percent. Many secularists voted for Morsi because they did not want to support someone whom they considered to be a Mubarak clone. Others simply stayed home on election day. It is hard to predict what the elections' outcome would have been had the liberal-nationalist-military coalition selected someone other than Shafik as their standard-bearer. But an opinion poll by Al-Ahram shows that had the second round of presidential elections been between Mohamed Morsi and Amr Moussa, Moussa would have won with 77.6 percent of the vote to only 22.4 percent for Morsi.

Second Phase of the Transition: Why Did Morsi's Presidency Fail?

Egyptians of all political leanings who were worried that the elections might get rigged in favor of Shafik celebrated Morsi's electoral victory. His inauguration on June 30, 2012, was reminiscent of the day that Mubarak resigned. Tahrir Square was filled with huge crowds representing all political forces. The nation seemed united once more, and all the violence on Maspiro and Mohamed Mahmoud streets appeared to have been forgotten. A few weeks later, Morsi fired Field Marshal

Tantawi from his post as minister of defense and appointed a new chief of staff of the armed forces. This move was widely supported. Democracy seemed to be working, as the elected civilian president was taking control of the military.

Morsi promised to be the president of all Egyptians and to appoint two vice presidents, a woman and a Copt. But those promises were not kept, and the euphoria following Morsi's election quickly dissipated as Egyptians slowly came to believe that he as president served only the Brotherhood.

Morsi's term in office started with a clash with the judiciary. In early June, before the presidential elections, the courts ordered the lower house of parliament dissolved on grounds that the election law was unconstitutional, and the SCAF quickly complied. On taking office Morsi tried to reinstate the lower house, but this was interpreted as an attack on the independence of the judiciary and was resisted by the judges, the media, and the political parties. In the end the president had to retreat and accept the dissolution of the lower house. Another battle with the judiciary involved the change of prosecutor general, which Morsi tried to implement in an extralegal manner and was strongly resisted.

The battle between the elected president and the judiciary was often presented as an attempt by Morsi (and the Muslim Brotherhood) to encroach on the prerogatives of the judicial branch of government, which under a democracy is supposed to be independent from the executive. There may have been some truth to that. However, it is also true that the Egyptian judiciary (like the military, police, and civil service) comes from a long nationalist tradition. Moreover, all the judges that Morsi had to deal with were Mubarak appointees. They were happy to make life as difficult as possible for the new president and his Islamist supporters. Society became even more polarized as secularists united to defend the beleaguered judges from what they considered unwarranted Islamist attacks. The Brotherhood would have been well advised to avoid entering into such a divisive battle so soon after its accession to power.

But the Brotherhood's worst mistake was yet to come. On November 22 Morsi issued a seven-article constitutional declaration. Article 2 stated that all decrees, constitutional declarations, and laws issued by Morsi since his inauguration on June 30 could not be appealed or canceled by any authority of the country (effectively ending parliamentary and judicial oversight) and that all pending lawsuits against his

decisions were void. Article 6 authorized the president to take any measure he saw fit to protect the revolution and safeguard national unity (effectively giving him unlimited dictatorial powers). Reaction against this declaration was quick and vehement.

People took to the streets to protest what they considered a dictatorial move by the Brotherhood. The police responded to the demonstrations forcefully, and many young people were killed. Sexual violence against female demonstrators continued and even increased. It appeared as if the Brotherhood, now in power, was using the same repressive techniques that previous governments had used against them.

Finally, Morsi had to retract and annul his ill-fated constitutional declaration, but the harm was already done. The Brotherhood then committed another serious mistake. It decided to quickly push through a new constitution before the judiciary could dissolve the second Islamist-dominated constituent assembly, which was being boycotted by nearly all secular groups. The new constitution was passed in a referendum that was carried out in two stages on December 15 and 22, 2012. It was approved by a 63.8 percent majority, but voter turnout was only 32.9 percent and a majority of voters in Cairo (the capital and largest city) voted against the constitution.

The new constitution reflected an Islamist vision of Egypt rather than a broad societal consensus. Copts were against this constitution because it did not sufficiently protect minority rights. Women's groups opposed it because it did not ensure equality of the sexes, and the media opposed it because it did not protect freedom of the press.

An open confrontation emerged between the Brotherhood and nearly all of Egypt's mainstream media. Many leading media figures were being sued either for "contempt of religion" or for "insulting the president," both charges punishable by prison sentences. Islamist demonstrators surrounded Media City, where many media offices are located, for many days and even threatened to kill some leading reporters and press figures. The media's response was to escalate its attacks on the Brotherhood and on its political leader, President Morsi.

Morsi also started a needless battle against Egypt's artists and leading intellectuals. He appointed a conservative Islamist as minister of culture. The new minister tried to impose an Islamic code on Egypt's influential cultural elite. He fired many of the ministry's top officials, including the highly respected director of the Cairo Opera House, in

order to replace them with people who could implement his conservative vision. This led to another uproar, and leading artists, writers, musicians, actors, and film producers started an open sit-in in front of the ministry's building.

Thus in a matter of few months the Brotherhood was able to antagonize a huge segment of Egyptian society who felt that Morsi and his supporters were imposing their vision of postrevolution Egypt without sufficient consultation. For many among them it became an existential struggle. Two political parties that historically have been sworn adversaries, Sabbahi's Nasserists and el-Badawi's New Wafd, agreed to coordinate and join el-Baradei's Salvation Front against the Brotherhood. Even Abul Foutouh's moderate Islamists joined forces with the secular parties in the Salvation Front.

By early 2013 Morsi's position was starting to look shaky. He was facing a united opposition of secularists and moderate Islamists who were supported by the revolutionary youth, the judiciary, the media, and the cultural elite. Owners of large businesses also joined the ranks of Morsi's opponents because the economy was quickly heading toward a major crisis. Officially, the military, the police, and the civil service were neutral. However, it was an open secret that those intensely nationalist institutions, filled by Mubarak appointees, did not trust the Brotherhood.

Thus when a group of revolutionary youth started the Tamarod movement and began collecting signatures on a petition for early presidential elections, they received tremendous moral support from political, cultural, and media elites as well as financial support from the business community. They claim to have collected 22 million signatures on the petition, which is much more than the 13 million votes that Morsi obtained in the second round of elections. They then organized massive anti-Morsi demonstrations in all Egyptian cities. At this point SCAF stepped in with an ultimatum to both sides in the confrontation (but clearly directed mainly at Morsi) to reach a compromise. Otherwise, they said, they would impose their own road map for a new transition.

Morsi responded with a long speech in which he rejected opposition demands for early elections, as well as the military's ultimatum to reach a compromise that would be acceptable to Egyptians on the streets. He insisted that he was the legitimate president of Egypt and would complete his four-year term in office. Did this mean that the millions demonstrating in Tahrir and other squares all around Egypt

did not respect legitimacy? That is not the way they saw it. They argued that legitimacy is given to a president by his people. Morsi failed to meet Egyptians' expectations. In the absence of a parliament that could impeach the president, the people were impeaching him directly by going to the streets. The demonstrators believed that they, and not the president, represented true legitimacy in Egypt.

With the benefit of hindsight, it would have made much more sense for Morsi to negotiate a compromise with the opposition and with SCAF. It was clear that Egypt's transition was in trouble and a change of direction was needed. It may have still been possible for him to lead this change and start a process of healing and national reconciliation. But he chose not to, and on July 3 he was deposed. At least as many people swarmed into Tahrir Square to celebrate his fall as had celebrated his election a year earlier.

Back to Square One: Has the Egyptian Spring Failed?

Regardless of how one evaluates the Morsi presidency, the prevailing view among political scientists seems to be that the ouster of Egypt's first democratically elected president is a setback to the democratization process. In a series of articles, Amr Hamzawe, a prominent Egyptian political scientist turned politician and opponent of the Brotherhood, argues it was necessary that Morsi leave the presidency, but it should have been done through democratic means, such as early elections.[15] Thus, according to Hamzawe, the way in which Morsi was forced to leave office was a mistake. At best Morsi's ouster takes Egypt back to where it was in February 2011, when it had to start building democratic institutions more or less from scratch. At worst it takes the country back to the Mubarak era of police repression and lack of political freedom and civil liberties.

Mohamed Hassanein Heikal has a different analysis. According to Heikal (2014), SCAF recognized that a mistake had been made in the way the initial phase of the transition was managed, which allowed the Brotherhood to achieve political control, crush the opposition, and move away from the liberal-democratic ideals of the revolution. The council felt a certain responsibility to fix this error. Heikal argues that this is why the generals took the initiative to meet with all political

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15. Hamzawe presents his views in a daily column in Cairo's *Al-Shorouk* newspaper.

forces, including the Brotherhood, to try to find a way out of the political crisis that the country was facing. He adds that SCAF and the political parties asked Morsi to organize early presidential elections, but Morsi refused and left them with no other option than to force him out.

The new transition team is led by a civilian interim president (the head of the Constitutional Court) and a civilian interim prime minister (a well-known economist). However, the military continues to be the most respected as well as the most powerful institution in the country. The minister of defense, General el-Sissi, is the most popular politician in Egypt today and will probably easily win the next presidential elections if he chooses to run. So far he has said that he has no presidential ambitions, but he has stopped short of completely ruling out running for president. El-Sissi appears to be very different from the Soviet-trained Field Marshal Tantawi, who led the country after the fall of Mubarak. El-Sissi is American trained, youthful, and charismatic. His discourse is nationalist, and he is perceived to be the heir to a long military-nationalist tradition started by Orabi and continued by Nasser and Sadat.*

In view of the central role that General el-Sissi is playing in the current phase of Egypt's transition, it is useful to examine his views on democracy in the Middle East, which he presented in a 2006 paper written as part of his studies at the United States Army War College. In this paper the general describes the constraints to democracy in the region, namely poverty, lack of a democratic culture, religious extremism, the Arab-Israeli conflict, and the negative perception Arabs have of the West, particularly the United States. He clearly sees democratization as a long-term process. He states,

> It is one thing to say that democracy is a preferred form of government, but quite another to adjust to its requirements and accept some [of] the risks that go along with it. . . . The economic, religious, education, media, security and legal systems will be affected. As a result, it will take time for people and the nation's systems to adjust to the new form of government. . . . In my opinion democracy needs [a] good environment like a reasonable economic situation, educated people and a moderate understanding of religious issues.[16]

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*The chapter was written in early 2013. On July 2013 Abdel Fattah el-Sissi led a coalition to oust President Morsi from power. On June 8, 2014, he was sworn in as the president of Egypt.

16. El-Sissi (2006, pp. 2–3).

The chapter concludes by arguing that in order to develop democracy in the Middle East, four things need to happen. First, the education system should be strengthened and the media should play a bigger role in spreading a culture of democracy. Second, a consensus needs to be reached on the appropriate role of religion in government. Third, there needs to be greater regional integration and exchange of lessons and experiences. Fourth, as the Middle East develops, the rest of the world needs to assist in promoting democratic values, perhaps by supporting education.

The new authorities set out a transition road map to put the country back on the road to democracy. It starts with revisions of the constitution, to be followed by parliamentary and presidential elections.[17] At the time of this writing, a referendum on the new constitution has been called for mid-January. It is expected that the new constitution will be approved by a large majority, in spite of the Brotherhood's opposition. Nevertheless, it is important to note that some secular movements are also calling for a no vote on the constitution, mainly because it allows for the trial of civilians in military courts in cases where the civilian is accused of attacking military personnel or facilities.[18] The constitution also provides the military with other protections. It specifies that SCAF has to approve the selection of the minister of defense during an eight-year transition period, and it limits parliamentary discussion of the defense budget.

Progress on a new constitution has not led to an easing of tensions and a reduction of violence. In August, the security forces forcibly disbanded two Brotherhood sit-ins, resulting in hundreds of dead and thousands of injured. It also led to the resignation of Mohamed el-Baradei from the post of interim vice president. El-Baradei was a strong supporter of Morsi's ouster, but he disapproved of the security forces' tactics. The new authorities jailed Morsi and nearly all of the Brotherhood's leadership, including their general guide. They also closed down their television stations and newspapers.

Brotherhood sympathizers have also used violence. The interim government blames the Islamists for terrorist attacks against police stations

17. At the time of this writing, a debate is still going on in Egypt about which election should come first.

18. Notably, the April 6 movement, which was one of the main youth groups that started the revolution in 2011.

and military targets that left many dead and injured. The Brotherhood is also being blamed for attacks on churches as well as on Christian schools and businesses. As a result the interim government declared the Brotherhood a terrorist organization, which implies that anybody joining the Brotherhood could face criminal prosecution. The level of violence and counterviolence is such that it is not realistic to talk of national reconciliation in the near future.

As described by Youssef (2013), the news media are leading intensive anti-Brotherhood campaigns with calls to destroy the organization. Several political parties and associations have joined the clamor. The Brotherhood is being demonized and accused of plotting with foreign powers against the Egyptian state. Liberal thinkers and politicians (for example, Mohamed el-Baradei), who oppose the use of force against Brotherhood sit-ins and demonstrations, are also being attacked by the media and other secular political parties. They are alternatively being called traitors or accused of being too weak on national security.

Howeidy (2013–14) warns that political confrontation is straining the very fabric of Egyptian society. He describes the case of three secular political activists who are imprisoned for breaking the new antidemonstration law.[19] The three jailed activists have gone on a hunger strike to protest their mistreatment in prison, which apparently includes solitary confinement and refusal to let them meet with their lawyers. Howeidy expresses surprise that Egyptian intellectuals and human rights activists have not mobilized to support the three young men. He concludes that "one of the tragedies of the present moment in Egypt is that political convictions and ideological struggles have destroyed what is humane, what is based on human rights, and even what is ethical."[20]

Some of the revolutionary youth seem to be developing a new movement that opposes both the military and the Brotherhood. The movement, sometimes known as the third way, uses three slogans: Down, down with the rule of soldiers; Down, down with the rule of the guide (referring to the Brotherhood's general guide); and As long as Egyptian

19. These are Ahmed Doma, Ahmed Maher, and Mohamed Adel. They are among the group of young people who sparked the revolution against Mubarak in January 2011.

20. Author's translation from the Arabic original that was published in *Al-Shorouk* newspaper on January 5, 2014.

blood is cheap, down, down with every president.[21] The third way defines itself in terms of opposition to military rule, to religious rule, and to violence. It will probably need to develop a positive vision of Egyptian society if it wants to attract more followers.

Economic Crisis: Why Have Successive Interim Governments Ignored the Economy?

Economic recovery will have to be the top priority of any future government.[22] Economic decline contributed to the current situation in Egypt. Morsi's ouster underlines the importance of both consensus building and economic growth for the success of the transition process. The Tamarod movement was started by revolutionary youth who felt that Morsi and his Muslim Brotherhood had excluded them from the political process. They argued that the Brotherhood was not willing to listen to the opposition and was not interested in forging consensus around major national issues.

Although those political grievances may have been real, it is unlikely that Tamarod would have been able to mobilize millions of Egyptians had the economy been doing well. Polls show that 65 percent of Egyptians felt that their standard of living had declined since President Morsi came to office.[23] About the same percentage (64 percent) believed that corruption had increased since the 2011 revolution. And many of those who joined the Tamarod demonstrations on June 30, 2013, did so because they were suffering from unemployment, rising prices, and shortages of key necessities.

The Brotherhood started by tackling divisive political and identity issues. Economic issues that affected the daily lives of ordinary Egyptians were put on the back burner. Morsi appointed a prime minister who, according to many observers, had neither the experience nor the stature for the job.[24] He changed three different ministers of finance in less than a year. The government appeared incapable of dealing with Egypt's admittedly difficult economic challenges.

To be fair to Morsi, the economic decline started before he took office. The Supreme Council's record of economic management was

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21. See Soueif (2013–14) for a more detailed description of this third way.
22. This section draws on the work of Ghanem and Shaikh (2013).
23. Pew Research Center (2012).
24. For example, Howeidy (2013–14).

not brilliant. It kept a strong exchange rate after the revolution and allowed capital flight to reach a point where Egypt lost more than half of its international reserves. It tried to appease different interest groups by increasing public spending, and the fiscal deficit reached new highs. It did nothing to support the private sector that was suffering from the political unrest and the high interest rates caused by government borrowing. And it refused to accept international financial support in the form of an International Monetary Fund program that was offered in 2011 with virtually no conditionality.
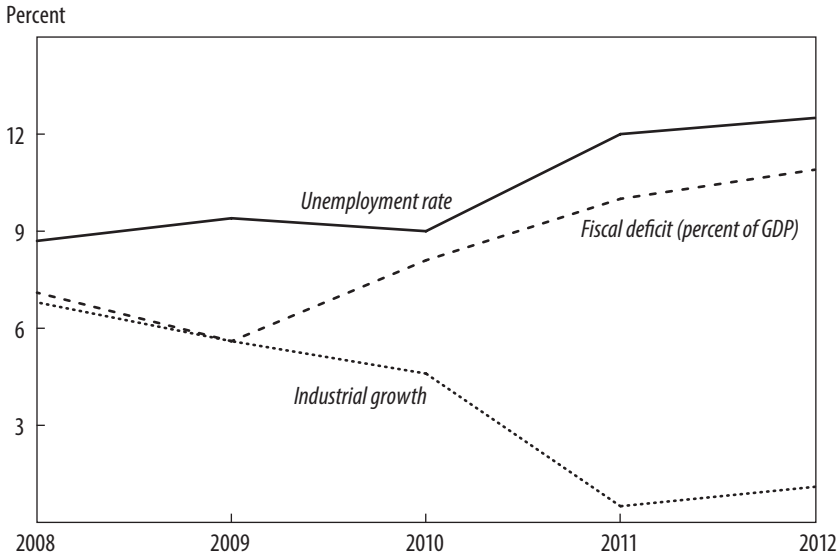
The economic situation worsened under Morsi. The Egyptian economy did not collapse suddenly. However, in the absence of a serious macroeconomic stabilization program it deteriorated gradually, with low growth and increasing unemployment and inflation. Even corruption rose. The Egyptian people were also feeling the pinch in terms of higher prices and shortages of some imported necessities.

Loud grumbling was heard all over Egypt, and even nostalgia for autocratic rule. According to the Pew Center's Global Attitudes Project (2012), more than 70 percent of Egyptians were unhappy with the state of the economy, 33 percent felt that a strong leader was needed to solve the country's problems, and 49 percent believed that a strong economy was more important than a good democracy. The number of people disillusioned with the revolution continued to increase as the economy weakened further.

In addition to freedom and dignity, the young men and women who started the Egyptian revolution on January 25, 2011, were demanding better living conditions and greater social justice. Their demands were far from being met as growth declined and unemployment rose (figure 1-1). Industrial growth, which stood at a healthy 5 to 7 percent a year before the revolution, fell to about 1 percent, and the official unemployment rate rose from 9 to 12.5 percent. About 95 percent of the unemployed were youth with at least a secondary education. Nearly three-fourths of those who were lucky enough to find jobs ended up working in the informal sector, where wages range between $2.60 and $3.70 a day.

Government fiscal policy was not conducive to growth and employment generation. Figure 1-1 shows that the government deficit rose from about 8 percent of GDP in 2010 to nearly 11 percent in 2011. It exceeded 13 percent of GDP in 2013 (not shown). The increasing

FIGURE 1-1. Selected Economic Indicators, 2008–12

Percent

Source: Economist Intelligence Unit.

deficits were financed almost entirely domestically, and the public domestic debt rose from some 60 percent of GDP in 2010 to 70 percent in 2012.[25] At some point in 2012 the Egyptian government was paying 16 percent interest on its short-term domestic debt.[26] That is, the government has been sucking liquidity from the domestic financial system and crowding out the private sector, discouraging investment, growth, and employment creation.

Surprisingly, corruption seems to have increased after the revolution. Ending corruption has been a key demand of the revolutionaries, and the country has witnessed more than 6,000 corruption investigations and several high-profile incriminations since February 2011.[27] Investigations and police action send a political signal, but they do not constitute an effective anticorruption program. Data for 2012 from the Worldwide Governance Indicators show deterioration in corruption control. According to Transparency International's 2013 Global
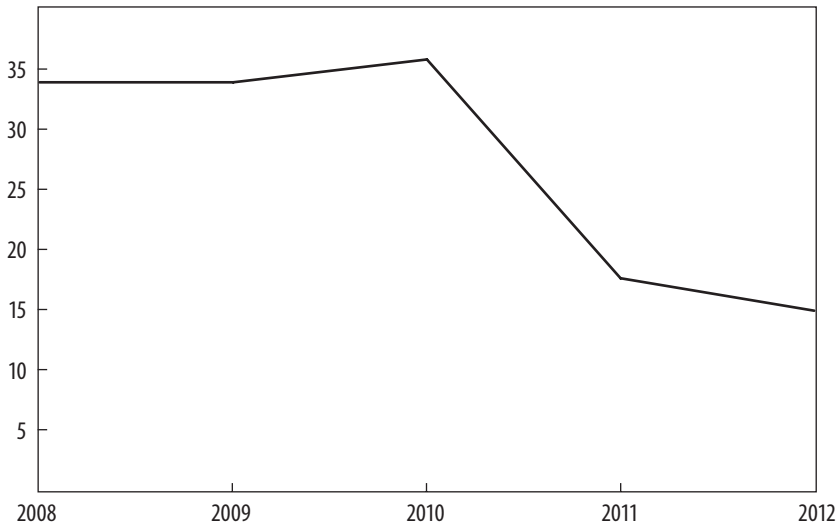
25. Economist Intelligence Unit.
26. Ministry of Finance, Egypt.
27. African Development Bank and others (2012).

FIGURE 1-2. International Reserves, Egypt, 2008–12

Billions of U.S. dollars

Corruption Barometer, only 16 percent of Egyptians believe that there has been an improvement in corruption control since the revolution. Nearly 65 percent of Egyptians feel that corruption has increased by a lot or a little since the revolution. The perception that democracy was associated with more rather than less corruption could provide some explanation for youth disillusionment.

Falling tourism and foreign direct investment, together with increasing capital flight, led to a decline in foreign reserves from more than $35 billion in 2010 (covering seven months' imports) to less than $15 billion in 2012, which covered less than three months' imports (figure 1-2). As a result, foreign exchange became scarce, and the Egyptian pound started depreciating rapidly. It depreciated against the U.S. dollar by about 15 percent in the first three months of 2013. Moreover, a black market in foreign exchange emerged. Egypt's credit rating suffered a setback as Moody's downgraded Egypt's debt to "caa," meaning that it is of poor standing and entails very high risk.

Imports became more expensive and increasingly difficult to procure. Egypt is highly dependent on the import of many necessities, including food and fuel. The pound's depreciation meant that domestic

prices for imports rose, which affected millions of poor and middle-class families. Scarcities of some imported goods (for example, diesel fuel) became commonplace as foreign exchange was increasingly difficult to obtain, and foreign banks were wary of providing credit to Egyptian importers. Some businessmen complained that it took more than six weeks to open a letter of credit, while it had taken only three days before the revolution.

The government argued that there was enough fuel in the country to ensure supply to all the petrol situations as well as for electricity production. It stated that fuel shortages and power outages had been created on purpose by civil servants loyal to the Mubarak regime who wanted to sabotage the democratic transition. This may very well have been true. However, the Egyptian people continued to be angered by the shortages. They did not care whether those shortages were caused by financial problems or by the government's inability to control the bureaucracy.

In those difficult economic circumstances Morsi's decision to appoint a member of an Islamist group who was involved in past attacks on tourists as governor of Luxor (the site of ancient Thebes and Egypt's most important tourist destination) was hard to understand. The decision was met with outrage, especially from tourism professionals and business people in the city, who were already suffering from a sharp drop in tourist visits. The minister of tourism presented his resignation in protest. Sit-ins were organized in front of the governor's offices to prevent the new governor from entering them. Finally, the new governor resigned without ever setting foot in his office, and Morsi's image was further tarnished.

There was general agreement that Egypt needed to implement credible reforms to stabilize the economy, control corruption, and lay the foundations for inclusive growth. Such reforms would normally include a reduction in the fiscal deficit to bring the domestic debt under control and a further depreciation of the Egyptian pound to encourage exports and tourism.[28] The Morsi administration had been negotiating for a whole year with the International Monetary Fund to obtain support for such a stabilization program, without much success. It was doubtful that under the situation of extreme political polarization the government could implement the type of difficult measures that were needed.

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28. For example, see Freund and Braga (2012) or Ghanem (2013b).

The Morsi administration was facing a sort of catch-22. It could not implement needed economic reform because it was facing stiff opposition and unrest. But failure to reform the economy made the opposition stronger and the unrest more widespread.

The Way Forward: What Can the International Community Do?

Many analysts argue that it is in the interest of the international community, and particularly the United States, to promote democracy in Egypt and the rest of the Arab world.[29] They call for an active policy of supporting democratization. But can the international community really influence short-term political developments in Egypt?

As worries that Egypt is returning to the repressive ways of the Mubarak regime and back-tracking on democratic reforms increase, many voices in the United States and Europe are calling for suspension of economic aid. However, a decision to suspend Western economic aid to Egypt would probably be counterproductive for at least two reasons. First, a suspension of aid by the West would not be understood by the Egyptian public as a position of principle in support of democracy. Instead, it would be interpreted as a sign of Western support for the Brotherhood. It could play into the nationalist argument that the Brotherhood is a foreign-supported organization with international ambitions and is not loyal to the Egyptian nation. This could be used to drum up additional public support for even more repression.

Second, a suspension of Western economic aid would encourage Egypt to turn to the East. Western economic aid is small relative to Egypt's economy and is dwarfed by financial assistance from oil producers in the Gulf. Compare the United States' annual economic assistance of US$250 million with the Gulf states' recent decision to provide Egypt with exceptional support of US$12 billion over six months. Thus a suspension of Western aid is unlikely to have much impact on the Egyptian economy, and it would lead to a reduction of Western influence in Egypt.

Therefore, it is important for the international community to remain engaged in Egypt. However, it may also be necessary to reexamine the nature of this engagement and reorient aid flows toward areas and

29. For example, Wittes (2008).

sectors that directly enhance economic and political inclusiveness. Examples of such areas would be institution building, support to small-scale enterprises, and agriculture and rural development.

This does not mean that the international community should provide unconditional support to the current Egyptian government. Continued support could be linked to the implementation of the authorities' road map for a transition to democracy, and the level of support could be adjusted to reflect progress on the democratic transition.

Adopting a Long-Term View: Can the West Be Patient?

The international community would like to see an end to violence in Egypt and the start of a process of national reconciliation, but this is unlikely to happen in the short run for three reasons. First, most Brotherhood leaders who have sufficient authority to enter into reconciliation talks are in jail. It would be hard for the interim government to take a political decision to release them immediately because it would anger the masses of Egyptians who rose against the Brotherhood and would thus weaken the government's support. It is the courts that will have to issue such a decision. Judicial proceedings have started against them, and it would probably be necessary to let the process take its course. Monitoring by human rights groups and the international community would help ensure that they get a fair trial. Second, the Brotherhood has boxed itself into a maximalist position, demanding that Morsi be reinstated. This is not realistic, given the strength of anti-Morsi feeling in the country. It will take time for the Brotherhood to be able to change that position. Third, neither the Brotherhood's rank and file nor the anti-Brotherhood groups are in a mood for reconciliation. The pain from the violence is still too sharp.

Achieving the goal of a stable democracy requires peace. It also requires important institutions, such as a free press, an independent judiciary, and political parties that ensure transparency, voice, and accountability. Most important, it requires a change in political culture toward greater inclusion and acceptance of the other. Those changes take years to materialize. Therefore, patience and a long-term vision are needed. Western aid could be used strategically and be combined with knowledge sharing and technology transfer to influence the path of the transition and help achieve the Egyptian people's dream of "bread, liberty, social justice, and human dignity." By remaining engaged with Egypt

the international community could maintain a high-level policy dialogue aimed at gradually achieving reconciliation and greater inclusiveness.

Economic aid to Egypt could focus on fixing the problems with the growth model adopted during the Mubarak years. It could tackle questions of social justice and inclusiveness. Achieving inclusive growth that is associated with the development of institutions that provide for transparency, voice, and accountability in decisionmaking, an expansion of the middle class, and the growth of small business would be important for the democratization process. International economic support for Egypt could prioritize inclusiveness and social justice by supporting institutional development, helping small business, and investing in agriculture and rural development.

Developing Inclusive Economic Institutions: How Can Donors Overcome Political Sensitivities?

Inclusive institutions are important for democracy, and they are important for social justice. Most Egyptian governments over the past four decades have at least given lip service to the goal of social justice and have taken some symbolic steps toward implementing parts of this agenda. However, no serious attempt has been taken so far to fully implement an agenda for achieving social justice and economic inclusion. Even after the revolution neither the transition governments nor the Muslim Brotherhood government took any significant moves toward achieving this key goal.

Egypt's failure to act decisively on social justice issues could be explained by the fact that the lower middle class and the poor, who would benefit from such an agenda, have little or no voice in the economic decisionmaking process. This could explain why their interests were not served by economic policies while a system of crony capitalism flourished.[30] Inclusive economic institutions that would give voice to ordinary citizens in economic policymaking and empower them to hold government officials accountable would increase the probability that an agenda for achieving social justice is actually adopted and implemented. It would provide important support for the democratization efforts.

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30. For example, see Richter and Steiner (2008) for a description of cronyism in the tourism sector.

The allocation of public investment in Egypt is biased toward relatively better off regions and groups, which reflects the noninclusive nature of the planning and economic decisionmaking process. In his analysis of Egypt's planning system, Sakamoto (2013) finds that lack of a structured dialogue among key stakeholders is a key feature of the planning process in Egypt. Six five-year development plans were prepared during the Mubarak era. Budget allocations were decided before economic goals and strategies were determined. The first planning step was the production of the investment-budget allocation sheet by the Ministry of Planning based on the line ministries' investment-budget requests. The five-year development plan was then drafted by the Ministry of Planning based on the budget allocation sheet. This system was simple, with drafting being fully completed inside the Ministry of Planning without official outside contacts. Thus the system excluded major stakeholders, such as the private sector, civil society organizations, labor organizations, and farmer organizations. Even line ministries had little voice in the preparation of the plan document.

Kharas and Abdou (2012) look at the role that civil society organizations (CSOs) could play in achieving inclusive growth and social justice in Egypt. They argue that CSOs can make four important contributions to inclusive growth. First, they can play an advocacy role for small business, the informal sector, and other marginalized groups, ensuring that government takes their concerns into account when formulating policies and programs. They can also act as whistleblowers, denouncing corruption and other unfair practices that harm small or weak economic agents. Second, they can provide important economic services that the public sector is unable to provide (or provides inefficiently): for example, by helping small enterprises get access to finance and to technical assistance. Third, they can act as think tanks, developing ideas and promoting best practices that support inclusive growth. Fourth, they can be an important source of employment opportunities for youth. Currently, only 3 percent of Egypt's labor force work in CSOs compared with, for example, 9 percent in the Netherlands. Kharas and Abdou (2012) conclude that the legal framework governing CSOs in Egypt needs to be reformed to provide the organizations with greater flexibility and incentives to expand their activities.

Farmer organizations and cooperatives are a special type of CSO that can play an important role in strengthening the governance system

of the agriculture sector, particularly in developing and supporting family farmers. Problems caused by the large number of very small family farms in Egypt can be tackled through the development of strong producer organizations that group farmers together to ensure that their voice is heard in policy discussions and also help enhance access to technology, inputs, and markets. Existing farmer organizations and cooperatives are weak and are dependent on government for financial and technical support, which erodes their independence and limits their areas of action. Cooperatives and farmer organizations sometimes act more as government agencies, informing farmers of policy decisions that are taken at the central level and helping implement them, rather than as bodies that represent farmers and advocate for policies that protect their interests.

These are just three examples of areas where support for institution building is badly needed. International support in institution building could be a sensitive subject as it may raise political issues. Recent experience with U.S. funding for Egyptian CSOs is an example of how things can go wrong.[31] But this should not be an argument for doing nothing. Instead, it should be an argument for engaging the Egyptian government in a serious dialogue on the issue. Neither democracy nor social justice can be achieved without institutions that ensure transparency in decisionmaking, provide voice to all stakeholders, and hold government officials accountable.[32]

Some members of the international community are particularly well equipped to provide support to the development of inclusive economic institutions. The United Nations Development Program, which has a strong presence in Egypt, has a clear mandate in the area of human rights that includes the principles of transparency, voice, and accountability. Moreover, it is a neutral UN agency that can provide needed support to nongovernmental organizations, legislatures, and the free press without necessarily being accused of political meddling. Another UN agency, the Food and Agriculture Organization, has long experience of working with farmer organizations. The International Monetary Fund and the World Bank have vast experience in the area of

31. See Human Rights Watch (2013b).
32. For more on the role of institutions in development see Acemoglu and Robinson (2012).

public financial management, procurement policies, and civil service reforms. The Japan International Cooperation Agency is already working with the Egyptian government to support inclusive planning. This project will greatly enhance transparency in economic policymaking and provide greater voice to different stakeholders as they participate in the planning process. Similarly, the European Commission, Canada, and the United Kingdom have established human rights policies and experience in supporting organizations that promote transparency, voice, and accountability, including in Egypt.

Supporting Small Business: Could Donors Move Beyond Simple Credit Programs?

The expansion of the small and medium enterprise (SME) sector would help promote both democracy and economic inclusiveness. When the private sector consists of a small number of large firms, those firms tend to build special links to government. Those connected firms are happy to support autocratic regimes that provide them with protection and other privileges, such as access to financing, government contracts, and public infrastructure. Thus a system of autocracy and crony capitalism grows and tends to perpetuate itself. Owners of large businesses have no interest in promoting democracy, as it could disrupt their special relations with government. In his study of Egypt under Mubarak, Rutherford (2008) argues that autocracy can be countered by supporting a large number of small business owners who would normally exert pressure to institute legal and institutional reforms that would level the playing field and break the link between corporate capitalists and autocratic governments. They would also call for democratic reforms so as to use electoral politics to push for policy reforms to support small businesses.

Development of SMEs is also important for economic inclusiveness and social justice. According to Ghanem (2013c) about 56 percent of Egyptians live on $2 to $4 a day, and they depend mainly on SMEs, typically in the informal sector, for their livelihood. More than 70 percent of young first-time job seekers end up working in SMEs, with wages of about $3.70 a day. That is why expanding and modernizing the SME sector so that it can provide more and better-paying, higher-productivity jobs should be a component of any program that aims at achieving inclusive economic growth.

Most donors have programs to support SMEs and youth entrepreneurship, and they need to be refined and scaled up. In addition to providing access to financing, those programs need to prioritize technology transfer and market access. Vocational and entrepreneurship training programs are also important to correct some of the weaknesses of the Egyptian education system. Successful SME development programs are usually based on partnership between governments (which provide funding), civil society organizations (which provide training), and the organized private sector (which provides technology and markets). In the case of Egypt, those partnerships still need to be developed. In particular, donors can help connect domestic SMEs with foreign investors and export markets.

Access to regional and international markets is important for business development and job creation. The international community could make a huge contribution to the development of exports and job creation in Egypt. It could facilitate exports of manufactured goods from Egypt, especially for materials for construction, mechanical, and electrical industries, by negotiating mutual recognition agreements to reduce technical barriers to trade. Agriculture and agro-processing is an important sector for Egypt, and it is also a sector where SMEs could easily develop. The international community could improve Egypt's access to its agricultural markets by removing nontariff barriers to agricultural trade. This would require, among other things, the abolition of quotas, reference prices, and seasonal restrictions, especially for exports of fruits and vegetables.[33]

Support to Lagging Regions and the Rural Poor: Is It Possible to End Decades of Neglect?

A strategy to achieve inclusive growth in Egypt will have to deal with the problems of regional inequalities and rural poverty. For many years no real action has been taken to develop lagging regions or support the rural poor. This had serious political consequences as some lagging regions became centers for extremism and sometimes even violence. It also had serious social and economic consequences. Illiteracy, child malnutrition, and even stunting of growth continue to be unacceptably

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33. For more on the importance of opening up developed country markets to Arab country exports, see Chauffour (2012).

high in rural areas, particularly in Upper Egypt. Intervention is needed in two areas: social protection for the rural poor and the development of agriculture and agro-industries.

In Egypt social protection is provided to the populations of large cities through a system of untargeted price subsidies. In the rural areas social protection is usually project based and therefore fragmented. There is a need to move to a systems-based approach to social protection. Egypt can benefit from Latin America's experience in this area, especially Brazil's Bolsa Familia and Mexico's Progresa-Oportunidades. This experience shows that direct cash transfers can be used to achieve poverty reduction as well as development objectives. By providing cash to poor families those programs help raise their consumption and get them out of poverty. It is a much more direct method than generalized price subsidies for products that can be consumed by the poor as well as the nonpoor. By making part of the transfer conditional on school attendance or immunization, the programs also encourage investment in human capital and thus help achieve long-term development objectives. There is also some evidence that recipients of cash transfers in rural areas tend to save part of it and use it for investments in productive physical capital.

Agriculture is crucial for Egypt's economy and particularly for poor households. It accounts for around 14 percent of GDP, employs 30 percent of the labor force, and is responsible for about 20 percent of total exports. Nearly 40 percent of the poor in Egypt rely directly on agriculture. All of the poor in rural areas are either directly or indirectly affected by agriculture. Therefore, agriculture growth and the resulting growth in the nonfarm rural economy would have significant poverty reducing effects. It would also have strong equalization effects as it reduces the large income gaps between urban and rural areas and between Upper Egypt and the rest of the country. The Ministry of Agriculture has developed a long-term strategy for developing the sector. It includes investments in irrigation (to deal with water scarcity), research and extension, and rural infrastructure. It also includes incentives for processing of agricultural products and support to farmer organizations and CSOs operating in rural areas. This strategy needs to be implemented.

The international community has a great deal of experience in social protection and agricultural development and could provide important support in achieving inclusive growth through financing and knowledge

sharing. The World Bank has done extensive work on social safety nets and can support reforms in this area. Several donors are funding agriculture development, and UN agencies (mostly the Food and Agriculture Organization) are providing technical assistance and knowledge sharing. They could scale up their interventions and focus them on supporting smallholding farmers, particularly in the poorest areas of Upper Egypt.

Assessing Risks: Where Is Egypt Heading?

There is no doubt that the present situation presents serious risks. Some observers believe that the Muslim Brotherhood is prepared for a long struggle and therefore predict a period of continued violence and civil strife similar to what happened in Algeria after the 1991 elections. Others point to the rise in the level of repression by the security forces (and the criticism leveled at moderate and liberal politicians) and predict that Egypt will become a military dictatorship reminiscent of Chile under Pinochet.

While those two scenarios present real risks and should be taken seriously, there is also the possibility of a third scenario materializing. Under this more optimistic scenario, the current authorities implement their road map and hand over government to a freely elected president and parliament, who then proceed to gradually strengthen democratic institutions and create more inclusive political and economic systems, and perhaps a societal dialogue on the appropriate role of religion in government. The international community could increase the probability of Egypt returning to the road toward democracy and inclusiveness by remaining engaged and by prioritizing support to areas that enhance social justice and promote inclusive economic growth.

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