



EGYPT'S DIFFICULT TRANSITION: WHY THE INTERNATIONAL COMMUNITY MUST STAY ECONOMICALLY ENGAGED

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Abstract:

This paper presents a political-economy analysis of the Egyptian transition experience from the fall of President Hosni Mubarak in February 2011 until the end of 2013, and considers options for the future. Establishing a stable democracy in a country with weak institutions and no democratic culture will take years or even decades. With the benefit of hindsight, most observers were too optimistic in 2011 when they predicted that the “Arab Spring” would quickly lead to democracy. They are probably too pessimistic today when they declare the failure of Egypt’s democratic transition. The millions of Egyptians who swarmed into Tahrir Square in January 2011 demanding that Mubarak step down, and then again in June 2013 asking for the overthrow of President Mohammed Morsi, have learned how to use “people power.” A wall of fear has been broken, and it would be difficult for another autocratic regime to succeed in ruling Egypt for an extended period of time.

The political struggle taking place in Egypt today has roots that go back to the late 19th century. For about a century Islamists and secular-nationalists have been fighting over Egypt’s identity and future. Their differences could sometimes seem irreconcilable. It is not clear how a vision of Egypt as a small part of a large Islamic community can coexist with a vision of Egypt as one of the oldest civilizations and nation-states in the world. Similarly, it is not clear how Islamists’ interpretation of Shariah can be made consistent with an open and democratic society.

The escalation of this political struggle and the increasing violence was caused by a mismanagement of the transition. Both the military leadership that took power after the fall of Mubarak and the Muslim Brotherhood that ruled the country from mid-2012 to mid-2013 must bear part of the blame. The military’s decision to hold elections before agreement on a constitution and the “rules of the game” ensured a crushing Brotherhood victory at the polls and the exclusion of other political and social groups. And, the Brotherhood’s failure to compromise with secular forces and reach consensus on important issues of national identity, together with their inability to tackle economic problems, led to the popular uprising against them in June 2013.

The international community needs to take a patient and long-term view of developments in Egypt. Western interests and values would probably be best served by maintaining its engagement with Egypt and its economic assistance. Western aid is small relative to the size of the Egyptian economy and relative to the massive financial flows from the Persian Gulf oil producers. Therefore, western aid needs to be used strategically and be combined with knowledge-sharing and technology-transfer to support democratization and help achieve the Egyptian people’s dream of “bread, liberty, social justice and human dignity.”

This paper does not argue for giving carte blanche to the current leadership in Cairo. But it argues for accompanying them as long as they implement their roadmap for moving toward democracy. By remaining engaged with Egypt the international community can continue its high-level policy dialogue in support of democratic reforms, and it can modulate its assistance to reflect progress on the road to democracy. This paper argues that the immediate objective of donor assistance should be to help achieve inclusive growth and social justice, which are necessary for democratic development. Areas where international community interventions could be particularly useful are: (1) building inclusive economic institutions, (2) supporting small and medium businesses, and (3) fighting rural poverty through agricultural projects and strengthening the social safety net system to protect small and landless farmers.

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EGYPT'S DIFFICULT TRANSITION: WHY THE INTERNATIONAL COMMUNITY MUST STAY ECONOMICALLY ENGAGED

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INTRODUCTION

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 that new elections be held. 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 Church—announced the president's ouster. The announcement sparked very 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 a return of the "legitimate" president.

On August 14, 2013 security forces moved to clear the Brotherhood sit-ins. Hundreds were killed. Armed clashes broke up 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, anti-government groups have escalated armed attacks against police and military targets, leaving many victims. The Brotherhood denied any role in those attacks and insisted that it has 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 was done to meet those demands. What went wrong? Is the hope for democracy in Egypt dead? What can the international community do? These are the three questions that I shall try to address in this paper.

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 successfully learned how to use “people power”. They used it twice in three years—against Mubarak and 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 on the way. Egyptian democrats, and their international partners, should work on ensuring that clear steps are taken toward establishing a true democracy, focusing initially on institution-building and changing the political culture. This needs to be underpinned by a growing economy with a much fairer distribution of income.

The remainder of the paper is divided into four sections. The first section reviews key political developments in Egypt since the late 19th century. It argues that antagonism and violent clashes between the Muslim Brotherhood and other Egyptian political parties date back to the early 20th century, which may explain why calls for national reconciliation are not resonating. The second section looks at the Mubarak era and analyzes the roots of the January 25 revolution. It sheds some light on why Egyptians were so excited by the revolution and hopeful for a better future. The third section describes how this excitement turned into bitter disappointment due to a lack of political and economic inclusiveness under the Brotherhood’s rule. The concluding section of the paper looks at the way forward. It argues that the international community should continue to support democratization in Egypt and presents some suggestions on priority areas for intervention.

HISTORICAL PERSPECTIVE: IS NATIONAL RECONCILIATION A REALISTIC GOAL IN THE SHORT-RUN?

Immediately following the fall of Morsi, many observers, including me,³ believed that national reconciliation was possible. However, both sides in the current political struggle in Egypt have toughened their positions, and seem to be 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 19th century) in order to understand the roots of the different political currents in Egypt and the struggle over the country's identity that is still going on today and to understand the critical role that the military has played in Egyptian political life over the last 130 years.

The oldest political movement in Egypt is the liberal-nationalist movement. Liberal-nationalists could be considered centrist, and their ideas derive from Ahmed Orabi Pacha'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 Sheikh 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 King Farouk and succeeded in obtaining the withdrawal of British troops. The military is the stron-

gest and most popular institution in the country and has played an important political role since the late 19th century, supporting and even promoting certain political currents or 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 the antithesis of Egyptian nationalism (whether liberal or left-leaning Nasserist), which may explain the deep polarization seen in the Egyptian society today that 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 80 years, leaving many scars on both sides. This is likely 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 19th century when Ahmed Orabi, at the time head of the Egyptian armed forces, revolted in 1879 against the Khedive who represented the Ottoman Empire. Orabi's famous response to the Khedive's statement that he was the legitimate ruler of Egypt and everybody had to bow to him was: "our mothers bore us free; we were not created as slaves to anybody." All Egyptian children are taught this history and get to learn those words by heart. Orabi's "revolution" failed as a result of the British intervention in support of the Khedive. Orabi's army was defeated in 1882, he was exiled and Egypt became a British protectorate. Nevertheless, Orabi continues to be a revered figure in Egypt as the first nationalist

leader in Egyptian modern history who established two traditions: (1) Egyptian nationalism is in conflict with pan-Islamism which at the time was represented by the Ottoman Empire, and (2) the Egyptian military is a bastion of nationalist sentiment.

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 of 211 parliamentary seats in 1924 and 157 seats with 89 percent of the vote in 1936—until it was dissolved by Nasser in 1952. Throughout its history the Wafd party 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 could be summarized as having three prongs: nationalism, secularism,⁴ and liberalism. Zaghloul's movement was against British occupation of Egypt. It developed a view of the Egyptian nation as an old and established civilization with its roots going back to the pharaohs. Nationalists of the early-twentieth century, many of whom had studied in Europe, cultivated Egyptians' pride in their ancient heritage. Egyptians saw themselves as the descendants of the pharaohs. 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. The 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 was secular. As such, 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. Zafiya led women demonstrations and encouraged Egyptian women to take off the traditional veil.

This does not mean, however, that the liberal-nationalists were anti-Islam or anti-Arab unity. Many of their leaders were pious and upheld Islamic traditions. But they considered Islam as only one of the many variables that define the Egyptian national identity. For them, Egypt as a nation predates Islam. As pointed out 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 Shariah 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 large land-owners and businessmen, 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 the standard of living of the masses, particularly landless peasants. This left the Wafd open to attacks from the left-wing as well as from the Islamist right wing.

The first half of the 20th century was also a period of cultural revival in Egypt. This revival included a literary element led by writers like Nobel laureate Naguib

Mahfouz and a musical element led by artists like Um Kalthoum. The Cairo opera was very active. The Egyptian movie industry and theatre became very 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 refers to 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 20th 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's 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, and implemented large rural water and electrification projects. He introduced an article in the Egyptian constitution that required that one-half of 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 (Presidents Anwar Sadat, Mubarak and to some extent Morsi).

As a nationalist army officer Nasser could be considered as a successor of Orabi. However, his views differed from mainstream Egyptian liberal-nationalist thought in three important ways: (1) he stressed Egypt's Arab identity over its ancient pharaonic one, (2) he prioritized social justice and implemented socialist economic policies, and (3) he did not support multi-party democracy.

Today's Nasserists continue to prioritize pan-Arabism and social justice. However, they now espouse multi-party 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 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 as 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 principle is the adoption of Shariah 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 as non-believers. The Brotherhood holds conservative views on gender equality and the role of women in society. They argue for enforcement of "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 censoring books and movies that they consider un-Islamic. Thus, the Brotherhood has always been at odds with Egypt's cultural and artistic elite.

The Brotherhood's second principle is to unify Islamic states and free them from foreign imperialism. Hence, the Brotherhood considers Egypt as just one small part of a large Islamic Empire, or Caliphate, stretching from Spain to Indonesia. A previous general guide, or chairman, of the Brotherhood Mohamed

Akef generated an outcry when he stated 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 "the Brotherhood does not care for Egypt."

The Brotherhood has not presented a detailed economic program. But one can deduct from its pronouncements on economic policies that it is not much different from that of the liberal-nationalists. It 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 they were accused of collaborating with the Axes powers in the hope that they would help rid Egypt of British imperialism. They were involved in several bombings and assassinations. As a result the Egyptian government banned the Brotherhood and arrested many of its leaders in 1948. The Brotherhood retaliated by assassinating the Prime Minister, making the point that they were as powerful as the Egyptian state and could even take out 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 night clubs, theaters, restaurants, bars and hotels in the downtown area) were burnt.

The Brotherhood initially supported Gamal Abdel Nasser and the Free Officers movement that took over power and sent the king to exile in 1952. However, they soon fell out with 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 executed several of their leaders. Nasser is considered the Brotherhood's nemesis. Even today anti-Brotherhood protestors 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 President Anwar Sadat came to power after Nasser's death in 1970 his main preoccupation was to reclaim the Sinai Peninsula that 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, whom 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 Brothers. He started releasing them 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 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 1978 Camp David accords and the 1979 peace treaty with Israel. He was assassinated by an Islamist group that is an off-shoot 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 Shariah. They say that it is hard to have

a reasonable political debate when one party insists on using quotations from the Quran to make their point. 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 with Democracy?

This brief and admittedly selective review of Egypt's modern political history points to three broad conclusions that can help explain the present situation. First, while the difference between liberal-nationalists and Nasserists are mainly around economic policies, the two parties' differences with the Muslim Brotherhood are about 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 which 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 (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 is supporting 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 obtain power and once there never leave. Opponents of the Brotherhood point to the words of former U.S. Undersecretary of State Edward Djerjian, who after the 1991 Islamist electoral victory in Algeria said, "one man, one vote, one time."⁷ That is, an Islamist party may use democracy to get to power, but once in control it would never hand power back to a secular opposition.

The same debate is taking place among western scholars. Wickham (2013) argues that the Brotherhood has evolved, especially due to some of its members' participation under Mubarak in political life as leaders in professional associations or as members of parliament. Wickham believes that this experience 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, Wickham explains that 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) 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. It states that laws have to be consistent with Shariah and sets 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 stopped mentioning three controversial points in its post-revolution documents. It is not clear whether this reflected a real change in the group's values and perspectives, or if it 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 the one hand, they have adopted an apparently progressive discourse on freedom and democracy. On the other hand, they continue to hold a very traditional and illiberal conception of Islam and its role in society. In order to be credible and assuage liberal fears, the Brotherhood will need to find a way of reconciling traditional Islam and Shariah law with notions of human rights, respect of 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) 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 30-year rule was characterized by over-reliance on a security apparatus and repressive policies on the political side, and by an unequal distribution of the benefits of growth on the economic side. 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 80, 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 did not share in the economic gains, which increased socio-economic 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 may 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 score of 5 on both the political rights index and the civil liberties index. In Mubarak's last year in power, 2010, Egypt was classified as “not free,” with the country's score on the political rights index having risen (which implies 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 signaled a desire to gradually open up the political system and start implementing democratic reforms. It introduced a change in the constitution that allowed for multi-candidate 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 for parliamentary elections as independents, and in fact they won 88 seats (60 percent of the seats they competed for) out of a total of 518 and became the largest parliamentary opposition block.

But the regime's efforts were unconvincing. There were so many constraints put in front of presidential candidates that none of the candidates who could have threatened Mubarak were allowed to run. Moreover, the elections themselves were marred by many irregularities. Voter turnout was very 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 re-election 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, requested an investigation of irregularities and a re-vote. Naturally 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 with 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 at times 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. The elections 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 (NDP) 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 even cared about presenting a façade of democracy and rule of law.

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 (see Table 1). Egyptians, especially youth, faced serious constraints to express 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.

The Mubarak regime’s policies have probably helped expand the Brotherhood and make it more popular. Most activist youth joined Islamist movements who provided them with an alternative moral and cultural community.⁸ Islamist organizations also provided

	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*

youth with services like 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.

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

Table 1 also shows that Egypt scored poorly on government effectiveness. The middle class are highly dependent on government services: health, education, transport and security. They suffered from the continual deterioration of those services. Children going to public schools needed to pay their own teachers for private tutoring in order to pass exams, and patients in government hospitals often needed to pay bribes in order to get service.

Revolution became inevitable because Egyptians saw no end in sight. The NDP in 2010 announced that Mubarak will 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 NDP and headed the all-powerful "policies committee." He and a group of businessmen close to him already played a big 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.

Non-Inclusive Growth: Can Rising Inequality Explain the 2011 Revolution?⁹

During the period leading to the January 25, 2011 revolution, the Egyptian economy appeared to be doing well (see Table 2). Egypt's gross domestic product (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. Moreover, this strong performance continued even during the global financial crisis. In 2009 and 2010 the country was growing at a healthy 5 percent and had reserves equivalent to seven months of imports despite a decline in foreign direct investment 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 Egypt's level of economic growth but the distribution of those gains. 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, senior fellow and deputy director for the Global Economy and Development program 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,

Time Name	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 of 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*

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.” According to this definition, middle class households are those that spend between \$10 and \$100 per person per day.

According to estimates available at the Brookings institution, the Egyptian middle class has grown from 12 percent of the country’s 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). This absolute number of Egyptian poor 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 like 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. This changed with the economic reforms that started in 2005, which aimed to control government spending and rationalize the public sector. Afterward, given the high fiscal deficit and over-employment in the public sector, it was impossible for this sector to absorb many new graduates. As a result, it became increas-

ingly hard for young people to find jobs, and youth with secondary education or above represented about 95 percent of the unemployed in Egypt. The problem was particularly acute for young women, who were 3.8 times more likely to be unemployed than young men. Of the young men and women who did find jobs, only 28 percent found formal sector jobs—18 percent in the public sector and 10 percent in the formal private sector. The vast majority, 72 percent, ended up working in the informal sector, often as unpaid family workers. For those who were paid, many had no labor contract, no job security or social benefits.

Rural-urban and regional inequalities are also serious problems. Economic growth does not seem to have benefitted rural areas and people living in Upper Egypt. The probability of being extremely poor in Egypt is nearly four times higher for people living in rural areas than for those in urban areas. About 6.7 percent of the population of Egypt is extremely poor,

defined as unable to afford basic necessities. The figure for urban areas is only 2.6 percent while that for rural areas is 9.6 percent. That is, nearly one out of every 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 its extremely poor and 67 percent of its poor. The problem in Upper Egypt is especially serious in the rural areas. Urban Upper Egypt has 11.6 percent of the country's extremely poor and 11.3 percent of its poor. On the other hand, rural Upper Egypt has 71.5 percent of Egypt's extremely poor and 55.8 percent of its 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 its 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) concludes that “the Arab Spring has been a dismal failure.” Many Egyptians would agree with him. What went wrong?

The initial success of the January 25, 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 that things were moving in the country. In 2011, 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 is the one who should act as interim president. Thus, this transfer of power to the 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 the SCAF take responsibility for leading the transition.

However, the 18-member SCAF, which was led by the 76-year-old Field Marshal Mohamed Hussein Tantawi, had no experience in running a country and even less in leading a political transition. Under the 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 con-

stitution and the courts had dissolved the lower house of Parliament. And Egypt was moving steadily toward an economic crisis. The SCAF 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 that of the SCAF. During one year of Morsi’s rule the economy nearly collapsed, corruption increased, a non-consensual constitution was passed and the country became more deeply polarized between Islamists and secularists. The youth who started the revolution felt betrayed as their political and economic exclusion continued unchanged in the post-Mubarak era. This led to the rise of the Tamarod (or Rebellion) movement. The Tamarod collected millions of signatures on a petition calling for President Morsi to step down and organize 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, the people rose against Morsi in June 2013 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 involves 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 on a road toward democracy, or whether Egypt will slide back to a Mubarak-like era of police repression and suppressed political and civil liberties.

A Leaderless Revolution: How did Mubarak Fall in 18 Days?

The Egyptian revolution had no clear political agenda and no leadership.¹⁰ It was started by secular youth (liberal-nationalists as well as leftists/Nasserists) whose stated objective was to bring down the Mubarak regime and to put in place a system that will 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 spokesperson 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 renowned Egyptian journalist Mohamed Hassanein Heikal,¹¹ the 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 angry citizens took to the streets. Heikal states that the generals agreed that in such a scenario they would not obey orders and

would refuse to attack any 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 was the day Mubarak stepped down, and 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 where 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 of Tahrir Square envisioned.

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

The SCAF was in charge of the transition and Marshal Tantawi became the de facto head of state. The first political disagreement he had to deal with regarded the question of a timeline for 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 is written. The nationalist-liberal and the Nasserist/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 only rule in a coal-

tion government, and they also promised not to field a presidential candidate. The SCAF 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 achieving the revolution's objectives. The first major clash occurred on Maspero Street, in front of the national television building on October 9 and 10, 2011. A group of young Copts—Egypt's Christians—was demonstrating against the destruction of a church by extremists. The peaceful demonstration came under attack by security forces, using live ammunition and even crushing some protestors under armored personnel carriers. The result was 24 deaths and over 300 injured persons, nearly all of them Coptic Christians.

This was followed by huge demonstrations in Tahrir Square and the nearby Mohamed Mahmoud Street that leads to the Ministry of Interior. Egyptians protested 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 cancellation 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 the 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 with 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 the SCAF and what they considered the SCAF's deals with the Brotherhood. On December 18, 2011 during one of those demonstrations, security forces grabbed a female demonstrator, tore off her clothes, and dragged her through the street. A young male demonstrator who rushed to try to help the woman was savagely beaten by the security forces. And his beating, as well as the attack on the woman, were caught on video and widely watched by Egyptians. The young man who was savagely beaten is Hassan Shaheen, one of the leaders of the Tamarod movement that eventually succeeded in overthrowing President Morsi of the Brotherhood.

Notwithstanding the boycott by the revolutionary youth and the 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 place, winning 27.8 percent of the popular vote and 25 percent of the seats in parliament. Thus Egypt's first post-revolution parliament had an overwhelming 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 the 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 foreign individuals—from Qatar for the Brotherhood and from 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 while it elected a constituent assembly to begin drafting Egypt's post-revolutionary constitution. The assembly included 66 Islamists out of 100 members. It had only six women and five Coptic Christians. Secular parties boycotted the assembly and ultimately the courts declared it unconstitutional because members of parliament 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—a liberal-nationalist known widely as the former director-general of the United Nations' International Atomic Energy Agency (IAEA)—and Hamdeen Sabbahi—a Nasserist—to boycott the second constituent assembly. Other groups, including the Coptic Church representatives, also joined the boycott. According to a poll carried out by the state-owned 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 2012 presidential election was held in two rounds. The first round occurred on May 23 and 24 and the second round on June 16 and 17. The Brotherhood broke its second political promise and fielded a presidential candidate. In fact, it fielded two candidates. The Brotherhood's preferred candidate was Khayrat al-Shatter, a millionaire businessmen and deputy general guide of the Brotherhood. However, al-Shatter had legal problems that could disqualify him. That is why the Brotherhood also fielded a second candidate, Dr. Mohamed Morsi, president of its Freedom and Justice political party. This earned Morsi the nickname of "the spare-tire candidate." In the end the Brotherhood was right, al-Shatter was disqualified and Morsi became the official Brotherhood candidate.

The SCAF clearly stated that it was not supporting any political group or candidate. However, most Egyptians felt that they were 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 too closely associated with the Mubarak regime. It would have been very 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 the SCAF and its followers.

Morsi won the first round of presidential elections and Shafik came second (see Table 3). Thus, the second round was between these two. In that first round of voting Islamists (Morsi plus Abul Foutouh) obtained 42.3 percent of the vote. The liberal-nationalists (Shafik plus Moussa) obtained 34.8 percent and the Nasserist Sabbahi obtained 20.7 percent. Sabbahi's strong showing demonstrates that the Nasserist/

Table 3: Results of First Round of Presidential Elections, May 2012		
Candidate	Political Current	Percent 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
Others		2.2

Source: Egyptian Supreme Committee for Elections

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, compared 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 who were worried that the elections might be rigged in favor of Shafik, regardless of their personal political leanings, 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 in the Maspero and Mohamed Mahmoud areas of Cairo appeared to have been forgotten. A few weeks later Morsi fired Field Marshal Tantawi from his post of minister of defense, and also 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 was only the Brotherhood's president.

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 the ground that the election law was unconstitutional and the SCAF quickly complied. Upon taking office Morsi tried to reinstate the lower house, but this was presented 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 Morsi's attempted change of prosecutor general, which was attempted in an extra-legal manner and was strongly resisted.

The battle between the elected president and the judiciary was often presented as Morsi and the Muslim Brotherhood trying to encroach on the prerogatives of the judicial branch of government that 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 or laws issued by Morsi since his inauguration on June 30 could not be appealed or cancelled by any authority of the country (effectively ending parliamentary and judicial oversight), and that all pending lawsuits against his decisions are void. Article 6 authorized the president to take any measure he sees 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 by 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 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 very 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 large portion of Egyptian society who felt that Morsi and his supporters were imposing their vision of post-revolution Egypt without sufficient consultation. For many Egyptians within this group the conflict became an existential struggle. Two political parties that historically have been sworn adversaries, Sabbahi's Nasserists and al-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. Large businessmen also joined the ranks of Morsi's opponents because (as will be described in more detail in the next section) 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 on the second round of elections. They then organized massive anti-Morsi demonstrations in all Egyptian cities. At this point the SCAF stepped in with an ultimatum for both sides in the confrontation (but clearly directed primarily at Morsi) to reach a compromise. Otherwise they said that they will impose their own roadmap 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 is acceptable to the Egyptian street. 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 can 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 the 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 so on July 3 he was deposed. At least as many people swarmed into Tahrir Square to celebrate his fall as did celebrate 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, prominent Egyptian political scientist turned politician and opponent of the Brotherhood Amr Hamzawe argues that Morsi had to leave the presidency but only through democratic means, such as early elections.¹² 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 from more or less 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) the SCAF recognized that there was a mistake 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 SCAF felt a certain responsibility to fix this error. Heikal argues that this is why the generals took the initiative to meet with all political forces, including the Brotherhood, to try to find a way out of the political crisis that the country

was facing. He adds that the SCAF and the political parties asked Morsi to organize early presidential elections, but he refused and left them with no other option but 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 and most powerful institution in the country. The minister of defense, General Abdel-Fatah el-Sissi, is the most popular political figure in Egypt today and would probably easily win the next presidential elections if he chooses to run. So far he has said that he has no presidential ambitions, but has stopped short of completely ruling out running for president. El-Sissi appears to be very different from the 76-year old Soviet-trained Field Marshal Tantawi who led the country after the fall of Mubarak. He is American-trained, youthful and charismatic. His discourse is nationalist and he is perceived as 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 U.S. 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, Arab-Israeli conflict and the negative perception Arabs have of the Western world, particularly of 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."¹³ The paper 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 roadmap 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.¹⁴ At the time of writing this paper, a referendum on the new constitution has been called for January 14 and 15, 2014. 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 movements¹⁵ 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. The constitution also provides the military with other protections. It specifies that the 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 easing tensions and a reduction of violence. In August the security forces forcibly disbanded two Brotherhood sit-ins, which resulted 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 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 counter-violence 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 for destroying 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 (e.g., 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 "too weak on national security."

Howeidi (2014) 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 anti-demonstration law.¹⁶ The three jailed activists have gone on a hunger strike to protest against their mistreatment in prison, which apparently includes solitary confinement and refusal to let them meet with their lawyers. Howeidi 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.”¹⁷

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: (1) down, down with the rule of soldiers, (2) down, down with the rule of the guide (referring to the Brotherhood’s general guide), and (3) as long as Egyptian blood is cheap, down, down with every president.¹⁸ That is, the third way defines itself in terms of opposition to military rule, to religious rule, and to violence. It would 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?¹⁹

Economic recovery will have to be the top priority of any future government. 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. 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 affect 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.²⁰ He changed three different ministers of finance in less than one 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 SCAF’s record of economic management was not brilliant. They 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. They tried to appease different interest groups by increasing public spending and as a result the fiscal deficit reached new highs. They did nothing to support the private sector that

was suffering from both the political unrest and the high interest rates caused by government borrowing. And the SCAF refused to accept international financial support in the form of an International Monetary Fund (IMF) 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 the economy 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" more than 70 percent of Egyptians were unhappy with the way the economy was moving, 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.

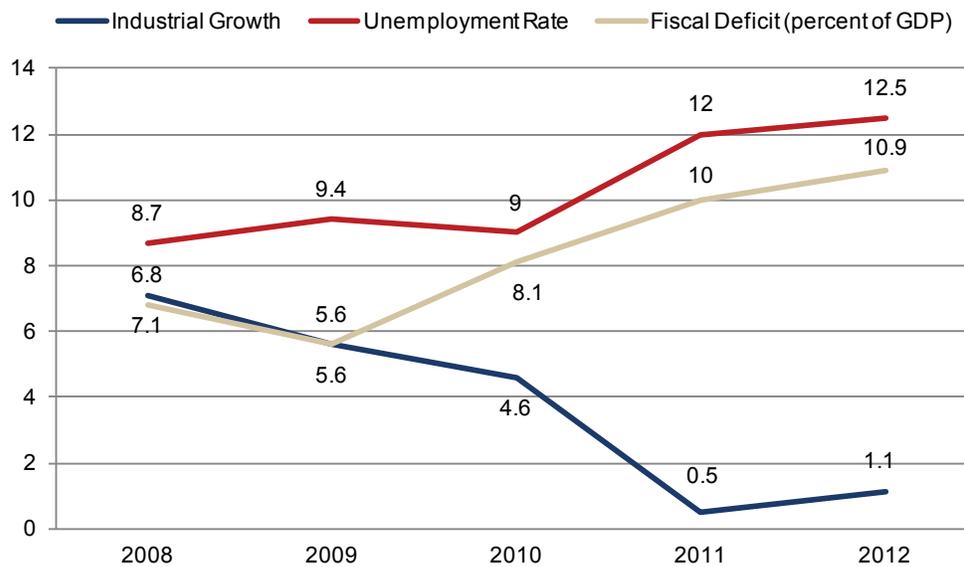
In addition to freedom and dignity, the young men and women who started the Egyptian revolution on January 25, 2011 were demanding better living conditions and greater social justice. Their demands were far from being met as growth declined and unemployment rose (see Figure 1). Industrial growth, which was healthy at 5 to 7 percent a year before the revolution, fell to about 1 percent in 2011 and 2012, and the official unemployment rate rose from 9 percent in 2010 to 12.5 percent in 2012. About 95 percent of the unemployed are youth with at least a secondary education.

Nearly three-fourths of those who are lucky enough to find jobs end up working in the informal sector where wages range between \$2.60 and \$3.70 per day.

Government fiscal policy was not conducive to growth and employment generation. Figure 1 shows that the government deficit rose from about 8 percent of GDP in 2010 to nearly 11 percent in 2011. It probably exceeded 13 percent of GDP in 2013. The increasing 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. At some point in 2012 the Egyptian government was paying 16 percent interest on its short-term domestic debt. That is, the government has been sucking liquidity from the domestic financial system and crowding out the private sector—discouraging investment, growth and job creation.

Surprisingly, corruption seems to have increased after the revolution. Ending corruption has been a key demand of the revolutionaries and the country witnessed more than 6,000 corruption investigations and several high profile incriminations since February 2011. Investigations and police action send a political signal, but they do not constitute an effective anti-corruption program. Data for 2012 from the Worldwide Governance Indicators shows deterioration in corruption control. According to Transparency International's 2013 Global Corruption Barometer only 16 percent of Egyptians believe that there has been an improvement in corruption control after 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.

Figure 1: Selected Economic Indicators for Egypt, 2008-2012 (%)



Source: Economist Intelligence Unit

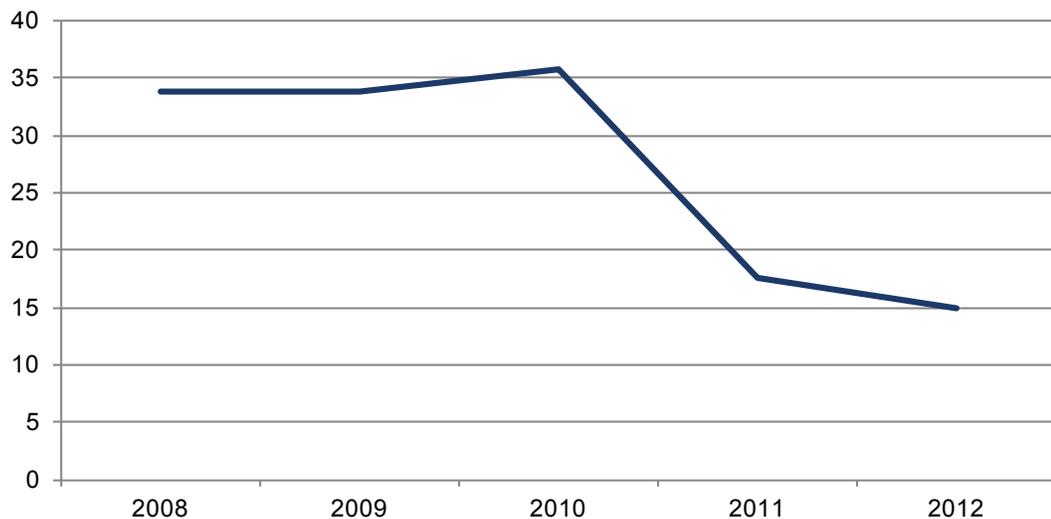
Figure 2 shows that falling tourism and foreign direct investment together with increasing capital flight led to a decline in Egypt's foreign reserves from more than \$35 billion in 2010 (covering 7 months of imports) to less than \$15 billion in 2012 (covering less than 3 months of imports). As a result, 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," which means 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 imports 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 (e.g., 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 only took three days before the revolution.

The government argued that there was enough fuel in the country to supply all the gas stations and also for electricity production. It stated that fuel shortages and power outages were 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

Figure 2: International Reserves of Egypt, 2008-2012 (billions of U.S. dollars)



Source: *Worldwide Governance Indicators, World Bank*

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 it is hard to understand Morsi's decision to appoint as governor of Luxor (the site of ancient Thebes and Egypt's most important tourist destination) a member of an Islamist group who was involved in past attacks on tourists. The decision was met by outrage, especially from tourism professionals and business people in the city who were already suffering from a sharp drop in tourist arrivals. The minister of tourism presented his resignation in protest. Sit-ins were organized in front of the Luxor's governor 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.²¹ The Morsi administration was negotiating for a whole year with the IMF 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. 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 by failing to reform the economy the opposition grew stronger and the unrest more widespread.

THE WAY FORWARD: WHAT CAN THE INTERNATIONAL COMMUNITY DO?

Many analysts²² 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. They call for an active policy of supporting democratization. But can the international community really influence short-term political developments in Egypt?

As worries increase about Egypt returning to the repressive ways of the Mubarak regime and back-tracking on democratic reforms, many voices in the United States and Europe are calling for suspending 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 Western states 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 producing states in the Persian Gulf. Compare the United States' annual economic assistance of \$250 million with the Gulf states' recent decision to provide Egypt with exceptional support of \$12 billion over six months. Thus, a suspension of western aid is unlikely to have much of an impact on the Egyptian economy. On the other hand, it would lead to a reduction of western influence in Egypt.

Therefore, it seems that it would be important for the international community to remain engaged in Egypt. However, it may also be necessary to re-examine the nature of this engagement, and re-orient aid flows toward areas and sectors that directly enhance economic and political inclusiveness. Examples of such areas would be institution building, supporting 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 the violence in Egypt and the beginning 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 current interim government to release them immediately because such a move would anger the masses of Egyptians who rose against the Brotherhood and thus weaken the interim government's support. It is the courts who will have to issue such a decision. Judicial proceedings have started against the Brotherhood, 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 feelings 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 building important institutions—like a free press, independent judiciary, political parties, etc.—that ensure transparency, voice and accountability. And, most importantly, achieving a stable democracy requires a change of political culture toward greater inclusion and acceptance of others. 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 support democratization 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 is associated with: the development of institutions that provide for transparency, voice and accountability in decision-making; an expansion of the middle class; and the growth of small businesses. These steps would be important for the democratization process as well. International economic support for Egypt could prioritize inclusiveness and social justice by supporting institutional development, helping small businesses, and investing in agriculture and rural development.

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

Inclusive institutions are important for democracy and for social justice. Most Egyptian governments over the last 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, there has been no serious attempt 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 decision-making process. This could explain why their interests were not served by economic policies, while a system of crony capitalism flourished.²³ 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. Such inclusive economic institutions would provide important support for the democratization efforts.

The allocation of public investment in Egypt is biased toward relatively better-off regions and groups, which reflects the non-inclusive nature of the planning and economic decision-making process. Sakamoto (2013) analyzed Egypt's planning system. 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 determined before determining economic goals and strategies.

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 (CSOs), labor organizations and farmer organizations. Even line ministries had little voice in the preparation of the plan document.

Kharas and Abdou (2012) looked at the role that CSOs could play in achieving inclusive growth and social justice in Egypt. They argue that CSOs could make four important contributions to inclusive growth. First, they can play an advocacy role for small businesses, the informal sector and other marginalized groups ensuring that government takes their concerns into account when formulating policies and programs. And they can also act as whistleblowers denouncing corruption and other unfair practices harming small or weak economic agents. Second, they could 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 as compared to 9 percent in a country like the Netherlands. Kharas and Abdou conclude that the legal framework governing CSOs in Egypt needs to be reformed to provide CSOs with greater flexibility and incentives to expand their activities.

Small farmers and the rural poor have also been neglected because they have no voice in economic decision making. Farmer organizations and cooperatives are special types of CSOs that can play an important role in strengthening the governance system of the agriculture sector, and 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 over-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.

Adopting inclusive planning, supporting CSOs and farmer organizations are examples of areas where support for institution building is badly needed. However, international support to institution building could be a sensitive subject as it may raise political issues. Recent experience with foreign funding for Egyptian CSOs is an example of how things can go wrong.²⁴ 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 of decision-making, provide voice to all stakeholders and hold government officials accountable.²⁵

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 (UNDP) has a strong presence in Egypt and a clear mandate in the area of human rights that includes the principles of transparency, voice and accountability. Moreover, it is a neutral United Nations (UN) agency that can provide needed support to nongovernmental organizations (NGOs), legislatures and the free press without necessarily being accused of political meddling. Another UN agency, the Food and Agricultural Organization, has a long experience of working with farmer organizations. The IMF and the World Bank have vast experience in the area of public financial management, procurement policies and civil service reforms. The Japan International Cooperation Agency (JICA) is already working with the Egyptian government to support inclusive planning. This project will greatly enhance the transparency of economic policymaking and will also 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 sector (SMEs) would help promote both democracy and economic inclusiveness. When the private sector consists of a small number of large firms they tend to build special links to government. Those “connected firms” are happy to support autocratic regimes who 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. The large businessmen 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 large capitalists and autocratic governments. They would also call for democratic reforms so as to use electoral politics in order to push for policy reforms to support small businesses.

SME development is also important for economic inclusiveness and social justice. According to Ghanem (2013) about 56 percent of Egyptians live on between \$2.00 and \$4.00 per 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 per day. That is why expanding and modernizing the SME sector so that it could 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 these programs 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 that provide funding, civil society organizations that provide training, and the organized private sector that 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 construction materials and goods from the 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 non-tariff 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.²⁶

Support to Backwards 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 backwards regions or support the rural poor. This had serious political consequences as some backwards regions became centers for extremism and sometimes even violence. It also had serious social and economic consequences. Illiteracy, child malnutrition and even stunting continue to be unacceptably high in rural areas, particularly in Upper Egypt. Intervention is needed in two areas: social protection for the rural poor and developing 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 non-poor. 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 non-farm 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 agro-processing 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 to 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 FAO) are providing technical assistance and knowledge sharing. They could scale up their interventions and focus them on supporting small-holder 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 repression by the security forces and the criticism levelled 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 third, more optimistic, scenario the current authorities implement their road map and hand over government to a freely elected president and parliament. This freely elected government would 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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ENDNOTES

1. The Brotherhood denied any involvement and blamed security forces for those attacks.
2. Human Rights Watch (2013) argues that there is no hard evidence linking the Brotherhood to terrorism and that therefore the terrorist tag is politically motivated.
3. See Ghanem (2013c)
4. The term "secular" translated in Arabic as "*almani*" has been recently given a negative connotation by Islamist thinkers who sometimes appear to use it as a synonym for "atheist" translated in Arabic as "*kafir*". In this paper I use the traditional definition of secular to refer to a person who believes in separating religion from politics.
5. According to Egyptian writer Tawfiq al-Hakim, quoted in Hopwood (1991) "Nasserism rested on the basis of the destruction of minds and wills, other than the will of the leader."
6. For a more detailed history of the Brotherhood, see Wickham (2013).
7. Quoted in Aliboni (2012).
8. See Bayat (1998) for a more detailed exposition of this argument.
9. For more on the evolution of the Egyptian middle class see Ghanem (2013), and for an analysis of the political role of the Arab middle classes see Diwan (2013).
10. Ghonim (2013) describes the role that Mohamed El-Baradei, 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.
11. In an interview with Al-Shorouk newspaper published on January 4, 2014.
12. Hamzawe presents his views in a daily column in Cairo's Al-Shorouk newspaper.
13. ElSissy (2006) pp. 2-3.
14. At the time of writing this paper a debate is still going on in Egypt about which election should come first.
15. Notably the April 6 movement which was one of the main youth groups that started the revolution in 2011.
16. 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.
17. Author's translation from the Arabic original that was published in Al-Shrouk newspaper on January 5, 2014.
18. See Soueif (2013) for a more detailed description of this third way.
19. This section draws on the work of Shaikh and Ghanem (2013).
20. For example Howeidi (2013)
21. For example see Freund and Braga (2012) or Ghanem (2013a)
22. For example, see Wittes (2008)
23. For example, see Richter and Steiner (2008) for a description of cronyism in the tourism sector.
24. In December 2011 security forces raided the offices of 10 CSOs because of allegations that they were receiving illegal foreign financing and were operating without proper licenses. Officials also stated that support to democracy CSOs was igniting street protests and amounted to foreign interference in Egypt's domestic affairs. In June 2013 a court handed down prison sentences to 43 CSO workers, including several Americans. It also ordered the closure of the local offices of five international CSOs.
25. For more on the role of institutions in development see Acemoglu and Robinson (2012).
26. For more on the importance of opening up developed country markets to Arab country exports see Chauffour (2012).



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