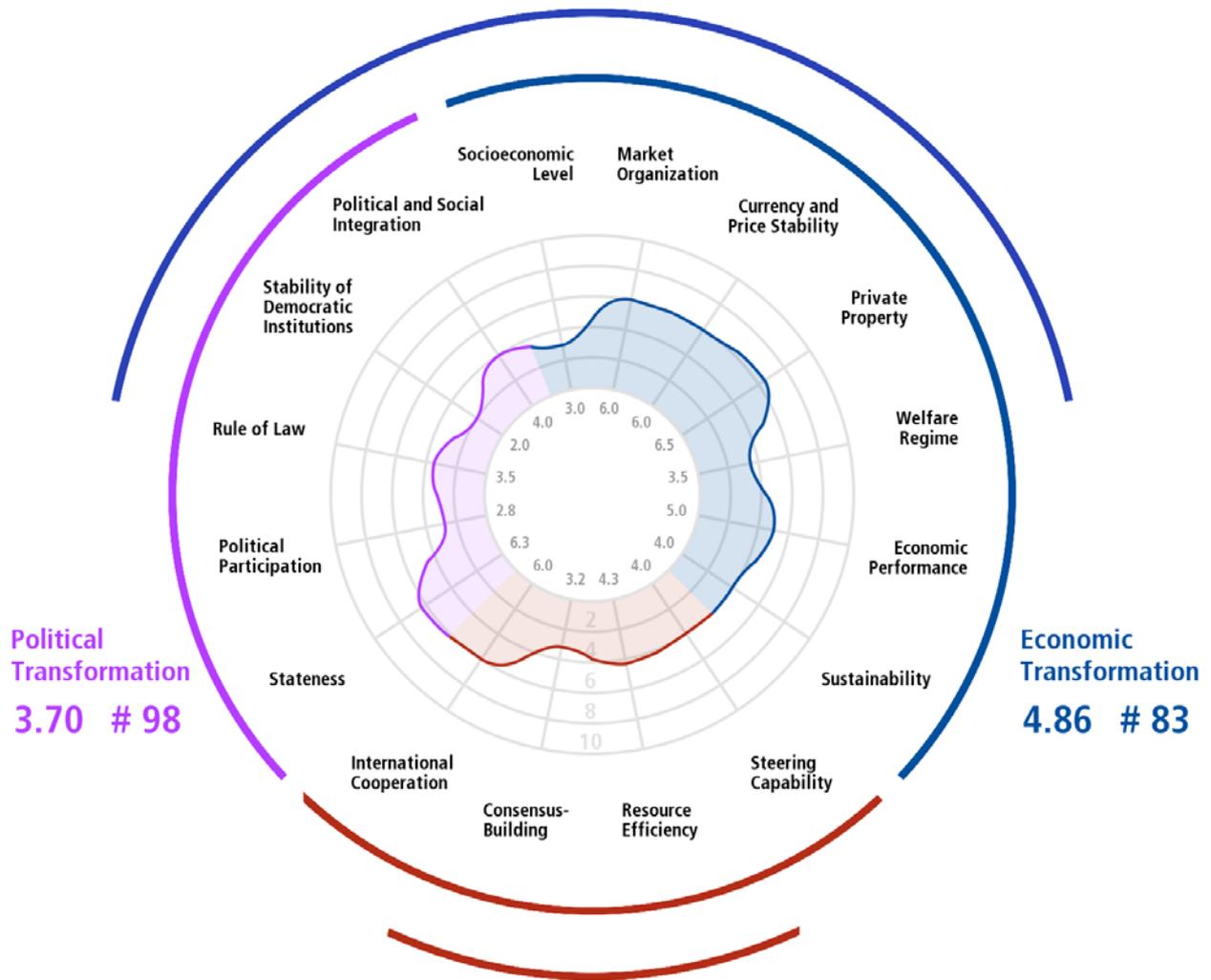


Egypt

Status Index

4.28 # 96

on 1-10 scale out of 129



Governance Index

3.96 # 93

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	95.7	HDI	0.691	GDP p.c., PPP \$	11132
Pop. growth ¹	% p.a.	2.0	HDI rank of 188	111	Gini Index	31.8
Life expectancy	years	71.3	UN Education Index	0.634	Poverty ³	% 16.1
Urban population	%	43.2	Gender inequality ²	-	Aid per capita \$	26.5

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The period under review covers the first two years of the Abdel Fattah al-Sisi presidency and formally represents the most stable period since the 2011 uprising. As many Egyptians were exhausted by four years of unrest, violence, instability and economic decline, the country's majority welcomed al-Sisi's candidacy for presidency (though real alternatives were missing). He declared economic recovery and reestablishing public security as priorities of his presidency while downgrading democratization to a long-term goal.

In the economic sphere, reaching agreement on an IMF loan in 2016 has been the most important and serious event. The central bank floated the Egyptian pound to decrease the black currency market and to reform the inefficient subsidy system, especially concerning energy prices. As these reform steps underlying the IMF deal were initially embedded in related legislation to stabilize national and international investment conditions, regain international confidence and attract foreign capital, there have been first signs of slight economic recovery since 2015 concerning macroeconomic items as economic growth rate. However, for many Egyptian consumers as well as entrepreneurs and businessmen, all this has been shock therapy and hardly handles the issues. Addressing social issues hasn't been more than a drop in the ocean.

Reestablishing security has not achieved resounding success so far. Though the military intensified its counterinsurgency in the Sinai Peninsula and increased security arrangements throughout the country, the number of incidents defined as terrorist rose in 2015, with the bombing of a Russian civil aircraft in October 2015, the assassination of Prosecutor-General Hisham Barakat in June 2015 and the Church bombing near St. Mark's Cathedral in December 2016 marking the worst incidents. The state's counter insurgency strategies are criticized as unbalanced by many Egyptians and international counterterrorism researchers. This notwithstanding, Egypt has been elected a non-permanent member of the U.N. Security Council in October 2015 representing Africa for two years.

There have been alarming setbacks in the spheres of democratization, participation and civil and human rights. Though parliamentary elections went ahead finally in October 2015, the new parliament isn't expected to have real influence on the president's prerogative. In one week, the parliament swiftly approved most of the hundreds of presidential decrees issued in the years when parliament was inactive. The sole exception has been the civil service law, which was only approved after several cycles of revisions in July 2016.

The raft of swift approvals includes an increasingly restrictive law governing the work and the financing of non-governmental groups and institutions which, if eventually signed by the president, would mean that national or international NGOs won't matter politically in the future. The government didn't shy away from crushing the largest protests seen since 2013, provoked by the decision to hand over sovereignty to Saudi Arabia of the strategically important Tiran and Sanafir Red Sea islands in return for a \$20 billion aid package in April 2016.

In all, the period under review emerges as a worrying rollback towards the 1990s with all inherent disillusion and risks.

History and Characteristics of Transformation

Egypt embarked on a path of economic liberalization within its state-centered economy decades ago, with the commencement of then-President Anwar al-Sadat's economic open-door policy (*siyasa al-infatih al-iqtisadi*) in 1974. This shift took place against the background of severe economic crisis, characterized by high levels of foreign debt, a scarcity of investment capital and stagnating growth, caused by the internal economic contradictions of the country's development model and the burdens of several wars (1948, 1956, 1967 and 1973). More generally, this situation symbolized a crisis of the Egyptian post-colonial development model of the 1950s and 1960s. This had been based on a military regime characterized by a secular-socialist profile, a one-party-system, state-centered economic development, and an import-substitution strategy of industrialization and modernization, all of which were focused on welfare politics as well as a political paternalism. It is important to stress that this phase of development was secular in nature, as its crisis triggered a crisis of secularism that has been exploited by Islamic movements to change the country's political culture step by step since the early 1970s.

Economic liberalization during the 1970s and 1980s did not lead the country onto a path of sustainable development, but rather deepened the economic crisis and accelerated the accumulation of foreign debt. Moreover, a system of corrupt crony capitalism developed. Reaching a point of illiquidity in 1977, the government secured a stand-by arrangement with the IMF, which forced a reduction in state budgetary expenditures, especially an abandonment of state subventions for basic needs and a privatization of the state economic sector. The resulting "bread riots" of 1977 helped the regime delay reforms until the 1990s.

It was in the context of the 1977 crisis that the government started introducing multiparty pluralism and “real” elections. However, President Sadat took care to secure the hegemony of his National Democratic Party, a trend that also characterized the last three decades of the Mubarak presidency. The nominally existing multiparty system has been nothing more than a democratic facade to be presented to the world and offered no opportunity for real changes in governance. Meanwhile, Islamic movements formed at the societal grassroots, especially by taking over social tasks from which the state had retreated. By simultaneously propagating an Islamic political culture, their oppositional strategy was in a sense the mirror image of the secular parties. While economic liberalization was originally intended to stabilize the economic basis of the authoritarian political system beginning in the early 1970s, it in fact began to erode this basis in the 1990s. The country once again experienced severe economic crisis and high levels of debt. As a result of the 1993 and 1996 debt negotiation rounds with the IMF, the country had to implement a strong structural adjustment program for the first time in its history. General socioeconomic living conditions deteriorated severely over the course of the 1990s and beyond for the bulk of the people; growing labor and social protest was crushed by an increasingly authoritarian regime that justified its policies as anti-terrorism measures. The most recent wave of accelerating economic liberalization and privatization commenced in 2004 with the policies of the Ahmed Nazif government and the background leadership of the president’s son, Gamal Mubarak. It may not even have been the policy of privatization as such, but rather the way workers were treated in the process that prepared public rebellion. In any case, the regime ultimately faced an intensifying workers’ protest movement that coincided with a civil rights movement growing quickly broader and stronger, each of which amplified the other. Today, however, the regime has left behind it multiple political and social cleavages as a heritage that will not be easy to overcome. This situation mirrors the unstable and contradictory course of the first two transitional phases after the 2011 Tahrir uprising which started with the military governance of the SCAF, experienced one short year of the democratically-elected president Mohamed Morsi, only to shift once again into indirect military governance in 2014.

While intelligent approaches to overcoming the country’s crisis were lacking during the transitional period until mid-2014, current president al-Sisi seems to copy the policies of the 1990s, disguised by presenting himself as the savior of national stability and unity without any alternative. If economic recovery, social balancing, stabilizing security and political participation don’t materialize swiftly, crisis will deepen and history will repeat itself.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Egyptian state's monopoly on the use of force has been under pressure since the forcible crackdown of the Muslim Brotherhood in 2013 and the outlawing of the organization and its followers in the aftermath.

Territorial challenges are most intense in the north-eastern edge of the Sinai where the militant group Wilayat Sina ("Sinai Province", the Sinai-based former group Ansar Beit al-Maqdis that changed its name after pledging allegiance to Islamic State (IS) in November 2014) is sturdily present in the areas of El Arish, El-Sheikh Zuwaid and Rafah since years and intensified its attacks recently.

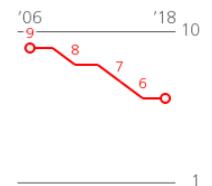
Challenges to state authority increased quantitatively in 2015 as the number of incidents in Egypt defined as "terrorist" reached 582 in 2015, thereby claiming 790 human lives and more than 1,300 injuries according to the Global Terrorism Database. Primary targets of terrorist attacks have been institutions and personnel of the security apparatus (military and police), and second, general and diplomatic government institutions as well as transportation and telecommunication infrastructure.

The diversity of terrorist incidents including the bombing of Russian aircraft Metrojet Flight 9268 in October 2015, the assassination of Prosecutor-General Hisham Barakat in June 2015, the bomb explosion in front of the Italian consulate in the heart of Cairo in July 2015, and the Church bombing near St. Mark's Cathedral in December 2016 indicate the variety of conflicts still persisting in the country. More than reflecting militant support of ousted president Morsi, the intensification of terrorist activities in 2015 seems to be an opportunistic reaction to the uncompromising action of the state security apparatus against the political opposition and to the intensified military counterinsurgency in the northern Sinai.

Question
Score

Monopoly on the
use of force

6



The killing of eight Mexican tourists by an army helicopter attack in the western desert in September 2015 underlined the dubiousness of the government's anti-terrorism campaign once again.

The idea of a united Egyptian nation state is generally accepted, with its millenniums-old history widely perceived as an item of national pride. "We are all Egyptians" was an often-heard slogan during the 2011 revolution, and since, the cross and the crescent are often displayed as symbol of a common "Egyptianness" that encompasses Muslims and Christians.

Nevertheless, the last several decades have seen increasing skepticism toward the state, ultimately leading to the revolution and very polarized and unstable debates and policies in the post-Mubarak phase until the presidency of al-Sisi.

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

The issue of national identity gained traction in 2016 with debates over a new citizenship bill containing an article which asks for abolishing citizens' religious identity on ID cards. While the legislation process is not finalized, Cairo University already abolished the question of religious identity from all application forms and certificates for staff and students after students had complained about an incompatibility with the constitution.

The 2014 constitution still contains religious dogmas by claiming Islam as the state religion and Shariah as the source of legislation (Art. 2), and denying non-Abrahamic religious or atheist identities a right of existence (Art. 64). However, the new constitution pushed back the influences of religious dogmas, for instance by putting the interpretation of Shariah under the control of the Supreme Constitutional Court. At the same time, the Coptic Pope Tawadros II and al-Azhar's Grand Imam Sheikh Ahmed al-Tayeb outspokenly support President al-Sisi, who in turn supports a policy of combating and containing atheism in order to please the conservative majority. The last remaining Islamist party, al-Nour, also seeks its future in close alliance to the regime.

While non-believers in Egypt are estimated at roughly three million people, they fear isolation and criminalization, which prevents many from outing themselves. However, since 2015 there are growing tendencies to break the religious taboo by discussing themes of religion, democracy and freedoms or rights in different social media or around NGOs, such as in the Religion and Freedoms Forum.

State identity

7



1

No interference of religious dogmas

6



1

The state's administrative infrastructure extends to the entire territory. It is divided into 27 governorates, partially subdivided into regions, towns and villages. But in principle the administrative system is highly centralized, with governors and subordinated executive organs ultimately appointed by the president of the republic and serving under his discretion. These executive organs are amended on the local level by popular local councils, whose members are elected and are supposed to monitor executive performance. However, these local bodies (by some perceived as remnants of the Mubarak regime) lack political power, and can be dissolved by those they are tasked with monitoring. The high degree of centralization combined with the lack of fiscal control of local budgets opens many doors to corruption and arbitrariness. This is in part counteracted by a relatively independent judiciary that pursues corruption cases to a certain extent.

After the popular local councils were dissolved in 2011 without subsequent elections, the local administration of basic necessities such as electricity and water suffered from severe shortcomings. While new local council elections should be held at the end of 2016 according to a statement by Prime Minister Sherif Ismail in June 2016, they have been delayed because a new bill on local administration is still in process. It remains to be seen whether the new law will realize considerable decentralization and greater governance control.

It seems however questionable that these processes will advance effective state control in the socioeconomically neglected and politically contested areas of north Sinai.

2 | Political Participation

After an election and voting marathon during 2011 and 2012, and al-Sisi's 2014 election under heavily contended circumstances, the main election event during the period under review was new parliamentary elections which officially were meant to finalize the transition process. Egypt was without a parliament after the democratically-elected main chamber was dissolved in 2012. New parliamentary elections were initially meant to take place in September 2014 but were re-scheduled for March 2015 and once again for October-November 2015 due to insufficient security and delays in the elaboration of a new electoral law. The 2014 constitution provides only the main chamber elections and allows for 448 individual and 120 list candidates, supplemented by quotas for women, youth and Christians. The new electoral law has received strong criticism for allegedly favoring old regime members over young democratic activists. Many opposition groups boycotted the elections themselves as they lacked a genuine legal opposition and a really competitive party system. Despite a spontaneous one-day election extension and massive threats against non-participants, voter turnout remained low with officially 28.3% (less than half of the participation in parliamentary elections of 2011). Vote buying and obstruction of

Basic
administration

6

'06 '18 10



1

Free and fair
elections

3

'06 '18 10



1

journalists have been problems as in previous elections. Many Egyptians do not believe the new parliament has much real influence, given the superiority of security threats, economic problems and lacking political alternatives.

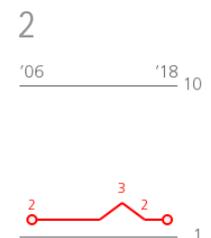
In sharp contrast to the secondary phase of transition under Morsi between 2012 and 2013, al-Sisi was able to govern with an iron fist, and with initial broad support beyond the Islamist current, when it removed the president, suspended the constitution, established an interim government and went after Islamists. Given the relative coherence of the newly elected parliament, the pressure to support the president is high, and it is doubtful that individual parliamentarians have considerable influence. The president's power to govern is high, however he often needs to mediate between different state institutions that do not necessarily share the same priorities. Parts of the judiciary and the religious establishment are believed to wield extensive veto power, and the secret services of the military are said to interfere in politics whenever they deem necessary.

While the 2014 constitution guarantees the freedom of assembly and association “by serving a notification” (Art. 73) as did its 2012 predecessor, these rights have been in danger of being circumvented by special legislation and governing practices that hinder, restrict or criminalize political actions. Military trials of civilians are still allowed in the 2014 constitution but shall be restricted to actions taken against military institutions (Art. 204). After the country's state of emergency, which since 1981 effectively had limited the rights of political and civic groups to associate and assemble freely, was lifted on 30 May 2012, new laws regulating the activities of NGOs as well as public protests, demonstrations and strikes were under way already in 2012.

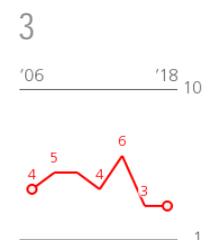
A controversial law intending to organize “the right to public meetings and peaceful marches and demonstrations” was affirmed in November 2013 and has been implemented rigorously since then. While regulating public protests via official notification is common in many countries, the opposition feared it will be applied to oppress political activities. The harsh punishments and detentions of thousands of especially, but not only, Islamist activists over unannounced public assemblies and demonstrations as well as clashes on university campuses since July 2013 were heavily condemned by national civil rights agents and international organizations and governments.

In December 2016, Egypt's Supreme Constitutional Court declared Article 10 of the 2013 protest law allowing authorities to ban all protests, except those officially sanctioned, as unconstitutional. Parliament placed the decision over planned protests under the authority of the judiciary. It remains to be seen whether peaceful protests will be allowed in the future without sanctions. This will also be a test for the independence of the judiciary.

Effective power to govern



Association / assembly rights



Egyptian constitutions have granted absolute freedom of belief since 1923 and so does the 2014 constitution (Art. 64). It also guarantees freedom of thought, opinion and expression (Art. 65), prohibits concretely any kind of censorship, suspension or closure of media (Art. 71) and is expressly committed to international human rights agreements ratified by Egypt (Art. 93). While the freedom of belief is absolute in the constitution, the freedom to practice religious rituals and establish places of worship is limited only to the followers of Abrahamic religions (Art. 64). Diverging religions and philosophies are discriminated against. The surrounding legal frameworks, concrete judicial verdicts, political campaigns and a respective intolerance and ignorance of many people are problematic.

Special attention has to be paid to a change in the ideological climate concerning freedom of expression since the ouster of President Morsi. An enforced political conformity began with the verbal, judicial and physical outlawing of Islamists and their media as terrorist, and later extended to all political and social currents not matching al-Sisi's project of a new unitary nationalism. Following the June 29 car bomb attack on Egypt's prosecutor-general and a new wave of insurgency in north Sinai, the Law on Fighting Terrorism was adopted in August 2015. The new law curtails the freedom of expression by punishing coverage on "terrorist acts inside Egypt" or "operations related to fight these acts" if it contradicts "the official data issued by the Ministry of Defense." This has been heavily criticized by the journalists' syndicate. This aligns with a general tendency to harsh restrict all kinds of dissent and opposition and is commonly legitimated by rampant terrorist threat, which includes continuous crackdowns on critical cultural voices and spaces.

A law regulating press and media affairs, passed in December 2016 as part of an overall framework to govern the media, has been criticized by the press syndicate as opening doors for state intervention and government control of the media whose independence is formally guaranteed by the constitution.

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

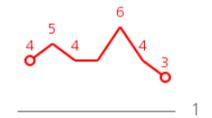
3 | Rule of Law

The 2014 constitution shows major amendments in reducing the power of the president. According to Art. 159, the (now unilateral) House of Representatives has the right to impeach the president in case he breaches the constitution or commits felony. Art. 161 allows parliament to withdraw confidence from the president by a two-thirds majority, and Art. 189 states that the prosecutor-general is to be appointed by the Supreme Judicial Council instead of by the president himself, as in the 2012 constitution.

Freedom of
expression

3

'06 _____ '18 10



Separation of
powers

3

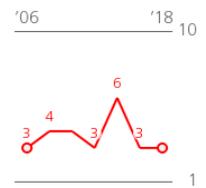
However, the parliament elected in 2015 (after its dissolution in 2012) is as weak as the previous ones, mainly due to a tailor-made election law that allowed for almost exclusively regime supporters to gain seats in the chamber. In its first year, parliament hardly expressed any criticism towards the government, and the few remaining oppositionists have been either silenced or even deprived of their seat.

Traditionally, the judiciary is acknowledged as a respected institution and judges show a high degree of professional consciousness and power of judgment in general. As an independent body in the administrative sphere, the State Council is particularly able to challenge decisions of the executive. Decades of authoritarian rule have however left their imprints on judicial decisions, which in the past and presently are often circumvented by political manipulations. These include the use of special courts, especially military courts, enlarging or restricting judicial competences in the supervision of elections, the appointment or dismissal of judges, the political timing of lawsuits, trial delays of up to one year or by the politicization of judicial decisions themselves. The independence of the judiciary has been included in all previous constitutions, but the new 2014 constitution shows some major improvements, which followed suggestions by a 2012 conference of the Arab Center for the Independence of the Judiciary and Legal Profession. Besides the higher independence of the prosecutor-general, the immunization of administrative acts or decisions as well as exceptional courts are now prohibited (Art. 97). The supervision of elections, which has been highly contested in the past, shall be the task of judicial bodies for at least the next ten years (Art. 210). Independent budgets of the judicial bodies shall be fully transparent to parliament.

Indeed such improvements did not prove themselves in practice during the period under review. The judiciary continues to be highly politicized, still practicing mass trials against regime opponents, as in 2015 when 183 supposed Muslim Brotherhood members were sentenced to death for killing 11 police officers in 2013.

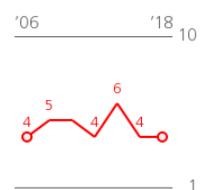
The extensive political corruption of the Mubarak regime was a central reason for the 2011 governmental overthrow, with opposition to regime practices ultimately expressed by the military as well as the Islamic and secular opposition. Whereas President Morsi declared the fight against corruption and office abuse as a high governance priority, there were no signs that the role of political corruption and office abuse had in fact changed during his time in power.

Developments since then remain contradictory. There have been several high-level convictions in 2015 concerning members of the former Mubarak regime including Mubarak and his sons themselves who were sentenced three years in prison each, fined over EGP 20 million and ordered to repay EGP 125 million. Other prominent cases have been related to former prime minister, Ahmed Nazif, former housing minister, Mohamed Soliman, Agriculture Minister Salah Helal and in a rare judicial body case, to secretary-general of the Council of State, Wael Shalaby, who was found dead shortly after being arrested. Despite these notable convictions, corruption



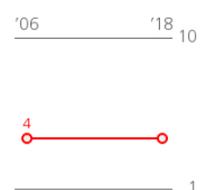
Independent judiciary

4



Prosecution of office abuse

4



remains widespread on all levels of government. In December 2015, former head of Egypt's Central Auditing Authority Hisham Geneina was quoted as saying that the country had lost more than EGP 600 billion through corruption in 2015 alone. He was fired thereafter, charged with harming the national interest.

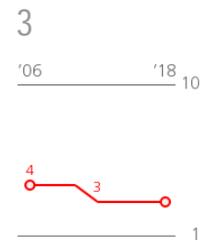
While the protection of civil rights severely deteriorated under the legal force of the 2012 constitution, as the guarantee of such rights was restricted by an Islamic guiding culture, the 2014 constitution introduced major improvements as it ensures equal rights to all citizens without discrimination.

De facto, civil rights have been under severe pressure since the beginning of the transition process until present, and severely deteriorated since the crackdown of the Muslim Brotherhood and its affiliates in 2013. The al-Sisi regime increasingly created a social climate shaped by a general security threat, identifying any critic and any opposition as enemy of the state or harming state security – which seems hysterically. Security forces used their power excessively including unlawful killings, preventative custody, pretrial detention and torture. Civil liberties are systematically suppressed and reach from sweeping restrictions on freedom of speech and writing to restrictions on freedom of assembly and association. Following an October 2014 presidential decree placing all “public and vital facilities” under military jurisdiction, thousands of civilian defendants were transferred to military courts. Since early 2015, enforced disappearances lasting months, accompanied by torture and sometimes ending in death has gained increased relevance.

Discrimination of religious or sexual minorities continued. As part of a new national strategy to combat violence against women, a 2014 decree criminalizes sexual harassment. This is without doubt remarkable and breaks a taboo, however the decree has been criticized for remaining inefficient and partly inadequate.

Generally, the number of civil rights violations has reached alarming dimensions since the ouster of Morsi and symbolizes the return of a repressive police state.

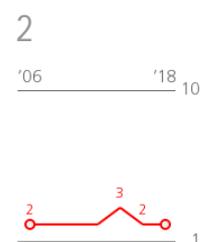
Civil rights



4 | Stability of Democratic Institutions

All political and administrative institutions were part of authoritarian regimes in modern Egyptian history. As the period under review represents a third transitional phase, which since mid-2013 once again started from the roots, institutions typically performed weakly, if they functioned at all. After a year and half with the Supreme Council of the Armed Forces (SCAF) ruling under conditions of emergency law, without an existing parliament and with many cabinet reshuffles, changing governments have been at work since 2 August 2012. The work of President Morsi between July 2012 and July 2013 showed some ambitious efforts but failed last not least because of poor mediation. After the first post-Mubarak parliament was dissolved in 2012 (lower house) and 2013 (upper house), a new parliament was

Performance of democratic institutions



elected only in December 2015 leaving new president al-Sisi ruling by presidential decrees for two years. Elected under conditions of an outlawed opposition, the new parliament is not meant to have much influence in general and operates within an assumed general state security threat to which all democratic institutions and processes have been increasingly subordinated. Regional and local governments and administrations have yet to be rebuilt on a democratic basis accordingly. This all depends significantly on reducing the assumed security threat or reducing its assumed plausibility, while political culture still needs to learn that security threats should not overrule democratic practices.

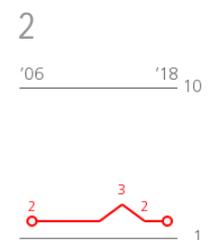
After decades of authoritarian rule, a general commitment to democratic institutions is high in theory, but has yet to be built up practice-oriented. Heterogeneous civil movements have reacted very sensitively to all indications that new usurpations of political power might be underway, holding mass demonstrations against military rule as well as against President Morsi's constitutional declaration in November 2012 and his overall bad performance in June 2013. Morsi's supporters also did this in protesting against his dismissal, which resulted in a large number of casualties. While Islamist currents have been completely suppressed as potential actors in the political process since July 2013, all other oppositional groups experienced a similar fate since then. Given a highly torn society, the military remains the most decisive veto-player, itself remaining formally out of democratic control. Al-Sisi himself, though reassuring the aim of transforming Egypt into a "modern democratic state," repeatedly stated that Egypt was "not yet ready for democracy" due to the fragile security situation.

5 | Political and Social Integration

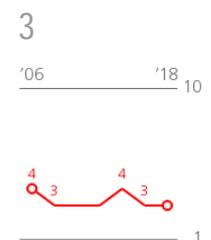
After decades in which political pluralism was de facto repressed, a party system has been developing from the ground up since the beginning of 2011. Amendments to the 1977 Political Parties Law in April 2011, and the restructuring of the Political Parties Affairs Committee, which is responsible for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

After 2011, more than 45 parties became active, half of which were approved following Mubarak's resignation. The party spectrum ranged initially from Islamic-conservative through liberal to leftist parties, which joined in four electoral blocs

Commitment to democratic institutions



Party system



during the first parliamentary elections in 2011-2012. However, the party system has been highly fragmented and unstable – originally polarized particularly along Islamist-secular lines. Since the leading party of the first transitional phase, Morsi’s “Freedom and Justice Party,” was formally dissolved by Egypt’s High Administrative Court in August 2014 as was the National Democratic Party (NDP) shortly after the revolution in 2011, Egypt lacks any party with a minimum level of professionalism and experience. The 2015 parliamentary elections focused on individual candidates rather than party lists.

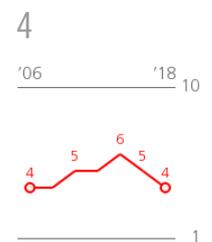
During the last years of Mubarak’s rule, the number of active civil society organizations and movements expanded considerably, with their role gaining a new degree of appreciation among the public. While this was an important factor in Mubarak’s overthrow, the performance of interest groups during the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

Organizations representing the “revolutionary youth” as well as other groups challenging the regime have been outlawed or put under rigid regime control. The capability of the regime to incorporate competing social interests has become increasingly low in the period under review.

Despite the 2011 and 2013 mass uprisings with demands for more political participation, democracy is not necessarily viewed as a goal in itself, but rather as a suitable means to achieve freedom, justice and welfare. The approval of democratic performance is often strongly tied to the degree to which it is able to achieve these primary goals. That is, Egyptian citizens do not separate political democracy from economic democracy or social justice.

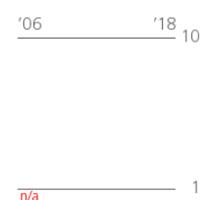
This is once again confirmed by the 2016 opinion poll of the University of Aberdeen’s Arab Transformations Report on Egyptian Political Economic and Social Attitudes 2014, according to which nearly 70% of Egyptians prefer a democratic multiparty system and at the same time name socioeconomic improvements as the most important elements of democracy.

Interest groups



Approval of democracy

n/a

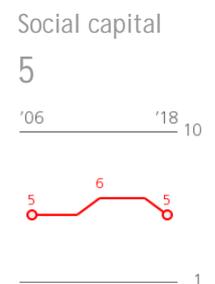


The level of trust in political and administrative institutions, and especially in political parties, may be considered rather low at the present time, given the decades-long experience of authoritarian rule and particularly the experiences with democracy after 2011.

The new constitution as well as the presidential elections received considerable support, however since the 2015 parliamentary elections it is obvious that many Egyptians have lost confidence in democratic alternatives.

With the exception of the first democratic presidential elections in 2012, voter turnout has remained low, with less than 40%, throughout most referenda and elections since the beginning of the turbulent transition. This reflects a broad lack of confidence in democratic institutions.

There is a high level of trust between citizens based on personal relations, and a strong sense of solidarity rooted in traditional patterns of interaction. While these patterns are mostly of informal character, this is in part because the formation of voluntary and autonomous organizations was severely restricted under the past authoritarian regime and still is despite the transition process. The contradiction between the regime's restrictions and the social need for mutual self-help offered considerable opportunity for Islamic charities in the past, as its agents operated in a gray zone between informal and formal organization. Autonomous informal networks and civil society organizations were crucial in preparing the ground for Mubarak's as well as Morsi's overthrow. However, according to government estimates, more than 47,000 local and 100 foreign NGOs have been working on socioeconomic and political development needs, long neglected by government. While Egyptian laws never have encouraged the work of independent civil society groups, security paranoia may be the reason why government openly try to bring NGOs under its control since 2014. After a 2014 draft law was shelved due to broad national and international criticism, a new more dramatic draft that de facto abolishes independent NGOs is ready to be signed by the president.



II. Economic Transformation

6 | Level of Socioeconomic Development

Egypt's overall level of economic development is low. The country depends strongly on volatile external sources of revenue such as tourism, Suez Canal revenues and remittances from workers in Arab oil-producing countries. These revenues fluctuate with the domestic situation in Egypt (in the case of tourism), the global economic situation and labor politics in the oil-producing countries. This makes it difficult to

Question
Score

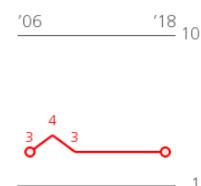
Socioeconomic
barriers
3

overcome the most important socioeconomic barriers impeding Egypt's transformation, as there are only minimal domestic economic opportunities. High levels of poverty and illiteracy and traditional gender relation patterns further constrain economic performance.

Egypt is the most populous Arab country, with an estimated population of 91.5 million (2015, World Bank). The population is currently growing at 2.1% per year (2015), producing a youth bulge with attendant problems such as a rapidly intensifying need for education, jobs, housing, health care services and so on. The percentage of youth (15-24 years) out of total population is calculated at 20% for the year 2010 and estimated to decrease to 14% in 2050 according to UNDP, with total population estimated to reach 130 million in this scenario. Fertility rate is about 0.3% higher than a decade ago, provoking renewed fears about a continuously growing youth bulge.

Poverty and food insecurity have risen by 20% between 2009 and 2011, with 25.2% of Egyptians living below the moderate poverty line of less than \$2 a day according to the 2014 World Development Indicators. A 2013 World Food Program report on "The Status of Poverty and Food Security in Egypt" reports that 23.7% are just above this line and that the average Egyptian spends 40.6% of their income on food. Due to the continuing economic crisis, child malnutrition has apparently become an issue even in the fertile Nile delta region. According to a 2016 CAPMAS report, 2015 showed the highest poverty rate in the country since 2000, hiking to 27.8%, not least because of rising food prices.

Egypt scored 0.573 on the UNDP's 2014 Gender Inequality Index and thereby made barely progress compared to 2006 with 0.603. Female labor force stabilized at moderate 24% of total labor force over the last years. The overall literacy rate is 75.8%, with women's literacy rate 68.1% and male literacy rate 83.6% (UNESCO 2016). Egypt scores 0.594 in the U.N. Education Index (2014) and 0.690 in the UNDP's 2014 Human Development Index (HDI), which is slightly above the average of all countries considered in the BTI. A World Bank Gini index score of 30.8 for 2013 (newer data not available) shows Egypt still ranked comparatively well.



Economic indicators		2013	2014	2015	2016
GDP	\$ M	288586.2	305529.7	332698.0	336296.9
GDP growth	%	2.2	2.9	4.4	4.3
Inflation (CPI)	%	9.4	10.1	10.4	13.8
Unemployment	%	13.2	13.2	12.8	12.0

Economic indicators		2013	2014	2015	2016
Foreign direct investment	% of GDP	1.5	1.6	2.1	2.4
Export growth	%	5.6	-11.9	-0.6	-14.5
Import growth	%	0.5	0.2	0.6	-1.9
Current account balance	\$ M	-3533.7	-5972.1	-16786.5	-
Public debt	% of GDP	84.0	85.1	88.5	96.9
External debt	\$ M	46562.0	41826.5	48459.0	67214.1
Total debt service	\$ M	3401.1	5926.7	3780.8	6573.5
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	13.5	12.2	12.5	-
Government consumption	% of GDP	11.4	11.8	11.8	11.4
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	2.1	2.2	-	-
R&D expenditure	% of GDP	0.6	0.6	0.7	-
Military expenditure	% of GDP	1.6	1.7	1.7	1.7

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The economic reform and structural adjustment program initiated under then-Prime Minister Ahmed Nazif in 2004, though internationally accepted as major steps toward market-based competition, was in fact a corrupt, nontransparent process that helped lay the groundwork for the 2011 revolution.

The 2016 Index of Economic Freedom depicts the period under review as slightly improving (up 0.8 points) approaching once again the level of 2012-2013 after an all-time low in 2014. With an economic freedom score of 56.0 and a global rank of 125, the country however still counts as largely “unfree.” Egypt’s economic freedom ranking declined continuously since the upheaval, falling from rank 96 in 2011 (with a score of 59.1) to rank 125 in 2013 (score: 54.8). The same index assigns Egypt rank 12 out of 14 countries in the Middle East and North Africa (MENA) region.

Market-based competition

4

'06 '18 10



This economic trend has largely been a function of the transition period's instability and uncertainty. While business, trade and investment freedom showed positive trends during the last two years, labor freedom declined.

Meanwhile there are still major constraints to market-based competition. The Egyptian pound is convertible only through onshore banks. The size of the informal sector is estimated between 30-40% by Egyptian economists who also consider this informal sector the most booming, job-creating and market-oriented sphere of the Egyptian economy. The military economy is just the opposite, with civil production estimated at the same size, but which is out of market competition and political control.

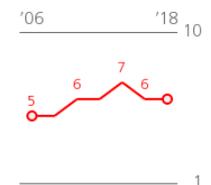
A broader structural economic reform and austerity program requiring, among others, to cut subsidies and float the pound, has been agreed with the IMF in September 2016 after years of negotiation and Egyptian government's hesitancy. While this program implies important long-run steps to market-based competition it bears dangers of socioeconomic destabilization in the short-run.

The Egyptian market has been dominated by monopolies and oligopolies for decades. Steel and cement producers, importers of basic foods (e.g., wheat and meat) and recently mobile operators have been at the top of the list.

A legal framework ensuring freedom of competition was established for the first time in May 2005. It implemented inter alia the "Egyptian Competition Authority" (ECA) as official watchdog. Deemed inefficient from the beginning, several attempts to improve implementation and amendment have been undertaken. While an early attempt in 2008 fell through parliament after steel magnate Ahmed Ezz heavily influenced voting, new amendments were undertaken in September 2011 and April 2012. Violations of the anti-monopoly law since then can be fined with up to 300,000 million Egyptian pounds (500% of the previous fine) or 10% of the product's sales revenue. Verdicts under the anti-monopoly law have been rendered against Mobinil because of lack of cooperation with ECA in June 2014, as well as against steel producer Ahmed Ezz and managers from his Al Ezz Dekheila Steel company in November 2013. Complaints of price rigging have been filed against cement producers in early 2013 and against the mobile operators Mobinil, Etisalat and Vodafone in December 2013. Though Egyptian anti-monopoly policy seems to become more active in recent times, qualitative changes depend on the ECA becoming more independent and effective, such as through leadership by a qualified economist and a more proactive role, as the Egyptian Association for Competition (EAC) postulated already in 2011. Policy decisions and practical implementation is still pending at the beginning of 2017.

Anti-monopoly
policy

6



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

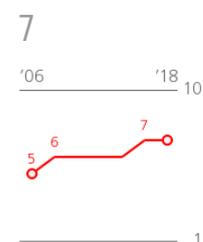
While the European Union started talks about enhancing its free trade agreement with Egypt in December 2012, free trade policies between countries of qualitatively different development stages have been criticized among others by Egyptian NGOs as dangerous and damaging for the socioeconomic development and stabilization of the less developed countries. However, the EU is Egypt's main trading partner covering more than 20% of Egypt's trade volume.

Egyptian governments since 2012 are pushing for trade agreements between countries in the developing world. Starting with President Morsi reinforcing economic ties with China in 2012, foreign trade policy under President al-Sisi is continuing this policy by starting free trade agreements with South America (Mercosur), Africa (Kenya, COMESA, SADEC, EALA) and Russia since 2014. Egypt also hosted a conference aimed at unifying African development positions for WTO-negotiations in January 2015.

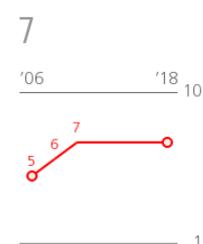
Egypt's foreign investment regime still is only slowly recovering from the heavy decline in 2011 with FDI reaching 2.1% of GDP in 2015. The floatation of the pound in 2016, and with it an important approach to eliminate the black currency market, is expected to produce significant increases in FDI at least after one year.

Egypt's banking system remained relatively stable during the period under review, particularly given the extraordinary conditions of political unrest and economic crisis management. It previously proved resistant to the impact of the global financial crisis. The central bank follows conservative policies. Egypt has limited direct exposure to structured products, and its level of integration with world financial markets is to date low. Under Prime Minister Ahmed Nazif's government, Egypt initiated a five-year program aimed at modernizing its banking sector, with the ultimate goal of privatization. Four fully state-owned commercial banks (National Bank of Egypt, Bank Misr, Banque du Caire and Bank of Alexandria) used to dominate banking in Egypt. Today, full private sector ownership, including foreign ownership, is allowed in banking (as well as in insurance). Many large international financial institutions now operate in the areas of commercial and investment banking, mutual funds, insurance and securities trading. The Bank of Alexandria was put up for sale in October 2006. The sale of the Banque du Caire, one of the largest public banks, was postponed in June 2008. The European Union supported these privatization measures through its Financial and Investment Sector Cooperation program (FISC) from 2005-2008. According to an IMF report released in February 2010, Egypt has to work on

Liberalization of foreign trade



Banking system



introducing Basel II standards; the report noted that “supporting financial sector development will help facilitate intermediation of savings and increase private-sector access to credit.” Egypt should also develop “additional prudential measures to contain vulnerabilities that will arise with greater integration in the global economy,” it urged. The banking sector’s capital-to-assets ratio, though it has risen steadily over the course of the last decade, decreased to 6.5% in 2014 (newer data not available), thereby still exceeding the pre-uprising level according to World Bank data. Nonperforming loans reached an all-time low of 7.2% in 2015, after having been as high as 26.5% in 2005.

8 | Currency and Price Stability

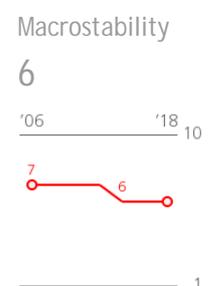
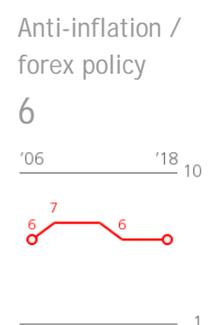
Inflation has been rising moderately to the level of 10.4% at the end of 2015, especially due to a hike in fuel prices by up to 78% (despite the current low oil prices on the world market and subsidized or even free oil deliveries from Saudi Arabia, Kuwait and the UAE). However, the central bank counteracted this effect by raising key interest rates.

High inflation levels increased social unrest in the past and provided one element of the 2011 uprising, leaving governments reluctant to stop basic goods subsidy policies since.

However, due to growing budget deficits and shrinking foreign exchange reserves (in parallel with gradually de facto outlawing social protests) the al-Sisi presidency started with a strong commitment to a new austerity policy and agreed to an IMF reform program in late 2016 in order to secure a \$12 billion lending. Under the conditionality of cutting the budget deficit and rebalance currency markets, the government floated the currency and continued cutting subsidies especially for fuel, which began in July 2014. As a short-term result, the Egyptian pound experienced devaluation by 100% until late 2016 while inflation reached 23.3% in December 2016 (CAPMAS) and is expected to reach up to 30% in 2017.

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

Government spending on subsidies which amounted about 171 billion Egyptian pounds in 2012/2013 has contributed to persistent fiscal deficits. A five-year program to eliminate subsidies for electricity and petrol was agreed upon with the IMF in 2016, resulting in enormous price hikes without the proposed balances for poor people yet.



Egypt's current account balance started leveling negative since 2008 with a deficit of \$1.4 billion to a deficit of nearly \$7 billion in 2012. After decreasing to a \$3.5 billion deficit in 2013 it again increased to nearly 6% in 2014 reaching \$18.7 billion in fiscal year 2015-2016. Public debt has been rising from its decade's minimum of 66.8% in 2008 to 69.6% in 2010 and 89% in 2015.

External debt increased from \$36.5 billion in 2010 to nearly \$45 billion in 2013. It decreased in 2014 to \$39.6 billion only to rise to \$60 billion in September 2016. Total debt service was unsteady over time. It rose from \$3.5 billion in 2011 to \$6 billion in 2015.

Cash deficit steadily increased from 7.7% of GDP in 2010 to 10.1% in 2011-2012.

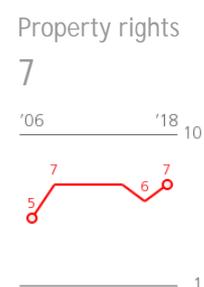
Government expenditure rose steadily but moderately from 11.2% of GDP in 2010 to almost 12% since.

Total reserves amounting \$33.6 billion in 2010 dropped severely since the 2011 overthrow, resulting in \$14.9 billion in 2011, \$11.6 billion in 2012 and \$13.6 billion in 2013, which is below the critical level. It decreased further in the last three years to almost \$12 billion in 2014 and a still alarming \$13.3 billion in 2015. A fiscal consolidation strategy reducing government expenditures through cuts in subsidies, compensation of government employees, tax reform etc. started in 2014 and has been reinforced since late 2016.

9 | Private Property

Property rights and the regulation of the acquisition of property are adequately defined and widely protected under Egyptian law, based both on Islamic law and the Napoleonic code. Though compliant with global standards legally, certain sectors display an inadequate protection of intellectual property rights in practice according to the U.S.-Egypt investment climate report 2016. The legal code for property ownership traditionally has been complex and created delays in the judicial process. An unstable political environment until 2014 prevented Egypt from making progress with reforms regarding property rights and the many structural challenges that impede private sector activity according to both the 2012 Doing Business Report and the 2013 Index of Economic Freedom. As part of its self-declared fight against terrorism, the government nationalized several enterprises supposedly belonging to members or supporters of the Muslim Brotherhood, such as the successful supermarket chain Seoudi. Such confiscation measures certainly did not help to increase investors' trust into business opportunities in Egypt. In military operations on the Sinai, the army destroyed several houses of local residents.

Since 2015, there have been comprehensive efforts to modernize the business legislation and environment not least in the context of the March 2015 Sharm el-



Sheikh economic summit in order to increase investments and sufficient macroeconomic growth rates.

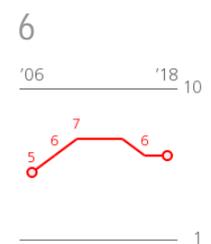
Beginning in August 2014, the newly formed Supreme Committee for Legislative Reform has been working together with the Erada Initiative, established by the Industry and Trade Ministry, to review conflicting economy related laws and improve business conditions. Among these are laws preventing the influence of political change on contracts, preventing monopolistic practices and reforms launching a “procedural revolution” to advance bureaucratic processes around purchasing private property and doing business from registration to taxation. The 2017 Doing Business Report claims it takes 60 days and eight procedures to register property in Egypt, which is however still slightly below the average of 47 days and six procedures for BTI covered countries.

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

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

Starting a business has clearly become easier over recent years, according to the last years World Bank’s Doing Business reports; the 2016 report claims to start a business in Egypt takes an average of less than seven days and less than five procedures, and thereby tops the MENA region. The country’s overall ranking was 122 out of 190 economies in 2016 with rank 39 for starting a business at highest and rank 168 for trading across borders at lowest. Registering property made rank 109. The easiest path for foreign companies to enter the Egyptian economy is nevertheless through joint ventures. However, the 2016 “Doing Business in Egypt” report generally confirmed earlier conclusions that “the degree to which regulations and institutions are business-friendly varies fairly widely across different areas of regulation” in Egypt.

Private enterprise



10 | Welfare Regime

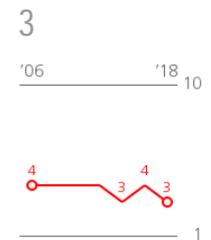
For decades, there are only rudimentary social safety nets in Egypt, causing about 50% of the population to live in poverty or near poverty. The prevailing system of goods subsidies, accounting for more than 10% of GDP, depended heavily on state expenditure and has not been well targeted. By generally subsidizing fuel and food, it funded the upper classes inappropriately, while having relatively small real distributional effects for the poor. Together with a tax system which is only mildly progressive, weak labor rights, and the fact of an informal urban sector that accounts for some 45% of the total labor force, any social safety net has only a marginal existence, and policies in the area have to be restructured from the ground up. Grassroots charity organizations, often of Islamic identity, have served as a substitute for the absent public social security system for decades. This helps explain the Islamist parties' election victories in 2011–2012.

The 2014 constitution challenges the state to provide at least 3% of GDP for public health, a percentage “which shall gradually increase to comply with international standards” (Art. 18). Initiatives to reform the subsidy as well as the tax system began in 2014. Egypt's former minister of planning Ashraf al-Araby announced in December 2014 that future economic growth policy would be oriented towards social justice. However, while the new austerity policy since 2014 started to phase out general energy subsidies (fuel, electricity until 2019) the parallel promised social programs to protect the growing mass of poor people still lag.

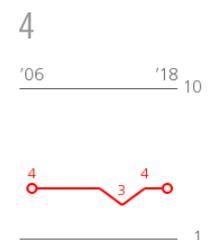
According to the Egyptian constitution, the state is the guardian of equal opportunity for all. The new 2014 constitution eliminates different ideas of equality and equity for men and women, which had been prevalent in the 2012 constitution with its commitment to traditional gender relations. However, the most substantial impediment to equal opportunity between the sexes is rooted in the dominant patriarchal concept of labor division, which is broadly accepted in society and both produced and reflected by state policy. This thus constrains opportunities for women to take paid work or seek a role in public life, while indeed dismissing any alternative conceptions of how women might wish to live their lives. While the persistence of unequal gender relations has been demonstrated particularly by the high degree of sexual harassment, including sexual violence, during public protests since 2011, these escalations have broken many former public taboos with women now taking their rights in their own hands, for instance by riding bikes or objecting their reduction to marriage and child-raising.

While women have seen increased access to education, especially in higher education, they still have a lower literacy (68.1% female vs. 83.6% male literacy rate). Enrollment rates tend to assimilate more and more in recent years with girls'

Social safety nets



Equal opportunity



enrollment lagging behind only slightly according to the Gender Parity Index (GPI) of the World Bank (2016).

Female labor force is also low with a stagnating rate of about 24% for years, a fact that underlines constraining factors in practice.

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

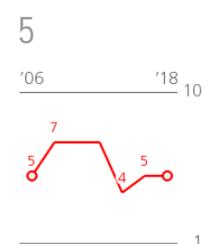
Egypt scored 30.8 in the World Bank's Gini index (2008, newer data not available), hinting at a huge income gap separating the different strata of society. While economic growth had accelerated until 2011, and in 2015 with 4.2% again nearly reached the level of 2009, progress in human development is still heavily uneven. Young people aged between 18 and 29, who make up 24.3% of the overall population, are particularly vulnerable to poverty. According to CAPMAS data, 51.3% of them lived in poverty already in 2012, and this percentage is likely to rise if the current austerity programs are not supplemented by social protection programs soon. Since the outlawing of the Muslim Brotherhood and its affiliates known supporters of Islamic movements may be regarded as underprivileged as well.

11 | Economic Performance

Egypt has managed to achieve good and rising macroeconomic outcomes between 2004 and 2008. This development has however been socially and geographically unbalanced and declined since 2010 generally. Egypt's GDP growth was affected by the global financial and economic crisis. While real GDP growth increased from 4.1% (2004) to 7.1% (2007) and 7.2% (2008), it fell significantly to 4.7% in 2009, recovered to 5.1% in 2010, and plummeted to 1.8% in 2011 due to the country's unrest. It only slightly recovered to 2.2% in 2013 but reached 4.2% in 2015 and is expected to hold this level also in 2016. While according to the 2014 Index of Economic Freedom "domestic instability and political uncertainty" hurt tourism as well as foreign investment significantly during the transitional period until 2014, the country succeeded in regaining international confidence in the economic sphere since 2015 with foreign investment again rising.

Real per capita GDP growth is recovering gradually but only slightly, and has not translated into increased income for all segments of the population. Nor has overall economic growth had any significant impact on employment. The official

Output strength



unemployment rate has risen to 13.2% in 2013-2014, but youth unemployment rates are significantly higher. Unemployment rates among university graduates have risen over the last decade. Outside observers estimate the unemployment rate to be about 20%, much higher than the figures contained official reports.

Inflation rates are high, and rising once again since 2013 after its decline in 2012-2013 according to the World Development Indicators 2016. The impact that high inflation has on the majority of poor Egyptians is massive. The tax system has been structurally deficient for many years, with tax revenue totaling just 12.5% of GDP in 2012 (in comparison to 21% in Tunisia and 24.5% in Morocco). However, a major restructuring of the country's tax system as part of an IMF economic reform package has been on the table since December 2012 and is in the first phase of implementation since 2014, independently from the IMF. While overall economic performance has been poor during the first two phases of the transition process as many constraints, described by Ibrahim Saif in a 2011 study of challenges associated with Egypt's economic transition, continued to be relevant, there are slight signs of recovering since 2015.

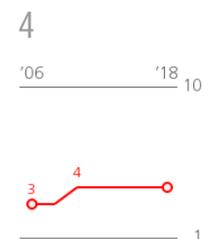
12 | Sustainability

Given the region's low share in global CO₂ emissions, Egyptian representatives usually perceive themselves more as a victim than a cause of global pollution, particularly considering the risk that climate change and rising sea levels pose for the country's coastal areas. While this might be true in the past, Egypt is among the eleven countries in the world whose greenhouse gas emission growth is the fastest in the world. The country's energy production is based on 90% fossil fuel use, despite a great potential for greening the economy by the construction of renewable energies as wind, solar and hydro energy.

Egypt has signed the Paris Climate Agreement (COP 21) and thereby dedicated itself to limit the per capita emissions strongly. Environmental protection is also addressed in the 2014 Egyptian constitution as a national duty and challenges the state to take necessary measures to protect environment. However, articles addressing the issue were criticized by experts for being vague and lacking concrete strategies. Perhaps the most dynamic incentives and strategies, especially concerning recycling, are carried out by civil society campaigns, such as the "green pan campaign" which collects used cooking oil in order to convert it to bio-diesel beginning in 2014.

President al-Sisi follows a strategy of economic development through huge investment projects and economic logic. As shown in the extension of the Suez Canal, environmental concerns are usually not taken into consideration. Cutting energy subsidies for ordinary people goes hand in hand with providing industries with the cheapest available energy in the form of coal and, as planned, nuclear energy. It is

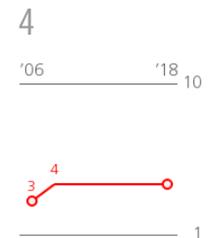
Environmental policy



alarming that such short-term economic solutions which set the course for the longer time are financially supported by international development institutions.

The Egyptian education system struggles to address the needs of the country's growing population. The country faced an annual population growth of 2.0% or higher between 2010-2015, with some 40% of the country's population today aged between 10 and 29, according to the 2010 Egypt Human Development Report. Latest analyses speak of "unprecedented population explosion" in 2012 with 560,000 births more than in 2010. Around one third of young people aged 18–29 have not completed basic education; 17% dropped out of school before completing basic education, and 10% never enrolled. The female-to-male enrollment ratio is equalizing with some deficits concerning girls still persisting in tertiary education. However, Egypt's educational infrastructure cannot absorb all young Egyptians, a group that should constitute the major productive force of its economy. Despite improvements, the adult (older than 15 years) illiteracy rate in Egypt is still about 26% (18% for men and 24% for women). Public education institutions for basic and advanced education are hampered by structural difficulties and characterized by unequal geographical distribution, as services are concentrated in urban centers. The ruling elite has identified these problems, but has not effectively addressed them. Public expenditure on education has dropped since 2005 from 4.8% of GDP to 3.8% of GDP in 2008 (more recent data are not available). The 2014 constitution challenges the state to moderately increase public spending on education to 4% of GDP, to gradually reach international standards (Art. 19). Public expenditure on R&D averaged a meager 0.25% of GDP in 2004-2009, but however increased to 0.7% in 2014, according to the World Development Indicators 2016. Conservatism, and to a certain extent trust in older adults rather than youth, still dominate the Egyptian mindset. This corresponds with little government support for critical academics and researchers as can be grasped by the many travel bans on academics and the alarming fatal torture of Italian researcher Giulio Regeni in January 2016.

Education policy /
R&D



Governance

I. Level of Difficulty

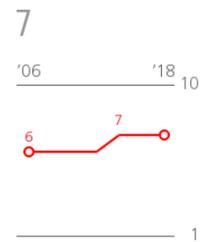
Three sets of structural constraints limit the possibilities for Egypt's weak state institutions.

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

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

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

Structural
constraints



Third, while Egypt's post-revolution leaders – the military as well as the Morsi and the al-Sisi presidencies – have inherited at least four socially produced packages of cleavage (civil-military relations, secular-religious relations, labor-capital relations and gender relations), they have not mitigated but rather deepened differences, producing intensified cleavages for their own government. The austerity-oriented economic restructuring in the period under review seems only possible on the basis of totally outlawing any social protest.

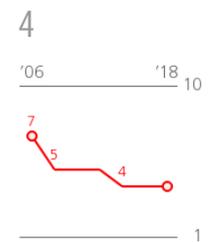
Enduring social conflict often related to terrorism and its counterinsurgency in Egypt's neighborhood and Egypt itself also produce further structural constraints.

Egypt is characterized by a fairly strong tradition of civil society organization. Independent labor movements developed in the late 19th century, and professional syndicates played an important role in the first half of the 20th century. Liberal women's and anti-colonial protest movements also gained strength at this time. While early civil society organizations were subordinated to the single-party system of the 1950s and 1960s, slight tendencies toward liberalization developed in the 1970s. Inspired by the third wave of democratization and the important role played by civil society, civil society organizations spread and intensified their work especially in the fields of human, civil and women's rights, as well as social care. In 2004, the Kifaya (Enough) movement emerged in protest against a new presidential mandate for Hosni Mubarak, and the attempt to deliver power to his son Gamal. The accelerated privatization and liberalization program beginning in 2004 activated labor movements and triggered the "April 6" youth movement to express solidarity with workers' activism. Last not least, the brutal police killing of the young Khalid Said in Alexandria in summer 2010 initiated the "We are all Khalid Said" movement. All groups cited and many others helped to organize the uprising and are still fighting for civil and social rights in Egypt. Civil society has been at the heart of organizing public discontent against the Morsi government since the beginning of 2013 and prepared the June 30 uprising that was then crushed by the military. Civil society activity remained intensive and innovative during the second phase of the transitional process but increasingly suffered from political, legal and bureaucratic constraints, such as the banning of "April 6" movement on 28 April 2014. At the end of the period under review, a new draft law waiting to be signed by the president is expected to effectively control independent civil society organizations, and thereby not only outlaw all significant opposition but impact negatively on the country's social capital in general.

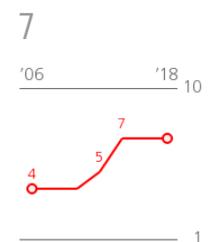
Apart from occasional attacks against state and tourist targets, the degree of open conflict has been low in recent decades due to the authoritarian regime's strong grip on power and repressive instruments, at least until the fall of Mubarak.

The first transitional phase after the overthrow saw a period of intensive confrontational power conflicts, polarization, mass mobilization and violence, leaving many people arrested, wounded or dead. Confrontation developed along the civil-military cleavage until June 2012, with continuing mass mobilization against

Civil society traditions



Conflict intensity



military governance. This was followed by mass protests against the draft constitution, which was criticized for not being representative of the Egyptian people and for endangering freedoms and rights. Subsequently, President Morsi's constitutional declaration drew intense opposition at the end of 2012, with critics charging Morsi with usurpation of the revolution. The first and second anniversaries of January 25, the first day of the revolution, were marked by mass demonstrations expressing unrest and dissatisfaction with the lack of progress and the content of change. Ongoing conflicts also include labor strikes, after which workers have been sentenced to multiyear prison terms; sexual harassment against women; and growing sectarian tension between Muslims and Christians. Conflict intensity increased heavily with the overthrow of Morsi in July 2013 and in the rest of 2013 between proponents and opponents of the Islamist current and the Freedom and Justice Party or the new military governance leaving hundreds of proponents dead or imprisoned. The "Raba'a clashes" of 14 August 2013 left a deep mark on Egypt's society. They also contributed to an increased militant Islamist insurgency by groups like Ansar Beit al-Maqdis/Wilaya Sina in Sinai and security raids by the Egyptian military in the region. Generally, the use of terrorist force measured in incidents, deaths and injuries intensified in the period under review. Attacks against state institutions continued, leading to the collective awareness for the first time in history that the Egyptian army is attacked by Egyptian nationals. Also, civilian targets became increasingly attacked. Assaults on churches continued, such as the church bombing near St. Mark's Cathedral in December 2016.

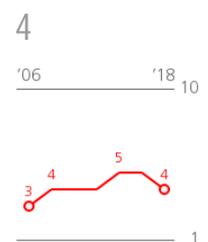
II. Governance Performance

14 | Steering Capability

Al-Sisi, who took office as new elected president on 8 June 2014, did not deliver an electoral program. However, he set clear priorities on recovering the economy, improving infrastructure and services, stabilizing state institutions and public security during various speeches and interviews and promised people to feel qualitative improvements within two years. Meanwhile, critics questioned his commitment to social justice as well as to democratic rights. The latter stems from the harsh repression of the multitude of public protests, not all peaceful, especially in the second half of 2013 under the protest regulation laws. Al-Sisi's claim that a country with 40% of the population near or under the poverty level needs economic recovery first, and that daily demonstrations and strikes would undermine this development, reflects the government lack of commitment to the aim of a democratic path towards market economy. On the contrary the harsh repression of any social protest and the missing social balancing in the structural economic reform processes indicate a new

Question
Score

Prioritization



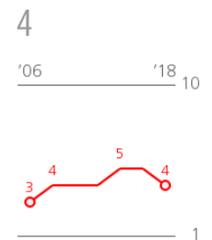
structural hegemony of powerful economic interests in different economic spheres, such as the energy sector.

While the first six months of al-Sisi's presidency showed clear prioritization and intensive political agency concerning public security and economic recovery, the balance sheet at the end of the review period is very mixed. Harsh actions by military and security forces against, but not limited to, the militant Islamist current and a new campaign to fight "terrorism" provoking massive protest of national and international human rights advocates, did not succeed to establish sustainable security across the country. 2015 showed a new level of terrorist acts measured by the number and intensity of militancy. Half of the Egyptians think that government strategies against terrorism don't work effectively according to a 2015 opinion poll by Baseera. Sinai "military-only-solutions" are counterproductive as long as they are not supplemented by sustainable development strategies for the respective people, as diverse studies by the International Centre for Counter-Terrorism argue.

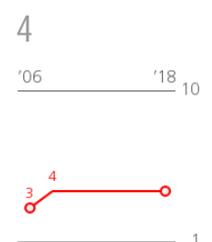
Restructuring the economy towards a market-oriented system has shown some important steps. These include revising the economy related legal framework especially concerning making business regulations easier and more transparent; implementing a bottom-up reform of the expensive and undifferentiated subsidy system; or achieve an increased national and international confidence in the stability of Egyptian politics and economics. All this however has been under the pressure of negotiating IMF loans since 2011. While there are signs of recapturing economic growth and foreign investments since 2015, the commitment to protecting the poor within a socially balanced market economy is questionable and still has to be delivered. The mega-project of the New Suez Canal surrounded by new industrial and technology centers and new free trade areas completed in March 2015 did not capitalize until the end of 2016. Al-Sisi still has to prove that his further priorities of "honest democratization" as proclaimed at the 2015 World Economic Forum in Davos, his ambitious aims of socially balanced high economic growth, national reconciliation, fighting corruption and many more items will be long-lasting and effective.

Neither the early military government nor the following Mohamed Morsi presidency showed an innovative or flexible style during their time in power between 2011 and mid-2013, and thereby contributed to a broad perception in Egyptian society that nothing had changed since the fall of Mubarak. While these attitudes consequently provoked further social polarization and cleavage, al-Sisi succeeded in creating a new wave of nationalism not seen in decades which resulted in the intensively debated "Sisi-Mania" in his rise to power. While he still experiences high support, up to 82% after two years in power according to Baseera public opinion research, there can be no doubt that alongside an economic program of restructuring and austerity a new authoritarianism has been established which in many ways resembles the 1990s. Surpassing the Mubarak style of governance, al-Sisi succeeded to push through

Implementation



Policy learning



unpopular economic reforms by outlawing and repressing all social and political protests or opposition. While it is unclear whether all this is the result of a “one-man-show” or nontransparent compromises to diverse special interests within the “Egyptian deep state,” it is clear that this style of rule will only be accepted temporarily. Rapid successes in recovering the economy and social improvements in ordinary people’s daily life are necessary in order to get this policy in line with the aims of the 2011 uprising. Otherwise social and political upheaval will reappear with elevated force in short order.

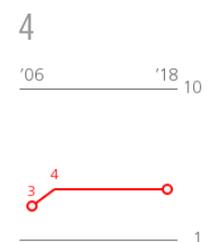
15 | Resource Efficiency

Egypt suffers from a decades-long insufficient use of human, financial and organizational resources, favoring loyalty over merits and patriarchal dominance over equality between sexes and generations. A misguided economic policy provided jobs within the public administration instead of the private sector, but without improving public services. Combined, this has left a large bulk of deeply socially committed youth discouraged and frustrated. In an attempt to address this, President al-Sisi declared 2016 the “Year of the Youth;” however, events staged under this framework remained rather symbolic or exclusively directed at regime supporters.

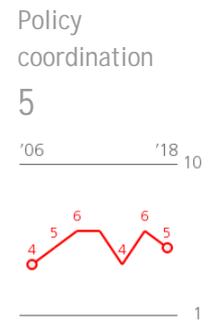
While economic crises and political unrest deepened during 2013, with key macroeconomic measures reaching disastrous levels, a major economic and political reshuffle has begun in 2014 under the pressure of securing IMF conditioned loans. The inefficient subsidy system that burdened the state budget over decades without reaching the poor has started to be reformed, however sufficiently ignoring principles of social justice. Programs to support the holders of ration cards and to expand cash transfer by Karama or Takaful grant some facilities for the elderly, disadvantaged or poor families. However, they are more symbolic gestures than effective social balancing, as a study the Egyptian Centre for Economic and Social Rights (ECESR) titled “Black Thursday’s Policies: Liberalization without Protection” revealed. The effects are much worse for many Egyptian consumers as the measures coincided with the introduction of VAT and the floating of the currency.

Reforms for the inefficient public sector began as well in the context of a new civil service law comprising wage cuts and trimming the number of civil servants, all this with the intention of improving service provision by the state and reducing the wage bill. The budget deficit had reached 12% in 2015-2016, with total state debt nearly 100% of GDP. Suez Canal revenues did not exceed the average of the last years, leaving the latest mega-project of the new canal unprofitable until now. While resource efficiency has to be broadened and deepened concerning many other aspects, this is especially true for the military-industrial complex budget, which is still beyond public control.

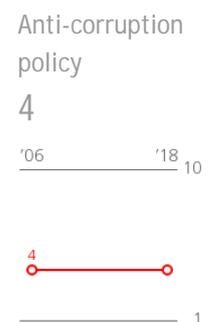
Efficient use of assets



As policy coordination has been miserable from the beginning of the uprising until mid-2013, at least with respect to the relationship between proposed policy goals and real policies, public opinion appreciated that there is neither bread nor freedom nor justice, to quote the slogans of the uprising and the Freedom and Justice Party's subsequent campaigns. This perception of disappointment has persisted for the first two years of the al-Sisi presidency as the Egyptians experienced socioeconomic hardships few can afford in parallel with becoming widely muzzled, especially in 2016 after the security situation massively deteriorated in 2015. Trade-offs between policy goals of enforcing security and stability, economic recovery, social justice and, last but not least, democracy is meager. While this may result from delayed effective solution-orientated policies in the longer and nearer past, it remains unclear whether this is a result of lacking or poorly implemented contemporary strategies or of conflicting interests in the state apparatus. Social reconciliation and democratization however remain important items of future policy coordination.



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



The Head of Egypt's Central Auditing Organization, Hisham Geneina, which is tasked with auditing state spending, estimated the loss of public money through corruption in government institutions at EGP 200 billion in 2013 according to a 2014

report of al-Masry al-Youm. Indeed, the country's corruption problems seem rooted in insufficient and politically motivated lack of investigation and prosecution rather than missing auditing. After Geneina openly spoke about these issues once again in July 2016, this time hinting at EGP 600 billion of loss for the country in 2016 alone, he was fired and sentenced to one year of prison for disseminating false information. While institutional arrangements to monitor government expenditures have improved in recent years, prosecution and judicial judgments still seem to be influenced by political elites' networks which are hard to overcome in short time.

16 | Consensus-Building

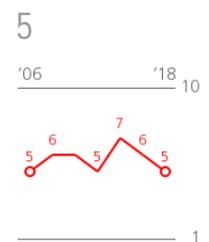
The overthrow of the Mubarak regime by a diverse movement calling for freedom, dignity and social justice demonstrated a general consensus among the major political actors, groups and parties oriented towards ending authoritarian and socially marginalizing policies, and starting a structural reform of the political and economic system.

However, more than 40 political parties have been founded since that time, stretching across a broad political spectrum from conservative-Islamist to secular-liberal to secular-leftist. In many cases, these new actors' political profiles have yet to be clarified, though the major players agree on democracy as the principal form of the political system. However, there are severe cleavages on the form this should take. While conservative Islamists argue that civil rights, especially personal freedom rights, should be subordinated to Islamic law, secularists call for a liberal democracy based on modern secular definitions. With the outlawing of the Freedom and Justice Party and its affiliates in 2013, the political spectrum has not only lost a major political player but also it has become unclear what will be the ideological conclusions Islamist parties draw from this political break. While al-Sisi himself proclaimed democracy as more than a long-term goal he has shown no increased interest in having and allowing a vibrant democratic party system in place. Rather he views democracy as a disturbing factor for recovering economy and security for the present which is opposed by other political forces.

In the economic realm, there is broad consensus over problems that need to be addressed in order to achieve a market economy. However, opinions differ as to the desirable extent of and the methods by which to establish a social pillar to the market economy; positions range from neoliberal stances to visions of partial public ownership. Current austerity politics as a strategy towards a market economy is opposed by the majority of the people and political actors.

Since the crackdown of the Morsi regime and the following outlawing of major Islamist players, rigid security policies and the subordination of all democratic opposition and purposes under nationalistic stabilization and economic recovery policies symbolize a return of the authoritarian regime and a comeback of the deep

Consensus on goals



Anti-democratic actors

2

state structures. There are no powerful opposition parties able to act. A new wave of militant Islamists attacking public facilities and military/security institutions, partly in alignment with groups affiliated to IS threatens the country's economic recovery.

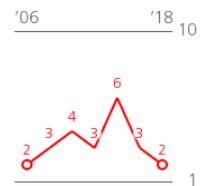
This development as well as the new antiterrorism campaign recalls the situation of the 1990s, when it was once used to legitimize rigid security policies. It thereby interferes with the aim of democratic renewal in general.

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

The small but powerful business elite created under the old regime has a potential veto power on democratic processes by its economic power. Problems concerning this group will depend heavily on the seriousness of the anti-corruption and anti-monopoly policies proclaimed by Morsi as well as al-Sisi and their effective implementation in the future. Remnants of the old regime, the so-called feloul, have been increasingly rehabilitated and had renewed influence during the latest parliamentary elections, which were dominated by individual rather than party seats.

After the fall of Mubarak, the major remaining cleavages include civil-military relations, secular-religious relations, labor-capital relations and gender relations. While all cleavages were intensified during the period of military governance lasting until July 2012, President Morsi successfully moderated the civil-military cleavage by compromising with regard to the military's role as manifested in the constitution, and by leaving the military's economic empire largely untouched. However, all other cleavages have further intensified since Morsi took office and are in latent crisis since then. The president's inability to identify the sentiments of considerable parts of society and to moderate them in an anticipatory fashion led straight to the deep crisis of 2013 which intensified secular-Islamist cleavages ever since.

Despite some positive signals during al-Sisi's electoral campaign when he proposed to reach out to all segments of society, and though the president's approval is still high according to official opinion polls, cleavage management did not improve in the period under review. Rather there is a broad political and physical suppression of conflict through rigid security laws and security management. This change is reflected in the changing atmosphere of the revolution's most recent anniversaries since 2013. While January 2013 saw massive protest against the rule of the Muslim Brotherhood, people rallied dominantly in favor of al-Sisi in January 2014. The fourth anniversary in January 2015 witnessed minor clashes which left more than 25 peaceful demonstrators dead and hundreds injured. There is also the unsolved conflict



Cleavage /
conflict
management
3

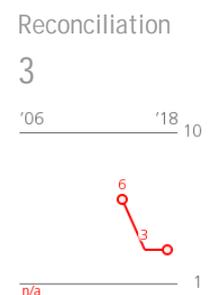
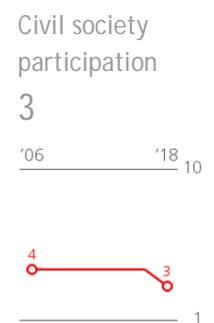


with Islamist militants who claimed responsibility for heavy bomb attacks in Sinai killing and wounding dozens of people including civilians at the end of January 2015. January 2016 and 2017 symbolized the executed crackdown on activists with people neither protesting nor celebrating the revolution's anniversary. In November 2016, planned mass demonstrations against the new austerity policies were heavily curtailed. While there may be some ameliorations underway concerning moderating gender relations and enhance women's rights, such as proposed changes to laws of divorce, the so-called years of the Youth (2016) and of the women (2017) are more facade than real change.

Civil society did not become more involved in agenda setting, policy formulation or decision-making after the fall of Mubarak, both under the SCAF governance and the Morsi presidency than it had before. While al-Sisi repeatedly called on all social forces to participate in discussing the country's political problems and respective ways of problem solving, implementation is widely absent. Apart from singular successes, such as introducing a law allowing punishment of sexual harassment against women, which can be viewed as a major result of civil society engagement, the state's grip on civil society remained rigid and continued to set the agenda for policy widely from above. Public protest and activities concerning a widening of political freedoms are not only unwelcome, but heavily curtailed through a new restrictive NGO law. Labor unions are still denied independence, as the presidency gives strict priority to economic recovery designed from above. 2016 saw the (sometimes temporary) closure of various arts centers, with the Townhouse Gallery in downtown Cairo as the most prominent target.

The government does not address most acts of injustice, neither those that happened in 2011 with more than 850 people killed, nor the massacres against Morsi supporters in summer 2013. In contrast, officials manipulate memories by constantly accusing opponents of the current government of being terrorists that threaten the stability of the state. The same must be said for the thousands of political prisoners, whose fate remains widely unaddressed, even if they were among the few lucky who got released from prison, but certainly without any compensation. At the same time, leading politicians and officials of the former Mubarak regime, including Mubarak himself, his interior minister, his sons and many others have been acquitted of almost all accusations. The victims of the Mubarak regime and of the uprising, as well as the following turmoil, are still waiting for judicial justice.

The many abuses of protesters, including murder, torture and the sexual assault of women (including "virginity tests" committed by the military during its time in power), starting with the violent dispersal of sit-ins at Tahrir Square in March and April 2011, ranging through the clashes in October, November and December 2011, and including many more incidents, have led to prosecution in only a few cases. As all these cases fall under the jurisdiction of the military courts (which are also included in the new constitution), the military has achieved a de facto immunity.



Concerns are also raised over potential basic rights abuses by the army during its fight against insurgents on the Sinai Peninsula, including killings and arrests of civilians, and the destruction of houses and private property.

President al-Sisi, meanwhile, started the preparation of procedures to compensate the families of the victims of the uprising and commemorated them “as a motive to move forward towards the aims of the revolution.” More than 600 long- and short-time prisoners, especially youths, were released on the occasion of the fourth anniversary of the uprising, along with more than 1,200 members of the Muslim Brotherhood after they had signed papers of repentance or reconciliation. The Muslim Brotherhood’s leadership, however, perceived this as an attempt to justify the – what they see as – 2013 military coup and reject any reconciliation under these conditions. The many recent arrests and convictions of democratic activists such as Alaa Abdel Fattah, Ahmed Maher and many others since 2013 provoke reconciliation issues for the future. The judiciary sentenced them harshly for (if any) minor incidents, leading to a clear distancing of the “revolutionary youth” and the current regime.

Article 241 of the 2014 constitution claims that in “its first legislative term after the enforcement of this constitution, the House of Representatives shall issue a law on transitional justice that ensures revealing the truth, accountability, proposing frameworks for national reconciliation, and compensating victims, in accordance with international standards.”

While the new parliament has not become active comprehensively in this concern, there has been an initiative of the president to pardon young people accused of political charges in order to decrease the estrangement between youth and regime in October 2016.

However, there are many items of reconciliation still waiting to be elaborated, especially concerning Islamist currents.

17 | International Cooperation

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

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

Effective use of support

5

'06 '18 10



1

2011, has to be seen in the context of such muscle flexing. At the end of the period under review, the policy of restricting international cooperation at the NGO level will be tightened by a new restrictive NGO law that subordinates all national and international NGO activities under political and financial government control.

While the transition period until 2016 was characterized by short-term crisis management and attempts to replace Western financial and economic support with that provided by Arab Gulf states, Russia or China, an IMF loan conditioned by market-oriented economic reforms which had been debated since 2012 was finally accepted. The new Suez Canal mega-project, though promoted as “indigenous,” also draws on international assistance by integrating Russian and Chinese as well as Western know-how to build up industrial, technological and free trade centers around this area. Though the presidency of al-Sisi presented a development strategy characterized by an absolute priority of recovering the economy and establishing security, a persuasive long-term strategy of development considering development problems like poverty, education, democratization and political participation is still missing.

While Egypt retained its role as reliable and credible partner in the international community under Mubarak, there is a qualitatively new focus on the country’s democratic and economic performance.

The issues of democracy and human rights have provoked much critical international attention, revolving around insufficient democratization efforts, the unsolved cases of many international NGOs and foundations, random arrests and prisoners’ conditions. Yet, al-Sisi is anxious to reach a high level of confidence internationally, as is indicated by his speech at the World Economic Forum in Davos in January 2015. Al-Sisi succeeded in partially presenting Egypt as a reliable partner in fighting terrorism, protecting the Coptic minority and keeping irregular immigration towards Europe under control. This is reminiscent of the 1990s under the rule of Mubarak.

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

Credibility

5

'06 '18 10



Regional cooperation

8

'06 '18 10



In political terms, Egypt is one of the few countries in the region that has concluded a peace deal with Israel; it cooperates with Israel, the United States and the European Union on aspects of the Israeli-Palestinian conflict, such as securing the borders between the Gaza Strip and the Sinai, but had increasing problems in keeping its mediator position between Hamas and Fatah after declaring the Muslim Brotherhood, in a way Hamas' parent organization, a terrorist organization in 2013.

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

While President Morsi had introduced a tentative rapprochement with Iran, President al-Sisi succeeded in stabilizing relations with the Arab Gulf states as well as the African Union, especially Morocco and Ethiopia. Relations with Libya are difficult after the state collapse there and ongoing regional security threats. Egypt was elected into the African Union Peace and Security Council in January 2016 and shows ambitions to strengthen ties with African leaders. In March 2016, Egypt hosted a conference of African defense ministers which debated better coordination of regional security issues and offered 1,000 military training scholarships to African countries.

Strategic Outlook

The high expectations following the overthrow of Egypt's former regime (which should be understood as a power structure based on military rule and corrupt crony capitalism, not only Mubarak's personal governance) met with multiple democratic roll-backs and respective disappointments during the period under review. Problems have arisen in establishing a civil power structure, guaranteeing civil and political freedom, establishing an economic system that provides sustainable freedom as well as sustainable justice and promoting gender equity. Reconciliation is stagnating, if seriously implemented at all, and has a long way to go especially concerning the Islamist current – a new social contract is desperately needed. The country's main challenge is to coordinate economic and political transformation simultaneously which is a general conflict of goals recognized by transformation theory in general. Hence, coordinating short- and long-term policy goals is a key task that needs to be addressed by the government, the opposition and civil society.

Strategic priorities should include the following:

- The government should intensify its focus on national reconciliation to serve as the basis for political and economic stability. It should bring all stakeholders to the same table to negotiate and decide on a common strategy to face social and political challenges. Civil society and youth organizations should be integrated by providing incentives rather than being controlled.
- The state should intensify ways to reconcile economic transformation with social and political transformation when forming policy strategies.
- The productive abilities of women as well as civil society organizations should be considered as enriching the country's development. Their space and opportunity to engage in society should not be constrained.
- Long-term strategies to subordinate the military to civilian control must be developed, as the present status is not appropriate for a democratic political system.

For their part, opposition parties should work on becoming viable and effective alternatives to the government, in particular by developing solid political programs for economic and social reform that are sound and do not rely on the existence of a charismatic leader. Political parties as well as civil society organizations should engage in practical institutional issues rather than public demonstrations. Although in the short term, they will have to fight for this right to participate.

In its relationship with Egypt, the international community should adopt the following strategic priorities:

- Pay attention to internal politics. Do not compromise on human rights, freedom of the media and democracy and pay attention to the level of and justifications for the fight against terrorism. Pay attention to the policy conflict between economic and political transformation.
- Reflect on the compatibility between liberal economic principles and the provision of social justice and welfare for the bulk of the people in the context of financial cooperation agreements. Work to enable people to participate in the economy rather than living on charity.
- Target aid effectively. Conduct development support that targets the poor, the younger generation and Egyptian women in particular, as these are torn between traditional role models and the challenges of neoliberal structural reform.