

BTI 2010 | Egypt Country Report

Status Index	1-10	4.82	# 85 of 128	
Democracy	1-10	4.22	# 88 of 128	➔
Market Economy	1-10	5.43	# 68 of 128	➔
Management Index	1-10	4.32	# 87 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	80.1	HDI	0.70	GDP p.c.	\$	5042
Pop. growth	% p.a.	1.8	HDI rank of 182	123	Gini Index		32.1
Life expectancy	years	70	UN Education Index	0.70	Poverty ²	%	18.4
Urban population	%	42.7	Gender equality ¹	0.28	Aid per capita	\$	14.4

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

During the BTI review period from 2007 to 2009, the Egyptian political leadership initiated measures to prevent the rise of opposition forces, especially the Muslim Brotherhood. Since its success in the 2005 elections, the Brotherhood has become the primary challenger to the ruling National Democratic Party (NDP).

The Brotherhood remains semi-legal and other opposition parties and movements within Egypt are weak. Both the opposition and the general public still lack the social and political instruments to achieve reform. The regime continues to monopolize a large repertoire of instruments to maintain its stability. The government's violations of human rights and the rule of law continue to weigh heavily upon Egypt's prospects for democratization.

As presidential succession approaches, Egypt's democratization process is reversing course after steps toward increased political openness – a movement known as the Cairo Spring. Egypt's ruling elite adopted a democratization strategy in early 2005 under external pressure. This paved the way for the first competitive presidential elections in Egyptian history. By 2008, however, the elite had more or less abandoned the democratization program.

While Egypt has seen little progress in political democratization and social policy, it has taken steps toward economic liberalization. Here, the Egyptian leadership has continued the reform agenda that the Nazif government began in 2004. The government has also tried to win back the lead in the reform discourse from the opposition. The president and the government are attempting to capitalize on the success of its economic reform agenda, a development that has also been acknowledged by Western observers. For example, Egypt was labeled the top performer out of 178 economies in the World Bank's "Doing Business 2008" report.

The majority of Egyptians, however, have not benefited from economic reform. Government circles and a few major stakeholders from the private sector have combined to develop Egypt's

economic reform strategy. Major businesspeople filled key government posts. Constitutional amendments in March 2007 codified the new neoliberal reform approach to the detriment of what used to be Egypt's social contract. While the political leadership posits liberalization and privatization as the ultimate keys to economic growth, it does not sufficiently address problems such as unemployment, poverty, illiteracy, inflation, public debt, corruption, regional and social disparities in the distribution of wealth, and the weak middle class. In late 2007 and 2008, growing popular discontent with the government's economic and social policies led to unprecedented waves of employee strikes and protests, in both the public and private sectors.

After thirty years, Hosni Mubarak is scheduled to give up the Egyptian presidency in 2011, possibly earlier if the 80-year-old Mubarak dies in his current term in office. The succession of a new president will be a crucial moment for Egypt's future development.

History and Characteristics of Transformation

Egypt embarked on the road to democratization and market economy more than three decades ago with then-President Anwar al-Sadat's *infitah* (open-door policy) of 1974. Thirty-five years later, the transformation process, particularly in the political sphere, has yet to yield substantial results. The nature of Egypt's governmental system remains authoritarian. First and foremost, this is due to the regularly renewed state of emergency, which the government first imposed after al-Sadat's assassination in 1981 and which remains in force until today. Whether justified or not, the continuing state of emergency has allowed the government to act almost without any domestic restrictions. The regime has reacted to Western demands for democratization by taking measures of gradual, cosmetic opening. Analysts describe contemporary Egypt an example of a so-called hybrid regime or one of authoritarian upgrading. During the last few years, the regime has used – in addition to its concerns about domestic instability – the growing regional ability to justify its grip on power. Facing this increasingly fragile political environment (Iraq war in 2003; Lebanon war in 2006; deterioration of the Israeli-Palestinian conflict since the war between Hamas and Israel at the end of 2008; Iran's nuclear ambitions; the unsteady recovering process in Iraq, the critical situation in Sudan and the unpredictable development in Libya), stability has become an even more important factor in the region and an impediment to change. This has been especially true since 9/11, as the regime has made the global war on terrorism into an umbrella under which it can push through its own repressive measures without serious external interference.

The regime argues that any uncontrolled changes in Egypt could lead to further disorder that throw the whole region into unpredictable chaos.

Egypt's opposition movements remain weak. With the exception of the Muslim Brotherhood and a handful others, most of the roughly 20 parties in the legal opposition camp are under the

control of the authorities and depend on the regime, which uses them to keep up a pluralist façade. Even those who present candidates for election do not challenge the regime but rather do it a favor by granting these elections a pluralist appearance and splitting the opposition vote. Altogether, only four opposition parties have a certain standing of their own: the Wafd party, the leftist Tagammu party, the nationalist Nasserist party and the Ghad party. While the Ghad gained prominence in the aftermath of 9/11 and especially during the Cairo Spring of 2005, the other three have upheld their traditions and heritage and were less active in the events of the Cairo Spring. After Ghad leader Ayman Nour was imprisoned in 2006, Ghad, too, faded back from its increasingly public role. Nour was unexpectedly released in February 2009. Analysts see Nour's release as an attempt by the regime to please the administration of new U.S. President Barack Obama. However, many analysts doubt that Nour will be able to re-enter the political scene because of likely repression, the internal struggles within the Ghad party and Nour's health condition.

In Egypt, tradition and heritage mean also being part of the system. Since 1952, leaders of these opposition parties have played their part in a superficial game of political pluralism. Not infrequently, they are personally intertwined with leading regime figures, even through intermarriage. Powerful businessmen and clan leaders are part of the political elite and are represented at the cabinet table. These bonds beget payoffs, favors and bribes and prevent concerted opposition to the regime. Younger political aspirants, particularly females, are rarely able to infiltrate this elitist, male-dominated entity still crested by aging historic leaders.

There are signs of change in the political landscape. The elections to the People's Assembly (Majlis al-Sha'b) in late 2005 enhanced opposition representation, which has been among the highest in Egyptian history (27.3%). The secular opposition, however, won a paltry twelve seats combined, whereas the Muslim Brotherhood, which is denied formal party status, won 88 representatives in the first chamber (an increase of 71 seats from the 2000 elections). While the National Democratic Party (NDP) once again successfully prevented real party pluralism, its continued oppressive policies realigned the political landscape into a virtual two-party system: itself and the Muslim Brotherhood. As such, its victory in the 2005 elections seems like a Pyrrhic one.

Egypt's economy shows further signs of improvement with regard to consolidating privatization, liberalization and the rule of law. Since the formation of the Nazif cabinet in 2004, the neoliberal reformist group has gained strength. Economic transformation has sped up since 2007. The Nazif government has introduced new regulations to better organize market competition, limit monopolies and corruption, and protect property rights. It has taken measures to stabilize the financial market, strengthen the currency and increase exports and reserves as well as foreign investment. The government has not addressed the obstacles to transforming Egypt's economy into a more socially responsible market economy. Egypt still suffers from high poverty and illiteracy rates, weak education and health systems, unemployment (especially of young Egyptians), high public sector expenditures, women's repression, and an unequal distribution of wealth.

Transformation Status

I. Democracy

1 | Stateness

For many decades, terrorism has challenged the state's monopoly on the use of force. After a rise of radical Islamist movements in the first half of the 1990s, mainly Al-Jama'a al-Islamiyya and Al-Jihad al-Islami, the state's monopoly on the use of force became quite effective again and covered the entire territory in the first half of the 2000s. However, in 2004, after a seven-year lull following the Luxor attacks on tourists in 1997, terrorism returned to Egypt with attacks that killed 34 tourists in Sinai. In 2005, two separate attacks in Cairo killed three tourists. The Sinai attacks, apparently led by Nasser el-Khamis Melahy, signaled the emergence of a hitherto unknown group that according to observers has its roots in the socially problematic Sinai, which since the 1979 peace treaty with Israel has the status of a semi-detached region. This group could provoke further unrest in the future and threatens the security of the state.

Monopoly on the use of force

Recent developments in the region have made the threat of potential violence more acute. Since the Palestinian autonomous and occupied territories split in 2007, the Sinai has been bordering by a Gaza strip under Islamist Hamas control. From an Egyptian perspective, this example of a quasi-government in an adjacent territory that is rooted in the Muslim Brotherhood is a threat to its internal security. In the beginning of 2008, Hamas, in an unexpected move, blew holes in the wall that separates Gaza from the Sinai as a reaction to Israel's full blockade of the Gaza Strip. This enabled thousands of Palestinians to pour into Egypt. Because the event caught Egyptian authorities off guard and because the Egyptian people overwhelmingly support the Palestinians, the government had no choice but to let this happen. Based on an agreement between Israel and Egypt, however, Egypt is responsible for securing their Gaza border and for closing the tunnels used by smugglers between the Gaza Strip and the Sinai. The wall event clearly showed the difficulties Egypt has in fulfilling this duty. In the future, Egypt will get additional support from Israel, the United States and the European Union to secure the border. The involvement of foreign powers on its territory is quite problematic from many Egyptians' point of view.

As a consequence of terrorism, the military and security apparatus plays a crucial role as a guarantor of regime stability. The regime also uses the issue of terrorism as a pretext for its persecution of the Islamist Muslim Brotherhood. As long as the military receives sufficient financial and technical support and the military elite continue to benefit from privileges, the regime can rely on its support. Questions remain about what will happen with the military's loyalty after President Mubarak leaves the stage. His son, Gamal Mubarak, who will most likely succeed his father, does not have a security background. It remains to be seen if he can rely on the loyalty of the security apparatus or if, on the contrary, the powerful General Omar Suleiman, the director of Egypt's intelligence service and one of a small circle of President Mubarak's confidants, will challenge him.

The idea of the nation-state, or more precisely the so-called pharaonic state with a strong presidency, is widely accepted, although the perception of the role of the president is undergoing changes. The office of the president has recently started to be the focus of a type of critique unknown in the past. In general, there is fundamental agreement on the legal definition of citizenship in Egypt. Both Muslims (90% of the population) and Christians (9% Copts, 1% other Christians) are citizens of the state and enjoy the same rights according to the constitution. Despite formal equality, the dominance of the Muslim population affects the acceptance and political and social integration of Copts. Tensions erupt occasionally between the two religious groups.

State identity

The state functions as a secular order with modern institutions. Since 1980, however, the constitution's second article has stipulated that Shari'ah (Islamic law) is the fundamental source of legislation. This ultimately contradicts the secular bond of citizenship. Secular intellectuals and political parties have been rallying in vain for the article's abolition, and in a break with the past, the topic is increasingly discussed in the media.

No interference of religious dogmas

Since 1967, the ruling elite has used Islam as a basis of legitimacy and has thus integrated, in one form or another, religious dogmas into the legal and political sphere. Islamic institutions, especially al-Azhar University and the Grand Mufti, who is directly appointed by the president, serve to legitimate political power.

The majority of Egyptians are deeply religious, a fact that the regime takes into account in its policies. The regime competes with Islamist movements, in particular the Muslim Brotherhood, which draw increasing popular support. It is not quite clear what kind of role the Muslim Brotherhood would give to Shari'ah if one day it came into power. The Muslim Brotherhood movement has many factions, and it is impossible to predict which one will eventually take the lead.

Although highly centralized, the state's fundamental infrastructure extends throughout the entire territory. A high volume of employment in the state sector is

Basic administration

still a source of stability for the regime, but over time, this patronage policy has spawned over-employment and aggravated the public sector's ineffectuality and the state's pension burden. The operational capacities of other parts of the state infrastructure contain notable deficiencies.

The tax system is one example of deficient state administration. Despite recent reforms, the tax system is still prone to corruption. However, in the period of review, the Nazif government has started to address this problem. The state's administration also suffers from the absence of democratic control mechanisms over state institutions and these same institutions' elitist character. Both of these lacks ultimately result in a loss of responsiveness to citizens' needs.

The extreme centralization of the Egyptian state renders its administrative, institutional and political networks rigid, inefficient and unable to develop internal incentives to modernize. Within the recent economic reform process, however, the government has adopted some economic decentralization measures.

2 | Political Participation

Egypt held its first competitive presidential elections on 7 September 2005, following constitutional amendments ratified in a public referendum on 25 May 2005. These amendments constituted the most substantive reforms during Mubarak's presidency. With these reforms, Mubarak succeeded in both relieving external pressure and undermining the opposition's main demands. Until then, the presidential candidate was nominated by a two-thirds majority of the People's Assembly and confirmed in a national referendum. The hegemony of the National Democratic Party (NDP) in parliament ensured that the nomination of President Mubarak would never be challenged, and until 2005, he had been the only candidate to run in successive presidential elections since 1981. Egypt's constitution places no limitation on the president's term in office.

In the September 2005 elections, a total of 15 candidates ran for direct election by the voters. As a 2005 policy brief of the Al-Ahram Center for Political and Strategic Studies put it, "The president, like other candidates, had to go to the political marketplace to ask for votes, explain his program, and respond to evaluations of his policies. The awe of the Pharaoh has gone, and the humanity of politics has become possible." However, retrospectively, this expression of what became known as Cairo Spring seems rather optimistic. The amendments include provisions that limit their real impact. For example, only parties that are represented with more than 5% of seats for more than five years in parliament have the right to nominate a candidate (none of the legal opposition parties has more than 5% of seats). Independent candidates need 300 signatures, including 65 from the People's Assembly and 25 from the Shura Council (both dominated by the ruling NDP) as well as significant support from representatives of the 26 governorates). Thus, these

Free and fair
elections

amendments have changed nothing. President Mubarak won his fifth term with a majority close to 88% (93% in the last uncompetitive vote in 1999). The Ghad Party's Ayman Nour came in second with 600,000 votes.

Egypt's bicameral parliament dates back to 1980. In both the People's Assembly (454 seats, 444 elected by popular vote, 10 appointed by the president) and the Consultative Council (264 seats, 176 elected by popular vote, 88 appointed by the president) the ruling NDP currently has a two-thirds majority. Yet, the nature of this majority requires further explanation. Out of the 400 candidates fielded by the NDP in the 2005 parliamentary elections, only slightly over 100 won. Therefore, the NDP could only secure the majority within the People's Assembly by reintegrating large numbers of candidates who ran and won as independents (a good example of the mechanisms of patronage). The participation rate in elections is low (24% of registered voters in 2000; 26.2% in 2005). The dominance of the NDP is further strengthened by the fact that President Mubarak serves as both head of state and leader of the NDP. Parliamentary and local elections are regularly manipulated in favor of the ruling party. During the 2005 campaign, the government arrested 1,000 people on accusations of different forms of violence. These were also the first elections under total judicial supervision. They were also monitored by civil society organizations. However, a constitutional amendment in March 2007 ended the supervisory function of the judiciary for elections and transferred it to an electoral commission. The commission, however, is elected by the two chambers of parliament, in which the ruling NDP has the majority.

Members of parliament are elected on a regular basis by direct, secret and universal ballot elections. Parliament can be dissolved by a referendum called by the president. The constitution does not mention the principle of free elections. Although article 5 of the constitution states that Egypt is a multiparty system, the Political Parties Affairs Committee, which manages the entry of new political parties, has been very restrictive. Since the constitutional amendment in March 2007, article 5 now clearly states that any party founded on a religious basis is forbidden. This is a tailor-made article to prevent the Muslim Brotherhood and other Islamist movements from becoming legal parties. Furthermore, the president appoints ten members of the People's Assembly. Thus, much of the apparent pluralism in Egypt's parliamentary elections is cosmetic.

The 2005 elections changed Egypt's political picture. The NDP lost some of its power. The illegal Muslim Brotherhood, whose candidates ran as independents, increased its representation in the People's Assembly from 17 seats in 2000 to 88 in 2005. At the same time, the legal secular-liberal opposition (the Wafd, Tagammu', the Nasserist Party, and Al-Ghad) and minority representation (women and Copts) lost ground. The majority of Coptic members of parliament are appointed by the president rather than elected. In the 2005 elections, Coptic representation decreased from seven seats (three elected and four appointed) to six seats (one elected and five appointed).

Egyptian rulers still have effective power to govern the state. The decades of NDP hegemony have led to a clientele system between the ruling political elite, state employees, the security forces, business leaders and other interest groups. The regime has always attempted to serve special-interest groups and has constructed shifting allegiances depending upon the nature of the economic and social policies being implemented. The most influential sectors are the military establishment (which has built up a strong economic backbone over the last two decades), rural elites and powerful entrepreneurs, who have been strengthened by the Egyptian government's neoliberal orientation in recent years. All in all, the Egyptian regime –in power since 1952 – has maintained rather surprising stability over the years, despite a number of social problems. Against this background, the upcoming presidential succession will be a crucial moment in Egyptian history and for the future of the regime.

Effective power to govern

The state of emergency, which was first implemented in 1967 and reformulated and renewed in 1981, was extended again on 20 May 2008 for two more years (a prompt reaction to a wave of strikes and protests in the spring of 2008). It limits the rights of political and civic groups to associate and assemble freely. Political parties, even when legal, are highly restricted in their activities. The emergency law prohibits parties from organizing public meetings without prior permission from the Ministry of Interior. Security forces have unsupervised powers to randomly arrest and detain individuals, a practice systematically applied in the case of Islamist groups whose members are usually arrested prior to parliamentary and local elections and around demonstrations. In January 2009, for example, the state reportedly arrested more than 800 Muslim brothers during demonstrations against Israel's attacks in Gaza.

Association / assembly rights

The number of protests and demonstrations has grown over the past years and target both the state and private sector interests. In December 2007, 55,000 communal civil servants went on strike. After months of demonstrations and ten days of strike, the protesters eventually succeeded in getting their salaries raised to the level of civil servants in the Ministry of Finance. In spring 2008, textile workers in the Nile Delta and urban activists jointly organized protests and strikes, mobilizing thousands of predominantly young supporters via the Internet networking site Facebook. The protests in Al-Mahalla on 6 April 2008 were violently suppressed by security forces.

The legal framework for NGOs in Egypt is governed by law number 84 promulgated in 2002, which requires civic associations to register with the Ministry of Social Affairs. The law gives the ministry free reign to disband by administrative decree any association it deems as performing illegal activity. Furthermore, the law prohibits NGOs from taking part in political or professional associations' activities as well as from receiving (foreign) funding, which they need badly, without governmental approval. There is currently a discussion in the government about

changing law 84 before the parliamentary session ends in summer 2009. Information leaked so far is ambivalent. The new bill might be more lenient than the existing one on registration procedures and the ban on political activities but might intensify government control over foreign financing. Regime officials have remarked on the need for strict monitoring mechanisms, especially for organizations that they believe misuse funds. NGOs concerned with civil and human rights, in particular, are not able to collect enough money domestically and depend largely on foreign funding.

The constitution guarantees all citizens freedom of opinion and expression in all forms. It also guarantees freedom of the press, publication and mass media. In 2004, the government abolished press laws that previously allowed fines and imprisonment for criticism of the president and other members of the executive branch, as well as for defamation and insults. This led to a greater degree of freedom of expression for a while.

Freedom of
expression

However, the state of emergency restricts basic personal liberties and imposes censorship on the mass media. In July 2008, the opposition newspaper Al-Masri al-Yawm published a draft law proposed by the government that is meant to restrict audiovisual media. Critics see this draft law as an attempt to institutionalize censorship on the Internet and satellite TV. In February 2008, Egypt and Saudi Arabia both presented a draft charter on satellite TV to the Arab League that aims at establishing a regional media policy.

The state of media and journalism in Egypt is currently ambiguous. On the one hand, there has been an explosion of satellite television (especially Al-Jazeera), which reaches even the poor in remote areas of the country, and of privately owned newspapers. Some people have free access to the Internet (though only one out of nine Egyptians has internet access today). The blogger scene is growing quickly and its leaders have successfully used the Internet to organize mass protests. According to a report by the Egyptian Cabinet Information and Decision Support Center, Egypt had about 160,000 blogs by April 2008. These blogs have specifically targeted their criticism at the presidency. Blogs that discuss Shari'ah law have also become prominent. Not surprisingly, the regime confronts oppositional bloggers with strict censorship, arrests and harassment.

State media still dominates the Egyptian public sphere, but it is in crisis. The print sector has suffered a huge loss of readership in recent years. State newspapers are badly managed, over-staffed, corrupt and suffer from a decline in standards. Most of them have become more oriented toward the government's perspective. If they resist, their editors must increasingly answer to the state authorities. Even though the number of privately owned newspapers is growing, most of them are extremely vulnerable. They are not protected by law or by a popular culture of press freedom. They are usually non-institutionalized, under intense pressure to make money and

facing a volatile readership. With regard to content, they often engage in sensationalism rather than quality journalism.

What is still missing in Egyptian media is objective sources of information that try to inform the public rather than mobilize it. As the urban Egyptian population has gained better access to a broader range of media, however, it has become more demanding. A new generation of young journalists has emerged who take journalistic ethics seriously.

Despite some positive signs, numerous violations of the freedom of expression continue. The 2008 World Information Report conducted at the University of Washington, for example, qualifies Egypt as one of the most dangerous countries for bloggers, along with China and Iran.

3 | Rule of Law

The Egyptian constitution and the country's political practice concentrate power in the hands of the president and the executive branch. Although the three branches are institutionally differentiated, both parliament and the judiciary must tolerate continuous interventions by the executive. The president not only appoints the government, but also appoints and dismisses the head of the Council of Ministers and his deputies as well as the cabinet ministers and their deputies. He is empowered to claim a state of emergency and, even more problematic, to transfer proceedings from civilian to military courts, which violates the independence of the judiciary and compromises the civil liberties of Egyptian citizens. Despite the Constitutional Court's powerful role, the president and the ruling National Democratic Party (NDP) dominate all governmental structures. Thus, no real system of checks and balances exists in Egypt.

Separation of
powers

The rights of parliament are restricted. According to the constitution, legislative rights are shared between the People's Assembly and the president. In political practice, until 2005 the president proposed most of the laws, which the NDP-dominated parliament passed without debate. Between the initiation of political pluralism in 1976 and the 2005 parliamentary elections, the overall composition of the legislative branch and the dominance of the NDP faced no challenge. Because the executive dominates the whole political system, the NDP has the support it needs to maintain its power.

Two problematic institutions, the Party Committee and the party tribunal, provide further illustration of the weakness of the legislative branch in Egypt. The Party Committee is charged with the right to legalize political parties and supervise their activities once they are established. The party tribunal, which was recently established, provides a forum for parties whose application for formal status failed

to appeal. Both of these institutions are dependent on the executive power of the NDP (“quasi-governmental institutions,” as one expert qualifies them) and therefore infringe on the principles of separation of power and judicial independence.

The Egyptian constitution formally guarantees the independence of the judiciary, which it has for the most part managed to maintain.

Independent
judiciary

The judiciary’s role has steadily expanded. In 2000, the Constitutional Court declared all parliamentary elections since 1984 anti-constitutional, on the grounds that they did not take place under judicial supervision. The powerful representative organ of the Egyptian judges, the Judges’ Club (“Nadi al-Quda”), contributed to this momentum by calling for a truly independent judiciary and a clear separation of powers. These actions forced the regime to react. The judges’ role in the 2005 elections was strengthened. For the first time, the judges had exclusive responsibility for the supervision of the polling stations and over the process of counting votes. Several judges reported severe violations of citizens’ electoral rights during these elections. Instead of investigating the reported election fraud, the regime attacked the judges. The Judges’ Club in Cairo responded with protests.

Since 2005, judicial independence has experienced setbacks. As part of the March 2007 constitutional amendments, the regime changed article 88 and withdrew the judiciary’s right to supervise elections. The right fell to an electoral commission comprised of members elected by the two chambers of parliament (both in which the National Democratic Party has a two-thirds majority).

Furthermore, the relatively high degree of independence of the civilian judiciary has induced the regime to create a parallel network of special courts. Beyond constitutional and administrative jurisdictions, the regime has created an independent judiciary under the minister of justice (the so-called Majlis al-Dawla, or State Council), and military and/or special tribunals (value tribunals and state security courts). These special courts in the hands of the executive severely violate citizens’ rights by giving the regime free rein to make arbitrary judgments.

Egyptian laws provide various penalties for officeholders who abuse their positions. The Administrative Control Authority, a governmental institution, investigates corruption cases in public offices and reports to the Supreme Court, which is then in charge of prosecution. An anti-corruption campaign begun in 2003 has resulted in convictions of some prominent figures, including a former minister and a former governor. However, the campaigns are often politically motivated, and opposition figures are prosecuted in order to undermine the challenge they pose to the ruling elite. The fact that prosecution of office abuse does actually happen, but quite randomly, is one example of how the regime has learned to react to Western calls for democratization.

Prosecution of
office abuse

The Egyptian constitution guarantees the freedoms of worship, religion, opinion, expression and the right to (peaceful and unarmed) private assembly within the limits of the law. In practice, however, civil liberties are subject to systematic violations by the regime, which has been operating under a state of emergency for almost three decades since former President Sadat's assassination in 1981. Violations and torture are regular features of police investigations following arrests of political opponents and ordinary criminals. Dozens of torture cases – several fatal – were documented in 2008, particularly for those arrested in the aftermath of the 6 April 2008 Al-Mahalla protests. The creation of the National Council of Human Rights (NCHR) whose official mandate is to monitor the performance of the Egyptian government with respect to human rights and to report its findings to parliament's second chamber, the Consultative Council, was mostly a reaction to U.S. pressure and to the growing prominence of the non-governmental Egyptian Human Rights Organization. Far from fulfilling this mandate, the NCHR more or less serves to smother external critique.

Civil rights

4 | Stability of Democratic Institutions

Though the Egyptian constitution codifies the existence of modern democratic institutions and structures, these institutions and structures, including the administrative and justice systems, do not follow democratic principles for two principle reasons. First, they are subject to intervention and manipulation by the executive branch. Secondly, over-bureaucratization renders them largely incapable of performing effectively. The National Democratic Party (NDP) government has started different campaigns to enhance the administrative system's performance and to increase its transparency. Positive results have yet to materialize.

Performance of democratic institutions

The failure of state institutions to meet standards of transparency, neutrality and democracy has damaged their credibility with Egyptian citizens. The public's perception of state institutions is dominated by accusations of corruption and charges that they favor the interests of different elites. The systematic intervention of the executive branch in the workings of parliament and the judiciary has led to the common public opinion that the majority of parliamentarians and judges are functionally marionettes of the regime.

Commitment to democratic institutions

With the exception of the Muslim Brotherhood, the public's view of opposition parties and civic organizations does not differ much from their perceptions of the government. Only the Brotherhood is not perceived by the majority of the people as being corrupt, manipulated, or in short, as being part of the dominant system.

5 | Political and Social Integration

Between the end of the First World War and 1952, Egypt, under the monarchy, went through a period of substantial political pluralism. Today, both party and political pluralism are very limited and function to preserve the status quo rather than to trigger reform impulses (an exception has been, however, the economic reforms that started in 2004). Society is denied a genuinely representative government. Until the political parties law was changed in 2005, parties had to meet harsh criteria to be legalized. Even after the reform of this law, political parties still remain controlled. The state (i.e. representatives of the dominant National Democratic Party) supervises and controls the party system through the Political Parties Committee and other administrative and legal mechanisms.

Party system

The National Democratic Party (NDP), headed by President Mubarak, dominates the political sphere with its stronghold over the legislative and executive branches. 21 parties were accredited in July 2005 (though some of them were temporarily denied any form of activity by the authorities). Seven out of the 21 had been admitted since the year 2000. Only one of the new parties, the liberal Al-Ghad, which was legalized in 2004, is represented in parliament. After the imprisonment of its leader Ayman Nour under questionable circumstances, however, the party lost its most prominent face. In late 2008, Al-Ghad's headquarter in downtown Cairo went up in flames. Western and Egyptian media reported that internal quarrels between Ghad factions led to the fire. Nour's wife Gameela said she and her husband had evidence that the Egyptian regime has triggered these internal fights in order to split and weaken Al-Ghad. Despite Nour's release in February 2009, he will have difficulty regaining his former strength.

The other major legal opposition parties represented in parliament are the liberal Wafd party, the leftist Tagammu'/National Progressive Unionist party, and the Arab Nasserist party. As their seats are few and their influence limited, the 2005 elections established a de facto two-party system, consisting of the NDP and the Muslim Brotherhood. The latter has used the new platform it gained from its favorable election outcome to challenge the NDP. In the current reform debates, the Muslim Brotherhood increasingly functions as an opposition to the ruling party. This legislative dynamic has revitalized parliamentary and public discourses between NDP supporters and Muslim Brotherhood followers.

The Muslim Brotherhood's electoral success puts pressure on the ruling elite to develop strategies to deal with the Brotherhood. The regime's immediate reaction to the rise of the Brotherhood was to halt its reform policy. Since the end of 2005, the regime has launched several waves of repression that analysts regard as the harshest since 1981. In February 2006, President Mubarak ordered a two-year postponement of local elections, which had been scheduled for April 2006, in order to preserve the

ruling NDP's monopoly on power at a time when its grip began to falter and to block the Muslim Brotherhood from promoting an independent candidate for the presidential elections in 2011. On 1 May 2006, the government published its decision to prolong the emergency laws, much to the opposition's consternation. In March 2007, the government adopted further constitutional amendments to limit the rise of the Muslim Brotherhood. Article 5 in the constitution now explicitly abolishes the founding of political parties based on religion. Furthermore, the regime has paved the way for an electoral system based on candidates' lists in hopes of preventing Muslim brothers from running as independent candidates in the future.

The Brotherhood is also put under pressure through its new representation in parliament. It has to adapt to working within the political system and to respond to critics who say it has a hidden agenda. The type of Muslim brother who sits in parliament now also differs from the Brotherhood's leading figures of the past. Earlier, the Brotherhood's leadership was made up of mostly intellectuals from the cities, while the newly elected members of parliament are rooted in local constituencies. Thus, there is currently a process of realignment happening within the Brotherhood. In September 2007, the Brotherhood circulated a draft party program among Egyptian intellectuals. Intense debate broke out within the various factions of the Brotherhood about whether or not to adopt that party program and what it would mean to apply for the status of a political party. This debate revealed that the Brotherhood is a very diverse movement, deeply rooted in Egyptian society and currently negotiating a clash of generations, different schools of thought, and diverging interests. The more the Brotherhood operates within the political system, the more pressure faces to clarify its future political, social and religious attitudes.

Beyond the structural dominance of the NDP and the prohibitions of the emergency law that restrict their roles, opposition parties are structurally weak. Their leadership is aging and uninspired and they lack the large constituencies necessary to mobilize popular support. Beside the major opposition parties and the Muslim Brotherhood, a few other small parties exist, but their political relevance is insignificant.

Apart from various organizations that serve the interests of Egyptian business people, professional associations and the state-controlled Union of Egyptian Workers, there are approximately 21,000 registered civic associations. The number is constantly growing. However, the diversified topography of vital social interests remains underrepresented relative to Egypt's population and in comparison with other countries of the Middle East.

Interest groups

The majority of Egyptian citizens – the poor, the weak, the marginalized, and rural people – are excluded from the system of interest groups. The exclusion of large segments of the Egyptian population has resulted in social unrest, radical currents or

political apathy. In the 1950s and 1960s, the state supported and advocated for these groups; however, since the initiation of the open-door policy, the state has been retreating from different social spheres.

Over the years, the Muslim Brotherhood has slowly formed a network of social services. The link between the regime and the Brotherhood in the social sphere is ambivalent. On the one hand, the regime persecutes the Muslim Brotherhood. On the other hand, the regime depends on the Brotherhood's social services. The Brotherhood's social services make an effort to remain on good terms with the regime. Associations register with the Ministry of Justice and cooperate with local authorities. Schools are under the auspices of the Ministry of Education and operate with national curricula. Imams are supervised by the Ministry of Religion.

Powerful political and economic elites monopolize real interest representation. With the Nazif government's economic reform agenda, implemented since 2004, economic elites have again gained power. Civil society associations that lobby for the weak are marginal.

Since 2003, and mainly under the patronage of First Lady Susan Mubarak, middle-class professional women have gained influence as a powerful interest group and have successfully lobbied for legislative reforms in relation to personal status law.

The state tries to maintain a monopoly on conducting polls. Credible data is therefore rare. Hence, the exact levels of acceptance or changes in attitude are difficult to monitor. Democratic norms and procedures are contested in the Egyptian public sphere, because the ruling elites attempt to use them for their own gain. Concepts such as democracy, good governance and pluralism evoke distrust among the majority of Egyptian citizens, especially if they are articulated by the West. This antipathy to the West stems from Egypt's colonial heritage, and, more recently, from the U.S. democratization campaign after 9/11.

Consent to
democratic norms

Religious-based perceptions of society and polity, which ultimately stand for an alternative normative order, appeal to a large portion of the deeply religious population. The vast majority of the population remains disconnected from the political system. Calls for fundamental changes to the Egyptian constitution increased over the last decade and were supported by large segments of society. This pressure led the president to initialize two successive constitutional amendment processes. The first process concluded in 2005 and represented a modest sign of increased democratization. The second round of amendments in March 2007, however, reversed this trend.

With the state retreating from the social sphere as part of the process of liberalization, civil society has a crucial role to play in implementing what the 2005 Egypt Human Development Report calls a "new social contract." However, socialist experiments in the 1960s have weakened social self-organization. Amongst citizens,

Associational
activities

self-organization encounters distrust. The regime faces a dilemma: as it is withdrawing from the social sphere it sees the need for alternatives, but at the same time it wants to keep civil society development under its control in order to prevent Islamist forces from gaining even more ground.

The state controls the scope and content of civic organizations' activities through an efficient conglomerate of legal and political measures. Traditional and modern Islamist networks, such as charity organizations and cultural centers – many of them affiliated with the Muslim Brotherhood – are better rooted in the social fabric and therefore potentially more able to amass social capital than other non-governmental actors. However, due to the authoritarian control of the Egyptian regime, Islamists do not yet have legal and institutional tools to develop this potential.

The 2005 Egypt Human Development Report calls for a fundamental change in attitude about civil society. It advocates the need to define “new roles for all stakeholders, actors and players” in Egypt's development process. This is truly necessary, as NGOs face various internal dilemmas. Most of them are urban-centered and, apart from traditional religious networks, socially marginalized. The regime has encouraged a growth in the number of NGOs, but only because their sheer number keeps them weak. In other words, President Mubarak prefers 21,000 small, non-political, under-financed and under-staffed NGOs to 20 big ones with clear political agendas, committed members and transparent funding. Thus, the very few strong NGOs, such as the prominent Egyptian Organisation of Human Rights (EOHR), are under strict surveillance and must compete with parallel state-sponsored institutions. In order to lessen the impact of the EOHR, for example, the government developed the National Council of Human Rights (NCHR), founded with much fanfare in 2004 under the chairmanship of former U.N. Secretary General Boutros Boutros Ghali.

Since late 2004, the most famous example of an associational activity is the “Egyptian Movement for Change,” better known by its slogan Kefaya (enough). Kefaya, which has attracted considerable attention from foreign media, is an agitational movement that held demonstrations in central Cairo and elsewhere to announce its opposition to President Mubarak's rule (and the possible succession of his son Gamal) and the concentration of power in the hands of the president. Though the Kefaya movement has recently quieted down, it claims to have inspired new protest and opposition movements.

II. Market Economy

6 | Level of Socioeconomic Development

Overpopulation, poverty, illiteracy and the discrimination of women are the most important socioeconomic barriers impeding Egypt's transformation. Egypt is the most populous Arab country with an estimated population of 75 million in 2007. According to UNDP figures, the estimated population growth rate from 2004 to 2015 will be about 1.8%. Up to 34% of the population is under the age of 15, and only 4.7% is age 65 and older. The United Nations estimates that about 16% of Egypt's population lives below the poverty line. Egypt scores 0.263 in the UNDP's 2007 Gender Equality Measure Index. Egypt is also one of nine countries with the highest illiteracy rates in the world, with adult illiteracy still at about 30%. Egypt scores 0.732 in UNDP's 2007 Education Index. Egypt ranks 116th in UNDP's 2008 Human Development Index (HDI), scoring 0.716. The level of inequality in income and consumption stood at 34.4 in 2004 (more recent data is not available), according to the World Bank's Gini coefficient.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	78845.2	89685.7	107484	130475.7
Growth of GDP	%	4.1	4.5	6.8	7.1
Inflation (CPI)	%	11.3	4.9	7.6	9.3
Unemployment	%	10.3	11.2	10.6	8.9
Foreign direct investment	% of GDP	1.6	6.0	9.3	8.9
Export growth	%	25.3	20.2	21.3	23.3
Import growth	%	17.2	23.8	21.8	28.8
Current account balance	\$ mn.	3921.7	2102.8	2635.4	411.6

		2004	2005	2006	2007
Public debt	\$ mn.	27020.0	25794.0	25495.5	26940.1
External debt	\$ mn.	30955.9	29505.2	28763.1	30444.4
Total debt service	% of GNI	2.5	2.6	2.0	1.8
Cash surplus or deficit	% of GDP	-5.6	-6.4	-7.2	-4.6
Tax Revenue	% of GDP	13.8	14.1	15.8	15.4
Government consumption	% of GDP	12.8	12.7	12.3	11.3
Public expnd. on edu.	% of GDP	4.7	4.8	4.0	3.8
Public expnd. on health	% of GDP	2.3	2.3	2.6	-
R&D expenditure	% of GDP	0.3	0.2	0.3	0.2
Military expenditure	% of GDP	3.0	2.9	2.7	2.5

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Since 2004, the Nazif government has taken measures aimed at key structural reform of its economic institutions. In spite of the new laws and regulations, however, the institutional framework of the market economy in Egypt still suffers from structural deficiencies. In the Index of Economic Freedom 2007 by the Heritage Foundation and the Wall Street Journal, Egypt scores well in the seven factors of economic freedom (fiscal freedom, freedom from government, monetary freedom, top income and corporate tax rates, government tax revenue relative to GDP, total government expenditures). However, Egypt's market framework was deficient in a number of areas (business freedom, financial freedom, property rights, anti-corruption, tariff rates and non-tariff barriers). In these areas, the government made further progress between 2007 and 2009. The 2008 Index of Economic Freedom cites particular progress in the areas of business and financial freedom.

In May 2005, an anti-monopoly law entered into force, which for the first time established a legal framework to ensure freedom of competition. Generally speaking, however, the enforcement of the law depends on the influence of the corporate entity and whether or not it has access to one or more of the inner circles of the ruling elite. A small circle of powerful business clans has benefited from the government's economic reform agenda and has developed into a new power within the country's political structures. Foreign companies, in particular SMEs, might find it difficult to navigate this system.

Market-based competition

Anti-monopoly policy

The liberalization of foreign trade has been an ongoing policy imperative. Egypt's government, through its reform agenda, seems to have strategically committed to furthering the country's integration in the world economy. Egypt's weighted average tariff rate was 13.3% in 2005. However, non-tariff barriers (e.g., import restrictions, import bans, burdensome and non-transparent sanitary as well as phytosanitary measures, custom procedures, customs corruption, and enforcement of intellectual property rights) reflect the government's tendency to protect selected industries, partially motivated by the political influence of local corporate interests and partially out of sense of pseudo-nationalist protectionism.

Liberalization of
foreign trade

Egypt initiated a five-year program to modernize its banking sector with the goal of privatization. The European Union played an important role in this process through its Financial and Investment Sector Cooperation program (FISC). From 2005 to 2008, FISC allocated €15 million for technical assistance. Analysts praise the reformed banking system and consider it as quite resistant to the impact of the current financial crisis. The Central Bank's traditionally conservative policy is another major reason for optimistic expectations.

Banking system

Four 100% state-owned commercial banks (National Bank of Egypt, Bank Misr, Banque du Caire and Bank of Alexandria) used to dominate banking in Egypt. This has begun to change. The Bank of Alexandria was put on sale in October 2006. Deutsche Bank and BNP Paribas were amongst the bidders, and Italian Sanpaolo IMI won out with a bid of \$1.6 billion for an 80% stake. The sale of the Banque du Caire, one of the largest public banks, was postponed in June 2008, when the government failed to sell its 67% stake. Full private-sector ownership, including foreign ownership, is now allowed in banking (as well as insurance). Many large international financial institutions in commercial and investment banking, mutual funds, insurance, and securities trading now operate in Egypt.

One of the shortcomings being addressed recently is the hitherto limited access to credit for the private sector, especially for SMEs.

8 | Currency and Price Stability

Controlling inflation and pursuing an appropriate foreign exchange policy are recognized as central economic objectives of the Egyptian government, which has been trying to raise confidence in the convertibility and stability of the Egyptian pound through various measures. In 2003, the inflation rate was temporarily at less than 5%. In that year, the Egyptian pound was floated after almost a decade of being pegged to the U.S. dollar. Because of the pass-through effect of the large nominal depreciations of 2001 and 2003, inflation temporarily rose to 11.3% until mid-2005, but dropped again in late 2005 below 5%. Since 2006, however, it has been rising to 7.6% and 9.3% in 2007. This rising inflation contributes to social unrest and forces the government to subsidizing goods, a practice it had decided to gradually abandon.

Anti-inflation /
forex policy

The Egyptian government attempts to preserve macroeconomic stability in fiscal and debt policy. Foreign debt and debt service is relatively low and decreasing (from 6.6% in 2004 to 4.9% of the GDP in 2006). Public debt, after having decreased in 2004, has started to rise again. Government spending on subsidies has contributed to persistent fiscal deficits. Following consultations with the IMF, the government agreed to a multi-year framework to reduce the budget deficit. Results have yet to materialize.

Macrostability

Egypt has low personal income and corporate tax rates. The top income and corporate tax rates are at 20%. A special corporate tax of just over 40.55% remains in effect for oil, gas and exploration companies. Other taxes include a value-added tax and a property tax. Since 2003, overall tax revenue has been rising constantly to a level of 15.5% of GDP. This is a result of a widening tax base and improvements in the collection system, including incentives for timely payments.

9 | Private Property

In general, property rights and the regulation of the acquisition of property are adequately defined and protected under Egyptian law, which is based on both Islamic law and the Napoleonic Code. However, the legal code is complex and creates delays. In practice, the undemocratic character of the political and social order and the high levels of corruption in government agencies and the lower courts mean that violations of property rights are still commonplace. The government sometimes uses fast-track military courts to circumvent the judiciary.

Property rights

In the period under review, Egypt started to adopt reforms aimed at simplifying business that relates to property rights. For example, improved administrative procedures for registering property have reduced the time it takes to transfer property in Cairo from 193 days to 72, according to the World Bank's 2009 "Doing Business" report.

Although Egypt began privatizing its economy in the second half of the 1970s and started a World Bank-IMF funded Structural Adjustment Program in 1991, the state sector remains important. State companies control different strategic sectors such as electricity and water supplies. A limited number of influential corporations control other areas. Some of these businessmen have influential positions in the government. The government still controls prices for some basic foods, energy (including fuel), transport and medicine and subsidizes basic food, pharmaceuticals and public transportation.

Private enterprise

The Nazif government has boosted privatization since 2004. Analysts see this as a dramatic acceleration of the privatization program. The new Ministry of Investment, headed by one of Egypt's leading reform advocates, is playing a major role in this

process. Positive examples of privatization measures in former state-controlled sectors are telecommunications, tourism and finance. These sectors are also open to foreign investment. A prominent example of Egypt's increased openness to foreign business is the German airport management company Fraport AG, which won the contract to run Cairo International Airport in February 2005. Egypt's foreign direct investment rates have jumped from 1.6% in 2004 to 6.0% in 2005 and to 9.3% in 2006.

Starting a business in Egypt has clearly become easier over the last years, according to the World Bank's "Doing Business" reports. Starting a business takes an average of seven days, in Egypt compared to the world average of 38 days, according to the 2009 Index of Economic Freedom. Obtaining a business license in Egypt still takes more than the world average of 18 procedures and 225 days. The national bureaucracy and the general regulatory environment still pose impediments to the development of the private sector, as does an almost culturally embedded inclination to look for work in the public sector.

10 | Welfare Regime

Compensatory welfare structures have existed in Egypt since the initiation of economic liberalization and privatization measures. Different governmental funds, partially financed by Western donors, attempt to help the high number of marginalized citizens. However, social safety nets do not meet the needs of the population. With the low levels of government expenditures in health (2.3% in 2006) and education (between 4-5% of GDP in 2006), the safety nets have no chance of compensating the one-third of the population living in poverty and do not keep the pace with population growth and the accompanying hikes in enrollment. In 2008, the government, under pressure of public discontent, raised subsidies for food and energy.

Social safety nets

In the 2005 and 2007 Egypt Human Development Reports, the government, in collaboration with UNDP, tried to develop a strategic vision of how to combat poverty and strengthen social safety in the country. However, the state has still failed to develop a social program to complement its market economy reforms. Against the background of growing tax revenue since 2003, the low level of spending for health and education is alarming.

Islamic movements continue to play an important and growing role in the social safety net. Private health expenditure is also growing.

According to the Egyptian constitution, the state is the guardian of opportunity for all its citizens. Over the years, however, the regime has favored the interests and demand of some social groups over others. Those who were living below the

Equal opportunity

poverty line remained there, while others (e.g., the large bureaucracy) benefited from state services. The economic reform agenda has significantly strengthened a circle of businessmen and corporations.

While economic growth is accelerating, progress in human development is still uneven. According to an International Labor Organization study, young people, the majority of the overall population, are particularly vulnerable to poverty. In a 2005 World Economic Forum study that covered the global gender gap in 58 countries, Egypt ranked last. One positive development is women's increased access to education, especially higher education, and public office. According to a 2006 Freedom House study on Women's Rights in the Middle East and North Africa, women's literacy is expected to improve further. For the majority of Egyptian women, however, the way to empowerment will be long and should not be taken for granted.

The Christian (mostly Coptic) minority is underrepresented in the public sector and faces discrimination.

11 | Economic Performance

In the period between 2007 and 2009, Egypt has managed to achieve good macroeconomic outcomes. Economic growth has accelerated after a period of stagnation between 2000 and 2003 and since the government's economic reform process started in 2004. Strong foreign earnings have been a key driving force. This has been coupled with the implementation of reforms in the exchange rate system, the trade regime, the public sector, the financial sector, as well as in the areas of privatization and transparency. Economic recovery is complemented by a growing domestic demand. Accordingly, on the basis of Egypt's policy reforms related to setting up a business, the World Bank's 2008 "Doing Business" report ranked the country as the top performer across 178 economies. Egypt also made the fastest climb in the overall ranking, jumping 26 ranks in one year. The World Bank's 2009 report confirms this positive development. Real GDP growth has increased from 4.1% (2004) to 7.1% (2007). Real per-capita GDP is significant, but does not translate into increased income for all segments of the population. The economic recovery in the period between 2007 and 2009 has made no significant impact on employment. The official unemployment rate ranges between 10 and 15%, and the level of youth unemployment is significantly higher. Outside observers estimate the unemployment rate to be much higher, at about 20%. Adult women are particularly prone to unemployment with a rate of 25% in 2006. Unemployment rates of university graduates were also on the rise over the last decade.

Output strength

12 | Sustainability

Environmental concerns are relatively new on the public agenda in Egypt. A Ministry of Ecology was created in the 1990s; however, it is considered one of the most marginal positions in the cabinet. Environmental awareness among the population is low. Nevertheless, perceptions have slowly started to change. The 2005 National Human Development Report, a joint report by UNDP and the Institute of National Planning, addresses environmental protection as a key issue for future development. The discussion process on the constitutional amendments initiated by the president in late 2006 also covered the topic, and environmental protection was included in the amended Egyptian constitution in March 2007. Whether this will actually have an impact on policy-making remains unclear. Egypt might follow the examples of other transformation countries with their general development first approach.

Environmental
policy

The Egyptian education system is extremely defective. The country is facing significant population growth and a society with a youthful majority. Education infrastructure cannot absorb these young Egyptians. Despite improvements, the adult (>15) illiteracy rate in Egypt is still at about 30% (youth illiteracy is lower, at about 15%). Public education institutions for basic and advanced education are characterized by structural difficulties, as well as unequal distribution – services are concentrated in urban centers, leaving rural areas bereft. The ruling elite has identified these problems but has not effectively addressed them. Public expenditure on education was less than 4.7% of GDP in 2004 and 4.8% in 2005, but dropped to 4.2% in 2006. Conservatism and to a certain extent trust in the elders rather than the youth dominate the Egyptian thinking about education. Public expenditure on research and technology between 2000 and 2003 was less than 0.2% of the GDP (no new data available in the provided statistics).

Education policy /
R&D

Transformation Management

I. Level of Difficulty

With 75 million inhabitants in 2007, Egypt is the most populated country in the region. Major structural constraints on governance include the high rate of poverty and extreme poverty, in particular among the rural population of Upper Egypt, the poor performance of the education system in a predominantly young country, and the need to create jobs for a society that grows by 1.7% annually.

Structural
constraints

Human and natural resources are available but are not exploited effectively. Labor productivity, especially in the large public sector, is traditionally low and government spending on wages is significant. A network of state institutions and agencies covers almost the entire territory but suffers from low efficiency.

Egypt has proved to be a remarkably stable country despite social cleavage, a fact that can to some extent be traced back to religious and cultural habits. The majority of Egyptians are conservative and deeply religious. This contributes to the reluctance of Egyptian decision makers to lobby for more political reforms. This stagnation is the major structural impediment to change.

In Egypt, traditions of civil society and citizens' engagement in public matters are well-rooted. However, the revolution of 1952 precipitated a transition to authoritarianism. It put an abrupt end to the liberal movements that had developed over the first half of the century and institutionalized the state's control over society to an unprecedented extent. Socialist experiments also had a destructive effect on citizens' self-organization.

Civil society
traditions

The top-down initiation of political and economic liberalization under President Sadat and his successor Mubarak has partially created the space for citizen engagement. Activities are especially encouraged, which relieve the overburdened regime of costly duties. As the state withdraws, the potential for civil engagement is growing. Even if the government secretly sees the necessity for alternatives to a state regulatory framework and rhetorically supports the strengthening of private leadership and a stronger role for civil society, it still avoids substantial changes. Although the 2008 Egypt Human Development Report advocates changing current Law 84/2002 on the role and rights of NGOs, most observers expect a trade-off to

the NGOs' disadvantage. The Ministry of Social Solidarity has initiated a process to revise the existing law. The process included a series of consultation workshops for NGOs in diverse fields. The ministry's objective, reportedly, is to give NGOs a stronger role – but, not surprisingly, under the control of the government.

Egypt has minor conflicts along religious lines between the Muslim majority and Christian (Coptic) minority. In addition, Islamism has become a source of conflict both within and beyond the political realm. Despite the hegemony of the NDP ruling elite, the Islamist opposition inside parliament was significantly strengthened in the 2005 elections. Over the last two years, there has been an increasing polarization between the ruling party and the opposition. The Egyptian state, however, has until now managed to contain the situation.

Conflict intensity

Social dividing lines also engender conflict. Social polarization continues between the rich and politically dominant minority (20% of the population get almost 44% of the GDP) and an excluded majority, of which around 30% live in poverty. The situation might further deteriorate with the government's neoliberal approach to market economy, which does not sufficiently address the deepening social cleavages. Overpopulation and an exponential increase in building and population densities in urban areas are equally important problems. A significant imbalance exists between rural and urban areas, causing rural populations to emigrate toward urban centers in search of employment.

Another potential conflict lies in the question of succession. President Mubarak will most likely not run again in the 2011 elections. The question of his succession will therefore dominate the political arena in the years to come. The regime's objective will be to preserve stability in the country. Without doubt, the opposition and the public want to have their say in the succession.

II. Management Performance

14 | Steering Capability

A general consensus has been achieved around the need for reforms, partly because of external pressure and partly because of the opposition's growing critique. The ruling elite tried to address its chronic lack of a vision for Egypt's future by setting up a long-term strategy for development in the Egypt Human Development Report

Prioritization

2005. The report claims to pursue the goals of democratization in the political sphere and the transformation to a market economy in the socioeconomic sphere. Political reform is clearly subordinate to economic reform and has seen setbacks in the period from 2007 to 2009.

According to the World Bank's 2008 "Doing Business" report, Egypt has been reforming its economy for four years in a row. Priorities were placed on starting a business, registering property, dealing with licenses, getting credit information, trading across borders, paying taxes and protecting investors. The transition to a market economy is approached in a neoliberal sense, that is, as a continuous retreat of the state. Egypt's social security nets, which are supposed to compensate for the societal costs of privatization, are extremely underdeveloped. The political leadership tends to opt for short-term interests in order to serve specific groups even if these interests contradict long-term objectives.

While in previous years democratization meant at least restricted pluralism and a cosmetic façade of modern political institutions and practices, since 2007 the ruling elite has much more openly reversed its decisions concerning political opening. For example, a constitutional amendment in March 2007 ended the supervisory role of the judiciary in elections, which had only been adopted in 2005. Another amendment was adopted that makes it almost impossible for the Muslim Brotherhood to become a political party.

During the period between 2007 and 2009, the government has been effective in initiating economic reforms. Since the state infrastructure covers the whole territory, the bureaucracy, in theory, guarantees nation-wide implementation. In practice, administration is defective and delays frequently occur in the implementation process. This affects Egypt's development and its regional and global competitiveness. In addition, the high degree of centralization has become an impediment to development. The main aim of the 2004 Egypt Human Development Report was to explore the potential of political, administrative and fiscal decentralization. Decentralization has slowly started to being addressed in the field of economic reform and has shown initial results, as pointed out by the World Bank's "Doing Business" 2008 report.

Implementation

In general, Egypt has always been a comparatively conservative country and its perception of time is different from other regions in the world. The country works at a slower pace, a cultural fact with an important impact on transformation. The political leadership, which is not democratically elected or accountable to the legislative or judicial branches, shows little responsiveness to popular needs, even though it faces an increasingly challenge from the Islamist opposition. The regime's strong stability mechanisms make accountability nonexistent. Practically no effective means exist for citizens to take the president or the government to task for their policy choices. Thus, the ruling elite has no real incentive for policy learning.

Policy learning

The West is, to a large extent, part of the problem, as pressure on the Egyptian regime to speed up reforms is low and substantial aid continues to flow into the country. The scale of policy innovation is still small, apart from the reformist group of the ruling NDP and the partial integration of younger technocrats in the current cabinet.

Things are slowly starting to change. The opposition, by monopolizing the discourse about reforms, has become a challenging force for the ruling elite. Since then, the NDP has been trying to regain this reformist territory by both words and action. The pressure of globalization has had a similar impact. Egypt has not been looking at western examples for policy learning. Instead, countries like China and Russia have become important role models. Independent from ideology, statistics and pure data, especially gathered by the Egypt Human Development Report series published since 2002, have become a strong source for policy learning. For example, Egypt's Sixth Five-Year-Plan 2007 – 2012 puts greater emphasis on policies targeting the ultra poor, following recommendations made in the 2005 Development Report.

15 | Resource Efficiency

The government does not use its administrative personnel effectively. Employment in the state sector remains high, and performance is low. As the state apparatus is one of the pillars of the regime's stability, a reduction of state employment and the reform of Egypt's largest interest group would be risky. This is why the state still spends large parts of the budget on wages, grants and subsidies.

Efficient use of assets

Expenditures on research and development are remarkably low. Expenditures on the education system have increased but still do not keep pace with the growing population. The insufficient development of human resources constitutes a core problem in Egypt. There is not enough effort to change young Egyptians pattern of pouring into the state sector. Women are still marginalized and widely ignored as a serious engine for development and growth. Youth, the majority of the population, in general terms, do not receive sufficient attention in economic reform measures. Like the human factor, economic resources are not exploited enough, though new sectors – such as gas resources – have begun to be explored. The economic reform agenda also opens up new avenues.

In general, the Egyptian government tends to be coherent in its policy decisions. The president, because of his strong position and formal control over government, has been an effective instrument of streamlining positions. The president's effectiveness is increased by his personal ties to the reformers in the cabinet through his son Gamal, who is amongst the reform-oriented liberals. Gamal has assembled many reformers in the Party Policy Committee, over which he presides.

Policy coordination

Anti-reform groupings inside the National Democratic Party (NDP) and interest groups of the military, economic and traditional rural elites have the potential to interfere with policy. The government still reacts to their demands. However, in sum, the government has managed to coordinate its policies and contain conflicting interests.

Beyond the NDP, the opposition and the majority of the population are simply excluded from making policy. This means policy coordination only happens within the ruling party and as such is not representative of the Egyptians' will.

The government has initiated various, though limited anti-corruption measures. These insufficient steps must be interpreted against the background of the economic reform agenda, which has shaken up the old economic system. From the regime's perspective, the compensation of various interest groups is a necessary tool to keep stability. Limited access to information through the media – which is either state-owned or tends to focus on scandal-mongering rather than on presenting facts – impedes the public's initiative to hold their officials responsible for their actions. One positive step, however, was the Nazif government's overhaul of the budget accounting methodology, which somewhat improved transparency. In any case, the majority of Egyptians are highly suspicious of the country's political and economic leaders. Bribery (*bakschisch*) is a part of daily life in Egypt.

Anti-corruption
policy

16 | Consensus-Building

The Arab Human Development Reports have impacted on the reform and development discourse in Egypt. More specifically, the Egypt National Human Development Reports Series launched in 1994, recently started to address the obstacles that must be overcome to improve human security, growth and development in Egypt, and aim at establishing a strategic framework for human development as well as a realistic agenda for action. Major political forces, including both the government and opposition movements, share the rhetoric of transformation. In the economic realm, there is a broad consensus on the problems to be addressed in order to achieve a market economy. Opinions differ as to the extent and the method of achieving a social market economy. Prime Minister Nazif and his cabinet's neo-liberal approach represent one option, and the leftist opposition another.

Consensus on goals

The sphere of political reform presents a different picture. The regime has only made very modest steps despite continuous demands from the opposition and civil society for fundamental constitutional amendments. Between 2007 and 2009 it even stepped back. It seems that the ruling elite is hoping for the economic reform process to eventually have a nation-wide impact on the whole society, drawing

away attention from the demand of political reform. In other words, the regime is hoping for a nation-wide consensus on the goal of economic growth, and for the population to rally behind its economic policies.

Anti-democratic actors are to be found within all branches of the regime, especially within the ruling NDP. The party is not a monolithic player. Since 2004, a neoliberal and technocratic prime minister, surrounded by a number of like-minded ministers, has innovated the office. Gamal Mubarak, the president's son, belongs to this younger generation of NDP representatives. In 2002 his father established the NDP's Policy Committee, and made him the first head of it. Thus, Gamal Mubarak holds one of the top postings within the party. Many of the current liberal ministers were members of his Policy Committee. This grouping is competing with what a 2005 Al-Ahram Center for Political and Strategic Studies paper calls the "bureaucratic paradigm." The bureaucrats are the largest interest group and political force in the country. Their convictions are deeply rooted in Egyptian history and go back to the Pharaonic period, when the all-powerful Pharaoh was regarded as the guarantor of the fate of the people. The bureaucrats regard themselves as the guardians of the state and thus reject changes in the system, or only accept changes that strengthen the state and make it more capable of leading and guiding. The classical security paradigm of authoritarian regimes is still dominant within the Egyptian ruling elite.

Anti-democratic
veto actors

It is quite difficult to assess to what extent the Muslim Brotherhood movement can be called anti-democratic. Due to its hierarchical structures and authoritarian mode of leadership the organization itself is not democratic. Yet, for the moment, the Brotherhood is sure to gain from an opening-up of the political system, and decided – therefore – to become part of and to operate within the existing political framework. The question is what would happen if the Brotherhood eventually made it into power? Will it establish a religious state based on Shari'ah, similar to the theocracy in Iran? There are certainly different schools of thought within the movement that are competing for leadership on these questions. This debate has only recently started to take place outside of closed circles, which makes it easier now for analysts to follow the internal and programmatic development of the Muslim Brotherhood.

For a long time there has been no urgent need for the ruling NDP to reconcile conflicting interest groups nor to organize consensus through the means of dialogue and political leadership. Opposition in and outside the political system, cleavages along religious lines or divisions between rich and poor were simply suppressed through the structural dominance of the NDP, or by rigid measures of the security and special court apparatus, but never resolved. This containment works only as long as the ruling elite maintains its strength. Once it is weakened, divisions may break out easily.

Cleavage /
conflict
management

With a growing role of the Muslim Brotherhood opposition in and outside the parliament since 2005 and months of social unrest in 2007 and 2008, the moment has come for the NDP to realize its weaknesses. An immediate reaction of the regime was to come down hard on both the Brotherhood and the protest movements.

Paradoxically, despite a whole number of NGOs, civil society is still weak in Egypt. Civil society actors are either integrated into the political process in a subordinate role – where they serve to legitimate the regime’s interests and policies, thereby making some political gains (namely, fewer legal restrictions on their activities) – or they are excluded, particularly if they are critical of the regime and the regime thus sees no possibility of softly incorporating their perceptions and interests. The engagement of civil society is only permitted in a framework controlled by the state.

Civil society participation

The system is reluctant to integrate outsiders into the policy-making process. An exception is the opening of the government and ministries to liberal-oriented businesspeople (that benefit from being in crucial positions now). Large parts of what Al-Ahram Center calls the “democratic paradigm” – pre-1950 liberals, the globalized intelligentsia, the small but growing middle class, the media, and the modern civil society – remain excluded. Thus, one cannot expect civil society to be a driving force for change in the near future.

There is no process that may address issues related to past injustices.

Reconciliation

17 | International Cooperation

In the Middle East, as well as globally, Egypt belongs to those few countries that have been receiving substantial foreign aid over a long period. Since the end of the 1970s, e.g., the United States spent a total sum of more than \$25 billion in financial assistance. Egypt is benefiting from the European Union’s Euro-Mediterranean policy (since 1995) and its neighborhood policy (since 2004). Egypt is also a member of the “Union for the Mediterranean” founded in July 2008. President Hosni Mubarak is the first co-chair of the Union, along with French President Nicolas Sarkozy.

Effective use of support

Egypt also attempts, at least rhetorically, to champion calls for compliance with international law and the rules of international organizations. It ratified international conventions on human, women’s and children’s rights. However, it is more difficult to find evidence of this progressivism on the ground.

Egypt was the first country in the Middle East that concluded a peace treaty with Israel, a step that gave the country great credit in the west. The government works bilaterally and multilaterally with Western donors and Japan to secure foreign aid.

A well-staffed embassy in Washington D.C. is making sure that every year Egypt receives its annual financial aid package. Egypt has to increasingly face opposition against this aid package within Congress, but has managed so far to maintain the U.S. government's support.

However, apart from a limited number of economic sectors where cooperation with donors has led to substantial policy improvements, Egypt has failed to meet donors' expectations. The European Union in its Neighborhood Policy (ENP) approach is trying to strengthen conditionality in order to pressure for political, economic and social reform, so far with very limited success. Foreign donations have an ambivalent impact, as they tend to cement the status quo and do not provide incentive for the regime to undertake reforms. It can be said that foreign aid to a large extent has nurtured the NDP regime and thus prevented real change.

For major international actors the Egyptian leadership is perceived as one of the most reliable partners in the Middle East. Part of Egypt's credibility is due to the ability of the ruling elite to maintain stability in the country, despite severe societal problems. On the one hand, the ruling elite failed to meet donor's expectations with regard to democratization. But on the other hand, the regime guarantees stability in an ever more unstable Middle East, and the value of stability and security has increased from a Western perspective.

Credibility

The stabilizing role of Egypt has been central in the Israeli-Palestinian front (visible again in its role as a mediator between Israel and Hamas during and in the aftermath of the Gaza war at the end of 2008). A Franco-Egyptian plan paved the way for a ceasefire, and for a while Cairo was the destination of Middle Eastern, European and international shuttle diplomacy. The ruling NDP tried to win back its role as a regional leader. Also, Egypt positioned itself as a valuable broker in relation to regional attitudes toward occupied/liberated Iraq. Notwithstanding, Egypt's ambition to serve as a leader in the region is challenged. Egypt's influence is declining while Saudi Arabia's, and recently also Syria's rises. This does not necessarily weaken the credibility of the regime, but might reduce its usefulness to the West.

A crucial moment will be the succession of Hosni Mubarak expected for 2011. The country will have to prove that it can maintain its stability in a moment of transition.

Egyptian diplomacy from 2007 to 2009 continued its orientation toward accelerated levels of regional cooperation, especially in the economic sphere. Egypt has trade agreements with almost every Arab country. Egypt is one of the four parties of the Agadir Agreement signed in 2004 to establish a Free Trade Zone between the Arab Mediterranean nations (that also comprises Morocco, Tunisia, and Jordan) and signed a Free Trade Agreement with Turkey in 2005.

Regional
cooperation

Egypt has initiated various cooperation projects with regional partners. Recent years have also witnessed a new openness toward Israel, politically and economically. Egypt plays a leading role in regional organizations such as the Arab League, which has its headquarter in Cairo and is presided over by Egyptian Secretary General Amr Moussa that after a long period of decline has risen in importance in recent years, partly due to European initiatives. Egypt also plays a leading role in the Organization of the Islamic Conference, although its significance has been decreasing systematically.

Egypt borders Gaza strip, and cooperates with Israel in monitoring the Gaza-Sinai border in order to prevent smuggling and deter terrorists. However, this reportedly did not prove to be very effective and has been a constant reason of discontent in the Israeli political leadership. Egypt is also a transit country for women trafficked from Eastern Europe to Israel, and a transit point for drugs moving to Europe, Israel and North Africa.

Egypt has settled a border dispute with Sudan in the 1990s, but has faced an influx of refugees due the fragile state beyond its southern border. According to CIA figures, more than 13,000 refugees from Sudan lived in Egypt in 2006, many of them in Cairo, under precarious conditions.

Strategic Outlook

Political reform in Egypt still advances at a slow pace and has recently even seen setbacks. However, with a somewhat stronger opposition, a freer media and more visible protest movements, reform issues are addressed more openly than ever before. But these voices do not matter yet in policy development and implementation, as the ruling elite still has the instruments to put a lid on opposition forces.

In the economic sphere, the Nazif cabinet has undertaken a number of reportedly effective reforms since 2004 to establish a market economy. This process is likely to continue, though the government's economic policy has thus far generally neglected the many pressing social issues.

In sum, the Egyptian system lacks the institutional capacity to design and implement comprehensive political, economic and social reform programs.

The transition to the post-Mubarak era that is most likely to happen in 2011 (or as soon as the president dies) will be a crucial moment for the future development of Egypt. Strategic priorities for Egypt should therefore be as follows:

- Institutional reform: reduce the executive branch's power and establish better checks and balances; place the accreditation of political parties and the supervision of elections under the auspices of the independent judiciary; end the state of emergency that seriously infringes upon civil society's potential and citizens' rights; make the country's institutions more effective in generating and implementing reform measures.
- Become more inclusive: take public and opposition demands for political, economic and social reform more seriously and make reform a shared agenda; strengthen consensus-building on the level of ideas with the opposition rather than isolating it; deal with the de facto rise of the Muslim Brotherhood and make it part of the reform process.
- Work against widening social gaps: increase allocation of resources to education for a fast-growing young population in both urban and rural areas in a decentralized approach; increase financial resources allocated to research and development; work toward a more balanced approach to social market economy that addresses the young, the women, and the (ultra) poor.
- For the opposition: Work on becoming viable and effective alternatives to the ruling NDP, in particular by developing a balanced approach to economic and social reform ("new social contract").

Strategic priorities for the international community as regards Egypt should be:

- Look at Egyptian development more closely than over the past years. The post-Mubarak transition will be crucial and it will pay off to be familiar with intra-Egyptian dynamics,

especially with the Muslim Brotherhood movement.

- Pressure for political reform and human rights (establish greater conditionality of foreign aid).
- Strengthen democratic opposition parties and civil society (that also means listen and talk to Islamist movements, in particular the Muslim Brotherhood); strengthen human interaction with foreign countries, especially as regards young Egyptians.
- Strengthen the freedom of media, internet and the overall quality of journalism (e.g., through programs to educate journalists).