Successful Adjustment and Declining Governance?

The Case of Egypt

Saad Eddin Ibrahim and Hans Lofgren
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Saad Eddin Ibrahim and Hans Lofgren

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Introduction

There is nothing more difficult to arrange, more doubtful of success, and more dangerous to carry through than initiating changes in a state's constitution. The innovator makes enemies of all those who prosper under the older order, and only lukewarm support is forthcoming from those who would prosper under the new. Their support is lukewarm partly from fear of their adversaries, who have the existing laws on their side, and partly because men are generally incredulous, never really trusting new things unless they have tested them by experience. In consequence, whenever those who oppose changes can do so, they attack vigorously, and the defence made by the other side is only lukewarm, so both the innovator and his friends are endangered together.

Niccolo Machiavelli, The Prince, VI.

1.1 Throughout the 1980s, the Mubarak administration postponed any effective initiative of economic reform, while Egypt, like many other developing countries, struggled with the chronic economic ills of severe budget and trade deficits; high inflation; a huge, inefficient public sector; and heavy external debt. By the end of the decade, Egypt's inability to service its debts was the most dramatic of several danger signals.

1.2 The government's reluctance to initiate an economic reform and structural adjustment program (ERSAP) was finally overcome in 1990-91 by a host of regional and international factors, including the direct and indirect financial rewards for Egypt's role on the side of the International Coalition in the Gulf crisis (1990-91) and the promise of canceling a substantial part of the country's external debt. The program was formally ratified in May 1991 through agreements with the IMF and the World Bank, and it has been set in three phases. The first two (1991-93) have been judged by both international institutions as fairly successful, while the third phase is still under way.

1.3 Nevertheless, the government did not manage to organize a strong support constituency for the program, either among the immediate beneficiaries of the changes (primarily businessmen) or in society at large. Even political parties that, in principle, could be expected to welcome the reforms have voiced their dissent over the government's handling of the policy changes. Major opposition parties boycotted President Mubarak's reelection to a third term in October 1993. Labor unrest in the public sectors escalated steadily in 1993 and 1994. At the end of 1993, more than half of Egyptians (sampled in a national survey) felt that their life had deteriorated since the preceding year; two-thirds said it had deteriorated compared with five
years earlier. This period brought an acute increase in the political isolation of the government. Widespread dissatisfaction went beyond the economic policies.

1.4 During the first three years of ERSAP (1991–93), Egypt witnessed an unprecedented wave of politically motivated violence, mainly between Islamic activists and the state. While economic reform is not an explicit target of this violence, both the time coincidence and the concentration of the violence in the country’s most socioeconomically depressed areas cast doubt on the governance capacity of Egypt’s ruling elite, and should be seen as a matter of concern to the future of the economic program.

1.5 Most of the discontented Egyptians are among the short-run "losers" of ERSAP, which reinforces this concern, and include the lower and lower-middle classes (over 75 percent of the population). The most vulnerable of the losers are: (a) the young, educated, and unemployed; (b) the workers and white-collar employees of the public sector and civil service; and c) the rural and urban poor and those dependant on fixed incomes, whose basic needs are largely fulfilled by subsidized goods and services.

1.6 The survival of the regime itself is not at stake; its capacity at the international level has been impressive, and the upsurge of domestic violence, still limited to small numbers, does not pose a threat to order. Some key governance shortages, however, must be rectified. Although Egypt’s ERSAP thus far has proceeded with inadequate governance capacity, it is doubtful that it can continue on the same basis. The program will require increased support in society and active cooperation from both the state bureaucracy and key economic agents. The shortage of political capacity has forced the state to rely disproportionately on its coercive capacity, leading to its growing political isolation. Thus, most important among the governance shortages to be addressed are the severe credibility-legitimacy-effectiveness gap, a deeply alienated civil society, and the consequent sluggish democratization process.

1.7 The Egyptian case provides theoretical and substantive material in support of this research project’s main hypotheses (Atiyas and Frischtak 1993): that positive adjustment may be contingent on effective design and political articulation of a national project that convincingly translates immediate losses into future benefits (material and nonmaterial). One important factor underlying some of the governance shortages in Egypt has been the lack of such a project, or vision, which could have allowed society to understand and relate to government’s policies in a more positive way, rather than just to endure the costs. In a country that had been home to two powerful visions in the past, Mubarak’s personal reluctance and insufficient efforts to provide such a vision left a gap that could be filled by alternative visions, such as that of the Islamic movement.

1.8 To set the stage for Egypt’s ERSAP, a brief review of the country’s socioeconomic performance and its modes of governance during the previous four decades (1952–91) is needed. This account provides a baseline for the visions accompanying both President Nasser’s quest for a “socialist transformation” (1952–70) and President Sadat’s quest for an “open society” (1970–81). Sadat’s administration served as a prelude to Egypt’s ERSAP under Mubarak some ten years later. The nature of the tradeoffs in the competing visions of Nasser and Sadat had become
integral parts of Egypt's socioeconomic landscape, political culture, and collective consciousness. Mubarak attempted a synthesis of these views in his first ten years in office (1981–91). Since 1990, however, he has clearly been tilting toward his own version of Sadat's vision with ERSAP.
Nasser's Vision

2.1 Along with some one hundred officers, Nasser led a military coup d'etat on July 23, 1952, against the royalist regime, which had been perceived by most Egyptians as alien, corrupt, and decadent. He presided over the Free Officers and the Revolutionary Command Council (RCC). This coup evolved into a full-fledged revolution, which was soon positively received by most Egyptians. With its drastic agrarian reform measures (September 1952), dissolution of political parties, abolition of the monarchy, declaration of the Egyptian republic (1953), agreement forcing the British to evacuate the Suez Canal Zone (1954), and setting up of national bodies for streamlining and energizing production and services (1954), Nasser's Free Officers transformed their coup into a full-fledged revolution (Ibrahim 1978).

2.2 Nasser's July Revolution, as it came to be called, compiled an impressive list of achievements: resisting Western military pacts, championing the Non-Alignment Movement (NAM), furthering Pan-Arabism, and instituting ambitious socioeconomic development plans. By 1960–61, the revolution had nationalized most of Egypt's large- and medium-scale economic enterprises, effected another land reform (further reducing maximum ownership from 200 to 100 acres of land for each family), instituted urban housing rent control, and provided free education and health services. These and other measures had vast redistributive effects in favor of the middle and lower classes in urban and rural areas alike. Together these programs were dubbed "socialist transformation," "Arab socialism," or the "Arab application of socialism" (Ibrahim 1978).

2.3 With increasing political controls, restricting basic freedoms and human rights, and nominally running the country through a single party (the Liberation Rally, then the National Union, and finally the Arab Socialist Union, ASU), the regime had all the marks of a developing-country "populism." With Nasser's charisma, marked socioeconomic achievements, and regional and international preeminence well into the late 1960s, this populist formula seemed acceptable to a vast majority of Egyptians. It was a "social contract" that satisfied basic needs, consolidated a sense of social equity, opened the doors for social mobility through meritocracy, and afforded the people pride and dignity as Egyptians and as Arabs. The decade of 1955–65 witnessed a remarkable rate of investment, averaging 17.0 percent, and an equally impressive rate of economic growth, about 7.0 percent annually. Egypt's total civilian debt in 1970 (on Nasser's death) was $1.7 billion, most of which went toward financing the Aswan High Dam and other industrial projects of the first Five-Year Plan (1960–65) (Amin 1994). All young Egyptians were
guaranteed jobs and salaries that would enable them to find housing, start a family, and live decently, though modestly (Ibrahim 1982a).

2.4 The foreign policy of Nasser's populist regime served its overall purpose. In the height of the Cold War years (1950s and 1960s), the regime managed to play a balancing game between the two blocs and to exact the maximum amount of foreign aid from both to finance its ambitious development plans—the Aswan High Dam, industrialization, and an ample wheat supply for the country (Abdel-Khalek 1982). Although steadily tilting toward the Soviets, the regime maintained a credible posture of independence and neutrality in international forums. It also maintained—both in word and in deed—its support and espousal of liberation movements in the Arab, African, and developing countries. Although he created many enemies among Western and pro-Western conservative regimes in the Middle East (for example, Turkey, Iran, and Saudi Arabia), Nasser enjoyed widespread popular support in the region and beyond (Kerr 1971).

2.5 Nasser's populist regime offered a vision and a set of credible policies that ensured smooth governance for at least fifteen years. Nevertheless, the stunning military defeat at the hands of Israel in 1967 raised serious questions about the regime's vision and its policies at home and abroad. Between his defeat (1967) and his death (1970), Nasser began revising both his vision and state policies. Elements of such a revision were foreshadowed in a public document known as the "March 1968 Declaration." The people and the leadership, however, were too absorbed preparing a new war of liberation against the Israeli occupation to put the declaration into effect. His successor, President Sadat, would implement the changes, and in the process he would de-Nasserize Egypt.
Sadat's Vision

3.1 Nasser's death in September 1970 was a source of profound grief, both in Egypt and throughout the Arab World. His successor, President Sadat, did not appear charismatic, resourceful, or forceful. To consolidate his power base and to enhance his legitimacy, Sadat vowed to hold to his predecessor's legacy and to carry on the war of liberation against Israeli occupation. In October 1973 he staged a successful war, which was hailed by the powerful state media as the "October Victory." Feeling more confident, Sadat issued the "October Paper," which included elements of what would be a vision of his own, although it invoked Nasser's "March 1968 Declaration" as its preface. During the following four years, these elements became a full-fledged socioeconomic-political project, which lasted until Sadat's assassination in October 1981.

3.2 Of greatest relevance to our concerns here is that the economic element of Sadat's new vision was the first to be announced and implemented. As with the other elements of his program, Sadat presented it in a token homage to Nasser, asserting that his predecessor would have blessed it, because the policy had been contained in the March 1968 Declaration (Ibrahim 1993a). The economic component of the new Sadat vision was debated, deliberated, and finally formulated into a policy in early 1974, under the title of "Infitah," or "Open-Door Economic Policy" (ODEP).

3.3 ODEP was embodied in Law 43 of 1974, which was designed to encourage private investments, initially Arab and foreign capital, but ultimately Egyptians' funds as well (Law 32 of 1977). It also provided for foreign banks to establish branches in Egypt or to enter into joint banking ventures with their state-owned counterparts. Import-export and currency regulations were markedly liberalized. Egyptians could open accounts in foreign currencies, and remit and transfer without any questions asked (Ibrahim 1993a). Aided by regional developments, mainly the skyrocketing oil prices that followed the October 1973 war, and the resultant rising revenues of Arab oil-exporting countries, ODEP was in many ways quite timely. Millions of Egyptians migrated to the oil-rich countries; they earned, saved, and remitted billions of dollars from the mid-1970s onward (Ibrahim 1982a). Oil-rich countries or their respective development funds also extended grants and loans to Egypt. An estimated $3.0 billion annually poured into Egypt from these two sources alone. Western foreign aid, especially from the United States, averaged about $2.0 billion a year. The annual rate of growth was estimated to be around 8.0 percent of gross domestic product (GDP) during 1975–81 (Amin 1994).
3.4 ODEP was clearly intended to transform Egypt into a more outward-looking, market-capitalist economy. The private sector was to be given a forceful push on par with, or even at the expense of, the huge public sector inherited from the Nasser years. ODEP was initially well received by the vast majority, including the working classes, whose members looked forward to the new opportunities to be found both at home and in neighboring Arab countries (EFLU 1992). More sustained enthusiasm for ODEP would come from the upper and upper-middle classes—the older, landed bourgeoisie; professionals who made fortunes abroad; and senior or retired managers of the public sector eager to move onward and upward. The early years of ODEP also witnessed the sprouting of a new class of businessmen, entrepreneurs, agents, and brokers for foreign corporations. This group would become an additional and substantial constituency for Sadat's ODEP, and it would collaborate with and marry into the older upper classes (Ibrahim 1993a).

3.5 Along with ODEP, Sadat's vision included three other policies. The first was a limited political opening toward a more pluralistic democratic society, with the promise of more to come. Initiated in 1976, multiple forums were first permitted within the single party inherited from the Nasser years, the ASU. Soon after (1977), a multiple-party system was reinstated for the first time since 1952. Although restricted to three, then five, parties, including Sadat's own,\(^1\) most Egyptians welcomed this new political pluralism. It seemed well-suited to the new economic liberalization, but it was also an overdue response to a demand of Egypt's middle classes (Ibrahim 1993a). The new parties were allowed to publish their own newspapers and to compete in elections in 1976 and 1979. Even the Muslim Brotherhood, banned since 1954, was allowed to operate de facto and to issue publications. All the opposition parties took the matter seriously, and the regime's policies were heatedly debated and criticized.

3.6 The opposition parties, however, complained of irregularities in elections and a lack of fairness in access to the electronic media (radio and television), which remained a state monopoly and for the almost exclusive use of the National Democratic Party (NDP), headed by Sadat. By 1979, President Sadat began to display signs of impatience with the opposition parties, especially their disagreement with his peace initiative with Israel and the growing linkages with the West. In the 1979 parliamentary elections, none of the major opposition parties won a single seat. Growing segments of the Egyptian public lost faith in the regime's commitment to democratization. By September 1981, the margin of open, legal dissent had greatly diminished. Several opposition figures were arrested and detained without formal charges between September 3 and September 5, 1981.

3.7 The other two elements of Sadat's vision were related to foreign policy. Immediately after the 1973 October War, the Egyptian regime grew steadily closer to the West, especially the United States. This was clearly a strategic shift after twenty years of close relations with the Soviet Union. Sadat had deliberately cooled those relations as early as 1972.

\(^1\) These were Egypt's Party, and later the National Democratic Party (NDP), presided over by Sadat himself and presented as a "centrist" party; the Liberal Party (LP), presented as "rightists;" the Progressive Unionist Party (PUP), presented as a "leftist" group; the Labor Socialist Party (LSP), presented as left-of-center; and the New Wafd Party (NWP), presented as right-of-center.
when he expelled some 20,000 Soviet experts from Egypt (Ibrahim 1993a). Egypt resumed its diplomatic relations with the United States and started receiving aid following President Nixon's visit in the spring of 1974. By the late 1970s, Egypt would become the second-greatest recipient of U.S. aid, after Israel. The U.S. Agency for International Development (USAID) mission in Cairo also grew to become the largest such mission in the world (Abdel-Khalek 1982).

3.8 Closely related to this strategic shift in global alignment from East to West was President Sadat's reconciliation with Israel. Following the 1973 war, Egypt signed a number of disengagement agreements with the Jewish state. But it was Sadat's historic journey to Israel in November 1977 that would decisively pave the way to a historic compromise between the two countries. Two accords were signed at Camp David in 1978, followed by a full-fledged Peace Treaty in 1979. This brought an end to a thirty-year state of war between the two countries (Ibrahim 1993a). Much of the Arab World was alienated by these swift developments. Egypt's membership in the Arab League was suspended; the League's headquarters were moved from Cairo to Tunis; Arab governmental aid to Egypt was stopped; and diplomatic relations with Arab countries (except Sudan and Oman) were severed. Western aid was increased to make up for the loss, however, and Egyptian laborers in the oil-rich Arab countries and their remittances were not markedly affected.

3.9 All in all, Sadat had managed to package and propagate a vision that was dazzling to most Egyptians. It promised a more open economic system and democratization at home, closer ties with the "advanced West," and regional peace. These policies were promoted by a powerful state media as the vehicle to put an end to the suffering of Egyptians from war and deprivation, and as paving the way to progress and prosperity. Most Egyptians were initially receptive to this vision. Toward the end of the Sadat years, however, they became disillusioned, frustrated, and alienated. The massive food riots of 1977—when the government, on the advice of the IMF, announced the reduction of subsidies to some basic commodities—were an early warning that more trouble was to come (Amin 1982). Although the army was called in to put down the riots and the subsidies were restored, Sadat would not reverse his course; most Egyptians sensed that the legacy of Nasser's egalitarianism had truly gone (Ajami 1982).

3.10 On October 6, 1981, while attending a military parade celebrating the eighth anniversary of the "October Victory," President Sadat was assassinated by a group of the same soldiers he was proudly reviewing. The four years separating the food riots and the assassination witnessed accumulating signs that Sadat's vision was quickly losing its appeal for most Egyptians. Despite the huge flow of foreign aid and remittances, Egyptian external debt had skyrocketed from less than $5.0 billion in 1970 ($1.7 billion civilian debt and an estimated $3.3 billion in military debt), when Sadat ascended to the presidency, to about $30.0 billion in 1981, when he was killed (Amin 1994). The seeds of the mounting Egyptian civilian debt were sown in the 1970-75 period, when it jumped by 350 percent (from $1.7 to $6.3). The annual rate of growth of Egypt's debts in those five years was 23.0 percent, compared with only 9.0 percent in the 1960s (Amin 1994). Tales of corruption among officials in high circles, including members of Sadat's own family, had become rampant. Social equity had worsened. The lower-middle and lower classes found their circumstances increasingly strained, as they witnessed the nouveau
riche flaunting their wealth, thanks to ODEP. Although most Egyptians had not been happy in the late Nasser period, they now lamented those years with nostalgia.
Introduction to the Mubarak Period

4.1 Most Egyptians were torn between the contrasting legacies of Nasser and Sadat, as was the newly elected President, Hosny Mubarak. When Mubarak took over, he was cognizant of the heavy burdens inherited from his predecessors. The heaviest of those burdens was Egypt's economic dilemma. Early in 1982, he convened an economic conference of the country's most renowned economic and political figures. They deliberated for three days, and made several policy recommendations for reforming and revitalizing an ailing economy—curbing imports, reducing the military budget, rationalizing investments, and reducing external borrowing (Amin 1994). According to Egyptian economist Galal Amin, however, "few if any of these recommendations were sincerely followed. Instead, the policies after 1981 remained essentially an extension of those of the 1970s" (Amin 1994, p. 32).

4.2 The reluctance of the regime to act on the policy recommendations was attributed to both Mubarak's extremely cautious style and the emboldened leftist opposition, hostile to economic reform along IMF-World Bank lines. On the one hand, in contrast with his predecessors, Mubarak seemed particularly disinclined to embark on yet another effort at vision-policy orientation. On the other hand, his ambivalence toward the policy changes themselves was undeniable; it stemmed from his perception of the potentially high political costs and uncertainty that these changes entailed, most probably supported by memories of the food riots.

4.3 The result of such reluctance was a rapid accumulation of external debt during the next nine years (1981–90), from $30.0 to 48.0 billion, about 150.0 percent of Egypt's GDP, the highest in modern Egyptian history (Amin 1994). Several noted Egyptian economists sent loud warnings from the mid- to the late 1980s, adding that further delay in implementing economic reform would make things worse for the rulers and the ruled alike, and that the inevitable ERSAP would be more costly (Shihata 1987). In the following section, we will review the unfolding Egyptian economic crisis of the 1980s, which compelled the regime to embark in 1991 on what it had been unwilling to do since 1981. The irony is that the first term of Mubarak's presidency (1981–87) were the years of the regime's optimum governance capacity. There was ample goodwill toward the new president, and few acts of violence or sociopolitical unrest. Domestically, those early years would have been the most promising for the introduction of ERSAP. By the time it was finally done (1991), much of the public goodwill had diminished, and

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2 The previous high was in the 1880s, when external debts were estimated to be equal to 100.0 percent of Egypt's GDP
the regime's capacity had eroded. Mubarak's first term was one of political dynamism and economic stagnation. By the time ERSAP was initiated, the country had already been suffering from six years of political stagnation, which has continued well into the 1990s. This lack of synchronization between the political and the economic has had serious adverse effects on Egyptian society—violence unprecedented in its modern history (since 1897).
Economic Reform: Underlying Causes and Government Discourses

5.1 The government decision to implement a relatively orthodox economic reform program in the early 1990s may be explained with reference to Egypt's economic performance in the preceding period, economic and political changes in the international arena, and domestic politics. The more precise timing of the policy shift was strongly influenced by the economic conditions toward the end of the Gulf War: an expected economic upturn and a comfortable foreign exchange situation increased the political feasibility of the economic reforms.

Egypt's Economic Performance in the 1980s

5.2 Toward the end of the 1980s, it had become clear that the economic policy package of the 1980s was unsustainable in the long run. In the years immediately following the adoption of the open-door policy (1974). Egypt's earnings from its major sources of foreign exchange (foreign aid, tourism, the Suez Canal, worker remittances, and oil exports) grew rapidly, inducing strong growth in the domestic economy. Between the mid-1970s and the mid-1980s, the Sadat-Mubarak regime continued a portion of Nasser's populist policies, including large-scale subsidies for basic goods and services (especially food and energy), mass employment of secondary-school and college graduates in the state bureaucracy, urban rent control, agricultural crop and price controls, and an inefficient and heavily subsidized public sector. The growing imbalances in Egypt's external trade and state budget were financed by foreign exchange. As long as these funds were easily accessible, it was possible to paper over the structural deficiencies in the economy.

5.3 Under the more adverse (but probably more normal) external conditions that have prevailed since the mid-1980s, GNP per capita fell by 10 percent (from $670 in 1986 to $610 in 1990), while the real wage per worker declined by 14 percent between 1986/87 and 1990/91. At the same time, unemployment continued to grow, reaching 15–20 percent, perhaps twice the level of the mid-1970s. Between the mid-1970s and the late 1980s, some 70–90 percent of all
new jobs came from emigration and government employment, two areas in which future expanded employment seemed unlikely.³

5.4 In its dealings with the outside world, Egypt's economic performance had also been bleak. Between 1980 and 1989, the foreign debt increased from $20 billion to $49 billion (World Bank 1991), revealing that the "rents" earned from oil and the country's strategic position were insufficient to maintain an acceptable external balance. At the time of Iraq's invasion of Kuwait, the country's debt arrears (unpaid principal and interest on foreign loans) amounted to some $10 billion (The Economist, April 6, 1991; MEED, May 31, 1991). There was no reason to expect any significant improvements.

5.5 The revolutions in Eastern Europe made the long-run expectations for future foreign exchange inflows even gloomier: the elimination of the West's main political protagonist threatened to reduce the long-term ability of countries such as Egypt to bargain for aid. Suggestions in early 1990 that the United States should reallocate some of its foreign aid from the Middle East (Egypt included) to Eastern Europe confirmed such fears (al-Ahram, October 26, 1991, p. 5; Springborg 1990).⁴

5.6 All these events suggest that the policy package of the 1980s was not sustainable. Falling real incomes and rising unemployment threatened to produce exactly what some feared would be the result of orthodox economic reforms: riots and political instability. On the international stage, Egypt was turning into an eternal beggar for debt forgiveness and emergency loans. In 1990 the International Development Association (IDA), the World Bank affiliate that provides soft loans to the world's poorest countries, reclassified Egypt as belonging to this group, a symbol of the country's deteriorating status (Sherif 1990).

Economic and Political Changes in the International Arena

5.7 The late 1980s saw the rejection of a state-led economy in Eastern Europe and the overthrow of most of the governments that had pursued this path. It also appeared that developing countries with dominant private sectors—most important, a group of Southeast Asian countries—had been more economically successful than others. The resulting international ideological atmosphere was summarized as follows in The Economist (October 12–18, 1991, p. 21): "In the past few years a new consensus on economic policy has emerged. In many respects this consensus looks a lot like 'Bank/Fund orthodoxy.' This change has gone so far that, increasingly, the Bank and the IMF find their borrowers running ahead of their advice in both the scope and pace of economic reform." Following this trend, in his speech on May Day 1991.

¹ Data are based on the following sources: World Bank 1993a (p. 233; GNP growth); CAPMAS 1993 (p. 310) and Central Bank 1993 (p. 94), 1992 (p. 163) (real wages); Handoussa 1991 (pp. 5–6); Richards 1991 (p. 1729); and Assaad 1991 (p. 140) (other labor market conditions). The dangers of relying on migration abroad as a solution to domestic labor market problems were vividly illustrated during the Gulf crisis when some 400–700,000 Egyptians, most of whom were workers, returned in a few months' time (see MEED. July 5, 1991, al-Havat, December 17, 1991)

⁴ Along these lines, former Prime Minister Abdel Aziz Hijazi predicted that the revolutions of Eastern Europe would lead to the reallocation of a large part of Western aid away from the developing world (al-Ahram Weekly, September 5, 1991)
Egyptian President Mubarak came out as a supporter of the IMF and the World Bank, in contrast to statements in the late 1980s, when he compared the IMF to a quack doctor prescribing fatal doses of medicine (al-Ahram, May 2, 1991; MEED, December 6, 1991; The Middle East, July 1989). For Egypt, close relations with the West in general, and the United States in particular, since the mid-1970s had reinforced the new, more favorable view. As part of aid programs, thousands of Egyptians had studied, taken courses, or attended conferences in the United States and in Western Europe, while even larger numbers had benefited materially from aid. Moreover, advice embodying praise of the virtues of a capitalist strategy had been freely bestowed upon the Egyptian elite by innumerable foreign experts and researchers.

At the same time that the international and local ideological atmosphere changed, Egypt's foreign donors and creditors, especially the IMF and the World Bank, strengthened their coordination and stiffened their negotiating positions, partly in reaction to their disappointment with Egypt's failure to implement reforms promised in earlier agreements. Egypt's precarious balance of payments situation enhanced the ability of the IMF and the World Bank to influence domestic economic policy. The IMF required Egypt to implement a large share of the program prior to the signing of the May 1991 standby agreement, including measures designed to reduce the budget deficit and liberalize the foreign exchange rate system (U.S. Embassy 1989; MEED, February 1, February 22, and June 7, 1991). The World Bank's $300 million Structural Adjustment Loan, signed in November of 1991, hinged on the IMF agreement and was to be disbursed in two installments, the second of which depended on World Bank approval of reform measures, especially the privatization program (MEED, January 25, April 26, and July 5 1991; al-Hayat, November 24, 1991). The agreement with the IMF was also a preliminary requirement for the May agreement with the Paris Club on phased debt writeoffs, a 30 percent cut in interest rates on the debt, and the rescheduling of a portion of the remaining debt. Continued debt reductions were conditional on IMF approval of new reform measures (MEED, June 7 and 14, 1991). There were also signs that the Gulf countries would make IMF and World Bank approval a precondition for their future contributions.

Changes in Egypt's position on both the international and Arab stages may also have encouraged orthodox reforms. As noted by Springborg, one consideration behind Egypt's reluctance to fully embrace IMF advice in the late 1980s was its desire to maintain good relations with the Soviet Union and to avoid being seen as a U.S. pawn. This was especially important given Egypt's vulnerable position as the only Arab country that had signed a peace treaty with

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1. The primary reason for the breakdown in the 1987 agreement with the IMF was the government's failure to meet targets for budget deficit reduction (U.S. Embassy 1989).
2. This was in apparent contrast with the situation in 1987, when the United States, in a sudden turnaround, forced the IMF to accept a policy package the United States itself had considered inadequate a few months earlier (Sadowski 1987). David Carr, a USAID economist, asserts that donors in the late 1980s were becoming shrewder in their negotiating tactics with the Egyptian government.
3. It has been reported that the activities of the then declared (but never implemented) $10 billion Gulf Fund—the primary vehicle for Gulf state support to friendly governments—would be partly oriented by the IMF and the World Bank, and focused on direct support to the private sector in countries liberalizing their economies (Baker 1991; al-Hayat, February 5, 1992).
Successful Adjustment and Declining Governance? The Case of Egypt

Israel (Springborg 1989). Such considerations were less valid after the demise of the Soviet Union and the readiness of virtually all Arab governments to conclude peace agreements with Israel.

**Domestic Politics: Reform by Stealth**

5.10 Ultimately, policy changes require political decisions by policymakers who operate in the context of a domestic power balance. One important long-run trend generated by Egypt's open-door policies was the growth of the private sector. By the end of the 1980s, it was clear that this sector had been able to translate its more significant role into political influence.

A comparison between Egypt's organizations for businessmen and its trade unions clearly shows that businessmen had emerged as a strong and unified force relatively independent of government influence since the late 1970s, while the trade unions were under considerable government control. Business also favored most, but not all, of the orthodox reform package, and its members were able to pressure government officials directly. The trade unions, in contrast, were opposed to most elements in the orthodox program, but they were divided. Their stance sometimes depended on whether they represented workers in the public or in the private sector. Since Egypt's General Confederation of Labor in the mid-1980s was regarded as a "veto group," this weakness may have been a necessary condition for the implementation of the orthodox reforms (Bianchi 1986; Qandil 1991).

5.11 While the government may have been subject to long-run pressures, it enjoyed particularly favorable conditions for the initiation of reform, or at least a fair degree of short-run independence. That this was the case may be ascertained by identifying the immediate losers and gainers from major economic policy changes associated with the reform program—the liberalization of interest and foreign exchange rates, the introduction of a sales tax, and the gradual reduction in the real wages of state employees.

5.12 The previous system of fixed interest and foreign exchange rates benefited those who had access to loans and foreign exchange at a discount—the public sector and privileged elements in the private sector. Liberalization in these areas hurt the groups most closely connected with the state machinery, and benefited the more removed portions of the private sector.

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8 One indicator is the private sector share in industrial investment. In 1970-74, it was around 4 percent, in 1975-76 it had more than doubled to around 10 percent, while in the period 1987/88-1991/92, it had reached 49 percent (Central Bank 1992).

9 For example, in the fall of 1991, government resistance to IMF pressure to impose higher taxes on its private sector was attributed to the political leverage wielded by business groups (al-Hayai, November 15, 1991). Awad argues that other government decisions may be explained by the influence of private business groups (1991).

10 Key examples of elements in the economic policies that Egypt's private sector oppose include the structure of import tariffs, the sales tax, credit ceilings, and high interest rates (al-Hayai, November 11, 1991; al-'Alan al-Yawn, December 5, 1991).

11 Along these lines, Hinnebusch (1993) argues that the failure of Egypt's government to pursue reforms in 1980s was not because of lost autonomy, but reflected the absence of a national "project" guiding policy.
Similarly, the introduction of the sales tax was to the immediate detriment of most of the population. Those who lost from the policy of gradually reducing the real incomes of the employees of the state were some 30 percent of Egypt's labor force. Neither the sales tax nor the reduction of civil service incomes had immediate beneficiaries. The gain may be a gradual improvement in macroeconomic performance—lower inflation, higher growth, and a lower foreign deficit. These policies, therefore, hurt groups that were closely connected with the state, an observation that supports the evidence of short-run government autonomy.

5.13 Such a conclusion can be explained by the findings of Grindle and Thomas (1991). On the basis of a large number of case studies of reform in the developing world, they found that governments in a state of perceived crisis enjoy a fair degree of short-run autonomy. They argue that, in crisis, the senior policymakers are more strongly involved in making the decisions and the government less likely to be the captive of micropolitical and bureaucratic concerns. Following their argument, to the extent that the Egyptian state (and its executive arm, the government) enjoyed a very short period of autonomy beginning in 1991 and its policy elite saw a crisis, effective resistance to reform was quite limited, at least for the first two years. It was only in 1993 and 1994 that we begin to observe serious labor unrest (for example, Kafr el-Dawar textile industry).

5.14 Moreover, compared with the 1980s, the early 1990s suggest that government policy management had improved somewhat, at least in the fiscal area. The policymakers also perceived a quiescent population that would make serious political instability unlikely. Fear that reform would cause a repetition of the widespread food riots of January 1977 had been a major obstacle to reform, according to both the Egyptian government and analysts. The improvement in economic policy management was evident from the timing and the manner in which unpopular policy changes had been introduced. A key government practice has been referred to as "reform by stealth": subsidies are maintained but the subsidized items themselves gradually disappear and are replaced by slightly modified and costlier items (Waterbury 1989). Another practice, exemplified by the introduction of price hikes and a general sales tax at the start of Eid al-Fitr (a religious holiday) in 1991, is to choose major holidays as the time to announce unpopular new policies, presumably on the assumption that people are less likely to take to the streets at such a time (MEED, April 26, 1991).

5.15 The government has also struggled to make the new economic reforms more palatable by giving them a stamp of "Egyptianness"—although supported by the IMF, Egypt's...
economic policies are presented as locally designed. One reflection of this was the announcement of a "1,000-day" program of economic liberalization in December 1990, some five months before the conclusion of the agreement with the IMF. Another indication is Mubarak's insistence that, while the advice of the IMF is wise and welcome, the ideas behind the reforms are "purely Egyptian" (al-Ahram, May 2, 1991).

5.16 This relatively skilled public relations management stands in sharp contrast to the manner in which the subsidy cuts of January 1977 were announced as part of an agreement with a foreign agent, the IMF. Since then the government has been able to introduce more substantial subsidy cuts than those of January of 1977 without political instability. Along with Wahba, one may therefore conclude that the riots of 1977 should be viewed more as a reaction to the style with which the subsidy cuts were announced than to the cuts per se (Wahba 1989). It may also be argued that in the eleven interim years (1977-91), Egyptians have become less accustomed to governmental "largess."

5.17 Another consideration encouraging the introduction of the 1991 economic reforms was the absence in Parliament of the major opposition parties (the New Wafd and Labor-Islamic parties) and the weakness of the other parties, which suggested that there was no serious threat to political stability. Most other dissident groups apparently lacked the ability to mobilize a population that was unorganized and appeared "apathetic" (Youssif 1991; Springborg 1989). If disturbances had occurred, the government was, and still is, much better equipped than it was in 1977 to handle them.

The Timing of the Economic Policy Shift

5.18 The more precise timing of the policy shift was probably linked to the Gulf War. After its conclusion, an expected economic upturn and a relatively comfortable foreign exchange situation increased the political feasibility of the orthodox reform package. In general, feasibility increases for any reform package if conditions are not immediately perceived as getting worse after the reform begins. Orthodox reform programs are at a disadvantage because they tend to shrink economic activity, at least in the short run. During the Gulf Crisis, the producing sectors and the general public (as opposed to the government) went through some bad times because of a

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15 Youssif (1991) has properly noted that this raises a number of important questions for research. Which social groups are most strongly affected by the current economic reforms? What is their capacity to hinder or influence the reforms? The ultimate danger to the present order would arise if economic grievances were successfully utilized by an ideologically based organization able to mobilize the great mass of the population, such as the movement behind the Iranian Revolution (see Waterbury 1989).

16 The term "apathy" is used by Springborg (1989), Brumberg (1989), and Abdalla (1991) when describing the Egyptian public. This author does not agree with the above proposition in view of empirical evidence of several uprisings, riots, and politically motivated violence in the 1970s, 1980s, and early 1990s, as will be shown later.

17 This is most clearly manifested by the emergency laws (in effect since Sadat's assassination in 1981), extended for another three years in May 1991. When commenting on the 1991 extension, Interior Minister Moussa linked it directly to the economy, saying that they were needed "to secure our internal front, and this is vital for economic reform" (MEED, June 7, 1991). Ayoubi (1982) notes that government preparations in this area were upgraded after the 1977 riots. The quick response to the Katr al-Dawar labor unrest (see footnote 14) lends support to this observation.
decline in foreign exchange earnings from tourism and worker remittances, higher transportation costs for international trade, and an uncertain economic climate. Other things being equal, a general upturn would have been expected in the aftermath of the war as conditions went back to normal, including the return of tourists to Egypt and Egyptian workers to the Gulf.

During the Gulf War contributions received from Western and Arab governments doubled official foreign exchange reserves (MEED, May 3, 1991). In the same period, Egypt was forgiven debts to the United States and Arab Gulf countries amounting to some $14 billion. After the agreement with the IMF, the Paris Club decided to cut Egypt's foreign debt gradually by another $10 billion, and to reschedule and cut interest rates on $10 billion of the remaining debt. In addition, Egypt's major donors promised increased foreign aid over the next few years (while doubts prevailed regarding the longer run). Together this meant that Egypt's debt service burden had diminished significantly and that the country's future foreign exchange situation was quite comfortable, making it possible to avoid rapid devaluation of the Egyptian pound while permitting it to float in a relatively unregulated market (Shihata 1993; Amin 1994). Nominal exchange rate stability has the benefits of stabilizing the economy, increasing Egypt's creditworthiness, reducing capital flight, and limiting inflationary pressures from cost increases for imported goods. But as noted later in this chapter, the pursuit of nominal exchange rate stability may be highly questionable for a country with higher inflation than its major trading partners.

These factors—a stable currency and the multiplier effects of increasing foreign exchange earnings from tourism and migrant workers—were not a result of the government's policy shift. Their combined impact was nevertheless to make the new policies more palatable to the Egyptian public than would otherwise have been the case. Nevertheless, the same considerations would also have made it easier to continue for some time without any reforms—there is no urgent need to change anything when the economy is improving and plenty of foreign exchange is available. Thus, while these two factors may be necessary conditions for a change in economic policy, they are by no means sufficient and should be viewed in the context of the international and domestic conditions discussed earlier.

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18 Accordingly, at the time of the reforms and in spite of their implementation, the expected real GDP growth rates for 1991 and 1992 were not very different from those of the late 1980s (EIU Country Report 3, 1991).

19 Thus, after the debt cuts from the United States and the Gulf states, the foreign debt had fallen to $35 billion (MEED, February 15, 1991). Assuming that the Paris Club cuts are implemented in full, Egypt's foreign debt in mid-1991 was around $25 billion.
The Economy Since 1991: Policies and Trends

6.1 This section provides a more detailed account of the reform program and its effects. The discussion covers stabilization policy and performance, structural adjustment policies, problem areas, and prospects for future economic policy.

Stabilization Policy and Performance

6.2 Some indicators of recent trends in stabilization policy and their effects are shown in Table 1. A major shift in this area is a substantial reduction in the government budget deficit. According to Central Bank data, it fell from 15 percent of GDP in the most recent prereform years to roughly 4 percent in 1991/92 and 1992/93.²⁰ This drop is the product of both spending cuts (the steady reduction of subsidies to energy and selected food products) and revenue-boosting measures (Shihata 1993). In the latter area, the 1991 introduction of a general sales tax is a major contributor. The previous “consumption tax” accounted for LE 3.4 billion in 1990/91. Increased and renamed a “sales tax,” it more than doubled two years later (1992/93) to LE 7.4 billion. All tax revenues grew from LE 7.8 billion to 13.3 billion in the same period (an increase of 71 percent). In spending, the state reduced its subsidies to goods and services from LE 4.5 billion to 3.8 billion (16 percent) in the one year immediately following the beginning of ERSAP. As a result of canceling some of its external debt in 1991, the debt service decreased from LE 5.0 billion to LE 4.6 billion between 1991 and 1992. Public investment has not suffered as a result. On the contrary, it showed a steady increase in the two years following the implementation of ERSAP.

6.3 The money supply growth rate (according to the narrow M1 measure) is slightly downward, reflecting, in part, that since 1991 the government budget deficit has been financed primarily by weekly treasury bill auctions, a clear break from past reliance on borrowing from the Central Bank (Central Bank 1992). While interest rates were previously permitted to fluctuate within narrow limits, in 1991 banks were given the freedom to set virtually all deposit and lending rates. In practice, the interest rates on treasury bills have provided an anchor for bank interest rates. As a result, interest rates on bank deposits are close to or slightly above the

²⁰ According to IMF data and definitions, the deficits were 6.4 percent and 4.7 percent of GDP in 1991/92 and 1992/93, respectively (EIU Country Profile 1993). For 1993/94, the IMF target is 2.6 percent (EIU Country Report 1, 1994)

### Table 1. Indicators of Recent Stabilization Policy and Performance

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Government spending*</td>
<td>43.6</td>
<td>43.5</td>
<td>37.9</td>
<td>40.9</td>
<td>34.2</td>
<td>33.9</td>
</tr>
<tr>
<td>Government revenue*</td>
<td>25.9</td>
<td>27.7</td>
<td>22.8</td>
<td>25.7</td>
<td>29.8</td>
<td>30.4</td>
</tr>
<tr>
<td>Budget deficit</td>
<td>17.6</td>
<td>15.8</td>
<td>15.1</td>
<td>15.2</td>
<td>4.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Money supply (M1)</td>
<td>12.8</td>
<td>9.2</td>
<td>16.6</td>
<td>8.1</td>
<td>8.8</td>
<td>12.1</td>
</tr>
<tr>
<td>Inflation (percent/yr, CPI)</td>
<td>17.6</td>
<td>21.3</td>
<td>16.8</td>
<td>19.8</td>
<td>15.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Real GDP (percent growth/yr)*</td>
<td>3.9</td>
<td>3.0</td>
<td>2.6</td>
<td>2.3</td>
<td>2.8</td>
<td>na</td>
</tr>
<tr>
<td>Earlier estimates</td>
<td>5.4</td>
<td>5.0</td>
<td>5.7</td>
<td>1.1</td>
<td>4.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Revised estimates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account surplus* ($mill)</td>
<td>-544</td>
<td>-469</td>
<td>-634</td>
<td>1.373</td>
<td>3.737</td>
<td>4.774</td>
</tr>
</tbody>
</table>


#### 6.4 Policies related to the foreign exchange rate have also changed. In February of 1991, the government merged the multiple rates of the earlier policy regime to a single rate and depreciated the Egyptian pound by 10 percent against the U.S. dollar (*MEED*, March 15, 1991). The capital account was also liberalized (that is, most restrictions on access and transfers abroad were removed for dollars and other currencies), putting an end to a flourishing black market (EIU *Country Report* 3/1992; Giugale 1992). Since then, government exchange rate policy has aimed at maintaining a stable nominal Egyptian pound rate in relation to the dollar, a goal achieved through Central Bank interventions in the currency market (EIU *Country Report* 4/1992).

#### 6.5 Lower budget deficits and money supply growth, higher interest rates, and the shift from gradual depreciation to a fixed nominal exchange rate have brought about a lower rate of inflation. Data on annual real GDP growth are very uncertain, as illustrated by the display of

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21 In preceding years, when official rates overvalued the Egyptian pound, there was excess demand and (nonprice) rationing of dollars, giving rise to a large black market. Among the rationales for capital account liberalization are encouragement of foreign direct investments and discouragement of capital flight.
two alternative series in Table 1. Both series show positive growth, averaging 2.3 percent in the early 1990s. Nevertheless, uncertainty about the growth rate is compounded by the strong presence of an informal sector, which lacks a precise record of size and growth rate. The standard assessment is that its size corresponds to 25–50 percent of GDP (U.S. Embassy 1994; EIU Country Profile 1993/94). Recent acts of Islamist violence, primarily aimed at government officials, tourists, and Copts, have deprived the economy of foreign exchange earnings from tourism and worsened the investment climate.

### Table 2. Desegregated Current Account Data

($ million; 1990 = 100)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>Value</td>
<td>Index</td>
<td>Value</td>
<td>Index</td>
<td>Value</td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil</td>
<td>1,066</td>
<td>87</td>
<td>1,229</td>
<td>100</td>
<td>1,971</td>
</tr>
<tr>
<td>Other goods</td>
<td>1,631</td>
<td>85</td>
<td>1,916</td>
<td>100</td>
<td>1,916</td>
</tr>
<tr>
<td>Suez</td>
<td>1,307</td>
<td>89</td>
<td>1,472</td>
<td>100</td>
<td>1,662</td>
</tr>
<tr>
<td>Tourism</td>
<td>901</td>
<td>84</td>
<td>1,072</td>
<td>100</td>
<td>931</td>
</tr>
<tr>
<td>Other services</td>
<td>4,046</td>
<td>95</td>
<td>4,239</td>
<td>100</td>
<td>5,093</td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>711</td>
<td>65</td>
<td>1,094</td>
<td>100</td>
<td>1,487</td>
</tr>
<tr>
<td>Private</td>
<td>3,532</td>
<td>94</td>
<td>3,743</td>
<td>100</td>
<td>3,751</td>
</tr>
<tr>
<td>Total</td>
<td>13,194</td>
<td>89</td>
<td>14,764</td>
<td>100</td>
<td>16,810</td>
</tr>
<tr>
<td>Spending</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td>10,361</td>
<td>91</td>
<td>11,441</td>
<td>100</td>
<td>11,425</td>
</tr>
<tr>
<td>Services</td>
<td>3,302</td>
<td>83</td>
<td>3,957</td>
<td>100</td>
<td>4,012</td>
</tr>
<tr>
<td>Total</td>
<td>13,662</td>
<td>89</td>
<td>15,398</td>
<td>100</td>
<td>15,437</td>
</tr>
<tr>
<td>Balances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td>-7,664</td>
<td>92</td>
<td>-8,296</td>
<td>100</td>
<td>-7,538</td>
</tr>
<tr>
<td>Services</td>
<td>2,952</td>
<td>104</td>
<td>2,826</td>
<td>100</td>
<td>3,673</td>
</tr>
<tr>
<td>Transfers</td>
<td>4,243</td>
<td>88</td>
<td>4,836</td>
<td>100</td>
<td>5,238</td>
</tr>
<tr>
<td>Current account</td>
<td>-469</td>
<td>-634</td>
<td>-1,373</td>
<td>-3,737</td>
<td>-4,664</td>
</tr>
</tbody>
</table>

Note: Data are for fiscal years (1989 = 1988/89, and so forth).

Sources: Central Bank Annual Reports, various years.

### 6.6

For the first time in decades, Egypt has positive real interest rates. A combination of liberalized capital flows, nominal interest rates far above international levels, and the expectation of a stable nominal exchange rate led to a much higher real return from placing funds

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22 These are not the only alternatives. As an example, according to the World Bank (1993), the real GDP growth rates were 2.5 percent (1989/90), 2.3 percent (1990/91), and 0.3 percent (1991/92). The EIU estimate for 1992/93 is 0.5 percent (EIU Country Report 1/1994).
24 Successful Adjustment and Declining Governance? The Case of Egypt

in Egyptian pounds compared with dollars or other major currencies. The result was a strong incentive for workers abroad to remit current earnings back home (Shihata 1993). Together with the exceptional circumstances during the 1990–91 Gulf Crisis (high oil prices and large transfers to the government), this has led to a positive net on the current account of the balance of payments in 1990/91–1992/93, as illustrated in Table 2. Additional inflows on the capital account were also encouraged, leading to large short-term capital inflows. Taken together, these developments have generated a large increase in Egypt's foreign currency reserves, from $2.7 billion in 1990 to an unprecedented $17 billion in the second half of 1993 (EIU Country Profile 1993/94).

Structural Change

6.7 In the area of structural change, the shift in policy direction has targeted pricing policy, foreign trade, public sector reform, privatization, and the conditions for private sector activities. In the reform program, the overall purpose is to get closer to a competitive market economy where producers and consumers face prices that approximate the opportunity costs for traded goods based on the international price level (Shihata 1993).

Administrative Price Controls

6.8 Since the beginning of the reforms, Egypt has witnessed significant changes in price and foreign trade policy. Among the goods with administrative price controls are petroleum products, which were raised from 35 percent to 80 percent of the international level between 1990 and the end of 1992, and electricity, which increased from 22 percent to 69 percent of the long-run marginal cost (that is, the marginal cost of additional production capacity) (Richards 1991; U.S. Embassy 1993). For the industrial sector, all prices except those of pharmaceuticals and a few other goods have been decontrolled (U.S. Embassy 1993). Subsidies on controlled food prices were reduced substantially in 1991 and 1992, although the socially and politically important bread subsidy remains largely intact (EIU Country Profile 1992/93; MEED, July 10, 1992). In the agricultural sector, subsidies for most inputs were terminated (EIU Country Report 2/1993). Between 1990 and 1992, cotton prices rose from 50 percent to 66 percent of the international level, and in 1993 the price was above the international level for some varieties (EIU Country Profile 1993/94; U.S. Embassy 1994).

23 For example, if the investor kept her funds in U.S. dollars, they would grow at a rate of 3 percent yearly; if shifted into Egyptian pounds for one year and subsequently transferred back into dollars (at a fixed nominal exchange rate), the growth rate would be 15 percent (ignoring transaction costs), in 92/93.
Table 3. Recent Changes in Foreign Trade Policies

<table>
<thead>
<tr>
<th>Policy</th>
<th>Prereform (1990/91)</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export bans</td>
<td>20 goods</td>
<td>2 goods</td>
</tr>
<tr>
<td>Export permits</td>
<td>37 goods</td>
<td>abolished</td>
</tr>
<tr>
<td>Import bans</td>
<td>111 goods</td>
<td>26 goods</td>
</tr>
<tr>
<td>Standard minimum</td>
<td>1 - 240%</td>
<td>10 - 70%</td>
</tr>
<tr>
<td>and maximum tariffs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Foreign Trade

Table 3 shows that nontariff and tariff barriers to foreign trade have been reduced significantly. Other things being equal, this means that new export opportunities have been opened up and local production has become more exposed to competition from imports.

Public Enterprise Reform

In 1991 a reorganization of the public sector was initiated. More than 300 public companies are now subsidiaries under independent holding companies, which have replaced the general organizations that controlled state enterprises along the lines of government ministries. In principle, the companies are to be run along commercial lines, competing on equal terms with the private sector. Companies may be leased or sold to the private sector (MEED, June 28, and August 23, 1991, March 12, 1993; U.S. Embassy 1992; EIU Country Report 4/1992). The impact of the reform on the management of public sector companies is not yet clear. This is also the case for the privatization process—completed sales of public sector companies have so far been limited to a few hotels, land assets, two bottling plants, and small projects owned by the governorates (MEED, March 12, 1993; al-Hayat, January 4, 1993; U.S. Embassy 1994). A small percentage of the share capital of a large number of public companies has also been sold.

The privatization issue is highly controversial. There are fears that, given the absence of clear limits on sales to foreigners, national independence will suffer. The notion that the private sector is more efficient than the public sector is also contested (Abdel-Khalek 1992). Moreover, the determination of what constitutes the "true" value of the companies is hotly disputed (Badawi 1993; Maraghi 1993). Other factors that have limited the extent of privatization thus far are concerns that it will generate higher unemployment and the negative impact of the downturn in tourism on the value of some of the most attractive assets. In addition to government hesitation, another factor that has slowed privatization is the complicated and time-consuming bidding procedure. Outside pressures to privatize have been reduced by Egypt's current agreement with the World Bank, which stipulates that the government is not obliged to

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24 Close to fifty state-owned companies active in the following areas will be unaffected by the law: military production, oil banks, iron and steel, aluminum, and the Suez Canal (MEED, June 28, 1991).
sell any assets if the offer is considered unfair, after objective evaluation (EIU Country Report 1/1994).

6.12 It seems, nevertheless, that conditions for the private sector have improved. One indicator is stronger guarantees for investors and less complicated investment approval procedures. In 1991, legal automatic approvals were issued for investments in all areas except those included on a "negative" list, which is being shortened (U.S. Embassy 1991; MEED, June 7 and 21, 1991; EIU Country Profile 1992/93; EIU Country Report 1/1994). In agriculture, controls on the cropping pattern have been lifted step-by-step; in 1993, they were limited to cotton and sugarcane (EIU Country Profile 1992/93).

Problems and Future Prospects

Policy Dilemmas in International Trade and Finance

6.13 Significant success in both stabilization and structural adjustment notwithstanding, major short- and medium-run problems are found in the area of foreign trade and exchange rate management. The aim of reducing Egypt's chronic deficit in goods trade has not been fulfilled (see Table 2), depriving the domestic economy of an important potential source of demand stimulation during a period of contractionary policies. Any reduction in the goods trade deficit is made difficult by recent exchange rate appreciation. Although Egypt's inflation has been higher than that of its main trading partners, the Egyptian pound has remained relatively stable in nominal terms in relation to the currencies of these countries. This combination of circumstances undermines the competitiveness of Egypt's production of tradables (exports and import substitutes). Accordingly, domestic producers find it increasingly difficult to face foreign competition (al-Ahram Weekly, February 4 and April 8–14, 1993). The continuation of this exchange rate policy may undermine the political viability of import liberalization. One may fear that the industries most successful in securing protection from foreign competition are those with the most political clout, not those with the strongest economic rationale for protection—for example, a strong future export potential.

6.14 This arrangement cannot continue for long. Sooner or later expectations of a nominal depreciation will build up (unless trade liberalization is discontinued), encouraging capital flight, turning depreciation into a self-fulfilling prophecy, and causing a severe blow to

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25 This concern has been expressed by the IMF (EIU Country Report 4, 1992).

26 According to the World Bank (1993a), the Egyptian pound appreciated in real effective terms by 25 percent between 1991 and 1993. That nonoil exports have been stagnant since 1989/90 may be an indicator that the exchange rate is overvalued (see floor discussion of Corden's paper. Corden 1991)

27 da Silva Lopes (1989) suggests that reduced protection against imports be accompanied by depreciation—since the devaluation in February of 1991, Egypt has done the opposite. Handoussa (1990) strongly emphasizes that Egypt's manufactured exports are highly sensitive to the real exchange rate and that poor export performance in the 1980s was partly the result of an overvalued exchange rate. It is, however, striking that the debate in the Egyptian press is focused on tariff changes and the removal of import bans, not on the very crucial issue of the appreciating real exchange rate.
the buildup of confidence in the Egyptian pound.\textsuperscript{28} The result—real exchange rate instability without much impact on the long-run level of the nominal exchange rate—is likely to reduce long-run growth (Corden 1991). To minimize the risk of instability, it is essential to cut inflation further, encourage exports, and, at an appropriate time, devalue the currency to restore competitiveness. After these steps have been taken, the experience of many countries speaks in favor of a shift to a policy of maintaining a stable real exchange rate through frequent changes in the nominal rate to account for inflation differentials, perhaps by a crawling peg arrangement (da Silva Lopes 1989; Dornbusch 1991; Edwards 1992).\textsuperscript{29}

\textbf{The Distributional Impact of Reforms}

6.15 With a GNP per capita of about $600–700, Egypt is a border case; it falls between the low- and lower middle-income countries, as determined by the World Bank classification. According to UNDP's broader Human Development Indicator, Egypt in 1993 was ranked 124 out of 173 countries on the basis of data for 1990 (INP 1994).\textsuperscript{30} Some 20–25 percent of the population may live on a total monthly income below a poverty line of $350 (EIU Country Profile 1993/94). The information suggests that the size distribution of income is relatively equitable (compared with other developing countries) and stable over time; in the 1980s it may have deteriorated slightly (INP 1994). In the absence of direct data on poverty and income distribution, the social impact of reforms will be examined through indirect indicators, displayed in Table 4.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|c|}
\hline
\hline
Wages (percent of GDP) & 36.8 & 35.5 & 32.8 & 26.1 & 27.0 \\
Real wage (91/92 LE) & 2,973 & 2,741 & 2,678 & 2,513 & 2,586 \\
Subsidies (percent of GDP) & 3.4 & 4.3 & 5.0 & 5.2 & 2.6 \\
\hline
\end{tabular}
\caption{Indicators of Social Impact of Reforms}
\end{table}

\textit{Note:} Data are for fiscal years (1989 = 1988/89, and so forth). The wage share is the share of GDP at factor cost paid to labor, using current LE data except for 1992/93, for which 1991/92 LE data were used. The real wage is computed as total employment divided by total labor income, adjusted for changes in urban CPI. In 1991/92, the exchange rate was LE3.33 per U.S. dollar.


6.16 The share of GDP at factor cost accruing to labor (with the remainder represented by rents for capital and land) is positively related to income equality on the reasonable

\textsuperscript{28} In this context, it is important to emphasize that the large capital inflows of recent years were attracted by a higher expected return from investment in Egyptian pounds compared with other currencies. These inflows may turn into outflows at short notice if the expected return on pounds declines—for example, because of an expected devaluation. This danger is intensified whenever Egypt's foreign exchange earnings decline for exogenous and noneconomic reasons, such as the recent weak oil market and a fall in tourism revenues.

\textsuperscript{29} For a crawling peg, the rate of depreciation would approximately equal the difference between the rates of inflation in the country in question and its major trading partners.

\textsuperscript{30} UNDP's Human Development Indicator is a composite measure based on life expectancy at birth, adult literacy rate, and real per capita GDP adjusted for the purchasing power ratio (INP 1994).
assumption that labor income is more evenly distributed than other factor incomes. Also, if labor income represents a predominant share of the incomes of poor groups, changes in real wages should be positively related to poverty elimination. Table 4 shows that the share of wages in GDP declined in 1989–92, with a significant drop between 1991 and 1992. Real wages were also declining, but no significant drop is observed for the reform period. The marginal increase in both indicators in 1993 fails to compensate for the losses of the previous years. Finally, subsidies, which increased as a percentage of GDP until 1992, declined sharply in 1993. Given that subsidized goods, primarily foodstuffs, represent a relatively large share of the expenditures of low-income households, these cuts have had a negative effect on the real incomes of these households, both in absolute terms and in relation to better-off groups. Data limitations notwithstanding, it seems safe to conclude that the overall short-term effect of reforms on income equality, and on the incomes of more vulnerable groups, has been negative.

**Missing Prerequisites for Long-Run Growth**

6.17 It is widely agreed that a highly skilled labor force is a prerequisite for rapid and broad-based growth (Amin 1987; Shapiro and Taylor 1990; Fischer and Thomas 1990). As previously noted, in 1993 Egypt ranked 124 out of 173 countries according to UNDP’s Human Development Index, a ranking that the Institute of National Planning considers “both unsatisfactory and indicative of a faltering human development status” (INP 1994, p. 13). The GDP share for government spending on education and health is commonly used as a proxy for the relative emphasis on investment in human capital. Data presented by the INP suggest that, between 1986/87 and 1991/92, this share fell from 5.7 percent to 5.2 percent (INP 1994). Although the numbers are slightly different in Table 5, it is clear that current government investments in human development are insufficient to bring about any significant qualitative improvement. Moreover, there is reason to fear that the nutritional and health standards of Egypt’s poorest groups suffer as a result of general subsidy cuts in the absence of income growth or a social security network for the neediest.

6.18 Along with investments in Egypt’s human resources, high levels of efficient physical investments are essential for rapid growth. As shown in Table 5, the GDP share for gross fixed capital formation (that is, investment in physical capital) declined between 1988/89 and 1991/92, according to both earlier and revised estimates, a trend that continued in 1992/93. One consequence of increased reliance on markets and the private sector is that the government has relinquished some of its control over investment levels—a strong upsurge in business investment requires, and would reinforce, growth and optimism about the future.

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31 Amin asserts that “most wage earners, taken as a whole, belong to the lower- or middle-income groups” and that “income equality is thus positively related to the share of wages in GDP” (1987, p 101). Similarly, the Institute of National Planning points to higher rents relative to wage income as a source of inequality (INP 1994).

32 The same conclusion also holds if government subsidies are measured in real LE or real LE per capita. The subsidy figures reflect budgetary outlays that are only approximate indicators of actual subsidy value due to bank borrowing and repayments by the subsidizing agency. The trend is also the same if, alternatively, the subsidies are measured by budgetary authorizations (EIL ‘Country Profile’ 1993/94)
Table 5. Indicators of the Prospects for Long-Run Growth
(percent of GDP at market prices)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Government spending on health &amp; education</td>
<td>5.0</td>
<td>n.a.</td>
<td>6.2</td>
<td>5.7</td>
<td>6.1</td>
</tr>
<tr>
<td>GFC</td>
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<tr>
<td>Earlier estimates</td>
<td>28.1</td>
<td>26.0</td>
<td>22.3</td>
<td>17.9</td>
<td>n.a.</td>
</tr>
<tr>
<td>Revised estimates</td>
<td>30.1</td>
<td>27.6</td>
<td>25.0</td>
<td>20.6</td>
<td>18.2</td>
</tr>
</tbody>
</table>

n.a. Not available.

Note: Data are for fiscal years (1989 = 1988/89, and so forth). GFCF = Gross Fixed Capital Formation. Information is computed on the basis of current LE data except for 1992/93 GFCF, which is based on 1991/92 LE. Current GDP at market prices for 1992/93 (used for health and education data) is based on an EIU estimate.


Credibility Issues

6.19 The credibility of the government in carrying out a program depends on its perceived commitment and ability to implement it. Given the emphasis on the private sector in the Egyptian program, credibility is particularly necessary to convince this sector to embark on virtually irreversible capital investments in activities that would be profitable in a more liberal environment. If in doubt about future policies, private investors have the option of keeping their capital in liquid form, thereby adding to economic stagnation. If they conclude that liberalization will be discontinued, they may invest in activities that are profitable under restrictive current policies, thereby reducing the gains from, and adding to the resistance to, future liberalization (Cooper 1991; Dornbusch 1991; Fischer and Thomas 1990).

6.20 Credibility was boosted by the prompt initiation of a series of measures in 1991, as well as continued cuts in the budget deficit. The conditional support for the reforms from the IMF and the World Bank, with associated carrots and sticks, added to this boost (Dornbusch 1991; Cooper 1991). Nevertheless, it soon became clear that the Egyptian government had opted for a very gradual—and slow—implementation of the reform program. From the perspective of credibility, gradualism is a double-edged sword, particularly if it is unconvincing as a strategy, but instead is perceived as ambivalence. On the positive side, a gradual reform program has a better chance of short-run political survival; it is easier to monitor the effects, and respond. In addition, there is more time for labor to move between sectors in response to liberalization measures, which minimizes transitional unemployment and related negative political repercussions. At the same time, if change is introduced very slowly and with great hesitation, credibility may suffer as doubts arise that the government ever intends to implement the program (Bruno 1988). Unfortunately, this pattern can be recognized in Egypt: hesitant implementation of trade liberalization, public sector reform, and privatization have been the subject of continuous complaints from economists as well as the World Bank and the IMF.
Successful Adjustment and Declining Governance? The Case of Egypt

(MEED, March 5 and May 28 1993; EIU 2/1993; al-Hayat, February 27, 1993). Moreover, one gets the impression that some important reform measures have been implemented primarily in response to pressures from the IMF and the World Bank; this creates doubts about whether the reforms would continue in the absence of such pressure.

Future Policies

6.21 At the time this chapter is being written, October 1994, it seems that government economic policy over the next few years will be an extension of the policy shift pursued since 1991, although it will proceed at an even slower pace. Government budget and monetary policies will remain tight, assisted by increased revenues as energy prices get closer to their international equivalents.

6.22 In response to political instability, the government budget will probably emphasize security and social programs, including services and infrastructure for low-income areas. Trade liberalization and privatization will proceed in a gradual fashion, accompanied by a marginal depreciation of the Egyptian pound. It seems that most of the remaining subsidies (primarily on bread and cooking oil) will be retained. A new labor law is expected to follow that will give employers more freedom to hire and fire. Policies along these lines were codified in a new three-year agreement with the IMF in September 1993, and in an agreement with the World Bank on a Structural Adjustment Monitoring Program in the same month. The IMF was to determine in June 1994 whether Egypt, up to that point, had implemented the program in order to effect a third and final cut in the debt of $4 billion (EIU Country Report 4/1993), but the IMF recommendation was postponed for later in the year. There seems to be a difference between the IMF and the World Bank in the assessment of Egypt's progress in implementing the reform package.

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33 Slowness has also been the hallmark of the Social Fund for Development, which is intended to facilitate structural adjustment by supporting small, labor-intensive projects and public works, among other programs. In its first year, it did not implement or support a single project. It has become more active recently: by January 1994, it had disbursed $97 million out of $613 million in donor pledges, creating a claimed 95,000 jobs (some of which are temporary) (al-Hayat, December 10, 1992; U.S. Embassy 1992, 1994). Nevertheless, the limited size of the fund and the absence of an effective social security network add to government hesitation about reforms that have short-run negative social effects.

34 In 1991, the budget deficit reduction and the foreign exchange reform were preconditions for the IMF agreement (MEED, February 1, 22, and June 7, 1991; U.S. Embassy 1991). Energy prices were raised in the summer of 1992 after an IMF decision to suspend the second review of its agreement for three months (MEED, July 10, 1992). In March 1993, trade liberalization and steps toward privatization led to the release of the second tranche of the World Bank Structural Adjustment Loan (MEED, March 12, 1993). Along these lines, the former Minister of Planning, Muhammed al-Imam, has stated that "reform, until now, has taken place unwillingly and under some kind of pressure and without a clear view" (al-Ahram, August 13, 1993).


36 In December 1993 a new unified income tax law was passed by the Parliament. According to this law, taxes are divided into three categories—salary tax, movable capital tax, and a unified tax on commercial and industrial profits and noncommercial income. The effect on revenue is unclear, while many rates are lowered, tax evasion may also be reduced (EIU Country Report 1/1994; U.S. Embassy 1994).
The pace of change, however, is expected to slow further for two primary reasons. First, as a result of domestic political instability the government will become more cautious. Second, the structural reforms that have not yet been implemented or completed—privatization and trade liberalization—are politically more difficult. It thus can be expected that, compared with what has already been achieved in the reform agenda, the remaining components of policy reform will present stronger challenges to both the political and technical capacity of the government. Moreover, after the expected third and final round of debt cuts later in 1994, the leverage of the IMF and the World Bank over Egypt's economic policies will be reduced, which should add to the slowdown.

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3 As an indicator of this slowdown, the government in early June 1994 announced its postponement of the two future stages of broadening the sales tax to the wholesale sector, and later to a full value added tax (al-Ahram, June 2, 1994. EIU: Country Report 1/1994).
Governance Capacity and Egypt's ERSAP

7.1 In this section we look at governance capacity—for which "vision" is often the moral and spiritual locomotive. One of the main hypotheses of this research project predicates the success of ERSAP on an accompanying effective "vision" advanced by the ruling elite (Atiyas and Frischtak 1993). A "vision" is defined as the political articulation of national objectives or a national project, inspiring and mobilizing large segments of the public behind a set of policies derived from the vision or perceived to be instrumental in attaining it. It is normal that a vision and its concomitant policies promise greater, but somewhat delayed, new gratification than that previously promised by an older one. In this sense a vision may be thought of as a promissory note of later compensators for immediate sacrifices.

7.2 When President Mubarak came to power, Egyptians' collective memory already had been tuned to two, though quite different, visions—Nasser's and Sadat's. Egyptians had initially received both visions with enthusiasm, but were profoundly disappointed toward the end. The payoff was either too small or outright negative for most Egyptians. Mubarak was cognizant of the fate of his predecessors and their respective visions. On several occasions during his first term in office (1981–87), Mubarak made known his aversion to ideologies, slogans, big words, and what he once called "sales of dreams which often turn into illusions and disappointments." He had to be frank and to level with his people (Mubarak, May 1, 1982).

Mubarak's Reluctant Search for a Vision

7.3 Despite his noted aversion to vision-making, Mubarak could not altogether avoid it. Whatever Mubarak could achieve politically would be de facto hailed as if it were a part of a "vision." The efforts, however, were as systematic, not consistently backed by policy initiatives, and never added up to a comprehensive and clear message. In his first year in office, the emphasis was on the "cleansed or purified society" (Mugtam'a attahara, Mubarak, July 23, 1982). This was in an obvious reference to combating corruption, which was said to be rampant in the last years of President Sadat. The regime investigated and brought to trial several public

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38 In an audience with the author on April 19, 1982, President Mubarak poked fun at those who try to persuade him to adopt a "national project" (Mashrou'a Qawmi).
and semi-public figures on charges of corruption, including the brother of his predecessor (Ismat Sadat).

7.4 Also among Mubarak's early slogans were "production," "productivity," "combating waste," and correcting the "excesses" of the Open-Door Economic Policy (ODEP or \textit{Infitah}) (Mubarak 1982, October 6). It was clear that the economy was an obsession with the new president. He saw in its streamlining and invigoration, "the key to all of Egypt's other problems" (Mubarak's speech to the Economic Conference, February 22, 1982). While he remained cautious in effecting any major policy change, however, he continued to exhort Egyptians to "produce more and consume less for the sake of Egypt" (Mubarak, May 1, 1983). Toward the end of his first term (1986), Mubarak saw Egyptian revenues, from both oil and remittances, decline sharply. Despite changing his prime minister and the cabinet members responsible for the economy at least three times, Egypt's economy did not show marked signs of improvement. Nevertheless, the Mubarak regime continued to borrow from abroad and to resist the ERSAP suggested by the IMF and the World Bank. Regionally and domestically, the regime was doing fairly well. Egypt was steadily normalizing its relations with the rest of the Arab World, thanks to the Iraq-Iran War, which made the Arab Gulf countries appreciate Egypt's strategic assets more than ever. Some one million Egyptians were working in Iraq, and Egypt was exporting some $1.0 billion worth of weapons and ammunition annually to Iraq (ASR 1987). Domestically, public opinion (including major opposition parties) continued to lend general support to President Mubarak, hailing his integrity, despite expressed misgivings about some governmental policies and cabinet members (ASR 1986). These achievements seemed to reinforce Mubarak's cautious orientation and his aversion to developing an overall "political vision."

7.5 With his second term (1987–93), President Mubarak began to use overarching slogans in his political discourse—for example, the need and call for a "National Awakening" (\textit{al-Sahwah}) and the "Big National Renaissance" (\textit{al-Nahdah}). With the economy still dominating his discourse, Mubarak began to call for curbing population growth, reforming education, and emphasizing science and technology as imperatives for entering the twenty-first century (May 1, 1987, October 6, 1988; July 23, 1989). Completing the full rehabilitation of Egypt in the Arab World (1989), Mubarak added to his public discourse "regional peace and cooperation" as integral parts of Egypt's strategy for the future (ASR 1989, pp. 558–69). These regional dimensions of a budding vision coincided with the formation in 1989 of the Arab Cooperation Council (ACC) comprising Egypt, Iraq, Jordan, and Yemen. The emphasis on Arab links bore some resemblance to that of Nasser's vision, but without the militant ideological edge. At the time it seemed to promise an Arab Common Market that would give Egypt a vital economic sphere—that is, direct aid and outlets for its surplus labor, bringing greater remittances. This fledgling vision and the hopes it raised were short-lived, however, and ended with the Gulf Crisis (1990–91) following Iraq's invasion of Kuwait. Egypt opposed its three partners in the ACC (Iraq, Jordan, and Yemen) and sided with the Gulf Arab countries and the Western-led International Coalition (Mubarak, December 15, 1990).
In 1991 Mubarak’s public discourse reasserted the value of his earlier caution in enacting measures of gradual political and economic change at home. In a self-congratulatory tone, Egypt’s orderly change was contrasted with the disorderly change in Algeria and the Soviet Union. Egypt’s leadership in regional affairs and its stature in international forums were highlighted by Mubarak and the state media (Mubarak, March 3, 1991). The promise of additional foreign aid and cancellation of some external debts, during and shortly after the Gulf Crisis, were presented as a reward and vindication of Egypt’s leadership and sound policies. That being the case, Egypt could confidently embark on the more deliberate economic reform that is urgently needed, but "home-initiated, formulated, and consented to by the IMF and the World Bank" and not the other way around (Mubarak, May 1, 1991). Egypt was to continue its leading role in the Arab World, the Middle East, and Africa as a peacemaker and a bulwark of stability.

Piecing these elements together, the shape of a vision of sorts was barely discernible as the Mubarak regime began its ERSAP. The message was one of "Egypt’s national independence being consolidated politically and economically. Its regional leadership was asserted as a stable and strong peacemaker. Its future was charted on a reformed, sound economic base. Its education and manpower were to be revamped in preparation for the twenty-first century, while the basic needs of its poor and equity for all assured" (Mubarak, July 23, 1992). Meanwhile, the regime has continued to pride itself on "respecting basic freedoms and orderly democracy" (Mubarak, May 1, 1991).

Test of Capacity: ERSAP Packaging

The biggest concern of the regime in the implementation of ERSAP has been the working class. The consent of the middle classes and the support of the upper class were—mistakenly—taken for granted. Mubarak has been keen on eliciting the support of organized labor for ERSAP, or at least neutralizing its opposition. He regularly attends the Labor Day celebration (May 1st) organized by Egypt’s Federation of Labor Unions (EFLU). His second most important constituency has been Egyptian private investors. He has repeatedly visited their new industrial projects and held lengthy meetings with them in the new industrial towns (for example, Tenth of Ramadan and Sixth of October). The elements discussed below have been standard in Mubarak’s public discourse.

Fear-Arousing Appeal

Mubarak went to great lengths to show that without economic reform, the country would collapse: "without any exaggeration, our situation is awesomely frightening. . . . For decades we have been consuming more than we are producing, and borrowing more than our ability to pay back. We are losing the trust of international financial institutions. The only other alternative to serious economic reform is total breakdown" (Mubarak, May 1, 1992). Economic reform was described as a bitter medicine, or even an "inevitable evil" (Mubarak, May 1, 1993). This fear-arousing technique was relatively effective during the first year of implementing
ERSAP. There were very few expressions of labor unrest in 1991 (thirty incidents), but by 1992 and 1993, labor discontent grew dramatically (137 and 183 incidents, respectively) (ASR 1991–93).

**Blaming Previous Regimes and Their Policies**

7.10 Nasser blamed the prerevolutionary regime for neglecting the poor, the working classes, and the industrialization of Egypt; hence his remedy was "Socialist Transformation." Sadat blamed some of Nasser's policies for "closing Egypt" and the flight of national and foreign investors; hence his remedy of the "Infitah" or Open-Door Economic Policy (ODEP). Mubarak blamed all three previous regimes: "It is our destiny to reform the structural imbalances accumulating since the end of World War II" (May 1, 1989). Nasser's public sector and massive subsidies were blamed for losses and debts. Sadat's ODEP was blamed for "excessive conspicuous consumerism and parasitic wealth in the hands of the few" (Mubarak, May 1, 1991).

**Evoking Patriotism**

7.11 In expounding the urgent need for economic reform, on public occasions Mubarak would reiterate how the working class has always been the vanguard of the Egyptian people in the great national battles of the past, and would restate his confidence that this will continue. "National pride soars with every product bearing 'Made in Egypt.' . . . Every drop of a worker's sweat is like every soldier's drop of blood, all for the renaissance of Egypt" (May 1, 1990). Mubarak would also emphasize that the proposed ERSAP is "an Egyptian scheme, blood and flesh, dictated by our own need assessment, taking our own social reality into account. . . . We are not doing it in response to dictation from international creditors or institutions" (Mubarak 1989). He would remind his fellow citizens of the economic conference he convened upon assuming office, emphasizing that economic reform has been high on his agenda and that he had tried his best to make it as gradual and as bearable as possible, until the time came for some harsh but inevitable measures (May 1, 1993).

**Assuring Workers’ Interests**

7.12 With ERSAP under way in the spring of 1991, Mubarak assured workers and public sector employees that neither their jobs nor their incomes would be adversely affected. If there is to be any privatization, "the government would make sure that no single worker will be out of a job. This is to be ensured through a variety of means, including retraining and rehiring" (Mubarak, May 1, 1992). The Egyptian president has been keen to promote ERSAP as "the only way to protect the real wage value against inflation; to generate more productive jobs for our youngsters; and to insure a better future for Egypt" (Mubarak, May 1, 1993).

**Support for Low-Income Groups**

7.13 Mubarak promised that during the "short hard times ahead, subsidies for bread will not be removed, we are planning to raise wages and salaries, but without sacrificing the objective of budget deficit reduction, which could only be done with production and productivity
increase. . . . We are committed to helping the honest Egyptian citizen achieve his legitimate aspiration for a better life and to minimize his burdens. For that reason the Social Fund has been created. It is to extend aid to limited income groups and easy credit to youth to start their own small enterprises" (Mubarak, May 1, 1991).

**Warning Against Neglect or Sabotage**

7.14 Preparing workers for the hard times ahead, Mubarak asserted that he was keen on involving workers as "full partners in coping with the economic problems and challenges facing the country" (May 1, 1989), but reminded workers of past attempts of "the unpatriotic few to back-stab the country in times of difficulties to no avail, thanks to the majority of workers shielding national production" (May 1, 1991). He expressed his confidence that the Egyptian working class would remain alert and vigilant against irresponsible acts of neglect or sabotage (May 1, 1991). Apparently such warnings had a limited effect after the first year of ERSAP. The *Arab Strategic Report* did not report a single act of labor sabotage in 1991, but reported seventy-six in 1992 and eighty in 1993 (ASR 1991–93).

**Mobilization of Investors**

7.15 Mubarak frequently implored well-to-do Egyptians to save and invest at home, considering it a patriotic duty. In return, he assured them that it was his "duty to remove bureaucratic obstacles, pass the necessary laws and decrees to create the proper investment climate for them" (May 1, 1990). Cabinet members often accompany the president on his field visits to new investment projects, listen to complaints or requests, and often react to them on the spot, or immediately after the visit. All of this would be shown on the state television. This approach has had moderate success. A substantial part of the business community is still skeptical of the government's total commitment to ERSAP, however, as indicated earlier.

**Labor-Business Accord**

7.16 The Mubarak regime persuaded labor and business leaders to hold joint meetings in the late 1980s and early 1990s to review suggested ERSAP. By early 1991, a draft of a labor-business accord was issued, committing them to cooperation, both with one another and the state to see Egypt through its economic difficulties. The accord was circulated and widely debated. Some members of EFLU had reservations; they felt it was tilted in favor of business (ASR 1991). But the regime used the nonbinding accord as a broad-based consensus on its anticipated ERSAP.

**Privatization and Workers' Partnership**

7.17 The Mubarak regime has floated plans for public sector workers and employees to become shareholders in the newly privatized companies. This is to be done through easy credit from state banks or the Social Fund (ASR 1992). Government officials have gone to great lengths to assure workers and the public at large that such privatization is meant to improve management and raise productivity—"strategic industries" would not be privatized or sold to
foreign investors, only "losing companies" will be put up for sale, and Egyptian and Arab investors would be given priority as buyers. The issue of privatization and schemes for public sector and worker partnership have been the subject of a lively debate in the last two years (Wahba 1994).

**Future Compensators**

7.18 The Biblical story of Joseph's vision of "seven lean years in Pharaonic Egypt to be followed by years of prosperity" was invoked by Mubarak as he implored Egyptians to work harder, consume less, and be patient. "We should all have good reasons for optimism after the few lean years needed to get out of the current bottleneck . . . we will all be better off in the years of plenty which lie ahead" (Mubarak, May 1, 1992).

7.19 President Mubarak has been the main, if not the only, spokesman and advocate in the packaging and promoting of ERSAP. The ruling elite have confined themselves to carrying out orders and implementing the ERSAP measures. To the extent that they spoke out at all, they displayed marked differences. Before the cabinet reshuffling in October 1993, four ministers ventured to address ERSAP. Two of them, the Minister of Industry, Mohammed Abdel Wahab, and the Minister of Labor, Assem Abdel-Haq, often contended that only losing public sector companies would be privatized and none would be liquidated (ASR 1991, 1992: interviews with the author in 1993). Two other cabinet members, Ahmed Sultan of Tourism and Atef Ebeid of Administrative Development, assured the Egyptian private sector, foreign investors, and international creditors that privatization was a general strategy that applied to all public companies, whether in bad or good shape (ASR 1991, 1992). Such discordant voices, all from the same government, left the citizens at home and interested parties abroad quite confused, at least during the first two years of ERSAP. After the reelection of President Mubarak to a third term and the formation of a new cabinet (October 1993), much of the discord has diminished.

7.20 To what extent has the packaging and promotion of ERSAP been effective with the salient forces of Egyptian society? As indicated earlier, the Mubarak regime has been particularly keen on pacifying or neutralizing labor and winning over investors and the business class. It has also been attempting to neutralize opposition parties.

**Public Discourse over ERSAP**

7.21 When the Mubarak regime started ERSAP in 1991, it was already in its tenth year in office. Mubarak's packaging and promotion of ERSAP seems to have been lacking in effectiveness with the opposition. All major opposition parties and other social forces have had something negative to say about it. The right-of-center political parties, mainly the New Wafd Party (NWP) and the Liberal Party (LP), while agreeing with the need and principle of liberal economic reform, have expressed serious misgivings on its implementation, and more often on the absence of "political reform" that should have preceded or at least accompanied it. The left-of-center political forces, mainly the Arab Democratic Nasserite Party (ADNP) and the Progressive Unionist Party (PUP), have objected to ERSAP in principle, particularly because of
the absence of "social reform" that should have preceded or accompanied it. More serious challenges, however, would come from trade unions, labor groups, and the Islamic camp, mainly the Socialist Labor Party (SLP), the Muslim Brothers (MB), and other militant Islamic groups. Below, we will sketch the reactions of these groups to ERSAP, in particular, and the Mubarak regime, in general, in the last three years of its implementation (1991–94).

**Labor's Response to ERSAP**

7.22 The modern Egyptian working class grew rapidly in the Nasser years (1952–70), thanks to his ambitious industrialization policy. Despite the many socioeconomic benefits for the working class under Nasser, he restricted their political autonomy in his corporate-style system. All trade unions were grouped by activity sector in one general union (for example, the General Union of Textile Workers Syndicates). All general unions were then organized in one "Egyptian Federation of Labor Unions" (EFLU) as of 1957. Despite this loss of autonomy, the Egyptian working class felt secure under Nasser. They were accorded benefits they had not asked for, or even aspired to gain (such as stipulating in the Constitution that a mandatory minimum of 50 percent of the seats in all elected bodies be reserved for workers and peasants after 1961). Following the 1961 Socialist Laws, a separate Ministry of Labor (MOL) was created, and it has become customary for the president of EFLU to assume the cabinet portfolio. Thus, the top leadership of EFLU was pacified by the regime. Under Sadat and Mubarak, however, organized labor has experienced growing alienation. The 1977 food riots, for example, were triggered by groups of workers on their way from a downtown Cairo commuter train station to the Helwan industrial district (20 kilometers south of the capital) (EFLU 1992).

7.23 During the first year of ERSAP, EFLU and its constituent general unions engaged the state in intensive discussions about the newly enacted Law 203 of 1991, the Public Business Sector Law, which was to overhaul state-owned companies. It provided for the creation of 30 holding companies with some 300 subsidiaries, and it gave their management broader and more flexible authority to reorganize and become more competitive to survive on their own, without state subsidy. Implicit and explicit in the parliamentary and public debate of Law 203 was the understanding that should a public company fail to live up to competitive market forces within a specified period, it would be sold or liquidated. Understandably, the new law created waves of negative reaction within the Egyptian working class, and there were many attempts by the regime and the top leadership of EFLU to allay the apprehensions and fears of workers (EFLU 1992).

7.24 In the second year of ERSAP (1992), some of those fears materialized. The Nile Company for Exporting Agricultural Crops (NCEAC) and the bigger and older Eastern Cotton Company were liquidated. Disputes, sit-ins, and demonstrations erupted in both companies. EFLU appealed to the prime minister, then to the president, to reconsider the liquidation decisions (ASR 1993; EFLU 1992).

7.25 Law 203 and its implementation have become the main point of disagreement between the regime and organized labor. The regime's strategy of not reversing any of its ERSAP laws and measures has had several repercussions, including a growing, though silent, tension between the top leadership of EFLU and the regime, between EFLU and its constituent...
general unions, and between several general unions and their individual syndicates and local worker committees. Each level of the EFLU structure invariably charges the level just above with not standing firm enough on workers’ rights (ASR 1993).

7.26 With ERSAP well under way, it has become obvious that the corporate structure of EFLU is no longer functional. The constituent parts of EFLU have been increasingly acting on their own to defend their rights. They petition, demand, hold rallies, have sit-ins, stage strikes, and demonstrate without permission or support from the upper levels of EFLU. Workers’ petitions and demands involve the right to participate in decisions bearing on the future of their companies, immunity from arrest for engaging in peaceful demonstrations, and support funds for striking workers. Many of the strikes, sit-ins, and demonstrations reported since 1990 have to do with these union demands, but have focused more specifically on wages, firings, and the liquidations of whole companies. The Arab Strategic Report (ASR) listed workers’ strikes, demonstrations, and sabotage as having risen from 10 in 1990, to 30 in 1991, to 137 in 1992, and to 183 in 1993—a 1,830 percent increase in four years, as shown in Table 6 (ASR 1990, 1991, 1992). The eighteenfold increase in labor unrest between 1990 and 1993 has created an ominous side-effect: the Central Security Forces (CSF), specialized in quelling uprisings and mass rioting, have been called in with increasing frequency to break workers’ strikes and demonstrations. They were called upon three times in 1991 and eleven times in 1993. While no one was reported killed, many were wounded. It is worth noting that no serious acts of sabotage were reported, despite the rising incidents of labor unrest. Egypt’s privatization program is still in its early stages. Some 200 public companies are to be privatized in 1994-95 (al-Ahram, June 15, 1994). Should these plans go forward, more labor unrest is to be expected.

Table 6. Expressions of Egypt’s Labor Unrest, 1990-93

<table>
<thead>
<tr>
<th>Type of unrest</th>
<th>1990</th>
<th>1991</th>
<th>1992</th>
<th>1993</th>
<th>Increase (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strikes</td>
<td>8</td>
<td>26</td>
<td>28</td>
<td>63</td>
<td>788</td>
</tr>
<tr>
<td>Demonstrations</td>
<td>2</td>
<td>4</td>
<td>33</td>
<td>40</td>
<td>2,000</td>
</tr>
<tr>
<td>Acts of sabotage</td>
<td>0</td>
<td>0</td>
<td>76</td>
<td>80</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>30</strong></td>
<td><strong>137</strong></td>
<td><strong>183</strong></td>
<td><strong>1,830</strong></td>
</tr>
</tbody>
</table>

Source: Compiled from item listing of Al-Ahram’s Arab Strategic Report (ASR).

The Opposition Parties and ERSAP

7.27 Egypt currently has thirteen legally licensed political parties. Other than the ruling NDP, only five have any political weight. In order of importance, as indicated by previous election results, they are: the New Wafd Party (NWP), the Arab Nasserite Democratic Party (ADNP), the Socialist Labor Party (SLP), the Progressive Unionist Party (PUP), and the Liberal Party (LP). The other seven are too small or too new to have any impact on the current Egyptian

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39 Law 40 of 1977 regulates the establishment of political parties. The law is very restrictive and places the licensing squarely in a government committee dominated by the ruling party. Nine of the existing thirteen parties were initially denied licensing, and they had to go to court to get it.
political scene. We will only outline here the discourse advanced by the five significant opposition parties over ERSAP and the Mubarak regime.

7.28 The NWP and LP are in general agreement with the Mubarak regime on the need for ERSAP. The NWP predates the 1952 Revolution; it goes back to the 1919 Revolution. Although dissolved by decree in 1954, it resurfaced in 1977 when a multiparty system was reinstated. It has a well-established liberal tradition, and it now represents the old, landed bourgeoisie; the well-to-do professionals; and the upper-middle class. The LP's constituency consists of middle-class professionals and small entrepreneurs. The NWP's objection is not to the principles of ERSAP, but to its implementation in a totally "unhealthy political situation, at the hands of an unqualified, inept, and corrupt ruling regime" (Abraza 1994).

7.29 The NWP also believes that "because the regime has dragged its feet for ten years, it now has to accept the humiliating conditions of the IMF and other international creditors. This has meant a hasty implementation of economic reform which has led to grave sociopolitical consequences." Among the latter is growing discontent, some of which is expressed in armed resistance to authority. This, in turn, has led the government to become more dictatorial. Thus, "we are now suffering from two evils: The regime's dictatorship and counter-violence, and the terrorism of some of the discontented" (Abaza 1994). The way out of this dual predicament was outlined recently by NWP Chairman Fou'ad Serag Eldin: "The prerequisite of successful economic, social, and educational reform is political reform, which means constitutional change to ensure fair and honest elections under judiciary supervision and peaceful change of government" (Serag Eldin 1994).

7.30 The same NWP views on ERSAP are echoed by the smaller LP. The only added emphasis by the LP is its concern over the harm that some of the ERSAP's measures may cause to Egypt's budding industrial capitalism—for example, the reduction or removal of tariff protection. LP has also been vocal against the sales tax (introduced in 1992), because it was imposed across the board, including inputs of production, which raises prices for end-users of Egyptian products at home and makes them less competitive on the international market. As the LP leader puts it, "such contradictions are evidence that the NDP policymakers are inept and self-defeating" (Murad 1994).

7.31 Neither the NWP nor the LP perceive the Mubarak regime as having a well-articulated "national project," or a broad-based consensus around ERSAP or any of its other public policies. Spokesmen for both parties view ERSAP as "a stop-gap measure done under external pressure and not out of real conviction" (Abaza 1994; Murad 1994). In brief, the two parties, which are often seen as right-of-center, agree with the Mubarak regime on the dire need for ERSAP, but they disagree with the regime on nearly everything else—timing, implementation, and absence of other conditions of success.

7.32 Two other important legal opposition parties, PUP nad ADNP, are generally viewed as left-of-center. Both oppose ERSAP in principle. The economic spokesman of PUP, Dr. Gouda Abdel-Khalek, calls it "economic deform." He contends that "it stunts Egypt's economic growth and impoverishes the masses. There were several alternatives to the course
taken by our government. But the latter lacks economic and political imagination; and has not been willing to listen to those who have it. Our party (PUP), has submitted comprehensive proposals as early as the 1982 Economic Conference. We have updated those proposals; but the regime has continued to ignore them because it is aversive to anything that comes from popular forces. The economic policy of the regime is a product of bureaucratic-technocratic-parasite forces with no political vision” (Abdel-Khalek 1994).

7.33 The views of the ADNP on ERSAP are essentially the same. A prominent economist and former Minister of Planning, M. M. El-Imam, maintains that ERSAP is still command economics, “but the commander is no longer the Egyptian state, but the IMF and the World Bank. The Egyptian state has become a mere implementor and a watchman” (El-Imam 1993). ADNP’s major concerns are social equity, economic development, and preservation of Egyptian independence. The party sees the three goals as having been sacrificed at the “altar of the IMF” (see al-Arabi editorials, April 5, May 8, 1994). The alternative to externally imposed ERSAP, for both PUP and ADNP, is the rehabilitation of the public sector, support for national capitalism, combating corruption, progressive taxation, human development, and Arab regional integration (al-Ahali; al-Arabi editorials, 1993, 1994).

7.34 The fifth major legal opposition party is the SLP. Deputy Chairman Helmy Murad and Secretary General Adel Hussein are prominent Egyptian economists. Their weekly columns in the SLP’s al-Shaab reflect the party’s views on ERSAP. Both have maintained the same objections in principle to ERSAP as PUP and ADNP. Egypt’s economic ills as seen by SLP economists are the result of waste and corruption at home and “conspiracies” from abroad (A. Hussein, al-Shaab, April 1, April 8, 1993). Exposing corruption at home has been the crusade of Dr. Helmy Murad for years, and for his efforts he has frequently been detained for interrogation by the authorities on charges of inciting public opinion by sensational accusations, some of which touched cabinet members and President Mubarak’s own children (al-Shaab, September 14, 21, 28, 1993).

7.35 In 1987 the SLP joined with the MB to form the IA, entered the parliamentary elections the same year, and won sixty-five seats. It made the IA the second largest bloc in Egypt’s People’s Assembly (the Parliament) after the ruling NDP (with 370 seats). This impressive showing has tempted the SLP to move steadily toward an Islamic discourse. Thus, while it shares with PUP and ADNP a total rejection of ERSAP, the SLP has proposed an “Islamic alternative" to deliver Egypt from its chronic ills. Ambiguously defined as it may be, the Islamic alternative in economics calls for banning “interest” (considered usury): repugnant economic and commercial activities (such as the production or sale of liquor): and substituting Zakat (alms tax, which amounts to 2.5 percent of annual wealth) for the current taxation systems, built on Western models; and internalizing the Islamic work ethics and values of austerity and compassionate mutual help (takaful) throughout society. A regular columnist in the SLP biweekly, Mustafa Mashhour, promulgates these ideas of Islamic economics (see al-Shaab, January 4, February 15, March 1, April 26, June 14, 1994).

7.36 But more important to the issue of governance is the SLP’s tacit defense of the more militant Islamic activists. Stopping short of endorsing their terrorist acts, SLP has
invariably blamed government policies, including ERSAP, for the mass unemployment, social injustice, and corruption that drive young Egyptians to despair and "unfortunate acts" (rarely, if ever, described as terrorism). Meanwhile, the Egyptian government's abridgement of Islamists' human rights are dramatized (see al-Shaab editorials, September 17, 24, 1993; January 4, 7, 11, 14; May 16, 23; June 3, 10, 17, 1994).

7.37 Since the late 1970s, the SLP's newspaper, al-Shaab, had been a weekly with a circulation of about 50,000. In early 1992, it began to publish twice a week, and its circulation quadrupled to about 200,000 by mid-1994. This jump in popularity coincided with both the initiation of ERSAP and the escalation of violent confrontations between the state and militant Islamic groups. SLP and its newspaper have become the most vehement critics of the Mubarak regime, the West, and Israel. It has also become the main source of alternative news and the defense of Islamic militants.

7.38 Nearly all of Egypt's opposition parties had become alienated from the Mubarak regime by mid-1993. One expression of that alienation was their boycott of Mubarak's reelection for a third term; another was their willingness to stand by as the regime battled with violent Islamists. Sensing this growing estrangement, Mubarak called for a "national dialogue" with the opposition in his inauguration speech (October 13, 1993). The opposition parties initially responded positively to the presidential invitation. Some eight months passed, however, before any concrete steps were taken to start the dialogue. The first step declared by the president, in mid-May 1994, was the naming of a forty-person preparatory committee and the announcement of an agenda of four topics for the dialogue. Thirty out of the forty committee members were also NDP members, and the four topics (economic, social, and educational reform and guarding national unity) did not include "political reform." The opposition parties considered the step insulting, and two of the major parties, NWP and ADNP, withdrew from the dialogue on the first day. The other opposition parties expressed their dismay over what were considered "condescending and heavy-handed procedures" (Al-Wafd, June 1, 1994). With the exclusion of the Muslim Brotherhood from the start, the prospects for the national dialogue did not seem promising. Alienating these three major opposition forces, the Mubarak regime missed one more opportunity to create a minimal national consensus for ERSAP and other major public policies.

Politics of Alienation

7.39 The regime's reluctance to engage in serious participatory politics, let alone power-sharing, has led to a steadily mounting alienation of growing segments of the public and to a mass desertion of professional groups. Many younger professionals have taken shelter in Islamic activism. In other words, a dearth of politics of participation has led to politics of alienation and, in extreme cases, violent anger.

An Alienated Civil Society

7.40 Despite the qualified support that the regime enjoyed from all five major opposition parties until 1990, it was unable to retain it. The following three years (1991–94)
witnessed a steady erosion of support, including that of the two parties that accepted ERSAP in principle, the NWP and LP. The other three parties have totally rejected ERSAP and have grown increasingly hostile to the regime's public policies. In this section, we examine the other salient forces of Egypt's civil society, mainly the professional associations (PAs, or as they are called in Egypt, "syndicates," al-niqabat al-Mihaniyya). There are twenty-one such associations, with a total membership of about 3.0 million professionals, or 20 percent of Egypt's total labor force. They differ markedly from workers' trade unions: their members are university graduates with white-collar occupations. The PAs are Egypt's organizational embodiment of its intelligentsia. They are the backbone of what M. Halpern (1963) calls the "new middle class" (NMC), a social group that has been the most dynamic political force in the country since its modern re-emergence over a century and a half ago. The NMC enjoyed many privileges in the Nasser era, but its younger members, lower down on the professional ladder, have seen their income and prestige deteriorate under Sadat's ODEP and Mubarak's ERSAP. Their discontent has been expressed peacefully by many, and violently by a few. Making up some 60.0 percent of the membership of PAs, this group, counting as members those under the age of forty, have voted in increasing numbers for the antigovernment candidates, most of whom are MB members. By 1993, six of the seven biggest and most important PAs were controlled by Islamists, including the lawyers, engineers, doctors, pharmacists, dentists, and commerce graduates (see Figure 1).
7.41 The Teachers' Syndicate is the only major PA not totally under the control of the Islamists (see Figure 2). The government's reaction to this peaceful shift of control in the PAs was to issue Law 100 of 1993, which mandated a 50.0 percent quorum of all members for election results to be valid. Otherwise, the government would appoint provisional boards of its own choice. The law was seen by most professionals as a further meddling in their affairs by a regime lacking political skill and disposed to dictatorial tendencies (CSDTAW Newsletter 1993).

With more than a two-thirds majority for the ruling NDP in the People's Assembly, the government could pass any law on a few hours notice.
Figure 2: Islamists and Secularists Representation on the Board of Major Professional Syndicates in 1993

Source: Division of Minorities Affairs (DMA), Ibn Khaldoun Center for Development Studies
7.42 During recent violent confrontations with Islamists, security forces complained that eyewitnesses, especially in Upper Egyptian villages, do not cooperate with them. Elected village mayors were blamed for this lack of cooperation. The regime's response was to pass a law in April 1994 that did away with the election system of village mayors. Now they are to be appointed by the Ministry of Interior (CSDTAW Newsletter, May 1994).

7.43 Another important area of contention between the opposition and the Mubarak regime has been Egypt's fourteen universities. In both the faculty and student populations, progovernment elements have come a distant second or third in campus elections. While unable to do much with student elections yet, the government surprised Egyptian professors in May 1994 by amending the Universities Law 49 of 1972, changing the system from the election of deans and department chairmen to one of appointment by the minister of education. The draft of the amended law was never debated by the academic community or the Parliament, and this was considered an insult to Egyptian academics, including those who are on good terms with the regime (al-Ahali, June 8, 1994).

7.44 In addition to political parties, professional associations, and universities, Egypt has some 14,000 private voluntary organizations (PVOs). Despite a restrictive law (No. 32 of 1964), nonviolent Islamic groups have managed to establish or take over the boards of nearly half of the PVOs. During the October 1992 Cairo earthquake, within hours the Islamist-controlled PVOs and PAs managed to outdo the government in relief efforts. The foreign media (CNN, for example) took note, and highlighted the difference. The regime's reaction to this unflattering publicity was to decree a ban on direct relief efforts by PVOs—efforts would be channeled through the government. When this help did not materialize in time, several riots broke out in the afflicted districts of Cairo (CSDTAW Newsletter, November 1992). The earthquake episode is only one case that illustrates the regime's limitations in providing goods and services to needy Egyptians, while at the same time hindering those who could provide assistance for fear that Islamic PVOs would gain political advantage at the government's expense.

7.45 All in all, the salient forces of Egypt's civil society have increasingly been alienated from the Mubarak regime. Although nonviolent by definition and practice, these forces have been subject to increasing pressures and restrictions from the regime. In turn, they have escalated their criticism of the regime's public policies, including ERSAP. The doctors', engineers', and lawyers' associations organized conferences and seminars to debate ERSAP during 1992 and 1993. The tone of those debates was quite critical. Many of their conclusions differed little from those of political opposition parties—that there is a dire need for concomitant sociopolitical reform (CSDTAW 1993).

**Politically Motivated Violence**

7.46 Probably the clearest test of governance is the ability of a ruling regime to maintain law and order. While nonviolent Islamists have gained ascendancy over many of the alienated and discontented Egyptians, some of the latter have opted to challenge the regime through violent means. Although much smaller in numbers, more militant Islamic groups—the Jihad, the Takfir wal Hijra
(TWH), and the Jama'a Islamiya (JI)—are the ones that have captured the headlines, embarrassing the Egyptian state since 1974. To be sure, politically motivated violence has not been the monopoly of Islamic militants. In modern Egyptian history, other political groups have indulged in violence, but it is the militant Islamic activists who have been identified with such violence recently.

Table 7. Selective Indicators of Sociopolitical Unrest, 1952–93

<table>
<thead>
<tr>
<th>Indicators</th>
<th>1952–70 Nasser years (%)</th>
<th>1971–81 Sadat years (%)</th>
<th>1982–93 Mubarak years (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Demonstrations</td>
<td>10 (16)</td>
<td>16 (26)</td>
<td>36 (58)</td>
<td>62</td>
</tr>
<tr>
<td>2. Strikes</td>
<td>2 (7)</td>
<td>13 (42)</td>
<td>16 (52)</td>
<td>31</td>
</tr>
<tr>
<td>3. Riots</td>
<td>3 (5)</td>
<td>6 (9)</td>
<td>55 (86)</td>
<td>64</td>
</tr>
<tr>
<td>4. Attempted coups</td>
<td>2 (50)</td>
<td>2 (50)</td>
<td>0 (0)</td>
<td>4</td>
</tr>
<tr>
<td>5. Attempted assassinations</td>
<td>2 (13)</td>
<td>2 (13)</td>
<td>12 (75)</td>
<td>16</td>
</tr>
<tr>
<td>6. Assassinations</td>
<td>0 (0)</td>
<td>2 (11)</td>
<td>16 (89)</td>
<td>18</td>
</tr>
<tr>
<td>7. Arrests (detention orders)</td>
<td>14,000 (24)</td>
<td>19,000 (33)</td>
<td>25,000 (43)</td>
<td>58,000</td>
</tr>
<tr>
<td>8. Hard labor sentences</td>
<td>42 (24)</td>
<td>69 (40)</td>
<td>53 (36)</td>
<td>174</td>
</tr>
<tr>
<td>9. Death sentences</td>
<td>27 (37)</td>
<td>20 (27)</td>
<td>27 (37)</td>
<td>74</td>
</tr>
<tr>
<td>10. Casualties</td>
<td>49 (3)</td>
<td>205 (11)</td>
<td>1,557 (86)</td>
<td>1,811</td>
</tr>
<tr>
<td>11. Total</td>
<td>14,137 (24)</td>
<td>19,315 (32)</td>
<td>26,772 (45)</td>
<td>60,218</td>
</tr>
<tr>
<td>12. Annual average</td>
<td>783</td>
<td>1,737</td>
<td>2,231</td>
<td>1,423</td>
</tr>
</tbody>
</table>

Note: Numbers in parentheses represent percentages.  
Source: Ibn Khaldun for Development Studies, files of Islamic Activism Research Project.

7.47 Table 7 shows selective indicators of sociopolitical unrest in Egypt since 1952. Some of this unrest was spontaneous, such as rioting, while other instances were instigated by interest groups (for example, workers and students). Much of the sociopolitical unrest relates to Islamic activists during the three successive regimes of Nasser, Sadat, and Mubarak. Table 7 indicates a quantum jump in the incidence of unrest from one regime to the next. The annual average of such incidents doubled between the Nasser and the Sadat years, then tripled between the Nasser and Mubarak years. Like all averages, however, those in line 12 of Table 7 conceal the specific events of particular years and subperiods within each regime. In the Nasser period, much of the unrest was in the early years (1950s); in Sadat’s time, it was in the later years (1977 to 1981); and during Mubarak’s tenure it has been quite recent (since 1990). This observation renders the demographic explanation of the volume of unrest less important.

7.48 This point is further illustrated by a closer examination of data related to politically motivated violence during Mubarak’s twelve-year presidency. For example, line 10 of Table 7 shows the number of casualties (killed and wounded) of politically motivated violence. During the forty-two years since 1952, there were 1,811 casualties, 86.0 percent of which occurred in the last twelve years, during Mubarak’s presidential tenure. Still more dramatic is that during the first six years (1982–88) of Mubarak’s presidency, there was little violence—a

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41 *Jihad* means struggle in the name of God, and is popularly translated as Holy War; *Takfir wal Hijra* means repentance and Holy Flight, and *Jama'a Islamiya* means the Islamic Group.
total of 33 casualties, averaging less than 5 casualties annually. The last four years (1990–93) were by far the bloodiest, not only during Mubarak’s presidency, but also of this century. There were 1,164 casualties, an average of 291 casualties annually. To put it differently, of the twelve years of Mubarak’s presidency, the last four have appropriated nearly 92.0 percent of all the casualties from politically motivated violence.

7.49 The specter of political violence took on its most fearsome aspect in the two years following the implementation of ERSAP, 1992 and 1993. Tables 8 and 9 list details of the casualties of security forces, Islamic activists, and civilian bystanders. Some ominous observations are worth noting. First, the number of total casualties in 1993 was nearly four times that of 1992 (1,106 compared with 322). Second, while the total number of casualties of Islamic activists was twice that of the security forces in 1992 (122 compared with 61), in 1993 the two figures indicate a growing parity (363 vs. 301). Of those killed, there were more policemen (120) than Islamic activists (111) in 1993. Third, in both years the number of civilian casualties caught in the cross-fire exceeded both police and activist casualties (139 and 442 in 1992 and 1993, respectively).

7.50 During this period, several assassination attempts were made on the lives of high-ranking public figures by Islamic activists. Two of the attempts succeeded: Dr. R. al-Mahgoub, the former Speaker of Parliament (October 1990), and Dr. Farag Fouda, Egypt’s most outspoken secular intellectual (June 1992), were both killed. The activists also managed to assassinate four police generals, including the top antiterrorist ranking officer (General R. Khayrat, on April 9, 1994). There were close attempts on the lives of two cabinet members (of the Ministries of Information and the Interior in April and August 1993, respectively) and on the prime minister in November 1993. A similar attempt was made on a renowned novelist, the 1988 Nobel prize winner Naguib Mahfouz, on October 14, 1994. All four attempts led to wounding of their targets.
Table 8. Scoreboard of Political Violence: Egypt 1992

<table>
<thead>
<tr>
<th>Month</th>
<th>Police Killed</th>
<th>Police Wounded</th>
<th>Total</th>
<th>Extremists Killed</th>
<th>Extremists Wounded</th>
<th>Civilians Killed</th>
<th>Civilians Wounded</th>
<th>Total Killed</th>
<th>Total Wounded</th>
<th>Total Casualties</th>
<th>Arrested Civilians</th>
<th>Arrested Extremists</th>
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<tbody>
<tr>
<td>January</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>February</td>
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<tr>
<td>March</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>11</td>
<td>14</td>
<td>12</td>
<td>11</td>
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<tr>
<td>April</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>11</td>
<td>14</td>
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<td>11</td>
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<tr>
<td>May</td>
<td>1</td>
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<td>June</td>
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<tr>
<td>July</td>
<td>3</td>
<td>7</td>
<td>10</td>
<td>4</td>
<td>18</td>
<td>8</td>
<td>12</td>
<td>20</td>
<td>18</td>
<td>34</td>
<td>52</td>
<td>-</td>
</tr>
<tr>
<td>August</td>
<td>1</td>
<td>9</td>
<td>10</td>
<td>14</td>
<td>37</td>
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<td>22</td>
<td>5</td>
<td>20</td>
<td>46</td>
<td>-</td>
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<td>55</td>
<td>-</td>
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<tr>
<td>November</td>
<td>1</td>
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<td>2</td>
<td>3</td>
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<td>5</td>
<td>1</td>
<td>31</td>
<td>5</td>
<td>33</td>
<td>-</td>
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</tr>
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<td>-</td>
<td>8</td>
<td>1</td>
<td>8</td>
<td>11</td>
<td>19</td>
<td>-</td>
<td>877</td>
</tr>
<tr>
<td>TOTAL</td>
<td>23</td>
<td>38</td>
<td>61</td>
<td>39</td>
<td>83</td>
<td>122</td>
<td>107</td>
<td>139</td>
<td>94</td>
<td>228</td>
<td>128</td>
<td>3,645</td>
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Source: Compiled from Ibn Khaldoun Center Files of Islamic Activism Research Project.

Table 9. Scoreboard of Islamic Violence: Egypt 1993

<table>
<thead>
<tr>
<th>Month</th>
<th>Police Killed</th>
<th>Police Wounded</th>
<th>Total</th>
<th>Extremists Killed</th>
<th>Extremists Wounded</th>
<th>Civilians Killed</th>
<th>Civilians Wounded</th>
<th>Total Killed</th>
<th>Total Wounded</th>
<th>Total Casualties</th>
<th>Arrested Civilians</th>
<th>Arrested Extremists</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>6</td>
<td>4</td>
<td>10</td>
<td>4</td>
<td>12</td>
<td>16</td>
<td>28</td>
<td>20</td>
<td>22</td>
<td>159</td>
<td>1,231</td>
<td>-</td>
</tr>
<tr>
<td>February</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>8</td>
<td>36</td>
<td>14</td>
<td>45</td>
<td>-</td>
<td>1,251</td>
</tr>
<tr>
<td>March</td>
<td>20</td>
<td>41</td>
<td>61</td>
<td>49</td>
<td>59</td>
<td>4</td>
<td>66</td>
<td>70</td>
<td>73</td>
<td>109</td>
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<td>56</td>
<td>-</td>
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<td>12</td>
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<td>4</td>
<td>17</td>
<td>21</td>
<td>29</td>
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<tr>
<td>August</td>
<td>11</td>
<td>7</td>
<td>18</td>
<td>6</td>
<td>88</td>
<td>94</td>
<td>11</td>
<td>54</td>
<td>65</td>
<td>149</td>
<td>177</td>
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<td>September</td>
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<td>30</td>
<td>38</td>
<td>-</td>
<td>72</td>
<td>72</td>
<td>4</td>
<td>45</td>
<td>49</td>
<td>147</td>
<td>159</td>
<td>6</td>
</tr>
<tr>
<td>October</td>
<td>10</td>
<td>36</td>
<td>46</td>
<td>10</td>
<td>57</td>
<td>67</td>
<td>7</td>
<td>12</td>
<td>19</td>
<td>105</td>
<td>132</td>
<td>2</td>
</tr>
<tr>
<td>November</td>
<td>7</td>
<td>12</td>
<td>19</td>
<td>4</td>
<td>15</td>
<td>19</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>13</td>
<td>28</td>
<td>41</td>
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<tr>
<td>December</td>
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<td>39</td>
<td>22</td>
<td>8</td>
<td>30</td>
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<td>31</td>
<td>55</td>
<td>66</td>
<td>88</td>
<td>1,277</td>
</tr>
<tr>
<td>TOTAL</td>
<td>120</td>
<td>181</td>
<td>301</td>
<td>111</td>
<td>252</td>
<td>363</td>
<td>101</td>
<td>341</td>
<td>442</td>
<td>774</td>
<td>1,106</td>
<td>594</td>
</tr>
</tbody>
</table>

Source: Compiled from Ibn Khaldoun Center Files of Islamic Activism Research Project.
By all counts, 1993 was the year in which the violent Islamic activists seemed to have had the upper hand in armed confrontations. They were more daring than ever before. They took the initiatives in operations, and often outmaneuvered the government forces. Their choice of targets widened to include Christian Copts, secular Muslim thinkers, foreign tourists, and whatever they considered repugnant—cinemas, cafes, video shops, Nile cruisers, and the like. Their methods also showed greater sophistication. Not only did they demonstrate skillful use of arms, explosives, and remote control devices, but they also manufactured some of these devices themselves. They displayed remarkable abilities in their intelligence system. Some of these upgraded skills were no doubt the result of experience accumulated over the previous two decades, but equally important is the combat experience many of them acquired as volunteers with the *Mujahideen* in Afghanistan against Soviet occupation forces during the 1980s. As a result, their operations in the last three years became more protracted—from hours or days in the 1970s to weeks and months in the 1990s.

Unlike their counterparts in the 1970s and early 1980s, Egypt's Islamic militants of the 1990s acquired modern communication skills that were used effectively in psychological warfare against the Egyptian state and in gaining maximum exposure. For example, among the 1,557 casualties during Mubarak's tenure, only 11 were foreign tourists. But that tiny figure (compared with what happened in the United Kingdom or in the state of Florida during the same period) resulted in the destruction of two tourist seasons (1992 and 1993), depriving Egypt of badly needed currency (estimated at US$3.0 billion). In short, the activists' confrontations with the Egyptian state had become a "war of attrition" by 1993 (Ibrahim 1994).

The greatest change of all was embodied in the socioeconomic profile of the Islamic militants of the 1990s. Compared with their counterparts in the two previous decades, they were younger and less educated. Many came from rural, small-town, and shantytown backgrounds. Table 10 presents some comparisons compiled from data on those killed, wounded, and arrested. The average age of Islamic militants arrested and charged for acts of violence dropped from twenty-seven years in the 1970s to twenty-one in the 1990s. Of the thirty militants arrested, tried, and convicted for attacks on tourists, seven received death sentences in December 1993. Three of them were below the age of twenty (nineteen, eighteen, and sixteen years of age). There also has been a sharp drop in the formal education of Islamic activists arrested and charged for acts of violence. In the 1970s, as many as 80.0 percent were college students or graduates. In the 1990s, that percentage dropped to 20.0, and among them, those who were students or graduates with elite majors (such as medicine and engineering) dropped from 51.0 to 11.0 percent in two decades.

These data suggest that the degree of alienation and discontent that drives extremism has now spread to younger and less-educated Egyptians. This may in part explain their disposition toward lethal violence. As Table 10 illustrates, that same sense of despair seems to have spread from large cities (55 percent in the 1970s compared with 15.0 percent in the 1990s) to rural areas and shantytowns in the 1990s (8.0 percent in the 1970s compared with 54.0 percent in the 1990s). It is ominous that while there were no rural residents among the activists arrested in the 1970s, the Egyptian public began to hear for the first time about villages (such as
Sanabou, Walidiya, and Salamoun) in the Governorate of Assyut as scenes of sustained armed confrontations between Islamic militants and the state security forces. The same is true of a new scene of such confrontations, the so-called "Ashwai'iat," or shantytowns, on the rural-urban fringes of major cities. Although these areas accounted for fewer than 8.0 percent of the arrested and charged militants in the 1970s, their share jumped to 36.0 percent in the 1990s. A case in point is a shantytown by the name of Western Munira on the edges of the old district of Embaba, Giza, across the Nile from Cairo's elite suburb of Zamalek.

Covering about the same area as Zamalek (16.0 square kilometers), Western Munira has more than ten times the population. With no schools, hospitals, clubs, sewage system, public transportation, or police station, the highly dense Western Munira had become a "Hobsian" world of violence and vice by the late 1980s. A small group of Islamic militants led by a twenty-seven-year-old man, Sheikh Jaber, took over Western Munira and essentially ruled it for three years, collecting taxes and imposing their own law and order and Islamic codes of morality. In December 1992, the Egyptian state finally took note of what was happening. It dispatched some 12,000 security forces with armored vehicles to conquer Western Munira. It took three weeks, some one hundred casualties (from both sides), and the arrest of some 600 suspected militants before Western Munira was pacified (CSDTAW 1992).

### Table 10. Socioeconomic Profile of Egypt's Islamic Militants 1970s'–90s (percent)

<table>
<thead>
<tr>
<th>Profile dimensions</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Age categories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Less than 20 years</td>
<td>5.0</td>
<td>11.0</td>
<td>23.0</td>
</tr>
<tr>
<td>2. 20–25 years</td>
<td>28.0</td>
<td>31.0</td>
<td>48.0</td>
</tr>
<tr>
<td>3. 25–30 years</td>
<td>61.0</td>
<td>53.0</td>
<td>24.0</td>
</tr>
<tr>
<td>4. Above 30 years</td>
<td>6.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>B. Formal education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Below secondary</td>
<td>2.0</td>
<td>5.0</td>
<td>9.0</td>
</tr>
<tr>
<td>2. Secondary</td>
<td>8.0</td>
<td>12.0</td>
<td>29.0</td>
</tr>
<tr>
<td>3. Junior college</td>
<td>11.0</td>
<td>24.0</td>
<td>42.0</td>
</tr>
<tr>
<td>4. College and postgraduate</td>
<td>79.0</td>
<td>59.0</td>
<td>20.0</td>
</tr>
<tr>
<td>5. Elite majors (e.g., medicine)</td>
<td>51.0</td>
<td>27.0</td>
<td>11.0</td>
</tr>
<tr>
<td>C. Community of residence</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Villages</td>
<td>0.0</td>
<td>7.0</td>
<td>18.0</td>
</tr>
<tr>
<td>2. Shantytowns (Ashwai'iat)</td>
<td>8.0</td>
<td>16.0</td>
<td>36.0</td>
</tr>
<tr>
<td>3. Towns</td>
<td>37.0</td>
<td>43.0</td>
<td>31.0</td>
</tr>
<tr>
<td>4. Large cities</td>
<td>55.0</td>
<td>34.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Ibn Khaldoun Data Files of Islamic Activism Research Project.
In brief, the amount of politically motivated violence during President Mubarak's twelve-year tenure far exceeds that of the nearly thirty years of his two predecessors, Nasser and Sadat. The amount of such violence in the last four years of Mubarak's tenure (1990–93) equals that of the previous thirty-eight years, including the administrations of Nasser and Sadat and first eight years of Mubarak's. Those last four years have coincided with implementation of ERSAP.

Deteriorating Human Rights and Feelings of Insecurity

One clear victim of the escalating violence in Egypt is human rights. The Egyptian Organization for Human Rights (EOHR) has documented the kinds of violations committed by the government for years. These incidents were confirmed by the U.S. Department of State in its annual Country Reports on Human Rights, Egypt, and by independent researchers (McDaid 1994). Two new elements have been noted in the last three years. The first is the issuance of several laws further restricting basic freedoms by expanding the executive branch's authority to detain citizens without charges and authorizing the trial of civilians by military courts, where due process is not as stringent (EOHR 1992). The second is the increase in violations of human rights by nonstate actors, primarily militant Islamic groups (EOHR 1992).

These developments have resulted in a collective sense of insecurity among Egyptians. In a recently commissioned national sample survey by the United Nations Development Program (UNDP) and Egypt's Institute of National Planning (INP), it was revealed that more Egyptians felt insecure in all areas of life in 1993 (52.0 percent) than in 1992 (37.0 percent). The comparison was even more stark between the present and five years earlier—nearly three times as many Egyptians (67.0 percent) said they are less secure now than they were five years before (23.0 percent reported the opposite) (UNDP/INP 1993).

In the basic, though narrower, sense of "physical safety," 20.9 percent reported being less safe in 1993, compared with 21.0 percent in 1992 and 8.0 percent in 1988 (UNDP/INP 1993). In addition, more people were less secure about their jobs (22.0 percent, 17.0 percent, and 6.0 percent in the three periods of time, respectively). The same study revealed dissatisfaction with present levels of income (39.0 percent), housing (29.0 percent), food security (31.0 percent), and ability to secure medication should the need arise (41.0 percent) (UNDP/INP 1993).

This attitudinal assessment is confirmed by aggregate data compiled and indexed by the UNDP Human Development Report (HDR) for various years, both over time and in comparison with other countries. Between the 1990 and 1993 HDR, Egypt's rank has slipped from 110 to 124 among the countries covered (UNDP 1990, 1993). Despite the country's progress on several development indicators, the main depressor of Egypt's rank seems to have been the drop of income per capita from nearly $710 in 1988 to $610 in 1993.

It is worth noting that the overall sense of security among Egyptians varied markedly between Upper Egyptian Governorates and those of Lower Egypt. This attitudinal...
variation resonated in Egypt's Human Development Index (HDI). The less secure Upper Egyptians had a score of 0.373 on the HDI, compared with 0.440 for Lower Egyptians and 0.568 for the Urban governorates (Cairo, Alexandria, Port Said, and Suez) (INP 1994). More than 65.0 percent of the politically motivated violence discussed earlier was concentrated in Upper Egyptian governorates.

\[ \text{HDI is a composite score of several material and nonmaterial indicators of human well-being, including income per capita, infant mortality, environmental quality, literacy, access to media, participation, and so forth.} \]
Conclusions

8.1 The relationship between ERSAP and governance in Egypt has not been a unilinear one. On first glance, the Egyptian case reveals relative success in the former and relative failure in the latter. While the regional and international factors were conducive to Egypt's timing of ERSAP, the domestic factors were mixed. Both governance and ERSAP are complex variables, which are best disaggregated, with the components cross-related. For example, governance may be defined as the capacity to mobilize, control, regulate, and coordinate to get things done. As such, it entails the elite's mastery and deployment of means of inspiration (vision) as well as means of coercion (state violence or terror), with a host of other institutional means in between (for example, legislative, judiciary, media, or civil society).

8.2 By the same token, ERSAP entails fiscal reforms, currency stabilization, liberalization of trade, privatization, and the like. Some of these measures (such as stabilization) could be formulated, initiated, and completed successfully by a small, insulated team of able technocrats tied to the top decisionmaker (a president or prime minister). These measures neither require much attitudinal change nor the massive involvement of the bureaucracy. Their direct impact on various constituencies may not be immediately felt. Other measures of ERSAP, such as privatization, involve greater number of actors, opposing vested interests, and heated passions.

8.3 To be tested properly, the hypotheses relating governance to ERSAP must be broken down into several subhypotheses to account for the nature and direction of specific correlations among the subcomponents. For example, much of the initial success of Egypt's ERSAP was because it only involved stabilization under favorable regional and international timing, with no direct or immediate impact on the mass of Egyptians. Thus, even when the politically active opposition parties opposed those measures, the regime's governance capacity was neither fully deployed nor fully tested. The outcome of the first phase of Egypt's ERSAP (1991) was a success. The real test began with the second phase (1992). The story here becomes quite mixed: there has been some measure of success in ERSAP, but at a very high human and sociopolitical cost. The increase in coercion means that the regime's governance arsenal is being used.

8.4 In retrospect, much of this heavy cost may have been averted. There was a time in which both external and internal factors were mutually enhancing. This was during President Mubarak's first term in office (1981–87). Remittances, oil prices, tourism, and foreign aid were still relatively high. Mubarak was enjoying a grace period (or honeymoon). Egyptians'
Successful Adjustment and Declining Governance? The Case of Egypt

expectations of him were quite modest, and they were tuned to the imperatives of economic reform after the 1982 economic conference he convened. After delaying economic reform for nearly ten years, for Mubarak's ERSAP to succeed sociopolitically as well as economically, he had to couple it with a compelling "vision" or a "national project." He has only recently tried to do this, but it seems to come too late and to be too slight an effort. The actual or potential gainers from ERSAP could have provided a political base to support him during the inevitably lean initial years. But most of them have not clearly recognized the actual or potential gains. Those who may have seen the advantages are either too scattered or are organized under different banners, such as the NWP and LP. As such, they would only lend political support in return for some kind of a power-sharing scheme, which Mubarak and his entourage have so far been reluctant to even consider.

While all Egyptians may be better-off in the long run as a result of a successful ERSAP, what matters politically is the short run. That is when the losers feel the outcome. If they are many and have nothing or little more to lose, the potential for collective unrest grows proportionately. The four main social groups that have steadily, clearly, or amorphously experienced this situation in Egypt during the last four years are: (1) the modern working class (MWC), (2) the urban poor, (3) the young, and (4) the new middle class (NMC). At some point during the first three years of ERSAP, they have all seen their material conditions deteriorate, with little moral or spiritual compensation in return in the present, or delayed but credible material payoff in the future. The function of a "vision" or a "national project" is precisely the provision of such current moral and spiritual compensation and delayed, but sure, material reward. The Egyptian regime seemed to have provided neither to the four main social groups when ERSAP was implemented in 1991. Had the regime not wasted the honeymoon—introduced ERSAP ten years earlier, when Mubarak took over—it would at least have had the benefit of the doubt on whatever future compensations it might have promised. But with ten years of a record ranging between modest and dismal performance, it was unlikely to get that benefit again, especially from the social groups that had already been losing before ERSAP; hence, they have become disposed to confront the Mubarak regime sooner rather than later.

These four alienated groups make up the vast majority of Egyptians, with each differing in size, composition, and political subculture. The reactions of each to ERSAP and the mode of action against the regime were also bound to be different. The NMC's preferred mode of action has been through the PAs, and the peaceful quest for democracy, human rights, decent employment, and adequate income. The MWC's preferred mode of expressing discontent has been through peaceful and quasi-peaceful sit-ins, strikes, and demonstrations. The urban poor, outside modern economic institutions, are what Marx dubbed the urban "Lumpen Proletariat" (ULP). In the Egyptian case, the ULP is now concentrated in slum areas (Ashwai'iat). The ULP is disposed to rioting upon medium-intensity provocation, and hence is easily manipulated. Young, educated Egyptians represent the raw and most sensitive nerves of society at present. Their discontent is channeled either through PAs or more militant and violence-prone Islamic groups. We have seen marked increases in all indicators of unrest covering these modes of action.
8.7 The Mubarak regime has been slow to perceive the early signs of discontent in each of the four main social groups, and when it finally sees a problem, it often overreacts. The recent confrontations with the Lawyers Association ( Syndicate) is the latest case in point.43

8.8 Furthermore, the regime has barely resorted to "political" means in managing the growing discontent, much less socioeconomic measures to deal with its root causes. The regime's favorite way of dealing with discontent is to resort to security measures, followed by a state media blitz. Disregard for due process and abridgment of human rights have become rampant in the last three years (1991–94). The short supply of political imagination of the ruling elite, and the nearly complete absence of elite circulation, have worsened the situation. The average age of present cabinet members is sixty-three (it would have been sixty-seven if not for the appointment in October 1993 of two new members—out of thirty—in their forties). The average age of an average Islamic militant, as we saw, is twenty-one, which means there is a gap of forty-two years, or nearly two generations, between the two groups. The hardening of Egypt's political arteries is made worse by a heavy and inefficient bureaucracy. Demoralized and increasingly impoverished, its upper levels have become disposed to grand corruption, and its lower levels to petty corruption. Exaggerated tales of grand corruption have been rampant in the last few years. Petty corruption has long been taken for granted, and even sympathetically tolerated.

8.9 Gallant but clumsy Egyptian security forces have had to confront growing numbers of Islamic militants, virtually on their own, for much of the last decade. They have been without supportive and politically mobilized public opinion. Two successive ministers of the interior (including the present incumbent) have repeatedly complained in the People's Assembly of the lack of eyewitnesses ready to come forth and testify, even when acts of violence are committed in broad daylight in a marketplace (for example, the assassination of a police general and his drivers in Manfalout, Assyut, in 1993).

8.10 The situation seems to be slowly coming under control, however, thanks to strategic and tactical mistakes committed by the Islamic militants, the steady improvement of the capabilities of security forces, a growing (though reluctant) opening of "political dialogue" with opposition parties, and, most important, a recent uprising of Egypt's civil society, especially the artistic community.44 For the first time in three years, the first half of 1994 witnessed a decline

43 A lawyer, Abdel Haris Madany, suspected to have a connection with an Islamic militant group, was arrested in his law office at the night of April 26, 1994. The security forces took him to his apartment, which was searched, then he was detained in their custody. Several days later, the authorities informed his family of his death of "natural causes." When the family arrived, his body was in a sealed coffin, and their request for an autopsy was denied. The Lawyers Syndicate, which is controlled by the Muslim Brotherhood, insisted on an autopsy, suspecting torture. When the request was denied again, the Syndicate Board declared a "sit-in." With no favorable response from the authorities, they declared a strike (work stoppage for an hour in courts) on May 15, in which some 100,000 lawyers all over Egypt are said to have participated. Still unwilling to budge, the syndicate declared a peaceful march to the Abdeen Presidential Palace (3 kilometers from the syndicate). Warned by security against marching, the lawyers did not heed the warning. As soon as some 300 lawyers stepped out into the street, the police opened tear gas, physically clashed with the would-be marchers, arrested and detained 37 of them, and dispersed the rest. Over a month later, the lawyers were still in detention (CSTDW, June 4–5, 1994).

44 Reference is to a series of antiterrorism television dramas and films that appeared earlier in 1994 and were well-received by the public.
in the incidence of violence compared with the same period in the years since 1991. It is to be hoped that this will not lull the Mubarak regime into a premature sense of "victory" against Islamic militants or make it oblivious to badly needed sociopolitical reform.

8.11 The persistent vibrancy of Egypt's Islamic activism is a cause for concern, but not for panic. Despite its marked problems, the Egyptian state remains relatively strong, and will no doubt prevail in the present armed confrontations with radical Islamic militants. The state possesses tremendous resources in this respect, most of which have barely been tapped: a political culture that values moderation, continuity, and stability; a potent civil society; a powerful media; a cohesive, loyal, professional army and internal security force; its own religious establishment; and its good regional and international relations.

8.12 The legitimate concern, not panic, is over the regime's capacity to mobilize and manage these tremendous resources. So far, the regime has relied mainly on its security forces in confronting the Islamic extremists. Even with limited use of its resources, the Egyptian state is already turning the corner in this conflict. But the problem is not merely that of recording a "physical victory" over the Islamic extremists in the present round, but of dealing forcefully with the root causes that give rise to extremism, and to the deep alienation of Egypt's civil society, without whose support ERSAP could easily be undermined. Here, it becomes imperative that the regime evolve a clear and comprehensive strategy of reform. Belatedly, the government is earmarking several LE billions for social upgrading of depressed areas in Upper Egypt and for creating about one-half million new jobs. Also belatedly, the regime has announced plans for a "national dialogue" with the long-neglected and marginalized opposition parties and professional associations. Had these two measures started a few years earlier, the regime's governance capacity would have been greatly enhanced, and much of the violence may have been averted. Late as they may be, these and similar measures in the fields of education and the media illustrate the imperative of comprehensive reform—the social and the political along with the economic, and, better still, with an inspiring "vision." Because the more difficult part of ERSAP is now under way, these two sociopolitical sides of the reform triangle are more needed than ever. The Mubarak regime could not go on much farther with ERSAP and "politics as usual."
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