The Military Kleptocracy of Egypt – Gatekeeper and Saboteur:

An Assessment of Egypt’s Deteriorating Economic Terms of Trade and Strategies for Coping and Reform

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A Thesis in the Field of Middle Eastern Studies

for the Master of Liberal Arts Degree in Extension Studies

Harvard University

March 2018
Abstract

Egypt has had a long history of statism, whereby the government has ensured its regime preservation and longevity with transfer payments and/or subsidies to secure peace and “keep the machine running”. Some analysts estimate that recently as much as 70.4% of all household income derives from Egyptian government transfer payments or state employment and 74.7% of all households use subsidies to pay for food, with the average Egyptian family spending nearly half its income on food alone. The quid-pro-quo situation initially derived from rivalry among the political elites and tactical decisions to barter with lower classes, including them in economic bounty in exchange for political support. Because this placation occurred before Egypt could fully develop its economy after years of colonial rule and due to the nature of the compromise from the breadth of Egypt’s elite infighting, Egypt never achieved a state of industrialization and advancement that similar countries experienced.

Over time, this strong state presence became destructively symbiotic- the Egyptian citizenry succumbed to a dependency on these subsidies (below market rents, subsidized food staples and living necessities) and the government relied on this broad social support to maintain its leadership and secure its ability to exploit public assets for its own benefit (a kleptocracy). Within the last three decades, as resource depletion sharply has accelerated, the sustainability of this contract has become untenable: the government is functionally bankrupt and incapable of providing basic services while the population growth simultaneously has exploded.

The chief orchestrators and beneficiaries of this relationship have been Egypt’s political elite, which for nearly all of the past seventy years, has been the military. A national security crisis has been inspired from this and, more importantly,
mismanagement of its feeble economy by the self-interested, long-entrenched military. The magnitude of this interference is not perfectly known, but it is substantial and demonstrable.

This economic fragility, and its concomitant political and security disarray, has implications beyond Egypt’s borders. There may be a way out if Egypt adopts a greater sense of urgency and musters the political will for reform. Increased economic prosperity and stability will cultivate political stability. Such success in economic transformation- and subsequent political stabilization- will enhance security prospects for the region and is, thus, in the interests of all major regional and global political actors.

The purpose of this study is to diagnose and to examine the causes of Egyptian’s unsatisfactory economic development and to argue that these failings are the direct results from Egypt’s overreaching military, which has exploited the country’s assets for its own purposes. It will argue that Egypt’s deteriorating economic situation from military expropriation has catalyzed an economic crisis, with repercussions that extend beyond Egypt’s borders. It will consider realistic solutions within a framework or “playbook” of economic transformation that worked for other countries. Its scope of analysis will include political actors (including Egypt’s military) and macroeconomic variables in Egypt’s failings and parallels in states where the military has a pronounced and entrenched presence.
I wish to thank my Thesis Director, Dr Asher Orkaby, for his enthusiasm, his engagement, his exactitude and his enlightenment.

I also wish to thank my Research Advisor, Dr Douglas Bond, for his guidance, support, perspective and patience.
Dedication

To Alasdair, Oliver and Xenophon
and to my parents and Kathryn

Colin Hall and Dan Zambrano, I am grateful for your enduring friendship.
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Literature Review- Primary Works

There were a multitude of works, both contemporary and historical, which appreciably enlightened and enhanced my understanding of Egypt, the activities and placement of its military, and the foundations of its economy.

Egypt’s military industry complex, its kleptocratic tendencies and the legacies of its crony capitalism, are, by their nature, often clandestine and occluded. The diagnostics of even basic primary research are daunting. Creativity and persistence are required. The scholars and experts below excelled themselves in the challenging tasks they ambitiously (and sometimes, very bravely) put before themselves. Their meticulous research, forensic fact-finding and presentational balance enabled a layman to gain a modicum of knowledge about this dynamic, critical region of the world. For anyone interested in gaining a general or more nuanced understanding of Egypt, each of these provides intricate analysis and robust insight into the various topics on which they concentrate.

The following publications particularly had exceptional rigor and analytical scrupulosity and I am very grateful to those who wrote them. I would not have been able to proceed in my own simple undertaking without theirs.

This list is not comprehensive: for there are a number of promising and accomplished historiographers, economists, policy experts, politicians, military specialists, business executives, writers and journalists dedicated to Egypt and the region more broadly whose works I have yet to encounter.

1. Comparative Political Structures


Comment:

Waldner’s study of the experience of Syria and Turkey versus Korea and Taiwan emphasized the role of elites in shaping economic trajectory. The assessment of the degree of elite cohesion and its relation to the timing of the inception of a regime was particularly instructive to understand the factors enabling a society to rapidly transform itself through industrialization. Egypt was not mentioned in this study.

2. Egypt’s Economy and Contemporary Political Economy

Amr, Adly, *Too Big to Fail: Egypt’s Large Enterprises After the 2011 Uprising*, Carnegie Middle East Center, 2017


Comment:

Adly’s work studied the genesis of Egypt’s class of private of businessmen and the politicization of Big Business in the 2000’s as well as after Sisi’s 2013 ascendancy (the threshold at which Egypt’s military rule became absolute and its crony capitalists
were expunged from the political order). He assesses the prospects for Big Business in Egypt, including public-private partnerships, and how the private class can survive and contribute to an Egyptian renewal.

Noland and Pack’s work is valuable in its applied, data-intensive approach to the economic impact that the multitude of rapid political changes in the post 2011 Arab Spring have created. Trade, productivity growth, technology absorption, demographic variables, the impact from savings and investment and various other macro factors are considered. Discussions are often framed in a quantitative dimension, enabling one to evaluate the suitability and feasibility of forward policy implementation with reference to historical success and reality. Comparisons can be distilled inter-temporally and inter-geographically. The emphasis is on Arab and developing economies. The only detraction is that this book was published in August 2011.

3. Egypt’s Economic History


Comment:

Ikram’s book is a linear study of Egypt’s political economy from the Nasserite era of 1952 to present day. His is a pronounced qualitative appraisal from the clear-eyed perspective of a long-time Egypt-watcher overlaid with empirical economic
results. Policy leads the discussion (vs Noland and Pack, where economics drives it), making it an attuned, multidisciplinary approach (economics closely follows) to Egypt’s structural challenges and obstacles (political and otherwise) and its prospects for prosperity. There is a good deal of realism within sturdy technical analysis and forward-looking policy. This is tremendous tool to understand in-depth Egypt’s economy.

Springborg evaluates the reluctance and incapability of Egypt’s ruling elite of abandoning Nasserist subsidies, which remains the most pressing (and lingering) challenge the country faces and a primary national security risk.

4. Egypt’s Military Industrial Complex


Comment:

Abul-Magd’s work is extraordinary and exhaustive. With inspiring assiduity, she traces the evolution of Egypt’s military industrial complex from its earliest days through to Mubarak (as well as beyond in her chronicles of discontent). Her work is
distinguished by her primary interviews with both military personal as well as those in the square. This is a comprehensive primer to understand how Egypt’s military morphed from wide-eyed amateurs, motivated by nationalism and duty, to more sinister incarnations (vis a vis the EAF’s latter-day reach) removed from the welfare of the people. Her thesis traces the adaptability of the EAF and the decay that has set in from its misadventures and meddling. There is invaluable parsing of local newspapers beyond *Al Ahram*.

Bou Nassif’s work similarly reinforces the entrenchment of the military in all corners of Egyptian life. His assessment centers on how replete and dominant the SCAF (and its Mubarak appointees) are the executive ranks of critical Egyptian infrastructure assets. He addresses how pervasive within the politico-economic architecture the 156 Mubarak-appointed governors are and reviews the post-retirement careers of the sixty-five officers who led the EAF under Mubarak. Bou Nassif additionally traces the increasing concentration of power and wealth within the clutches of this small cabal of military men.

5. *Egypt’s Kleptocracy*


Comment:

Marshall’s and Stacher’s work, with vigor and sedulity, probes and excavates many dark and unapologetic conflicts of interest within the Ministry of Military Production, the Arab Organization for Industrialization and the National Service Projects Organization. Expropriation and kleptocracy are explored and proven. Through carefully diligenced and creatively compiled case studies, Marshall and Stacher also demonstrate the willing participation of foreign collaborators, including Western governments and multinational corporations. Their sleuthing unmasks the shambolic artifices, tactics and processes of several privatization projects, unambiguously establishing the interference of the SCAF in multiple industrial silos in Egypt and business mores that are inconsistent with public statement. While not explicitly mentioned, violations of the Foreign Corrupt Practices Act for those US entities transacting in Egypt would be an area of further relevance and worthy of investigation.

Grewart and Abul-Magd survey militaries and economic actors in the Islamicate world, compiling the field analyses of local experts in nine distinct geographies to explore coercive power. Each military power’s origins, history, class structure, civil-military relations, and its role on the political economy are assessed. One theme is the arc of entrenchment and “embourgeoisment”, as the various militaries moved from Cold War rent beneficiary to the only credible counterpoise of Jihadism and radical Islam, thus presenting their Western enablers with a Hobson’s choice. Material growth and personal enrichment have supplanted national security as the raison d’être of these armed forces and their officers, who have benefited from “special privileges” (such as access to technology, availability of cheap labor from the
use of conscripts, privileges due to subsidies, budget autonomy, monopolies over goods, and control over strategic infrastructure). This was an excellent piece, with very good bibliographic direction for further examination at the country level, to see that military encroachment in economic matters is not unique to Egypt in the region.

6. The Free Officers and the Early Days of the Military Dictatorship


Comment:

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These books describe the dynamics and motivations of the initial coup that took place in the Arab Republic’s of Egypt founding. Details on landholdings, factions, and coalition-building are revealed and examined, including Nasser’s early dilemmas.

7. General


Comment:

These are very good surveys of the region, including multi-factor analyses of social, political and economic structures from historical and contemporary vantages.
I. Introduction: A Framework for The Analysis of Egypt’s Military Kleptocracy

Egypt has two living former Presidents. One is in jail, the other, in his late eighties, only recently released. Vigorous and assured, each of these men seized power in a violent coup or assassination and, in turn, were unceremoniously disgorged themselves. To be sure, قصر رئاسة الجمهورية is not an easy place to ascend, its imperium is not lightly bestowed. Egypt, long the frontispiece of Arabic world, the Middle East and Africa, stands as a complex geography.

This analysis seeks to link Egypt’s gangrenous corruption vis a vis military involvement with its implacable economic woes and discuss strategies for how Egypt can reform itself. That increased economic prosperity and stability will cultivate political stability is an underlying premise, though one assessed and validated with empirical analysis.

To test its thesis, four important premises are explored:

- Egypt’s economy is challenged/ suffering;
- The military is involved and exacerbating Egypt’s economic woes;
- Egypt’s economy has political relevance;
- The regime instability from Egypt’s economic precariousness can lead to both national and regional security issues

Thus, the overarching structure will have five pillars: (1) Egypt’s economic overview, including statistics (and how Egypt’s economic peril has become a national security crisis, or at least, triggered political peril); (2) the reasons for Egypt’s failure, weakness and tailspin, both historically and currently; (3) Egypt’s military industrial

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2 Qasr Ra’aisat-al-Goumheriya (Heliopolos). The Presidential Palace.
complex (its depth and havoc), including some discussion of not only Egypt but how Egypt’s military overreach/ expropriation can be ‘business-as-usual’ in Egypt’s peer countries (ie regional neighbors); ³ (4) solutions to ameliorate Egypt’s condition; and (5) prospective benefits from reform for Egypt and its neighbors.

This does not confine itself to Egypt’s military (though it is essential to discuss their critical role and Egypt’s “strong state” orientation) because their entrenchment is well-known and, in a certain way, impossible to ultimately prove (or get the documentation that irrefutably and precisely quantifies the impact of their corruption).

While an acknowledgement of the military’s unchecked interference in Egypt is problematic (and even more insidious than Egypt-watchers and the pundits/analysts may appreciate), this analysis accepts that the military’s meddling is going to be difficult to remove.⁴ In that sense, the military’s presence could be assessed as a tax or a constraint (though, in its current asphyxiating form, this presence is untenable). Thus, any discussion of solutions, reforms or coping mechanisms will strive for pragmatism within these parameters.

³ These include cultural, geographic and political peers, such as Sudan, Turkey, Jordan, Pakistan, Iran and Libya.

⁴ The military is and has been entrenched and, as discussed later, a sudden removal or extrication is unlikely. There is a strong belief on its part that the military produces the most capable project managers in Egypt and that its involvement does serve Egyptians’ best interests. Most of the senior managers in the economy’s largest entities are previous military leaders.
II. The Research Problem

There is no daily broadsheet or scholarly periodical dedicated to world affairs where the firestorm of Middle Eastern politics, military aggression, sectarian strife, economic malaise and social upheaval does not feature prominently in its contents. The Saudi-Iran “Great Game,” the pestilence of ISIS, the powder-keg of Syria, the relentlessness of proxy actors of Hizbullah and HAMAS, the re-emergence of Iran into the global dialogue, and the moral conflict of Turkey, and therefore, Europe, on the frontlines of refugee asylum-seekers are the new topics of the day, even superseding the outrage over the once unfathomable attacks on New York, London, Brussels and Paris or the longstanding concentration on the Arab-Israeli conflict. The Obama Doctrine (where a war-weary, exasperated United States has turned away from its historical strategic engagements in the Middle East in a pivot to Asia), the aloofness, provocative and selective xenophobia and occasionally schizophrenic diplomacy of the Trump Administration in the region, the assertion of geostrategic interests with military might by agitators such as Vladimir Putin, the languishing price of oil, the emboldening momentum of non-state fanatics and religious mercenaries, and the unwavering defiance of dictators such as Assad have lent an air of uncertainty to a region already dominated by shifting alliances and political fluidity. The failures and frustrations of even the most effective, nobly-intentioned diplomats are well-chronicled and understandable: “triage diplomacy” has long been on tenterhooks in the Middle East.

Egypt, in its way, has both succumbed to and been eclipsed by this hyper-chaos of nearby migrant crises, pitched military battle, and diplomatic fiasco. Certainly, *The Papyrus Revolution* and the flashpoints of Tahrir both inspired and horrified people the world over with hope and fear as they witnessed a three-decade
dictator in one of the most Western-friendly, “stable” Middle Eastern geographies topple within seventeen days of protests after his party’s 83% victory in parliamentary elections one month earlier. As the Muslim Brotherhood, the Egyptian Armed Forces, and the Mukhabarat shed blood on the streets in Cairo, killing and imprisoning rivals, journalists and innocents, the perception of Egypt in the global consciousness changed. The infallibility of Mubarak and his governing apparatus (which consisted of crony capitalists and his various appointees from the military elite) became questioned, especially as their abusive tactics of control and role in the political and economic deprivations of the country’s citizenry came to light.6


6 Under Mubarak, Egypt gained similar notoriety for its crony capitalism, where, in its overtures of privatization, business contracts went to close affiliates and relationships of the regime. Many of these former business men took on roles in Mubarak’s cabinet without any sort of political experience. This phenomenon of industrial magnates sharing power with Egypt’s bureaucratic elite during the last decade of Mubarak’s rule was the dictator’s attempt to secure financial patronage so his son, Gamal, could succeed him as president.

As Amr Adly, in his Too Big to Fail: Egypt’s Large Enterprises After the 2011 Uprising, Carnegie Middle East Center, 2 March 2017. wrote:

“The period between 2004 and 2011 was marked by an unholy marriage of private wealth and political power. The rising influence of businessmen over state decisions and laws translated into the advancement of the particular interests of politically connected businesses. This helped explain why the privatization of state-owned enterprises, trade liberalization, and the deregulation of state-dominated sectors proceeded apace after 2004.

“Following the 2011 uprising, many businessmen who were influential under the Mubarak regime saw their political role sharply reduced. As economic conditions deteriorated after the uprising, measures directed against large enterprises and their owners were reversed, on the grounds that these enterprises were vital for economic growth.”

This thesis will observe that, with the disposal of Mubarak’s crony capitalists, the SCAF and EAF stepped in to fill the void, furthering the military elite’s stranglehold over and presence in the economy.
Additionally, there became a startling realization that the status of Egypt as perpetually a protective bulwark for Western interests was far from assured. No parliament or global journal anywhere lacked impassioned discourse and grave concern.

Yet, after the ascent of Adbel Fatteh Al-Sisi to the Egyptian presidency, much of the world’s attention became deflected to more urgent crises in the region. Sisi and his cabinet of the Supreme Council of Armed Forces (“SCAF”) to many, including the United States, represented a return to dictatorial status quo, a tolerable, if unideal, government whose strong-armed absolutism would at least steady the country.

This uncomfortable complacency has recently given way to a recognition that the flare-ups in 2011-2013 in Egypt were not isolated one-offs. As Egypt has shunned its façade of stability and democracy, the machinations of its military autarky have become less condonable and there has been evidence suggesting Egypt’s problems are festering. These have been most visible in the economic sphere, where Sisi, in the February of 2016, begged his countrymen to use their mobile phones to donate an Egyptian pound ($0.11) to a vague relief fund and where he histrionically offered to sell himself if it would raise money.7 Additionally, as ISIS has consolidated and aggrandized its power (taking with it Egypt’s Sinai Peninsula, or one-eighth of the country), the Iran-Saudi feud has sharpened, and nearby regional (and global) economies have worsened, Egypt’s indispensability to regional stability, and therefore, global affairs, has become that much more acute. So too has the awareness of its vulnerabilities.

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World leaders have long wrung their hands how to deal with Egypt- whether to rebuke its authoritarian tendencies or to pitch woo for its geostrategic, even diplomatic, importance. In the West, debate has centred on how to initiate democratic reform and where to deploy military aid. Statesmen have been slow to understand that the leaders of Egypt’s Armed Forces prefer to speak dollars over ideology. Emissaries from Washington, London, Moscow, and Beijing have begged, wheedled, and lectured as well as patronized, indulged, and ingratiated Egyptian leaders to advance their interests. And, whatever stance has been adopted, the outcome has been broadly consistent: failure. Egypt has often done what it wants, playing the US off the Saudis off the Chinese off the Russians. As the chilly US-Saudi relationship has lapsed into a “Cold Peace” and a Saudi / UAE consortium has made more overt, aggressive encroachments, Washington has been left in a scramble to defend its interests.\(^8\)

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\(^8\) Michael Wahid Hanna, in “The Sisi Doctrine”, *Foreign Policy*, summarized Egypt’s internal agenda as well as its external criticality regionally. “Egypt’s posture in a tumultuous region echoes the nascent regime’s domestic efforts to consolidate power and reimpose repressive stability… But in this recurring cycle of cease-fires and violence, Egypt remains the only realistic choice for mediation”. 13 August, 2014.

Hossein Royvaran, a senior Middle East expert and former CEO of Al Aram Arabic broadcasting station in Tehran stated, “The Egyptian government has been able to maintain a balance between respecting its traditional allies - like the Saudis - and at the same time adopting an independent policy and stance in troubled areas like Iraq and Syria, which are close, though not necessarily in the same direction, to Iran’s views and policies.” Khazani, Omid, “Egypt-Iran: A Possible Thaw in Relations?”, Al Jazeera News, 13 March 2017.


\(^10\) Trager, Eric, *Sisi’s Domesticated Foreign Policy*. Hoover Institution, Stanford University, 8 March 2016: “Yet beyond these immediate concerns, the Gulf allies saw their generosity towards Egypt as an investment in their own long-term security. They believed that a strong Egypt, which possesses the Arab world’s largest army, would help them counter Iran’s expanding influence in Syria, Iraq, and Yemen.”
For all the re-emerging interest in Egypt, there has been comparatively limited recent discussion on Egypt’s burgeoning economic woes and the acknowledgement of these woes as an urgent national security risk. It is the Muslim Brotherhood and human rights abuses and extra-judicial social injustices (by each of the three regimes since the Arab Spring) that garner the most diplomatic and academic attention but certainly, as Tahrir demonstrated, a state’s failure to provide opportunities for a basic level of economic subsistence leaves a regime as fraught with a threat of annihilation as any political rivalry or external military threat could.

Egypt’s governors have long appreciated the inalienable link between economic fulfilment and regime stability. From the beginning days of Gamal Nasser’s presidency in the 1952, Egypt’s NDP leaders have embraced a seven-decade old statism that flourishes today under Sisi and his SCAF, where, in 2015, 74.7% of the population used government subsidies to buy food (including the richest 4.2%), 27.8% of the country lives in poverty, and, in 2012, 70.4% of all household income derived from some form of subsidy/payment-in-kind.\textsuperscript{11} Subsidies are one-third of

\begin{itemize}
\item For example, the Kingdom of Saudi Arabia, itself against militant Islam, supported the military coup in 2013 which put Sisi in the presidency and has been very instrumental as recently as the past six months with $20-$30bn announced Saudi-Egypt infrastructure projects “King Abdullah of Saudi Arabia and his foreign minister, Prince Saud al-Faisal, issued unequivocal pledges of support for Egypt’s military government and its crackdown on the Muslim Brotherhood…Prince Saud warned that if Brotherhood supporters demanding the restoration of President Mohamed Morsi were not swept from the streets of Cairo, ‘the blaze and destruction will not be confined to Egypt, but will affect all those who supported trouble.’ Deputy Crown Prince Muhammed Bin Salman has also stated Egypt will be an important part for Saudi’s Vision 2030 campaign. Thomas Lippman, Support For el-Sisi, What’s in it for Al-Saud, Middle East Institute, 3 September 2013.
\end{itemize}

government spending and as much a 14% of GDP in 2014 (up from 10.3% in 2004), an untenable situation with the country operating at a perpetual deficit in the mid-teens of GDP and where 92% of its GDP can go to servicing public debt.\textsuperscript{12}

However, the domestic turmoil that has beset Egypt this past decade has revealed that Egypt’s leadership has mishandled the mandate of their social contract. Specifically, the far-reaching Egyptian “Military Industry Complex,” enacted in its present form by Mubarak (and pursued even more vigorously by Sisi), is second only to North Korea’s and has set the avaricious interests of Egypt’s leadership in furious conflict with its citizenry. Egypt’s unchecked leadership has expropriated, plundered, and peddled Egypt’s most appealing resources exclusively for its own gain and, in so doing, has devolved from a sly-but-creeping military autarky to a full-blown kleptocracy.

This thesis foremost examines Egypt’s “Military Industrial Complex” and evaluates its political and economic implications to ask: “Is Egypt’s Military Industrial Complex a national security threat”? By carefully examined case studies of state economic transactions and development projects, it additionally considers the following questions: how entrenched in the economy are the Egyptian Armed Forces? What evidence demonstrates that the Military Industrial Complex, as practiced in Egypt, is a kleptocracy? What is the regime’s role in perpetuating this? What are the inherent dangers of a kleptocracy?

Much more importantly, it more broadly asks “can Egypt’s economy, and therefore its nationhood, be saved?” It seeks to devise coping strategies to arrest the deteriorating terms of trade and inspire growth. There is an emphasis given to

paradigms which have been adopted by countries, such as Iran, facing similar
demographic, geographic, and political obstacles to Egypt's and undertaken
successful transitions to examine “can these effectively be applied here?”.

Because kleptocracy, whether militarily or “crony capitalist”-induced,
suppresses the natural price discovery mechanisms of free markets and stifles
entrepreneurship, this thesis will hypothesize that the military kleptocracy of Egypt
has ravaged its economy and taken its nationhood to the brink of failure. One
immediate consequence is that the military industrial complex has torched the
economic viability of Egypt’s private sector, rendering the country “un-investable” by
outsiders unless they are willing to first supplicate themselves to the kleptocratic
regime and, more specifically, to the above market rents its extracts for its
collaboration and self-enrichment. One revealing demonstration of this is that,
unlike Brazil, Russia, India or China, there is not a single Egyptian multi-national
company that competes globally, nor a CEO of an Egyptian-based company whose
name is globally recognized. No one at Davos rhapsodizes over “Egyptian Tiger” or
“The Egyptian Model” for economic development? For the riches of Egypt’s leading
plutocrats, such as the Mansours, Sawirises, Sewedys, and Ghabbours have accrued
from what they distribute and the people they patronized, not for products they made
or innovations they created.

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13 Please see Section VIII on Crony Capitalists for the trajectory of private
entrepreneurship in Egypt. The stifling of private entrepreneurship and the historical necessity
of transacting first with the government (for both Egyptian and global multinationals) to
secure patronage created a military moat. Over time, the military’s seepage and enlargement
crowded out most to all forms of reckonable competition, rendering Egypt into a nationalized
economy in its most sizable and significant forms. This is not different than China in the
1950’s-1990’s or the Soviet Union for much of its history except, in Egypt, the military has
nearly no competing faction in its political scheme.
This thesis further hypothesizes that the consequences of Egyptian economic failure are immense. After Russia, Egypt is the largest, command market dictatorship in the world and it sits in a far more perilous region. Unlike the US, China, India, or even Russia, Egypt’s unique kleptocracy has created an economic “infrastructure” (i.e., pricing apparatus, rule of law, methods for transacting) that is not sustainable and is intricately interwoven with the country’s political machinery. Regime change may be ideologically desirable, but, even in Washington’s eyes, paradoxically not politically feasible, as a failed Egypt would create a lethal power vacuum. Saudi seems to understand the necessity of a strong and orderly Egypt, with King Salman making his first visit to the country as an immediate priority after his recent appointment to Saudi’s economic leadership (April 16th, 2016). Thus, this thesis will argue that Egypt’s economic problems belong not merely to it, but to the world, and that there needs to be great sensitivity, tact, and expediency in aligning the interests of global stakeholders with those that wield the fasces there.

To test its hypotheses, this thesis will concentrate on economic, financial, and statistical data from government and reputable, independent sources for its analyses and apply its quantitative conclusions in more predictive ways (versus historical explanatory) to advocate forward policy. Additionally, well-regarded specialist academic journals, periodicals, local and international newspapers will be utilized as well as with interviews with executives in the Egyptian private and financial sectors, academic experts and policymakers in the governments of Egypt’s trading partners, to cultivate a more comprehensive “mosaic” understanding and basis for diagnosis.

Academic discourse on Egypt in the 2010’s has largely been devoid of the empiricism from robust, pragmatic financial and economic analysis, concentrating almost entirely on the “softer issues” of political ideology. This thesis concerns itself less with “who did what when” than “what is the art of the possible” and how to enact change, using the author’s two-decade experience as an emerging market investor. Furthermore, most analyses of Egypt’s economy seem to center only on comparing Egypt to itself across various historical time-series and dictatorships. To my knowledge, there are no existing analyses of Egypt’s economy that comparatively assesses the country’s current fiscal and monetary challenges with other countries that have faced (or are facing) similar monetary, resource, political, and demographic constraints nor inferred from these global peer experiences what policies should be implemented to help Egypt thwart its present challenges in the context of its military constraints. (More rudimentarily, there are few contemporary comparative analyses of Egypt’s macroeconomy that reference countries outside the Arabic World, and none that conjecture how Egypt can concretely apply knowledge gleaned from the experiences of these successful states to arise from its economic stagnation.)

The desired contribution to the academic canon is to form a holistic “real-finance” assessment which diagnoses Egypt’s economic problems and propounds strategies that can feasibly be adopted to better the country while aligning the mutual US and global interests of peace and prosperity. The mentality of the Egyptian government to date has been zero-sum but, with deft policymaking and wilful,

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15 There are analyses on Egyptian economic development but the protean dynamics of political circumstance have dictated that are retrospective and geared towards the macro, occasionally disjointed an economic or ‘live’ market-orientation.

16 Egypt has a proud tradition of economic scholarship, including a former director of the World Bank, but commentators have observed the country does not have the same collaboration with academics, businessmen and government that other developed countries, like the United States, does.
constructive collaboration, there is a path where Egypt’s kleptocrats, citizens, and foreign investors can “win”.
III. Definition of Terms

General

Arab Organization for Industrialization ("AOI" or الهيئة العربية للتصنيع) - The largest of the three vehicles through Egypt’s military transacts its commercial interests.

Crony Capitalists - Appointees of the regime who were given protective and favourable monopolies or trading rights in exchange for their support of Mubarak.17

Financial Market Liberalization – Refers to: (1) the body of rules and regulations which enable free market forces to determine the clearing price of an asset in the debt and equity capital markets; (2) privatization of companies / assets, where the state divests controls to parties where profit maximization and shareholder value creation is the primary goal; and (3) a code of reporting regulations where financial

17 One such example is Mohammad Mansour, whose net-worth is $5.7 billion (estimated to be 2% of Egypt’s 2015 GDP) and who had 58 directorships and chairmanships as a private citizen, before being appointed the Minister of Transport. His flagship business empire, The Mansour Group, had near exclusive representation of nine of the top 500 companies in Egypt, employing 500 people. These included General Motors, Caterpillar, IBM, Hewlett Packard, Microsoft, and Credit Agricole in Egypt. He was also twice the chairman of the American Chamber of Commerce in Egypt and a former chairman Gamal Mubarak’s special committee called Future Foundation. As the decade progressed, he said, “opportunities came to us,” citing Philip Morris and McDonald’s.

Along with Mohamed Mansour, there was the Minister of Housing, Ahmed El Maghraby (Mansour’s cousin), Minister of Tourism, Zuhair Garana (also his cousin), Amin Abaza (Minister of Agriculture), Hatem El Gabaly (Minister of Health), and Rachid Mohamed Rachid (Minister of Trade and Industry).

transparency and governance are legally mandated and minority or non-state shareholders have means of redress for any financial or economic grievance.

Freedom and Justice Party (حزب الحرية والعدالة) – The political party of the Muslim Brotherhood and Mohammed Morsy, which won the 2012 election in Egypt, leading to Mubarak’s ousting. Chief political rival of Abdel Fatteh Al Sisi and the SCAF.

Fraudulent Conveyance – Selling an asset to which a person or party lacks title.

Import Substitution – Egypt’s strategy of elevating its own manufacturing, however cost-inefficient, by selective prohibition of multinational competition. The purpose is to stimulate innovation and stave off unemployment. It is a form of patronage.

Infitah (انفتاح) – Egyptian President Anwar Sadat's policy of "opening the door" to private investment in Egypt in the years following the 1973 October War. A set of liberalizing reforms designed to move away from statism (high subsidies in a command economy) to increase competition and accelerate financial market liberalization.

Kefaya (كفاية) - Grassroots movement to challenge and protest the passage of power of Hosni Mubarak to his son, Gamal. The previous dictator, Hosni Mubarak, had been attempting to lay clear the path through various informal and formal aggrandizements of his unelected son’s portfolio of responsibilities.

Kleptocracy – A severe and systemic problem with government officials or a ruling class (collectively, kleptocrats) extend their personal wealth and political power

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Kفاية translates as “enough” in Arabic
through repressive corruption and illegal or extra-legal means. Typically, this system (non-democratic and anti-democratic) involves the embezzlement of state funds at the expense of the wider population, without even the pretence of honest service or the solicitation of those being exploited.

Long Lived Egypt Fund- A public donation fund established upon Sisi’s initiative in June 2014 to collect 100 billion Egyptian pounds ($11.2 billion) to finance public works and infrastructure projects.\footnote{As of 2016, only 4 billion Egyptian pounds ($449 million) were collected, including 1 billion ($112 million) from the military. Adly, Amr, \textit{Egypt’s Regime Faces an Authoritarian Catch-22}, Carnegie Middle East Centre, 16 July 2016.}

Ministry of Military Production (“MoMP” or \\ذاعة التنتاج الحربى) - a parallel vehicle to the AOI.

Military Industrial Complex (“MIC”)– An informal alliance between a nation's military and the defense industry which supplies it, seen together as a vested interest which dominates public policy and the economy.

Mukhabarat (\مخاررات) - A term for Egypt’s intelligence and internal security services, the General Intelligence Directorate.

Muslim Brotherhood (\المسلمون الاخوان المسلمين) – A Sunni Islamist organization founded in Egypt by Islamic scholar and schoolteacher Hassan al-Banna in 1928, which combines political activism and Islamic charity work. Operates transnationally. Sponsor of Morsi and a conservative religio-political party with stated goal of instilling the Qur'an and Sunnah as "sole reference point for ... ordering the life of the Muslim family, individual, community and state."

National Security – A capacity to control those domestic and foreign conditions that the public opinion of a given community believes necessary to enjoy its own self-determination or autonomy, prosperity and wellbeing. In the eyes of
ruling party, it is self-preservation of the regime. Minimal requirements include an ability to govern in the interest of a citizenry, provide economic stability/subsistence, and protect from internal and external threats.

National Service Projects Organization (“NSPO”)- Created by Presidential Decree 32 of 1979 to utilize excess military reserves for state development.

National Democratic Party (الحزب الوطني الديمقراطي) – Political party of Mubarak, Nasser and Sadat, wielding uncontested power in state politics.


Praetorian State- A state where the security apparatus begins to usurp power and move from a supporting mandate to the centre of the regime. Praetorian states are nearly always a precondition for the promotion of kleptocracy.

Prosperity – A threshold of economic comfort and flourishing above basic subsistence. Often linked with education, health and self-determination.

Rents – Payment to a factor of production in excess of the cost needed to bring that factor into production.

Rentier State- A state which derives all or a substantial portion of its national revenues from the rent of indigenous resources to external clients. These resources can be natural resources, commodities or even geographic access. The granting of monopolies and trading restrictions for economic or military aid can the instruments of exchange. Often, conducive to the creation of a kleptocracy, it is the regime or the government, not the populace, that benefits from the rents derived. Longer term, domestic competitiveness weakens from a lack of investment or cultivation of internal resources.
Self-sufficiency – An ability or expectation for a people or institution to achieve prosperity independent of external subsidy. A by-product of free markets and neoliberalism.

Abdel Fattah Sisi (عبد الفتاح السيسي) – President of Egypt. Chief of the Egyptian Armed Forces and previously youngest member of the Supreme Council of the Armed Forces. Formally an independent politician but closely aligned with the SCAF.

Stakeholders – All of those who have a vested interest in an enterprise or institution.

Statism- The approximation a welfare state where a regime implements significant transfer payments (bribes) to its populace in exchange for such population’s broad acquiescence of the state to pursue an agenda without the solicitation and express mandate of its citizens.

Supreme Council of Armed Forces – A statutory body of between 20 to 25 senior Egyptian military officers and is headed by Field Marshal Abdul Fatah Sisi and General Sedki Sobhi (who also runs the MoMP). As a consequence of the Egyptian Revolution of 2011, SCAF assumed power to govern Egypt from departing President Hosni Mubarak on 11 February 2011, and relinquished power on 30 June 2012 upon the start of Mohamed Morsi's term as president. Re-emerged with Sisi, then the Army Chief, and has endorsed his presidency.

Tahrir Square (ميدان التحرير) – Location in Cairo on 25 January where demonstrations, marches, occupations, and acts of non-violent civil resistance and civil disobedience took place in 2011. Continued as a prominent place of demonstration against the MB later where violence took place.
Terms of Trade – The relative price of exports in terms of imports and is defined as the ratio of export prices to import prices. It can be interpreted as the amount of import goods an economy can purchase per unit of export goods.

Toshka (توشكي) - Ambitious, unsuccessful Cairo land redevelopment project where several contracts have been bid and awarded to the Egyptian Armed Forces and their affiliates. Also, known as “Mubarak’s Pyramids”.

Zabbaleen (زبالين) – Copt refuse cleaners/entrepreneurs in Cairo who lost their livelihoods in a criticized presidential decision to pander politically to the MB by killing their swine (which were part of the refuse removal apparatus).

Zero-sum – The concept in economics and politics that any gains must come at the direct expense of a competing party.

Economic Metrics and Rationale for Inclusion

There are a multitude of metrics, which are widely used to assay a nation’s economic salubrity, robustness and wherewithal. Additionally, there are some Egypt-specific ones that relate to its conditions from where it is in its financial, developmental or geographic life-cycle.

Economics can be, though not always, a reinforcing circle of virtue and so favorable data in one aspect can beget favorable data in another. But there can also be trade-offs. For example, a currency that is devalued can boost exports and, therefore GDP, but currency devaluation can be problematic if a country already has severe indebtedness to creditors outside its country. And similarly export-led growth can be a boon if there is a sustainable manufacturing advantage but it can also lead to a
dependency where a country’s economic trajectory may then fall outside of its own control.20

Some metrics (and their relevancies) this thesis will use to establish its points are below. Please note - Egyptian economic data, as published by its various ministries, can be conflicting and unreliable. Additionally, as described later, transparency is poor, especially in the realm of military affairs and economic activity, where it is classified as a state secret. Part of this is mitigated by the involvement of the IMF in restructuring Egypt’s loans multiple times, as recently as 2013 and 2014, as well as the status of the US as a significant financial benefactor.

a. Real GDP – Size of economy in real terms (ie non-inflationary), useful to establish benchmark and comparative significance/heft as a trading partner

b. Real GDP Growth- trajectory of growth, useful to understand efficacy of fiscal, monetary and industrial policies.

c. Unemployment- Percent of the population desirous of and eligible for work being able to, useful to understand slack and capacity in economy as well as social measures.

d. Underemployment- Percent that is meaningfully engaged at lever where work matches skill sets and ability to provide for self or families, useful to understand slack and capacity in economy as well as technological and productive arc of economy

e. Exchange Rate Valuation- Useful to understand terms of trade and purchasing power. Also, reflects outlook of trading partners on health of Egyptian economy

20 Egypt’s industrial structure – and its policy of import substitution- is low-technology and not low-cost given the leakage foreign multinationals must pay in government appeasement and/or how much subsidies the government must apply to maintain an entity.
f. Foreign Trade Balance- Measures a country’s reliance on imports or exports to achieve its self-sufficiency, useful to understand longer term structural issues (need to pivot to a domestic demand led economy, for example).

g. Foreign Currency Reserves- Ability for a country to purchase goods outside of its borders. This is relevant for Egypt because of its burdensome debt repayment schedule and because Egypt must procure most of its food externally. Because produces little domestically for export, it has had limited ways, outside tourism and Suez Canal rents, to replenish its currency reserves.

h. Inflation- Reflects an erosion of nominal wages and purchasing capacity. The significance, in addition to staving off social unrest, is the restrictions high inflation can have on monetary policy (Zimbabwe, for example, tried to reflate itself out of its debt which led to a run on its currency). A slow growing country with no real GDP growth and high inflation cannot raise the rates in needs to stave off inflation because it will suffocate growth. This has been a particular problem which has hurt Egypt’s growth.

i. Real Wages and Real Wage Growth- Reflects income after inflation. A household’s purchasing power.

j. Wheat Imports- Egypt’s population has surged, and with it the need to feed its citizens as the country has not made the requisite investments in agriculture to sustain itself.

k. Exports- Measures the demands for a country’s goods and its industrial and manufacturing prowess. High demand for exports from technical expertise is what propelled Korea and Israel when these had similar structural challenges in their developments to Egypt.
1. Stock Market- How global and local investors value a country’s companies (like a currency, a stock market can be a referendum on investor sentiment of economic prospects). This can be relevant if, as in Egypt’s case, (1) many companies have yet to be privatized and (2) many companies are listed where the government has a financial shareholding. A high stock market can reflect sentiment for a country’s economic trajectory and can also be used to attract foreign direct investment. Also, capital markets with a clear rule of law and proper liberalization reflect a perception of governance and can lower a company and country’s cost of capital. This is something with which Egypt has greatly struggled. There can be a wealth effect to citizens and a currency benefit, including a reserve build-up and tax base increase, to governments. Recently, Egypt imposed a 10% capital gains tax on its local investors, effectively trapping them and dis-incentivizing investment.  

21 “Egypt Imposes 10% Tax on Capital Gains and Dividends, *Ahram Online*, 2 July 2014. Accessed 18 January 2017. “We got a shock before and we saw the effect,” said Karim Abdelaziz al-Ahly Fund & Portfolio Management, referring to last month’s losses after the stock market tax was announced. One investor called the new taxes an “investor’s bogeyman.”
IV. Background of the Problem

All women and men of letters stand aware of Ancient Egypt’s riparian mystique, the powers of its Pharaonic dynasts, its cultural sophistication, and its scientific insuperability. Egypt’s maritime mastery, the lustre and sublimity of its library in Alexandria, the Daedal precocity of both its Nilotic agricultural methods and Cairene civil engineering, the architectural splendour of its obelisks and pyramids, and the enduring mysteries of its religion: these fabled achievements have cast a spell of wonderment and admiration on mathematicians, historians, geographers, emperors, kings, and armies alike. Cairo and Alexandria dangled not merely as jewels but as obsessions to conquerors no less reckonable than Xerxes, Alexander, Caesar, Antony, and Napoleon, who, gripped by Egypt’s tactical advantages and economic promise and seduced by its cultural singularity, dedicated their most ambitious military campaigns to pursuing this country, hoping to drink from its magnificence and access its profitable trade routes along the Mediterranean, Nile, and Red Sea.

Today’s Modern Egypt has morphed from model to menace, from cynosure to calamity, scholars confront pangs of nostalgia. Egypt still retains a centrality to world affairs but its status as mankind’s cultural and political apogee, and its testament to man’s potential, has long faded. Statesmen’s moods run even darker towards this once great country. Egypt’s “leadership” has betrayed its heritage and marauded its treasury with the severest forms of fiscal incompetence, monetary predation, resource despoliation, and political corruption.

22 Sisi, Morsi, Mubarak, Sadat, Nasser and all ranking members of the ND) and Supreme Council of Armed Forces.
The abstruse workings of Egypt’s economy, which might otherwise illuminate why eighty-eight former major generals retain attractively remunerated positions in the Ministry of Antiquities (وزارة الآثار), rival the inscrutability of the country’s Sphinx and hieroglyphics. There is no rule of law, yet, as a five millennia Pharaonic dictatorship, Egypt knows only the iron fist of law. And while the specific methods of subterfuge in Egypt’s economic management are unclear, its leadership and deleterious impacts are not. If the single biggest national security threat to Egypt is its economy, which this thesis shall argue, then Egypt’s military elite are the biggest transgressors and Sisi, in the tradition of Mubarak, is their biggest enabler. Eighteen out of the twenty-seven provincial governors are retired army generals, the Supreme Council of Armed Forces is estimated to control between 10%-60% of the economy.

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25 There is a great range of estimates. A former Minister of Trade, Rashid Muhammad Rashid, conceded “not less than 10%” in an interview with The New York Times, 17 February, 2011.
and the military size and budget, estimated as the 10th largest globally, remain secret under the pretext of national security.

The bloodshed and swiftness of coups and counter-coups in Egypt, where the mantle of leadership has passed from Mubarak to Morsi to Sisi, has filled its political power vacuum not merely with a rotation of dictators but also with the repression, desperation, smouldering resentment, and resignation of the Egyptian citizenry, a particularly tragic situation with 41% of its populace under 20 and 69% under 35.26 Egypt has been eclipsed politically and economically in the Middle East’s more polished corridors and مجالس.27 It wields none of the soft power and moral authority of Saudi, it has none of Iran’s ascendancy or its allure of unexplored foreign direct investment, and Egypt’s economic heft is neither of those two countries’ nor Turkey’s.28 At GDP per capita of USD $3,761,29 Egypt ranks a distant fifteenth in the Middle East and, on an absolute, only sixth even in the narrow Middle Eastern region. The UAE has twice the GDP and Qatar, with 2% its population and 1% its size, competes closely. Israel, a tenth of the population and a fiftieth of its size, with no

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27 Majaalis (Majlis-singular)- A general term used for the parliaments or seats of consensus-based (and often elite-driven) policymaking of Arab countries.

28 Egypt Ministry of Finance and Ministry of Planning: “State Budget” and “General Economic and Financial Outlook, Jan. 2016. The 2015 nominal GDP of Egypt is $331bn, the nominal GDP of Turkey is $798bn, Saudi Arabia’s is $726bn, and Iran is $416bn, according to each country’s respective Ministry of Finance and cross-referenced with the World Bank.

29 Egypt Ministry of Finance, Ministry of Planning, Section 1, p 1, General Economic Outlook, January 2016.
petro-resources but its own Arab entanglements, musters a GDP 10% higher than mono-ethnic Egypt’s.\textsuperscript{30}

While Egypt is not a global leader, it is a regional fulcrum. The prospect of Egypt as a failed state has unsavoury repercussions. Its stability, if not vitality, is a geopolitical imperative. It is not Tunisia or Bahrain, where active democracy or political reform are niceties. Certainly, the US recognizes this: Egypt is the third largest beneficiary of US foreign aid globally at $1.7bn a year\textsuperscript{31} (and has received $30 billion since 1978).\textsuperscript{32} The largest U.S. military training exercises on foreign soil take place in Egypt. As recently as 3 April 2016, a US Congressional Delegation led by Speaker of the House Paul Ryan and Senator Lindsey Graham visited Cairo to discuss “shared interests related to security, stability, and the fight against terrorism” as well as “visit projects related to supporting [Egypt’s] economic development” and stated that “Egypt’s stability is more important than any other time”\textsuperscript{33}. In February 2016, Secretary of Defense Kerry offered that it would be “the nightmare of nightmares if Egypt failed. It is complicated”.\textsuperscript{34} In the Trump Administration, Trump, referred to


\textsuperscript{31} $4.5bn to Afghanistan and Israel $2.4bn in 2014. This first came into being from the Camp David Accords of 1978 but was framed with an understanding of the need to ply the country with aid (or rents) to establish an enduring strategic relationship. This rentier mentality stemmed from Egypt’s long absences of investment in its industrial infrastructure.

\textsuperscript{32} USAid.com and https://explorer.usaid.gov/country-detail.html#Egypt. Egypt consistently ranks between 2-4 in the Middle East, which is the largest region where aid is dispensed. Accessed 9 July 2017.


\textsuperscript{34} Secretary Kerry Testimony, 25 February, 2016. \textit{State, Foreign Operations Review of FY17 State Dept. Budget Request}. Secretary of State John Kerry asserted in a congressional hearing on 25 February 2016 that “we’ve got a huge interest in making sure Egypt doesn’t go into a more difficult status than it already is”.\textsuperscript{34} Almost without precedent, the US has sought
Sisi as “a fantastic guy, who has done a tremendous job under trying circumstances”,
adding “We are very much behind Egypt and the people of Egypt.” 35 His Secretary of
State Rex Tillerson, in a press conference relating to the region where Egypt had been
referenced, stated he doesn’t believe in conditioning U.S. cooperation on human
rights standards and that doing so “creates obstacles to our ability to advance our
national security interests, our economic interests.” 36

For worse, however, Egypt, at the nexus of two populous continents and
vibrant trade routes, has long recognized its geostrategic value. In turn, this self-
awareness claims heavy responsibility for the country’s current straits. In its modern
history, complacency has paralyzed development: it has never had the urgency to
reform politically, to compete economically, or to innovate technologically. And
while Egypt’s agile foreign policy has been critical to preserving its survival, its sheer
to remove human rights conditions on granting aid, especially in light of competing interests
in the country.

In 2013, when Morsi was removed from office, Obama expressed disapproval: “we
are deeply concerned by the decision of the Egyptian Armed Forces to remove President
Morsy (sic) and suspend the Egyptian constitution. We call on the [EAF] to avoid any
arbitrary arrests of President Morsy and his supporters.” [Press release White House, July 3,
2013. https://www.whitehouse.gov/the-press-office/2013/07/03/statement-president-barack-

Yet, within three years, Obama’s emissary Graham stated “[we knew Sisi] was the
right man at the right time to lead Egypt, the transitional process, and to consolidate the rule
of law, human rights and the fight against terrorism.” This represents an astonishing amount
of flexibility, forbearance, and forgiveness: according to Human Rights Watch, Sisi’s security
forces killed 1,400 protesters and arrested 16,000 more in a single day (Raba’a Massacre,
العضوية رابعة massacre, August 14, 2013), including Morsi, who remains in prison and has been
sentenced to death, when usurping power. 34 3 April 2016, “US Congressional Delegation
Meets Sisi: Stresses Importance of Egypt’s Stability”, Egyptian Streets, April 3,s 2016
http://egyptianstreets.com/2016/04/03/us-congressional-delegation-meets-sisi-stresses-

35 Keating, Joshua, “Wait, Does the Trump Administration Care About Human Rights

36 Keating, “Wait, Does the Trump Administration Care About Human Rights
Now?”.
size has afforded it the luxury of concentrating its political focus inwardly. Modern Egypt has never had world-conquering pre-tensions. Rather, it has used its status for tactical advantage to extract “rents” to serve its interests and perpetuate the hegemony of its regime(s). In this vein, Egypt has also appreciated the virtues and benefits of stability. The oil trade has been 45% of its economy and the source of nearly 90% of its foreign currency reserves. Clearly, recent paradigm-shifting risks with the structural decline of the Suez oil trade leave it that much more vulnerable to outside encroachment disrupting broader economic stability. For example, Egypt’s external debt (January 2018) is at an all-time high of $81 billion USD, or 23.8% of GDP, while its total foreign currency reserves (as recently as 2013) stood far less at $7.3bn USD, only 9% of the funds needed to repay its foreign debt and less than three months-worth of necessary reserves for food imports.

37 Hazem Al-Beblawi and Giacomo Luciani, “Nation, State and Integration in the Arab World” observe: A rentier state is a state whose revenue derives primarily from oil and other sources. It is the main intermediary between the oil sector and the rest of the economy and thus has high leverage on society. This applies perfectly to Egypt, where the government and the military, under the pretext of national security, have been able to extract rents, collect and selectively disburse funds at its full discretion from: (1) oil; (2) Suez tolls; (3) worker remittances from abroad; and (4) direct government-to-government foreign aid. It is no small irony that Hazem Al-Beblawi was the Deputy Prime Minister after the coup against Morsi, whom he lost to as candidate in the 2012 presidential election running under the Egyptian Socialist Democratic Party. He defended the military crack-down on the Muslim Brotherhood and called for it to be legally dissolved. He has since returned.

38 Larger when considering the broader petrochemical and commodity complex.


Commercial International Bank Case Study- “This Trade is Pretty Crazy”

In May of 2016, a time when Egypt’s foreign currency reserves plunged to $12 billion USD (as little as only 30%-50% that was liquid and accessible by the Central Bank), Egyptians- at least, those wealthy enough to have a stock brokerage account- were so desperate for foreign exchange that they partook in an intentionally money-losing act of arbitrage.

Specifically, they aggressively purchased Cairo-listed shares of Egypt’s most liquid dual-class listed company, the Commercial International Bank. On receiving the shares, they converted them into German Depository Receipts (tracking stock) then immediately liquidated these share equivalents in London, where they could receive British sterling in exchange for shares they had initially purchased in Egyptian pounds. In the act of selling, they were taking as much as a 42% loss in London on a stock they had purchased seconds before in Cairo. The logic of the

Reserves Rose to Record High, $37.2bn in December 2017”, Egypt Independent, January 3, 2018.
ostensible lunacy was to obtain dollars (and flee the rapidly depreciating Egyptian pound) at nearly any cost.

“This trade is pretty crazy,” Luke Harris, head of arbitrage at Beaufort Securities in London, said of the GDR deals. “The only reason anyone would do this is because they must really want the currency. It’s purely to get the money out of the country.”

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It became later disclosed that much of the buying and selling was from corporates. This was not simply rich Egyptians looking to cosset their wealth. It reflected real and meaningful sentiment on the ground and severe concern that even Egyptian (or multi-national) companies had about the prospects for doing business in the country, and the challenges they faced financing their enterprises. Even something as currency, which many economists reasonably argue is a symptom of a disease, not a cause, was capable of wreaking havoc. The reluctance to make long- (or short-) term investments from such jitters over volatility leads to economic leakage and, as will be empirically demonstrated later, discourages investment, which, in turn, extinguishes GDP growth, not helping the average Egyptian in the square and on the street.⁴²

⁴² Namatalla, “Desperate for Dollars, Investors Line Up for a Sure-Fire Loser.” “In Egypt, clients using the CIB trade include major European consumer-goods companies as well as importers, according to traders at local brokerages who handle the business but spoke on condition of anonymity to discuss confidential information.”
“For multinational companies, arbitrage is a perfectly legal method of sourcing dollars, which makes it attractive in the face of an intensifying dollar shortage,” said Mohamed Radwan, head of equities at Cairo-based Pharos Holding. “Cost isn’t an issue for investors that are looking for a full exit or immediate access to hard currency, because they cannot afford to wait and risk further devaluation of the pound.”43

This became so prevalent that Egypt changed the law, insisting local investors be paid for GDR sales in London only in Egyptian pounds. While that is likely unenforceable, it could force locals to keep their hard currencies off-shore, further tightening remittances and capital flows.

Currencies, like a country’s market, can be perceived as a referendum on a country’s politics and economy. As one market expert assessed on the Commercial International Bank, “the fact that not many investors are taking advantage of the opposite trade -- by buying stocks in London and selling them in Cairo -- shows that they are still wary of coming to Egypt”.44

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43 Namatalla, “Desperate for Dollars, Investors Line Up for a Sure-Fire Loser.”

44 Hany Genena, Head of Research at Beltone Financial, 16 May 2016, Bloomberg News Interview.
Egyptian National Security- The Economy as “Paramount, Essential, Urgent”

“That statistic alone constitutes a socioeconomic time bomb,” Samir Radwan, Egypt’s Minister of Finance, January to July 2011, commenting on Egypt’s 2011 unemployment rate of 41% for those aged 19-24 and 25% for those aged 25-29. 45

The lifeblood of any nation is its economy: no political regime can sustain its power and legitimacy without a minimal threshold of economic stability. 46 Melani Cammett’s, Ishac Diwan’s, Alan Richards’s and John Waterbury’s A Political Economy of the Middle East argues that “Economic governance is tied tightly to the political governance that is put in place”. 47

Both Eastern monarchs and Western elected officials agree, though assert the primacy of economics. King Abdullah of Jordan observed, in an October 2011 interview in The Washington Post, “[t]he Arab Spring didn’t start because of politics;

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46 James O’Connor, “The Fiscal Crisis of the State,” 1973, Transaction Publishers. O’Connor sought to understand how a state in modern times can suffer from a constant budget deficit. He wrote: “the capitalist state must try to maintain or create conditions in which profitable capital accumulation is possible. A capital state that openly uses its coercive forces to help one class accumulate capital at the expense of other classes loses its legitimacy”.

47 Cammett et al. model a three-pronged framework as the three main axes of the Middle Eastern political economy that incorporates the co-dependency of (1) structural transformation, (2) state structure and policy and (3) social actors that influences the state, the economy and society. They emphasize the development of the economy increases incomes and creates a middle class and, thus, its influence on society, as well as on governance and the economy is profound. Melani Cammett’s, Ishac Diwan’s, Alan Richards’s and John Waterbury’s, page 15, A Political Economy of the Middle East, Westview Press, Fourth Edition, 2015.
it started because of economics—poverty and unemployment. . . if people are going to get back on the streets, it is because of economic challenges, not political.”

Secretary of State Kerry has also linked monetary aid to political stability when he was hastily dispatched to Cairo to advocate for an IMF aid package and loan restructuring. He implored a delegation of Egypt’s leading business executives, along with US peers in attendance, “it is paramount, essential, urgent that the Egyptian economy get stronger, that it gets back on its feet”. And it is telling that the pliability of Egypt’s foreign policy, modern and historic, has consisted of “serving as subject” for the highest bidding suitor: the Ottomans from the 16th through 19th centuries, the French then British in the early 20th century, the Soviets in 1960’s, the US in the 1970’s-early 2000’s, and the Khaliji present day.

On the eve of 2011 Tahrir Square protests, as much was recognized by Gamal Mubarak, who had been long-groomed to take over from his father:

"We need to immediately start a second wave of reforms ... that are more ambitious and more daring. Much has been achieved but the goals are far greater,” he said in an address at the party's annual conference.

"The concerns, problems of Egyptians and the need to raise their standard of living will remain and continue to be our main preoccupation and the pivotal part of our party's endeavors,” he said.

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50 Whereupon Britain pressed the profligacy of the Khedive’s lavishness to enter and stabilize Egypt. Parallels with US and British tactics and engagement in 20th century Persia (bolstering a ‘Puppet Leader’) may be a relevant analogue.
“In the five years ahead of the next parliamentary election in 2015, the party needs to create more jobs, increase non-oil exports, nearly double the number of tourists coming every year and lift a million families out of poverty.”\(^51\)

Outside commentators have also taken note:

“For the thousands of young men and women who joined the revolution in Cairo’s Tahrir Square two years ago, youth unemployment was a driving issue. In country where 51 per cent of the population is under 25, their main demand was simple: an economy that would employ them.”\(^52\)

And Hafez Ghanem, Vice President of the World Bank for North Africa and the Middle East, Senior Brookings Fellow for Global Economy and Economic Development, and an Egyptian himself, asserted in a presentation called “Egypt’s Difficult Transition: Why the International Community Must Stay Economically Involved”:

“Economic decline contributed to the current situation in Egypt. Morsi’s ouster underlines the importance of both consensus-building and economic growth for the success of the transition process. The Tamarod movement was started by revolutionary youth who felt that Morsi and his Muslim Brotherhood had excluded them from the political process.”\(^53\)

Of course, Egyptian policymakers have understood rage on the streets too, continuing with a long-standing tradition of subsidies on items such as bread at the equivalent of less than an American cent a loaf, petrol at less than 20 cents a litre (barely a tenth of

\(^{51}\) Hendawi Hamza, *Mubarak’s Son Promises More Economic Reform*, Associated Press, December 26, 2010. “Mubarak junior, a banker-turned-politician, has been closely associated with a clique of rich businessmen since his ascent through the ranks of the ruling party began a decade ago, giving many Egyptians the impression of him as a "rich boy" with little understanding of the hardships endured by the poor. Sunday's speech sought to dispel that notion.” Gamal Mubarak has been associated with elevating the clout of Egypt’s crony capitalists.


its price at pumps in Europe) and cooking gas at 7% of its actual cost.\textsuperscript{54} The failure to reform this system has ironically pushed it to the brink of collapse, though its history and practice of patronage is not the only explanation for Egypt’s agony.

Economic desperation led Mohammed Bouazizi to set himself aflame in Tunis. Gaza’s youth unemployment rate of 58.1\textsuperscript{55} surely has contributed to hostilities Israeli-Palestinian\textsuperscript{56}. The economy’s role in shaping stability is no different in Egypt: according to its own government, 23.6% of its youth are unemployed and 51.2% live in poverty,\textsuperscript{57} a plight drawn into sharper relief when one learns that 52% of Egypt’s labor force comes from its youth,\textsuperscript{58} presenting a residual problem to its neighbors with the number of Egypt’s economic refugees increasing 17% in 2015. It is hard to imagine war-torn border countries as Libya, Sudan, or Gaza, or ones as proximate as Syria offering better prospects for prosperity to untrained, inexperienced workers. It was these same unemployed youth and family men who stormed Tahrir, not doctors, engineers, bankers, or lawyers. ISIS’s parallel emergence is not coincidental. Egypt’s economic problems belong to the region, and, therefore, the world more broadly.

\begin{flushright}
\begin{itemize}
\item \textsuperscript{54}“Egypt’s Economy: Going to the Dogs”, \textit{The Economist}, 30\textsuperscript{th} March 2013
\item \textsuperscript{55}Worsening with half of the population below 15.
\item \textsuperscript{58}Central Agency for Public Mobilisation and Statistics, August 8, 2015.
\end{itemize}
\end{flushright}
If national security is identified through the eyes of rulers as regime preservation, then Egypt’s economy is the central nervous system of its national security. The shortcomings of Egypt’s leadership precipitated a catalyst for change seen in Tahrir at the hands of the Muslim Brotherhood and Kefaya movements. Failures and deficiencies in the provision of services - food, water, infrastructure, healthcare, social welfare and security, waste management, education - not only led to citizen revolt, but capital flight as Wall Street investors and sun-seeking tourists alike fled the country and the economy with it. In the depths of the post-Tahrir days of violence, even Egypt’s most traditional backers (Saudi Arabia, Turkey, Qatar), became squeamish, forcing Egypt to turn to Libya and Iraq for helping in stanching the flow of its foreign currency reserves.

In Egypt, where nearly 50% household of income can go towards food, the citizenry was rioting for sustenance, not gratuitous civil rights. Mubarak and Morsi were ousted for their incapability of adhering to a social contract expressed in modest economic fulfilment, which consists of a bowl of فول مدمس, potable water, subsistent housing and a prospect of hope.

And so, establishing the connection between a nation’s economy, its national security, and regime preservation, it is appropriate to explore the roots of Egypt’s economic challenges.


60 Ful Mudammas- Street food (fava bean stew) in Egypt
V. Situation Overview – Egypt’s Macroeconomy

Egypt’s economy is woeful. Its problems are legion. Hyperinflation, a non-existent private sector, a ransacked treasury, hopelessly uncompetitive manufacturing, a crisis of food and water security, crumbling infrastructure, ill-defined property rights, a plunging pound, attenuating foreign currency coffers, an asphyxiating bureaucracy, and the Malthusian hellscapes of its demography are the first dozen.

Egypt’s Hermes Index, measuring the total value of Egypt’s listed companies, and the Egyptian pound—both a referendum on how investors perceive Egypt from abroad—are at post-Global Financial Crisis lows. Numbers to quantify this further include (please see the Structural Problems and Appendix I sections for a sample of select macroeconomic time-series analyses):

- In the last 50 years, Egypt’s economy has run a deficit each year.
- Egypt ranked 114th out of 170 countries in the 2014 Global Corruption Perception Index. Particularly impressive is Egypt’s score of 2.8 out of 10 with 5 or below the threshold for corruption.


“Egypt’s economy is a shambles. The country’s central reserves, needed to defend the local currency against devaluation, have been reduced to a “critical level”. Reserves have dropped from $36 billion before the Egyptian uprising to just $15 billion today. Credit-rating agency Standard & Poor’s has downgraded Egypt’s long-term credit rating to “B-”. The tourist industry, a major part of the Egyptian economy, is almost non-existent. Power failures are getting worse. Queues for diesel and cooking gas are getting longer. 3.5 million Egyptians have lost their jobs in the two years since the Mubarak regime was overthrown. The national poverty rate is over 25 per cent, while in regional and rural areas, where 57 per cent of the population live, the poverty rate is 69 per cent.”

Ironically, Cairo is home to Africa’s only subway system.

See Appendix I for Bloomberg and various other time-series analysis from macro databases (OECD, World Bank). Each graph has its source info.

There is no reason to think it is not longer.
The army controls no less than 10% of the economy but with many enlightened estimates as high as 40%-80%. No one knows precisely. As transparency has worsened and what may be counted as “private enterprise” can come from crony capitalism or military holding companies. Additionally, with the number of both active and retired generals maintaining significant executive positions, that which may be formally not characterized as “military-controlled” functionally is.

- 26% are below the poverty line (69% of those who live in rural regions are below)\(^6\), 43% live below $2 a day.\(^7\)

- Real GDP growth has fallen from 7% to 2% (though MRQ was 4.2%). Per Capital is 0%


• The Egyptian Pound was devalued 13% on 14th March 2016 and has fallen 63% from E£5.30725/ USD 10 August 2008 to E£8.8789 / USD on 8 April 2016. It became devalued once again in 2017 and now is E£17.68/ USD, representing a 70% plunge for a country with already significant external debt.

• Exports are down 52% since the beginning of The Papyrus Revolution

• The Black Economy is estimated to be 40% of GDP

• Private transfers and remittances are 30.3% of current account receipts, exceeding Non-Oil Exports (21.1%), Oil (13.8%) and Tourism (11.6%) in Fiscal Year 2014/2015

• The Cairo-Alexandria Stock Exchange fell 41% in nominal terms in the past 18 months ending April 2016 (before recovering in Egyptian pound but not US dollar terms). The CASE has underperformed the Morgan Stanley Emerging market index by 30% in the last decade. In the last decade, the CASE has had no appreciation (down 31%). On a 15% average inflation level, real returns are significantly negative. It is also down 29% since Tahrir.

• Government Debt has surged from 112% of GDP to 91% and increased by a factor or 344%.

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68 Bloomberg Currency Charts, April 2016 and February 2018.
72 Bloomberg, 8 April 2016.
73 Bloomberg, 8 April 2016.
• 13% “official” inflation. Food is 16% (as high as 22% in August 2010).  

• Egypt’s foreign exchange reserves have plunged 63% by mid-2016. This is problematic as non-Egyptian Pound denominated debt has risen (and is 6x the forex reserves) and food imports, in light of the pound devaluation, have become 60% more expensive. These recovered only after the country aggressively devalued its currency by a greater amount, the way Zimbabwe did.

• Egypt also imports about 75 percent of its wheat, mixing the superior foreign wheat with lower-quality domestic supplies to improve its subsidized bread.  

    Egypt wheat imports are up 40% since 2005, outpacing population growth. As the currency plunged during Tahrir, wheat imports fell by 25%.

• Official unemployment is 13%, excluding subsistent sinecures and black economy jobs. Realistic living wage unemployment is closer 25%. Youth unemployment is 26% or worse.

• Ease of doing business is 112th in globally, behind Swaziland and Zambia. There is a hostility towards entrepreneurship – it takes 78 different agencies for permits for investors to start a company.

• 3 million returning workers from oil slump, adding another 12% (or double) to unemployment

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77 Ministry of Finance and Central Bank of Egypt, 2015; Bloomberg, 8 April 2016.


79 Interview with Ashraf Salman, “The Lure of Sisi: Egypt’s Economy, The Economist.”
• Estimated needs of 650,000 jobs a year to sustain new entries for the workforce (and feed its population) → Worsening as Egypt’s birth rate of 2.6% brings 2 million new children into the world

• 70.4% of household income is derived from the public sector.\textsuperscript{80}

• 7.2 million (26%) of the labor force works in the vast Egyptian public bureaucracy

• Egypt runs a deficit at 12% of GDP and 48% of Consolidated General Government Revenue.\textsuperscript{81}

• Egypt has never run a surplus and deficits on average over the last five years have been 8-13% of GDP and been 32-61% of total government revenue.\textsuperscript{82} In the last 15 years, Egypt has swung from a surplus to a significant debtor nation.

• Egypt’s subsidies in energy make it a net importer,\textsuperscript{83} Running a $2.6bn foreign trade balance

• 25% of government spending goes to food, electricity, fuel\textsuperscript{84} but that number may be much higher.\textsuperscript{85}

• 31% do not attend secondary school, only 50% who do attend finish. 19.5% of adults cannot read. 91% of women have genitals mutilated, 90% of men and

\textsuperscript{80} COMPAS

\textsuperscript{81} Egyptian Ministry, General Economic and Financial Outlook, p4, 2016, Section 1. E£254.7bn deficit on E£519.5bn revenue.

\textsuperscript{82} Egyptian Ministry, General Economic and Financial Outlook, p4, 2016, Section 1.


\textsuperscript{84} Financial Times, “Egypt Reduces Budget Deficit with Cuts to Fuel Subsidies”, 9 Nov 2015.

\textsuperscript{85} Ragui Assaad of the Economic Research Forum in Cairo estimates that 30% of government expenditures are for fuel only.
women have experienced violent punishment, 49.5% of all are births are to adolescents.\textsuperscript{86}

- Doctors six years out of training can make as little as $50 per month.\textsuperscript{87} A public-school teacher in Egypt can make more than $26 per month, suggesting the per capital GDP figures of $1400 are grossly inflated by “The Have’s”\textsuperscript{88}
- It is estimated half of the 468,000-troop military are conscripts whom received between $17-$28 per month.\textsuperscript{89}
- 4,500 factories closed down within eighteen months of Tahrir \textsuperscript{90}


\textsuperscript{87} http://english.ahram.org.eg/NewsContent/1/64/21254/Egypt/Politics/-/Egypt-doctors-continue-strike-over-minimum-wage-.aspx. Accessed September 28, 2016


Other Indictments

- The Ministry of Finance never publishes a final balance sheet. There is only budget, making it intractable to see where monies actually went. One can only get incomplete accounts in an “eyes only,” special permissioned room at the Ministry of Finance.\(^\text{91}\)

- There are 500,000 lawsuits a year against the state\(^\text{92}\)

- There is no formal oversight for the tax collection enforcement agency

- Egypt’s anti-corruption authority, the ACA (Administrative Control Authority), reports to no one. Its 32-page anti-corruption strategy is hopelessly vague with no metrics or accountability. It doesn’t even specify or delimit the role or influence that each member of the National Coordinating Committee for Combating Corruption can have.\(^\text{93}\)

- ACA officials, on behalf of the Ministry of Interior and itself, hid $9.4 billion of state funds in thousands of unaudited commercial bank accounts and spent it.\(^\text{94}\) This approximates 5% of the economy.

- In 2015, Mekameleen channel in Istanbul broadcast a series of leaked audio recordings of Sisi and his Chief of Staff Ahmed Kamel apparently discussing the

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\(^\text{92}\) Soliman, *The Autumn of Dictatorship*, p34.

\(^\text{93}\) [http://www.aca.gov.eg/arabic/AntiCorruption/Documents/Strategy.pdf](http://www.aca.gov.eg/arabic/AntiCorruption/Documents/Strategy.pdf) The final six pages, which set forth those anti-corruption benchmarks that Egypt’s police and intelligence services would have a role overseeing, and the timeframe for which they are to be implemented, are conspicuously absent from the truncated 20-page English and 23-page French translations that the committee circulated in order to avoid accountability.

\(^\text{94}\) Nizar Manek and Jeremy Hodge, Foreign Affairs, 26 June 2015, “Sisi and His 40 Thieves”
movement of $30 billion of Gulf aid into accounts operated by the army.95 Other leaked conversations between Kamel, Sisi, and various Gulf dignitaries reveal plans for Gulf aid to be transferred to various army figures through bank accounts operated by the Tamarod activist movement, which helped spearhead protests against Morsi in June 2013.

95 http://www.dailysabah.com/mideast/2015/02/08/leaks-reveal-egypts-sisi-despises-gulf-countries
VI. Origins of Egypt’s Military State- Comparative Political and Historical Frameworks

“Egypt’s semiautonomous military institution has been visibly, or often invisibly, hegemonizing the country’s politics and economy throughout the past six decades. It could be argued that military penetration in Egypt has seeped into the urban spaces of all social classes of the population toward their full subjugation.”  

“In sum, Egypt’s failure to perform to its economic potential resulted chiefly from internal political pressures to maintain increases in public consumption while not mobilizing sufficient revenues from domestic sources and, especially until 1974, foreign policy overstretch. Major economic reforms tended to be introduced only in the wake of a military or economic crisis that eliminated all other options”

“The message was unmistakable: the rules that apply to the rest of Egypt do not apply to the military, still the single most powerful institution in an autocratic state facing its toughest test in decades, an imminent presidential succession.”

While modern-day Egypt conjures images of military dictators equally despised and depended upon by the citizenry, it is important to note that this was


neither intentional nor necessarily always the case. The military leadership was born of frustrated though-not-nefarious social vigilantes (if not quite idealists) who sought to dislodge the landed gentry from their disproportionate holdings, where some 0.4% of the population controlled 34% of the cultivated land. And it was not a foregone conclusion that Egyptians had to suffer as they have over the past three to six decades. In 1964, for example, Egypt had nearly the same real GDP per capita as South Korea. Both countries had similar- sized population of between twenty-eight and thirty million people.

Over time (and before accounting for the Arab Spring and the surging technology- and manufacturing-oriented South Korea economy in the past decade), however, Egypt’s real GDP per capita has increased 3.5-fold while South Korea’s surged increased 12-fold.

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100 In 1964 Egypt’s per capita GDP was $1,620, while South Korea’s was $1,983 (in 2005 constant prices). Masoud, Tarek, “Egypt” article, excerpted from Ellen Lust’s *The Middle East*, SAGE Publications, 2015.


The compounded, longer-term magnification of this is captured in the graph below. This Y1-axis shows the market capitalization of South Korea as of February 2018 is worth $1.4 trillion USD, while Egypt’s (Y2-axis) is a mere $82.7bn. In essence, South Korea’s listed companies command 59-fold the value that Egypt’s do. South Korea’s nominal GDP was $53 billion USD in 1964, today it is $1.5 trillion, representing a 28-fold increase and a 6.2% fifty-four year CAGR. Such growth and performance has inspired domestic and foreign director investors to value the KOSPI Korean Stock Index at nearly one-times GDP. Egypt, on the other hand, sees only market capitalization investment of 18% to GDP levels. Its GDP has grown only sevenfold from 1964 in total nominal terms, a 75% discount to the South Koreans,

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103 Bloomberg analytics, 13 February 2018


particularly bewildering given the population is twice South Korea’s size and Egyptian inflation has run into the teens annually. Moreover, South Korea has consistently attracted foreign direct and the investment percentage of market capitalization to GDP has only grown. Thus, a cycle of virtue is created— for every dollar South Koreans make, investors reward them with another by investing in the country. Egypt, by comparison, gets cents on the dollar, reflecting little conviction in its prospects or belief in its wherewithal stability.

Figure 6. Time Series of Egypt vs South Korea Total Market Capitalizations 107

Perhaps the most eloquent damnation of the longer-term pernicious effects of Egypt’s statism and military kleptocracy is evinced by a more recent empirical reference. The graph below indexes the total market capitalizations of Egypt and

South Korea against each other for the last decade only. This enables us to isolate previous regimes and to see that, regardless of the starting point, Egypt, in the eyes of investors, is staggering to stand upright, while Korea has soared into the sunlit uplands of pecuniary rapture. It is especially noteworthy that since Tahrir, according to this metric, the deterioration of economic conditions has only sharpened.

Figure 7. Egypt’s and South Korea’s Total Market Capitalizations -Comparative

What is nearly tragic about this scenario is that the Alexandria Stock Exchange was founded in 1883, and is one of the oldest in the world. Seoul did not open its publicly traded bourse until 1956. Korea trades $600 million-$1 billion a day,

108 Author calculation using Bloomberg analytics, 13 February 2018


whereas Egypt’s combined Cairo and Alexandria exchanges are as little as $20mm.\textsuperscript{111} It is not that are not even global investment banks operating in Egypt, and that nearly every large global investment bank has an office in Seoul. It is that virtually no equity research exists on the country’s leading stocks, leaving potential investors puzzled as to how even they could invest in the country. Egypt remains a thematic afterthought for a frontier market (in the best cases when it isn’t being lamented as case of a possible terrorist risk that could disrupt markets) for global allocators of capital. This is disconcerting for a country of its size.

It is therefore critical to consider how the political architecture of ‘socialism-run-riot’ and the overwhelming military presence that have simultaneously characterized and bedevilled Egypt’s economic trajectory came into being. And what inspired the two such starkly different results between it and South Korea.

A comparative, historical political science framework enlightens our understanding as well as a discussion of Egypt’s first post-colonial days in 1952 as the country moved beyond King Farouk’s reign.

Korea and the Asian Economic Experience

Former South Korean generalissimo-cum-politician Park Chung-hee once remarked, "In human life, economics precedes politics or culture".\textsuperscript{112} While Park, who oversaw the underpinnings of the Korean economic transformation, was later unceremoniously shot by the Korean Central Intelligence Agency chief amidst a

\textsuperscript{111} On Thursday 22 February 2018, the HERMES Index trades $21.9 million USD, whereas the Seoul KOSPI traded $675 million. Bloomberg Data.

\textsuperscript{112} SaKong, ll. 1993, p24. Korea in the World Economy. Washington: Peterson Institute for international Economics.
dinner argument, there is little question of the profound impact the enactment of
his vision and the primacy he and his ruling elite placed on prosperity and
development had on his country’s political ascendancy. As Marcus Noland, a senior
economist at the Council of Economic Advisors and economic historian, remarked,
“despite considerable external threats, in South Korea and Taiwan both governments
sought legitimacy through economic prosperity. We know of no equivalent statement
by an Arab autocrat elevating economics above political or cultural or foreign policy
concerns. Instead, in the Middle East authoritarian governments have tended to
encourage the externalization of discontent associated with relatively poor economic
performance or to channel it into quixotic pan-Arab projects.”

This latter statement, what economists might colloquially phrase as “kicking
the can down the road”, suggests policymaking in the Middle East has sought first
to appease malcontents, rather than address structural issues that could later challenge
growth. This bartering for power and refusal to implement austerity or adopt more
visionary leadership beleaguered Egypt from its outset under Nasser, the successor to
King Farouk.

113 Chapman, William. “President Park Killed in South Korea”, Washington Post
Foreign Service, October 27, 1979. It is not clear if his tableside murder was sparked by an
economic donnybrook.

114 Noland and Pack, p.36, The Arab Economies in the Changing World, Peterson Press,
2008. While not discussed in Noland and Pack, there can also be anti-Israel rhetoric
conveniently deployed to score political points at home or with Islamicate neighbors.

115 Used in reference more currently to the hyper-quantitative easing and implementation
of ZIRP the Federal Reserve has undertaken since the global financial crisis of 2009.
Economists, even with Keynesian tendencies, suggest such an approach, done to both stave
off further crises and to enhance confidence (and win votes), will have long run disastrous
effects. Ben Bernanke in a Feb 3, 2011 interview recognized the term:
example related to the Bank of England is https://www.reuters.com/article/us-britain-boe-
bonds/bank-of-england-kicking-can-down-the-road-on-qe-purchase-shortfall-
While it is easy to ponder what Egypt “could have” and “should have” done, context matters. David Waldner, in his seminal State Building and Late Development, maps the ascent of Korea and Taiwan against that of Syria and Turkey.116 Waldner’s research, which concentrates on the causal significance of economic and political institutions, probed foremost the variable of rivalry between political elites to explain comparative economic success or failure.117 Through the exploration of micro-level choices made by these elites, Waldner was able to divine the role of state-building in economic outcomes.

The role of elites as a critical determinant of economic destiny is also emphasized in four other political science rubrics. Robert Springborg identifies “praetoerian states” as those which rely on a narrow coalition of elites or a repressive system led by family or tribe.118 They initially are granted a narrow mandate, often in a security of civic oversight capacity, from which they begin to usurp broader


Hazem Khaled Kandil, in his exhaustive 717-page doctoral dissertation entitled “Power Triangle: Military, Security, and Politics in the Shaping of the Egyptian, Iranian, and Turkish Regimes”, UCLA, 2012, pursues a similar argument (though he does not reference Waldner as his work, while comparative, does not assess one state’s success economically versus another’s as much how three states and three different times evolved the way they did due to inter-elite rivalry).

Kandil explains why similar coup-installed regimes in Egypt (1952), Iran (1921), and Turkey (1923) developed along different political trajectories (authoritarianism, royal absolutism, and democracy, respectively) and argues that, while most studies of regime change tend to underline popular forces, they fall short because any regime change cannot be fully comprehended without a grasp of the shifting power balance within the ruling bloc. Kandil asserts that the divergent paths of these three countries “were determined by the ensuing power struggle between the military, security, and political institutions”.

117 The power and validity of Waldner’s study is that he spends extensive time demonstrating that Turkey and Syria in the 1950’s and 1960’s differed in nearly every economic and political aspect except one: they both had levels of elite conflict resolved by popular sector incorporation. Pages 53-95 and 126-178 detail this.

authority. (Springborg also uses the distinction of bunker states vs bully state, of which Egypt is the latter). Mushtaq Khan observes a multitude of Middle Eastern governing schemes that are built on political settlements whereby economic power is distributed by a forged political settlement.\textsuperscript{119} Thomas Parks and William Cole additionally highlight the centrality of elites in creating political settlements, based on an expression of common understanding.\textsuperscript{120} This is generated from informal processes of “conflict, negotiation, and compromise” from which “governance, stability and the quality and pace of development flow”. Finally, as Amr Adly pertinently observes of Egypt in the build-up to Tahrir, “the succession question also reflected tensions in the elite, as the circle of businessmen around Gamal Mubarak appeared to be antagonistic toward other influential groups, especially from the civilian and military bureaucracies. There was competition for access to state-owned assets as well as disagreement over the scope and pace of privatization and liberalization.”\textsuperscript{121}

These models are appealing descriptors of Egypt- with its narrow coalition and its post-colonial settlement-based bestowal of power, as we will discuss. Though the country is not explicitly mentioned or referenced, Waldner’s assessment also bears direct relevance for Egypt, less in term of its similarity to Turkey or Syria than the comparison of what Egypt was not compared to Korea and Taiwan. He found that not only does the nature of the rivalry of the elite matter but so too does the timing of when such rivalry occurs within a nation’s pivotal moments - for Korea, it was the war; for Egypt, it was the coup. Waldner also analyzed how elites designed policies to


\textsuperscript{121}Adly, Amr, Too Big To Fail, Carnegie Middle East Center, 2017 and “Triumph of the Bureacracy: A Decade of Aborted Social Change in Egypt, Jadaliyya, January 31, 2015.
reflect their preferences and the instruments by which elites implemented policy, as well as the capacity of interest groups and social classes to contest such policy. Using a model he referred to as “Kaldorian” and “Gerschenkronian” dialectic, he concluded that the timing of popular sector incorporation relative to state transformation and substantial industrial development best explains results of sustained efforts to achieve economic development.

Figure 8: Waldner’s Explanatory Models: Elite Rivalry, Coalition Building and Economic Result

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122 One theme in *State Building and Late Development* is that institutions determine relative ease with which factors of production can be reallocated in response to changing economic conditions. Economic development is assessed and defined as “changes in economic structures or processes that enhance the capacity to create value”.

123 Pages, 197, 200. According to Waldner, a Gerschenkronian dilemma impedes capital accumulation and investment in new industrial plants whereas a Kaldorian obstructs efforts to enhance econ performance of existing industrial enterprises (including upgrading productivity, lowering costs, improving quality of goods) or making factories more efficient and moving up the spectrum of productivity.
In all four countries, the bargaining of elites with social constituents determined economic prioritization and planning. Waldner asserted the levels of elite conflicts differed in Syria and Turkey (and, as we will see, Egypt) from those of Korea and Taiwan, creating different sets of options and decisions. Specifically, in Syria and Turkey, which had similar factional patterns as Egypt did in the 1950’s and 1960’s, the conflict of elites was greater and so they had to move to enlist broader support earlier. Korea and Taiwan faced less popular static because the elites were in closer cahoots and had, therefore, more bargaining power from their unified face. This conferred “more flexibility to set longer term goals”.  

Conversely, Syrian and Turkish elites shaped state finances, developmental strategy, and key institutions to secure their rule but they initiated these rounds of state-building within a “climate of intense conflict” that divided the elite and militated against compromise with each other. This closely paralleled the experience in Egypt after Nasser and his military cohorts who, amidst the noisy fracas from peripheral groups such as the Muslim Brotherhood (Egypt’s most anti-colonialist party), attempted to seize the mantle of Egyptian leadership with the disgorgement of the landowning elite that had long run the country. Egypt’s conflict revolved around different and competing visions of the proper relationship of the state to the economy-the nationalist military, the incandescent and disenfranchised petit bourgeois, and the ossified aristos. The only way to resolve conflict was to enlist broad base of popular support as expeditiously as practicable to vanquish opponents. In Syria and Turkey

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(and ultimately, Egypt), the political arrangements elites crafted promised economic bounty, but could not deliver on the promise they had so impetuously smade.

In Korea and Taiwan, on the other hand, the elites were relatively cohesive and, thus, able to forge compromises among themselves. Perhaps due to nature where the existential threat took the shape of an outside invader, there was no vendetta, even less in-fighting and more pragmatism as these elites were relatively secure in their incumbency. Thus, the ‘powers-that-were’ had the luxury of creating state institutions that sought to align regime incumbency and political stability with long-term economic development and growth. Thus, “the South Korean government from 1961 onward decided that its legitimacy was dependent on delivering growing living standards and oriented its policies to achieve this.”

Waldner defines these approaches of state-building in Turkey and Syria as “Precocious Keynesianism versus the “Developmental States” in Korea and Taiwan.

The major difference was that the state was first in Korea and Taiwan, whereas in Turkey and Syria it was whichever faction was able to gain the most popular support, with the polarizations of factional goals necessitating greater compromise with the lower classes to ensure their support. Alternatively put, the elite mentalities of Korea and Taiwan were ‘state-first’, while those in Syria and Turkey, just like Egypt, were

125 The Korean War ended in 1953 and, while there was internal strife in the April 19th Revolution (1960) against the corruption of Syngman Rhee, the oppositional factionalism was less than in Egypt, Turkey or Syria, where there were more numerous agendas and divergences. While Egypt was formally colonized and the unified distaste against Great Britain was widely shared, the real challenges of Egypt lied within. Additionally, the landowners had benefited from British protectionism.

‘faction-first’. The aspect of Keynesianism in Syria and Turkey was derived from the material benefits the elite exchanged for political loyalty, akin to Nasser’s initial efforts of securing political inroads with the long suffering, deeply disillusioned and riotous Egyptian citizenry. In precocious Keynesianism”, payments to class constituencies purchased not only political stability but also expanded the size of the domestic market and served as a stimulus of sorts.\footnote{Waldner’s discussion of “constituency clientelism” and patronage on pages 96-118 and neoliberal growth theory (removal of all barriers to trade) on pages 152-196 was instructive for Egypt modern-day.} Thus, the strategy of state-building was roughly analogous to the Keynesian welfare policies of advanced industrial states in the post-war period. Korea and Taiwan eventually incorporated popular sector support but only after industrial transformation occurred.\footnote{Waldner, State Building and Late Development, p198.}

In contrast to the long game of South Korea, during the 1950s and 1960s Nasser sought legitimacy by “playing a leadership role first in the nonaligned movement and then by his advocacy of pan-Arabism, including a short-lived union with Syria that did not benefit either country. Moreover, he fought a proxy war in Yemen with Saudi Arabia in the 1960s and two wars with Israel in 1956 and 1967”.\footnote{Noland, The Arab Economies in a Changing World, page 42. In 1956, the war with Israel was also with Britain and France, by extension.}

One problem with the precocious Keynesianism in Turkey and Syria was that industrialization advanced but further industrialization was tied to continued inflows of foreign capital. When these inflows dried up in the late 1970’s, industrialization ground to halt. (This was a similar case in Egypt, which through its long history, positioned itself as a rentier state, whether it was for oil, trade routes or geostrategic positioning.) Elites in both countries were forced to alter their most fundamental
political and economic arrangements. Additional problems were that goods were low-quality and high cost, not internationally competitive due to its policy of protectionism (again a problem with Egypt with its import-substitution industrialization) and that Syria and Turkey (and Egypt) were dependent on the international economy not only for capital inflows but also product and process technology (Egypt, first the Soviets, then the West). Neither country had forged an industrial order capable of self-sustaining growth or international competitiveness. Thus, while post-war Keynesian practices stabilized politics and facilitated economic growth in advanced industrial economies, precocious Keynesianism interfered with development\textsuperscript{130}

Waldner found that the Turkish and Syrian political architecture could resolve Gerschenkronian dilemmas but only at the expense of exacerbating Kaldorian collective dilemmas. Thus, Syria and Turkey could promote investment but not to make the ensuing industries work sufficiently well, whereas developed states in East Asia- could resolve both and produce a distinct trajectory of econ development.

Korea’s comparatively superlative achievements to Turkey’s, Syria’s, and Egypt’s were remarkable, given its largely barren farming soil, its paucity of overland transportation routes to Europe and Asia (from aftermath of the Korean war) and its 10,000km distance to its major trading partner (the US). While Egypt’s natural resources weren’t much better than South Korea’s, natural competitive advantages accrued to it from Suez Canal revenues (however in decline), the irrigation and trade from the Nile River, its proximity to Europe (a few hundred miles by ship), to say

\textsuperscript{130} According to Waldner, they were beset by (1) high-levels of regulation and (2) state ownership of factors of production (ie plants)
nothing of tourist revenues (Pyramids).\textsuperscript{131} Perhaps Egypt’s greatest advantage was the considerable growth in Egyptians being employed abroad and substantial repatriation of earnings after the oil price boom of the 1970s.\textsuperscript{132}

Certainly, then policymaking has high explanatory pertinence or, to frame it in Waldnerian terms, the factional circumstances promoting the ability to set longer-term policy) in Egypt’s shortcomings.

Figure 9- Net Migration (1980-2000)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>6.2</td>
<td>83.3</td>
<td>-70.0</td>
<td>-58.1</td>
<td>-184.9</td>
</tr>
<tr>
<td>Egypt</td>
<td>-750.0</td>
<td>-350.0</td>
<td>-550.0</td>
<td>-600.0</td>
<td>-500.0</td>
</tr>
<tr>
<td>Jordan</td>
<td>-79.8</td>
<td>69.3</td>
<td>75.2</td>
<td>494.6</td>
<td>35.0</td>
</tr>
<tr>
<td>Kuwait</td>
<td>154.6</td>
<td>102.1</td>
<td>174.1</td>
<td>-625.8</td>
<td>347.0</td>
</tr>
<tr>
<td>Morocco</td>
<td>-200.0</td>
<td>-50.0</td>
<td>-175.0</td>
<td>-300.0</td>
<td>-300.0</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>870.1</td>
<td>1,400.0</td>
<td>1,120.0</td>
<td>-325.0</td>
<td>75.0</td>
</tr>
<tr>
<td>Syria</td>
<td>-125.0</td>
<td>-75.0</td>
<td>-45.0</td>
<td>-30.0</td>
<td>-30.0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>-16.7</td>
<td>-12.4</td>
<td>-23.0</td>
<td>-22.3</td>
<td>-200.0</td>
</tr>
<tr>
<td>Total</td>
<td>-149.6</td>
<td>1,167.3</td>
<td>506.3</td>
<td>-1,466.6</td>
<td>-577.9</td>
</tr>
</tbody>
</table>


Noland, in his \textit{The Arab Economies in a Changing World}, broadens the comparison geographically and analytically. His analysis incorporates political variables, but also assesses: human capital (education, labor force participation);


Khalid Ikram, in his \textit{The Political Economy of Reforms in Egypt}, American University, Cairo, 2018, wistfully observes the same points, “If one has misgivings about Egypt’s economic performance, the regret is for the country not performing to its potential. The reproach is that Egypt could have done better. If, say, South Korea and Taiwan, perched on the edge of Asia, destitute of natural resources, and rent for long periods by war (and in the case of South Korea, with its capital city occupied twice by enemy forces), could achieve so much so quickly, then it should not be impossible for Egypt, with its abundance of resources—to name but its strategic location, oil and gas deposits, fertile agriculture, myriads of tourist attractions, intellectual abilities and long tradition of learning, and large labor force—to achieve something comparable.” Page 10.

\textsuperscript{132} Noland, p41.
demographics; financial system robustness and diffusion of capital; regime stability and interest groups; growth, productivity, savings and investment; and a host of other factors. One unmistakable conclusion is that Korea and Taiwan’s comparative superiority to Egypt’s was not one-off or pre-ordained. As Figure 6 demonstrates, there were several countries that outpaced Egypt and Turkey, even starting from humbler beginnings (China, India, and Brazil, for example).\textsuperscript{133} For example, Figure 9, as one variable, confirms the criticality of education- South Korea’s educational attainment has tripled to 12 years, while Taiwan’s has doubled to 8 years. Egypt and Turkey are closer to 4 years. Cammett et al. isolate education and a skilled labor force as the “most effective input over the long term”.\textsuperscript{134} And nearly all emerging market economists, including Khalid Ikram, and Egypt academic, Galal Amin, propose similar theories linking the structural problems of Egypt’s deficit-led financing weakened by systematic under-saving from poor planning.

\textsuperscript{133} Noland, page 48.

\textsuperscript{134} Cammett, Diwan, Richards and Waterbury, p 16, referred to also as “human capital formation”.
From the perspective of both Egypt and the Middle East, more broadly, Indonesia's success is reckonable. The country is postcolonial, multi-ethnic, predominantly Muslim, similar level of human capital, oil producing, historically authoritarian, and occasionally in conflict with its neighbors. Perhaps in a "big enough sample it
represents the anomalous case that just got lucky-alternatively, it reflects the effect of good policymaking for much of the period”.136 Notably, Indonesia’s increase in OECD participation in the OECD (right side of Table 9), shortly after the fall of Sukarno, represents the effects of intentional openness to and engagement with global trade.

Figure 11: Educational Attainment: Emerging Leaders 1960-2000

![Educational Attainment: Emerging Leaders 1960-2000](image)

Note: Mean years of total education of the population age 15 and over.
Source: Bosworth and Collins (2003)

Ultimately, whether Egypt’s current economic straits stem from the circumstance of its initial political genesis or derive from the stinging effects of Egypt’s poor leadership and failure to cultivate productivity growth, there is no question Egypt’s policy and leadership failures have detracted from Egypt’s competitiveness in the world economy. Between 2007 and 2014, compared with 148 countries, Egypt’s ranking fell from 115 in 2007 to 140 in 2014; for government budget balance, from 119 to 146; for gross national savings (as percent of GDP), from

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65 to 108; for general government debt, from 109 to 122; and for the annual percentage change in inflation, from 106 to 129.\(^1\)\(^{37}\)

“The Vanguard of Progress”: Nasser and his Free Officers

“It has often been said that the officers forming the Revolutionary Command Council had no program, almost no ideology, and barely any philosophy.”\(^1\)\(^{38}\)

“In managing the future, policymakers cannot ignore the role and the weight of the past. Elements of continuity from earlier periods are pervasive. The Egyptian economy of today is in many respects the product of past molds. The capital stock of today in the productive sectors and the infrastructure are the result of past investments (in both good and bad projects); more importantly, the institutions, the administrative structure, the policy framework, the modes of production and organization, the vested interests, and the habits of thought and work are collectively an inheritance that defines many of the features of the economy today and colors much of its prospects. In shaping the future, policymakers will have to manage this legacy from the past.”\(^1\)\(^{39}\)

On July 23rd, 1952, the first military regime was born in Egypt, when a group of young officers, led by Gamel Abdul Nasser, the first in Egypt’s trinity of


\(^{139}\) Ikram, page 17.
successional military dictators, launched a coup that freed Egyptian’s from the clutches of their British colonizer.\textsuperscript{140} Accepting for a moment Waldner’s framework linking long term-economic prospects with short-term intra-elite factional rapprochement, it could be argued that Arab Republic of Egypt, forged in a coup by soldiers, was born on soil inhospitable to compromise, and that the exigencies of regime survival were never conducive to long term planning.

If the soldiers didn’t have a plan, they did have a problem, which was placating the pleasantry from the penury they suffered at the hands of the plutocrats. Though the monarch and British had been stamped out, Egypt’s underlying problems still blistered. Less than six weeks after wresting control of the country, amidst a rising clamour of the long-standing demands of the lower classes, the ruling officers issued a land reform law that confiscated thousands of acres from the landed aristocracy and distributed them to impoverished peasants.\textsuperscript{141} This was soon followed by other measures to nationalize the industrial properties of local and foreign capitalists in the country.\textsuperscript{142} Thus, led by Nasser, the army appointed itself as the “vanguard of progress” and social justice in the newly independent nation.\textsuperscript{143}

\textsuperscript{140} Mohammed Naguib was formally appointed the first leader (June 1953 to November 1954 as first President of Egypt after being Commander-and-Chief) of the War and Navy departments. Nasser had the self-awareness to appoint someone with the stature of age and pedigree, as nearly all of Nasser’s cohorts were under-35 and from peasant backgrounds. Kamrava, Mehran. \textit{The Making of the Modern Middle East}, University of California Press, 2013. And Abul-Magd, Zeinab. \textit{Egypt’s Adaptable Officers: Power, Business, and Discontent}, ISPI, Analysis No. 265, July 2014.


\textsuperscript{142} Vatikiotis, P.J. 1961.

It is important to note the Free Officers did not have any well-defined economic philosophy or even a common political ideology.\textsuperscript{144} They did, however, have a clear idea of who would be their foremost opponents: the large landowners who formed the backbone of the former regime. The political and economic power of this coalition had to be broken, and new constituencies had to be created to support the revolutionary group.\textsuperscript{145} It was crucial to create these constituencies since the Free Officers were an exclusively military group and “acceded to power without the active support of a single civilian group in Egyptian society.”\textsuperscript{146}

The power of the coalition of landowning elites was evident. In the parliament elected in 1950 (the last before the Free Officers’ revolution), landowners formed the mainstay of the regime, holding 63% of the seats (compared to 14% by capitalists and even less by the military).\textsuperscript{147} Before the 1952 land reform, a tiny elite of about eleven thousand landlords (0.4% of the total) owned almost two million feddans (34% of the cultivated land); in fact, the two thousand largest landowners possessed nearly 20% of the agricultural land.\textsuperscript{148} At the other end of the spectrum, 2.6 million owners (94.3%) possessed 2.1 million feddans (35%).\textsuperscript{149} “However, once the army seized

\begin{flushleft}


\textsuperscript{146} Ibid. There was an early alliance between Nasser and the Muslim Brotherhood.

\textsuperscript{147} Gordon, Joe, Nasser’s Blessed Movement: Egypt’s Free Officers and The July Revolution, Oxford University Press, 1992 and Ikram (general)


\end{flushleft}
control of the country, the balance of power between the two competing coalitions, the Free Officers and the landowners, tilted decisively toward the former, and thus the existing equilibrium between the winners and losers could be altered”.

The Free Officers recognized that the immediate order of business was to break the power of the landowning coalition. This led to the promulgation on September 9, 1952—six weeks into their tenure—of a law on agrarian reform that limited individual ownership to two hundred feddans.

According to Hazem Kandil, these reforms were suffused with political, social, and economic objectives. Beyond seeking to eliminate the power of the large landowner, they aimed at improving the living conditions of the rural population. An externality hoped for was the stimulation of the movement of capital from the agricultural to the industrial sector by discouraging further land purchases and by permitting landlords to invest the government bonds (with which they had been

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150 Ikram, 2018 and Gordon, 1992. The determination of the landowning faction in parliament to defend their privileges was made evident by their relentless opposition to any measure that tried to improve the distribution of land. For example, in 1945 a bill had been introduced that prohibited future acquisition of more than one hundred feddans of land. In 1950 another bill proposed breaking up, with adequate compensation, all holdings over fifty feddans. Another bill in 1950 provided that newly reclaimed agricultural land owned by the government should be sold only to peasants who owned less than two feddans. All these measures were decisively rejected by the parliament.


152 The reform measures did succeed in improving the condition of the tenants, whose disposable incomes increased as a result of the reduction in rents and by the greater security offered to their tenancy by the Agrarian Law.
compensated) in approved industrial enterprises.\textsuperscript{153} An additional aim was to motivate investment and raise agricultural output, the logic that an owner would put more resources into improving the land than would a tenant.

It wasn’t merely that the officers felt their way through those first six weeks in the autumn of 1952, it was that they lacked a concrete vision. As Derek Hopwood drily insists, “the coup was announced in the name of the army on behalf of the whole of Egypt, not of a party, a revolutionary mass movement, or an ideology. The army’s first aim was to purify itself and the government of corrupt elements; apart from that no firm plans had been made.”\textsuperscript{154} Similarly, Panayiotis Vatikiotis, with no hint of hyperbole, observed that “one finds few indications of any political program or plan of action. There were perhaps as many shades of political belief as there were members of the Free Officers Executive.”\textsuperscript{155} And R.W. Baker (1978, 34) commented that “the Egyptian revolution was based on a vague nationalism rather than a coherent ideology,” adding dismissively that “they [the Free Officers] had no action program that would have provided some conception of the society their revolution aimed at creating”.\textsuperscript{156}

Thus, the precedent and heritage of Egypt’s politics emanates from an apolitical group, if not one inspired by antipathy to the power-elite and plutocratic suspicion, an irony that revealed itself only with decades of the new republic’s


origination. If there wasn’t a unifying political theme, the Free Officers’ Movement was shot through with nationalism, itself a virtue. In his book *The Philosophy of the Revolution*, Nasser asserts that the army’s foremost duty is to liberate the country and “give her freedom and dignity” and its foremost responsibility is to lead a “social revolution” for social justice. 157

**Chapter Conclusion**

Heeding Waldner and framing the confluence, motivations and ramifications of these actors and events in comparative political structures is to lay clear that Egypt’s current challenges are not surprising in light of these historical circumstances. The Arab Republic of Egypt took its modern roots within the military and, preceding that, Greek-born Muhammad Ali, in grandiosity and self-absorption, sought to liberate Egypt from the Ottomans through establishing and sustaining a modern military, creating a civil service and prioritizing the economy. 158 But these progenitors alone hardly triggered Egypt’s modern-day incarnation of “Frankenstein Military Economy” 159 or the SCAF’s lust for hegemony, even if the military economic interest was at the heart of early Egyptian statecraft.

Rather Egypt’s eventual glum, treacherous situation sprung from the ‘roller-skate’, triage diplomacy and maladroit, ‘try-as-we-may’ policy-making of ham-handed, non-technocratic, lightly-educated amateurs. And these amateurs, trained in military affairs not economic development and of hardscrabble, non-power elite stock,


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159 Term used by political scientist Dr Elke Grawert, BICC (Bonn International Center for Conversation).
instinctively first sought to steady a ship that had been adrift for no small period of
time, depending on the dimness of view one takes of Egyptian political history and
the popular perception of the country as a perpetual power on decline and vassal state.
Compromise was necessary, and compromise was exactly what this junta did. But in
setting forth a new social contract where patronage, solicitation, and appeasement
were the norms—“Do, Das” as the Romans would call it—the Free Officers established
a crippling precedent with radical consequences despite benign intent. What Nasser
and his fresh-faced field marshals unintentionally bartered was Egypt’s future while
earnestly attempting to secure it, even if their personal narrow interests also benefited.

It is worth noting that this spirit of misguided idealism, Anwar Sadat, Nasser’s
successor, endeavored to combat the rot of “corruption, mismanagement, and failure
that proliferated throughout the public sector” 160 from this roughly hewn, politically
immature Nasserite group with disparate interests. After humiliating military and
economic failures, including the army’s 1967 war with Israel, the army was politically
disgraced. 161 Many analysts argue that Sadat took radical steps to demilitarize the
state and marginalize the officers in politics. 162 These included initiatives as
increasing the number of civilian technocrats in the cabinet and the bureaucracy and
radically reduced the number of military governors of provincial areas. 163 Moreover,
the army’s economic control over the public sector declined with Sadat’s infitah
policy, as he privatized parts of the state-owned enterprises that officers had

160 Abul-Magd, p.3, Egypt’s Adaptable Officers: Power, Business, and Discontent,
ISPI, Analysis No. 265, July 2014

161 Abul-Magd, p.3, Egypt’s Adaptable Officers

162 Kamrava, Mehran. The Making of the Modern Middle East, University of
California Press, 2013. This topic will be explored later in this essay.

163 Kamrava, Mehran. The Making of the Modern Middle East.
previously managed. Every time an officer retired from civil service, Sadat appointed a civilian instead of him.\textsuperscript{164} Mark N. Cooper, in his \textit{Demilitarization of the Egyptian Cabinet}, states that in the 1972 cabinet, “the military declined to a level below any other cabinet since 1952 and it continued to decline…Under Sadat, of 127 ministers, 7.5 percent were officers and 7.5 percent were officer technocrats.” He also radically reduced the number of military governors; in 1980, only 5 governors were military out of 26.\textsuperscript{165} To make things worse for the army, Egypt signed the 1979 peace treaty with Israel, which theoretically meant that the officers would “lose importance and relevance” in Egyptian politics.\textsuperscript{166}

Of course, this is not how it worked out and where the story of Egypt’s military ascendancy took a different turn. For it was under the aegis of Hosni Mubarak, the third of the Nilotic triumvirate, who took control from 1981 and reigned for thirty years, where Egypt’s military economy began to take flight.


VII. The Transformation of Egypt’s Relationship with its Military and The Aggrandizement of Military Power\textsuperscript{167}

Since the days of British dupe King Farouk, the army “saved the nation” and served as its faithful guardian three times.\textsuperscript{168} The first was six decades ago, in 1952, with Nasser. The second took place more recently, in 2011, when the armed forces decided to take the side of mass protests to overthrow Mubarak, an autocratic president and ex-general himself who oppressively ruled the country since 1981. The third was two years later, in 2013, when the armed forces again sided with protesting masses to overthrow Morsi and his power-hungry Islamist regime.\textsuperscript{169} For the EAF, saving the nation was inseparable from militarizing it.\textsuperscript{170} Each time, these ‘saviors’ usurped complete and absolute power over the state and wrested immense economic privilege.\textsuperscript{171}


\textsuperscript{171} Ibid and various.
If Nasser’s ‘vanguards of the nation’s progress’ allied themselves with the lower and middle classes to create a state-led economy, it was Mubarak who fully switched the country’s economy from socialism to neo-liberalism, whereupon the officers agilely stepped into the vortex to take advantage of the abundant free market opportunities and expand their business empire.

But before elaborating on Mubarak, it is important to emphasize the manifest changes taking place in the pitch and tenor of the army since its assumption of the mantlepiece. Firstly, the leaders of the Egyptian army’s top-down revolution came from middle- to low-class social backgrounds. From the late 1950s onwards, officers and “military technocrats” – officers who studied civilian subjects such as economics, law, journalism, engineering, political sciences, etc.— occupied most leading government positions.  

Secondly, Nasser’s coup was inspired economic inequity and a deeply-seated sensitivity towards economics singly formed his agenda. For example, in 1962, Nasser issued a new constitution stipulating that socialism was now the official state ideology, even if this was a promulgation of convenience to secure Soviet economic and military aid. The state came to own all economic assets through nationalization, and then built numerous public enterprises, aiming for an ambitious plan of import substitution industrialization. And, in 1964, Nasser, reflecting

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Egypt’s status as a de facto Moscovite suzerainty, issued a new socialist constitution that stated that “the people control all means of production,” and army officers were the self-appointed deputies of the people in controlling these means.\(^{177}\)

The failure of Nasser’s project ultimately failed to deliver the promise of economic prosperity, costing him his leadership, but it did establish to the Egyptian citizenry the absolutely critical precedent of military intervention and direct ownership in business enterprise. This was a first and, at the time, accepted broadly as part the military’s self-professed mandate of “saving the nation”. Of contextual importance, the intervention in Yemen was bankrupting Egypt and wheat purchases increased during the 1960s as well.\(^{178}\)

While Sadat, as mentioned, edged more towards normalcy and propriety,\(^ {179}\) his tenure had its moments of economic bounty in the early years (1973) and foreign policy victories that soon gave way to the 1977 bread riots, IMF intervention from a lack of urgency to institute structural reform and, finally, his assassination. In a certain sense, Sadat’s failing was that he was more enthralled with diplomacy and his personal legacy than the country’s fiscal concerns. For example, he installed the head of security services as his prime minister, abnegated the NDP, and spent more time dedicating resources to foreign policy than thinking strategically about Egypt’s


\(^{178}\) Dr Asher Orkaby.

\(^{179}\) According to Ehab Zahriye of *Al Jazeera*, Sadat dedicated much of his presidency to a "corrective revolution" — reversing Nasser’s pan-Arabism; breaking ties with the Soviets; forging trust with the United States; and opening Egypt’s economy to private investment. Sadat reversed Nasser’s clampdown on Islamists by releasing them from prison. In return, they became a significant pillar in his power base, even though the ultimately killed him for his peace with Israel.
economic vibrancy. However, despite the accepted wisdom that Sadat distanced himself from the military,\(^{180}\) there can be little doubt that the military entrenchment still continued under Sadat. Firstly, a by-product of the 1978 UN Brokered Egypt-Israel Peace Deal was a U.S. promise to aid and modernize Egypt's military: “Since 1979, Egypt has received more than $1 billion annually from the U.S., making its military one of the strongest in Africa and the Middle East, and untouchable within the country”.\(^{181}\) Secondly, it was he who created the “National Service Products Organization (NSPO)”, which ended up being the enabler and progenitor of Egypt’s military mischief.

Nonetheless, the swiftness, severity and ubiquity of the riots which contributed to Sadat’s ouster, on the heels of boom-time GDP growth in the honeymoon of his presidency, emblazoned the primacy of the economy on Mubarak’s agenda, not merely as a desirable means of profiteering but also a necessity for political control. Mubarak lacked Nasser’s charisma and idealism but capitalized on Nasser’s establishment of the Office of the Presidency (رئيس الدولة) as infallible. Mubarak also had a keen sense of which way the winds blew, and whom to keep close. As a career officer, though one who grew up in a different epoch than Nasser (or Sadat), Mubarak and his lieutenants enriched themselves under the masquerade “socialism” and “nationalism”, even if sheer money-making\(^{182}\) drove their ambition. He understood the more contemporary sensibility of his comrades. Specifically, Mubarak cultivated a network of obliged civil servants who acceded to his exceptional diversions of

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\(^{180}\) Stacher, p.51, *Adaptable Autocrats*, “Egypt’s formal political arena became drastically more depoliticized during Sadat’s presidency”.


\(^{182}\) “Neoliberalism”, as politer economists would put it.
budgetary allocations to the military (which soared 35% from 1982 to 1988 to a world leading 20% of GDP).\textsuperscript{183} It is important to note that part of the increase in military expenditures in the 1980’s coincided with the rise to command of the armed forces of the military’s strongman, Field Marshal Abdel Halim Abu Ghazala, the former military attache at the Egyptian Embassy in Washington and vehement anti-communist.\textsuperscript{184} Abu Ghazala is credited as the architect (or, at least, executor) of Egypt’s opportunistic, highly remunerative pivot to the US at the height of the Cold War when he returned to Egypt and adopted the country’s defense portfolio.\textsuperscript{185}


It should be emphasized that even during periods of Mubarak’s reign the alliance between the President and the military was an uneasy one, with the former struggling hard to earn co-option. The military’s full wresting of absolute power came in the power vacuum following Mubarak’s ouster and the SCAF stepped in as the only credible player for external parties (ie governments and multinationals as well as the traumatised Egyptian citizenry) to engage. Their presence and authority announced to the outside that, post-Mubarak, Egypt was still open for business and the SCAF was the power broker in charge.


VIII. The Ascendency of Egypt’s Military Under Mubarak

“In the time of peace, the Egyptian military reinvented its role in society. It claimed that its new duties now were to contribute to the country’s economic development. In reality, it turned the whole society into a big military camp under its constant surveillance. Through business ventures and civilian positions, the military sustained its uninterrupted gaze over the urban milieu and securitized the everyday life of subjected citizens.” 186

“The Egyptian army weathered fundamental moments of transition to socialism in the 1960s, market consumerism in the 1980s, and neoliberalism from the 1990s onward, while successfully enhancing its political supremacy and expanding a mammoth business empire. Recently it has survived hard times during two popular uprisings, retained full power, and increased its wealth.” 187

Sabanci Professor Ayşe Gül Altınay defines militarism as a set of ideas and structures that glorify practices and norms associated with militaries. In this sense, militarization is “a step-by-step process by which a person or a thing gradually comes to be controlled by the military or comes to depend for its well-being on militaristic ideas.” Militarization is successful when it achieves a tacit acceptance in public and private discussions surrounding the power of the military in civilian life, politics, economics, and people’s self-understandings... Militarism is an ideology that has become intertwined with nationalism, as well as militarization is a process that shapes culture, politics, and identities in Turkey.” 188

While depending on the military ideas for one’s well-being seems extreme, there can be little question that military action in Egypt, insidious or noble, covert or

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187 Abul-Magd, Zeinab, Militarizing the Nation, p.7.

outward, certainly was manifest in the daily lives of its citizenry, with equal doses of nostalgia, resentment, fear, pride and anger. Decision-making at the SCAF pays for Egyptians’ bread and their fuel, and it deprives its youth of a hopeful future and political freedom. But there is a sympathy too because of the EAF’s vividness, palpability and ubiquity. Everyone in Egypt knows someone in the military and it is often lowly, ill-educated conscripts serving in the EAF that have been most banefully impacted by the ambition of the military.

Beginning in the 1980’s under Mubarak, Egypt’s military, in the face obsolescence from détente with Israel began a sweeping transmogrification rendering it unrecognizable today from that of Nasser’s first regime in 1952. 189 Always a player in Egyptian internal affairs, it was then it more actively pursued ‘militaristic’ centre-stage.

It was not simply that the old and new armies differed in their socioeconomic composition, the changes were manifest in their doctrine and their efforts to militarize society. Whereas the old army was led by “lower- to middle-class soldiers who rose into an affluent ruling elite and militarized society through war and socialism, the new army began to be controlled by a class of managers of military business enterprises”, or “neoliberal officers,” and “to militarize society through market hegemony”.

Whereas the old army’s ambitious doctrine adopted an Arab nationalist identity and a socialist ideology and was externally oriented to regional affairs, the new army, beginning with Mubarak, has a far less ambitious doctrine, one concentrated with

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190 Grawert and Abul-Magd, Understanding the SCAF, 2017.
half-hearted Egyptian patriotism and a covetous eye cast towards internally oriented domestic matters.\(^{191}\)

After signing the peace accord with Israel in 1978, the Egyptian military was required to reduce its size and budget and “keep to its barracks”.\(^ {192}\) Nonetheless, it continued to impose compulsory conscription and wield a considerable budget. Right after the peace agreement, the NSPO was launched. Its mission, according to its website is: “to develop permanent and continuous support for the state economy and some of the needs of our armed forces.”\(^ {193}\) Mubarak celebrated the enormous latitude conferred by the latter phrase under NSPO’s stated mandate, as well as “

In the 1980’s, Field Marshall Abd al-Halim Abu Ghazala, Mubarak’s first defense minister, elevated the NSPO into a business empire and large-scale public works contractor.\(^ {196}\) There were factories and bakeries, frozen vegetables, state-of-the-art slaughterhouses, pasta factories, poultry and fish farms, textile mills, amongst others.\(^ {197}\) But the versatility didn’t stop there– other NSPO branches constructed

\(^{191}\) Various. Kamreva, Owen, Grawert, Stacher, Cambanis

\(^{192}\) Signing a unilateral peace treaty with Israel and subsequently receiving an annual amount of $1.3 billion in military aid from the United States brought “substantial change in the doctrine” in response to U.S. requirements. Engaging in civilian economic activities became part of its reorientation to internal affairs. Abul-Magd, Zeinab. Militarizing the Nation: The Army, Business, and Revolution in Egypt (pp. 11-12).

\(^{193}\) http://www.nspo.com.eg/nspo/ar/index.html

\(^{194}\) To the development and support of some of the needs of our troops”


\(^{196}\) Soliman, Samer, The Autumn of Dictatorship, 2011
thousands of apartment buildings, bridges, roads, schools and hospitals for the government. Later came the two other military bodies that were converted to civilian manufacturing, the Ministry of Military Production (“MoMP”) and the Arab Organization for Industrialization (“AOI”).

The AOI, in its genesis, captures Egypt’s late 1970’s political shift in ideology as well as the criticality and pliability of the military in achieving it. As one analyst assessed, there were other benefits and strategies at play, and insight as to the rentier mentality that informed Egyptian strategic thinking:

“The AOI was an early attempt to reorient the army’s defence industries towards regional exports in partnership with the Gulf states, flush with massive petrodollar reserves following the first oil shock. The foundation of the AOI also marked the break with Russian patronage and military aid, which, beyond all wider geopolitical considerations, was seen by the army and state technocrats as limiting for being poor in technology transfers and co-production agreements. These would now hopefully be leveraged via Gulf state funds in contracts with mainly European manufacturers in which Egypt would provide the industrial capacity and labour power.

“Whilst Egypt and other developing countries were then learning of the impossibility of ‘buying a mode of production’ via ISI, the aim of shrinking the technology gap and developing more advanced industrial capacity would be pursued via focused arms production projects in partnership with petrodollar rich Gulf states, in the context of the Infitah. In the deal Egypt was also presenting itself as possibly

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meeting the security requirements of the region as whole, and the Gulf states in particular, with Israel then posited as the main enemy.”

Field Marshall Husayn Tantawi, Abu Ghazala’s successor as Minister of Defense from 1991 until 2013, continued what his ambitious predecessor started. “The army reclaimed thousands of acres of desert land for commercial agricultural, such as Sharq al-‘Uwaynat and Nubariyya farms. The army also built more public schools, stadiums, affordable housing, roads, water and electricity plants, sewerage, and erected sawmills and brick factories for construction. In addition, Tantawi ventured into new fields, producing chemicals, optics, plastic, and mineral water, and created companies of mining, petroleum, cleaning and maintenance, and much more”.

Within the Arab world, Egypt’s military remains pre-eminent. “Egypt has twenty-five overt military factories: sixteen function under the MoMP and nine under the AOI. They were mostly built between the 1950s and the 1970s and were used to produce heavy ordnance.” Egypt’s arms industrial complex witnessed a golden age in the 1980s as it received enormous state support, obtained advanced technology from various sources, and made great profits from exports on the regional market.” These military industrial conglomerates partially converted to civilian manufacturing from the early 1990s onward. By 2011, 70% of AOI’s production was for the civilian market,

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201 L.S., Continuing Business by Other Means: Egypt’s Military Economy, May 2014


203 Abul-Magd, Zeinab, Militarizing the Nation, pp. 11-38.

204 Abul-Magd, Zeinab, Militarizing the Nation, pp. 11-38.

and the remaining 30% was still military. Meanwhile, 40% of the MoMP’s outcomes were civilian, and the other 60% were still military.\footnote{Dr. Sayyid Mash’al, Minister for War, Ibtisam Ta’lab (The Smiling Student), Egypt Today, 15 September 2010. Ahmad Abd al-’Azim, “al-Fariq Hamdi Wahiba- Ra’is al-Hay’a al-‘Arabiyya li-l-Tasni’ fi Hiwar li-Roz al-Yusuf,” Roz al-Yusuf, 3 November 2009. Wahiba is the head of the AOI.}

The Crony Capitalists: Egypt’s Political Supernova

One point of emphasis is that while the military flourished under Mubarak, so too did his crony capitalists, in a parallel patronage relationship he developed in the interest of securing his son’s political future. Whether it was through private citizen or military general, Mubarak disrupted the prospect of free enterprise and created a zone of conflict that contributed to elite infighting, a situation, in its self-absorbed rapacity, led to further neglect of the citizenry at large.

During the 1990s, Mubarak Inc. determined which entities in his lair could maximize profits. His usual methods applied: sweetheart trade protection, access to non-competitive public procurement contracts and below market divestitures of privatized state-owned enterprises. However, these businesses lacked any political clout and representation in the corridors of power where decisions were made and implemented. “Cabinets and the inner circle around the president, where most informal power was vested, were almost completely made up of bureaucrats from military and civilian security and intelligence backgrounds, with little room for independent technocrats or businessmen.”\footnote{Amr Adly, Too Big To Fail, Carnegie Middle East Center, March 2017.}

Mubarak’s approach changed sharply in 2004 when, in an upheaval to the status-quo not seen since the 1952 Egyptian Revolution, Ahmad Nazif was appointed...
prime minister of a government made up mainly of businessmen and neoliberal-oriented technocrats. “These individuals took on an increasingly active political role in the cabinet and legislature. The trade and industry portfolio was assigned to the business tycoon Rachid Mohamed Rachid, president of Unilever Middle East, a subsidiary of the British-Dutch Unilever multinational corporation that produces and distributes a wide array of consumption products, including soap, food, and cosmetics. The tourism portfolio was assigned first to Ahmad al-Maghrabi and then, in 2007, to Zohair Garana. Both were prominent businessmen. Maghrabi, a partner in one of Egypt’s largest real-estate development companies, was placed in charge of the Housing Ministry in 2007. Similarly, Amin Abaza, the owner of one of the largest agribusinesses in Egypt, became agriculture minister. Hatem al-Gabally, a shareholder in and manager of a number of private hospitals and laboratories, was appointed health minister. Almost all of the new ministers were heads of family-owned enterprises in the fields covered by their ministries.”

Not unironically, this counterpoise to the Military Industrial Complex, was, itself, strangled in the events of Tahrir. Following the 2011 uprising, political power was transferred, on an interim basis, to the SCAF, the NDP dissolved and parliament was disbanded. According to the Brookings Institute, there was no legal basis. As General Ahmed Shafik took over as new prime minister, there were no businessmen left. Many of Mubarak’s crony capitalists were sent to prison for corruption charges.

208 Amr Adly, Too Big To Fail, Carnegie Middle East Center, March 2017.


This included the afore-profiled Muhammad Mansour, multi-billionaire cabinet member, and twice President of The American Chamber of Commerce in his pre-government business career as import magnate. While Adly argues that the military took its distance from the big businessmen, whom it viewed as “a political liability due to their corrupt dealings with the Mubarak state”, it seems that the broader relevance is that the military, no less corrupt or beneficiaries of Mubarak’s policies, simply capitalized on its Janus-faced presence as the benefactor-protector of the people. Its weaponry likely didn’t hurt.

Nonetheless, there became a very visible expansion in the military’s role since the 2013 coup, as military-affiliated companies, whether owned by the NSPO or by other military agencies, substantially expanded their activities and entered new economic sectors. These included a Sisi-led 2014 initiative in social housing where the EAF’s engineering arm teamed up with the Ministry of Housing. It delivered 145,000 units in May 2016 and was assigned another 145,000 units by the ministry to be delivered sometime in 2017. The military expanded into road and highway-building. The Ministry of Defense was assigned a large number of road construction projects between 2015 and 2016, such as a new regional ring road connecting cities of

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the Nile Delta, building of the Cairo–Ain Sokhna Road, and improvements of the Cairo–Ismailia road.\(^{214}\)

Size Today

"Egypt’s Army Has More People Than Miami and Answers to No One"\(^{215}\)

The Egyptian Army’s budget is large and constantly increases. Thinking in terms of GDP is instructive. China, with an army in excess of two million people, spends less than 2% of its GDP on the military,\(^{216}\) and the US, with its muscular leadership, is closer to 3.3% of GDP, or around $598 billion.\(^{217}\)

According to the work of Grawert and Abul-Magd, after the officers assumed power in 1952, defense expenditures consumed only 4.9% of the country’s gross national product (GNP). In Nasser’s first year as president in 1954–55, the percentage increased to 5.7, and it rose to 12.5 after the defeat in the 1967 war. Understandably it was very high in the 1970s—as much as 40% of government spending on the eve of signing the peace treaty—but this amount was immediately reduced to 22.5% after the peace accord of 1979. In the 1980s Mubarak maintained military expenditures at an average of 20% of all government expenditures.\(^{218}\)


\(^{215}\)Khazan, Olga, The Atlantic, 8 July 2013


\(^{218}\)Statistics provided by Egyptian Ministry of Finance (http://www.mof.gov.eg/English/MofNews/WhatsNew/Pages/Budget20162017.aspx) and Abul-Magd and Grawert, Militarizing The Nation, 2017.
However, after liberalizing the economy and reducing public spending in the 1990s, he drastically reduced the level to an average of only 10%. (This was at the behest of the US, the IMF, Britain and France, who had been pushing for market reform and clear pivot away from Russia). The military faced more budget cuts after 2004, when Mubarak accelerated the pace of liberalization, until expenditures reached 6.1% in his final fiscal year in power. Although the percentage decreased after the 2011 uprisings to 4.9% of government spending in fiscal year 2015–16, the actual amount of money the military received from the public budget noticeably increased from that year onward. While it received LE25,397 billion ($4.4 billion) in fiscal year 2010–11, the amount rose to LE43,205 billion ($5.6 billion) in 2015–16.\footnote{Statistics provided by Egyptian Ministry of Finance (http://www.mof.gov.eg/English/MofNews/WhatsNew/Pages/Budget20162017.aspx) and Abul-Magd and Grawert, Militarizing The Nation, 2017.}

Figure 12- Egypt’s “Published” Military Budget\footnote{The Appendix has an annual breakdown as a % of GDP.}
Egypt’s army today, the 10th largest in the world, has 438,500 active personnel, 397,000 paramilitary forces, and 479,000 reservists, according to Grawert and Abul-Magd. But Adly Amr of the Carnegie Middle East Center puts this number much higher: two million officers and enlisted men, of whom one million are in reserve, 500,000 men in the army, and 300,000 in various national security agencies, in addition to the Republican Guard and the Coast Guard.

Although the Egyptian population conspicuously grew in the past three decades, almost doubling from around 50 million in 1985 to 95 million in 2018 (estimate), the military did not seek to expand its size accordingly and remained largely at a fixed size during the past three decades. Active and reserve personnel together were about 3% of the population in 1986, and this fell to 1% in 2015. In the 1960s and 1970s the army became much larger when the military regime was involved in regional struggles, and it further increased in size during the 1967 and 1973 wars against Israel. It grew from 80,000 in the mid-1950s to 211,000 in 1968–69, and again to 325,000 in 1972–73. Every young male Egyptian citizen between eighteen and thirty years old compulsorily serves in the military for a period of one to three years, based on his level of education. While college graduates must serve for

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221 The population of Egypt ranks 13th, suggesting that its relative sizing is logical. Of course, there are classifications within the army, some more remunerative than others.


one year, those with lower degrees of education serve for two or three years. After completing service, soldiers are placed on reserve lists for nine years. In 2015 the number of conscripts reached around 290,000–320,000 draftees out of the total of 438,500 military personnel. In addition, there are 325,000 allocated to the anti-riot paramilitary forces in the Ministry of Interior. Aside from those, conscripts who are illiterate or barely educated are separately sent to the Ministry of Interior’s Central Security Forces (CSF), the anti-riot paramilitary that Mubarak conspicuously enlarged in the 1980s. Generally, all soldiers suffer from harsh conditions while in service, but those at CSF suffer the most, which led them to riot as well in 1986.

224 Law no. 505 of 1955 and Law no. 127 of 1980, respectively. Dr Asher Orkaby notes this has triggered a major over-education crisis.

225 Since the days of Greece and Rome, conscripts have been used in military business enterprises as free or cheap labor. In Militarizing the Nation, Abul-Magd, 2015, we learn his practice started in modern Egypt’s case when Field Marshal Abdel-Halim Abu Ghazala, Egypt’s minister of defense in the 1980s, deployed illiterate conscripts who were not “medically, culturally, technically, or psychologically fit” as free laborers in commercial activities such as farming and baking bread. Some local critics called these soldiers “slave labor.” But, according to Ikram, Abul-Magd, Grawert and Adly, since the expansion of military business into large industries, conscripts who hold higher technical degrees have been similarly used in factories, hotels, gas stations, hospitals, trading companies, and more. “A conscript goes into the army less for training, and more for working in one of the military factories or business schemes,” prominent economist Ahmed El-Naggar stated. Their remarkably low monthly salaries were raised to between $34 and $35 in 2013. It is worth mentioning here that many Egyptian youths have recently launched campaigns against compulsory conscription in which they criticize forced work at the military businesses, calling it “corvée labor” (a’mal sukhra) that wastes years of their lives without fair payment and under inhumane conditions.

226 Abul-Magd, Militarizing the Nation, 2015.

IX. Egypt’s Military Industrial Complex - Present Day

“Upon the graduation of new cadets in the summer of 2015, the director of the Egyptian war college proudly asserted that these young officers were the country’s “future leaders: the ministers, governors, ambassadors, presidents, and managers.” 228

“Even though the uprising and its aftermath hardly reduced the economic weight and power of big businesses, most decision-making shifted to the military and other parts of the state bureaucracy.” 229

In 2014 more than 92,000 students applied to military schools and institutes, but only 2,700 were admitted. 230 This rate exceeds university in the Western world, including West Point, Annapolis and Harvard, and yet no university in Egypt is listed in the top 300 in the world, according to The Times of London Education Supplement.

It is a reasonable question to wonder why a military that fought its last war nearly 50 years ago has increased its status and authority in a republic.

A rummage through the NSPO and AOI websites http://www.nspo.com.ar and https://www.aoi.org.eg/ provokes a second question, which is why a military might run nursery schools, remodel affordable apartments, operate wedding halls, construct


229 Adly, Amr, Too Big to Fail, Carnegie Middle East Center, March 2017.

football stadiums, or hawk all sorts of electronic gadgetry. Or why its banners festoon expansive farms, supermarkets, large shopping malls, toll highways, bridges, luxury hotels, summer resorts, and even parking lots?\textsuperscript{231} It is worthy of remark, beyond the macaroni and fishing companies and the pictures of the chickens, that the NSPO lists “providing job opportunities for young people” and importing fine meat within “projects of national service” \textit{(jihad-mushru’aat-al-khidmat-wataniya)\textsuperscript{232}}.

Table 13- Of Macaroni and Chicken: NSPO Companies \textsuperscript{233}


\textsuperscript{232} The name of the NSPO in the transliteration of the Arabic.

\textsuperscript{233} NSPO Website
Table 14- NSPO Achievements, “Fine Meats and Fuel Stations”

**NSPO Achievements**
NSPO is a pioneer national organization supporting the Egyptian economy by achieving many accomplishments, including the following:
- Creation of fixed and mobile outlets to sell products at cost prices.
- Supplying state agencies products at cost prices.
- Importing the finest kinds of meat and offering it to Egyptian citizens at cost prices.
- Cultivation of thousands of acres in north and East Owinet.
- Providing job opportunities for young people from different specializations and scientific qualification.
- Building many fuel stations across Egypt.
- Creating and developing highways.
- Building the latest marble and gypsum factories.
- Building the production of chemicals and fertilizer plants.
- The development of lakes and water bodies and increase its productivity.
- Implementation of various construction projects for state agencies and civil sector.

Table 15- NSPO Areas of Business Activity, including Egg Production

**Agriculture & Food Industry Field**
- Food Security Sector
- Egg Production Complex
- National Co. for Natural Water in Sawa (SAM)
- National Co. for Food Industry
- Upper Egypt Company for Agricultural Industry & Land Reclamation
- National Company for Land Reclamation & Agriculture
- Queen Company for Macaroni
- Wool & Woolen Farm
- National Company for Fishery and Aquaculture
- National Company for Refrigerating & Transportation

**Industrial Field**
- RI-New Company for Intermediate Chemicals
- Arab International Opticonics (AIO)
- Plastic Bags Factory
- RI-Ansaw company for cement
- National Company for Batteries

**Engineering Field**
- National Co. for General Construction & supplies
- The National Company for roads building and development

**Services Field**
- RI-New company for services & maintenance (Queen service)
- The National Company for petrochemical

**Mining Field**
- Mining sector
- Egyptian Black Sand Company
Zeinab Abul-Magd trenchantly probes such abnormalities in her *Militarizing the Nation: The Army, Business, and Revolution in Egypt*. These peculiarities have perplexed nearly all other non-Egyptian scholars of the Egyptian political economy, including Robert Springborg, Shana Marshall, Josh Stacher, and Elke Grawert. For Abul-Magd, the EAF has “militarized everyday life of its subjugated and manipulated citizens across social classes”.

Certainly, the AOI is not shy or retiring on its website. The caption for the picture below states: “Visitors of Arab, African, and Foreign Military Attaches to the AOI. In the lower right corner is the Board of Directors and Higher Committee. Some luminaries on the Board include: (1) the Governor of the Central Bank of Egypt, (2) Prime Minister of Egypt, (3) the Minister of Defence and Military Production, (4) Minister of Finance, (5) Minister of Foreign Affairs, (6) Minister of Trading & Industry, (7) Minister of State for Military Production, (8) Minister of State for International Cooperation, (9) Chief of Staff of The Armed Forces.”
Table 16- Excerpt from AOI Website

Legal Framework and Implications
Another line of questioning may consider “how” the military is able to veer so off -piste. Legislatively, military supremacy is secured constitutionally through Articles 197 and 203 and Decrees 45 and 48, inter alia.\(^{234}\) In the immediate aftermath of Tahrir, the Constitution, written effectively by the SCAF, became even more EAF-friendly.

• Article No. 197 lock-seals the military budget, even pertaining to revenue from civilian businesses, from public scrutiny. It places the authority to oversee the military budget only in the hands of the National Defense Council, a governmental body consisting mainly of military officers nominated internally. The parliament is obliged to consult the same council on any future laws relevant to the armed forces before they were issued. In November 2012, the head of the state’s Central Auditing Organization confirmed that he had no access to the accounts of military-owned businesses.

• Article No. 203 of the new constitution states that the military budget should be listed as only one number in the state budget, and should be discussed only by the “National Defense Council” - the majority of whose members are officers.

• Decree No. 45 of 2011 - The SCAF issued a law giving allegedly corrupt army officers, including those who retired and occupied civilian offices, immunity from prosecution in civilian courts - Law.

• No. 48 of 2014 to amend the public bids and tenders law, allowing the government to conclude agreements with contractors through “direct allotment” in “urgent” matters for construction projects of LE 10 million or less. In addition, the military is now allowed to acquire more land to build new malls or direct projects at its discretion.

Furthermore, as Adly, Marshall and others note, Egypt’s military has great appeal for attract foreign investment partners, in large part because the economic sectors where its influence is strongest are also those that have great profit potential. Beyond the unanswerably well-appointed AOI Board listed above, this holds true even at the regional level. Maritime and air transport, oil and gas, and industrial-scale
environmental projects like wastewater treatment and renewable energy generation feature heavily on all nation’s trade goals. Under a guise of “public-private” partnerships providing job training for young graduates and industrial development in remote areas, the SCAF has pursued this “neo-liberalist” path con brio.

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236 Nassif, Hicham Bou. “Wedded to Mubarak: The Second Careers and Financial Rewards of Egypt’s Military Elite, 1981-2011” Middle East Institute, Autumn 2013, Volume 67, No.4. The data below captures the saturation of the military in civil affairs, noting that in Egypt governors oversee city and borough departments for welfare, education, economic affairs, land planning, trade, and health services:

<table>
<thead>
<tr>
<th>Governorate</th>
<th>Governors Appointed under Mubarak</th>
<th>Governors with Military Background</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Sinai</td>
<td>7</td>
<td>7</td>
<td>100%</td>
</tr>
<tr>
<td>North Sinai</td>
<td>6</td>
<td>6</td>
<td>100%</td>
</tr>
<tr>
<td>Red Sea</td>
<td>8</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>Suez</td>
<td>8</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>Aswan</td>
<td>5</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Matruh</td>
<td>8</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>al-Wadi al-Gadid (New Valley)</td>
<td>7</td>
<td>6</td>
<td>88%</td>
</tr>
</tbody>
</table>
Dr Nimrod Raphaeli, in his “Egyptian Army’s Pervasive Role in National Economy” characterized the military’s marketing posture and described its ability to secure business its business partners.

- First, it uses soldiers to guard production sites and transportation undertakings, presenting itself as a ready solution to the surrounding chaos of protest, terrorism (in Sinai), and general regional instability.237

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• Soldiers are also deployed to intervene in particular labour disputes, either to pose as mediators or break strikes.  

• More generally, the military ‘markets’ its discipline and efficacy, with its spokesmen defending for instance the takeover of individual state tenders by pointing to an apparently greater ability to deliver projects on schedule, and trumpeting this to potential Gulf partners.

• Indeed, another major recent event in the army’s post-Morsi ascendancy has been the effective takeover of state tendering as a whole. In late 2013 interim president Adly Mansour issued a decree allowing the state to directly issue contracts ‘in case of emergency’, thus bypassing all rules of government procurement.

“With a permanent State of Emergency in place and the SCAF in charge, it is of course the army that wins all the contracts,” Raphaeli reasons.

The EAF has a stronghold in business, construction, consumer goods, resort management and extensive tracts of real estate. It manufactures shoe polish, voting booths, olive oil, flat-screen TVs and kitchen cutlery as well as M1A1 Abrams Tanks, K-8 Jet Fighters (Chinese versions of Soviet MiGs) and machine guns. Annual revenues are no less than $300-$400 million but this excludes the tens of billions stowed away in offshore and onshore bank accounts (the Mekameleen Affair alone referenced $30bn USD) and real estate holdings. By way of reference, Egypt’s

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GDP is approximately $331 billion and US-Egypt bilateral trade is only $5bn as of 2014.\textsuperscript{243} One testament to the financial wherewithal and vested interest the Egyptian Armed Forces has in the economy occurred in December 2011 when the SCAF moved to stabilize the Egyptian pound by loaning the Central Bank $1 billion of USD. They also offered USD $400 monthly bonuses to mid-ranking army personnel since the uprising against Mubarak began (Sisi continues this).\textsuperscript{244}

While the vastness of the military’s economic stronghold in Egypt is denied by no one, the precise amount is not known (though Sisi recently suggested it was only 4\% of GDP before backpedalling in the face of bald-face heckling at evidence to contrary); the military's budget is secret and its industries are unaudited and untaxed.\textsuperscript{245} Their dominance has earned Egypt the sobriquet as the “Egyptian Republic of Retired Generals”\textsuperscript{246}. Their activities are enshrouded by secrecy through a labyrinth of holding company structures. Their damage goes unreported because they are both protected by the opacity of the structures under which they operate and because they are unanswerable to any who foolishly and futilely dare to wade into their financial affairs. Even reporting on them can land a journalist in jail. The names alone of the three largest commercial military interests – the Ministry of Military Production, the Arab Organization for Industrialization, and the National Service Trade and Investment Section, US Embassy Egypt, http://export.gov/egypt/

\textsuperscript{243} Trade and Investment Section, \textit{US Embassy Egypt}, http://export.gov/egypt/

\textsuperscript{244} Shana Marshall and Josh Stacher, Egypt’s Generals and Transnational Capital, p2.

\textsuperscript{245} Dr Wafaa Ramadan, \textit{Middle East Monitor}, 2012.

\textsuperscript{246} Abul-Magd, Foreign Policy, 8 May 2012. Also, reference Yezid Sayigh, “Above the State, The Officers’ Republic in Egypt”. Washington DC, \textit{Carnegie Endowment for World Peace}, 2012; As military economist, Robert Springborg refers to them, they are “Military Inc”
Projects Organization (NSPO)\textsuperscript{247}—suggest a panache for profit-maximization and a taste for mission-drift. According to Hachim Bio Nassif in \textit{Wedded to Mubarak}, these three institutions have always been headed by prominent officers who belong to the military elite’s first tier. The AOI has become a fiefdom of retired chiefs of staff and no officer below the rank of major general has ever directed the National Service Products Organization. The whole system of military enterprises operates outside the control of both parliament and the Organization of Administrative Monitoring (\textit{Hay’at al-Raqaba al-Idariyya}), which is also dominated by retired generals.\textsuperscript{248}

The problematic aspect of this situation is not merely the opportunity for exploitation. It is that the Supreme Council for Armed Forces\textsuperscript{249} has shrewdly isolated internal rivals. Specifically, Ahmad Nazif (Mubarak Cabinet Minister for Economics) and Gamal Mubarak were in the process of leading a series of token privatizations, motivated less by reform than the semblance of reform. The plan, more than anything, sought to monetize state assets and deflect the spoils to their plutocratic peers in the private sector at the expense of the military. There was the additional benefit of appeasing external lenders and reform-strident polticos, such as the United States who was overseeing an IMF loan forgiveness and aid package. Mubarak The Younger was ousted by his father in late 2010 to appease the SCAF but it wasn’t enough for their economic designs.

With Gamal’s crony capitalist allies out of the way, there became no longer any competitor whose ambitions could check the army’s appetite for economic

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\textsuperscript{249} Used synonymously with the Egyptian Armed Forces (“EAF”)
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expansion. This has enabled the SCAF to gain momentum and even diversify their interests. One case involves the army-controlled AOI, which now owns 100 percent of the General Egyptian Company for Railway Wagons and Coaches (“GECRWC”), which incidentally is also the dominant Nile barge manufacturer with 52% market share (initially offered up for privatization in 2002, later blocked to deter competition and block minority shareholders’ rights). The new Nile River Transport Company is a subsidiary of GECRWC, established by the Ministries of Defense and Military Production, which received contracts from several large state-owned conglomerates shortly after its creation.

Physical assets and infrastructure have also proven fair game as other avenues for officers to enrich themselves by swapping state holdings entrusted to them by the citizenry to well-heeled bidders. The Ministry of Defense took over the Alexandria

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250 Shana Marshall and Joshua Stacher, *Egypt’s Generals and Transnational Capital*, MERIP, 262, Spring 2017. In a September 2008. State Department cable published by WikiLeaks, then-Ambassador to Egypt Margaret Scobey called the military’s conglomerates “quasi-commercial,” concluding that the government’s privatization schemes were viewed “as a threat to [the military’s] economic position” and that the military “generally opposes economic reforms.” Scobey’s predecessor Frank Ricciardone had made a similar argument in a March 2008 cable: “[Field Marshal Hussein] Tantawi believes that Egypt’s economic reform plan fosters social instability by lessening [government] controls over prices and production.”

Marshall and Stacher continued, “No longer do silk-suited technocrats enjoin Egyptians to forgo living wages, safe working conditions and political accountability in pursuit of ‘economic growth.’ But khaki-clad officers echo the argument that social justice must wait, accusing those who demand it of scaring away tourists and foreign investors. Proximity to political power is still the primary path to economic privilege, and “the traditional constituencies of the interventionist state -- civil servants, peasants and the urban poor -- remain marginal.”

251 Army controlled refers to the key members on the oversight of the AOI, which include acting military representatives, such as the Minister of Defence and Military Production, the Minister of Foreign Affairs, Minister of State for Military Production, Minister of State for International Cooperation, and the Chief of Staff of The Armed Forces.

Shipyard in 2007 and now produces large merchant vessels and warships and offers its repair services to private shipping companies.\footnote{http://www.metamute.org/editorial/articles/continuing-business-other-means-egypts-military-economy. El Dahshan, “The Egyptian Army Collects Billions in Government Contracts.” 30, May 2014. Accessed 14 March 2017.} The Alexandria International Container Terminals, majority-owned by Hutchison Port Holdings of Hong Kong and a UAE-based private equity fund, is another major joint venture which operates in sister-company JV with the Alexandria Shipyard to process containers.\footnote{Mooney, Turloch, “Hutchison buys stake in Egypt terminal operator”, Journal of Containers, March 9, 2016.} The project was inaugurated under Gen. ‘Abd al-Salam Maghoub, a former chief intelligence officer who became a vocal advocate of coordination between the state and private sectors after being appointed governor of Alexandria in the late 1990s.\footnote{According to Samer Soliman in The Autumn of Dictatorship, the primary vehicle for this collaboration was an agreement signed by Maghoub and the local Chamber of Commerce, which gave businessmen hefty privileges -- including free access to land for commercial development -- in exchange for a portion of their profits, which were deposited into a special city development account that allowed the governorate to avoid sending its tax revenues to Cairo. Marshall and Stacher, “Egypt’s Generals and Transnational Capital”. MERIP, Spring 2012, also discussed Maghoub’s advocacy for public-private partnerships.}

And, of course, every port and shipyard need operators. Alexandria’s new port operators include Damietta International Port Company, in which private French, Kuwaiti and Chinese firms own a combined 70% alongside an unknown holding by the United Arab Shipping Company (a roughly 50-50 joint venture between the military-dominated Holding Company and the Kuwaiti government) and a 5% holding by the Damietta Port Authority,\footnote{https://www.joc.com/port-news/terminal-operators/hutchison-port-holdings/hph-buys-stake-egypt-terminal-operator_20160309.html Marshall and Stacher, “Egypt’s Generals and Transnational Capital”. MERIP, Spring 2012.} whose chairman, Admiral Ayman Saleh, is also an active military officer.\footnote{“Major Lines Join Damietta Project,” Lloyds List, Newsedge, 7 Dec 2007.} Likewise, the Suez Canal Authority -- headed by
Adm. Ahmad ‘Ali al-Fadil -- owns 12% of in the Suez Canal Container Terminal Company, which began operations in 2004, and whose other shareholders include Denmark’s blue-chip Maersk and Hong Kong’s Cosco Pacific.\textsuperscript{258}

X. Kleptocracy, Expropriation and Self-Dealing- Case Studies

Other illuminating cases establishing that the EAF has taken egregious steps to enrich themselves or were complicit in murky governance include: the (1) Suez Canal Corridor Development Project, (2) The Toshka Land Reclamation Project, (3) the Saudi-led Arabtec Infrastructure Project, (4) The Tharwa Petroleum Sea-Bird Development and Exploration Mandate, and (5) The Vodafone Egypt Share Transfer. All of these led to an expropriation of billions of dollars of state assets by the military to the military (or its thinly disguised affiliates) in closed door, opaque, uncompetitive processes.

First, though, it is useful to consider the truculence, aloofness and disdain of the Egyptian military towards its subjects. Below suggest the EAF supremos are unlikely to buckle.

Military Resistance and Retrenchment

1) When asked why ex-generals occupied so many civilian positions in the organization’s factories, Hamdi Wahiba, head of the AOI, asserted that it was because “the military produces the best managers.”

2) The vice minister of defense for financial affairs and SCAF member General Mahmud Nasr held a press conference where he delivered a presentation on the army’s contribution to the national economy. He also pledged to “fight” in

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259 Shana Marshall’s The Egyptian Armed Forces and the Remaking of an Economic Empire, April 15, 2015, Carnegie Middle East Center, provided a supremely comprehensive background on each of these projects, including sources for additional research. In her words, the role of the Egyptian Armed Forces’ role in the domestic economy can be described as “a black box”.

order to protect the armed forces’ businesses and profits. It was an unprecedented conference to which journalists and economists were invited in March 2012. Nasr asserted that the military institution supported the government after the uprisings by depositing $2 billion into the central bank. When economists who were present the press conference referred to lack of transparency in the military budget and inquired about the sources of the large sum deposited at the central bank, Nasr replied, “Our money does not belong to the state; it is the sweat of the Ministry of Defense from the revenue of its enterprises. We will not allow the state to intervene in it.” Not only did the SCAF member separate military finances from the national budget, he also openly refused any public oversight. (Wael Gamal, prominent economic journalist who attended the conference, cited Nasr’s words in more detail: “We will fight for our economic enterprises and we will not quit this battle. We will not leave our thirty-year sweat for somebody else to ravage, and we will not allow anybody to come near the armed forces’ projects”.)

Case Studies

Case Study #1: The Suez Canal Corridor Development Project

Egypt watchers are unanimous about the centrality of the Suez Canal to the Egyptian Armed Forces: the canal is the most geopolitically strategic asset militarily (to Egypt and possibly regionally) and it is a vital source of revenue for Egypt. The

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261 Abul-Magd, Zeinab, Militarizing the Nation, p. 206.

262 Abul-Magd, Zeinab, Militarizing the Nation, p. 208.

263 Abul-Magd, Zeinab, Militarizing the Nation, p. 215.
Suez possesses a nexus of political centrality that mirrors its physical. The EAF has inserted itself in every aspect of its operation since its Nationalization in the 1950’s.

The Suez Canal Development Project, overseen by Lieutenant General Mohab Memish, head of the Suez Canal Authority, involves the expansion of six Egyptian ports, the construction of a number of tunnels and industrial zones, and the dredging of a parallel canal to allow for two-way traffic.264 Egypt hopes – speciously- the new canal will more than double revenues from the waterway by 2023 to $13.5 billion from $5 billion. It also plans to develop 76,000 square km (29,000 square miles) in the area into an international industrial and logistics hub to attract more ships and generate income.265 The latter is already being constructed by the EAF’s Engineering Authority. The contract for the project’s overall master plan was awarded to Gulf-based consulting and contracting firm Dar Al-Handasah Shair and Partner (owned primarily by Jordanian and Lebanese shareholders) and its Egypt-based subsidiary Dar Al-Handasah Egypt, in which the Egyptian army is a partner.266

This project is extremely popular with Egyptians. When the government announced the offer of investment certificates in September 2014 to raise funds for the project’s initial stages, the certificates sold out in just eight days—raising nearly $9 billion.267 Purchases were restricted to Egyptian nationals—a policy no doubt


267 s, 2014 s
aimed at reminding Egyptians that the foreign financing solicited to build the original canal in the mid-nineteenth century was a primary driver of the country’s bankruptcy and subsequent occupation by the British.  

Foreign companies (including US Great Lakes Dredge and Dock) are, however, involved in the actual work required to expand the canal. One foreign executive, William Murchison, CEO of Great Lakes, observed “I was surprised at how fast this came on the market, how fast it was tendered,” likely because there was no oversight of the actual bidding process. "I think we were all surprised at how fast it will be executed,” he added, “the technical aspects of the project are straightforward but the challenge was one of scale and time frame". “One key thing is good about this: the funding is in place. The money is there. We have a motivated employer," he told Reuters after the event. Pierre Catteau, an official from Deme Group, said there would be a massive mobilization of equipment from around the world in order to meet the project's ambitious deadline.

Case Study #2: Toshka (New Valley Project)  
The Toshka multi-decade land reclamation project (nicknamed “Mubarak’s Pyramid”) meant to re-create the Nile valley in the southern reaches of Egypt. Currently, it stands as a $140 billion project that, conceived in 1985, has grown to include a dreamscape of 48 new cities, eight airports, fish farms, a railroad, and a

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268 Marshall and Stacher, April 2015, Egyptian Armed Forces and Remaking of an Economic Empire, Carnegie Middle East Center.


270 Kalin, 2016.

271 Kalin, 2016.
massive eight-lane highway. Alwaleed Bin Talal, a Saudi prince whose Kingdom Agricultural Development Company (Kadco) is the primary investor in Toshka. So far the project has been a luckless, technical failure. “Toshka is a symbol for the Mubarak regime’s mismanagement, capturing both the government’s obsession with large scale projects and its commitment to foreign investment as a silver bullet for what ails the country,” mused one commentator, noting the government’s goal of reclaiming 500,000 feddans (135k acres) has only yielded 333 acres.\textsuperscript{272} Engineering experts wondered if it was a failure of planning or a failure of implementation:\textsuperscript{273} “One would understand building basic infrastructure and services such as a police station, a hospital, a governmental administrative service, said one urban researcher, but who would purchase houses in this new city?\textsuperscript{274}

Sisi’s \textit{Long Live Egypt Fund}—assigned the account number 037037, “a nod to July 3, 2013, when Morsi was ousted”—is meant to be one source of financing.\textsuperscript{275} (See Appendix IV \textit{“Beneficiary Customer Name”}). It has reportedly garnered donations from the region’s wealthiest businessmen, including Talal, Naguib Sawiris (through his Orascom conglomerate), and the chairman of Egyptian Steel, as well as the military’s National Service Projects Organization, several big-name banks, a slew of celebrities, and the employees of the Sonesta hotel chain.\textsuperscript{276}

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\textsuperscript{276}Marshall, “The Remaking of an Economic Empire”, 2015.
But the controversy stems from precisely who oversees the account. According to an official-looking statement attributed to the Egyptian consulate in Australia, the fund will be subject to the authority of Egypt’s central auditing bureau and supervised by Sisi himself and the governor of the central bank along with the sheikh of al-Azhar, the seat of Egypt’s Islamic establishment, and the pope of Egypt’s Coptic Church. Other sources suggest the supervisors will be a mix of government officials and businessmen, while yet another says that Sisi will be the lone supervisor.

Case Study #3: Arabtec and Saudi- No Bid Infrastructure

A $4.9 billion stimulus package—largely financed by the UAE—has predictably gone to fund major infrastructure contracts awarded to companies affiliated with the military. A decree issued by the interim military-backed government in 2014 expanded the ability of ministers to sign no-bid contracts, which had the effect of funnelling huge chunks of public investment to military firms and


During just the first ten months under the interim government, the military landed nearly $770 million in contracts, and over $1 billion in no-bid government contracts over the course of three months in fall 2014. The military’s preferred partners have also benefited. One notable example is a $40 billion project for low-income housing that was awarded to Dubai-based developer Arabtec Construction. Defenders of the military cite the need for rapid stimulus in justifying the non-competitive award procedure.

Case Study #4: Tharwa Petroleum

Tharwa Petroleum, a public-sector company owned jointly with the Chinese and the Ministry of Military Production, remains another example. In the past ten years, the proven gas reserves in Egypt have doubled in size, from 36 to 76 trillion cubic feet, and in 2009-2010 proven oil reserves reached an all-time high. These finds sparked a dramatic rise in foreign direct investment; Egypt signed 176 oil and gas agreements with multinationals between 1999 and 2010, but more than half of the deals were struck in just the last two years of the decade. The petroleum sector

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283 Los Angeles Times, 16 August 2010.

284 Egypt, Business in Brief, (Royal Netherlands Embassy in Cairo, June 2006)
(including downstream processing) accounts for almost half of the state’s export earnings. This was, of course, the worst time imaginable for Egypt’s multinational partners: the commodity boom unraveled and the Muslim Brotherhood-ISIS scrum began.

The National Bank of Egypt, after Sisi’s government took control, extended a $20 million loan to a subsidiary of Tharwa, a military holding interest, and the Petroleum Ministry gave rights to develop the Sea Bird Field and other exploration rights. Previously, NBE and Tharwa did not have a working relationship.

Case Study #5: Vodafone Egypt Share Transfer to the Mukhabarat
Vodafone Egypt, a cash flow monster and icon of Egypt modernizing, was transferred to “Sovereign Bodies” (i.e. the Ministry of the Interior) in November 2014.285

These sovereign bodies were purported to be affiliated with the Mukhabarat, which would enhance surveillance and enlarge coffers. The stake represents $2.6 billion of revenues.

Vodafone and Telecom Egypt had initially established a new joint organization named Wataneya, which held a 51% of Vodafone Egypt. Vodafone, however, kept its 24.6% share in Vodafone Egypt directly, in addition to its stake in Wataneya, thereby retaining management control. Following the announcement, Vodafone Egypt was listed on the Cairo and Alexandria Stock Exchanges, allowing other shareholders to liquidate their holdings. Before the agreement with Telecom

Egypt, Vodafone Egypt was 67% owned by Vodafone, 10% by the Alkan Group and 5% by the state-owned Banque du Caire.286

Foreign Government Enablement of the Military Kleptocracy

The SCAF has converted political circumstance to economic profit in the midst of the military’s strengthening of its hand (and the elimination of crony rivals). Agilely, the Supreme Command calculated, profitable steps to entrench themselves even more deeply by attracting capital infusions, JV’s, and technology transfer agreements from multinational firms and governments. In a certain way, this is precisely what the AOI hoped to in the late 1970’s- pivot away from inferior Soviet technology, capitalize on Egypt’s “good behaviour” during Camp David and fulfil its needs to replenish its coffers after the 1977 bread riots reminded the regime of how vulnerable it was.

We have seen Egypt align quickly with France for up-to-date military technology as wave-after-wave of migrants, some of whom are ISIS, hit southern Mediterranean shores. And the UK, like all countries with large multi-national corporate bases, have sought to offset their own economic choppiness and languor with hyper-growth markets in the Middle East. Egypt is not a big-ticket item yet, but with 40% of the Arabic world, it’s a crucial market.

For foreign multinationals or governments, the benefits are:

• Military has secured continued immunity from government oversight for its enterprises and business partners;287


287 “Large enterprises are a major economic force to be reckoned with in terms of their ability to invest in Egypt, attract foreign capital, and generate economic growth”. Adly,
• During periods of volatility, investing alongside the coercive arm of the states provides added security for costly assets;\textsuperscript{288}

• Opportunity now that Mubarak’s crony capitalists are ousted and Egypt’s ripeness for domestic-led demand growth.

The US has not sat on the sidelines. The Arab American Vehicle Company, an AOI’s JV with Chrysler, which manufactures 17,500 Jeep Wranglers and Liberty’s per year, is one such collaborative effort. (AAV also shares licensing with Peugeot, KIA, Citroen, Hyundai and Zhongxing Auto, suggesting that not only does America accept being in cahoots with the Egyptian military kleptocrats but also with other countries abetting the same.\textsuperscript{289} In fact, the US maintains a very robust website called “export.gov/Egypt/doingbusinessinegypt” which gives detailed steps for US firms to launch export initiatives. Previously, an organization called the US Commercial Service had an enthusiastic presentation on the defense market entitled “Egypt: Export Opportunities in the Security and Defense Sectors” written by Senior Country Officer Margaret Keshishian and posted on the US Embassy in Cairo’s website (Commercial Section). The date of the presentation was 15 May 2011, which is the same day that members of Egypt’s Military Police and Central Security Forces used


\textsuperscript{289} Amr, Too Big tho Fail, 2017.

tear gas, rubber bullets and live munitions against demonstrators, killing 150 and injuring 350.\textsuperscript{290} Today links to this website have been expunged. (\textit{Appendix II} preserves it).

And why is the US complicit? It is not merely in US political interest to keep Egypt stable, which means currently supporting the military authoritarianism, but it is also in its economic. US Military aid creates profits and secures export markets for US firms. For example, parts for the M1A1 tanks are manufactured in Lima, Ohio at a plant owned by a star-spangled-blue-chip US conglomerate, General Dynamics.\textsuperscript{291} Ohio is incidentally a US electoral swing state and this order for $1.3 billion, the eleventh from Cairo since the 1980’s is critical to keeping the Lima General Dynamics Factory open. United Technologies, since 2005, produces M888A2 tank recovery vehicles and Oshkosh Defense, since 2009, co-produces M1070 tank transport and refuelling vehicles.\textsuperscript{292} [These scenarios, often referred to as offsets, are part of a broader arrangement where the US gives aid in exchange for Egypt agreeing to trade (ie buy goods with a US manufacturer).] There is a fleeting comfort element here that the US is getting a return on its “aid” investment, an irony when one recalls tax dollars from such profits go towards perpetuating the SCAF autarky.

But it is Gulf collaboration, beyond the $20bn in annual direct economic government to government aid, which has been particularly transformational. For example, since 2001, UAE affiliates joined the Egyptian military in a number of

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\textsuperscript{290} Marshall, Shana; \textit{Partners in Profiteering: Defense Firms and Diplomats in Post-Revolutionary Egypt}، جدلية، July 24 2013.


\textsuperscript{292} Marshall, \textit{Partners in Profiteering}, 2013. It is also of relevance to note that Egypt’s historical (and some current) military exports produced using US weapons technology went to Somalia, Oman, Sudan, North Yemen, Pakistan and the Afghan Mujadeen.
\end{flushright}
ventures, including the Arab Company for Computer Manufacturing, Egypt’s only producer of computer hardware and laptops. In one case, the Kuwait-based The Kharafi Group owns 71% of shares and the AOI and a Ministry of Military Production subsidiary each own 5%. The company, which draws on APOEN, a Taiwanese firm (TWSE: 3046 TW), for technology inputs, had start-up capital of $140 million and produces 750,000 computers per year. Via a subsidiary, Kharafi controls approximately 60% of the International Pipe Industry Company, of which the Ministry of Military Production owns 10%.

This company is the largest manufacturer of oil and gas piping in the region, reporting sales of $104 million in 2008, and former Minister of Military Production Sayyid Mish'al, another general, has described it as a “model of cooperation” between the state and private sector.

While it can be speculative to divine precise foreign motives for highly capital-intensive undertakings, there are clear motivations at both country and corporate level. For the former, it is the accrual of political capital. For the latter, it is the prospect of access to a vibrant market with high kinetic potential. With Egypt’s 2016 imports at only $55.8 billion (down 12% from 2015) and exports at $25.5 billion (up 19% from 2015, surely prompted by the devaluation of the Egyptian pound), the

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293 A failed Egyptian iPad of sorts.


296 McMurray and Ufheil-Somers, The Arab Revolts, ss

profit potential, depending on the nature of the industry, lies less in the current addressable market as much as the prospective one. Multinationals have made money in Turkey and Dubai, for example, as well as Nigeria and former Eastern bloc countries. Politics can shift quickly and favourably, with an overnight currency devaluation or niche industry liberalization. Egypt is appealing for necessity of capital goods, which is why industrial stalwarts Caterpillar (US), Mitsui (Japan), Hitachi (Japan), Samsung Machinery (South Korea), General Electric (US), Thyssen Krupp (Germany), Arcelor Mittal (India), Nestle (Switzerland), Procter & Gamble (US), Peugeot (France), Daimler (Germany) have an active presence there, as well as the Chinese national flagship conglomerates, such as company Sany Heavy as well as China Railroad Construction Corporation. For these, breaking even could be a fair threshold. In the terms of financial theory, Egypt can be analytically perceived as a call option. Labor is unskilled but available.

It is most likely that MNC’s and governments have come to realize nothing in Egypt is accomplished without the blessing and the “tax” of military approval. They have thus sought to be a sponsor of the first order to receive preferential treatment not merely for new contract bidding, but also for basic security in protecting their investments. One illustration occurred during the 2011 uprising when Kharafi’s Egyptian subsidiary was provided with an armoured guard to ensure safe delivery of its gas turbines in a JV it had from Al-Ismaliya to Al-Shabab, according to its company newsletter. Immediately following this, Kharafi announced an $80 million...
investment to expand its industrial infrastructure in Egypt. An additional benefit redounded to the government from its gain of access to foreign technologies with the purchase of a Chinese technology firm called SiTex (electrical and mechanical uses for civil aviation).

A final example of patronage occurred in the private equity world, revealing that even capitalism’s most ardent free marketers genuflect to the Military Industry Complex. Citadel Capital (Qalaa Holdings now) bought into a large logistics company in 2009 whose chairman, Maged Farag, was a retired general and, in the Fall of 2011 at the height of unrest, succeeded in securing a major loan backed by OPIC. The US, an underwriter of OPIC, yet again is not without chalk on its shoes.

It might also be mentioned that it was Sisi and his military cabinet who unilaterally and without precedent consultation gifted two sovereign islands in the Southern entry to the Gulf of Aqaba (where both Israel and Jordan maintain important ports) to King Salman on 10 April 2016 (announced with a $16bn aid package). This is not a regime that loses sleep over ornate parliamentary protocols or “Vox Populi Vox Dei” populist pandering.

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XI. Why Egypt’s Military Authoritarianism Matters

Eschewing the virtue of human rights advocacy and the sanctimony of personal fulfilment, there is reason to care about a country’s political structure. While it has been argued that an authoritarian regime is better able to disregard immediate pressures for redistribution and focus on investment and growth, various pundits disagree. American economists Mancur Olson and Adam Drazen posit that dictators’ commitment to future policies must be viewed with scepticism - if there are no limits on the ruler’s power, there is no way of holding him to any commitments he makes.\textsuperscript{303} And North and Weingast stress that the risk that the autocrat will subvert property rights for the benefit of himself or his allies will lower the expected returns from investment and reduce the incentive to invest.\textsuperscript{304} Investment entails long-term risks, and the incentive to invest thus requires investor confidence in the regime’s long-term commitment to rights.

The swashbuckling Nouriel Roubini, before assuming his role of ‘Global Nomad’ and financial Nostradamus, once immersed himself in the tedium of quantitative models. In a National Bureau of Economic Statistics working paper he co-wrote as an academic in 1992, he investigates the relationship between political instability and per capita GDP growth in a sample of 113 countries for the period 1950-1982. Define “political instability” as the propensity of a government collapse, his team derived a model in which political instability and economic growth are


jointly determined. The main result of this paper was that in countries and time periods with a high propensity of government collapse, growth is significantly lower than otherwise.\textsuperscript{305} “Economic growth and political stability are deeply interconnected. On the one hand, the uncertainty associated with an unstable political environment may reduce investment and the speed of economic development. On the other hand, poor economic performance may lead to government collapse and political unrest”.

Thus, foreign direct (as well as domestic) investment greatly enhances a nation’s prospects for longer term prosperity. This has been especially true in a rentier state as Egypt. Therefore, the ability to attracting trading partners is vital for a nation’s livelihood. China, while possibly a political counter-example, is a paradox and an exception. While it has a tightly controlled regime and historically a closed domestic economy, the reality is that since the 1970’s China’s export led development made it a vigorous global free market peer. And its recent escape velocity, where it became the second largest economy in the world, took roots in the mid-1990’s when it began to aggressively liberalize both its domestic and external trading practices. And, since 1997, it has had the release valve of Hong Kong which, through the immediacy of its global capital market access, has oxygenated the Mainland economy whenever it has needed to stave off any looming financial crisis, in turn, staving off any political crisis. The Asian Contagion in 1998 (which saw Malaysia, Indonesia and Korea nearly collapse but didn’t shake China), the Tech Wreck of 2000, SARS in 2003, the


\textsuperscript{306} Interestingly, Roubini and his team did not detect much difference between an authoritarian government and a democratic one in terms of economic growth, but that was largely because his paper probed for the magnitude of change from one regime to the next. Regimes that were authoritarian that showed a history of peaceful succession (or immediate policy adoption of previous regimes) had little change in investment growth, though that did not mean they were successful at attracting investment.
Global Financial Crisis, and the 2011 Eurozone Crisis are all examples where China, for all the maligning hullabaloo about its capital controls, has been able to agilely sidestep political peril through savvy and selective use of its global trading relationships.

The following graphs depict the universal correlation between Real GDP Growth and Investment.

Figure 17- Scatterplot of OECD and Emerging GDP Growth Between 2001-2010 (Over Several Investment Cycles)  

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Figure 18- Growth Implications and Benefits of Investing During Crises

Figure 19- Comparison of Egypt’s Investment Ratio and GDP Growth to Emerging Peers: 1990-2000

Source: World Bank, World Development Indicators, various years.

IMF and World Bank Data
For much of the last two decades, the US has been the largest benefactor to Israel and Egypt. While military aid to Israel has been relatively constant at $2.5bn per year, military aid to Egypt has been declining, largely due to a redirection of military resources to Iraq, Afghanistan and other more precarious geographies.

At the same time, economic aid has all but diminished to Israel, which through technical innovation, has become nearly entirely self-sufficient. Egypt, on the other hand, has needed injections from a United States that is all too happy to oblige to retain its soft-power incumbency.

There, of course, was the Obama Pivot and Trump’s isolationism (neither captured here), which have continued this overall trend of disengagement, which has left Egypt with a void that the Saudis, Emiratis and Russians have stepped into.
Figure 20- Military and Economic Aid to Egypt and Israel (1998-2008)\textsuperscript{309}

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\caption{Military and Economic Aid to Egypt and Israel (1998-2008).}
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Table 4.9 Inward foreign direct investment

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<th>Country</th>
<th>Cumulative for period</th>
<th>Share of GDP (percent)</th>
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<td>South Korea</td>
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<tr>
<td>Taiwan</td>
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<td>Resource rich comparators</td>
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<td>Venezuela</td>
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<td>1.8</td>
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Sources: World Bank, World Development Indicators, May 2006; Taiwan: Central Bank of China, Republic of China (Taiwan), and Taiwan Statistical DataBook, 2005; Saudi Arabia: World Bank, World Development Indicators, April 2005.

Figure 21- Inward Direct Investment

Figure 22- Official Development Assistance

Figure 13. Net ODA as percent of gross capital formation, 1965–2015

310 Excepted from Ikram.
XII. The Enduring and Structural Implications of the Military Kleptocracy on Egypt’s Modern Economic Problems

“The market is never wrong” - Wall Street aphorism

Outside of the coterie in the past several decades have not been kind to the average Egyptian. The country has been cudgelled by concurrent capital markets crises, affecting its currency, debt, and equity and, more often than not, confidence. Egypt has had a lost decade in the stock markets and most of its last three generations to desperation. Empirically, any optics of hope and progress, which might be encapsulated in the first graph, are dashed on seeing its dollar translation in the second.

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311 Qasr R’aasat-al-Goumheira, Heliopolis.
Figure 23 – Egyptian Hermes Bourse Index in Egyptian Pounds (Nominal) and in US $ (Exchange Rate Adjusted)\textsuperscript{312}

\textsuperscript{312} Bloomberg Markets, February 13\textsuperscript{th}, 2018
Of course, few Egyptians live and die by the tick on Alexandria and Cairo bourses. With 27.8% of Egyptians conservatively reported to live under the poverty line and 14.8% inflation, there are far greater urgencies.\(^\text{313}\) Politics is a luxury.

The clearest reasons for the problems which have beleaguered Egypt since its modern founding stem from a lack of economic development and diversification. Egypt, in essence, has three sources of revenues: (1) Petroleum; (2) The Suez Canal; and (3) Foreign Aid (from Egypt willingness to serve as a rentier state). There is little manufacturing or private enterprise: no Goldman Sachs, Apple, General Electric or Pfizer.

Egypt’s history of military encroachment is a factor. For example, these three aforementioned spheres of revenue generation are deemed to fall firmly under “national security,” which best suits the political power elite. In Egypt, this is squarely the military (the Supreme Council for Armed Forces). Recalling Al-Beblawi’s and Luciano’s “Nation, State and Integration in the Arab World,” the state as the rentier became the main intermediary in the capture and disbursement of all economic receipts.\(^\text{314}\) By tradition and circumstance, the military has been an assertive, untested power in modern Egyptian politics. The historical basis derives from the immediate recruitment of the military after the ousting of King Farouk to assist in the technical aspects of the building and maintenance of massive, state-critical water and land infrastructure projects. There was also expediency in their deployment: for the last 30


\(^{314}\) Soliman presents a study “Does Oil Hinder democracy?” undertaken by Wantchekon and Jensen which estimates that for every 1 percent of rentier income, there is an 8 percent increase in the “authoritarian propensity” of the state. Page 141, Autumn of Democracy. https://pdfs.semanticscholar.org/1b5b/c3d3320c3abdb067e2079a8ec747780769b0.pdf
years, as peace was made with Israel, keeping the military occupied and “well-sated” kept political rivals at bay/ prevented restiveness. 315

Also, legislative decrees undermine Egypt. Egypt’s president and judiciary corruption have been indispensable in enshrining corruption: Law No. 32 of 2014 Regulating Certain Procedures for Challenging State Contracts prevents any third-party lawsuit challenging any financial decision of the government by stating that only parties to a contract can dispute the legality. This means the “buyer” and the “seller” and, in one and a half pages, this craven edict enables the state to sell assets at any price (ie below market value) to SCAF generals, foreign governments or crony businessmen. Non-parties to an agreement have no legal recourse to any dispute. This

315 There are reasons for this. While we have discussed President Nasser from a state-building perspective in the previous section, it is important to understand his popular appeal and the more meaningful steps he took in economic development. Nasser’s quick nationalization of land, including the Suez Canal, through a series of “reforms”, his Pan-Arabism, his fleet-footedness in securing Soviet patronage, and his optical advocacy on behalf of Egypt’s restive masses, to mention nothing of a survived assassin attempt (eight shots by a gunman less than twenty-five feet away), introduced a divine mandate—a la-L’Egypte a la Belle Epoque. Importantly, as the state embarked upon comprehensive development programs under Nasser— including industrialization programs, public transportation plans and building the Aswan High Dam— it counted in the military to provide technical expertise and bureaucratic supervision.

It was noteworthy how Sadat built the Aswan Dam and expand the Suez without IMF help and in defiance. According to Hicham Bou Nassif “Wedded To Mubarak: The Second Careers and Financial Rewards of Egypt’s Military Elite”, Nasser became a symbol of Egypt’s efforts to achieve economic prosperity and restore national dignity after decades of foreign occupation created an ideational link between the regime over which he presided and the military. He solidified military cooperation with prestigious and highly paid civilian jobs unavailable during the monarchy as well as and a profusion of postings in the diplomatic corps.

Sadat strengthened this alignment, avenging the humiliation of the loss to Israel in the Six Day War of 1967 and relying on his relationship with the military as “The Liberator of The Sinai”. Economic historians, in their more generous moments, generally credit him as astute tactician for his rapid deployment of military leaders into positions of economic power to give Egyptian generals a new public role in a time of peace, just when the post-war period reduced the need for their role as the nation’s bulwark against Israel after the signing of the Camp David Agreements in 1978.
particular danger is the lack of title (dispute of original ownership) with many Egyptian assets. The military can fraudulently convey them to a buyer and effect by law and force their transfer.

For example, in one recent case, charges were brought against Major General Sa’d Khalil, the former governor of Matruh, for severely under-pricing 1,659 acres in the region of El ‘Alamein on Egypt’s northern coast. The deal that Khalil struck cost the public treasury more than LE 1 billion ($167 million) in lost remittances. Another involves Major General Samir Farag, former governor of Luxor, who was arrested for selling an Olympic Games Stadium for LE 44 million ($7.3 million), whereas the actual market price should have been more than LE 350 billion ($58.3 million). The public treasury thus lost more than LE 306 million ($51 million) in the deal.

This brazenness antedates Sisi: in the 1990’s, Mubarak established a parallel military court system – the State Security Court and Supreme State Security Court which usurped the power of the legislatively equal judiciary. This enabled Mubarak to

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318 Hicham Bou Nassif “Wedded To Mubarak: The Second Careers and Financial Rewards of Egypt’s Military Elite, The Middle East Journal, Autumn 2013. Other governors recently accused of similar shadowy transactions include former governor of Suez governor Sayf al-Din Galal; ‘Abd al-Galil al-Fakhrani, former governor of Isma’iliyya; and ‘Abd al-Fadil Shusha, former governor of South Sinai, all retired military officers. This list is not exhaustive, yet the sums involved expose the kind of fortunes officers could make, unhindered, under Mubarak. The fact that opulence potentially awaited retired generals enjoying the regime’s patronage gave officers an incentive to gain Mubarak’s favor. Equally as important, the protection from prosecution for illegal activities that Mubarak offered drew corrupt senior officers closer to him, provided they remained loyal”
debilitate, imprison, and execute any opposition as terrorists in closed court trials, as well as rapaciously pursue deals at will.

Finally, in reference to the military, its patronage networks and a lack of transparency plague Egypt. The long arm of Sisi’s apparatchiks (SCAF and the Mukhabarat), bequeathed from Mubarak, is witnessed by the vast patronage networks, which have menaced the civil service, judiciary, army, police and parts of the private sector. According to World Justice Project, it is not so much that the country has lacked the regulations needed to crack down on corruption but that it has failed to enforce them. Civil servants are rarely punished. Data (collected in 2012) indicated that nothing happened to civil servants caught accepting a bribe for a license in 19% of such cases; in another 41%, investigations would be opened but not concluded. This plus ça change state apparatus survives Mubarak: Sisi is a new premier in name only.

While the aforementioned lack of revenue diversification (and the expropriation of any revenue that is generated) and development are the causes, there are others.

One such was Egypt’s population growth and unreasonable expectations about Keynesian subsidies and transfer payments.

Figure 24- Egypt’s Population Growth

319 Sisi and all the NPD dictators before him had the benefit of acting as agent on state resources. Any opportunity for predation was exploited in the “strategic interests” of the people and state. The military enforced this. Sisi was the youngest member of the Supreme Council of the Armed Forces (SCAF) and, as its chief, engineered the military coup against Morsi.


321 Ikram, The Political Economy of Egypt, AUC, Cairo, 2018
Another has been its food insecurity and lack of foreign exchange reserves to buy food. Egypt’s arability and population density have posed a significant challenge as the country struggles to feed itself.

Figure 25- Egypt Wheat Imports 1960-2016

322 Bloomberg, January 18, 2018
Egypt has also relied on tourism and Suez Canal revenues to finance its external debt and purchase its food. The graph below demonstrates that Egypt benefitted from the oil supercycle in the mid-2000’s (whether that was from remittances or its own limited oil) and, more recently, when it devalued its 9.5/$ to 17.7/$.

Figure 26- The 70% devaluation of the Egyptian Pound

This overdue though effective policy tool cause exports to soar and foreign exchange holdings to come flooding in. It is a great reason for hope in Egypt conferring some agency in its economic autonomy.

Figure 27- Egypt Foreign Exchange Holdings

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323 Bloomberg, January 18, 2018

324 Bloomberg, January 18, 2018
Another was military buccaneering when Egypt’s annual military expenditures tore up 20% to as much as 40% of the government budget and GDP. Egypt had projected itself as the leader of the Arabs; a leader of the Muslim; world; a leader of Africa; a leader of the “nonaligned” group of countries; champion of Palestinian rights; supporter of Algerian resistance to French rule; a bulwark of the Third World against the West. Ikram notes Egypt had been involved in wars with Israel in 1948, 1956, 1967, and 1973, plus a “war of attrition” (March 1969 to August 1970) and a war in Yemen against Saudi Arabia from 1962 to 1967, and in hostilities against Libya in 1977. All these severely depleted Egypt’s economic, financial, and human capital. The cumulative effect of these factors “came to a head” in the early 1970s.

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If these were the causes, the effects are concentrated in a single culprit: a lack of savings, which has in turn led a lack of investment. Egyptian developmental specialists, such as Galal Amin, and broader IMF and emerging market analysts, identify this as the biggest culprit. Of course, a lack of investment leads back directly to Heliopolis.

Having established the link between regime stability and the ability to attract foreign investment, and, in turn, savings and investment to economic prosperity, the graphs, where Egypt has perennially run a deficit and underinvested, show precisely why Egypt’s free-wheeling military expropriation asphyxiates any hope of Egypt continuing at steady-state. Change is needed urgently.

Figure 28- Egypt’s Deficit as a % of GDP

Figure 8. Revenue, expenditure, and overall deficit, 1965–2016; percent of GDP
Source: Ministry of Finance and World Bank
Egypt is forced to rely on foreign savings or loans to finance its investment and to cover its balance-of-payments deficits, which is represented in the gap between savings and investment. This also measures the extent, which explains the continual piling up of external debt and the resulting exposure of the country to external political pressure, not dissimilar to the burgeoning United States’ capital account deficit with China and Japan.
Figure 30- Egypt’s Debt Exceeds GDP and Is Growing

Figure 31- Egypt’s Cash Reserves Turn Negative

327 Bloomberg, January 18, 2018
328 Bloomberg, January 18, 2018
Figure 32- Egypt’s Debt Skyrockets with much of it forced into Concessional Perma-Loans

A major challenge has been the inconstancy of the GDP Per Capita growth rate, which has been poor and often lagged inflation, leaving purchasing power eroded.

Figure 33- The Variability in GDP Per Capita is Problematic

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329 Excepted from Ikram.
330 Excepted from Ikram.
People do not have jobs and the trend is worsening.

These problems do not occur in isolation. Ikram offers that “deeper institutional issues, such as (1) matters of governance, (2) the structure of incentives, (3) the working of the bureaucracy, (4) the commercial judicial system, (5) implementation capacity, and (6) the shortcomings of the education and training system.” He notes the following secondary reasons for its languishment.

1) Failure to Diversify:

Egypt failed to accelerate the growth of non-oil manufactured exports and lost out on the expansion of international trade. The country’s foreign-exchange earnings thus consistently fell short of its requirements (for crop imports, debt repayment, machinery imports, commodity purchases).

2. Import Substitute Industrialization:
This is reflective of the Kaldorian Dilemma in Waldner. Egypt’s growth strategy was based on import-substituting industrialization. This strategy can tend for considerable periods to be import-intensive, because until such time as the industrial plants are fully functioning, the country must import both the capital goods required to set up the import-substituting facilities and the finished commodities.

3. Techlogical Deficiencies:

Especially after 1973, Egypt had to import large quantities of equipment in order to refurbish an infrastructure that had been almost completely run down during the war years. Simply put, Egypt only knew how to make second-rate ordnance and very little equipment to cultivate intermediate industrialization or sustain civil engineering initiatives. Egypt has no Samsung Heavy, no Mitsubishi, no Caterpillar, no General Electric or General Motors. Part of the hopes underpinning the Soviet alliance under Nasser (and ultimately the pivot to the West) was technology sharing agreements.

4. Explosive Population Growth:

Only 2.8% of Egypt’s land is arable. The growing population and the limited scope for agricultural expansion (beyond cotton) meant that large quantities of food and agricultural items have had to be imported. There have been initiatives in various fiber crops, cereals, sugars, legumes, fruits and vegetables. Ironically, what has beleaguered Egypt’s agricultural output has been the pests that attack its crops, less than the arability of the soil. Consequently, Egypt was faced with a growing

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331 Central Intelligence Agency Factbook, 2017.
import bill that was not covered by the country’s foreign-exchange earnings, even when these were supplemented by external assistance.

Seeds of Discontent

There has recently been a groundswell of protests, even post-2013 “election” of Sisi and resumption of military rule. These get little press and have been smashed as soon practicable but an ever-emboldened military elite. But their existence matters because it shows the fire of rage burns, and at some point, the military will be forced to modify its ways, which began out of appeasement to the broader populace, or the democratic stakes and court of global opinion will be simply too great to be ignored. Saudi is both an ally of the States and to Egypt and its competitor in the Vision 2030. Both will gain from a mercantilist symbiosis and benefit from increasing Saudi technical prowess and its wish to disentangle from the US. Egypt will be able to monetize its demographic dividend if it chooses to modernize politically and economically.

Within all of this, it is useful to cite some of the recent acts of discontent:

1. Media:
   - Newspapers began questioning the military’s unaudited budget and untaxed civilian business profits for the first time in decades.

2. Maritime Worker Strike:
   - Because the maritime sector was entirely dominated by retired navy officers under Mubarak, it became a visible focal point of widespread workers’ unrest. For instance, sit-ins and hunger strikes erupted at the various locations and companies of the Suez Canal Authority, whose head
for the previous fifteen years was the former commander of the navy, Vice Admiral Ahmad Fadil.332

- At the navigation office of the port of Ismailiya, employees organized a hunger strike demanding the right to fair wages and benefits for around 12,000 workers at the canal. Fadil ignored the strikers for long days, until many of them had to be hospitalized. Meanwhile, around 150 seasonal laborers also went on a hunger strike demanding permanent contracts after serving at the canal for more than ten years through private contractors who paid them trivial wages.333

- Labor rioters forced out retired rear admirals who controlled the Mediterranean port of Damietta. Port, Ibrahim Fulayfil lost his position owing to fierce labor pressure for his expulsion.334 Posting scandalous videos of him on YouTube, surrounded and verbally attacked by angry workers, protesters accused him of nepotism, pandering, expropriation and corruption.335

3. Airport Strikes:

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335 15 December 2011; https://www.youtube.com/watch?v=rpT-fDOfz_0, accessed 1 January 2012.
Laborers at the airports of Luxor, Aswan, Sharm el-Sheikh, Hurghada, and Sinai embarked on widespread strikes, later joined by fellow employees at Cairo airport over wages.\footnote{Abul-Magd, p.243, 2017.}

4. Military Factory Strikes:

- Around five thousand workers at Factories 99 and 45 went on strike, pressing multiple demands, at the top of which was “no military trials for civilian labor.” They also asked for a doubling of their significantly low bonuses.\footnote{Abul-Magd, p.248, 2017.}

- Similarly, around a thousand workers at Factory 63 launched a sit-in inside their facility demanding an increase in bonuses, insisting that manager General Mash‘al promised them such a raise during his parliamentary election campaign and never fulfilled his promise. Unable to contain such unrest, the factory’s manager was fired, but protests continued.\footnote{Abul-Magd, p.264, 2017.}
After the wildfire of popular revolt from the “Arab Spring” uprisings of 2011, the Egyptian Army stood as the only Arab military that not only survived the chaos and uprising but somehow aggrandized its authority and command. From the ouster of colonialists in the 1950’s onwards, the Middle East is no stranger to military regimes and military-backed autocrats. In the bad old days of the last six decades, tens of military coups d’état took place in the region and gave birth to officer-dominated regimes in postcolonial Arab states such as Syria, Libya, Iraq, Algeria, Tunisia, Yemen, and Egypt. These authoritarian regimes lasted more than 60 years, until most collapsed under their own weight and mass unrest in 2011. This wave led not only to overthrowing old military dictators such as Muammar al-Qadhafi of Libya or Ali Abdullah Saleh of Yemen, but also to dismantling many of their military institutions. Bashar al-Assad, has not yet been deposed, but his army is in tatters and he is a Putinate puppet. In Egypt, however, the aging military autocrat, Hosni Mubarak, was overthrown, but his army was kept fully intact and managed to shortly reinstate the military regime anew “amid cheering masses.”

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339 Abul-Magd, *Militarizing the Nation*, p.3, 2017


341 Abul-Magd, *Militarizing the Nation*, p.4, 2017

342 This is debatable as there have been increasing protests and workers endeavouring to unionize. Nonetheless, the military’s power is absolute.
What explains this? And can there be hope for the Egyptian citizenry to escape its grim reality?

Adam Przeworski, in his *The Poor and The Viability of Democracy*, identified a minimum threshold of wealth, referred to as “inner modernization theory”, where democracies don’t fail.\(^{343}\) Argentina achieved it in 1976, Egypt and other Arab countries are poorer today than where Argentina was in 1976. In Egypt democratic collapse looked sure to happen after Tahrir and, with the decisive victory of the Muslim Brotherhood, there became a chance the country was going plunge into an Iranian style theocracy. This became increasingly fraught with risk as the new constitution gave Islamists an outsized role. Article 219, for example, linked the principals of shariah law with the principals of all legislation. It should be noted that Egyptians determine democracy differently than those in the West often do. In a November 2011 survey, most Egyptians stated they believed government was responsible for job and standard of living and that welfare is responsibility of government. They also believed the government should raise taxes and redistribute wealth.\(^{344}\)

There is a modest upshot to this, some flexibility. Egyptians are not demanding the autonomy citizens of developed economies have in the West. They largely want “a subsidized lunch”, not necessarily a free one or a Ferrari. A government that can honor a social contract to provide the minimum level of basics


\(^{344}\) Referenced in a lecture given by Professor Tarek Masoud 19 March 2013, Foreign Policy Association.
would suffice. The tetchiness comes without this. So Egypt doesn’t have to be a multiparty democracy to work.

Let us be clear: while Egypt military kleptocracy will strangle the country and plunge into a national security crisis, there is room, and indeed argument for the necessity of a strong state. Additionally, as noted, there has been growing din of discontent which could agitate for successful reform.

The Path Ahead

Egypt has a myriad of economic challenges which threatens its national security. Part of these is structural (a hostile climate for agriculture, explosive population growth, lack of education, legacy of limited private sector development), part of these is inflicted by the country’s fiscal management and power structure (lack of transparency and adherence to social contract and civic fiduciary duty). All of these are urgent, all of these are daunting with no “easy fixes,” and none of these exist in isolation.

History has revealed the world over that free markets prevail. Kleptocracy is a form of market manipulation which suppresses legitimate price discovery and excludes factors of production (labor, resources) from participating in the benefits of

345 Abul-Magd, in her “Angry Workers, Islamic Grocers and Revolutionary Generals (2011-2014)” writes: “The military also managed to restore its image by presenting material “gifts” to the middle and lower classes, distributing charitable items to the poor, and delivering immediate crisis relief services to hurting localities. During organized national festivities, military helicopters threw “gift coupons” over enchanted masses in public squares, which they could use to claim military-produced consumer goods at the army’s commercial outlets. In the Delta province of Kafr al-Shaykh, the armed forced distributed twenty thousand large boxes of food items to poor families, and it did the same thing in Cairo’s poor neighborhood of Imbaba. At the large premises of the Mahalla textile plant, where widespread labor protests used to erupt, the military sent the same number of food boxes especially for this company’s workers. These boxes carried the colored logo of the MoD on them, and women from low-income households were seen happily carrying them atop their heads.”
economic prosperity. The failure of the Soviet Union as well as several empires with disproportionate wealth concentration and means of obtainment, including Ghaddafí’s Libya, Hussein’s Iraq, and Asaad’s Syria, bespeak this. Civic participation is at least as economically inspired as it is political. Absent blind serendipity from resource benefactions (Saudi, Qatar), China informs us that democracy is not a necessity for prosperity but the comparative success of Hong Kong within its own borders reveals its desirability. China, unlike Egypt, provides a modicum of social mobility. Hardly a meritocratic utopia, China offers some opportunity for education and self-betterment, and there is a meaningful private sector.

Egypt’s economic vulnerability limits Sisi’s options. His strained financial resources have put in jeopardy his base of public sector employees, whether they are emaciated military conscripts or others in the truly private sector. This, in turn, challenges his ability to consolidate his authoritarian rule, especially as the decaying socio-economic conditions become more desperate. For Amr Adly, with Egypt’s economy beholden to external factors, “policy options to increase revenues and ameliorate the economy are limited. The regime has shown an inability to undertake the necessary measures to address its fiscal problems or relaunch economic growth.”

With Egypt’s massive unemployment (12%-16% perennially) and anaemic real growth (2%-4%), the risk is real and dangerous. A loss of support from the military would be dire. Sisi must work to keep it happy while ultimately weening the country off its bureaucracy. They only country in modern times to overcome a problem as ancient as is China, with its 2.3 million troop People’s Liberation Army.

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This will not be an easy task. Even Rome collapsed under the weight of its military’s pecuniary ambitions and entitlements. In the case of China, natural endowments and a proud intellectual heritage helped it to acquire the human capital to modernize. A millennia-old country, it is still classified as developing, only recently achieving the GDP of $3,000 per capita developmental economists consider as escape velocity towards self-reliance and ongoing development.

It is vital to emphasize that Egypt's failure need not be fait accompli, as Noland and Ikram insist. No one doubts that the country is in a crisis, but “crisis” in its most fundamental Ancient Greek sense means “turning point”. There are nations larger (Indonesia, India, Vietnam, Philippines) with more diffuse, complex constituencies as well as nations smaller and as resource-constrained (Israel, Dubai, Singapore) that, with ingenuity and political will, have transmogrified themselves from “economic backwater to “tiger” or even “leading light”. Some of these have been command economies and others messy ochlocracies: there are a lot of ways “to win”.

Assets and Endowments

Even with the immensity of its current challenges, Egypt has assets. It is characterized by developmental economists as ‘Resource Poor, Labor Abundant’ (“RPLA”). Its location as the frontispiece of global oil transport, its presence as the third largest oil producer in Africa, its abundance of cheap labor (28.7 million

workers and the third most populous state in Africa),\textsuperscript{348} its status as the only Arabic state with a lasting unified cultural and geographic identity,\textsuperscript{349} its appeal to a slew of foreign actors who recognize its strategic desirability for trade\textsuperscript{350} and its necessity to other external actors for spreading their revolutionary goals and political agendas are among the most prominent. The 8 April 2016 announcement (please see Appendix III for full details) of a 30 billion Saudi riyal ($8bn) three-year infrastructure program and the USD $12bn pledges from Gulf-Arab allies at a March 2016 Sharm al-Shaikh investment conference underscore this\textsuperscript{351} as does the visit of Saudi’s King Salman and his retinue the very same week. King Salman commented: “We are working together to launch an Arab joint force” adding “terrorism’ and ‘radicalism’ must be fought financially, militarily and ideologically.”\textsuperscript{352} He also announced a planned bridge over the Red Sea not only to “connect Asia and Africa”\textsuperscript{353} but it [Egypt] will be a “gate to Africa,” boosting exports of the two countries and creating job opportunities in the region”.

\textsuperscript{348} There are various estimates of Egypt’s GDP on a purchasing power parity basis. But the cheapness of its labor and the availability of domestically manufactured textiles have led to some estimate as high as $994 bn USD for 2015 in the CIA World Factbook (April 3, 2016). More consistent estimates are in the $300bn-$500bn range.

\textsuperscript{349} Sudan split away from Egypt as did Syria.

\textsuperscript{350} Egypt is the 63rd largest exporter of the world

\textsuperscript{351} 8 April 2016. Please see Appendix II for full set of agreements.

\textsuperscript{352} http://english.alarabiya.net/en/News/middle-east/2016/04/10/Egypt-Saudi-Arabia-sign-new-deals-in-King-Salman-visit.html

\textsuperscript{353} http://www.lebanondebate.com/news/248424

أعلن الملك سلمان الجمعة، الاتفاق على تسليمه جسر بري بين السعودية ومصر عبر البحر الأحمر. وقال إن الجسر البري سيرفع التجارة بين البلدين ويخلق من فرصة العمل. وأوضح الملك سلمان في كلمته "زيارتي تأتي لتعزيز العلاقات التاريخية بين السعودية ومصر".
Before we consider solutions the Egyptian government may undertake to enhance its prosperity, it is useful to identify the professed goals of the SCAF (ie Sisi & Co.) as well as aspects of its situations which are favourable.

Firstly, Egypt’s macroeconomic data range from discouraging to abominable BUT the country has several levers (see Appendix):

- The banking sector’s loan-to-deposit ratio is 32% (this suggests severely overcapitalized banks with ample capability of stimulating)
- Underpenetrated stock market at 20.6% market cap/ GDP→ there is room for foreigners and domestics to invest and for the country to attract foreign capital. Developed market economies can see market capitalization to GDP as high as 150%
- Dividend yield of 9.3%→ While this is less than the currency depreciation and long bond but provides a margin of safety
- Real GDP growth of 1.8%-4.2%→ 1.8% is not impressive but 4.2% is globally appealing. This needs to translate to GDP Per Capita, which is flat/anaemic given the rapid population growth, but could provide a starting point.
- Discount rate of 9.75%→ this provides yield for foreign investors and could be lightened to spur domestic lending. There is cushion.
- Foreign Direct Investment Re-emerging→ Saudi, UAE, and the United States are clearly involved and re-upping
- A lack of clarity on property title/ownership challenges mean that the housing market is not overheated with loans. Theoretically, the upper middle-class consumer is under-levered.
• Debt to GDP has fallen and is manageable: the country, with the right
global landscape, could “grow itself out of this”. Most of its debt is
denominated in Egyptian pounds. It could reflate Japan-style, though that is
only a short-term solution with very negative longer-term implications.

• Despite its lethargy and failure to innovate, the country’s GDP is not
very far off from Vietnam’s or The Philippines, which are advantageously
endowed with agricultural self-sufficiency. Indonesia with three times the
people has three times with GDP, which is a neutral comment (it has a better
means of self-sufficiency but less of a rentier life-jacket. Admittedly,
Indonesia has natural resources beyond oil, and Edenic agricultural
endowments). Israel is more manageable but has overcome many of Egypt’s
similar challenges with resources and internal strife.

Secondly, Egypt’s SCAF has identified four goals for its economic security: 354

1) The Provision of Basic Commodities at Appropriate Prices
2) The Resumption of Major Infrastructure Initiatives, including
   Land Reclamation and the Expansion of Public Transportation
3) Revival of Major Manufacturing Operations
4) Security on the Egyptian Streets

Goals One and Four, of course, are to prevent an immediate threat of riots and regime
change. Goals Two and Three create mutually beneficial opportunities for self-
enrichment as well as more enduring and stabilizing economic prosperity. (Tellingly,
there is no mention of education and health. Goals Two, Three and Four exist

354 Adly Mansour, President of the Military Backed Interim Govt, 2013.
heighten the factors of production to benefit the state.) Yet, these goals are all reasonable and achievable and well within the reach where acceptable foreign actors can assist the Egyptian government. Within the first three, the United States has proven and remarkable competence, working perhaps with the Saudis or a face-friendly actor to achieve Goal Four. Thus, the US as a player here should not be entirely disregarded by the Egyptians.

**Efficacy & Constraints**

Efficacy – We need to be realistic about the US’s capabilities of effecting change: the US is 5%-10% of foreign direct investment in Egypt. Its sway and moral authority are far muted relative to Saudi, a nation which is not known for human rights, progressivism, or democracy. Of course, the US has a $18 trillion GDP, making it twenty-one times the size of Saudi’s with far greater diversity and manpower. There is firepower in the US if it chooses to apply it. The US economy is in far better shape than Saudi, including its capacity to commit military and economic aid. It should be noted that at this point nearly 100% of the aid the US allocates is purely military.

Constraints – We should also be clear that the US has not struggled with moral qualms about transacting with Egypt’s military autocracy in the business sphere. Its attitude there is no different than it is with China, for example. The US has long abandoned an insistence on a fully flourishing democracy as a pre-condition to partnering with Egypt. Thus, Egypt has hijacked the purity of the US’s political ideology. Of course, while the US agenda has many common elements with the Saudi/ GCC, it may have some odds with the Chinese. In dealing with Sisi & Co., we
shall assume a peaceful Egypt is one goal for all parties, and non-zero sum economic growth with some aspect of transparency and positive social externality is another.

An Agenda for Reform: Areas Where Egypt Can Help Itself

Figure 35- Egypt Panel on Sustainable Development Strategy: Egypt Vision 2030

Adly, in his *State Reform and Development in the Middle East* examines the cases of Turkey and Egypt and determines that the single variable, amidst all the cultural, political, geographic demographic and historical similarities between Egypt and Turkey, that has accounted for Turkey’s comparative success (GDP of $14,071 per capita vs ~$3,000 of Egypt) is Turkey’s commitment to a democratic polity and Egypt’s insistence on an authoritarian one.\(^{356}\)

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\(^{356}\)Routledge, 2013.
Realistically, Egypt will not turn democratic overnight so it is necessary to consider more pragmatic scenarios and cases where success has been attained.

Ikram argues that the growth and age structure of the population (given dependency structure) and the approximate relationship between employment and GDP growth, Egypt’s economy needs to grow at “around 7%” a year in real terms for “at least the next two decades and probably longer” in order to absorb the additions to the labor force and to reduce the rate of unemployment and underemployment from the past. This is particularly necessary in order to give the population, and especially the young, the possibility of fulfilling their capabilities and leading lives that they value. The required GDP growth rate compares with a rate of about 4.7% that the country averaged over the fifty-year period between 1965 and 2016.357

This is a daunting task for any country, but, as Vietnam has shown us with 90 million people and still in the early innings of its infrastructural and economic development, it is possible.

Immediate Areas That Can Make a Difference and Where Reciprocity and Engagement of the Government Is Required358:

1) Ease of Doing Business
2) Rule of Law
3) Financial Liberalization and Capital Market Infrastructure: Select Privatizations
4) Reconfiguring its Rentier State Economy to a Services and Manufacturing Based One

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358 “Buy-in”
5) Abandonment of Nasserist Subsidies (sinecures, housing allowances)
6) Improvement of State Services (health care, education)
7) Free Trade Economic Zones
8) Establishing Entrepreneurship Support Programs and Loans
9) Transparency in Financial Accounts, Ownership and Decision-making
10) Promotion of interstate collaboration and competition through incentive programs (tax abatements, investment schemes)
11) Setting a Tone of Religious and Political Plurality

These can all be considered “soft reforms” and are spheres where the Egyptian government, with nudging and oversight of more experienced peers, can take ownership, claim victory, and more readily catalyse an outcome than an external actor. Progress can be graduated, not requiring a regime-toppling volte face. There is a middle road.

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Religious Plurality: The Copts are not a threat to Egypt’s SCAF and the hasty, ill-advised sacrifice of the Zabbaleen was been met with global scorn. Any gestures of greater inclusivity to them can create a perception of a more tolerant government. The Copts won several elections, for example, and not a single seat in the Shura Council.

Meaningful political plurality, obviously, is out of the question and the handling of the FJP (MB) is extremely sensitive. Even before the recent violence of 2013 when Morsi was displaced, the FJP had put forward 10,000 candidates to explore runs for parliament and only 25 were permitted to run. They remain the regime’s second largest foe, after the economy.

It is not in the interest of the US to have an Egypt run by the FJP but memories of FJP’s flash opposition does provide a useful nettle to keep Al Sisi & Co. in check. The FJP themselves will soften when the fervour and umbrage of their members dissipates. This surest means for this is better economic prospects. This will also establish the regime as more centrist, not the brutalistic dictatorship it is, which will favourably affect the mood for foreign direct investment.
Some of these, of course, are easier and more palatable than others. The military has consolidated its gains but every day that the leadership allows the failure or deficiencies of the above to fester, substantial risks of revolt/ coup heighten. Political will is necessary and the current regime, which has relied on sinecures to extend its patronage and buy its legitimacy, is not likely to “lean up” / streamline its bloated power and decision structures. There are too many parasites and risk of factional coups. Nonetheless, there is headway that can be made.

1. Business Climate: There is no reason, for example, that in order to start a business, 78 permits have to be obtained. And Egypt’s real estate sector is extremely depressed since right of abode and title are unclear. There is no concept of investment to secure a future or means of wealth and there is no instrument to support it (mortgage programs are very undeveloped). Similarly, Egypt should take pains to publicly denounce bribe-taking at the street level and extol business transparency improvements. When the tax man or auditor has a gun and a history of harassment or kleptocracy, it is not easy for small business owners or citizens to immediately have trust. But permits and licenses need not have a threat of persistent baksheesh supplication\(^{360}\) or more encumbrances than they already do. Board room tax evasion /holding company prestidigitation are regrettable, but they are not street thuggery.

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\(^{360}\) Emerging countries can have transactional norms in the regular course of business that run afoul of Sarbanes-Oxley or The Foreign Corrupt Business Practices Act

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<thead>
<tr>
<th>Country</th>
<th>Mean tariff rate 1990</th>
<th>Mean tariff rate 1995</th>
<th>Mean tariff rate 2000</th>
<th>Nontariff barriers, 2001</th>
<th>Overall protection, 2001</th>
<th>Hidden trade barriers</th>
<th>Prevalence of trade barriers</th>
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n.a. = not available

Notes: Nontariff barriers are ad valorem equivalent of nontariff barriers, import-weighted. If nontariff barriers exist, GCR figures are in percentiles (higher number is better); hidden trade barriers, n = 104; Other GCR indicators, n = 117.

2. Rule of Law / Promotion of Foreign Direct Investment: Egypt is, in a certain sense, one large free economic zone: compensation for foreign investors is that Egypt, as reciprocity for permitting foreign investment, will try to control its borders and not export terrorism. And it has been accepted that a rule of law protecting foreign investors does exist if and only if they do so right alongside (and through the hands) of the Egyptian military. Does this prevent Big
Capital from coming in? Probably not as we have seen several examples (Great Lakes, Kharafi) where Egypt’s heavy-handed military has not diminished foreign enthusiasm.

Figure 38- Corruption Index- Global Competitiveness Report

<table>
<thead>
<tr>
<th>Country</th>
<th>Corruption</th>
<th>Control of corruption</th>
<th>Corruption perceptions index</th>
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n.a. = not available

Notes: Data are in percentiles (higher number is better); GCR sample: n = 46; All others: n = 48.

3. Capital Market Improvement: Egypt, consistent with the perception of its difficulty in doing business, ranks poorly in capital markets and financial capacity across metrics such as: (1) financial market sophistication; (2) ease and access to loans; (3) access to credit; (4) venture capital availability; (5)
local equity market access; and (4) number of listed companies as a % of market capitalization.

Mohammed El-Erian, a seasoned Wall Streeter of Egyptian extraction, who oversaw at one point the most money in the world as the former CEO of PIMCO, certainly would be a well-placed advisor.

Figure 39- Financial Market Development Indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial-market sophistication</th>
<th>Ease of access to loans</th>
<th>Access to credit</th>
<th>Venture capital availability</th>
<th>Local equity market access</th>
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<td>Normally endowed comparators</td>
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<tr>
<td>Bangladesh</td>
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<td>29</td>
<td>56</td>
<td>21</td>
<td>68</td>
<td>11</td>
</tr>
<tr>
<td>Brazil</td>
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<td>40</td>
<td>42</td>
<td>23</td>
<td>50</td>
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<tr>
<td>Pakistan</td>
<td>40</td>
<td>74</td>
<td>94</td>
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<td>Turkey</td>
<td>57</td>
<td>30</td>
<td>89</td>
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<td>79</td>
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<td>Resource-rich comparators</td>
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<tr>
<td>Botswana</td>
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<td>62</td>
<td>48</td>
<td>75</td>
<td>61</td>
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<td>Indonesia</td>
<td>41</td>
<td>45</td>
<td>41</td>
<td>52</td>
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<tr>
<td>Nigeria</td>
<td>46</td>
<td>15</td>
<td>2</td>
<td>47</td>
<td>56</td>
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<tr>
<td>Venezuela</td>
<td>49</td>
<td>33</td>
<td>22</td>
<td>15</td>
<td>21</td>
<td>44</td>
</tr>
</tbody>
</table>

n.a. = not available
a. 2003 data

Notes: Higher percentiles correspond to greater development. Sample size = 117 developed and emerging-market economies. 108 for 'number of listed companies.'

Sources: First five columns: Global Competitiveness Report 2005-2006; Number of listed companies as percent of market capitalization: World Bank, World Development Indicators, 2006.
4. Transformation to Services and Manufacturing-led Economies: This is unquestionably in Egypt’s interest. The regime’s zeal for technology sharing agreements and incipient arms export programs to nations of lesser might is bullish for Egyptian reform. The regime perceives and acknowledges technology, services and manufacturing present the way forward. And with Israel in their field of vision, an appreciation of the transformative capability of a high technology economy must resonate. Perhaps there could be an exchange or collaboration with King Abdullah University of Science and Technology.

Mohammaed El-Bareidi could be a powerful goodwill ambassador in this realm.

Figure 40- Regional Export Output from 1980-2003
Capital in Egypt carries a much higher financial risk and, therefore, cost with its beholdenness to the commodity complex and the largesse of outside manipulators. Egypt is not self-sufficient. Its location is a sustainable competitive advantage but the Suez need not be Egypt’s only merit.

- Singapore and Hong Kong as well as Dubai are powerful aspirational goals. Dubai is a client state of both Abu Dhabi and Saudi, and Hong Kong is a money laundering vehicle for China, but it established itself as a profitable center of commerce well before its return in 1997. Singapore was over-populated and a refuse for Chinese who fled Malaysia and, within two decades, the city state, through aggressive savings, investment, educational programs and a pursuit of higher quality economic development, surpassed far better-resourced Malaysia.

- Dubai has carved its niche in tourism and now, through wiliness and persistence, impossibly posts the world’s busiest, most luxurious (and efficient) airport and most profitable airline, all merely 200 miles from the gun-strafes of Yemen and Syria.

- Israel has the US’s perpetual backing but its ethos of innovation has engendered unassailable success and stability. Israel has made its luck.

- Even Japan, a populous country ravaged by World War II and with little natural resources, has elevated itself to the third largest economy. It is 20% larger than Egypt but has an economy fifteen times the size.

Egypt, as an underpenetrated, hyper-growth market, has a distinct advantage over these others: everyone wants to be there. It is theoretically a commercial market with only upside. It is also the capital of the consumer Arabic world and the gateway
to Africa. It can use these JVs to learn low and high tech: car manufacturing, computer substrates etc.

Figure 41- Manufacturing Exports

Egypt has inexcusably lagged Tunisia, Morocco, Jordan, Bangladesh and Pakistan, beyond China, India, Brazil, Turkey, Indonesia, South Korea and Taiwan.

### Table 4.6  Exports of manufactures, 1980 and 2004  
(billions of current US dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>1980</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Middle East</strong></td>
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<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>0.04</td>
<td>0.65</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.33</td>
<td>2.35</td>
</tr>
<tr>
<td>Jordan</td>
<td>0.21</td>
<td>2.79</td>
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<tr>
<td>Kuwait</td>
<td>2.04</td>
<td>1.11</td>
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<tr>
<td>Morocco</td>
<td>0.59</td>
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<tr>
<td>Saudi Arabia</td>
<td>0.70</td>
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</tr>
<tr>
<td>Syria</td>
<td>0.14</td>
<td>0.56</td>
</tr>
<tr>
<td>Tunisia</td>
<td>0.79</td>
<td>7.51</td>
</tr>
<tr>
<td><strong>High-performing comparators</strong></td>
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<td></td>
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<tr>
<td>South Korea</td>
<td>15.68</td>
<td>233.99</td>
</tr>
<tr>
<td>Taiwan</td>
<td>17.99</td>
<td>171.55</td>
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<tr>
<td><strong>Large comparators</strong></td>
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<tr>
<td>China</td>
<td>12.46</td>
<td>542.20</td>
</tr>
<tr>
<td>India</td>
<td>5.03</td>
<td>55.05</td>
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<tr>
<td><strong>Successfully endowed comparators</strong></td>
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<tr>
<td>Bangladesh</td>
<td>0.51</td>
<td>7.30</td>
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<tr>
<td>Brazil</td>
<td>7.49</td>
<td>52.19</td>
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<td>Pakistan</td>
<td>1.28</td>
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<td>Turkey</td>
<td>0.78</td>
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<td><strong>Resource-rich comparators</strong></td>
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<tr>
<td>Botswana</td>
<td>n.a.</td>
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<tr>
<td>Indonesia</td>
<td>0.50</td>
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<td>Nigeria</td>
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<tr>
<td>Venezuela</td>
<td>0.33</td>
<td>3.98</td>
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</tbody>
</table>

a 1981  
b 1984  
c 2003  
d 2001  
e 2002  

Sources: World Bank, World Development Indicators, April 2006, Taiwan Statistical Data-  
book, 2005 (Exports of Industrial Products).

5. Education/ Services: Qatar partnered with Cornell for a world class medical school as early as 2001, Abu Dhabi has brought in NYU five years ago, Singapore has brought in Yale and Chicago Business School, and Israel
created its Haifa University Technion with leading scientists the world over
(and established a joint venture with Cornell in New York with a $1 billion of
capital from Cornell and Technion benefactors and government endowments).
With a citizenry of 89 million, there is no reason for Egypt not to attract and
cultivate intellectual capital on par with world peers. India’s fabled Indian
Institutes of Technology were launched with minimal resources and have
created “empire changing” technologies, earning the global praise and raising
the standard of living countrywide. Egypt has nothing of this sort.

More broadly, in separate surveys conducted by the Times of London and
Shanghai Jiao Tong University, no Arab university ranked among the top 200
in the Times survey and the top 500 in the Shanghai survey, the only region to
achieve this dubious distinction. 361 Perhaps Egypt could distinguish itself in
the way Saudi recently has with the $10 billion dollar newly created,
aforementioned-King Abdullah University of Science and Technology.

Egypt has no Silicon Wadi. It does not have the intellectual and
entrepreneurial climate to sustain it, or a culture of collaboration between
business, government and university. All technology is jealously guarded over
by the state or languishes in the sub-par engineering faculties at Egyptian
universities. There is no great polytechnic. Saudi has invested in one and the
US has no less than thirty to fifty. Clearly there is room for collaboration here-
a scholars-in-kind exchange program similar to what Stanford has started with

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361 Noland and Pack note that The Times survey was based on a combination of peer
reviews by 1,300 academics worldwide and objective indicators such as faculty publication
and citation counts; the Shanghai survey relies exclusively on objective indicators such as
citation counts and Nobel Prize winners among faculty and alumni to form these rankings -
that is, “neither survey is purely a beauty contest”.
the Knight Program, Oxford did with the Rhodes, and Schwartzman has with Tsinghua. There is no coordinated exchange where Arabic scholars can attend Cal Tech, MIT or Wharton for free on the condition they return to their home and deploy their educations helping their countrymen. It is both in Western and regional interests to cultivate this arrangement.362

6. Entrepreneurship: Egypt, with its many cafes, bazaars and taxi drivers, has a culture of entrepreneurship and self-reliance. The resourceful Zabbaleen trash-sweepers demonstrate this capacity every bit has much as resourceful Indians do with their achievements in information technology. Egypt has a significant advantage Israel, Dubai, Qatar and Singapore do not: there is a huge domestic demand market. It should be a place where with minimal capital and the right support and incentives, bootstrap entrepreneurship should thrive. Infrastructure in Indonesia and Vietnam is far from perfect, so too with India, but there are multiple start-up success stories. These initiatives in Egypt are stillborn with a government asphyxiating any sort of sort of motivation/ drive by siphoning off any of the upside and not providing its young citizenry with the tools of production.

Egypt has failed to produce an entrepreneurial triumph like Tata Motors, an Infosys, a FlipKart or a Teva Pharmaceutical. It needs to take active, aggressive steps to incubate transformational business ventures.

362 Dr Orkaby notes there are several Ford Foundation analogues (motivated by the desire to develop economic and civil service ties and expertise). However, these do not seem actively pursued, perhaps due to culture or a lack of awareness. Certainly, the current use challenge to DACA and obstacles to green cards/ visas make such exchanges temporarily overly ambitious or unlikely to be maximized.
7. Abandonment of Nasserist Subsidies: Food is essential and Egypt’s adamancy in shouldering wheat, flour, sugar and water provisions for its citizens are commendable. Yet the expenditures on food could easily be obliged by a consortium of the US, UK, Germany and other like-minded reformist governments. The US and its allies should strongly consider this to extract reformist accessions.

On the other hand, Egypt has turned an oil importer. The capital markets applauded Egypt when Mubarak took pains by necessity to reduce fuel subsidies, suggesting that efforts to relieve the government burden are well-greeted. It is razor’s edge in Egypt where many times over the citizenry has taken to the streets. Notably, Indonesia went through a similar period of transition and its success is witnessed in the stock price of PGAS II, the energy bell-weather for the country. The overall stock market rallied sharply, seeing the government’s commitment to reform under Jokowi.

8. Select Privatizations and Capital Market Reform: Egypt needs to look no further than Zimbabwe or Venezuela (or even Iran and Yemen) to appreciate it needs its own and global capital markets. It recently raised $9bn from its citizens for the Suez Redevelopment Project and accessed the fixed income treasury markets to issue US dollar debt as a currency hedge. Gamal Mubarak, an advocate for privatization, only months ago left his rotting prison. Egypt was not ready for a silk-suited plutocrat from London’s City. But Mubarak The Younger’s appreciation of the necessity of keeping external partnerships was savvy financial instinct. Currently, Egypt is making a huge one-way bet on Saudi and Khalij States, which have one mere commodity supporting them.
What happens if their agendas and capabilities change, not an unlikely scenario with oil at $30 and Iran on the make?

For the sake of regime preservation as well as the benefit for its own citizenry, Egypt should increase its global profile on Wall Street. Privatizations could also be a way for the military kleptocracy to monetize some of its stakes. In all cases, a public bidding / auction process assures better transparency. Of course, that disrupts the pilfering and is not the regime’s goal. But, in the example of Vodafone, what if the military or Mukhabarat floats part of its stake now? It can claim it added value during the time it had formally taken over its shares previously. Also, Indonesia, India and China have very prominent toll roads that have been privatized. Not only has such efforts enabled to the government to recoup any cash outlay associated with those investments, but it has contributed to the efficiencies operating these assets. Also, it has enabled global investors to participate in both ceremonious and meaningful ways with the development of these countries, enticing further investment appetite. Toll road operators of Jasa Marga, Citra Marga and Zheijiang Expressway provided very positive investment experiences for global investors resulting in rapprochement as well as increased profits. And the privatization of select parts of a new highway system would not be giving up core national assets. It is more an extra piece of silverware to keep guests who have paid for their own dinners coming back. Certainly, Egypt, with the history of attracting capital for the Suez, can visualize these benefits. And the announcement of the Saudi partnership with King Salman’s Bridge reveals a willingness. But, like Toshka (the Suez land reclamation project – see Appendix), there could be better terms extracted for the public if the
transactions were financed in the public markets, not furtive, closed-door handshake or diplomatic deals.

9. Economic Models & Best Practice Task Forces – We have mentioned Dubai (GDP $82bn, two million people), Singapore (GDP $313 million, five and a half million people), Vietnam (eighty-nine million people, $217 billion GDP), India ($1.7 trillion GDP, 1.1 billion people but similar early development challenges), Israel (GDP $290bn, eight million people), and Indonesia (GDP $870bn and 260 million people) as models with parallel circumstances and challenges. These are useful case studies and paradigms from which Egypt can observe methods of development and apply these productively, should it wish. Within this, the US and the UK could appoint a “Best Practices Task Force” where cabinet ministers and economic attaches of these aforementioned countries, where the US wields economic power, could advise Egypt on how best to implement a transition to a services and manufacturing-based economy. Right now, all Sisi knows is the petrochemical rentier state. Perhaps if he and his team see light and that there is a way to growth, they will begin to operate in a more transparent way. Possibly the most useful delegation might be from Indonesia, a very populous Muslim country that experienced a legacy of corruption and has learned to manage its growing pains (into nearly a trillion economy). A second delegation from Israel would be in a nearly perfect position to advise (however, quixotic that aim). Obviously, the mechanics of getting them involved are delicate- Sisi cannot lose face. But Israel and Egypt have co-existed and a useful Egypt-Israel rapprochement could come in very handy the more Iran agitates.
XIV. The Paladins of an Economy: A Case Study of the Iranian Revolutionary Guard Corps and its Parallels and Relevancies with Egypt

In seven Arab countries between 1939 and 1969, forty-one coups were attempted by the military, twenty-three were successful. In most cornerstone Arab countries—Egypt, Syria, Algeria, Iraq, Sudan, Libya—these coups resulted in the establishment of prolonged military regimes. In nearby Jordan, Lebanon, or Morocco, the military serves as either the backbone of a regime, a fulcrum in state politics, or a menace agitating for a coup.

Gabriel Ben-Dor, in his pioneering 1975 study of militaries in the Arab world, observed that “by far the most important single factor in Arab politics is the army; by far the most important type of regime is military”. In these countries, the military “epitomizes praetorian power in weakly institutionalized societies” and is necessary “to solve structural problems of underdevelopment”. The military could also serve to break political stalemate, act as vanguard of the middle class, modernize a society, arbitrate a civil war or even create “crucial productive companies which were state-owned or parastatals”, shepherding industries and functioning as point for powerful corporate interest groups.

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363 Ben-Dor Gabriel, “Civilianization of Military Regimes in the Arab World”, *Armed Forces and Society* 1, no. 3, 1975.

364 Ben-Dor, 1975.


366 Perlmutter, 1969.

367 Ben-Dor Gabriel, “Civilianization of Military Regimes in the Arab World”, *Armed Forces and Society* 1, no. 3, 1975.
Aspects of this framework certainly ring true not only in the case of Egypt today, but also the current experiences of Syria, Algeria, Iraq, Libya, Yemen, Morocco, Lebanon and Jordan.\(^ {368}\) As germanely, Turkey,\(^ {369}\) Iran and Pakistan, in their post-colonial (or post-occupied) political transformations, show that these characterizations as triggers for military involvement aren’t confined exclusively to Arabic geographies and that religion can also be a contributing factor (in Iran, to stoke it; in Pakistan, to disarm it; in Turkey, to battle it.)

While Pakistan, which “from its creation was virtually an extension of the military”\(^ {370}\) and where the Pakistani army commands each of the three economic sectors (manufacturing, service and agriculture)\(^ {371}\), or Turkey, not formally governed by the military but where the Turkish Armed Forces Assistance Fund (OYAK) is the one of the largest holding investment companies in the country,\(^ {372}\) would provide robust examples along the spectrum of military infringement in regional economic contexts,

\(^ {368}\) Grawert qualifies the cases of Yemen and Sudan, where “state institutions, including the military, are less coherent, with tribal and regional loyalties having undermined the state to the point of secession, threatening to leave Yemen’s reunification a temporary phenomenon and to further fragment the unity of (northern) Sudan. Moreover, a greater proportion of resources captured by these two countries’ militaries appears to derive from autonomous unit action, such as through smuggling and trafficking, than it does in the more corporate MENA militaries.” *Businessmen in Arms*, xiii, Rowman and Littlefield, 2015.

\(^ {369}\) Turkey witnessed the bloodiest coup attempt in its political history on July 15, 2016, when the military tried to topple Turkish President Recep Tayyip Erdogan. "Turkey’s Failed Coup Attempt: All You Need to Know”, *Al Jazeera News*, 16 July 2016.

\(^ {370}\) Grawert, 2015.

\(^ {371}\) Ayesha Siddiqa’s *Military, Inc.: Inside Pakistan’s Military Economy*, Pluto Books, 2007 offers a vigorous account of Pakistan’s various military operational and financial exploits, initiatives and undertakings.

\(^ {372}\) OYAK has 260,000 members and $15 billion of revenue. It owns OYAK- Renault, Erdemir (a steel production company), a bank (which was credible enough that it was sold to ING in 2007), a supermarket chain and even has an investment grade credit rating of BB+ by Standard & Poor’s. www.oyak.com.tr. Accessed 24 February 2018.
the experience of Iran, with population and GDP sizes near Egypt’s and in a ferment of mayhem, may best represent an apposite study to enlighten the prospects of Egypt.

Case Study Abstract
The intent of this section is to portray and discuss the similarities between Iran’s political economy and Egypt’s by assessing: (1) shared attributes and relations between the two countries; (2) why the experience of Iran is relevant for Egypt; (3) political factions in Iran; (4) what the IRGC is and where its power lies; (5) case studies of Iran’s praetorianism and kleptocracy (these include Iranian Telecom, Khatam-ul-Anbia, and Setad); (6) a data-oriented diagnosis of Iran’s economic conditions resulting from four decades of praetorian IRGC rule (this will be supplemented by the Iran Appendix contained within this section; (7) constituencies within Iran, prospects and tactics for reform; (8) highlights of merits and appeal Iran has with global investors (this segment’s criticality lies in its evaluation of how an economy as debilitated by corruption and interference as Iran’s is, can nonetheless remain attractive with the right set of conditions. Thus, as global investors eye a return to Iran after a forty-year hiatus, to show that all is not lost and that, by extension, even Egypt so too could have hopeful prospects); (9) recommendations, based on experts such as McKinsey and Goldman as to how Iran can transform itself and best succeed in a post-sanction world (these map to many of what this paper argues to serve Egypt); and (10) lastly, how Egypt can benefit from Iran’s experience and understand those areas where Iran has surpassed Egypt and why.

The purpose in exploring these multiple angles is to understand why Iran’s prospects are perceived to be so superior to its long-time rival Egypt’s, when they are both empirically proximate to each other at this point in time. In a perfect world, this would give Egypt time to pause and consider steps it could take to right its own path.
Introduction to Iran’s Political Economy and the IRGC

"The Revolutionary Guards are the spine of the current political structure [in Iran] and a major player in the Iranian economy."

Khamenei is "Iran’s supreme investor" and the Revolutionary Guards its primary shareholders.

After decades of bluster and strain and a suspension of full diplomatic relations, a quiet rapprochement has set in between Egypt and Iran. Productive back-channels have emerged, prompting Alaeddin Boroujerdi, the chairman of the Iranian parliament's Foreign Affairs Committee, to state that Iran was “determined to boost political and economic ties with Egypt.” These have included everything from Egypt’s lending its Sumed pipeline to Iran and serving as its intermediary to avoid oil export sanctions to Egypt exporting oranges to an already food secure and agriculturally lavish Tehran.

Despite collapsing 20% since 2014, Iran boasts the second largest economy in the Middle East and North Africa region after Saudi Arabia and possesses the second largest population after Egypt. Kevan Harris, in his All the Sepahs Men: Iran’s Revolutionary Guards in Theory and Practice, estimates that the Iranian

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375 Khazani, Omid, “Egypt-Iran: A Possible Thaw in Relations?”, Al Jazeera News, 13 March 2017. “The two countries have many common views on regional issues”, Boroujerdi went on to say.

376 Khazani, “Egypt-Iran: A Possible Thaw in Relations?”, 2017.

Revolutionary Guard Corps’ (“Sepah” or “IRGC”) economic empire ranges from 10%-60% of GDP and that from 2003-2007, amidst a privatization drive, 47% of all shares of privatized firms went to the parastatal firms like the IRGC, with another 39% to other state-owned SOE’s and only 5% to identifiable private firms.

Akin to Egypt’s NSPO, MoMP and AOI, the Financial Times in September 2017 observed the following about the IRGC: “There is little public information about the force’s business interests. Khatam-ul-Anbia’s website makes references to the areas it works in, including mining, petrochemicals, health and agriculture, but does not name companies. Some economists and businessmen estimate that the Corps’ network of companies could be valued at around $100bn.”

The IRGC’s prominence, if not dominance, in the country’s economy demonstrates that Egypt is not alone as a state with a military serving as its lead economic actor. Iran is also an Islamic Republic in name and practice, and theoretically a presidential one though President Rouhani is subordinated position to Ali Khamenei, the Supreme Leader. And, like Egypt, praetorian rhetoric secured the Iranian military a presence into the economy, where the IRGC presented itself “not in

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378 The relevance here is the lack of transparency both in magnitude and ownership. The IRGC is so incumbent, pervasive and opaque that no one can estimate its realistic presence. This is similar to the Egyptian military.


380 The Khatam-ul-Anbia is often considered “the economic arm of the IRGC”. It means “last of the Prophets” and refers to Muhammad as the final recipient of divine knowledge. As Harris groused “It is a strange name for a large engineering contractor with a sizable revenue stream, an amalgamation of piety and productivity”.

the language of revolutionary sacrifice but by as agents of economic transformation, that is, as a state bourgeoisie”, 382 best capable of handling the complex tasks economic and infrastructural development.

Iran also has been whipsawed by near identical economic headwinds and challenges Egypt has, even if nearly all of Iran’s are self-inflicted. These include: (1) Hyperinflation (17% to has high as 39% in recent years), (2) Reliance on Oil and Hydrocarbons (85% of its exports), (3) Volatile GDP (-6% to +10%), (4) Severe Unemployment (where only 17.5% of the population has self-sufficient jobs and a great number work as conscripts for the IRGC)383, (5) Antiquated Financial Systems and Banking Infrastructure384, (6) Closed Capital Markets, (7) Untested Rule of Law, (8) a Cumbersome Business Climate and Few Trading Partners (where China accounts for 40% of all trade and other non-conventional states, such as Russia, Pakistan, North Korea and Afghanistan, feature significantly, (9) an Embedded Welfare Scheme (estimated at 27% of GDP)385 that is nearing unsustainability, and (10) Poor Employee Productivity.

And then there is the perception of corruption and lack of transparency, which saw Iran rank 179th out of 179 countries in 2007 even before most of the US sanctions took hold, engendering more financial chicanery and opacity.386 Contributing to this is

382 Harris, p 110.
384 Iran’s banking system was nationalized in 1979 after the Revolution.
386 This has recently improved to 130 out of 183 countries as in 2015. https://fanack.com/iran/economy/ Accessed 20 February 2018.
the pronounced presence of the informal economy in Iran, where *bazaaris* (Iran’s bazaar merchants) are presumed to control as much as 30% of Iran’s imports and two-thirds of Iran’s wholesale trade. The *bazaaris*, historically, have morally policed villages and districts and have had a political symbiosis with Iran’s clerics. An even greater economic presence is wielded by the *bonyads*, which are classified as charitable foundations and trusts, that are involved in “all kinds of business, from pilgrim-tour organizations to pistachio nuts, from soft drinks to car factories”¹³⁸⁷. *Bonyads* control an estimated 20-30 percent of Iran’s GDP, are exempt from taxes and state control, and “are criticized for being opaque and corrupt. They are often closely linked to powerful.”¹³⁸⁸

Yet somehow Iran boasts nearly the same GDP as Egypt despite being overwhelmingly besieged with global sanctions for decades. Additionally, Iran has greater infighting within its political scheme- the IRGC, the Bazaaris, the hardline right, and the reformers- when there hasn’t been physical war, proxy or otherwise.

Given the countries’ similarities in (1) GDP, (2) population sizes and (3) military bearing, even in cultural longevity, it is valuable to explore: (1) the similarities in economic backdrop, (2) comparative political structures (and how one may be more conducive to economy-friendly reforms), and (3) military presences and impact on the economy (including an ability to curtail kleptocracy or expropriation, to the extent these exist).


Iran’s Economic Backdrop

Few economies the world over are as mysterious to investors and isolated from global engagement as the Islamic Republic’s of Iran. Beleaguered by decades of austerity from the nuclear sanctions of the West that veered into the economic and political, Iran has received little of the foreign direct investment that has transformed China, India, Brazil and Russia into global stalwarts or catapulted Turkey, Nigeria, or Indonesia into emerging economic tigers.

Yet with the selective repeal of these sanctions, the normalization of trade with this nearly 80 million-strong nation heralds immense prospects for global enterprise as well as for Iranian-owned and domiciled businesses. Not since Myanmar’s emergence in 2012 has the world eyed the mercantilist potential of a geography with such enthusiasm and measure, expectations intensified all the more with the comparative lethargy of economic growth in the developed world, hopeful that a pent-up demand in a resurgent Iran could fill voids.

While Iran, as the largest producer of natural gas in the world and the possessor of the fourth largest proven oil reserves, clearly has appeal to Western and regional energy companies, it may well be Iran’s greatest enticements are the access it provides to a consumer-led, domestic-demand segment in an economy where “in a post-sanctions world, on the back of a multifaceted economy beyond hydrocarbons and oil and gas, Iran can be the most exciting frontier market”, 389 according to Ali Borhani, the founder of an advisory that works with multinationals looking at Iran. 390


390 Anecdotally, Iranians, saturated with American and European advertisements and selective pop culture, are nostalgic for American products, recalling the Chevy’s, Cadillacs,
Morgan Stanley, a pre-eminent global investment bank, summarily exclaimed “Iran is the biggest thing for the global economy since the Berlin Wall fell”.\textsuperscript{391} Whether it is the automotive industry, the size of Spain’s and where 90\% of the cars are Iranian-made and efficiencies are at 42\% capacity utilization (lowest globally),\textsuperscript{392} the personal care, cosmetics and luxury industries, where Roberto Cavalli and Sephora have swiftly established on-the-ground flagship stores, or the consumer finance industry, which has a 75\% debit card penetration rate yet no international settlement vendors such as Visa, Mastercard or American Express, prospects are almost too significant to enumerate.\textsuperscript{393}

McKinsey estimates that Iran could represent a $1 trillion growth opportunity and, with an achievable 6.4\%-6.6\% growth rate by 2035, add a full 1\% to global growth (which is currently 3.5\%), creating nine million new jobs\textsuperscript{394}. Tehran’s GDP is larger than Rio’s, nine of its ten consumer brands are homegrown, and its burgeoning retail sales per capita of $5,210\textsuperscript{395} nearly approximate a 1/3 of its GDP per capita, ranking only behind the US, Japan and Germany. With only 16\% government debt-to-GDP (among the lowest in the world), a highly urbanized and educated population

\textsuperscript{391} Business Insider, 2 December, 2015.

\textsuperscript{392} McKinsey Global Institute, \textit{Iran: The $1 Trillion Growth Opportunity?}, page 12, June 2016, London.

\textsuperscript{393} McKinsey Global Institute, 2016.

\textsuperscript{394} McKinsey Global Institute, 2016.

\textsuperscript{395} Euromonitor International, 2014, purchasing power parity.
(with 234,000 engineering graduates per year)\(^{396}\). Iran is apace with mouth-watering, enviable activity and its velocity quickens.

**Relevance to Egypt**

Despite that auspicious glimmer of future possibilities, Iran lives in a starkly different present. While Iran’s economic morass (crisis, more appropriately) and its prevalent corruption and military meddling make it clearly relevant to Egypt, its impressive resilience and comparative strength amidst sanctions and infighting is near miraculous.

But there is an even more critical parallel, which is that Iran took refuge in an Islamic theocracy its the rage against economic injustice, perpetuated by Shah Mohammed Reza Pahlavi’s regimes. Egypt itself was swept by the Muslim Brotherhood in 2012 with near unanimity as protests of social injustice mounted from Tahrir, with the SCAF only later re-securing the country as a military dictatorship as Sisi deposed Morsi. It could be argued easily that Iran represents the Egypt that almost was and may end up being. This politico-economic tension is reflected in one statement by a Tehrani protester and an account on the ground:

“Islam cannot address our needs. It cannot bring a strong currency, social freedom and investments by America”…The timing [of the 2018 Tehran street protests] could not be worse for Mr Rouhani. He is under pressure both at home, where he is given little credit for curbing inflation and restoring growth, and abroad. His biggest achievement — the nuclear accord that he needs to deliver his economic reforms — is at risk of collapse as US president Donald Trump accuses Tehran of exploiting it to pursue its ambitions in the Middle East.”\(^{397}\)

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\(^{396}\) Fifth globally and higher per capita than India, China and the US, according to UNESCO Institute for Statistics, 2014.

\(^{397}\) Bozorgmehr, Najmeh, “Growing Dissent Adds to Iranian Regime’s Troubles: Fuelled by anger of over broken promises, thousands of Iranians once seen as loyal to Tehran have taken to the streets”, *Financial Times*, 5 January 2018.
Considered another way, the language of Egypt’s politics is economics. Iran, in contrast, is electrified by political turmoil (though its economic problems are inciting riots as recently as January 2018),\(^ {398}\) and while this paper has argued politics are always secondary to economics (or, at best, hand-in-hand), the experience of Iran shows that politics are alive and well. In fact, the Supreme Leader has been consistent in his disavowal of “The China Model”, due to the moral compromises and expediencies that have arisen from that country’s emphasis of economic maximization as its foremost national goal.

One powerful statement that evinces Iran still bleeds politics is a comment Rouhani, largely known as an economic reformist, made to the UN General Assembly, on 20 September 2017: “it would be a misrepresentation (of events) and also an insult to Iranian people to say they only had economic demands,” Rouhani was quoted as saying by Tasnim news agency. “People had economic, political and social demands.”\(^ {399}\)

It is essential to note that while Iran and Egypt appear in similar predicaments, the causes that inspired these differ. Thus, a multitude of questions pour forth for Egypt:

1) What is the cause of Iran’s comparative success despite these factors of economic isolation and competitive factionalism?

2) How has the IRGC impacted Iran’s economic trajectory?


\(^ {399}\) Sharefedin, Bozorgmehr, “In a Jab at Rivals, Rouhani says Iran Protests about More than Economy”, Reuters News, 8 January 2018.
3) Can Egypt learn anything from Iran, including what to avoid?

4) Is Iran’s success an indictment of just how poorly managed Egypt is by its kleptocratic regime?

5) Or is there greater hope for Egypt because it can move unilaterally?

6) Is the increasing clamour against corruption and sensitivity toward economic injustice portend Iran will go the way of Egypt?

Situation Overview and Analogue to Egypt

Iran, with 81 million people, is a populous country like Egypt and one also at a perilous pivot from the wilful insertion of politics into the country’s external economic dealings. And, like Egypt, the decay from political obduracy and stasis has served only to sabotage Iran’s economic status. Indeed, the country has been beset by so much economic trauma—arguably far more so than Egypt—that its resilience is nothing short of astonishing. With a per capita GDP of $5,479, both countries share the classification of emerging in scheme, though Iran’s per capita GDP is nearly twice Egypt’s (on a purchasing power parity basis) due to the country’s success in creating its own homespun industries within a parallel economy of seclusion. It is also blessed with a tremendous bounty of natural resources and, through its own prioritizations and achievements, a highly educated, technically adroit populace.

Most relevantly, Iran shares the presence of a commanding, entrepreneurial military—the IRGC—that has long financially profited from the privileged economic monopolies that have fallen out of political circumstance. And, as in Egypt, the

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400 CIA Factbook, 2017.
entrenched existence of this enormous military organ within the state is inimical to reform.

However, a critical distinction applies. Iran has a very different political architecture, one of competitive factionalism (or competitive authoritarianism) where Iran’s Shia heritage fuses the mosque and state, and this status as a theocracy has imbued Iran’s clerics with a legislative supremacy. This has not stopped the IRGC from dominating nearly all secular affairs of a country that, as a theocracy, searches for its identity in the face of a hostile outside world philosophically and economically. It has been argued that Iranians, perhaps more than any country outside North Korea, are indoctrinated with a sense of manifest (even divine) destiny stoked by the pride of their proud millennia-long heritage and a certitude of their cultural and religious superiority. The clerics cling to their position by reminding the citizenry that God and country are one, and the Armed Forces (which include the Artesh (army), the Sepah and the Law Enforcement Force (police), in turn, benefit from their role as the physical guardian on Iran’s exalted spiritual preserve. Thus, both a partnership and tension has ensued between the politically elite theocrats and military elite praetorian toll-takers. There is no small irony that one of the few republics organized around the union of mosque and state can be heavily beset by strife between mosque and state.

Considered another way, in Waldnerian terms, Iran has greater infighting within its political scheme- the IRGC, the bazaaris, the hardline right, the reformers. This should, to some degree, complicate any path to reform and explain challenges it has had with its economy.

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401 نیروهای مسلح جمهوری اسلامی ایران (Nīruha-ye Mosallah-e Jomhuri-i Islami-i Iran)

402 Springborg, Khan, Cole and Perks as well.
Political Landscape

Iran’s political factions are numerous. Below is a depiction offered by Stratfor, the geopolitical consultancy. This asserts that it is the Reformers and the Pragmatic Conservatives that are the closest to the Supreme Leader. This may be charitable and constructive, if not overly optimistic.

Figure 42- Iran’s Political Factions

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403 Stratfor, In Iran, Economic Reforms Hit a Hard Line, April 13, 2016.
The other powerful group is the IRGC, which has significant economic influence in various sectors, including heavy industry, logistics and, most important, Iran's oil and natural gas sector. It is estimated that one in three ministers is IRGC or ex-IRGC, suggesting a formidable praetorian presence and one well-situated to engage in expropriation unchecked. The IRGC is likely represented as Traditional Conservatives in the scheme above- their roots remain revolutionary but their motivations and vibrancy comes from mercantilist engagement. The more isolated Iran is, given their status as near monopolists in the Iranian economy, the more secure they remain. Their focus is on their percentage of the Iranian domestic and external markets, not necessarily growing these underlying markets.

The IRGC and Their Methods- Symmetries to the EAF and AOI

"It’s something like the Communist Party, the KGB, a business complex, and the Mafia." - Mohsen Sazegara, Founding Member of the IRGC and a US-based dissident

According to the Council for Foreign Relations, Iran’s Revolutionary Guard Corps (IRGC) was founded in the aftermath of the 1979 Islamic Revolution as an ideological custodian charged with defending the Islamic

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404 Harris, ibid.


Republic against internal and external threats, but analysts say it has expanded far beyond its original mandate. Today, the IRGC presides over a vast power structure with influence over almost every aspect of Iranian life: “The country’s premier security institution of more than one hundred thousand strong, the IRGC fields an army, navy, and air force, while managing Iran’s ballistic missile arsenal and irregular warfare operations through its elite Quds Force and proxies such as Hezbollah. It is also one of Iran’s most influential economic players, wielding control over strategic industries, commercial services, and black-market enterprises. At the same time, the IRGC often serves as an incubator for senior Iranian public officials, making it especially powerful in the political sphere.”

While the Iran’s oil and gas industry is entirely nationalized and influenced heavily by the IRGC, the IRGC gains their broader agency through bonyads. Under the Shah, these were a way of channelling wealth to favored courtiers. After the revolution they were vehicles for self-enrichment by the ayatollahs, according to The Guardian. The IRGC’s ascent bespeaks its nature as a praetorian phenomenon. “As a reflection of the regime’s continuing evolution, the IGRC is the dominant force, particularly through Bonyad e-Mostazafan, the Foundation of the Oppressed.”

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408 According to the CFR, “The Quds Force has since supported terrorist activities and armed pro-Iranian militant groups across the Middle East and beyond, including in Lebanon, the Palestinian territories, Iraq, Afghanistan, the Gulf states, and several others, according to the U.S. State Department”


However, much of the IRGC’s might today comes from its *Khatam al-Anbiya*, which “started life as the HQ of the corps' construction arm but is now a giant holding firm with control of more than 812 registered companies inside or outside Iran, and the recipient of 1,700 government contracts.” In 2010, the US treasury froze the assets of its head, General Rostam Qasemi, and four subsidiary companies.

**Size and Activity**

Specificity surrounding the IRGC control of assets is murky since Article 44 of Iran’s constitution prohibits ownership disclosure of state assets. There are also shell companies with IGRC asserting its dominion indirectly through personal links with their owners and managers. According to an article in the *The Guardian*, Western estimates range from a third to nearly two-thirds. Nonetheless, anecdotes, transactions and events embroider this texture:

**Iranian Telecom Case Study**

One demonstration illustrating the reach of the IRGC occurred in 2009 when Etemad Mobin Development Company, a consortium reported to have extensive links to the IGRC, bought a 51% share in Iran's telecommunications business, minutes after it was privatized. At $7.8bn it was hailed as Iran's biggest ever business deal, and, in an echo of the airport takeover, the main competitor was disqualified at the last

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417 Western estimates range of all the recent privatizations, 33%–65% are owned by the IRGC, according to *The Guardian*.

moment for "security" reasons. Three months later, the head of the consortium and the driving force behind the deal, Majid Soleimanipour, and his wife, were found dead in their Tehran home. The telecoms deal has “deepened the IRGC's near-monopolistic hold on the economy while at the same time giving it potential access to every phone conversation in the country.”

Assessing the transaction, Mark Fowler, a former Iran specialist at the CIA, elaborated "Using their whole economic base, they are expanding control over areas of what they see as the 'soft war', like the telecommunications field, to confront the threat they see." 421

Khatam al-Anbia (“Ghorb”) Case Study

*Khatam al-Anbiya (Ghorb)*, as Iran’s biggest company, collectively employs around 40,000 people and have won approximately 1,700 government contracts, including billions of dollars in energy-related contracts awarded without a competitive bidding process. It was created during the 1980-1988 Iran-Iraq war and was assigned a mandate after to rebuild the country, thus securing its pre-eminence and criticality at the nexus of Iran’s politico-economic affairs. Not less than 10% of its members are IRGC.


420 Bozorgmehr, “Iran Cracks Down on Revolutionary Guards Business Network”

421 Bozorgmehr, “Iran Cracks Down on Revolutionary Guards Business Network”


During Ahmadinejad’s tenure, the IRGC actively pursued profits in the energy sector\textsuperscript{424} and *Khatam al-Anbia’s*, with its oil services monopoly in the country, was offered no-bid contracts on the South Pars natural gas field and a grand total of more than $25 billion in various energy contracts.\textsuperscript{425} Moreover, former IRGC members, such as Brigadier General Abdullah Abdullahi, were placed in key positions in the sector, including in the post of oil minister and in many managerial positions with the National Iran Oil Company (“NIOC”) and its subsidiaries, according to *Stratfor*,\textsuperscript{426} which also added that “the IRGC, through its stakes in SADRA, one of Iran's largest shipbuilding complexes (and an affiliate of *Khatam*), also gained important contracts in offshore energy services.”\textsuperscript{427} As Kevan Harris observed in describing the opening of a *Khatam*-designed construction complex near the Martyr Sadr overpass in north Tehran, “the ribbon-cutting ceremony to celebrate the completion looked like a military reunion”.\textsuperscript{428} The hegemony and ubiquity of the IRGC has been perpetuated by the sanctions, because putative private sector competitors to *Khatam* could not get the capital to bid for projects, to pay for insurance, compensate for damages and otherwise compete with the IRGC.\textsuperscript{429}


\textsuperscript{426} *Stratfor*, *In Iran, Economic Reforms Hit a Hard Line*, April 13, 2016.

\textsuperscript{427} *Stratfor*, *In Iran, Economic Reforms Hit a Hard Line*, 2016.

\textsuperscript{428} *All the Sepah’s Men: Iran’s Revolutionary Guards in Theory and Practice*, Kevan Harris, p102, Chapter 4, 2015.

\textsuperscript{429} Harris, *All the Sepah’s Men*, p 105
Interestingly, most of the IRGC's profits from the oil sector do not come from the NIOC or its subsidiaries, but rather from the contracts they perform in the industry, such as the South Pars development. And it is these contracts that are perhaps most at risk in any sort of liberalizing reform. According to Stratfor, “Rouhani’s call for outside investment is both a plea for more capital but also for more foreign technology and expertise.”

Multinational ONGC view Iran’s oil and natural gas sector as fraught with risk and understand that working with Iranian contractors will be difficult. Stratfor observes “the IRGC’s competence in executing highly technical and complex oil and natural gas projects is questionable at best. IRGC contractors frequently had engineering problems, timing delays, financial shortfalls and other issues at the South Pars development so severe that they had to cease operations on certain projects.”

Predictably (and similar to Egypt’s NSPO, AOI and MoMP), because Iranian businesses do not face genuine competition, they’re not genuinely competitive. IRGC companies like Khatam rely on low-skilled conscripts and uniformed IRGC soldiers as a work force, and the ease with which they win contracts reduces their incentive to reward merit or professionalism, according to Mark Dubowitz in “The Dangers of Doing Business with Iran’s Revolutionary Guard.”

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*Khatam* can also function as a prescriptive union, a kleptocratic Cerberus of sorts. An anecdote of a lost bid to a Turkish contractor, which somehow won a bid over the IRGC, illuminates this. “If by some strange twist of fate the Revolutionary Guards should lose a bid, they take it by force. In 2004, when a Turkish contractor won a contract to modernize Tehran’s airport, the Guards forcibly removed it from the grounds.” *434* Stratfor also notes that not only is the IRGC’s questionable technical competence raising the costs of investment, *Khatam al-Anbia* headquarters are still under sanctions (post-Vienna), limiting cooperation and making legal appraisals of deals hard to navigate. “International oil companies are going to want to limit the extent of their involvement with IRGC-linked firms for these reasons and to bring in foreign-service companies instead. *435*

**Setad Case Study ** *436*

In 2006, as UN, US and UK officials elevated sanctions against Iran, *Setad*, an entity controlled by Supreme Leader Khamenei began to study how emerging economies as Iran could grow faster. At the time, Iran had amassed billions of dollars of property wrested from “corrupt” Iranian citizens. Khamenei and has associates determined that Iran needed something that looked like a Korean chaebol, a Japanese keiretsu or a large Chinese, US or UK conglomerate. Khamenei was searching for a

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*436* Information for this was provided from a three-part Reuters News Investigation called “Assets of the Ayatollah: The Economic Empire Behind Iran’s Supreme Leader”, Dehghanpisheh, Babak and Stecklow, Steve. 12 November 2013. These three parts were called (1) “Land Grab; (2) National Champion; and (3) Rough Justice.
“national champion”. What resulted is Setad (or “EIKO”) and depicted below. EIKO is a US Treasury acronym for “Execution of Imam Khomeini’s Order”.

Figure 43- Setad (Eiko) Holding Company Structure

Amidst investigations by the US Treasury and reported by Reuters, the following were discovered/surmised of Setad’s asset base:

- Total - $95 billion of real estate ($52 billion) and corporate investments ($43 billion), based on statements by Setad officials, data from the Tehran Stock Exchange, corporate websites and the Treasury Department

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Of the $43 billion in corporate investments, $40 billion is in Rey Investment Company.  

Through a subsidiary, Setad bought a 19%, $3 billion stake in Telecommunication of Iran.

There were 24 publicly traded holding companies valued at $400 million.

In a Reuters interview, one woman who had been dispossessed of her Fars & Khuzestand Cement Company shares stated the Bonyad Mostazafan did the confiscation before transferring to a company controlled by Setad.

Like the AOI and NSPO, connected officials close to Khamenei run the Setad. According to Reuters, these include: the chairman of the board of the Tehran Stock Exchange, Hamidreza Rafiee Keshtli, is a member of Setad's Tadbir Investment, according to the exchange's latest annual report. Gholam Hossein Nozari, a former oil minister, is chairman of Tadbir Energy Development Co, Setad's energy-holdings division, as well as Pars Oil, in which Setad holds a stake, according to the companies' websites. Iran has been trying, so far unsuccessfully, to have Nozari named secretary general of OPEC, the Organization of the Petroleum Exporting Countries.

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These select examples reveal Auto Leasing, Food Production, Investment Banks, High End Residential Construction, Phosphate Factors, and Investment Holding Companies.

<table>
<thead>
<tr>
<th><strong>Pardis Investment Company</strong></th>
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<tbody>
<tr>
<td><strong>DESCRIPTION</strong></td>
<td>Investment company</td>
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<tr>
<td><strong>OWNERSHIP</strong></td>
<td>Tadbir Investment Company, a Setad holding company, owns 34.6% or 75.5%, depending on the source.</td>
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<tr>
<td><strong>SOURCE</strong></td>
<td>U.S. Treasury Dept.; Internal Setad documents; Pardis Investment Company website; Tehran Stock Exchange</td>
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<tr>
<th><strong>Karoon Phosphates Complex</strong></th>
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<tr>
<td><strong>DESCRIPTION</strong></td>
<td>Factory to make phosphate products</td>
</tr>
<tr>
<td><strong>OWNERSHIP</strong></td>
<td>Setad-controlled Modaber Investment Company has an unknown stake.</td>
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<tr>
<td><strong>SOURCE</strong></td>
<td>Karoon Phosphates website</td>
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<tr>
<th><strong>Iran and Shargh Leasing Company</strong></th>
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<tr>
<td><strong>DESCRIPTION</strong></td>
<td>Automotive</td>
</tr>
<tr>
<td><strong>OWNERSHIP</strong></td>
<td>Tadbir Investment Company, a Setad holding company, has an unknown stake.</td>
</tr>
<tr>
<td><strong>SOURCE</strong></td>
<td>U.S. Treasury Dept.; Internal Setad documents; Tadbir Investment website</td>
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<tr>
<th><strong>Reyco GmbH</strong></th>
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<tbody>
<tr>
<td><strong>DESCRIPTION</strong></td>
<td>German company</td>
</tr>
<tr>
<td><strong>OWNERSHIP</strong></td>
<td>Rey Investment Company, a Setad holding company, has an unknown stake.</td>
</tr>
<tr>
<td><strong>SOURCE</strong></td>
<td>U.S. Treasury Dept.</td>
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Economic State of Play and Challenges - Parallels to Egypt
Beyond the japes, menace and corruption of the IRGC, Iran has several challenges that present obstacles to its economic growth. These are all remarkably parallel to Egypt’s, if not more severe.

- Hyperinflation - Double-digit rampant and consistent, recently as high as 39%-45%,446 which served to drive up Tehran home prices and delay banking loans. According to the World Bank, Iran in 2014 had the world’s highest inflation rate after Venezuela, Sudan, Argentina, Malawi and Belarus. This bespeaks tragedy, negligence, and irresponsibility, given the intellectual capital residing in Iran as well as commercial heritage and immediate proximity to flourishing economic trading partners.

Figure 45- Inflation Rate in Iran

Inflation Rate, 2005-2014

- Reliance, even if lessening, on oil, gas, petrochemicals and the commodity complex, which is still greater than 25% of GDP.447

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446 The Central Bank of Iran states in 2013 it was 35%, World Bank states 39.3%, McKinsey states it was 45%.
Volatile GDP, Macro Conditions from Poor Fiscal Mismanagement and Negative Real Interest Rates- In previous years, the Iranian economy has been racked by instability. GDP growth has fluctuated widely, from minus 7 percent in 2012 to plus 4 percent in 2014. Unemployment has exceeded 10 percent since 1997, the currency has undergone 60-70% devaluations and depreciation. Government and central bank action at times might have aggravated these trends. Between 2010 and 2013, for example, interest rates charged by banks were capped by the central bank at rates below inflation, diverting lending to investment in non-financial assets and contributing to a deterioration of banks' balance sheets.\textsuperscript{448} The unofficial exchange rate has at times been triple the official one, increasing currency risk and making importing and exporting more difficult.

\textsuperscript{447} According to the IHS Global Insight and Goldman Sachs’s Jim O’Neill, Chairman of GS Asset Management, Iran’s economy is the least dependent on crude oil and gas among major Middle Eastern oil-producing countries. Indeed, in 2014, Iran’s government reportedly earned less from oil and gas revenue than it did from other tax revenue. In the same year, just 23 percent of its real gross value added came from oil and gas. That compares with 30 percent in the United Arab Emirates, 50 percent in Kuwait, and 51 percent in Qatar. International sanctions, combined with the drop in oil prices, which fell by as much as 70 percent since mid-2014 before recovering somewhat, partly explain this relatively low level of dependency; in 2000 oil was twice as important for the Iranian economy as a percentage of real value added.

\textsuperscript{448} According to Iranian Govt Information portal, www.dolat.ir, 2 March 2016, in 2014 real interest rates turned positive for the first time since 2009, even though, at 18.5 percent, nominal interest rates as of March 2016 are still high (now closer to 15%).
Figure 46- Real GDP Growth in Iran 2007-2016

Source: International Monetary Fund

- Antiquated Financial Systems and Banking Infrastructure- checks can only be cashed on a specifically arranged, one-shot foreign date. From the US sanctions, the SWIFT and dollar settlement functions became greatly impaired. The high rate of non-performing loans in Iran suggests that banks do not have adequate control over lending decisions. Non-performing loans were reported to be 17 percent of total loans in 2013, but real numbers might be even higher, according to the IMF. This compares with non-performing loans of less than 4 percent on average in Brazil, Indonesia, Mexico, South Africa, and Turkey.\textsuperscript{449,450}

\textsuperscript{449} McKinsey Global Institute, p110.

\textsuperscript{450} One solution would be to set up a credit bureau agency so banks can better assess the creditworthiness of individuals and small and medium-sized enterprises. Banks can also find opportunities to improve their underwriting, account management, and portfolio management processes by leveraging the latest tools, infrastructure, and risk management practices.
Closed Capital Markets - Foreign investors face severe regulations and own less than 1% of all stocks and bonds. The rial is not freely convertible. Black market rates have diminished the power of a Central Bank. A further issue is this bank is not independent. A very telling indictment is that Bloomberg, the central nervous system of global financial markets, doesn’t even carry data on the Tehran Stock Exchange. This suggest Tehran is either too hard or too risky to invest in.

Figure 47- Bloomberg Description of Tehran Stock Exchange

Untested Rule of Law - There is an unestablished legal code, or at least the absence of one that is friendly to foreign direct investors.

Few Trading Partners - China has accounted for 40% of its trade, effectively creating a monopsony. Theoretically, this reliance will lessen and Iran has already transacted with Russia for arms, drawing upon geopolitical alliances. But as Russia and China, along with Turkey, Pakistan and Afghanistan-

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Iran’s other large trading partners- run afoul of US and European security aims (Putin’s agitation with NATO), China, never a pushover, may find itself still heavily entrenched as the largest incumbent buyer.

- **Embedded Welfare and Subsidy Scheme-** Iran spends about 22.5% of its GDP on special subsidies, including health (acceptable) and oil (not). There has been discussion that the fiscal drain has been mitigated by a direct cash transfer system but no data has been demonstrated that suggests that is necessarily economically more advantageous. A transfer is a transfer.
  - Many sources, including The Iran Primer, The World Bank and Iran’s own Minister of Labor, suggest that there are 7 million people living in extreme poverty.
  - In 2014, Iran incurred around 78 billion of subsidies, compared with 38 billion in India and $17 billion in China.\(^{452}\)

- **Poor Employee Productivity-** Labor productivity growth is weak compared with benchmark countries, averaging just 0.4 percent in the period between 1980 and 2012. This compared with 7 percent for China, 4 percent for India, and 3 percent for Turkey.
  - For example, Iran, in one of its largest and most prestigious manufacturing industries, makes 2.9 cars per auto manufacturing employee, vs Spain of 18.3, France of 14.8, Germany of 13.3 and the US of 13. Also, underperforming capacity utilization- Iran car industry hovers around 40%.\(^{453}\)

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\(^{452}\) McKinsey Global Institute, p118.

\(^{453}\) Graph 7, Appendix
○ In metals output per worker, Iran is $6.8k vs Turkey of $28.4k

○ Agricultural yields, again a critical and established industry in Iran, are at 1.9 thousand per kg, vs South Africa of 4.3kg, Mexico of 3.6kg, Turkey of 2.8kg

○ Capital productivity, as a subset of this, also lags. Revenue per unit of plant of telecom infrastructure is $2.2 in Turkey, its natural competitor, vs Iran of $1.4  

- Severe Un(der)employment- It’s not merely the sanctions. Unemployment has exceeded 10% for each of the last 19 years (since 1997). According to the government’s statistics center, only 23 million out of 64 million Iranians of working age have jobs. This is 35% of the labor force. In March, the minister of labor, Ali Rabiei, said that out of these 23 million, seven million have “unofficial or pseudo jobs”. Adjusting for these, real employment is closer to 21.9%.  

○ Furthermore, wages are often inadequate, especially in light of Tehran’s real estate costs and hyperinflation. According to McKinsey, Iran’s monthly minimum wage is $250. This is barely subsistence with the $5.5 per diem the World Bank calculates as the poverty

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454 HIS, ILOSTAT, World Bank, Spanish Ministry of Industry, French CCFA, German STABU and Turkey Workplace and Injured Person Statistics

455 https://www.theguardian.com/world/iran-blog/2015/nov/02/iran-economy-faces-structural-problems-after-sanctions-removed

456 McKinsey Global Institute, p122
threshold. Yet, the Central Bank cannot increase the flow or velocity of money without triggering greater inflation.

- Finally, women have a muted, or underrepresented presence or are out altogether of the formal work force. As Japan evinces, this is a long-term constraint on growth, no matter how technocratic and developed an economy. There will be 2.2 million additional young Iranians reaching working age in 2020.457

Figure 48- Unemployment by Group in Iran 458

<table>
<thead>
<tr>
<th>Group</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth, aged 15-24</td>
<td>25.7%</td>
</tr>
<tr>
<td>Men</td>
<td>8.7%</td>
</tr>
<tr>
<td>Women</td>
<td>20.3%</td>
</tr>
<tr>
<td>Residents of urban areas</td>
<td>11.7%</td>
</tr>
<tr>
<td>Residents of rural areas</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

457 McKinsey Global Institute, p120.

• Poor flexibility of the work force despite scientific aptitude- Iran ranks 142 out 144 in the World Economic Forum’s Global Competitive Index efficient use of talent.\(^{459}\) Iran has an exceptionally high quality of education in math and science but it is not reflected in high skill employment.\(^{460}\) Iran has plenty of nano-scientists, it may need some German-style vocationalists/ craftsmen, such as auto mechanics, electricians, contractors, nurses, paramedics, etc.

Politics and Constituencies in the Road to Reform
Unlike Egypt, the Islamic Republic has multiple constituencies with competing political and cultural aims, and economic deliverance and transformation, even with $130 billion of recently signed global trade deals, are hardly foregone conclusions.

While Iran has been able to survive, it is with the knowledge that its industries have been protected, so too with Egypt’s. Yet, to succeed in the global arena with its ruthless competitive practices that quickly intercept arbitrages, Iran will not have the luxury of getting buy-in from every single constituency in its “competitive factionalism” (or “competitive authoritarianism”). The largely saturnine though silent Supreme Leader,\(^{461}\) will need to endorse Rouhani, his front-man, and manage the territorial IRCG to attract the requisite foreign direct investment as Iran attempts to modernize.

The cartels of the old-guard hardliner Conservatives in any reform will have the most to lose and these hardliners will actively work to upset Rouhani’s


\(^{461}\) As it relates to specifics of Iran’s government economic aims.
momentum of reform. These hardline factions, namely the Islamic Revolutionary Guards Corps and Basij, the Mostozafan bonyad and now politicians who recently lost their Majlis seats, are motivated to thwart or stall Rouhani’s plan for economic reform because it is they who wielded the greatest economic and domestic power while Iran was under strict sanctions. With 33% of Iran’s ministers of parliament as former IRGC officials, every key economic ministry in its government is under an IRGC-linked minister, giving the group tremendous political influence and allowing it to win prime contracts without any real competition. A realignment or changing equilibrium will necessitate they give up their dominance.

To disarm hardliners already economically entrenched, for example, Rouhani will have to make the case that to his constituents that he can multinational ONGC’s to share technology and partner with domestic providers. “Iran is prioritizing the state-owned NIOC and its subsidiaries, not the private and partially private contractors”, according to Stratfor. This is not necessarily an enticement to MNC’s but analysts assume that foreign investment will eventually reach the IRGC regardless, either directly through the oil and natural gas sector and its externalities or indirectly through other holdings. It is only a question of how much.

These struggles have been seen before as recently as 2010 and in Ahmadinejad’s first term. His “liberalization” program was optical only and did nothing to liberalize Iran from the tight-fisted control of the IRGC and its bonyad. If

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462 A paramilitary organization of youth that reports to the IRGC and undertakes civil projects such as internal security, law enforcement, policing of morals, organizing of social service.


anything, it served to perpetuate it as the call for governance reform was cosmetically placated and the poorest third did receive some justice share redistribution. Thus, there was only the outward semblance of progress to settle the masses.

Path Ahead

To solve these logjams, Rouhani will need the help of Khamenei to shake the zero-sum mentality out of the hardliners and to convince them that cooperation and trade with the West will have financial benefits. Very likely, the hardliners, many old, unprogressive, and nostalgic for Revolutionary grandeur, won’t care and will use Trump’s rhetoric (and possibly reversed US policy) to extinguish or dilute program.

History along with modernity, tell us such an approach would be short-sighted. Only North Korea, Zimbabwe, a handful of sub-Saharan African countries, and possibly Egypt (and legacy Arabic dictatorships) with Gini-coefficients near one, have been successfully able to sacrifice the interests of the great proportion of the population for the very narrow slice of power elite. Even Iran refused to accept the Shah’s plutocracy in its own comparatively recent history. Russia and China are corrupt and control all the arms but have extended some of the gains to non-party or non-military oligarchs.

The IRGC has a gargantuan presence in Iran, even with some competition from the Bazaaris, so they do have power. Rouhani will need to ponder how to effectively win their buy-in if there is to be a bloodless economic transformation. Iran has far superior conditions than Egypt and many of the Arabic spring countries, but if anecdotal data is accurate- that essentially 14 million of Iran’s 80 million have proper jobs and the means to procure economic livelihoods- then some faction somewhere will need to aggressively shift its views.
Causes for Optimism and Pertinence to Egypt

The starkness and the severity of this litany of challenges notwithstanding, nearly all prospects of for the Iranian economy should be greeted with great enthusiasm. There are a number of reasons why the global investment community has signed $150 billion of deals within the first ten months (October 2015) of the sanctions ending, and this staggering number excludes the US.\textsuperscript{466} The stock market has surged 225\% in the last five years after falling 35\% in the last two years and British Airways, within weeks of the sanctions being lifted, began immediate direct flights to Tehran four times a week for £537.\textsuperscript{467} Construction on Iran Mall, a 2.7 million square foot project in Tehran’s northwestern outskirts that will have an ice rink, musical fountain, central garden, hotel and exhibition center, has been undertaken, one of 300 retail properties recently launched to meet anticipated consumer demand.\textsuperscript{468} Clothing, footwear and other higher-end consumer goods have accounted for 17\% of all household spending.\textsuperscript{469} Consumer spending itself is $4,300 per capita, the second-highest spending per square kilometer—a key metric for retailers—in all of the Middle East and Africa after Johannesburg, according to Boris Planer, CEO of Planet Retail, a specialty consultancy in Germany.

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\textsuperscript{466} Wall Street Journal, \textit{Asia Soaks Up Iran’s Post-Sanctions Oil}, 9 October 2016.

\textsuperscript{467} BA.Com

\textsuperscript{468} Asa Fitch and Aresu Eqbali, \textit{New Malls Cropping Up Across Iran}, Wall Street Journal, 4 October 2016.

\textsuperscript{469} Eqbali and Fitch, \textit{New Malls Cropping Up Across Iran}, 2016.
Notwithstanding the murmured grousing and doublespeak from the more hawkish corridors in North American and European foreign secretary and ministerial offices, trade delegations or senior corporate executives from every one of the G20 countries have offered the olive branch and visited Tehran to pay respects and establish relations with an eye to convert goodwill to trade. It is fascinating that French conglomerate Total announced a $4 billion investment in 2016 which will be denominated in Euros to avoid US sanctions. This is especially noteworthy because France had been most critical of Obama’s and Kerry’s softness in conceding most of the Iranian points in the nuclear
Furthermore, this project will be shared three ways, including 30% with the Chinese (China National Petroleum Company) and 50% with the National Iranian Oil Company. “This confirms we have a capacity to work with the Iranian government and that there is reciprocal trust,” according to Total’s Chief Executive Patrick Pouyanné.471

It is fair to say Iran has vast and enviably kinetic energy—so much that can go right— and, as Graphs 1, 5 and 12-15 in the Appendix reveal, that it is starting in a promising place (the others show the challenges Iran will need to overcome). Few developing countries have its negligible debt-to-GDP; its incumbency and status as the possessor of the largest of natural gas reserves globally, the fourth largest in oil reserves and the tenth in petrochemical manufacturing; its burgeoning domestic demand sustained by the purchasing power of its well-heeled middle class (56% have incomes in excess of $20,000);472 its status as the largest automotive manufacturer in MENA and one of the largest users of computers (50% household penetration), debit cards (75%), and telephony (67% still rely on 2/3G).473 Then, there are the qualitative characteristics, every bit as reckonable: Iran’s self-reliance and ability to withstand almost any force that conspires against it; its already established high standard of living and middle-class, professional ethos; its technological firepower and intellectual heritage; and its justifiably proud nationalism. These are formidable assets indeed.

470 Jay Solomon, The Iran Wars, 2016

471 Reuters, Total To Use Euro Cash Reserves to Finance Iran Project, 9 November 2016.

472 UNCTAD, World Investment Report, 2015; IMF World Economic Outlook Database; McKinsey Global Cityscope.

473 UNCTAD, World Investment Report, 2015
Iran’s most salient advantages appear as the following:

Firstly, Iran borders seven countries with a total population of 430 million. The neighboring countries represent nearly 60-80 million consuming households, growing between 4-5% a year.\textsuperscript{474} Tehran is a six-hour flight from London and four-hour flight from Moscow. Of course, Iran’s proximity to India, China, Russia and Pakistan, as well as Turkey and Western Europe, creates the potential for Iran to act as a link between East and West. Iran is well established in the natural resource trade. In the south, Iran's water borders include the Persian Gulf and the Strait of Hormuz, which, as discussed in class, are vital for crude oil transport.

Secondly, Iran-watchers, economic development specialists in academia, and analysts from investment banks, such as Goldman Sachs and Morgan Stanley, as well as consulting firms such as Bain and Company and McKinsey, are nearly universal in agreement about the pillars to underpin growth. “Harnessing the country’s natural resource endowments, especially oil and gas, will be the first place for Iran to market and to invest in itself.”\textsuperscript{475} The second pillar entails upgrading facilities and efficiencies with domestic manufacturing industries, including automotive and fast-moving consumer goods, to internationally competitive standards. Joint ventures with German, French and Turkish conglomerates could galvanize this. The third pillar calls for Iran to accelerate its transition towards a knowledge-based economy, elevating on its strengths to grow sectors such as ICT and finance. There is much information to suggest Iran could

\textsuperscript{474} UNCTAD, World Investment Report, 2015

\textsuperscript{475} McKinsey Global Institute, page 78, 2016
supersede India and Singapore in this realm. Finally, physical and digital infrastructure will need to be modernized and expanded to ensure growth.

This maps closely for a plan of attack that this paper advocates for Egypt. McKinsey, in a bottoms-up approach (see Appendix Graph 4), makes a case that boosting investment in these areas, could elevate Iran into a $1 trillion to the world economy in the next 20 years, creating 9.2 million jobs with the greatest gains in construction, retail, agriculture, and fast-moving consumer goods. What is true for Iran must have some benefit directionally for Egypt, as demonstrated in the work on savings, investment and growth this paper profiled.

Iran’s six core strengths are: (1) economic diversification; (2) scientific education; (3) a growing consuming class; (4) a highly urbanized population; (5) strategic location for cross-border flows; and (6) an entrepreneurial culture. McKinsey additionally estimates that this will require investment of $3.5 trillion, of which $2.5 trillion would be domestic. The job count seems low but that number would create 65% more “real” jobs for Iranians. There is an added virtue here with the construction boom, which may ease the unsustainable tension in Iran’s housing prices. There are eight cities in Iran with more than one million people- real estate is tight. Again, 1-6 above are within Egypt’s grasp.

For context, an increase of this magnitude would take Iran's GDP to the level of Spain's in 2014 or, on a per capita basis, above the 2014 level of Turkey, Russia, Malaysia, and Mexico. It would also increase global GDP by more than 1 percent. For Iran, this would mean an average 6.3 percent annual growth in the

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476 McKinsey Global Institute, pages 3-4, 2016

dollar value of its economy.\textsuperscript{478} This growth would be broadly distributed across a large number of sectors, reflecting the diversified nature of Iran's economy, and would ramp up gradually over time.

Interestingly, Rouhani’s plan (and the Sixth Five Year Program) calls for 8\% growth, which is even greater, with the first 2.5\% coming from the streamlining efficiencies. It is important to emphasize that. Once Iran starts firing on all pistons, demand for the rial will surge. This means that gains for investors will even be greater than these per annum rates.

By way of contrast, Egypt has been growing in real terms 1\%-4\%. Surely there are gains to be made from pursuing some of the initiatives in Rouhani’s program and McKinsey’s recommendations.

\textbf{Policies to Promote Economics and Applicability to Egypt}

\textbf{Tasks that Iranian policymakers will need to undertake to tackle these challenges, again relevant to Egypt:}

- Create a stable macro environment, including the exchange rate and inflation without constraining growth.

- Balance fiscal policy to focus on real growth.
  - Iran’s government expenditure, at 15\% of GDP, is much lower than several MENA peers.
  - Iran is in a good situation in that its government debt, at 16\% of GDP, is low for developed countries (closer to 50\%), as is its relatively expenditure and deficit.\textsuperscript{479}

\textsuperscript{478} McKinsey Global Institute, page 7, 2016

\textsuperscript{479} World Economic Forum. CIA Factbook, 2016.
• Develop non- O&G industries, such as export manufacturing and domestic-demand-led consumer to cushion amplitude of further commodity shocks.

• Establish a clear rule of law, protocols to ensure capital protection and rights for minority (and majority) foreign direct investors. According to the WSJ and the Heritage Foundation’s 2015 Index for Economic Freedom, Iran is tied for last place on property rights among the 17 countries in MENA.

• Create institutions at the private and public level that are transparent and credible to investors. Accounts of government fiscal budgets and expenditures must be presented and audited by third parties.
  
  o This includes Bonyads and the IRCG complex, such as An-Khatba etc.

• Make the business and regulatory environment more competitive.
  
  o There are 45 different frameworks, bylaws and decrees alone governing Iran’s 7 Free Trade Zones and 16 Special Economic Zones. These are in addition to the already cumbersome commercial laws of engagement. In a study by McKinsey Global Institute, it takes 97 days on average and 15 special permits to open a mere warehouse.\(^\text{480}\)
  
  o This same study found that it takes 432 hours to physically import goods into Iran, including border and documentary compliances, versus 47 in Turkey and 34 in Malaysia, making Iran the 167th out of

189 countries on the World Bank’s “Trade Across Borders” indicators.

- Iran is ranked 74th out of 140’s for global competitiveness (World Economic Forum) and 118th out of 189 in the World Bank’s 2016 Doing Business index.\(^{481}\)

- Protectionism must be limited. Pharmaceuticals, for example, are protected by an import duty of 65\%.\(^{482}\) Iran needs improved medical care based on the aging population.

- Entrepreneurship must be fostered. This is a cultural asset that the Iranians appear to have, based on (1) the success of the Iranian diaspora in the US and UK; and (2) the abundance of parallel technology companies that function as the Iranian equivalent of PayPal, Ebay, Amazon, etc.

  - Liberalize the capital markets and establish a proper Basel II and III international banking standards.

    - 57% of all deposits may be held in banks with insufficient capital reserves.\(^{483}\)

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\(^{482}\) World Economic Forum, Iran Country Highlights, 2015.

- Aim to boost Iran’s market capitalization, currently merely $118bn, or 25% of GDP. By contrast, the US is an eye-popping 124%. The UK is around 112%. 484

- Interestingly, Iran’s interest rate of 15% for one year deposits, represents about a 5% real yield. Based on my experience investing in emerging markets, there could be positive carry associated with currency appreciation as the demand for rials increases to secure investment and complete onshore transactions. Offsetting that, is that the market PE multiple had been as low as 5x, which is very attractive. Yet after the post sanction run-up, that optical multiple is closer to 8x-10x (before improved earnings enhancements from trade). This suggests a nominal yield of 10%-12%, which may be less appealing if earnings, and therefore multiple expansion, grow less than inflation. Thus, the best risk-reward would be to keep money in less risky, liquid deposits versus the stock market. This would not help necessarily the market attract investment unless Iran does something similar to what India did, which is cap international investors from holding rial denominated deposits.

Observations and Implications for Egypt

Having absorbed these variables, certain conclusions are able to be distilled:

1. Egypt is rentier state. Iran is the antithesis of a rentier state. Iran accepts no foreign aid and has virtually no debt. Egypt can only subsist off foreign aid and is engorged with debt.

2. The EAF and IRCG have similar dominating influences in their respective economies.

3. Iran’s military kleptocracy is as brazen as Egypt’s, possibly much more so. Iran’s was born more from a praetorian state where the security apparatus’s usurpation of power and placement in the centrality of all things economic was more sudden (the immediate aftermath of the 1979 Shah Revolution). While Egypt’s military’s power has only become absolute in the 2013 Muslim Brotherhood aftermath, there has at least been some competitive tension in the economic realm with crony capitalists prior to 2012.

4. That foreign investors are enthusiastic nevertheless about Iran suggests that economic autocracy or corruption will not necessary stop any form of international investment. A more likely analogue is investor caution Russia emerged from the Soviet Union and China began its forays into liberalization.

5. Iran is more politically polarized than Egypt. In Egypt, the military really is the only game in town, politically and economically.

6. Egyptians are generally so poor and desperate that politics appears more a luxury.

7. Both countries have large forms of unemployed/underemployed populace

8. Despite the competitive factionalism that permeates Iranian politics and politics being a more important driving factor of alliances in Iran, the IRGC
was able to enjoy (seize) tremendous, almost absolute, power in the economic realm, which has been self-perpetuating and used for political exploitation.

9. The bonyads and bazaar faction are not entirely dissociated with IRGC (*Mostazafan*), which rely on the agencies of bonyads. And to the extent that the IRGC, as per the *Setad Case Study*, is so enmeshed managing the money of the imamate, there can be no question that the IRGC and hard right (Khamenei and clerics) are in some sort of league.

10. Ironically, this separation, with the IRGC running the economy and the Clerics running the country, is a Sunni *uluma* soci-political structure (Caliph and Uluma), not a traditional Shia one where the IRGC and regime has found its footing. Of course, Egypt’s ferocity towards the MB and its strong state mentality could possibly make it more flexible to institute reforms.

11. Iran is categorically superior with economic developmental endowments- the (1) human capital and technical expertise, (2) the vast hydrocarbon depositories and oil, (3) the agricultural self-sufficiency- these are all significant advantages over Egypt, with the than 3% arability, a lack of oil, a sub 75% literacy rate, a bloated balance sheet (600% more debt to GDP than Iran), a rapidly expanded populace.

12. Iran is more abstruse economically and politically. It will be harder for foreign direct investors to bargain with.

13. Iran’s army’s comparative sophistication (Quds forces) will be problematic to achieving reform because of their ability to initiate and withstand global conflict.
14. Iran as a nation has immense confidence, possibly from its Shia Karbala martyr self-perception, Egypt has not proven that it can industrialize on its own.

15. Egypt does not have the burden of ideology. Its foremost goal has been expropriative self-enrichment by the military. Its penetration has enable it to succeed by subsidies.

16. Egypt’s burden of subsidy is its largest political and economic risk. Tahrir was triggered by economic issues and the government’s inability to furnish basic standards.

17. Egypt does not appear to have any comparative advantages of meaning other than its geostrategically advantageous locus. For it to succeed, it will need to continue to press its relationship with Saudi while also cultivating the perception that it is independent. Importantly, Saudi’s GDP is only $646 billion USD. It is larger than Egypt’s and Iran’s, especially on a per capita basis, but not so large that alienation of Iran or Turkey (and nearly $900 billion) is advisable. In some senses, Saudi needs Egypt nearly as much as Egypt needs Saudi.

18. The KSA can obviously benefit from Egypt’s demographic dividend as Saudi tries to transform itself from a pure petrostate to a more modern, services-oriented, technology driven. Saudi has the money and the wherewithal to purchase competence. Ideologically similar Egypt, if it stabilizes, can deliver to Saudi the domestic demand without the subsidization liability. Iran does not have a need to generate demand- it’s consumer economy is robust and demographic also beneficial. It does have vulnerability to petro-shocks but its consumer and technology sectors should be cultivated to insulate Iran’s
Primary Conclusion- Egypt & Iran
The most significant question whether it is easier for Iran to alter its political ideology or Egypt to alter its Nasserite food subsidies. These will be the critical first steps to meaningful reform.

Other Conclusions- Egypt & Iran
1. Iran’s technical supremacy has enabled it to achieve a self-sufficiency that has nearly withstood Armageddon. Iran managed to achieve, with great innovation, a parallel economy (see Appendix for Iranian technology companies). Egypt, even in increasing global prosperity of the last seven years, suffered three coups and endured great bloodshed.

2. Whether foreign investors wish to partner with Iran because of its sophistication (and wide perception of a pre-Ayatollah cultural affinity), its oil reserves (as the second largest in the world), or the simple fact that relations with its government could only improve is unclear. But these are factors that generate higher probabilities of return on investment for foreign investors.

3. Egypt has very little to offer in terms of natural capabilities other than it “has to work” because of its location.

4. Egypt’s legacies of subsidy reliance and technical ineptitude are why its self-absorbed military and its kleptocratic habits are fatal. There has been a lack of credibility and urgency.
Appendix - Iran Case Study

Graph 1 - Iran at a Glance

Macroeconomic indicators, 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita ($ thousands, nominal)</th>
<th>GDP ($ billion, nominal)</th>
<th>Government debt-to-GDP ratio % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>30.4</td>
<td>1.410</td>
<td>98</td>
</tr>
<tr>
<td>South Korea</td>
<td>28.2</td>
<td>1.410</td>
<td>90</td>
</tr>
<tr>
<td>Poland</td>
<td>14.2</td>
<td>0.550</td>
<td>57</td>
</tr>
<tr>
<td>Malaysia</td>
<td>11.3</td>
<td>0.340</td>
<td>55</td>
</tr>
<tr>
<td>Mexico</td>
<td>10.3</td>
<td>0.1290</td>
<td>50</td>
</tr>
<tr>
<td>Turkey</td>
<td>10.3</td>
<td>0.350</td>
<td>50</td>
</tr>
<tr>
<td>South Africa</td>
<td>6.5</td>
<td>0.380</td>
<td>46</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.4</td>
<td>0.415</td>
<td>36</td>
</tr>
<tr>
<td>Egypt</td>
<td>3.2</td>
<td>0.890</td>
<td>34</td>
</tr>
<tr>
<td>Nigeria</td>
<td>3.2</td>
<td>0.570</td>
<td>25</td>
</tr>
<tr>
<td>Philippines</td>
<td>2.9</td>
<td>0.280</td>
<td>16</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2.0</td>
<td>0.100</td>
<td>10</td>
</tr>
</tbody>
</table>

8 cities have more than one million inhabitants

- Tabriz 1.5
- Tehran 8.2
- Mashhad 2.6
- Isfahan 1.8
- Shiraz 1.3
- Qom 1.1
- Ahvaz 1.1
- Khoraj 1.6

Largest gas reserves and 4th-largest oil reserves in the world

56% of households have income over $20,000 per year

Over half of all households own computers

10th-largest producer of petrochemicals

Largest automotive market in the Middle East

80% of pharmaceuticals are produced domestically

9 of top 10 consumer brands are domestic

60% of Iranians have access to 3G/4G networks

Net exporter of electricity

19 UNESCO World Heritage sites

Top 10 reserves of iron ore, copper, and zinc

75% debit-card penetration rate

SOURCE: UNCTAD World Investment Report 2015; IMF World Economic Outlook Database, October 2015; McKinsey Global Institute Citiescope; McKinsey Global Institute analysis
Graph 2: Iran GDP Growth Historically

Graph 3: Iran’s Industrial Diversity

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1 Gross value added (GVA) plus taxes minus subsidies equals GDP, at the sector level. GVA is used in place of GDP.

SOURCE: IHS Global Insight, McKinsey Global Institute analysis
Graph 4- Iran’s Engines of Growth

Four engines of growth could add $1 trillion to Iran’s GDP and create nine million jobs by 2035

<table>
<thead>
<tr>
<th>Sector</th>
<th>2014 GVA</th>
<th>GVA growth by 2035</th>
<th>Compound annual growth rate</th>
<th>New jobs Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas</td>
<td>30</td>
<td>160</td>
<td>2.15</td>
<td>0.75</td>
</tr>
<tr>
<td>Agriculture</td>
<td>82</td>
<td>40</td>
<td>0.27</td>
<td>0.5</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>53</td>
<td>26</td>
<td>0.15</td>
<td>0.5</td>
</tr>
<tr>
<td>Mining</td>
<td>40</td>
<td>21</td>
<td>0.17</td>
<td>0.5</td>
</tr>
<tr>
<td>Renting and real estate</td>
<td>28</td>
<td>43</td>
<td>0.11</td>
<td>0.5</td>
</tr>
<tr>
<td>Fast-moving consumer goods</td>
<td>87</td>
<td>52</td>
<td>0.12</td>
<td>0.5</td>
</tr>
<tr>
<td>Tourism</td>
<td>46</td>
<td>49</td>
<td>0.13</td>
<td>0.5</td>
</tr>
<tr>
<td>Automotive</td>
<td>8</td>
<td>58</td>
<td>0.14</td>
<td>0.5</td>
</tr>
<tr>
<td>Basic materials</td>
<td>25</td>
<td>90</td>
<td>0.32</td>
<td>0.5</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>17</td>
<td>24</td>
<td>0.37</td>
<td>0.5</td>
</tr>
<tr>
<td>Public sector</td>
<td>33</td>
<td>70</td>
<td>0.56</td>
<td>0.5</td>
</tr>
<tr>
<td>Transport</td>
<td>25</td>
<td>79</td>
<td>0.87</td>
<td>0.5</td>
</tr>
<tr>
<td>Real estate</td>
<td>47</td>
<td>8</td>
<td>0.27</td>
<td>0.5</td>
</tr>
<tr>
<td>Construction</td>
<td>42</td>
<td>59</td>
<td>0.59</td>
<td>0.5</td>
</tr>
<tr>
<td>Utilities</td>
<td>22</td>
<td>35</td>
<td>0.51</td>
<td>0.5</td>
</tr>
<tr>
<td>Financial services</td>
<td>44</td>
<td>44</td>
<td>0.84</td>
<td>0.5</td>
</tr>
<tr>
<td>Professional &amp; other services</td>
<td>34</td>
<td>63</td>
<td>0.83</td>
<td>0.5</td>
</tr>
<tr>
<td>ICT</td>
<td>35</td>
<td>31</td>
<td>0.53</td>
<td>0.5</td>
</tr>
<tr>
<td>Health care</td>
<td>26</td>
<td>27</td>
<td>0.31</td>
<td>0.5</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>7</td>
<td>7</td>
<td>0.27</td>
<td>0.5</td>
</tr>
<tr>
<td>Total GDP*</td>
<td>262-410</td>
<td>320-420</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.

- Difference between the sum of the sector GVAS and GDP is explained by taxes and subsidies.
- Estimates for 2014 GDP vary from $262 billion to $410 billion, depending on source; the range in future GDP is driven by this baseline variance.
- Includes 1.12 percentage points per sector from real exchange rate appreciation.
- Other manufacturing includes textiles, paper and pulp, printing and publishing, machinery, equipment, appliances, and others.

Graphs of Anguish

Graph 6 - Inflation

Inflation has been high and volatile, and money supply has increased significantly.

Consumer price index, %

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>20</td>
</tr>
<tr>
<td>2001</td>
<td>30</td>
</tr>
<tr>
<td>2002</td>
<td>40</td>
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<td>2003</td>
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<td>100</td>
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<tr>
<td>2009</td>
<td>110</td>
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<tr>
<td>2010</td>
<td>120</td>
</tr>
<tr>
<td>2011</td>
<td>130</td>
</tr>
<tr>
<td>2012</td>
<td>140</td>
</tr>
<tr>
<td>2013</td>
<td>150</td>
</tr>
<tr>
<td>2014</td>
<td>160</td>
</tr>
<tr>
<td>2015</td>
<td>170</td>
</tr>
</tbody>
</table>

Real trillion

- 1,200
- 1,100
- 1,000
- 900
- 800
- 700
- 600
- 500
- 400
- 300
- 200
- 100

Inflation - Money supply (RHS)

NOTE: Data points are for March, Iranian year end. Money consists of currency in circulation and sight deposits.
Inflation calculated as average annual rate.

SOURCE: Central Bank of Iran, McKinsey Global Institute analysis

Rial to the Dollar

<table>
<thead>
<tr>
<th>Year</th>
<th>Rial</th>
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<tbody>
<tr>
<td>2010</td>
<td>10000</td>
</tr>
<tr>
<td>2011</td>
<td>15000</td>
</tr>
<tr>
<td>2012</td>
<td>20000</td>
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<tr>
<td>2013</td>
<td>25000</td>
</tr>
<tr>
<td>2014</td>
<td>30000</td>
</tr>
<tr>
<td>2015</td>
<td>35000</td>
</tr>
</tbody>
</table>

iranianrial.globalcurrencyreset.net
Graph 7 – Low Productivity

Iran has low productivity across multiple sectors

Labour productivity in automotive
Automobiles per manufacturing employee, 2014

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>18.3</td>
<td>14.8</td>
<td>13.8</td>
<td>13.0</td>
<td>11.9</td>
</tr>
<tr>
<td>France</td>
<td>13.5</td>
<td>13.0</td>
<td>12.5</td>
<td>12.0</td>
<td>11.5</td>
</tr>
<tr>
<td>Germany</td>
<td>13.3</td>
<td>13.0</td>
<td>12.5</td>
<td>12.0</td>
<td>11.5</td>
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<td>10.5</td>
<td>10.0</td>
<td>9.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Japan</td>
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<td>7.0</td>
<td>6.5</td>
<td>6.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.9</td>
<td>2.8</td>
<td>2.7</td>
<td>2.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Iran</td>
<td>1.9</td>
<td>1.8</td>
<td>1.7</td>
<td>1.6</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Labour productivity in metals
Output per worker, $ thousand, 2014

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>28.4</td>
<td>27.5</td>
<td>26.6</td>
<td>25.7</td>
<td>24.8</td>
</tr>
<tr>
<td>Iran</td>
<td>6.8</td>
<td>6.5</td>
<td>6.2</td>
<td>6.0</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Capital productivity in telecommunications
Revenue per unit of plant, property, and equipment
$ nominal, 2014

<table>
<thead>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>2.2</td>
<td>2.1</td>
<td>2.0</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Iran</td>
<td>1.4</td>
<td>1.3</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Agricultural productivity
Cereal yield, thousand kg per hectare, 2014

<table>
<thead>
<tr>
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<th></th>
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<th></th>
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<tr>
<td>South Africa</td>
<td>4.3</td>
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<td>4.1</td>
<td>4.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.6</td>
<td>3.5</td>
<td>3.4</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.6</td>
<td>2.5</td>
<td>2.4</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Iran</td>
<td>1.3</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
<td>0.9</td>
</tr>
</tbody>
</table>

\[1\] Based on largest telecom operator in each country.

**GRAPH 8- Challenges in the Banking Sector**

The banking sector in Iran has low provision of credit to the private sector and high non-performing loans.

### Loans outstanding, 2014 (% of GDP)

- **Iran**: 65
- **Next 11**: 57
- **BRICS**: 88
- **World average**: 131

### Non-performing loans, 2014 (% of outstanding loans)

- **Iran**: 11
- **Next 11**: 5
- **BRICS**: 4
- **World average**: 4

### Domestic credit to private sector by banks, 2014 (% of GDP)

- **Iran**: 52
- **Next 11**: 50
- **BRICS**: 78
- **World average**: 84

**State-owned and semi-privatised banks dominate the sector**

- **Profitability, 2012**
  - Capital return, %
    - **State-owned**: 5
    - **Semi-privatised**: 19
    - **Private**: 25

- **Operational performance, 2012**
  - Deposits per branch, million
    - **State-owned**: 9
    - **Semi-privatised**: 17
    - **Private**: 33

- **Liquidity risk, 2012**
  - Current assets / deposits, %
    - **State-owned**: 12
    - **Semi-privatised**: 16
    - **Private**: 16

---

1. Data for Iran from the IMF staff report for the OHH Article IV consultations, March 2014.
2. Semi-privatised banks have state-related shareholders.
3. Includes specialised state-owned banks (e.g., agriculture bank).
4. All conversion to dollars using the official exchange rate of 53,000 at the end of 2012, announced by the Central Bank of Iran.

**Iran’s financial system is overreliant on bank loans**

Financial asset market composition, 2014

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Debt securities</td>
<td>41</td>
</tr>
<tr>
<td>Stock market capitalisation</td>
<td>26</td>
</tr>
<tr>
<td>Loans outstanding</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

1. The total value of debt securities (Islamic participation papers, sukukes, and CDs) traded on Tehran exchange market in 2014 was $5.05 million. Banks and large projects also issue some Islamic participation papers that do not have any secondary market and only can be cashed through the banking system.
Graph 9 - Real Estate Problems

Residential real estate prices have increased significantly more in Tehran than in other major cities.

Residential real estate price performance
Index: 100 = 2000, real local currency units

SOURCE: Bloomberg; Bank for International Settlements; Statistical Centre of Iran; Bloomberg; Bank for International Settlements; S&P 500; UK Land Registry; McKinsey Global Institute analysis.
Graph 10- Educational Applicability

The quality of Iran's mathematics and science education is not reflected in high-skilled employment.

Share of high-skilled employees, 2015

%  

Average = 22

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Korea</td>
<td>21.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>9.1</td>
</tr>
<tr>
<td>Iran</td>
<td>18.2</td>
</tr>
<tr>
<td>United States</td>
<td>42.0</td>
</tr>
<tr>
<td>China</td>
<td>11.7</td>
</tr>
<tr>
<td>Russia</td>
<td>43.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>46.0</td>
</tr>
<tr>
<td>India</td>
<td>14.6</td>
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<tr>
<td>Philippines</td>
<td>24.1</td>
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<td>Vietnam</td>
<td>9.5</td>
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<tr>
<td>Turkey</td>
<td>19.5</td>
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<td>Pakistan</td>
<td>21.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>19.0</td>
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<tr>
<td>Brazil</td>
<td>21.3</td>
</tr>
<tr>
<td>Nigeria</td>
<td>3.6</td>
</tr>
<tr>
<td>Egypt</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>27.5</td>
</tr>
</tbody>
</table>

1 Using BRICS, rest 11 countries, and OECD benchmarks for comparison.
2 Average excluding Iran.

### Graph 11: Retail Sales

**Exhibit 16**

*Iran has above-average retail sales per capita*

<table>
<thead>
<tr>
<th>Country</th>
<th>Retail sales per capita, 2014</th>
<th>Total retail sales, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>5,952</td>
<td>2.9</td>
</tr>
<tr>
<td>Japan</td>
<td>7,710</td>
<td>1.0</td>
</tr>
<tr>
<td>Germany</td>
<td>5,858</td>
<td>0.6</td>
</tr>
<tr>
<td>Iran</td>
<td>5,210</td>
<td>0.4</td>
</tr>
<tr>
<td>Russia</td>
<td>4,389</td>
<td>0.3</td>
</tr>
<tr>
<td>Turkey</td>
<td>3,887</td>
<td>0.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3,030</td>
<td>0.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>2,582</td>
<td>0.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2,487</td>
<td>0.4</td>
</tr>
<tr>
<td>China</td>
<td>2,479</td>
<td>3.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>1,056</td>
<td>0.1</td>
</tr>
<tr>
<td>India</td>
<td>1,250</td>
<td>1.6</td>
</tr>
<tr>
<td>Nigeria</td>
<td>484</td>
<td>0.1</td>
</tr>
</tbody>
</table>

*Average: 3,912*

**Sources:** Euromonitor International, World Bank, MacKrusky Global Institute analysis.
Iranian entrepreneurs have developed local versions of global technology businesses.

Example companies

amazon | digikala | Google Play | ایبن
You Tube | آماری | eBay | ایسیر

craigslist | دیوور | Deliveroo | bodofood
GROUPON | hotbafir | Expedia | ZORAQ.COM
PayPal | ZarinPal | facebook | 00clooo

SOURCE: Oxford Capita; Semi Media; Iran’s Internet Infrastructure and Policy report, July 2014; company websites; McKinsey Global Institute analysis.
XV. Conclusion

Sisi’s wears an uneasy crown. The military dominates and controls Egypt’s economy and politics, yet the military is not-monolithic. EAF constituencies shift and vary and there will be a point where Sisi and his elite brethren reflect on the peril in which they continue to place their citizenry. Their decision will be to risk their own security and comfort for the betterment of Egypt’s future.

It took nearly three years for Sisi to convene his first parliamentary session after deposing Morsi. Egypt is not, and will not be, a democracy. Back-parlour wheedling and Senate floor sanctimony will only serve to push Egypt that much more into the Saudisphere. Thus, the hope is to exert pressure on Saudi to work with the US’s aims. Saudi is less motivated than it once was, to be sure, but there is still a basis or economic alignment and transactional collaboration.

Egypt’s military power elite are well-entrenched and there is no sign of them moderating their zeal for self-aggrandizement and despoliation. Certainly, the United States is neither in the position nor of the will to impose its loftiest philosophical stipulations for economic partnership. Ironically, Egypt has options precisely because it appears to be running out of options as its economy of reliance and patronage deteriorates more rapidly every day. Development is an ideal to the regime so long as it placates oppositional agitators or the youth on the street, but not so much that it creates rivals and threatens their authoritarian preserve. It is up to Sisi and his SCAF kleptocrats to determine how much modernization and reform they will accept. They have witnessed the fate of Sadat, Mubarak and Morsi as well as other dictators in the Arabic world. They know it does not end well and it is unclear if that will embolden them to escalate their commitment as much as they can while they can, believing they are beyond a point of return. Certainly, the unflinching support of Saudi, a regional
superpower, makes it attractive for them to persist in their ways. And neither the US nor the UK is standing in their way.

A final thought is that the regime in Egypt is not that of Iran. There is not the cloud of ideology or an opacity of the decision-making process. The mandate of money and agenda of the power and self-preservation of Sisi and the SCAF are clear. Thus, the bid-and-ask of any negotiations shall be straightforward. Hopefully, beginning with unambiguously beneficial soft-power initiatives, such as education, health, and infrastructure, more democratically motivated players can, with the help of powerful Khaliji Arabic collaborators, find a middle road of growth and prosperity that redounds to the benefit of the Egyptian citizenry.
XVI. Research Methods

My research consisted of three phases: (1) identifying Egypt’s economic challenges; (2) identifying where the Egyptian Armed Forces operates within the economy; (3) identifying areas where they have abused their power; (4) identifying internal and external parties that collaborate with the EAF to solidify its position; (5) identifying the agendas of such participants (and areas where they may have ideology or capabilities of manipulating/ influencing the EAF); and (6) identifying countries and organizations which have had similar economic, political, demographic, or religious constraints and which have succeeded in creating economies of enduring prosperity and self-sufficiency.

To understand these variables, I relied on economic and financial data published directly by the Egyptian government as well as by third parties in a credible position to capture and validate Egyptian economic and financial data. I also triangulated these findings with conversations and primary interviews with interested and objective parties (ie those with no conflicts) and those which are actively involved in the Egyptian economy. These included bankers, diplomats, executives, research specialists and journalists.

For analysis outside of countries which could serve as an economic paradigm for Egypt’s public and private sectors, I employed similar methods, with an emphasis on economic data and financial analysis offered by the economists and strategists at investment banks as well as what these countries, and academic researchers studying them, have published. Singapore, Hong Kong, Indonesia and Israel have recognized standards of governance. Vietnam’s and Dubai’s financial discussions have also been assessed dispassionately and fulsomely by several outside, unconflicted third parties.
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Appendix

Appendix I - Time Series Macro Charts

Exhibit A: Egyptian Pound Depreciation of 51% Since Arab Spring Beginning

Exhibit B: Cairo- Alexandria Stock Exchange in USD Terms- No Appreciation over Last 10 Years; Down 29% Since Tahrir
Exhibit C:
Cairo-Alexandria Stock Exchange Underperforms the MS Emerging Market Index by 30% in Last Decade

Exhibit D: Egyptian “Official” Unemployment Rate Increases from 8.5% to 13%
Exhibit E: Real GDP Growth Is Volatile and Rate of Growth

Exhibit F: Egyptians Foreign Trade Balance Remains Negative
Exhibit G: Egypt’s Debt as a % of GDP Improves but nears 100%

Exhibit H: CPI Hyperinflation Spirals from 4% to 12% In Last 5 Years, Undermining Real
Exhibit I: Wheat Imports Experience Explosive Growth Inline With Population. The Sudden Decrease in Arab Spring Reflects an Inability to Import as Currency Reserves Evaporated and Terms of Trade Worsened

Exhibit J: Egypt’s Exports Fell Precipitously- down 52% Since The Papyrus Revolution
Exhibit K: Egypt Went From Surplus To Significant Deficit in Last 15 Years. It is

Exhibit L: Egypt Is Bleeding Hard Currency Foreign Exchange
Exhibit M: Per Capital GDP Growth Is Anaemic and Now Negative
Appendix II – US Embassy Export Opportunity Marketing Pitch

Egypt: Export Opportunities in the Security and Defense Sectors

SCO Margaret Keshishian

The Revolution

“There are very few moments in our lives where we have the privilege to witness history taking place. This is one of those moments. This is one of those times. The people of Egypt have spoken, their voices have been heard, and Egypt will never be the same.” President Obama
“GETTING BACK TO BUSINESS”

- Stability
- Functional financial sector
- Logistics
- Transparency

Safety & Security is Booming

- Region is experiencing increasing security issues.
- Egyptian Government and private sector reevaluating and upgrading security at all sites.
- Governmental, industrial, & touristic entities legally obliged to install security systems.
- Local market depends heavily on sophisticated imports.

Market Opportunities

Military

- Foreign Military Funds (FMF)
- The “Egyptian Military Industry”

Non-Military

- Egyptian Government
- Egyptian Private Sector
Strong Egypt - US Military Relationship

$1.3 billion in military aid (FMF) annually since 1979 Egyptian-Israeli Peace Treaty (Camp David Accord) which finances most GOE defense procurement.

Operates on 5 year plan: Need to plan ahead.

FMF is intended to promote Middle East peace, revitalize the Egyptian economy, strengthen trade relations, and regional security and stability.

Upcoming GOE Projects and Interest Ministry of Interior

Traffic management & identification system

Border security especially northern borders with West Bank

Port security being upgraded (scanning equipment)

Security equipment at airports under review

Upper Egypt “new” road to Luxor to Safaga
اتجهت البعثة السعودية المصرية إلى توقيع اتفاقية بين خادم الحرمين الشريفين الملك سلمان بن عبد العزيز ورئيس الوزراء عبد الفتاح السيسي لتوقيع اتفاقية بين البلدين، ومنها:

- تبديت اتفاقية جامعة الملك سلمان بن عبدالعزيز في سبها وبناء مجتمعات سكنية ضمن مشروع الملك سلمان لتنمية سبها واتفاقية تطوير مستشفى قصر الجندل في القاهرة وتوقع اتفاقية لتجنب الازدواج المصري بين مصلحة السعودية واتفاقية تنمية الاستخدام السلمي للطابع الديني والثقافي في مجال النقل البحري والموانئ والمذكرات تفاهم بين مصر والسعودية في مجال الإسكان ومذكرة تفاهم بين مصر والسعودية في مجال الطاقة الكهرباء.
<table>
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</tr>
<tr>
<td>2</td>
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</tr>
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<td>3</td>
<td>اتفاقية بشأن مشروع توسعية محطة كهرباء غرب القاهرة</td>
</tr>
<tr>
<td>4</td>
<td>اتفاقية بشأن مشروع تطوير مستشفى قصر العيني</td>
</tr>
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<td>اتفاقية خاصة بتبني الإدماج الضريبي ومعالجة الضرائب في شنن الضرائب على الحالات ذات الصور الفرعية</td>
</tr>
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<tr>
<td>7</td>
<td>اتفاقية التعاون في مجال النقل البحري والموانئ</td>
</tr>
<tr>
<td>8</td>
<td>مذكرة تفاهم للتعاون في المجالات الزراعية</td>
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<td>مذكرة تفاهم تطبيقية في مجال الكهرباء</td>
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<td>مذكرة تفاهم للتعاون في مجال الامكانيات</td>
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<td>مذكرة تفاهم للتعاون في مجال التجارة والصناعة</td>
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<td>مذكرة تفاهم في مجال حماية النزاهة ومكافحة الفساد</td>
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<td>13</td>
<td>مذكرة تفاهم في مجالات العمل</td>
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<tr>
<td>14</td>
<td>برنامج تنفيذي لتوسيع التعاون بين وزارة التعليم في البلدين</td>
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<tr>
<td>15</td>
<td>برنامج تنفيذي لتعزيز التعاون الثقافي</td>
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<td>16</td>
<td>برنامج تنفيذي لتعاون في مجال الاذاعة والتلفزيون</td>
</tr>
<tr>
<td>17</td>
<td>اتفاقية تعزيز الحدود البحرية بين الدولتين</td>
</tr>
</tbody>
</table>
توقيع 17 اتفاقية بين السعودية ومصر

وقفت الرئيس المصري خادم الحرمين الشريفين وسام النيل وهو أرفع وسام مصري

وجوب الرئيس السيسى في كلمة بمؤتمر الصحفي المشترك بالملك سلمان، واصفاً لقاءه بالهيئة القائل: "مملكة الملك سلمان تحتوي أساساً وهوشارك بين المملكة العربية السعودية، وافقناهم التحالف العربي المشترك في المنطقة.

"ملحوظات ترجمة التاريخية ستكون التوقع على عدد من اتفاقات التعامل المشترك.

"أضاف أن "الويلة المشتركة مساعدة على صمود العمل العرقي المشترك.

"وبدأت الجولة الثانية من المباحثات بين خادم الحرمين الشريفين الملك سلمان بن عبد العزيز والرئيس المصري عبد الفتاح السيسي في قمة الرياض العربية.

"وتنطلق زيارة العاهل السعودي الملك سلمان بن عبد العزيز إلى مصر المحقق أن تستمر 5 أيام

"والمجتمع الثاني، هي الرياض العربية الأولى لملكة سلمان إلى القاهرة منذ قيامه سنة الحكم.

الزيارة التي من المفترض أن ينتج عنها تعزيز للتحالف الحضري بالنسبة للمنطقة بين المملكة ومصر.

"وشهدت مساء الخميس، عقد قمة بين الملك سلمان ورئيس الوزراء المصري تناولت المباحثات التذكارية وملفات المنطقة.

وسيعم الطرفان جلسة مباحثات ثانية اليوم الجمعة بعدم توقيع على عدد من الاتفاقات بين البلدين.

"أوكران الرئيس المصري استقبل الملك سلمان الخميس في مطار القاهرة. ثم عقد الطرفان جلسة

"مباحثات عقب الاستقبال الرئيسي.

"كم أيضاً استقبل الرئيسة المصرية بياناً بختام زيارة الملك سلمان، مشيداً بمستوى العلاقات و

المشتركة لا مع مصر وشعبها.
وقالت الرئاسة المصرية إن توقفت الزيارة بتزامن مع تعرض المنطقة للتحديات كبيرة في بعض ما تمر به دول عربية عدة بضآغطات وما تواجهه من أزمات، وهو ما يؤكد أهمية مواصلة التعاون والتنسيق المكثف بين مصر والسويدية حول مختلف الملفات الإقليمية.
Appendix IV – Toshka Solicitation to Egyptian Consulate in Sydney

The Consulate General of the Arab Republic of Egypt in Sydney presents its compliments to the esteemed members of the community, and with reference to the initiative entitled "Long live Egypt" launched by the President Abdel-fattah Elsisi in support of the Egyptian economy, has the honor to inform you with the following:-

In light of the current difficult economic conditions which Egypt experienced, the presidency issued a statement calling upon all Egyptians, to assume their responsibility towards the nation and meet the appeal made by the president in the context of building the future of the country through the active voluntary participation in the fund, "Long live Egypt".

The Statement of the presidency emphasized that the fund was launched in support of the economy through the creation of an account by the central bank under the number: (037037) in all Egyptian banks to receive contributions from Egyptians at home or abroad.

The fund is supervised directly by the President of the Republic, along with the Grand Sheikh of Al-Azhar mosque, His Holiness Pope of Alexandria and Patriarch of Saint Mark Episcopate, and the Governor of the Central Bank. The fund is subject to the full control of the Central Auditing Agency and in the framework of transparency and credibility, the central bank will declare the lists of donors and the amount of donations on monthly basis.

Members of the Egyptian Community who wish to contribute to this initiative are kindly requested to make the transfers through their personal bank accounts in Australia to any of the operating banks in Egypt on the account number mentioned above, according to the following details:-

- Correspondent Bank Name: Citi Bank, New York
- Swift Bank Code: CITIUS33XXX
- A/C No: 36001304
- Beneficiary's Bank Name: Central Bank of Egypt, Cairo
- Full Address: 54 El Gomhoria st, Cairo – Egypt
- Swift Bank Code: CBEGEGCXXX
- Beneficiary's Account No: 4001037023
- Beneficiary's Cust. Name: Long Live Egypt (037037)

With compliments of the Consulate General of Egypt
Appendix V - Egypt’s Military Expenditures Over Time

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount in LE Million</th>
<th>Amount in USD Million</th>
<th>Percentage of GDP</th>
<th>Percentage of Government Budget</th>
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