

DISKUSSIONSPAPIERE

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Limits to Economic Reform in an Authoritarian State

Egypt since the 1990s

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Abbreviations

AmCham	American Chamber of Commerce in Egypt
ARE	Arab Republic of Egypt
BOOT	Build, Own, Operate, Transfer
CEEC	Central and Eastern European Countries
CDKs	Knocked-down Kits
CPI	Corruption Perceptions Index
EIU	Economist Intelligence Unit
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GAFI	General Authority for Investment
GNP	Gross National Products
IMF	International Monetary Fund
IBTCI	International Business & Technical Consultants Inc.
IFIs	International Financial Institutions
JVBs	Joint Venture Banks
NGO	Non-Governmental Organisation
LE	Egyptian Pounds
NDP	National Democratic Party
OECD	Organisation for Economic Cooperation and Development
PPP	Public Private Partnership
SSAP	Stabilization and Structural Adjustment Programme
SOE	State-owned Enterprise
TV	Television
US	United States of America
US\$	US-Dollar

1 Staying in Power – The One and Only Objective of the Mubarak Regime

President Hosni Muhammad Mubarak came to power in 1981 after the assassination of Anwar Al-Sadat by Islamist extremists. After the 1967 war and Nasser's death in 1970, Sadat had continued the preparation for the 1973 war that led to a peace treaty with Israel, and finally engineered the shift of political alliances and economic and ideological orientation towards the West. Confronted with increasing political opposition the regime had increasingly become 'hard authoritarian' during the last years of Sadat's rule. After some half-hearted reform steps under Sadat, in the early 1980s the economy was characterised by an unhealthy mix of state planning and market regulation and was further distorted by the corruption that had grown in the Sadat era. Mubarak was unwilling to fundamentally change the economic system, not to undermine what became to be called "Egypt's stability" in the years to come – an euphemism for the power of the ruling authoritarian regime.

Expressions of social problems and political discontent – partly resulting from economic problems and social polarisation – were perceived as and dealt with as security issues. Mubarak showed little interest in economic issues. Further, increasing economic and political rent income helped to overcome the worst symptoms of crisis and to keep the national economy going. However, Egypt's basic economic structures continued to deteriorate and the gap to other parts of the developing world widened.

The major feature of the "Mubarak era" has been the dominance of just one policy concern among the top leadership, staying in power. In recent years, another objective gained importance: the succession of one of the President's sons, Gamal Mubarak. The regime's obsession with power, control and security also explains the way any major economic policy measure has been designed, planned and implemented during the last 30 or so years. At latest after the so-called bread riots of January 1977, security concerns shape economic policy steps – and often overrule policy proposals made by domestic and external "technocrats", including agencies like the World Bank and the IMF.

2 Economic Reforms under Mubarak

Due to a massive budget deficit and external debts of 50 billion US\$ at the end of the 1980s, economic stagnation turned into an acute crisis. A first reform attempt supported by the international financial institutions (IFIs) failed in late 1980s due to the lack of commitment on the Egyptian side. A few months later, the regime was not any longer able to finance its external debts. Therefore, in 1990/91, after renewed negotiations, the IMF and the World Bank imposed a Stabilization and Structural Adjustment Programme (SSAP) on Egypt. The economic policy reforms, called for by the international creditors aimed at restoring the financial viability of the Egyptian state. Major reforms were a precondition for debt relief, new loans and other financial and technical support. The imposition of the SSAP was an external intervention in order to stabilize the Egyptian government as a major ally of 'the West' in the region (Suleiman, Waterbury 1990, Weiss, Wurzel 1998).

Since 1990/91, consecutive governments followed different approaches regarding the reforms and produced widely differing outcomes – some merely of a symbolic or cosmetic nature,

others with far-reaching consequences. The major determinants for the activities of the different prime ministers and their cabinets, besides personal features, ideas and aspirations, first of all were the policy guidelines set by the top leadership around the president.

During the early 1990s, in general a very cautious, if not hesitant approach prevailed. Increasing donor pressure, however, led to a more active attitude among key Egyptian politicians in the mid-1990s. While still trying to delay, water down or obstruct such reforms which could undermine the political stability of the regime, other, less dangerous measures demanded by the external agencies had been implemented, if also in an unsystematic and sometimes contradictory way.

Finally, in the second half of the 1990s, due to a massive forgiveness and restructuring of the external debts, Egypt's macroeconomic stability seemed to have been restored, and the country possessed substantial foreign currency reserves (Weiss, Wurzel 1998). With the final debt write-off under the Ghanzouri cabinet (1996-1999), the donors and creditors had lost the leverage to pressure the Egyptian side to continue with the reform programme. The US government, throughout the whole period, had repeatedly intervened to soften the conditionality that was part of the reform agreement in order to allow the regime to abstain from steps that could seriously undermine its stability. However, with the last debt forgiveness, the regime felt confident enough to freeze the remaining economic reform activities, including key elements of the SSAP.

The following years under the Ebeid cabinet (1999-2004) not only saw a recurrence of earlier macroeconomic problems and a substantial crisis of the domestic economy, but a general stagnation in terms of economic policy. Public discontent with the handling of economic affairs by the government, as well as increasing unemployment, poverty and social problems led to the removal of the unpopular prime minister.

With the appointment of Prime Minister Nazif in mid-2004, a cabinet was put together that soon was called "a team of young reformers". Headed by former university professor and telecommunication minister Nazif who enjoyed a reputation of being hard-working and integer, some well-known businessmen together with a couple of neo-liberal intellectuals such as Yussuf Boutros Ghali, came to office.

But, the "young reformers" were neither really young nor radically reformist. Minister of investment Mahmoud Muhieddin, for example, just a few years ago had aggressively pressured the Paris-based OECD Development Centre not to publish a book on the current Egyptian reform process. The OECD publication, among others, dealt critically with the lack of substantial structural change as well as with the Egyptian regime's deliberate strategies to manipulate the perception of the international community concerning its reform activities – intended to compensate for missing reform progress.¹ Nevertheless, the new ministers promised to dramatically break with the past and presented themselves as energetic change agents which would revive the stagnant reform process in order to transform Egypt into a functioning market economy.

¹ This included the release of falsified data, misleading announcements never meant to be implemented by the government as well as outright disinformation and cheating regarding the progress of major reform components (see Weiss, Wurzel 1998 and Wurzel 2000).

And, indeed, only a few weeks after they had been appointed, the so-called “young reformers” announced a number of reform steps with high symbolic value. The international community, once more, applauded. The observers obviously didn’t recall that, according to the original reform schedules of the early 1990s, most of the newly-announced measures should have been implemented already years ago² – in the case of Ghali and Muhieddin by the very same individuals which now claimed to be the first and only serious reformers in the country.

However, three years after the Nazif government had been formed and more than fifteen years after the launch of the SSAP, the tack record does by no means look bright: Egypt continues to struggle with increasing unemployment and a widening gap to other developing countries in terms of investment, productivity and competitiveness. Prevailing distortions of the economic structures trigger the periodic recurrence of severe macroeconomic problems. Economic hardship and social problems, together with the denial of the most basic rights of political participation, have lead to an enormous level of frustration and hopelessness among bigger parts of the population. Egypt’s infrastructure continues to deteriorate, as does the environmental situation. And, while spokesmen of the regime do not get tired of presenting evidence for the success of the government’s economic policy, the publication of fabricated economic data still is an every-day element of the regime’s propaganda.

3 Did the Reforms Fundamentally Change the Economic System?

3.1 Economic Change in an Authoritarian System – Criteria and Perceptions

Egypt’s politico-economic system that produced the economic crisis of the late 1980s has been conceptualised as a *rentier system* – the combination of an *authoritarian regime* whose political power is based on the monopolisation of economic and political rent income and a *national economy* in which economic activities to a large extend are either rent-based or rent-oriented. Massive direct and indirect control of the economy by the regime has been one of the foundations of its political survival (Wurzel 2000, 2004). The major criteria for an assessment whether the economic changes since the early 1990s lead to a fundamental altering of these politico-economic structures, therefore, is, in how far the measures transformed the regime-controlled *rentier economy* into a kind of a liberal, efficiently regulated *market economy*.

While there has been only very limited change in the political system, if at all³, one cannot deny that throughout the last fifteen years some remarkable developments occurred in the Egyptian economy. However, looking at the representations concerning the nature of economic change in Egypt throughout this period, one finds a surprisingly wide spectrum.

² See, among others, IMF/ARE 1996.

³ Some observers see a “softening” of authoritarianism in some areas (e.g. the recent more liberal use of the press law and the licensing of new newspapers, possibly to be instrumentalised against the growing dominance of the Islamist discourse among bigger parts of the population), while on other domestic policy fronts the regime gets more oppressive every day. For more detailed accounts see Kienle 2001, Fahmi 2002, Kassem 2004.

(1) *Ups and downs in a slow but continued reform process*: At the one end of the spectrum, the observer is presented an account of events that centres around the idea that there were quite successful reforms in the early to mid-1990s, interrupted only by a “somewhat quieter period” (or: “a stagnation of the reforms”) under the late Ghazali and Ebeid governments, and then followed again by a new, successful period of thoroughgoing reforms since 2004.

(2) *“Guns and money”*: At the other end of the spectrum, analysts and commentators paint a rather bleak picture. The “old” ruling elites, i.e. the military-bureaucratic class that emerged after the *Free Officers* coup, now merge with a “new” class of parasitic business tycoons they themselves created, just to continue the exploitation of the country’s resources for the stabilisation of their regime and for personal self-enrichment. Extreme versions of this assessment include the perception that this newly formed elite in its obsession with power and money would even accept the conscious (further) destruction of the country’s major assets such as human capital (the people), the infrastructure, the environment, Egypt’s regional and international standing, etc.

(3) *“Just another transition country”*: Some Egyptian and foreign economists, often with close links to the IFIs, conceptualise Egypt as a normal transition country. They may differ in the degree to which they see particular challenges for Egypt’s “transition” resulting from specific structural features of the Egyptian politico-economic system. Some even expect less dramatic risks for and negative consequences of the Egyptian transition process than had been experienced in the CEEC and FSU – mainly because the socialist central-planning system was never completely established in Egypt. For those observers, scenarios of major economic and social problems in the years to come are unrealistic.

(4) *Impressive progress so far, but huge risks for the continuation of the reforms ahead*: Others share the perception that the country makes important progress in reforming the economic structures, but still see a number of major risks that could slow down or bring to a standstill the reform activities. Critical issues mentioned are a potential lack of support of the President for further (and politically more costly) reform steps, an increase of the already pressing social problems and related expressions of discontent among wider segments of the population or unforeseen changes in the general political attitude of the highest decision-makers after Mubarak’s succession.⁴

(5) *Disillusionment among Egyptian liberals*: Many Egyptian observers with liberal and radically liberal backgrounds had very high expectations when the so-called “young reformers”

⁴ Among those observers who are aware of some major challenges that could lead to a termination or even reversal of the process of economic restructuring, there exist different perceptions concerning the *time left* to achieve a major structural “turnaround” in the Egyptian economy: For some analysts, the current reform attempt marks “the last chance” to catch-up with other developing countries trying to position themselves successfully in the global economy – with the related hardships for the most vulnerable segments of the population potentially softened by government resources available due to high oil- and gas-related revenues, including record Suez Canal fees. For others, Egypt’s historical experience suggests that major political problems resulting from the lack of political participation and from economic and social misery are *not* to be expected – “as long as cheap bread will be available for the poor”. Obviously, those observers take for granted the suppressive power of the state security apparatus as well as the political apathy of the majority of the population (and the related impossibility of large-scale political mobilisation against the regime). Indeed, the “collapse” of the Egyptian state, economy and society has been predicted in more or less explicit terms ever since development and area studies turned their attention to the country on the Nile.

took office in 2004. However, three years later, many of them openly express their dissatisfaction and frustration with the results so far. Major complaints include the absence of a level playing field for entrepreneurial activities in the country as well as the obvious lack of vision and plans, not even to speak of consistent strategies, to fundamentally restructure the economy. Businesspeople, in some areas, even see trends of worsening framework conditions, e.g. a further concentration of economic power, increased obstacles for the establishment of a functioning market economy and the like.

The different, in many respects contradictory perceptions of the nature of economic change in Egypt – complemented by the aggressive attempts of the government to present an image of successful reforms – also leads to widely differing conclusions concerning the potential outcomes of the measures implemented so far. The government, for example, claims that a recent increase in FDI is the direct outcome of the creation of an investor-friendly business environment. Other observers, by contrast, simply attribute the massive inflow of capital to Egypt to the abundance of oil revenues in some oil rich Gulf countries, together with difficulties of Arab investors to invest in Western Europe or the USA. Further, while some observers see Gulf investment in Egypt just feeding speculative bubbles with potentially destructive mid-term consequences, others see a positive long-term growth effect resulting from this kind of FDI.

3.2 Have the Structures of Domination and Control Changed?

Whatever the assessment of the changes since 1990/91 and/or since 2004 is – most analysts share the perspective that some important changes of Egypt's political economy in fact have been taking place. The question, however, is, whether these changes had any fundamental impact on the economic core structures of Egypt's system of authoritarianism. Did the reform steps really change the basic rules and the functional mechanism of the economic system? Did the heavy-handed regime control of the economy and the monopolization of economic power decrease in practice?

3.2.1 Framework Conditions for Firms: Still, A Regime-Dominated and Distorted Business Environment

3.2.1.1 Regulation and Institutions

Some progress in terms of streamlining the legal and institutional environment has been taking place during the last fifteen years. As with many other of the so-called reform activities, major changes fall in the period of the early to mid-1990s and the period since 2004. Among the more important changes of the earlier period are the privatisation-related legal changes and the new banking law of the early 1990s as well as some trade liberalisation measures and the numerous (but rather unsystematic) changes in the system of administrated prices and subsidies (Weiss, Wurzel 1998). More recent changes include, for example, tax laws, customs, the labour code and anti-trust regulation.

However, in an environment in which the law is not really enforced due to weakness of the judiciary and where powerful players always find ways to circumvent rules and regulations, the formal modernisation and adjustment of the legal and institutional environment is only a

necessary but not a sufficient step. Still, the regime is in a position to manipulate the firms' business environment in ways that benefit its representatives and the top leadership's business cronies.

3.2.1.2 Competition

As for the area of competition, a complex picture emerges. It is true that there has been a continued process of trade liberalisation that, according to mainstream theory, should more or less automatically lead to more competitive pressure in the local market. However, the Egyptian state has a long tradition of granting import licenses to certain businessmen in order to distribute privilege. As a result, most imports have been organised in monopolistic or oligopolistic ways. Many import activities have been controlled by a small number of powerful and well-connected businessmen. For example, the entrepreneurs who import cars (with now somewhat reduced but still rather high import tariffs) usually are the same who also locally assemble cars from imported knocked-down kits (CDKs) of the major components and a few locally produced inputs. Formal trade liberalisation, in such an environment, does not necessarily mean that competition in the local markets increases. On the contrary, there are many reports that a limited number of powerful players increasingly oligopolise or monopolise lucrative import businesses and systematically drive out smaller players.

At the same time, smaller and medium-sized businesses complain about increased competition, mainly from Chinese and other Asian producers. There are substantial fears that the aggressive export strategies of Asian competitors sooner or later may lead to the collapse of whole branches of Egypt's industry – from traditional production such as textiles in the Delta to more advanced operations such as the production of automotive components in the new industrial towns (author interviews with businessmen and industrial analysts, April/May 2007).⁵ The entrepreneurs' complaints about cheap imports suggest that trade liberalisation, at least in some market segments, leads to increased competition, indeed. However, the newly emerging competitive pressure is unequally distributed among different segments of the business community. The bigger and well-connected players have a much higher leverage for their lobbying attempts intended to keep up the old and erect new barriers for external competition. And still, there is no effective enforcement of anti-trust regulations. Important provisions are formulated in very general, unspecific terms, including the paragraphs on the amounts to be paid as fines by firms found guilty of employing illegal practices and the criteria to be used to define the fines.

3.2.1.3 Bureaucracy and Corruption

The numerous corruption scandals uncovered by Egyptian journalists and the judiciary during the last decades usually do not only involve minor, but high-level administrators and relatives of office holders in the highest echelons of the state apparatus (among others, see Kifaya 2006).⁶ These cases highlight how rotten the overall system of state and administrative struc-

⁵ While a pair of Egyptian cotton jeans in spring 2007 sold for 70 to 80 Egyptian Pounds (LE) in the local markets, imported Chinese jeans of the same quality were available for 20 to 25 LE. Chinese spare parts for cars, including coachwork and car body sheets (which have relatively high weight and thus lead to considerable transport costs), undercut prices of automotive parts producers in the industrial zone of Burg Al-Arab Al-Gadida near Alexandria by 40 per cent.

2006).⁶ These cases highlight how rotten the overall system of state and administrative structures is and that little has been changed since the beginning of the reforms. Neither did the series of so-called anti-corruption and clean-up operations of the recent years fundamentally alter the situation. Such activities rather seem to have been elegant ways to replace members of old networks, whose power and influences has been decreasing, by members of competing power centres with more leeway and better links.⁷

Also a number of legal and institutional changes, e.g. in areas such as corporate taxation, customs and the investment authority GAFI, were said to be aimed at combating red tape and corruption, among others. In particular the “young reformers” have been celebrating themselves continuously for the alleged success of these well-publicised measures. However, the measures to scale down bureaucracy and corruption are rather limited compared to what seems to be necessary. Further, the benefits primarily reach big businessmen who need them the least as they always have been able to negotiate special arrangements with the authorities. Egyptian entrepreneurs as well as development agencies, foreign trade missions and chambers of commerce and industry complain that there is still very little change on the ground. For example, Egyptian and foreign exporters and importers still describe the customs officers as corrupt and heavy-handed. According to their experience, customs procedures can still be instrumentalised by those who pay more against potential new market entrants.⁸ The special organisational units established to deal with “big tax payers” in the wake of the highly-celebrated tax reforms of 2007 could also imply that wealthy and well-connected business-people receive special treatment.

3.2.1.4 Credit and Finance

(1) *Unequal and Limited Access to Credit and Financial Services*: In Egypt, a major problem always has been the distorted way in which loans and credits have been handed out to the business community. On the one hand, there was nearly no access of smaller and medium-sized enterprises to credit – if not privileged through networks of patronage, clientelism or corruption. On the other hand, a small number of bigger and well-connected businessmen received credits worth billions of dollars from the Egyptian state banks, often without providing feasibility studies for their projects or sufficient guarantees and collateral. Major scandals which resulted from this practice erupted throughout the mid- to late 1990s, at a time that allegedly was a period of successful economic reforms. In those rare cases when minor players received loans, often the borrowing conditions (interest rates, grace periods and collateral) differed strongly from the conditions the regime’s business cronies would enjoy.

⁶ “Egypt has been ranked 63rd out of 99 countries in the 1999 corruption perceptions index (CPI), which is issued annually by the Berlin-based NGO Transparency International. Egypt, with a score of 3.3, is on a par with Bulgaria, Ghana, Macedonia and Romania. It just beats Guatemala and Thailand, but is ranked below Belarus, China, Latvia, Mexico and Senegal. Of Egypt’s regional rivals for investment, Tunisia is ranked 34th, Jordan 41st, Morocco 45th and Turkey 54th.” (EIU 2000, p. 24) The CPI of 2007 puts Egypt on rank 105 out of 179 (with rank 179 given to the sample’s most corrupt country).

⁷ For example, a whole number of well-known and formerly influential directors, editors in chief, etc. in the state media has been removed from their positions in 2005/06, often accompanied by corruption allegations. The major purpose of this “clean hands campaign” obviously has been to clear the way for the protégés of Gamal Mubarak and his friends.

⁸ According to some observers, the only effective change resulting from the streamlining of the customs authorities is that “now businesspeople better know whom to bribe.” (Author interviews Cairo, May 2007).

The government's latest, well-publicised reform activity with this regard has been the attempt to restructure the financial sector, including the country's banking system. This is, in any case, an area where change is urgently necessary. So far, banking regulations have been strengthened, oversight bodies seem to have become somewhat more active and a number of smaller banks which were unable to cope with the newly imposed requirements were merged or ceased operation at all. The changes also seemed to have led to some more transparency concerning the banking sector and the involvement of the state in it.

However, in how far the measures improved the conditions for the average Egyptian business firm, remains to be seen. According to Egyptian businesspeople and analysts, there still is only very restricted access to credit. After the financial irregularities of the 1990s and some new scandals discovered recently, it seems to be even more problematic for the ordinary Egyptian businessman to get a loan. Credit, the lifeblood of the modern market economy, still seems to be very limited.⁹

(2) *Privatisation of SOE Banks and JVBs – More Transparency or Additional Corruption?* Part and parcel of the latest banking sector reform attempt is the privatisation of one of the four big state banks (Bank of Alexandria) and the ongoing process of divestiture of former government shares in joint venture banks (JVBs).¹⁰ However, also with this regard, some high profile members of the “reform cabinet” as well as other individuals linked to the regime recently have been accused of major corruption and self-enrichment, e.g. through insider deals.

(3) *The Stock Exchange: Continued Lack of Transparency and Rip-off of Small Investors:* Ever since the Cairo Stock Exchange has been revived in the 1990s, financial analysts, Egyptian small and foreign portfolio investors as well as policy advisors and donor organisations have been complaining about wide-spread irregularities at the exchange (Wurzel 2000, pp. 216 ff.). According to Egyptian businessmen, fifteen years after the World Bank's and the IMF's SSAP was started and nearly four years after the “young reformers” took over, the stock exchange – one of the major institutions of corporate capitalism – still has the image of being corrupted and manipulated in the interest of a few well-connected players (author interviews Cairo 2007).

3.2.2 *The Regime's Continued Control of the Economy – Direct and Indirect Forms*

3.2.2.1 Direct and Indirect Domination through Ownership and Networks

As said above, the major criterion for an assessment whether the economic changes since the early 1990s led to a fundamental altering of the politico-economic structures is in how far the measures have transformed the regime-controlled rentier economy into a kind of a liberal, efficiently regulated market economy. This criterion, first of all, touches the issue of control – the ability of the regime to regulate, manipulate and shape the economy. It touches the re-

⁹ In some areas, the attempts to strengthen rules and regulations and to enforce the law even lead to additional restrictions. For example, the well-intentioned attempt to prevent individuals and firms from issuing non-covered cheques by imposing higher penalties (including imprisonment) recently lead to a situation in which businessmen consider transactions with cheques as a too risky method of financial payment in the Egyptian environment – and abstain from it at all. This does, of course, imply additional transaction costs for the individual businessman as well as for the economy at large.

¹⁰ According to the initial reform agreements of the Egyptian regime and the Washington institutions, these reform steps should have been finalised already in the mid-1990s.

gime's ability to interfere in economic activities in ways benefiting the established system of power and the vested interests of members of the regime and their clientele.

(1) Since the early 1990s, the continuous change in the composition of the regime's domestic power base that already began under Sadat in the 1970s went on – culminating for the first time ever in the appointment of a whole number influential businessmen as cabinet ministers in 2004. The increasing role of business circles as active supporters of the regime has been paralleled by a process of an accelerated merger of the former military-bureaucratic and technocratic elite (the rentier regime's "state class", see Elsenhans 1981) with the newly emerging class of big private businessmen nurtured by the regime in the 1980s and 1990s. This process of the merger of "guns and money" takes forms such as the inter-marriage of families of higher-ranking members of the regime with business families, the increasing tendency of sons and daughters of the state class to enter business, high-ranking members of the state class turning into businessmen themselves and – the other way around – the appointment, for example, of one of the biggest automotive importers and assemblers as the minister of transport, one of the biggest hoteliers as the minister of tourism, and so forth.

(2) The government's economic leverage till the mid- to late 1990s was the public sector – including, first of all, state-owned business enterprises (SOEs) and state banks. After there had been some limited privatisation process during the mid-1990s (Wurzel 2000), the government recently began a new round of SOE and bank privatizations. And, indeed, some major assets have been transferred to the (so-called) private sector. However, privatization "Egyptian style" in many cases led to a distribution of former state-owned assets to only a limited number of well-connected businessmen and to friends and relatives of regime members – and allegedly also to the take-over of bigger parts of attractive state assets by high-ranking regime figures themselves. As regards asset sales to foreign direct investors, such deals often have been facilitated and arranged by either the notorious business cronies of the regime or, again, by members of the "state class" directly, which often managed to secure substantial influence on the concerned businesses for the time after divestiture.¹¹

This pattern of privatization (and of providing more room for what is misleadingly called "the private sector") did not fundamentally change the forms of regulation, control and domination in Egypt. In many cases, the opposite was true: In earlier times, the regime's economic power was exerted directly through the public sector, whose laws and regulations – despite all instances of fraud and corruption – secured at least a minimum of legality and transparency. Now, this channel of influence has been complemented and often substituted by the more indirect way of regulating affairs through the networks of regime members and big business in trade, industry and finance, sometimes including foreign participation.

(3) Consequently, in Egypt an increased share of "the private sector" in GNP, employment (if any) or credit cannot be taken as a serious indicator of decreased economic power and influence of the ruling regime. In some areas, where high-ranking regime members or their relatives own substantial shares in privatized or newly established businesses, the *direct control* of the ruling elite over the economy *may even have increased* (see, e.g. Roll 2006). In general, the

¹¹ Parallels to privatization processes in Russia or Latin America during the 1990s are obvious, where government officials and a handful of the richest business families seized the majority of attractive state assets – often complemented by regulatory changes guaranteeing extraordinary profits for the new owners.

concentration of economic power in the hands of a few with close links to the ruling regime is sustained. This experience further undermines the assumption that a bigger role of “the private sector” will more or less automatically lead to the establishment of a real market system.

(4) While the regime’s control and domination of the economy has been preserved (and sometimes even extended), the *new channels of influence* such as ownership participation, networks of patronage, personal relations of actors to regime figures, etc. are *less transparent* than ever before. Through numerous instruments, the regime still makes or kills businesses and businesspeople, creates lucrative business opportunities for some while at the same time denying the most basic economic rights to others.

3.2.2.2 Liberalisation or Partial Adjustment of the Patronage System?

In recent times, some observers see a trend of economic liberalisation in the sense of an increasing role of markets in regulating economic activities. However, this is not necessarily in contradiction to what has just been presented above: During the last years, competing claims of an increasing number of networks of privilege in many instances lead to an *overburdening of the regime* as the final arbiter and power broker among these competing interests. Increasing signs of blockage and sclerosis of the overall system may have triggered the idea, that “some more market” would be necessary – if only to prevent the total standstill of the state apparatus resulting from the interference of competing networks. For example, if the lobbying of a number of powerful and well-connected networks for a major state procurement or public construction project prevents the apparatus from taking any decision at all, the established system of patronage and corruption finally undermines the very ability of the system to act.

At a certain point, rational calculations of the regime may have led to the conclusion that its capacity to accommodate all the competing claims and to arbitrate between the many networks it allowed to grow, goes beyond its already limited steering and management capacities. What *appears* as a shift towards more market regulation instead of state control may be just another measure to adjust an authoritarian regime to the circumstances given at a particular moment. How fast the situation can be turned around in favour of the state when the regime wishes to do so can currently be observed in Putin’s Russia.

3.2.3 Continued Manipulation of Economic Data

A symptom of the limited nature of both the regime’s reform attempt and the resulting outcomes is the fact, that even the current government – that, when taking office, announced with great fanfare that efficiency, rational economic policy-making and in particular transparency and honesty would be major foundations of its activities – continues the policy to manipulate economic data.

On the one hand, directly fiddled figures are released to the public. For example, figures on major macroeconomic indicators delivered to the external world such as the IMF and the World Bank often differ strongly from figures on the same indicators for the regime’s domestic use. On the other hand, with respect to other issues calculation methods are bluntly manipulated in ways intended to produce results more favourable for the regime.¹²

¹² For example, in early 2007 the leading economic analyst of the prestigious *Al-Ahram Center for Strategic and Political Studies* published an article in the *Al-Ahram* daily on how the government recently has been

Another fact that sheds some light on the seriousness of the previous reform activities is that it took Egyptian governments seventeen years from the announcement of the economic reform programme to the provision of a national budget document that, at least in principle, is following international standards to a certain degree. This means, despite more than one and a half decades of continuous IMF pressure (earlier negotiations of the regime with the IMF in the 1980s not included) the regime resisted any request to establish a minimum of transparency concerning the country's public finances. The fact that the IMF considers the recent adjustment of the budget format – still without providing full transparency – a big success, speaks for itself.

As far as the issue of the regime's control over the economy is concerned, it turns out that there was little substantial progress in the transition from a state-controlled rentier economy to a functioning market economy. The measures implemented so far did not alter the system as such, even if – in parts of the economy – the former direct control of the regime over the economy has been substituted to a certain degree by more indirect, less obvious ways of control and domination.

3.3 Redistribution – The Major Expression of the Dialectics of Stability and Change

Throughout the last decades, economic and political change in Egypt has been change “from above”. The regime-directed adjustment of the functional mechanisms of state and economy *below the level of full-fledged system transition* was intended to keep the established power system functioning. This kind of change and the interplay of stability and change so typical for the authoritarian system under Sadat and Mubarak mainly materialize in ongoing processes of redistribution in the wider sense – a re-arrangement of Egypt's authoritarian rule and the underlying resources in the face of multiple challenges.

The *contexts* in which processes of redistribution are placed and the *motivations* to engineer redistribution activities are manifold: To a certain degree, in particular in the early stages of the so-called reform programme, instances of redistribution often have been nothing more than the limited and partially unintended side effect of some of the measures being implemented by the Egyptian government due to donor pressure.¹³ But, to a wide extent, redistribution has been part of the deliberate strategy of the regime to grant privileges to selected businessmen in order to buy domestic policy support. This was accompanied by giving the respective business tycoons more room in public discourse and a bigger role in the society in general. Further, the recently accelerated merger of the rentier regime's “state class” with the

systematically falsifying economic figures released to the public. Among others, the official unemployment ratio for 2006 was calculated by using the same number of employable Egyptians as in 2005 as the denominator – ignoring the fact that in the meantime about 600,000 to 800,000 new entrants in the labour market were joining those already looking for a job.

¹³ One example is the partial privatisation of SOEs and other state assets in the mid-1990s. Such regime-controlled processes of redistribution under donor pressure often included individual, corrupt activities of members of the state class as well as deliberate, well-prepared strategies of networks in order to provide their members with the economic means necessary to secure income and status also for the time after the expected dismantling of the state sector with all its lucrative niches (for details on Egypt's privatisation and the related processes of semi- and illegal self-enrichment see Wurzel 2000 and 2004).

new class of big businessmen – the merger of “guns and money” – naturally includes all kind of redistribution processes mentioned above.

However, the outbreak of an unprecedented wave of wildcat strikes in Egypt’s industrial centers in late 2006 and early 2007 indicates that there are limits to a redistribution policy favouring only small privileged segments of the society. Even permanent skilled workers in the still relatively protected state-owned textile complex of Mahalla Al-Kubra have an income (including profit sharing, bonuses and incentives) that pushes their families under the World Bank’s lower international poverty line¹⁴, not to speak of the economic hardships experienced by the part-time workers in state factories (which are not benefiting to the same extent from profit sharing and protection) or their colleagues in the informal sector. Against this backdrop more – and more radical – protest of the increasingly marginalised parts of the population against the government’s economic and social policy is to be expected.

3.3.1 *The Redistribution of Definition and Decision-Making Power*

The re-distribution of *definition power*, among others, concerns the ability to formulate broader visions for the development of society and economy at large, to identify relevant problems and to formulate priorities for action. It further includes to give interpretations of events, which are imposed on the rest of the society, and to derive consequences for policy-makers in the public discourse (i.e., to prescribe appropriate action in the form of policies, strategies, programmes and measures).¹⁵ In this regard, a clear shift away from Egypt’s earlier populist discourse can be observed. Thirty years of Mubarak’s rule and nearly twenty years of talk on economic reforms, together with more recent changes in the country’s media landscape, provide the framework for a sea change in economic debates as well as the representation of economic issues in the public. With the exception of some leftist and Nasserist newspapers, advocates of “the market” and entrepreneurship dominate the scene.¹⁶ In particular the new, privately run and financed newspapers, TV channels and radio stations seem to have changed the way public debate is presented and public opinion is influenced in Egypt – despite the fact that most of these ventures are backed and financed by well-known business cronies of the regime.¹⁷ The new private media even seem to have succeeded in something that the state media apparatus couldn’t achieve throughout the last two decades: to regain space in the public discourse from Islamist voices.

The re-distribution of *decision-making power* concerns the ability to propose and push through decisions on all relevant levels of policy-making – from general decisions on the fundamental features of the system of state and society and basic principles for steering and managing public affairs (including the economy) down to specific policy measures to be

¹⁴ For more details on the income situation of Egypt’s textile workers see Beinin, Al-Hamalawy 2007a.

¹⁵ Implicitly, all this also results in the ability to devalue and de-legitimise the perception, world view, problem definitions and demands of other actors in the society which, due to their limited capabilities and leverage, don’t have the same definition power.

¹⁶ Egypt’s press, not only among the rank and file, had traditionally been leftist and/or Islamist. However, a big “clean-up” initiated by the “young reformers” helped to put individuals into influential positions which are close to the current government members.

¹⁷ The newspaper *Misr al-Youm*, for example, soon after its foundation turned out to be the best read daily besides the semi-official *Al-Ahram*, despite the fact that it can be considered as being a “crony paper” with Salah Diab of *PICO Group* said to be the key investor.

implemented in particular circumstances (e.g. the timing, speed and extent of privatisation activities). Other issues are the different actors' influence on legislation (e.g. tax laws, labour code) and other forms of regulation, on foreign economic relations as well as on the concrete framework conditions for the behaviour of microeconomic actors (entrepreneurs, workers) or their representative bodies, etc.¹⁸

There is no clearer sign for the redistribution of decision-making power in favour of the regime's business elite than the fact that current cabinet members have been recruited among well-known businessmen, most of them directly linked to Gamal Mubarak. In recent years, business circles complement the members of the traditional, military-technocratic state class in high-profile positions also in parliament, parliamentary committees and the ruling party's special committees – on the account of what has been officially called “workers” or “peasants” earlier serving in these various functions. Despite the fact that the most important policy-decisions are still made directly by the top leadership (Mubarak and his aides), this again expresses the changing composition of the regime's domestic power base as well as the merger of the old state class with the new money. Businesspeople, possibly for the first time since the era of King Faruk, now have direct influence on legislation and the implementation of the respective decisions.

Further, with the advent of the “young reformers” as Gamal Mubarak's men in the cabinet, also those organisations that have been well-connected to the president's son – such as the *American Chamber of Commerce in Egypt (AmCham)* – seem to have a stronger, sometimes very direct influence on the country's economic affairs. Political and economic analysts in Cairo stress that the drafts of some of the recent “reform laws” have been provided directly by *AmCham*, for example for the new tax and competition laws.¹⁹ Gamal Mubarak and some of the ministers frequently visit the US, including meetings at the *White House*, indicating that US influence on economic policy-making nowadays can be expected to be much stronger than in earlier periods.²⁰

The respective re-distribution of definition power, of decision-making power and of assets (see below) comes along with the *construction and re-construction of ideologies, visions, discourse, meaning, concepts and terms* by the most influential actors in ways compatible with their interests. Among others, this includes the construction of a couple of overly positive – if not the false – images. Examples are the images of a “clean” (corruption-free) and efficient government of experts, of the alleged success of the “economic reforms” (including fiddling the figures), or of the Egyptian regime as the leadership of a country that still matters internationally in economic, political, military or cultural affairs. At the same time, the previous negative images of big businessmen – perceived as corrupt individuals and thieves by a ma-

¹⁸ The re-distribution of decision-making power affects the established patterns of communication, cooperation and conflict within the ruling elite, but also the relations between the ruling elites and other groups of social actors (e.g. independent entrepreneurs, journalists, intelligentsia, etc.).

¹⁹ At the same time, organisations such as *AmCham* provide also other kinds of support to Gamal Mubarak and his friends in the cabinet. As one observer put it: “*AmCham* makes Gamal and his guys in the cabinet look good”.

²⁰ Confronted with the choice to keep up the pressure on the Egyptian regime to continue with neo-liberal reforms and to potentially risk the regime's stability or to allow the regime to fall back behind the reform agreements with the IFIs, all US governments opted for a postponement of reform steps and the softening of the respective conditionality through US influence on the World Bank, the IMF, etc.

majority of the population – or of “the market” – widely perceived as the sphere of exploitation of ordinary people by ruthless businessmen – is going to be “corrected” (e.g. the “market” is now presented as the institution that has the ability to solve major social problems).²¹

3.3.2 *The Redistribution of Assets – Means of Production and Means of Accumulation*

3.3.2.1 Dimensions of Change in Asset Distribution

The re-distribution of assets can involve changes in the relative importance of the *public versus the private sector* in the economy or concerning the role of *domestic versus foreign capital*. Further, it can imply changes of the economic weight of the *businessmen loyal to the rulers* – trying to preserve the special arrangements benefiting them – *vis-à-vis new, independent entrepreneurs* pushing for a more level playing field. But, such re-distribution of means of accumulation can also be limited to a simple *re-arrangement* among different networks of state officials and their business friends, i.e. changes of the balance of power *within* the established politico-economic *elite* (Heydemann 2004).

(1) The Relative Importance of the Public versus the Private Sector in the Economy

The Emergence of a New Egyptian Private Sector ...

Since the times of Sadat, the balance between the public and the private sector has been gradually changing in favour of the latter. But, after Sadat’s initial moves to open the economy to private Egyptian investors, this process was rather slow and limited to certain areas of economic activities. With a few exceptions, no large-scale investment in industrial production took place until the late 1980s/early 1990s. Only with the emergence of the so-called *New communities* – desert cities built in order to relocate substantial parts of the population and industry from Cairo and the Nile Valley to the vast and economically unutilised desert areas – a new kind of modern private industrial production came into being. Albeit the objective of transferring millions of Egyptians to the desert communities and, thus, establishing in the new towns a “new face of Egypt” has been less successful, the industrial districts of some of the new towns experienced a real boom (Knaupe, Wurzel 1994 and 1995, Wurzel, Knaupe 1996). For the first time ever since Nasser’s nationalisations, private industries began to play a bigger role in the economy.

A major factor of success were the close links of many of the new private businessmen to regime figures. The vast networks of patronage and privilege linking-up the regime and selected entrepreneurs date back to the times of Sadat. However, only in the late 1980s and 1990s, with the availability of new forms of economic “incentives” and of nearly unlimited credit, ordered by the regime and provided by the state banks, substantial investment *in production* began to take-off.²² But this investment boom has also been supported strongly by generous tax holidays for up to fifteen years, the provision of cheap land to investors (usually equipped

²¹ A bigger role of particular segments of the society as power base of the authoritarian regime implies the *marginalisation of other actors* in terms of *definition and decision-making power*. The de-legitimation of claims from the lower strata that the state has a responsibility *vis-à-vis* the citizens in the public discourse illustrates this also for the Egyptian case.

²² Not very surprisingly, the period of the 1990s also is the period for which numerous cases of corruption and fraud concerning loan and credit have been uncovered and, sometimes, dealt with in court (see Kifaya 2006).

with basic infrastructure) and somewhat less cumbersome bureaucratic procedures for start-ups in the new communities compared to the usual Egyptian standards. Public funds have been redirected from improving the living conditions of Egypt's lower strata through public housing or infrastructure projects towards subsidizing the profits of private sector businessmen (and increasingly so also in real estate). Often, the success of the new private industrial enterprises was also related to close interaction with the public sector – usually resulting in extraordinary advantages for the private firms on the account of the public ones.

At the same time, the opportunities for well-placed business tycoons to make money generally grew also as a result of changes in regulation. Areas which had been opened up for private sector participation, among others, have been the telecommunication sector, including TV channels, BOOT (build, own, operate, transfer) infrastructure facilities such as airports, ports and power plants, the cement industry as well as land reclamation and development. Further, private companies were allowed to deal in public sector imports – an indication of the rearrangement of the traditional relationships between public and private sector activities in Egypt, again to the benefit of the latter.

... But Continued Public Sector Domination in Industry

At the beginning of the 1990s, Egypt's state-owned enterprises (SOEs) still produced roughly 75% of the overall industrial value added (World Bank 1992). The World Bank and the IMF insisted on a large-scale privatisation programme that should have been one of the cornerstones of the SSAP package. However, when it became clear to the top leadership that a privatization of the public sector could potentially undermine the regime's stability, Egypt's political leaders opted for a postponement if not denial of important privatization steps. In dealing with the external donors and creditors, this decision was disguised by a surprisingly effective 'reforms-just-for-show' strategy. For about a decade, the Egyptian government successfully prevented the comprehensive privatization and kept its direct controls over major parts of the country's economy.²³ In cases where the formal divestiture of some major SOEs – due to external donor pressure – could not be blocked, various tactics enabled the regime to keep bigger parts of the assets under the control of the public sector (for details see Wurzel 2000 and 2004). At the end of the 1990s, Egypt's privatization stagnated; in February 2002 the Egyptian government officially announced that no further privatization steps would be implemented. Egypt's privatization programme, therefore, has not resulted in a substantial change in the balance between the public and the private manufacturing sector. For industry, Sines still calculated in 1998 a share of the public sector of 68.5% of the value added (compared to 75% in 1992) and of 74.4% of employment in larger enterprises (Sines 1998, p. 93).

With a new round of privatizations since about 2004 and ongoing investment of the Egyptian private sector as well as of foreign investors, the public-private sector balance seems to have changed in recent years. However, public sector companies, too, sometimes heavily invest in

²³ The 'reforms-just-for show' strategy of the Egyptian regime thus had turned out to be very successful in terms of generating additional external rent transfers which helped the government to stabilize the economic situation of the country and to maintain its political rule in the short term. The state still was in a position to appropriate internal and international economic rents and managed to open up new sources of external politically motivated rent income such as debt forgiveness and new financial transfers. Besides the privatization program this also applies to the struggle over the devaluation of the Egyptian Pound, to trade liberalization as well as other economic policy areas (Weiss, Wurzel 1998).

new projects, not to mention the expanding activities of the huge military-industrial complex. While the major concern of the regime during the 1990s has been the prevention of large-scale SOE divestiture, the cabinet of the “young reformers” seems to be interested in maximizing privatization revenue as a way of covering the increasing fiscal deficit – while any privatization process offers numerous opportunities for semi- or illegal self-enrichment of involved bureaucrats and politicians.

The question, however, is how “private” the private sector in Egypt really is. As shown above (see 3.2.2.1), the formal distinction between the “public” and the “private” business sector doesn’t tell too much about control and domination and about the extent of market relations and competition in the Egyptian economy. The economic reforms implemented so far may have changed the balance between what is called the “private sector” and the public sector as the part of the economy that is directly controlled by the state – but, a fundamental transition of the rentier system towards a functioning, liberal market economy has not taken place.

(2) Does Foreign Direct Investment Contribute to Structural Change?

The Egyptian government is regularly publishing data on the foreign direct investment (FDI) the country receives. Increasing FDI figures, on the one hand, are presented as proof for the success of the government’s economic policies. On the other hand, high and increased FDI is referred to whenever supporters of the regime claim that the economic reforms under way would lead to real structural change. The main argument is that FDI leads to stronger competition and that foreign investors will not behave according to the rules of “the old system”. In other words, increasing FDI is presented both as a result of successful economic reforms and as an additional driver for the continued structural change the so-called reforms are allegedly designed for.

However, the patterns of FDI so far do not suggest that foreign investors will substantially contribute to the establishment of new “rules of the game” and/or a markedly higher level of international competitiveness. First, the total inflow of FDI is still limited compared to the size of the overall economy and to FDI in other developing countries. In other words, just for the small volume of FDI, potential positive effects on business climate and business culture in Egypt seem to be rather limited.

Second, the sources of FDI as well as the industries where the investment goes to, do not suggest that there will be too much positive change, either. Investment in modern production for international markets makes up a very small fraction of overall FDI. The bulk of investment still goes to the rent-generating oil and gas sector that has little backward and forward linkages. By their very nature, such FDI will reinforce – and not undermine! – the rentier pattern of revenue generation in the country.²⁴

Other major investment seems to be concentrated in real state, construction and tourism development. These industries in general don’t seem to have the potential for kicking-off substantial structural change in a rentier economy. Investment in these areas is further contributing to the established ways of making easy money without too much investment in productivity, technology and innovation. Further, licensing processes for new tourism devel-

²⁴ Worldwide, oil and gas traditionally have been areas in which instances of in-transparency and corruption involving representatives of the respective governments have been frequent.

opment zones and the allocation of land for new projects are activities constantly linked to allegations of corruption, violations of the law, favouritism, nepotism, etc.²⁵ The real estate and construction business in Egypt has been characterised by speculation ever since Sadat had opened the field for private sector participation in the 1970s. Egyptian industry insiders already admit that the large local and foreign investment in real estate and the resulting construction boom have produced a bubble that can be expected to explode rather soon – with potentially devastating consequences for the local economy. In addition, resulting from the high oil prices of the last couple of years, bigger parts of FDI come from oil rich Arab countries at the Gulf – economies not particularly well-known as transparent, liberal market systems either.²⁶

FDI from the Gulf also seems to play a certain role in the renewed privatisation attempts of the government. But, also in this context, it is doubtful to which degree the current forms of FDI could have the potential to change the established pattern of the rentier system.²⁷ As has been observed in Egypt throughout the 1990s, privatisation-related FDI does not necessarily change the economic structures in a way that would transform the rentier economy into a market economy (Wurzel 2000). And, again, privatisation processes – if improperly designed, implemented and monitored – are an ideal breeding ground for all sorts of corruption, fraud and other illegal practices, thus achieving the *opposite* of what has been declared the official privatisation objectives. Recent allegations of manipulation, corruption and self-enrichment on the side of both government figures and potential investors cast some doubts concerning the assumption that higher foreign investment can move the country's economy closer to the market model.

(3) The Rulers' Business Cronies vis-à-vis the Role of Independent Entrepreneurs – Any Change Concerning Economic and Political Importance?

Redistribution processes could scale down the relative economic importance of businessmen loyal to and depending on the regime as compared to the role of other, more independent businessmen. Quite naturally, the well-established and privileged business circles with their strong links to the politically powerful will try to preserve the special arrangements benefiting them. At the same time, less well-connected, newly-emerging entrepreneurs could be expected to push for substantial reforms. This, finally, could have a positive impact in terms of the transition of the Egyptian rentier system towards a market economy.

²⁵ Despite some important backward-linkages, tourism in Egypt is not an industry that may produce a strong pressure on the rest of the economy to upgrade and modernise in order to stand global competition. Egypt's tourism in particular is characterised by some "rentier features" such as the exploitation of the country's unique archaeological heritage and the climatic and locational conditions, which allow Red Sea tourism to flourish despite the low level of services as compared to international standards.

²⁶ With increasing restrictions for "Arab" or "Islamic" investment in the West after 9/11, owners of huge funds in the Gulf are desperately looking for investment opportunities in other regions.

²⁷ FDI that is related to the privatisation process, first of all, is generating additional revenue for the (rentier) state. However, positive effects could be the upgrading and modernisation of the business firms acquired as well as their expansion and growth after a successful turnaround. Further, privatisation as such – by kicking-of a whole number of fundamental structural changes on all levels of the overall socio-economic system – can *theoretically* push a whole national economy much closer to the model of a modern market system. This, however, would require a number of necessary framework conditions which are hardly met in today's Egypt (see Wurzel 2000, pp. 63-97 and 98-146)

However, an essential precondition for such a kind of change to take place would be the existence of a significant number of economically potent, *independent entrepreneurs*. In the Egyptian case, it turns out that such a minimum critical mass of independent businesspeople is lacking. Under the circumstances given, it seems just to be impossible for a businessman to be both economically successful and independent from the ruling regime – at least, after a certain level in the scale of the business activities has been reached. The regime is still powerful enough to destroy the business operations of any entrepreneur who is not in line with what is considered appropriate behaviour. Businesspeople of a particular size, thus, are forced to play by the rules which are defined by the regime.²⁸

Redistribution in the sense as outlined above may include certain re-arrangements of influence, leverage and economic resources among different factions and networks of state officials and their business friends – i.e. re-arrangements of privilege and economic means *within* the established elite circles. Egyptian analysts, indeed, identify several waves of the building-up and destruction (and substitution) of subsequent generations of business elites by the rulers.²⁹ The motivations for doing so seem to be rather complex – ranging from blunt politics of divide and rule, to functional calculations in terms of economic or, at times, military requirements and domestic and foreign policy needs to factors such as personal preferences, trust, affection and sympathy (author interviews Cairo, May 2007). However, there is no sign at all that this would ever have led to the emergence of a relevant number of Egyptian businessmen emancipating themselves from the all-embracing influence of the regime. The few attempts of bigger entrepreneurs to establish a certain degree of independence have been immediately punished by the regime (see, for example, Wurzel 2000, pp. 175-178).

3.3.2.2 Means and Instruments of Asset Redistribution

Since the times of Sadat, a traditional vehicle for the redistribution of economic resources towards selected businessmen has been the *interaction of private firms with public sector enterprises* (Wurzel 2000). Further, *government contracts* of all sorts regularly provide private firms with ample opportunity to get access to public money. Often, state procurement or public construction projects helped well-connected individuals to build their private business empires from scratch (see, among others, Mitchell 2002).

The same applies to numerous *monopolies* for trading or producing certain products or providing particular services in the Egyptian market granted and guaranteed by the state. A recent example is the establishment of an oligopoly of three providers (initially, of just two) in Egypt's market for mobile telephone services which, according to some sources, allowed businessmen such as the Sawirises or Nusseir to triple or quadruple their wealth within a period of less than ten years.

²⁸ Further, the economic positions built-up by businesspeople loyal to the regime in many areas are so dominant that individuals seeking to establish their own business often will depend on the explicit or implicit agreement of these well-established and well-connected businesspeople to their start-up plans. In many cases, the condition will be that the newcomers offer participation in the ventures or, right from the beginning, accept an (inferior) status as junior partners of these big shots.

²⁹ According to this perspective, since the early days of Sadat's power (and, possibly, even under Nasser), the rulers have been following a pattern of first granting economic privilege to a limited number of selected businesspeople, allowing them to grow in wealth and influence by exploiting these opportunities – and then, after a while, of getting dissatisfied with their partners, withdrawing their earlier support, and, finally, replacing and/or destroying them and their fortunes.

In addition, during the 1980s, but in particular in the 1990s, *loans and credits handed out by state banks to private businesses* – often after direct intervention from high-ranking regime figures – turned into to be a major source of asset accumulation and personal enrichment of selected businessmen.³⁰

The complex system of *tariffs and non-tariff import restrictions* that is linked to the monopoly issue just mentioned, serves as another instrument for the transfer of economic wealth from bigger parts of the population to a number of privileged businessmen. High import taxes for consumer goods guarantee high profits for those entrepreneurs who locally assemble the respective products and import the components with a much lower tax rate (e.g. cars or consumer electronics).³¹

With the revival of the *Egyptian stock market* in the early 1990s, another channel for redistributing wealth to a few well-placed regime members and their friends in business has been opened up. Due to weak institutions and the related lack of transparency and control, some players are in a position to manipulate the trading process in a way that leads to a massive enrichment of a small number investors on the account of the majority, in particular the small investors (Wurzel 2000, author interviews Cairo March 2004, April/May 2007).

With the recent boom in real estate speculation, tourism development and construction, a very traditional asset gained new importance as a means of wealth transfer and asset accumulation – *land*. In Egypt, the state still controls major parts of the country's land resources and the regime is in the position to allocate land as it wishes. Within the framework of the programme of the new communities, investors could purchase huge plots of land, usually equipped with basic infrastructure, for very low prices. More recently, throughout the last three to five years, land is given to Egyptian and Gulf investors for a wide spectrum of projects, ranging from the New valley land reclamation at Toshka to the establishment of gated communities for the affluent around Cairo. State land turns into an essential instrument of accumulation.³²

A less direct but nevertheless very important channel of redistribution is the *state budget*. Egypt's *fiscal policy* is characterised more and more by distributional consequences benefiting the higher income brackets on the account of the lower ones. A recent example is the modification of the income tax law that slashed corporate income tax from 40% to 20% (while the tax rate on labour income was not reduced). The excessive use of *domestic debt* as a source of budget financing has been identified as another mechanism the benefits and costs of which are distributed among the Egyptian population in a rather unbalanced way, too (Abdel-Khalek 2000).

Further, *inflation* in general is considered to be a tax on income, as wealth will be redistributed from wage earners to capital income earners. Throughout the last two decades, Egypt's inflation is lower than in previous periods. However, inflation still is an issue and has recently turned out to have the potential to become a more important one in the future again.

³⁰ It is estimated that not more than about 1,000 Egyptian businessmen received roughly one third of all public sector credits.

³¹ Example: Auto industry – components taxed 5%, cars 100%.

³² The take-over of state land by private owners sometimes even includes evictions of people living there in order to "clear" the land.

With the enlarged room for manoeuvre of what is called “the private sector”, the dramatic shortage of public funds and an increasing need to invest into the country’s deteriorating physical infrastructure, the instrument of *public private partnerships* (PPP) may gain importance. If properly designed and managed, PPPs can contribute very positively to the development of a country’s economy. However, in an environment of both corrupt and intransparent government *and* business, PPPs open the way to increased fraud and corruption, potentially adding to the massive trend of redistribution favouring the “haves” as outlined above.

Further, *corruption* in general benefits the rich and well-connected and puts a disproportional burden on the poor. Corrupt practices, in addition, often *siphon off money* directly from public enterprises, resulting in losses which impose additional burdens on the budget and thus on the ordinary taxpayer (while privileged actors have better opportunities to avoid taxation).

Finally, the *general lack of control and accountability* on all levels of the state machine (a feature of a state that is strong in suppressing the population but weak in delivering proper administration and economic development) allows well-connected people to redistribute wealth in various ways, too.

4 New, Independent Actors?

4.1 The Regime, the “State Class”, and the Business Elite

4.1.1 Splits, Factions and Competition

Throughout Egypt’s modern history, economically powerful businessmen had established close links to the state in order to enjoy the government’s support and protection (Springborg 1989, Wahba 1994, Amin 1995, Zaki 1999). However, there seems to exist a tendency on the side of the regime to periodically shift privileges from older networks to younger generations of businessmen. It also seems that some representatives of the regime, such as Gamal Mubarak, regard younger, often more outward- and export-oriented entrepreneurs of being more capable to contribute to growth and employment than previous generations of business tycoons (or, at least, to better be able to create a positive image of new economic dynamics in Egypt that is important to regain at least some legitimacy domestically as well as for the relations with the external supporters of the regime). This also implies better access of the respective members of the business elite to economic resources to be redistributed by the state. In recent years, influential entrepreneurs emerged as a strong domestic support base for the regime. At latest when businessmen were appointed as ministers in 2004, government–business relations had taken on a different quality than in the 1990s. Some privileged businessmen became a lobby inside the government themselves – hoping that they will grow in importance with the rise of figures such as Gamal Mubarak.

At the same time, the ruling NDP became more active in shaping economic policies (e.g. with regard to legal and institutional changes). It is also in this context that Gamal Mubarak took the initiative to take business on board while parts of the NDP’s “old guard” opposed such moves. To directly co-opt big business is an attempt of the regime to win additional domestic policy support. However, despite the fact that businesspeople have more room (and play a rapidly increasing role in the economy and in politics) and that the political leadership, in

turn, wants to be connected to the business circles, the agenda of the ruling elite is clear – to keep the regime in an unchallenged position of power vis-à-vis all other actors in the society. Consequently, also the “new” business cronies are weak compared to the core decision-makers of the regime. In any potential clash, the supremacy of the state will prevail.

Private businessmen linked to the regime have been benefiting extraordinarily from political patronage, economic privileges and favorable links to the public sector. Despite all free market economy rhetoric voiced by some leading entrepreneurs in public, their economic interest is a strong motivation to oppose a fundamental change of the system that has been nurturing them. However, this is not to say that *all* entrepreneurs who made their fortunes thanks to the support and privileges granted by the regime would be against *any* kind of change. The debates over economic reform measures – including issues as privatization, trade liberalisation, financial sector reform, etc. – illustrate that many businessmen strongly welcome those changes which imply immediate improvements for their own business activities. During the last one and a half decades, a number of privileged actors has been successfully exploiting the business opportunities resulting from numerous incoherent and half-hearted reform measures in the environment of stop-and-go reforms. Also with this regard, change has not necessarily met resistance from the regime’s business friends.³³

Despite the fact that the regime has been quite successful in preventing substantial change of the established system and that Egypt’s entrepreneurs do not emerge as a class in itself and for itself, both the political, military-bureaucratic and the business elites are by no means monolithic blocs. As for the *political elite*, a clear distinction can be made between the top leadership and the domestic security apparatus as the core of the regime, on the one side, and all other elements of the elite, on the other. Major political decisions are made by the president after consultation with a small circle of advisors, including the heads of the security services. Other parts of the “state class” such as the economic administration, etc. seem to play only minor roles. Even the relative importance of the military, compared to the internal security forces, seems to have declined dramatically since the times of Nasser and Sadat.³⁴ Besides the military, also other subgroups of the state apparatus have their special interests, but they are even less in a position to pressure the top leadership in terms of decision-making.

The *business elite* is much more diversified and differentiated than the military-bureaucratic elite. There exist numerous, often competing power centres, networks and fractions within the Egyptian business world.³⁵ With the increasing number of well-organised networks, the re-

³³ Often, the newly created opportunities for profitable economic activities (e.g. after a partial liberalization of the telecommunications sector) through licensing procedures or other direct and indirect administrative restrictions were exclusively accessible to selected members of the regime’s business elite. Also, well-connected individuals and networks that lost privileges in one area of economic activity due to unavoidable reform measures called for by the external donors and creditors were sometimes compensated by newly created opportunities for making money in other fields.

³⁴ As a result, the military, albeit still being an important support base of the regime, is no political factor any longer, at least as long as the established mechanisms of cooptation through privilege and the provision of up-to-date military equipment continues to function.

³⁵ Ahmad Ezz, for example, a close friend of the president’s son, is a powerful and influential business tycoon who managed to monopolise the country’s steel market. However, he also enjoys powerful and influential opponents. Entrepreneurs in real estate, construction and tourism, for example, suffer from high prices for steel – a crucial input for any construction projects – and for years actively lobbied for the establishment and effective application of the respective anti-trust legislation. Ezz, head of the NDP’s economic commit-

gime's task to accommodate the different fractions' demands in terms of privilege and opportunities for doing business becomes more and more difficult.

4.1.2 *Any Alliance for System Change from Within?*

As bigger parts of the military-bureaucratic administration have been marginalised and the influence of the domestic security apparatus gained in importance, a major precondition for any fundamental reform of the established politico-economic system would be that relevant parts of the security apparatus would be involved in a potential alliance for such change. Only if powerful actors from the intelligence and police organisations would join an attempt to overcome Egypt's socio-political and socio-economic stagnation, it could be successful – given the support and cooperation of other parts of the government machinery as well as of the business elite.

After a certain level of military strength and economic development had been achieved in some of the most successful Asian “tiger states” such as South Korea and Taiwan, their military-autocratic leaders had handed over political power to civilian democratic governments more or less voluntarily. The authoritarian leaders of South Korea and Taiwan well understood that this move was necessary in order to facilitate the further economic development of their nations and to enable their countries to stand international economic and political competition, first of all with China. Implicitly or explicitly the transition to democracy was understood as a functional precondition for the further mobilisation of the nation's human capital (and other resources) in the context of a national development project aiming at increased technological capabilities and economic competitiveness.

However, it seems that neither such far-reaching insights nor the respective policy scenarios can be expected in the near future for Egypt. As it is primarily the higher-ranking members of the security services who are benefiting from the established order, there seem to exist only very little incentives for the respective actors to get involved in any potential attempts to overcome the system, even if only by evolutionary change. The same holds true for leading members of the private sector business elite – despite the fact that some of its representatives may have understood that substantial change would be necessary in order to secure the country's future economic existence in an environment of global competition.

4.2 **Other Actors Emerging?**

The fact that the re-distribution and re-arrangement of power and economic resources mentioned above has been carried out by Egypt's authoritarian rulers deliberately in order to secure their power does not *a priori* exclude the possibility that this very process (or some parts of it) may get out of control: Suddenly – in spite of all the top-down manipulation and control – the regime-directed project of re-distribution and re-arrangement of power may take a turn that was not intended. Also in other, seemingly rather stable authoritarian regimes of the region, there are new developments emerging which are not in line with the original intentions of the rulers. Those situations – when control over a process initiated from above cannot be

tee, in turn, continues to buy political support and protection by donating huge amounts to the ruling party. So far he was quite successful to obstruct any attempts to hold him responsible, even in parliament.

maintained any longer and when new actors arrive on the scene – are particularly interesting for any research on change in the authoritarian states of Arab world. Are there any such newly emerging processes of change in Egypt? And, if so, which are their unintended outcomes – and who are the potential change agents?

4.2.1 *The Muslim Brotherhood*

It is not very surprising that in a situation where all opposition parties have been marginalised through a mix of repression and cooptation and where all forms of political participation have become increasingly difficult (Kienle 2002, Fahmi 2002, Kassem 2004), the population's increasing dissatisfaction with the regime's performance results in a strengthening of the only force that, in the eyes of many Egyptians, seems to have the potential to challenge the government – the Muslim brotherhood. The rise of the brotherhood can be understood as the major unintended outcome of the processes of regime-controlled change as portrayed above. While the overall process of adjustment of the regime's economic policies and the rearrangement of the rulers' alliances with the business community (among others) seems to be rather successful (from the regime's perspective), the increasing support of the brotherhood among parts of the population seems to be perceived more and more as a threat by the regime.³⁶

A different interpretation of the situation is that the regime, first of all, succeeded in eliminating any opposition except the brotherhood. The only remaining players now seem to be the state and the (illegal) Islamist organisation. The only player effectively opposing or fighting the state is the brotherhood. This creates a situation where the choice of anyone involved with politics is to be with or against the brotherhood – to be with or against the state.³⁷ Now, the state on the one hand, doesn't face any sustained and organised resistance any longer, except from the brotherhood. On the other hand, the regime can easily disqualify any opposition as radically Islamist and potentially terrorist, in particular vis-à-vis external allies such as the USA and the EU. In the mid-1990s, the regime successfully managed to smash the armed Islamist opposition in the country. Since 2006/07, there have been many indications that it prepares itself for a kind of final battle with the non-militant wing of Egypt's Islamist movement, being even more appealing to bigger parts of the population than the armed radicals. If the regime would be able to successfully deal with the brotherhood, too, i.e. to finally terminate its influence in the society (or even its existence as an organisation and a movement) – it would leave the battlefield as the only organised political actor that is left over, at all.

However, the marginalisation of all opposition parties and of most other civil society organisations as well as the oppression of all forms of substantial political participation imply a very dangerous consequence: In case that increasing social pressure and discontent with the government's policy may lead to substantial resistance and disorder, there are no channels of communication or other kinds of "early warning systems" and "safety valves" left which

³⁶ An indication of how strongly the regime fears the brotherhood has been the brutal reaction to the success of the brotherhood candidates in the first round of the 2006 parliamentary elections.

³⁷ During the 1990s, even allegedly left-wing opposition groups opted for an alliance with the state in order to get some protection (for party leaders and a number of well-known leftist intellectuals, this meant the protection of their very lives from Islamist assassination attempts) and to be able to withstand the increasing Islamist tendencies in all parts of public life. This move of parties such as the Tagammu' that has been seen by many as a kind of surrender or even collaboration with the political enemy, further de-legitimised the already weak organisations of the left.

could prevent massive violent outbreaks of frustration and anti-government protest. There are neither institutions and organisations which could stabilise the situation in times of an internal political crisis nor cooperation partners with wider public outreach for a dialogue between the regime and the population or a potential protest movement (except the illegal Brotherhood). This constitutes an additional threat to the long-term stability of the established order.

4.2.2 *Changing State-Labour Relations?*

In late 2006 and early 2007 Egypt experienced an unexpected – and by many measures unprecedented – strike wave in the major industrial centres of the Delta. The regime, obviously taken by surprise, decided to appease the workers' demands and to refrain, for the time being, from the usual measures of brutal suppression of any industrial action. This, in turn, encouraged more workers to join the strike movement (Beinin, Al-Hamalawy 2007a and 2007b, Lübben 2007). It is obvious that the strikes have been triggered by a number of concrete conflicts within the individual factories, mostly linked to the intended or actual privatisation of the respective firms in one way or the other. However, one can assume that the experience of economic hardship and social decay among the workers during the last two decades has been providing the wider motivation and moral legitimisation for their resistance against whatever the concrete steps of factory managers have been. The newly emerging strike movement can be interpreted as another unintended consequence of the regime's attempts to re-arrange the patterns and instruments of the authoritarian system that have been looking so tremendously successful throughout the last one and a half decades.

It remains to be seen in how far the recent workers' rallies turn into a real working class movement and what kind of political implications and consequences such a reawakening of Egypt's workers will have. However, the possibility that the strike movement may be the herald of a wider mobilisation of the Egyptian society around social issues and that calls for social justice may become more pronounced in the years to come – as it recently happened in other parts of the world, too – cannot be ruled out.

5 **Any Outside Pressure? – External Actors and “Economic Reforms”**

For the time being, it seems that global structural trends and international actors are not very much affecting the process of the state's economic reorganisation in Egypt. By contrast, in the early to mid-1990s, foreign creditors and donors who demanded that Egypt undertakes major reforms as a precondition for debt relief, new loans and other external support had a relatively strong leverage. The Egyptian regime had to consider the pressure of the IFIs and of the US in negotiations on debt restructuring, new loans, etc. – even if it turns out that the external pressure had only limited impact in terms of substantial structural change (Wurzel 2000, 2004). With the overcoming of the external debt problem and some positive developments on the macroeconomic front, including substantial foreign currency reserves, external influence on Egypt's economic policy vanished in the late 1990s.

It was only in the aftermath of the 9/11 attacks – when US president Bush announced his vision of democratisation in the Middle East – that the pressure on the regime in Cairo increased again. This time, Washington did not call for more market regulation or foreign trade liberalisation, but for a minimum of democracy and human rights. The regime felt uneasy, in

particular when the Americans took the freedom to publicly think about alternatives to Mubarak and his entourage and directly intervened to free opposition politician Aiman Nour from an Egyptian prison in March 2004. However, with the increasingly visible disaster of the US policy of “democratisation” in Iraq, the pressure on the region’s authoritarian regimes declined. For the Egyptian rulers, this meant both the abatement of any criticism on how the regime dealt with any kind of opposition (radically Islamist or not) and a nearly complete absence of any further pressure to continue – or revive – the process of economic reforms. Further, the economic upturn that the country experienced due to very high oil prices about the same time when the US failure in Iraq became visible and when the so-called “young reformers” came to office in Cairo seemed to relieve the regime from any immediate need to act.

The reform measures of the Nazif government seem to have been initiated primarily by domestic actors such as Y.B. Ghali or Gamal Mubarak, who could, of course, count on the support of their friends in Washington as well as in the US embassy and the *AmCham* office in Cairo. However, as shown above, also this time the so-called reforms do not touch the core mechanism of the Egyptian rentier system – otherwise the top leadership would have intervened. The regime seems to be very confident that it is safe from both undesired external pressure to reform the economic or political system as well as from substantial organised domestic opposition. Egyptian observers, some of which have rather close links to the country’s decision-makers, share the view that for the time being leading regime figures simply don’t care what outside observers think about its policies – including major allies in the West or representatives of international organisations (author interviews Cairo 2007). This is a rather unexpected finding for a rentier state like Egypt – and can only be explained with the West’s current obsession with “stability” in the Middle East in the wider context of the Iraq disaster and the perception of an increased Islamist threat.

6 Outcomes, Consequences, and Implications

6.1 No Fundamental Change of the Economic System

Substantial structural changes of the Egyptian economic system would mean the move away from the structures of the rentier economy towards a functioning, liberal market economy. However, after more than fifteen years of reforms since the SSAP of 1990/91 and after three years of the “young reformers” government, the picture is mixed: On the one hand, some important changes within the economic system are taking place as assets, decision-making power and access to public goods and economic privilege are redistributed on a large scale – both, from the lower strata of society to the upper echelons and among different sub-groups within the elite itself. Legal and institutional changes accompany and/or presuppose this general trend.

On the other hand, the changes do not imply a fundamental restructuring of the economic system that is a powerful instrument of the authoritarian regime to control and dominate the society. A genuine reorganization of state-market relations didn’t take place as system maintenance was the regime’s highest priority. Also during the ‘reform era’ of the 1990s and under the Nazif government, the dominant position of the political leadership has been secured by the traditional distribution of economic resources according to immediate domestic

policy needs. After all, reforms in rentier states are aimed at preserving the status quo with regard to the political and internal economic order (Elsenhans 1981, Pawelka 1985, Wurzel 2000, Wurzel 2004). The economic reforms announced by consecutive Egyptian governments were never intended to provide the framework conditions necessary for the establishment of a modern, liberal market economy.

On the contrary, the reform rhetoric was instrumentalised in order to get access to additional rent income that would sustain the current regime's economic and political power (and the underlying structures) despite its obvious financial crisis. Also the renewed reform efforts of the "young reformers" since 2004, which have been including the privatisation of parts of the public sector, and measures such as the auctioning-off of mobile phone licenses to private firms, first of all serve to generate revenue to cover the budget deficit that has been growing again. After the so-called reforms failed to kick-off sustainable growth and job creation and thus to generate substantial internal tax revenue, the regime desperately needs fresh money. Additional financial resources are required in order to compensate the negative impact of Egypt's inferior position in the global markets – i.e., current government revenues are neither sufficient to solve the resulting social problems nor to prepare the country in terms of education, science and technology for its participation in the global economy. Fresh money is also needed, among others, to stop the further deterioration of the infrastructure that has been taking place since the times of fiscal austerity measures of the SSAP.

6.2 Restructuring and Adjustment of the Mechanisms of Authoritarian Control and Dominance

(1) There has been no substantial change concerning the authoritarian and patrimonial nature of Egypt's economic system. However, the rulers' activities to preserve the established power system required some change *within* the authoritarian system. As a result, one can identify both, signs of stability and signs of change. "Stability" exists in so far as the Egyptian leaders indeed secured the continuation of their own rule. At the same time, there is manipulated change, engineered from above in order to contribute to the same objective – regime survival and preservation of power.³⁸ Controlled change within the economic system aimed at and resulted in a *shift of patronage networks* toward particular segments of the private sector (including the networks of high-ranking representatives of the state with the private business community) without undermining the power of the state as the ultimate source of power and distributor of rent. This shift of patronage was accompanied by and achieved through a massive redistribution of economic resources and influence on economic policy decisions to the regime's business cronies, on the account of the lower strata of the society.

(2) However, the increasing role of well-connected businessmen in the economy as well as in the political sphere does not mean that the economic elite would emancipate itself from the regime that allowed it to get rich. First, the regime is still powerful enough to immediately punish any attempt of businessmen to distance themselves from the regime or to demand po-

³⁸ This change for the sake of non-change also seems to contribute to the astonishing harmony between the representatives of the regime – denying "their" citizens the most basic human rights – and representatives of the West, i.e. European state officials. The latter seem to be more interested in control and "stability" than uncontrolled change, too.

litical participation beyond what the regime is ready to tolerate. Second, the stability of the established politico-economic system serves the economic interests of Egypt's big business quite well.

(3) The externally imposed reforms of the 1990s and their local interpretations throughout this period as well as from 2004 onward contributed to a general re-structuring of the state's economic functions. There are particular patterns of how the structure of state power in Egypt is changing with regard to the political economy of the country. The most important pattern is the establishment of additional *indirect* forms of control and domination of the economy on the side of the regime – mainly through the merger of the old (military-technocrat-bureaucratic) state class with the class of regime-connected big businessmen. At the same time, the direct control of major parts of the Egyptian economy by the regime through the *public sector* is kept up, despite recent privatisation activities. Further, as a result of privatisation of former state assets as well as of the establishment of new businesses by regime members or their families (and their participation in other people's new private businesses), an additional element of control and domination has been emerging – the regime's *direct control* of parts of the "*private sector*". And also with regard to the specific modalities of wealth accumulation and re-distribution, a limited number of typical patterns and channels of redistribution can be identified (see 3.3.2.2).

(4) All in all, Egypt's state has been transformed from an instrument of power of the old "state class" – that has been deriving its legitimacy from the populist social contract – to an instrument for the maintenance of the increasingly authoritarian rule of the highest echelons of the current regime. However, after the termination of the previous social contract and with the lack of a new one, the legitimacy of the regime has been eroding dramatically. Therefore, on the one hand, the regime relies on the brutal suppression of any opposition by its security apparatus. On the other hand, it desperately tries to keep up (or re-establish) the image of a development-oriented national leadership that is able to deliver – if not prosperity and wealth for a majority – at least some relief from the population's economic misery and social decline.³⁹ Producing this image is an attempt to regain some legitimacy, not only domestically but also in the international arena that, under normal circumstances, is at least as important for a rentier regime as the domestic audience. For this purpose, the regime incorporates not only the elites of the security apparatus and higher-level technocrats but also big businessmen (seemingly) loyal to the regime, the "upper fractions of a highly oligopolised and transnationalised bourgeoisie" (O'Donnel 1979, p. 292). Another aspect that is related to this internal re-structuring of the regime's domestic power base is that the old "state class" rarely possessed substantial economic resources. Through its partial merger with the new class of regime-connected businessmen, however, it can finally accumulate long-desired economic resources.⁴⁰

³⁹ In this respect, the Egyptian state shows some striking similarities with O'Donnel's descriptions of the exclusionary and repressive Latin American bureaucratic authoritarian state during the phase of its final decline (O'Donnel 1979, cit. in Fahmy 2002, pp. 26 ff.)

⁴⁰ Besides allowing the respective segments of the old state class a consumerist way of life these resources may also secure its economic survival (and political influence) in case the established system one day will be transformed in such a fundamental way that the traditional mechanisms of political rule may seriously be undermined.

(5) The *limited change* that the regime allows for, so far has been of a more or less *cosmetic nature*. And, the shifts in the balance of power among different elite fractions, including the rise of new power centres and influential networks on the account of other actors, have only been possible due to the fact that the top leadership either didn't intervene to prevent it – or even actively encouraged the respective redistribution of power and privileges to its new protégés. In so far, it seems that the regime is in rather strong control of the respective processes of redistribution, indeed. If there is change at all, it still seems to be *controlled change*. And, for the time being, there are no signs that such processes of intended change are getting out of control.

6.3 Successful Preservation of Power - But, Neither Government Nor Private Sector Can Deliver

(1) The ruling elite's obsession with dominance and control – preserving the status quo – implicitly makes any change an *a priory* dangerous and threatening undertaking. The main objective of the regime is to *prevent change*, in particular change that could affect the basic pattern of societal organisation and regulation. In this sense, the regime seems to be very successful – till now it was *able to stay in control of both subsystems, society and economy*. However, the problem is that exactly the established patterns of organisation and regulation (of both society and economy), which the regime was able to keep up, produced the long-lasting crisis the country has been suffering from for decades. This means, the remarkable management and steering capacity of the regime, first of all, is the *capacity to prevent any transformation*, be it in the form of disruptive or evolutionary change. It is the capacity to suppress any social and economic dynamics, which could contribute to an overcoming of the sclerotic structures prevailing in society and economy at large. In this sense, the regime has the capacity to keep the country locked-in into a situation where the most basic foundations of international competitiveness cannot be established (Wurzel 2000, chapters 11 and 12). This, however, threatens the economic viability of the country. In the globalised economy of the 21st century, a society of Egypt's size has no choice but to generate the economic resources for its very existence through the domestic production of competitive goods and services – in the medium- to long-term, 70, 90 or 120 million Egyptians can neither make a living solely based on tourism receipts nor on external subsidies.

(2) The other side of the coin is that the regime so far seems unable to produce any meaningful development results, alone or in cooperation with its new allies in the business world. In this regard, the very framework that it has been establishing in order to control both society and economy is the strongest obstacle to the mobilisation of the country's economic potential. Some observers put forward the argument that strong direct and indirect control of the economy by a government may help to utilise the resources given to produce positive development outcomes, citing examples from Southeast Asia. However, the adjustment of the forms of control and dominance from earlier overt and direct mechanisms to more disguised and indirect forms in Egypt does not necessarily imply that the regime now would be able to kick-off a sustainable economic development process – even if only to increase its legitimacy.

On the contrary, major economic indicators recently have been shown negative trends. The régime still fails to deliver sustainable, positive economic results.⁴¹ In relative terms, i.e. in comparison with other developing economies, Egypt clearly continues to loose ground. However, regarding *regime legitimacy*, the question primarily is, to which degree bigger parts of the population experience noticeable improvements in their material and immaterial standard of living.⁴² But, also on this front the regime can't deliver. For example, in a county whose population increases by about 1.3 million and whose workforce grows by about 600.000 to 800.000 new labour market entries annually, a major sign of economic success would be the creation of a sizeable number of jobs in the formal private sector. But according to the latest surveys, formal private employment is the labour market segment that grows with by far the slowest pace and thus – compared to the informal sector – contributes the least to solving the unemployment problem.

6.4 A “Grand Design”?

(1) The major objective of the regime concerning the economic reform programme was just to reorganise and consolidate its power system. With this regard, the Egyptian regime has been aiming at a number of rather clear objectives (intended outcomes). These included, on a more general level, the restructuring of the external economic relations (e.g. negotiating external rents and conditions) and of the internal system of distribution of economic resources and privilege (e.g. coopting new social groups and excluding /marginalising others). At times, the respective re-arrangement of parts of the system of authoritarian rule may have been deliberately designed and consciously implemented. However, it would be wrong to assume that the regime would have been following a clear strategy to remodel the economic sphere of the rentier system, possibly based on a kind of blueprint or “grand design”.

(2) Egypt's authoritarian regime, in the face of internal and external economic pressure, has always been resorting to *ad-hoc measures*.⁴³ One reason is that since the times of Nasser and Sadat, economic policy-making has always been seen as a secondary, instrumental activity in order to achieve objectives in other policy-domains. Therefore, there never existed a coherent vision for the economic development of the country (possibly with the exception of Nasser's

⁴¹ Looking at “input” indicators such as business climate and economic freedom rankings, savings and investment figures etc. as well as at “output” indicators such as the share of manufacturing exports in total exports (and, within this category, of technology-intensive or high-tech exports), shares in world trade, number of patents per population, etc., it turns out that no substantial improvements took place.

⁴² Measurement should include all those aspects, which are conceptualised with the different indicators of human development – but, for the time being, could possibly exclude indicators of human rights and political freedom.

⁴³ At the end of the 1980s and the beginning of the 1990s, for example, it was the Egyptian regime's inability to further service its external debt that lead to negotiations with the international financial institutions and other donors over a reform package. However, already the SSAP of 1990/91 was mainly – if not exclusively – based on the IMF's and the World Bank's assessments of the reform needs (as were earlier reform attempts). There was very little, if at all, constructive contribution of the Egyptian side to the respective reform agreements – not to speak of a full-fledged, comprehensive Egyptian plan how to restructure the country's economic system. The lack of an active, positive approach and respective plans and strategies on the Egyptian side was also very obvious throughout the whole decade of the 1990s and the first years of the new century. All that the regime wanted was to limit the impact of the few reform steps really implemented on the functioning of the established system of power (Weiss, Wurzel 1998, Wurzel 2000).

attempt at an industrialisation strategy). Whatever intervention in the economic sphere happened under Mubarak was meant only to produce favourable short-term effects for the regime's *political* stability – be it measures affecting the subsidy and price system, the regime's actions vis-à-vis the business circles, the handling of the privatisation issue facing protests of the public sector workers or the reform negotiations of the government with international creditors and donors. And without any vision for the country's economic make-up, it simply cannot be expected that the regime would have attempted to consciously and systematically restructure the existing economic system.

(3) The major reason, however, that speaks against the idea of a deliberately designed and consciously implemented adjustment of the economic system is the Egyptian regime's *lack of the management capabilities* necessary to engineer such a mid- to long-term restructuring of the economic system. No coherent pattern of change could ever be identified throughout the country's various reform attempts of the last thirty years, not even to speak of a realistic "blue print for reforms" or a "reform master plan" (see e.g. Weiss 1964, Möller et al. 1980, Weiss 1992, Weiss, Wurzel 1998). It is true that with the coming to office of figures such as Boutros Ghali and Muhieddin as ministers, radical neo-liberals have the opportunity to substantially impact on the institutional and legal framework conditions of the Egyptian economy. Indeed, those individuals have a reputation of being "even more Washingtonian than Washington" – meaning that they still adhere to the naïve, already discredited and largely abandoned (by the Washington institutions themselves) early forms of the so-called *Washington consensus*. But even these radical Egyptian economic neo-liberals don't seem to have a coherent reform plan – not to speak of a consistent vision or the ability to implement it. Neither conscious conceptual preparation and long-term strategic planning of further reforms nor well-prepared implementation can be observed. Further, after three years of the "young reformers" government, it turns out very clearly, that there is not even a minimum of effective policy-coordination among the ministries dealing with economic affairs. Still, ad-hoc reactions to emerging challenges, pressure and crises are the dominating policy approach – with all the related shortcomings, back-slashes and unintended outcomes.⁴⁴

6.5 Impacts on the Social Situation and Regime Legitimacy

The social basis of the Egyptian regime has been changing in a way that increases the importance of the newly emerging elite being a melange of higher government officials (civilian and military) and outstanding representatives of the possessing classes. These new networks of business tycoons, state officials with close business links, and leaders of the military-industrial complex increasingly gain importance vis-à-vis the former support base consisting of the rural population, the urban working class and lower to medium ranks of the public sector and civil service. The social actors which are increasingly marginalised are the landless labourers in the countryside, small farmers and the lower and medium ranks of the public sector

⁴⁴ Policy advisors to key ministers and top managers of international and bi-lateral development agencies agree in private conversation that the ministers which came to the cabinet in 2004 or thereafter only follow their own individual strategies (if any). Instead of coordinating their activities and utilising synergies for effective policy-making, the ministers waste time and resources in battles with other cabinet members over prestige and influence, attractive projects and lucrative donor connections (author interviews Cairo, March/April 2007).

workforce as well as civil servants and intellectuals of various professional backgrounds. Further, it can be assumed that also major parts of business owners and employees in the informal sector may be negatively affected. The workforce in the private sector enjoys much less protection than public sector workers, unionisation levels are low, labour code violations are wide-spread.⁴⁵ Finally, the privileges of some outstanding big businessmen imply restrictions for the majority of small- to medium-scale Egyptian entrepreneurs.

The massive redistribution of wealth in the Egyptian society and the changing role of the state in the provision of public goods and social welfare services are negatively affecting social cohesion and further eroding the ruling elites' legitimacy. Among others, state-labour relations have been changing in ways negatively impacting on equality. The same holds true for the re-arrangement of asset ownership and tenants' rights in Egypt's countryside, a process called "accumulation by dispossession" by Ray Bush – meaning the violent expulsion of tenants from the land and the illegal seizure of many small farmers' land by big landowners, often in collusion with local police officers, judges and other state officials (see Bush 2004, Mitchell 2002). Consequently, the kinds of authoritarian restructuring employed by the Egyptian regime lead to social conflict, as well as to reinforcing clientelist social relations and informal networks of solidarity (family, religious, etc.), possibly leading to a further fragmentation of the society.

The negative consequences of the current economic policies for major parts of the population lead to growing discontent and opposition. Under certain circumstances, the new dynamics of such opposition – together with new room for activists resulting from globalisation (information, external support, protection through world-wide media coverage, etc.) – may pose a challenge to the regime. The strikes made clear that the (former public sector) work force might become a political factor again. The events further showed that the regime-controlled, official trade union structures are considered irrelevant by the workers fighting for their rights, potentially opening the way for additional dynamics in terms of mobilisation and institutional change (i.e. attempts at freeing trade unions from the regime's control).

6.6 External Actors

The process of neo-authoritarian state restructuring in Egypt, to a certain extent, may be a reaction to the country's (very slow) integration into the global economy. In this sense, it is an expression of the adaptation capacity of the regime. The economic re-organisation of the Egyptian state has, of course, been affected by global structural trends and international actors. However, it seems that external influences have *not* been very important for the concrete design and implementation of this process: Considerations of domestic politics, control and preservation of power seem to have shaped the restructuring process much more than did external economic events and interventions.

⁴⁵ In many private sector firms, a potential new employee will have to sign a letter of voluntary resignation before he gets his employment contract. This notice of termination of employment (already including the signature of the employee) stays with the employer. In case the firm wants to get rid of the employee, the management just has to fill in the date of his "voluntary resignation". Further, Egypt's trade unions are heavily controlled by the regime and higher trade union representatives are corrupted and co-opted by various means. Both aspects together explain the low unionisation rates among private sector workers as well as the lower levels of protection they enjoy compared to public sector workers.

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