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Roll, Stephan

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Al-Sisi's Development Visions

Projects and Power in Egypt

Stephan Roll

Abdul Fatah al-Sisi came out as winner of a highly unfree and unfair presidential election held between 26 and 28 May. In office the former military chief now faces great challenges. The country's economy is in ruins and living conditions have tumbled over the past three and a half years. But comprehensive economic reforms are not on al-Sisis agenda. Instead, during his election campaign, the former army chief proposed gigantic development projects. Here he has a particularly firm eye on the interests of his most important supporters. Such a course will not improve Egypt's economic and social situation. Germany and Europe should therefore definitely not support the approach of the new leadership in Cairo, but instead push for structural reforms in the Egyptian economy.

Al-Sisi's victory came as no surprise. Unlike his left-populist challenger Hamdeen Sabahi, the defence minister was backed heavily by the state apparatus and the Egyptian media. However, the low turnout, which forced the election commission to extend voting for a third day, indicates that al-Sisi's real challenges lie after the election. Egyptian society is deeply divided and the country's economic situation catastrophic. It is under these conditions that al-Sisi will have to consolidate his power. As far as the lines of conflict in society are concerned, al-Sisi already made his position clear as army chief: He will tolerate no opposition to his authority and will crack down hard on political adversaries. Accordingly, state repression has already been massively expanded in the recent months.

With respect to his economic policy ideas, al-Sisi long kept his cards close to his chest. But facing a budget deficit of more than 14 percent of GDP, state debt that now exceeds annual GDP, and economic growth that is barely keeping pace with population growth, he has now made some grand announcements: In the coming decades Egypt is to make a veritable leap out of economic penury with a $140 billion development programme. He proposes to build 48 new cities and tourist resorts, expand transport and energy infrastructure and develop almost 17,000 square kilometres of desert along the Nile. These plans are by no means new. But their enormous cost and numerous unanswered questions concerning implementation makes them highly controversial in Egyptian expert circles. Al-Sisi has not even made the effort to respond to concerns. To him the development plan prob-

Dr. Stephan Roll is a Research Fellow in the project "Elite change and new social mobilization in the Arab world" realized by the Stiftung Wissenschaft und Politik (SWP). The project is funded by the German Foreign Office in the framework of the transformation partnerships with the Arab World and the Robert Bosch Stiftung. It cooperates with the Friedrich Ebert Stiftung and the Ph.D. grant programs of the Heinrich Böll Stiftung and the Hanns-Seidel-Stiftung.

ably represents a fictitious framework for a series of major projects that might be realised, or at least started, in the coming period. These include developing the Suez Canal Zone into an international industry and logistics hub, constructing a high-speed rail network and building one million new homes.

Serving Particular Interests

Behind these major projects stands an ideological approach that assumes that economic and social development can be planned on the drawing board and implemented through state leadership. However, this approach seems to be driven first and foremost by a logic of power. Al-Sisi has his eye on three groups of actors, without whose support he cannot consolidate his authority: the Arab Gulf states, Egypt's military and the country's business elite.

Gulf Donors

Without generous financial assistance from the United Arab Emirates (UAE), Saudi Arabia and Kuwait, Egypt would already be bankrupt. Directly after the removal of Mohammed Morsi by the Egyptian military in July 2013 the three Gulf monarchies promised about $12 billion in financial assistance and energy supplies. According to al-Sisi the figure had grown to about $20 billion by May 2014. In view of its empty state coffers, Egypt will remain dependent on such transfers in the coming years. Although the funds from the Gulf apparently come without specific formal conditions of the kind that would accompany an IMF loan package for example, they are not flowing without a quid pro quo. At the political level in particular, the UAE and Saudi Arabia value the new Egyptian leadership as an important partner in their fight against the Muslim Brotherhood, which they see as a threat to themselves too. All three ruling houses also wish to see Egypt's military as an ally in the ongoing conflict with Iran.

Economic interests are at least as important. According to the Egyptian government, the volume of investments owned by Gulf Cooperation Council states in Egypt amounted to about $50 billion at the end of 2013, thus exceeding the total for Western states ($46 billion). The largest investments likely originate from Saudi Arabia, the UAE and Kuwait. Several prominent business groups from those three countries maintain their own subsidiaries in Egypt. For the three Gulf monarchies, supporting the Egyptian military therefore represents an insurance policy for existing investments. The enormous sums of aid also smooth the way for future investments in the potentially lucrative Egyptian market.

This connection became particularly clear last March, when al-Sisi, then still defence minister, signed a framework agreement for a gigantic construction project with the UAE's largest listed construction company: In the coming five years *Arabtec* intends to build one million housing units on a land area of over 160 million square metres. The land is to be provided free of charge by the Egyptian military. This deal suggests that a not inconsiderable proportion of the transferred billions could ultimately flow back to the Gulf via this kind of major project.

The Egyptian Military

Regardless of whether al-Sisi sought the highest office of state as the candidate of the generals or on his own account, he will be reliant on future support of the powerful military leadership. Since the fall of Mubarak in 2011 the generals have successively expanded the dominant role of the army not only in politics but especially in Egypt's economy. A central role is played by the military's own business empire. The numerous military-run companies offer lucrative posts for serving and retired officers, while the jobs they provide reinforce the dependency of large parts of the Egyptian population on the armed forces. The army accounts for between 5 and 40 percent of GDP according to various estimates – the huge lack of transparency makes it impossible to provide more exact figures. The new Egyptian constitution adopted at the beginning of January 2014 in fact legally entrenches this transparency deficit, with the military budget to be negotiated in a National Defence Council dominated by the military and presented to parliament only as an overall sum.

Since the revolution of 2011, but above all since the military coup in mid-2013, a significant increase in construction activity by the army has been observed. According to media reports, state infrastructure contracts to the tune of more than $1 billion were awarded to the military without competitive tendering between September and November 2013 alone. The government has given various major projects to the Army Corps of Engineers, including the planning for a high-speed rail network and infrastructure development at the site for Egypt's first nuclear reactor. The armed forces also capitalises on their control over agricultural and building land. It must be assumed that private companies purchasing state land must often pay considerable sums to the armed forces. If a company like *Arabtec* receives building land for free, profit-sharing with the military through sub-contracts or direct stakes is likely to be assured.

The Egyptian Business Elite

Their oligopolistic position in parts of the Egyptian economy and extensive domestic and foreign networks also make the national business elite an indispensable strategic partner for al-Sisi. Major business figures were already a driving force in the summer 2013 campaign to remove Morsi. They supported the campaign that led to the president's removal directly with money, but above all through the media they control. In particular entrepreneurs with interests in the construction and property sectors, and related construction materials industries, placed their hopes in a new president from the ranks of the armed forces. Like the investors from the three Gulf states, with whom they often maintain close business relationships, they feared that Morsi would encourage scrutiny of their business activities during the Mubarak era, especially in relation to land purchases.

The business elite's support for al-Sisi already appears to be paying off. Although the military has been able to expand its business empire during recent months, large private-sector companies also seem to benefit. The Egyptian stock market has boomed since the coup: The benchmark EGX30 rose by more than 65 percent by May 2014, while the sectoral index for property companies almost doubled. However, this reflects less the current earnings situation of the businesses than market expectations that al-Sisi will win the presidency and the state/private sector networks created during the Mubarak era will survive. These networks represent another avenue by which property companies could profit from the planned major projects, whether as partners or as sub-contractors.

Population at Large Losing Out

Al-Sisi's "visions" will do nothing to improve the precarious living conditions of most Egyptians. History shows that major construction projects often ignore the needs of the population. For example, in view of the housing vacancy rate it is questionable whether the country really needs one million new homes. A constructive policy to legalise the informal settlements that have appeared on the margins of the major conurbations in recent decades would appear more urgent.

Even more dubious than the concrete benefit of such projects is the way they are plainly conceived as a substitute for overdue structural economic reforms. The reform agenda would include, for example, the IMF's insistent demand to restructure the subsidy system, which is most favourable to the top income groups and energy-intensive industries. Al-Sisi has generally turned down such reforms, at least in the short term, apparently worried about losing important groups of voters and supporters. Egypt also needs a strengthening of market oversight and greater transparency in state economic activity. In both these fields the country is currently moving backwards. In January the procedures for awarding state contracts were significantly simplified, in many cases now allowing them to be awarded to firms without competitive tendering. And amendments to the investment law passed in April will place obstacles in the way of challenging contracts between state instances and private investors in court. The change also applies retroactively, and is likely to lead to the dropping of numerous corruption cases opened since 2011.

Outlook

Al-Sisi's development plans illustrate the fundamental dilemma that will face his presidency. To consolidate his power he draws on the support of groups whose interests are in important respects incompatible with the reforms required for the country's economy. But if state repression intensifies without economic development benefiting the broad population, renewed protests are likely. In that event it must be expected that political resistance will become increasingly radicalised.

Germany and the European Union have very limited influence on current developments in Egypt, as financial assistance from the three Gulf monarchies makes the country largely independent of Western development funding in the short term. But in view of Egypt's precarious budgetary situation, even the Gulf billions will not suffice to turn the economy around. So in the medium term the West could regain its leverage.

Future economic cooperation with Egypt should prioritise budget consolidation as outlined in the IMF support plan. If the European Union supplies budget support it must include, as recommended by the European Court of Auditors, stricter conditionality in relation to human rights than has been the case in the past. At the state level Germany and the European Union should do considerably more to promote budgetary transparency and effective market oversight. Here cooperation with carefully selected Egyptian institutions is recommended, such as the hitherto toothless Central Auditing Organisation and the Egyptian Competition Authority.

SWP
Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs

Ludwigkirchplatz 3−4
10719 Berlin
Telephone +49 30 880 07-0
Fax +49 30 880 07-100
www.swp-berlin.org
swp@swp-berlin.org

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