

Challenges of Political Transition in Egypt

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Received Date: August 20, 2012

Accepted Date: November 9, 2012

Abstract

The Egyptian Revolution carries a challenging transition phase, that stem in some structural characteristics in the structure of power and socio-economic conditions of this country. Egypt has a legacy of almost 60 years of consecutive rule by men from the military and security forces usually have had a strong role in the politics. Meanwhile a growing part of Egyptians, from the lower-middle class, experienced a dramatic increase in hardship. This meant that most Egyptians did not benefit from the economic growth in recent years. While Egypt's economic and social policies were insufficient to address its main socio-economic challenges, their ineffectiveness primarily depended on political factors. Morsi government has not yet a good record in addressing these problems. The article tries to show that the privileged role of the Egyptian army in politics and the current socio-economic hardship are the main obstacles of transition to democracy in this country.

Key words: Egypt, Morsi government, Army, Socio-economic hardship, Democracy

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Introduction

Hosni Mubarak's regime and its power system enjoyed remarkable stability over thirty years. On 11 February 2011, after 18 days of mass protests, the Egyptian president was forced to step down, revealing the unsustainability of the political and economic system that had ensured his continuity for so long. While the revolution of January 25th led to a major success – the fall of Hosni Mubarak – Egypt's political future is still opaque and exposed to a number of risks. This paper highlights the factors underpinning the transition period in Egypt especially after victory of Morsi in election. The main question of the paper is what are the main obstacles of Morsi government to consolidate power as an elected government in Egypt? The answer as hypothesis of the paper is the privileged role of the Egyptian army in politics and the current socio-economic hardship are the main obstacles of consolidating democracy in Egypt.

An elected government in a semi-authoritarian situation: A Literature Review

The term semi-authoritarian is used to refer to a state or regime that shares both democratic and authoritarian features. According to Marina Ottaway, such states are "ambiguous systems that combine rhetorical acceptance of liberal democracy, the existence of some formal democratic institutions, and political liberties with essentially illiberal or even authoritarian traits."(2003: 12).

According to Ottaway, the late 1980s and early 1990s have seen the demise of many different kinds of authoritarian governments: communist states in Eastern Europe, right-wing military dictatorships in Latin America, and various others in Africa. Often, the governments that replaced them declared their allegiance to democracy and implemented genuine democratic reforms in the beginning, but eventually turned into semi-authoritarian regimes.(Ibid,14). Ottaway has called Mubarak regime in Egypt as an semi-authoritarian.

She explores obstacles of transition to democracy in this kind of regime. According to Ottaway, if an elected government took power there, it would face with many structural obstacles for producing the needed power to rule the country. As a result, the elected government may loss at least some of its legitimacy and popularity and this situation

may prepare condition for regaining power of anti-democratic forces.(Ibid,157-8).

Prior to the Arab Spring, scholars studying the endurance of authoritarianism in the Middle East had a tendency to take civil-military relations for granted. The security sector was, in their view, wedded to the civilian government. Most scholars have thus ignored studying of the role of the military establishment in the authoritarian regimes of the Middle East (Gause III, 2011: 83)

At the height of the Egyptian Revolution, protesters and international observers alike impatiently waited for then President Mubarak to step down as protests grew. Two weeks following the start of the revolution, the Supreme Council of the Armed Forces (SCAF) pressured Mubarak to leave power, taking control of the country. SCAF promised the return of civilian rule through a democratic process.

This promise was kept and Morsi government took power after victory in election but Egypt became the scene of a tug of war between liberals, Copts, and Islamists, and more importantly between the newly elected president, Morsi, and the military establishment.

If the Egyptian military were so invested in the maintenance of the authoritarian regime, one must wonder why it abandoned Mubarak, letting go of the institutions that had once benefited it in order to consent to democracy. The answer lies in the core interests of the Egyptian military establishment. After ensuring its self-preservation, the Egyptian military has been seeking to keep its autonomy from civilian encroachment. Three distinct instruments have been utilized to ensure this autonomy: formal recognition of the military role through legal mechanisms, informal rules followed by civilian political leaders, and economic independence. Before exploring these instruments further, it is important to review literature which investigates the civil-military relations in Egypt and the Middle East.

Egypt as a military dominated regime

In 2007, Steven A Cook offered a detailed study on civil-military relations in three countries of the Middle East: Turkey, Algeria, and Egypt. First, he established a distinction between a military dictatorship and a military dominated regime, the former being characterized by direct military rule, the latter by indirect rule and a strong military influence on political affairs (Cook, 2007).

In militarily dominated regimes such as these, several layers of formal and non-formal institutions have been established to allow the military “to rule without having to govern.” (Ibid, 2). Both the constitution and structure of these governing bodies are examples of formal institutions that support military influence. A “democratic facade” is built to respond to demands from society while maintaining the authoritarian regime. This facade also shields the military establishment from popular discontent (Ibid,9).

On the other hand, the rules of succession for the presidential office are an example of a non-formal institution: under the authoritarian regime, Egyptian presidents have always been former military officers (Ibid,139).

According to Cook, civil-military relations in Egypt before the revolution were more than purely transactional: because the president had a military background, he shared the same worldview and interests as the military, however; the president could sometimes be challenged by rivals from the military ranks, or possibly see one of his policies defied by the military establishment. Therefore, the military only intervenes in politics when its core interests or broader political order are threatened. (Ibid,18). Although Cook reminds us that the military and civilian governments are two distinct entities, he nevertheless tends to collapse them into one unitary actor, making it difficult to distinguish their separate interests and actions. This difficulty reappears in an article written by Eva Bellin in 2004, a piece which discusses security apparatuses; however, she points to specific commonalities in civil-military relations in the various states of the Middle East. According to Bellin, civilian leaders and military establishments in states of the Middle East possessed a “veto power on the other,” thus producing conflation between civil and military institutions. The robustness of the coercive apparatuses in the states of the Middle East, as well as their will and capacity to repress popular mobilization, has contributed to the maintenance of authoritarianism in the Middle East. It is this robustness that has made the entire region resistant to any wave of democratization (Bellin, 2004: 143).

Bellin points out that the robustness of the coercive apparatuses in the Middle East relies on four factors: fiscal health of the military, maintenance of an international support network, a lack of institutionalization, and the low cost of repression (Ibid , 144-147). After the so called Arab Spring, Bellin returned to her 2004 analysis and

restated the same thesis, further specifying that fiscal health and the international support network of the military were exceptional to the Middle East and were particularly prominent in every state, including Egypt (Bellin, 2012: 126).

When looking at the Egyptian case, however, she observes that the level of institutionalization of the military was mixed and that the military was lacking the will to repress the crowd because it could have caused the defection of the rank and file (Ibid, 132; 134).

In Bellin's analysis, the level of institutionalization is primordial to understanding how the coercive apparatus of an authoritarian regime can react to demonstrations. For Bellin, institutionalization does not refer to professionalism, political neutrality, or subordination to civilian control. Rather, it refers to the manner in which the military acts as a bureaucratic entity with established rules of functioning: it is "rule-governed, predictable, and meritocratic." (Bellin, 2004: 145). Finally, institutionalization is contrasted with patrimonialism where ethnic/communal ties, cronyism, corruption, etc. are components of the military establishment and its relations to civilians (Ibid, 145).

For Bellin, the Egyptian military had strong economic ties with the Mubarak regime through crony capitalism, but was also well institutionalized. This could be further contrasted with Bahrain, wherein the military had strong communal ties with the regime, but had none with protesters.

Writing in 2011, F. Gregory Gause III seems to share a similar process of thought with Bellin. He identifies two factors as keys to the defection of the military during the Arab Spring: the social composition of the regime, the military, and society, as well as the institutionalization and professionalism of the military. Egypt was characterized by a relative ethnic/communal homogeneity; therefore, taking the side of the ruler or of the masses was not a straightforward choice for the military (Gause, III, 2011: 84). As a result, the military could play the role of mediator in the conflict between the masses and the ruler. Moreover, the military was not "the personal instrument of the ruler" and could thus see itself having an important role in a new democratic regime (Ibid, 84).

Contrary to Cook and Bellin, Gause does not conflate the regime with the military and, in both Egypt and Tunisia, sees the military establishment as an autonomous institution that can mediate a conflict between the ruler and the masses and, in some cases, take sides. It must

be noted however that Gause had the advantage of writing in retrospect to the events that took place in the Middle East in 2011. Holger Albrecht and Dina Bishara have also written in retrospect of the events of 2011, looking into the gradual takeover process of the regime by the Egyptian military following the Tahrir Square protests.

Over three months, three steps were taken by the military: crisis management (until the resignation of Mubarak), political management of the crisis (through SCAF's takeover of the leadership of the country), and the institutionalization of the management of the early transition phase (by legally establishing the role of SCAF as leading the country until a civilian ruler is chosen by the people). This gradual takeover process resulted from the contradiction between the low level of disposition of the military to intervene and their opportunity to intervene (Albrecht and Bishara, 2011: 15).

For Albrecht and Bishara, the Egyptian military disposition to intervene gradually became more pressing as the protests in Tahrir square increased in their intensity. The military disposition was further translated into the gradual takeover process of the leadership of the country (Ibid,17).

In accordance with Finer's remark regarding the unwillingness of a military establishment to rule in the long term, Albrecht and Bishara state that the ultimate goal of the military establishment was to prepare its own exit from active politics; the military thus ensured it would have continued influence on the following civilian government (Ibid,22).

The aforementioned authors offer valuable insight into civil-military relations in Egypt and the Middle East. Bellin and Gause both insist on the importance of the institutionalization of the military, their relations with the regime and the masses, and their financial autonomy. Cook's conceptualization of formal and non-formal institutions as regulating these relations is a good starting point to understanding why and how the Egyptian military supported a democratic transition. Albrecht and Bishara apply Finer's theoretical framework to show how the evolution of Egyptian military perceptions can change its strategies towards the civilian government.

Nationalist discourse of the army

Nationalist discourse has been a key in legitimizing the military in the eyes of the population. It was one of the principles legitimating the Free

Officer coup and was subsequently translated into the constitution (Cook, 2007: 74)

The military has been the guarantor of a socially just and stable regime, and of national unity against external threats. According to this discourse, the Free Officer coup of 1952 liberated the Egyptians from autocratic rule (Ibid, 28). After the 1967 setback, the military lost some of its prestige, but regained it in 1973 during the October War. The prestige of the military was further disputed because of Israeli-Egyptian peace treaty and United States military aid. The Muslim Brotherhood, at the forefront of this criticism, was responded to by the military by re-delineating the military command of national security (Ibid,88).

In nationalist discourse, the military was leading the development of the country into a just and dignified society. The discourse was further institutionalized through the democratic facade of the governing bodies of the Egyptian state. Discontent was channelled towards this facade, thus leaving the nationalist character of the military intact (Ibid, 104).

The military is overall well respected by the Egyptian people (Anderson, 2011: 4).

The police, however, are usually reviled and were the focus of the January 25 demonstration that finally brought down Mubarak's regime. When armed forces entered Tahrir square on January 28, three days after the beginning of the protest, they were embraced by demonstrators (Cook,2007: 87).

After protesters were attacked by hired thugs, the military insured security in Tahrir square by separating sides and controlling entrance to the public place. These protective measures were taken after the beginning of the attacks as a way to preserve the military legitimacy. Since the protest in Tahrir square was peaceful, the military was faced with a dilemma: to shoot or not to shoot the crowd? Violently repressing the crowd could have had a severe impact on the morale of the rank and file and would have affected the legitimacy of the whole organization (Bellin, 2004: 131)

The nationalist discourse has been important in legitimizing the military in the eyes of the population. Although the military has seen its popularity decrease after the 1967 setback, it has regained this popularity thanks to the successes of the 1973 campaign. The popularity of the military played an important role when the Revolution took place in Egypt. Finer has stated that the increased popularity of a military

establishment that is paralleled with the decrease in popularity of the civilian government offers an opportunity for the military to intervene with political affairs. It is thanks to the upheld nationalist discourse of the military that SCAF could effectively take over leadership of the country in February 2011. This can be observed in Indonesia, as well: after a political crisis under Wahid's presidency, the military's popularity increased. The subsequent president, Megawati, relied on the military to ensure that she would continue to rule

The Financial Autonomy of the army

The military in Egypt has constructed a network of enterprises that allow financial autonomy, something that will be discussed in further detail later on. The economic ventures of the military have depended on the goodwill of the government. These ventures have been shielded from privatization, and the military has been dependent on subsidies. Furthermore, the rule of SCAF has strengthened its financial autonomy by transforming the legal nature of its activities. Subsidies, Military Enterprises and Independent Revenues, Bellin has underlined the importance of the fiscal health of the military establishment: the provision of salaries and armament is key to a strong coercive apparatus. An international support network is related to the issue of finances, acting as an aid from a stronger power that can financially support the military (Ibid, 144).

It has to be noted that under Nasser Egypt has received the largest amount of Soviet aid, and under Sadat and Mubarak it has acted as the second most important receiver of American aid (Soliman, 2011: 27)

After the Free Officer coup, Egypt was turned into what Raymond Hinnebusch would qualify as a "populist authoritari[an]" regime. Statist economic policies were put forward as a power, such economic strategies were changed for *infitah* (opening) policies. In Hinnebusch's lexicon, Egypt moved from a populist authoritarian regime to "post-populist authoritarianism" Accordingly, economic liberalization was established so that a certain private sector would see to economic growth and competition for commission allowed the establishment of crony capitalism. Individual officers benefitted from this competition (Hinnebusch, 2006: 380-381).

In the eighties, a major change was brought to the financial structure supporting the Egyptian military establishment. Thanks to subsidies and

to joint ventures with domestic and foreign private investors, the military has established several economic ventures (Cook,2007: 19).

A distinct residential area has been built close to the military base and academy of Heliopolis for military officers to establish themselves in condominiums bought at subsidized prices. Educational and medical services are provided at special facilities and entrance to the military academy is highly controlled (Springborg,1987: 8).

Thanks to Arab capital and Western technologies, the military has been able to establish armament manufacturing that it has exported partly to Iraq (Ibid,8). Likewise, the military invested in food production and transformation, becoming one of the largest agro-industrial complexes in Egypt. It has also invested in the tourism industry, the manufacturing of civilian goods, the construction of major infrastructure, etc.(Cook,2007: 14).

The military claimed that this set of business allowed the government to lighten the military budget to allocate state resources to other sectors. This was not the case: since profits went directly to the military, state subsidies were drawing heavily from the budget. According to Robert Springborg, “on paper, these industries could well appear profitable while in fact constituting a large net loss in national income”(Springborg,1987: 19) The eighties also coincided with an increased proportion of military expenditures in total public spending although a peace treaty with Israel had just been signed. In the nineties, structural adjustment policies and the privatization of state enterprises were imposed; however, the economic assets of the military were left untouched (Cook,2007: 20).

Although military expenditure as a percentage of the total state budget declined in the nineties, the economic assets of the military had been firmly established and were profiting. Having guaranteed the financial autonomy of the military, the Egyptian state could thus channel military resources to the Ministry of Interior to ensure social order.

Governance Post Revolution: the dilemma of producing power

During the transition to a democracy from an semi-authoritarian regime, the state should undergo major public administration reforms. Considering the shift of the relation between the state and its citizens from control to responsiveness, the state’s administrative apparatus must also undergo major shifts. Good governance has several characteristics. It is participatory, consensus oriented, accountable, transparent,

responsive, effective, efficient, equitable, inclusive, and follows the rule of law. At a minimum, good governance requires fair legal frameworks that are enforced impartially by an independent judiciary, and requires that its decisions and enforcement are transparent or carried out in a manner that follows established rules and regulations.

Egypt has shown a decline in governance indicators, reflecting the need for institutional reforms as a pre-condition for building democracy during transitional phases, and it allows for the inclusion of the citizens in the decision-making process. This fundamental reform during transitions seeks to develop local self-government institutions and to increase overall quality and effectiveness of the state's governance system. Consequently, increase in the authority and capacities of sub-national government levels. In addition, decentralization, when appropriately structured, provides an arrangement through which critical issues such as national unity and indivisibility are countered; it ensures local development and equity in the distribution of resources, and hence local autonomy can be realized. Decentralization's aim is based on the subsidiary principle of bringing decisions closer to the beneficiaries at the most effective level of local government and therefore increasing effectiveness, transparency, and curbing corruption (Salwa Tobbala, 2010).

The economic impact of the 2011 uprising

Predictably, the uncertainty created by the ongoing political transition has deterred investment and depressed growth. GDP rose by just 0.2% year-on-year in July–September 2011, and the official rate of unemployment was 11.9%, up from 9.0% in 2010. The official figure is usually assumed to be an underestimate; anyone who works one hour per week is officially counted as employed.²² Yet there will be significant opportunities to strengthen the Egyptian economy if the political transition achieves a more accountable system of government with greater transparency and less corruption. Indeed, under an optimistic scenario, if there were greater investment in the human capital of the broad mass of the country's population, and a return of educated diaspora Egyptians, growth rates could increase significantly in the longer term. Reflecting this perception of opportunity, very few companies have so far

withdrawn their investments from Egypt as a result of the political transition.

The uncertainty dealt an immediate blow to key sources of foreign income – foreign direct investment and tourism – although gas sales and Suez Canal revenues have remained supportive. Lower inflows of revenue from exports, services, remittances and investment have placed downward pressure on foreign reserves and hence on the currency.

The assumption that real power is held by the SCAF has added to perceptions that policy is unpredictable and non-transparent. These changes tend to be of even greater concern to foreign investors than the country's short-term security challenges. Repeated U-turns over a proposed IMF loan illustrate the uncertainty over policy. In June 2011, the government said it would take a \$3bn one-year concessional loan from the IMF for budget support.²³ It then suddenly announced that it would not be taking up the loan, in a move generally attributed to pressure from senior generals concerned that foreign debt would constrain their independence. In January 2012, the government again declared its intention to borrow from the IMF. After months of debate in parliament, the finance minister said in late April that the loan would begin in May, nearly a year after it was first announced.

Socio-Economic problems and Governance

The Egyptian revolution carries a challenging transition phase faced with low foreign direct investment, a high budget deficit, a high debt rate, a high unemployment rate, a high poverty rate, and a low standard of living. Real gross domestic product growth rate is expected to be only 1.6% in 2010/11, down from 5.1% in 2009/10, see table 1. Economic Growth estimated to be between 1.7% and 2.5% for the rest of the fiscal year 2010/11 (World Bank 2011a).

Tourism

The tourism sector is one of the country's economic pillars; Egypt in 2010 had 14.7million tourists, but after January 25th tourism revenues dropped by 60 percent. Hotel occupancy rates decreased in the first four months of this year by 16 percent compared with the same time in 2010. Tension, destabilization and sectarian sedition lead to the drop in tourist reservation by 20 percent during January. Egypt

has lost around two billion U.S. dollars in tourism revenues due to this political unrest, according to official estimates earlier this month. Moreover, revenues from exports and the Suez Canal were not as affected as the tourism sector. Tourism has been negatively affected throughout the region, where the drop in arrivals was close to 45 percent in the first quarter of 2011 (World Bank 2011a).

Debt crisis

The debt represents 15.2 % GDP; this indicator comes among the best global levels, which ranged between 15.3% for the developing Asian economies and 66.0 % for North and Central European countries. Moreover, the indicator of debt service/exports of goods and services recorded 5.7 %, i.e. less than the global levels forecast for 2011 that ranged between 11.0 % for Sub-Saharan Africa and 55.8% for North and Central Europe, according to the IMF's World Economic Outlook (IMF's World Economic Outlook - Sept. 2011). On the demand side, the slowdown in economic growth was primarily due to lower share of capital formation (including the change in stock) that registered a negative 0.8 point (against a positive 1.6 point). An extra factor at work was the decline in the share of net external demand (exports of goods and services less imports of goods and services) that shifted from a positive 0.1 point to a negative 1.0 Point. Moreover, the rise in the share of private consumption (3.2 points against 2.9 points) made up for the weak contributions of the above items.

Balance of Payments and External Trade:

There are two basic factors that contributed to the overall deficit: the current account deficit which retreated by 35.9 percent to a record US\$ 2.8 billion (against US\$ 4.3 billion one year earlier), and the capital and financial account that unfolded a net outflow of US\$ 4.8 billion (against a net inflow of US\$ 8.3 billion). The decline in the current account deficit was brought about by the fall in trade deficit, the increase in net unrequited transfers, and the contraction in services surplus. The trade deficit narrowed by 5.3 percent to US\$ 23.8 billion (against US\$ 25.1 billion), reflecting the rise in merchandise exports by 13.1 percent to US\$ 27.0 billion, and a comparatively moderate rise in merchandise imports by 3.6 percent to US\$ 50.8 billion. Services surplus went down by 23.8 percent to US\$ 7.9 billion

(against US\$ 10.3 billion in the previous FY), due to the retreat in services receipts by 7.2 percent, combined with a rise in services payments by 5.8 percent, as illustrated below:

- Services receipts fell by 7.2 percent to US\$ 21.9 billion. Services receipts were mostly responsible for the decline: travel receipts (tourism revenues) decelerated by 8.6 percent to only US\$ 10.6 billion, other services receipts shrank by 27.8 percent to US\$ 2.7 billion, and investment income receipts almost halved by 49.5 percent to register US\$ 418.8 million. However, transportation receipts went up by 11.8 percent to US\$ 8.1 billion due to the 11.9 percent increase in Suez Canal earnings to US\$ 5.1 billion.

- Services payments augmented by 5.8 percent to US\$ 14.0 billion due to the rise in investment income payments by 24.5 percent to US\$ 6.5 billion, and transportation payments by 12.7 percent to US\$ 1.4 billion. In the meantime, government expenditures fell by 27.9 percent to US\$ 1.1 billion, travel expenditures by 9.2 percent to US\$ 2.1 billion and other services payments by only 0.5 percent to stand at US\$ 2.9 billion. On the other side, In FY 2010/2011, the volume of trade expanded by 6.7 percent, registering US\$ 77.8 billion (Against US\$ 72.9 billion a year earlier). The uptrend came on the back of the 13.1 percent increase in export proceeds to US\$ 27.0 billion (oil exports rose by 18.3 percent and non-oil exports by 9.1 percent). Imports increased as well, albeit at a slower pace than exports (3.6 percent), to register US\$ 50.8 billion, reflecting the rise of 15.2 percent in oil imports and the fall of 2.3 percent in non-oil imports.

Unemployment:

In the past 20 years Egyptian unemployment was fluctuating at a rather high level (8–12%). However, after the launch of economic reforms in the mid-2000s it started to decrease in a rather stable manner. Predictably, there was some increase (though not so pronounced as in most other countries) in unemployment level as a result of the global financial economic crisis, but in 2010 unemployment went down again, see figure 2. This increase in unemployment is one of the most significant issues in the short run because the increase in unemployment will result in to further reduction in production levels, and it will increase the burden on governments as they will increase government expenditure to pay more

unemployment benefits, resulting in a drop in economic performance (Farid, 2011).



Figure (2): Unemployment rate and employment to population ratio during 1999 to 2010

Source: World development indicator, 2011

Egypt's unemployment rate in the last quarter of 2010 was 9.5 percent; it has risen to 11.9 percent in the first quarter under the impact of the political unrest (CAMPAS, 2011). The World Fact book estimated a 3.2% increase in the unemployment rate in Egypt to currently beat a level of 12.2% instead of 9% just a year ago; this shows the shocking effect that the Arab Spring has had on Egypt's unemployment rate (Hagen, 2011).

Inequality:

The Gini index is most frequently used for measuring the level of economic inequality. Egypt had the following dynamics of Gini index, see figure 3. Thus, inequality index in Egypt was fluctuating around 30–33 points. Let us view how this low level of economic inequality inherent to Egypt compared against the global background is connected with a very specific character of Egyptian poverty which is one of the main causes of youth Egyptian revolution.

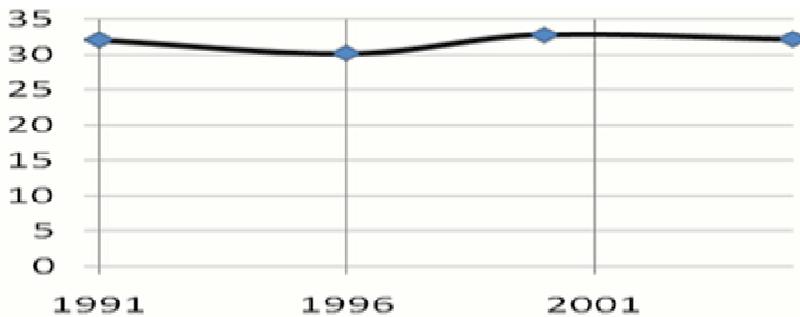


Figure 3- Economic inequality in Egypt during 1991- 2005

Source: World Development Indicator, 2011

Poverty and Subsidies

The common notion is that 40% of Egyptians live below the \$2 a day income poverty line. Remarkably, nobody mentions the Egyptian level of extreme poverty, i.e.: proportion of people living below \$1 a day income poverty line. At the peak of world economic boom when Egypt recorded annual economic growth rates of 7.2%, the proportion of Egyptians living below \$2 a day poverty line increased significantly from 17.8% to 23%. On the contrary, the global financial economic crisis was accompanied not only by economic growth rates slowdown, but also by a visible decrease in the proportion of Egyptians living on less than \$2 a day, from 23% to 19.5% (Gamal Siam and Hanady Mostafa Abdel Rady, 2010). Global economic post-crisis recovery led to the blowing of new price bubbles in the world food market, almost reaching or even exceeding the peak levels of 2008. Basing on the model by Gamal Siam and Hanady Mostafa Abdel Radi, we expect that the proportion of Egyptians living below the \$2 a day income poverty line should have reached the 2008 level by the start of the Egyptian Revolution.

In spring 2008 the protests against food price growth surged in Egypt. The central event was the strike of spinning and weaving factory workers in the industrial city of “Almahalla Alkubra” which started on the 6th of April, 2008. The worker s dissent was aimed first and foremost at the decrease of living standards caused by food price growth. Egyptian bloggers supporting the strikers launched a Face book group called the “April 6 Youth Movement”. It is known that this movement played a crucial role in the Egyptian Revolution 2011. Still more important was social self-organization through Face book which was first successfully tried in spring 2008 by this youth movement

and proved its efficiency in 2011 events (Andrey Korotayev and Julia V. Zinkina, 2011).

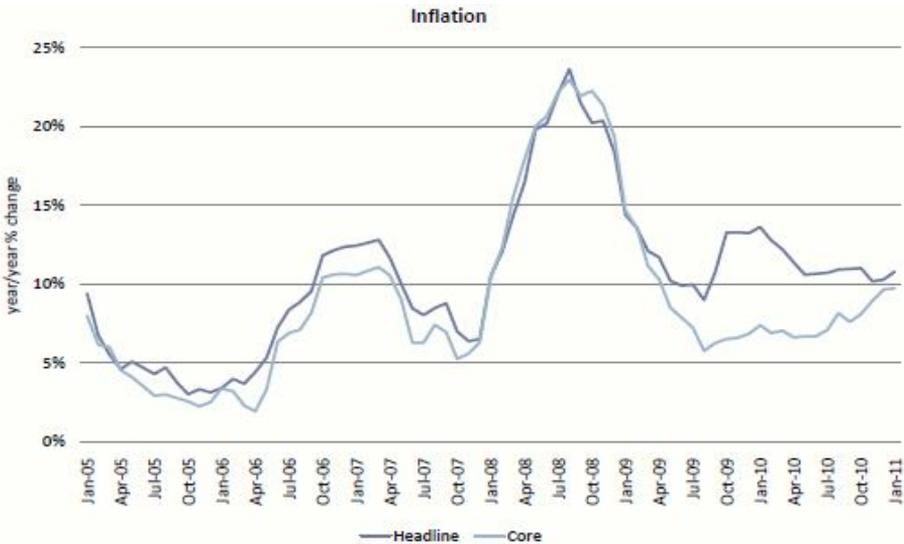
To overcome the poverty problem, the Egyptian government use subsidies to ease the burden of poverty. The Egyptian government spends more than \$15 billion a year on energy subsidies, and can't cut any percentage of this spending, otherwise it may face harsh public opposition. The temporary supply shortages that followed the upheaval coupled with rising international prices of food and fuel have been adding to the pressure on the domestic price level since early 2011. Thus the inflation rate is expected to increase from 11.7% in 2001/10 to 13.4% in 2010/11. Similarly, the current account deficit is expected to widen from 2.0% of GDP in 2009/10 to 3.2% in 2010/11 and then fall to 2.9% in 2011/12 as FDI inflows, remittances and the services balance remain vulnerable.

The Egyptian system of subsidies mitigated the strike blown by global food price rises to the poor. Indeed, the system does not cover all necessary food commodities. Besides, the average Egyptian family having a ration card bought at a subsidized price about 60% of its consumed sugar, 73% of oil and 40% of rice. The rest of these goods the family had to buy at market prices that are much higher than the subsidized ones, (El Nakeeb A.M., 2009).

Inflation

The increasing rate of inflation has a significant impact on the time value of money (TVM), as banks and financial institution increase the interest rates to compensate the erosion of the value of money due to inflation over the term of the debt instruments they offer. Annual CPI inflation averaged 11.8 percent in 2009/10, see figure (4). The first half of 2010/11 (July-December) witnessed relative stability in headline inflation rate (year-after-year). The monthly core inflation index accelerated in the first half of 2010/11 from 7.1 percent to 9.7 percent, driven by the rising prices of rice, poultry, edible oils and fats. Remarkably, there is convergence of the core and headline inflation rates.

Figure (4) inflation in Egypt during the period 2010-Jan 2011



Source: Central Bank of Egypt, 2011

It can be said that poverty and social injustice are one of the main reasons for the Egyptian uprising. Poverty is similar to terrorism and must be uprooted. The desperate poor people are also susceptible to radical beliefs that it is acceptable to kill anyone who opposes their interpretation of a religious text. Targeting the areas and residents living in abject poverty should be similar to how terrorist groups and strongholds are targeted. The sense of poverty is deepened by an inefficient economic system.

Conclusion

Although the military enjoys a relatively high level of credibility among many Egyptians and it has been trying to put on a civilian façade in the administration of the country, the extent of its commitment to real political change is unclear and ambiguous. While the military has fulfilled its promises for elections and the transfer of power to a civilian government, the political transformation it has in mind is likely to differ considerably from the one that protesters in Tahrir Square aspire to. This is due to the fact that the Supreme Military Council is drawn from men

who supported Mubarak's regime until his departure and have little interest in giving up their economic and political powers.

Egypt faces an economic crisis which Morsi has failed to counter despite coming to power in full knowledge of the scale of the issue. The country has been a slow-motion economic disaster for years. Rising prices and inequality were significant causes of opposition to Mubarak, and debt and foreign currency crises have grown in the turbulence since his fall. Morsi government has nonetheless largely unsuccessful in managing these problems and this makes him and new elected government in an unstable situation.

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