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THE EGYPTIAN MILITARY'S ECONOMIC SOLUTION: IS IT WORKING?

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Egypt has many challenges in its domestic economy, either inherited from Hosni Mubarak's era or arising during the years of political turmoil and instability that followed the 2011 uprisings. During his first term as president, ex-field marshal Abdel Fattah al-Sisi's military regime tried to resolve the country's chronic problems in its own way. Al-Sisi's economic solution is based on two measures: rapid liberalization according to an IMF plan, and great reliance on the military's civilian enterprises to undertake major state projects. As such solutions have been arousing public discontent, it is not clear whether they will eventually work out – especially if they continue to be adopted in an upcoming second presidential term for al-Sisi.

This commentary will briefly detail these measures and illustrate their outcomes. Egypt officially transitioned into a market economy in the early 1990s, which entailed fundamental cuts in public spending. A large item of such spending is government subsidies, which were inherited from the 1960s's

socialist state. Mubarak's successive cabinets of neoliberal ministers were reluctant to eliminate food and other subsidies that benefited the lower and middle classes for fear of mass riots. In the summer of 2014 – immediately after winning the presidential election – al-Sisi began his first term with sudden decisions to significantly reduce food, gas, and electricity subsidies. By his midterm, al-Sisi's regime had already secured a large IMF loan of \$12 billion, which necessitated another economic shock to fix the country's budget deficit and reduce public spending. After drastic devaluation of the Egyptian pound, the government proceeded with more cuts in bread, gas, and medicine subsidies – amidst severe shortages and inflating prices of these basic goods.

However, the rationalization in government spending did not apply to the ruling military institutions: the army's expenditure on new arms deals skyrocketed during al-Sisi's first term. From France alone, one deal for Rafale jets cost €5.2 billion and another for Mistral warships cost around €1 billion. The Ministry

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of Defense took loans from French banks to cover these deals. In addition, al-Sisi annually increased the military's allocations in the national budget. The Armed Forces received an increase of LE8.3 billion (about \$1.2 billion) in fiscal year (FY) 2014/2015, and most recently in FY 2017/2018 it received another increase of LE 4.7 billion (around \$266 million). He also repeatedly increased military pensions for retired officers.

In addition to ruling the country, the Egyptian military owns a vast business empire that invests in almost every civilian economic sector, from manufacturing to services. This empire developed in the 1990s-2000s¹, but it recently expanded enormously as al-Sisi has heavily relied on military contractors and manufacturers to undertake public construction projects and provide the government with goods. Functioning above the free market's competition rules, military contractors directly receive government commissions to build roads, bridges, schools, hospitals, highways etc. Military factories provide the Ministry of Health with drugs produced in their pharmaceuticals plants, the Ministry of Power with electricity meters, the Ministry of housing with water sanitation equipment, and much more.

Al-Sisi's regime has embarked on several mega projects and assigned them to military engineers, but these gigantic ventures were not always managed with sufficient business experience and competence. The Engineering Authority of the Armed Forces (EAAF) took charge of al-Sisi's ambitious project of digging a "New Suez Canal," an extension parallel to the old canal. National banks is-

sued investment certificates to sell to civilian citizens, and succeeded in collecting LE64 billion (around \$9 billion) of their savings to fund the project. Al-Sisi ordered the EAAF to complete the project within only one year, instead of the originally scheduled five years, which required tapping into the country's limited reserves of foreign currency to hire international sub-contractors and rent advanced equipment from them. Ex-vice admiral Muhab Mamish, head of the Suez Canal Authority, promised that the project would increase the canal's annual revenue by LE40 billion per year (\$5.5 billion).

Have these policies worked so far? Evidently, there are limited signs of their success, which generates public discontent with the regime.

The expedited economic liberalization scheme has not adequately brought foreign direct investment back into the country yet. Whereas Egypt's FDI peaked to \$11.8 billion in 2007, it remained lower than this figure with \$8.1 billion in 2016, which is mostly Arabian Gulf capital and with little technology transfer involved. As a result of the scarcity of foreign investment, the unemployment rate remains high: it reached 11.6 per cent in 2017. Instead of economic prosperity, the hasty liberalization scheme has brought about new waves of mass protests. In early 2017, bread riots erupted in reaction to the decision of the Ministry of Supply – headed recently by two ex-generals in a row – to decrease amounts of subsidized bread for lower-class families. Security forces dispersed the protests across the north and south of the country. Similar protests erupted in reaction to severe shortages in medicine and baby formula after cutting their subsidies.

The economic value of the public mega projects executed by the military has come un-

¹ For detailed info on the military business empire see: Zeinab Abul-Magd, *Militarizing the Nation: The Army, Business, and Revolution in Egypt*, New York, Columbia University Press, 2017, ch. 3.

der harsh scrutiny. For example, the military engineers financially mismanaged the Suez Canal's extension project, as its high cost drained the country's reserve of foreign currency. The Egyptian Central Bank suffered a crisis of dollar shortage as a result, and its head was sacked after asserting that the project consumed huge quantities of his bank's foreign currency to be unnecessarily completed in a short period. Moreover, despite the regime's ambitious promises of sizable increases, the Canal's annual revenue declined as soon as the extension opened, due to slower international trade. It dropped from \$5.46 billion in 2014 to \$5 billion in 2016. The potential contribution of other mega

projects managed by military engineers, such as the "New Administrative Capital," to economic growth are similarly questioned. Economist Galal Amin asserts that they are merely real estate investments, rather than long-term economic development ventures, mostly funded by oil money and serving the upper classes in a "hungry country"².

Al-Sisi will win another presidential term in this month's election. Along with other generals and ex-generals in the military ruling elite, it seems unlikely that the current economic policies will change. Since they have not worked well during his first term, it is doubtful that Egypt's increasing economic dilemmas could be resolved in the foreseeable future.

² Galal Amin, "Tanmiya Iqtisadiyya am Tanmiya 'Aqariyya," al-Shorouk, 14 April 2015; Raniya Badawi, "Galal Amin Ustadh al-Iqtisad bi-l-Jami'a al-Amrikiyya: Tajdid al-Khitab al-Dini fi Balad Ja'i' Madya'a li-l-Waqt," al-Masry al-Youm, 5 May 2015.