PRAETORIAN SPEARHEAD

THE MILITARY ROLE IN THE EVOLUTION OF EGYPT’S STATE CAPITALISM 3.0

Yezid Sayigh
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Military involvement in the Egyptian economy is giving rise to a new version of state capitalism. Driven by Arab socialism in the 1960s and reshaped by privatisation in the 1990s, under President Abdel-Fattah el-Sisi the state has sought to bend the private sector to its capital investment strategy while continuing to profess commitment to free market economics. His administration seeks private sector investment, but exclusively on its own terms. This is demonstrated through the expansion and diversion of military economic activity in five sectors: real estate development, creation of industrial and transport hubs, rentier or extractive activities related to natural resources, relations with the private sector, and the effort to increase the state’s financial efficiency while seeking private investment to help capitalise the public sector. This approach may generate macro-level economic growth and improve the efficiency of public finances, but it also reinforces the grip of the state rather than consolidating free markets. Reflecting this, private sector investment in the economy is lower today than it was in the socialist phase of the 1960s.

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As my report ‘Owners of the Republic: An Anatomy of Egypt’s Military Economy’ details, the involvement of the Egyptian Armed Forces (EAF) in providing public goods and services and in generating income has undergone a significant transformation in both scope and scale under President Abdel-Fattah el-Sisi, in comparison to the era of his predecessor Hosni Mubarak. While this is partly a predictable outcome of the EAF’s political ascent since seizing power in 2013, it is even more a reflection of how Sisi has gone about the twin tasks of revitalising the national economy and reinvigorating public finances since he assumed the presidency in 2014. The president does not have a clear economic blueprint, let alone a sound understanding of market dynamics, but his relentless drive to generate capital – while preserving intact the regime maintenance logic that has underpinned successive administrations since the establishment of the republic in 1953 – is giving rise to a new version of Egyptian state capitalism.

Egypt has come a long way since then-president Gamal Abdul-Nasser established its state capitalist model in the early 1960s, often labelled ‘Arab socialism’. Following on the land reform and ‘Egyptianisation’ of the private sector of the 1950s, this state capitalism version 1.0 transformed social relations and shifted capital formation decisively into state hands. Version 2.0 emerged out of the two main waves of privatisation that took place under President Hosni Mubarak between 1991 and 2009, which resulted in a major reduction of state ownership of assets and of its share of overall production of goods and services. Most salient about this version of Egyptian state capitalism, however, was the centrality of political ‘connectedness’ to the profitability of both private and public business sector companies, as economists Ishac Diwan, Philip Keefer, and Marc Schiffbauer have shown.

Sisi is modifying the model yet again, reclaiming the state’s centrality for setting parameters for decision-making by all economic actors and bending the private sector to its capital investment strategy, even while continuing to profess official commitment to a free market economy. Version 2.0 of state capitalism was especially notable for the crony partnerships formed between the president and his two sons, core members of the ruling National Democratic Party, and connected private sector businessmen. In contrast, the administration that took shape after the military takeover of power in July 2013, and especially after Sisi assumed the presidency in May 2014, has held former Mubarak cronies at arm’s length. Nor, notably, has it cultivated new cronies among independent big businessmen, although a coterie of favoured lesser businessmen is emerging, whose common denominator is connections to the presidential office and the military or to their local extensions, such as provincial governors.

However, state capitalism version 3.0 is far from being a simple reversion to the model that Nasser built, whether socially or economically. For one thing, Nasser pursued a path

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2 Ibid.
that redistributed wealth and transformed social relations, above all by widening peasant ownership of land and by expanding and empowering both the working class and a large new middle class through state-funded industrialisation, universal free education and healthcare, and employment in a massively increased state bureaucracy. The Sisi era, in contrast, is marked by regressive fiscal policies and a resultant sharp widening of income disparity, reflected in deepening poverty, contraction of the middle class, and concentration of wealth and privilege in the top social tier. Although major public spending lies at the heart of state capitalism 3.0 as it did under Nasser, Sisi’s revised version takes real estate and construction as its main driver and issuing government bonds as a main source of foreign capital, rather than manufacturing and the associated expenditure on industrial base and technology acquisition.

Rather, the more striking parallels arise between the economic model emerging under the Sisi administration and that followed by its closest allies in the Gulf, the United Arab Emirates and Saudi Arabia. This is not accidental, as he consciously emulates them. In both cases, achieving greater efficiencies within the state sector while promoting revenue generation through commercialisation of state-owned assets including land and other natural resources (rather than from expanding direct taxation) are major policy components. Lacking the kind of oil and gas-based wealth that allows Gulf monarchies to sustain rentier economies, Egypt’s state capitalism version 3.0 reinvents parasitic capital extraction from the larger economy. Because the state’s tax revenues are declining – due to the stagnation of business and contraction of income and disposable capital for most Egyptians, even before the COVID-19 pandemic – the extractive mode drives the need for yet more extraction. This downward spiral is slowed only by constant infusion of capital assistance from foreign partners, and by Sisi’s efforts to streamline extraction from both the public and private domestic business sectors.

As fundamental a difference between Egypt and the GCC economies is the role of the military in the transformation of economic and commercial activity under Sisi. By its own claim, the military employs five million people, the vast majority in the various public works projects it undertakes for the government. Virtually all are in fact employed by

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6 I owe this and numerous other insights in this paper to Robert Springborg, private correspondence dated 19 September 2020.
private subcontractors working for the military, and the stated number merits a great deal of skepticism (as does the method of calculating it), but it is indicative of the trend. As this paper shows, Sisi relies increasingly on the military to spearhead the evolution of state capitalism version 3.0. His approach may help generate macro-level economic growth and improve the efficiency of public finances in the short term, but its principal outcome is to reinforce and perpetuate the grip of the Egyptian state, rather than create and consolidate a free market economy, and to deepen Egypt’s shortage of capital.

These trends are demonstrated through the expansion and diversification of military economic activity in five sectors that serve the Sisi administration’s evolving version of state capitalism: real estate development, creation of industrial and transport hubs, rentier or extractive activities related to natural resources, relations with the private sector, and the effort to increase the state’s financial efficiency while seeking private investment to help capitalise the public sector. The first three sectors reproduce and revise aspects of the rentier economy under Mubarak, but the latter two modify and combine them in ways that add up to a more substantive shift overall. The following sections discuss the logic driving state capitalism 3.0, before turning to illustrate each of these five sectors. The paper then reviews the ‘shell game’ financing of state capitalism 3.0 and the centrality of the military to the entire model, and concludes by assessing the consequences of Sisi’s effort to maintain a rentier political economy with insufficient rent.

State Capitalism 3.0

If state capitalism is defined as an economic system in which private capitalism is modified by a varying degree of government ownership and control, then it never went away in Egypt. Despite significant degrees of both full and partial privatisation, state-owned enterprises continue to undertake significant commercial activity. Although their share may be further reduced if the plan for additional (albeit partial) sell-offs that has been stalled since 2018 is finally put into action, the reach of Egyptian state capitalism might not be seriously diminished. As Khalid Ikram, a former director of the World Bank’s Egypt department observed as recently as 2018, government interventions through laws and regulations in many economic sectors remain so widespread that they virtually determine the level and composition of output, even though these sectors formally are in the hands of private decision-makers. The ‘footprint’ of the government in the Egyptian economy remained much more extensive than might be inferred from traditional criteria, such as the ratio of government expenditure to Gross Domestic Product (GDP). An unusually frank World Bank report released in December 2020 reaffirmed that ‘the presence of SOEs [state-owned enterprises] in almost every sector feeds a perception of widespread activity and even overstretched, while the multitude of governing laws and ownership frameworks under which they operate makes their identification difficult and complex’.

The net value of military ownership or control of economic assets and income from the sale of goods and services produced or procured by various military agencies is far smaller than many portray, though it is now considerably greater than on the eve of Mubarak’s ouster a decade ago. What the growth in discretionary funds controlled by the Ministry of Defence allows it to do is significant, nonetheless. It allows the military to increase fringe benefits and cement loyalty among the rank-and-file, build a war chest from which it can bankroll the development of military infrastructure and arms acquisitions (where these cannot be funded by foreign assistance), make politically targeted media acquisitions and stimulate donations to bodies such as Tahya Misr (Long Live Egypt), Sisi’s pet social welfare and development fund.

This does not mean that the elements of Sisi’s approach are bound together within an integrated strategy. Rather, what they share is that they are all driven by his determination to secure capital, his conviction that bringing the concentrated power of the state to bear constitutes the most effective strategy for achieving this, and his use of the military as a spearhead. Indeed, given the withering of most sources of capital, the drive to generate it is less a choice for Sisi than an absolute necessity if he is to maintain his governing coalition of state institutions. The further, critical implication is that Egypt’s state capitalism 3.0 is locked onto a path of mainstreaming the military’s role in economic management and revenue generation, not due to any economic grasp or commercial acumen it may claim, but because it is both the most politically dependable and powerful coercive agency of the state. Paradoxically, the principal consequence is to reinforce the structural shortcomings of the economy and propel a downward spiral.

Reproduction and Revision

Real Estate

A major plank in Sisi’s approach is massive state investment in creating real estate. In effect, real estate now fulfils the role of heavy industry in the Nasser era, as a primary recipient of public investment and vehicle for generating revenue, driving economic growth, and attracting private investors. Much of this effort is managed by the EAF’s Engineering Authority and Mega-Projects Department, in coordination with the New Urban Communities Authority (NUCA), which is heavily staffed by EAF retirees. This includes construction of three ‘smart’ cities (so-called because they use digital technology to improve energy efficiency and provide permanent surveillance for service provision and for policing) targeting upper-middle-class customers with luxury housing, facilities and beach fronts, mimicking the Dubai model. Other urban projects are intended specifically for less wealthy middle-class families, and still others as dormitory cities for workers in new industrial zones being established in the Suez Canal zone and at military-managed land reclamation sites in Upper Egypt.

The exact cost of these various urban schemes is unclear, but they account for part of the huge tranche of ‘national projects’ that received 4 trillion Egyptian pounds (over $200 billion) in government funding in the four or five years leading up to November 2019,
according to Sisi.10 First phase works for the new administrative capital being built east of Cairo had alone absorbed nearly ten percent of total spending (EP300 billion, or $19.05 billion) by January 2020.11 This military-managed mega-project comes with a projected five-year price tag of $58 billion by 2022.12

The difference in sheer scale of national projects under Sisi and his attachment to grandiose ‘edifice’ projects sets him apart from Mubarak.13 That said, official figures show that infrastructure did not, in fact, consume the bulk of public investments in 2013–18. As I have shown elsewhere,14 total public investments averaged around EP312 billion annually in this period, while infrastructure did not exceed a level of EP60 billion annually, suggesting that housing probably accounted for the lion’s share of state-funded national projects.15 Furthermore, a very large share of spending on housing related specifically to major urban construction projects and vanity schemes that embody the drive to create premium-value real estate.

Also setting Sisi apart is his attempt to steer real estate from being a speculative free-for-all by both private actors and corrupt public officials to deal in land released by the state, as it was in the Mubarak era. This is not to suggest that crony speculation and profiteering by state agencies and officials has ended by any means, but rather to underline the shift to a large investment gamble that leaves the state as the principal shareholder. However, although anecdotal evidence suggests considerable demand for apartments in the new beachfront cities, it is unclear that the state will indeed recoup costs, given that 50–60 percent of the population is now below or at the poverty threshold, the middle class is shrinking, and there are few (if any) foreign or expatriate customers.

14 Sayigh, ‘Owners of the Republic’.
The fact that investments can be made on an unprecedented scale in white elephant and prestige projects reflects both the overweening ambition of a president who openly disdains economic feasibility studies and his need to purchase the loyalty of the institutional constituencies of the governing coalition he heads. Consequently, the military presses ahead with schemes such as the new administrative capital, despite not knowing how to ensure sufficient water supply for the seven million inhabitants it is designed to host and despite upwardly spiralling costs. But there also are striking parallels with the real estate bubbles and ‘smart’ cities of Gulf allies. The New Administrative Capital is arguably the foremost example of this ‘me-tooism’, although the coastal city of New Mansourah in the Nile Delta also mimics Dubai’s artificially created palm frond waterfront.

Evidently, Egypt lacks the capital that its Gulf counterparts have. But even the progenitors of extravagant investment in new cities – such as the futuristic city of Neom in Saudi Arabia – are encountering similar problems, even if they are much richer. Rather than change course, however, the response of the Sisi administration has been to double down. In September 2020, for example, Prime Minister Mostafa Madbouly announced that 20 new cities along the lines of the new administrative capital were planned, with the aim of absorbing population growth. This was ironic, since housing costs in these projects are well above middle class incomes, and since the nearly 30 new cities constructed by 2017 accounted for only 3.8 percent of Egypt’s annual population increase, or roughly one-third the rate needed to start reversing overcrowding in the Nile valley. Doubly ironic is that the premium placed on real estate has driven investor speculation, leading to a glut of 12.8 million apartments under construction or vacant in 2018 according to the estimate of the Central Agency for Public Mobilisation and Statistics.

Infrastructure

The creation of major industrial, transport, and service hubs forms the second pillar of an evolving state capitalism in which military agencies are once again the spearhead. These concentrate in the Suez Canal zone and along the Red Sea coast, where several clusters of industrial zones, associated ports and highways, worker cities and at least one up-market ‘smart’ city, and chemical industries are being constructed under military management.

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19 According to estimates by urban planning consultant David Sims, using figures published by the Central Agency for Public Mobilisation and Statistics (CAPMAS); cited in Leslie Cohen, ‘The Desert, a Resource Curse: Could Land Be Egypt’s Dutch Disease?’, Cairo Review of Global Affairs (Spring 2019).
A preeminent military role in this broad region is virtually inevitable: the EAF regards the Suez Canal and adjacent Sinai Peninsula as of prime importance for national defence and treats both as its exclusive economic preserve. EAF retirees additionally dominate provincial government and major bodies such as the Suez Canal Authority and its affiliated state-owned companies and almost all port authorities. Half of the EP600 billion spent by the government on development in Sinai by April 2020 had been administered by military agencies.21 The National Service Projects Organization (NSPO), a Ministry of Defence affiliate, also owns several production sites in Sinai and in the Red Sea littoral, parts of which are officially designated as ‘strategic areas of military importance’.

Developing these hubs plays to Egypt’s advantages of straddling an important global trade route and offering services to shipping transiting through the Suez Canal. Investing heavily in basic infrastructure in this zone also makes economic sense by signalling determination to attract business. But goals, priorities and pace are all set by state agencies. Civilian ministers and senior civil servants moreover take a back seat to the Ministry of Defence and to influential EAF retirees who head bodies operating in the region that are nominally under government control but in reality work more closely with the military and the president.

This presents problems. Projects are routinely conceived and implemented on a massive scale, when smaller pilot schemes would be better suited to test investor appetite, allow flexibility and adaptation, and assess environmental impacts. Huge housing projects assume that large numbers of Egyptians will flock to new worker cities and entrepreneurial clusters from other parts of Egypt, although few of the 27 so-called ‘desert cities’ constructed over the past four decades have met their population targets. Presenting new development hubs as a means of tackling unemployment in impoverished areas such as Upper Egypt, as Sisi has claimed, overlooks the fact that they can succeed only by drawing skilled labour away from those areas, impoverishing them still further.

These problems stem to a large degree from the lack of feasibility studies and forward economic planning, itself partly the result of presidential hubris. The expansion of the Suez Canal offers an especially revealing instance of the egregious consequences. Launched by Sisi in 2014 and managed by the Ministry of Defence, the project was accompanied by confident assertions that it would double earnings from shipping transit fees to $13.5 billion by 2023. However, this ignored the stagnation of global trade that was already in evidence, the decline of oil exports to the West, the upgrading of the Panama Canal, and the opening up of the alternative Arctic route due to global warming.

The scale of real estate and infrastructure projects underlines the importance of state control over land and other natural resources such as water in what remains a heavily rentier economy. It also helps explain the confidence, if not abandon, with which the president and government have launched capital-intensive projects requiring extensive access to land. Rent-based activity is far from new, but its intensification under military management constitutes a third feature of state capitalist evolution under the Sisi admin-
istration. In addition to its overriding say over allocation of land in designated strategic zones, the Ministry of Defence has both direct and indirect forms of legal control over the use of all state land, estimated in 2006 to encompass 90–95 percent of Egypt’s total surface area.\(^{(22)}\) Both the Bank and the International Monetary Fund (IMF) regard this as one of the most important impediments to private sector activity, but the Egyptian authorities resist reforming it.\(^{(23)}\)

The military has other advantages relating to land. Sisi has used the power to designate any part of national territory as a strategic zone to place 21 inter-city highways and a two-kilometre strip along either side under military control, granting the Ministry of Defence full economic usufruct over them. This enables it to charge tolls, run or award commercial franchises (including for roadside services and advertising), and potentially lay and monitor telecommunications networks (including fibre-optic cabling). The ministry had already sought, and failed to dominate the latter sector since 2014, when it made a bid to form a monopoly infrastructure company jointly with other state institutions, in which it would hold a 51 percent share.\(^{(24)}\) The award of permanent legal control over national roads may therefore offer a backdoor to the dominion it seeks. Offences, accidents, or business disputes occurring on or relating to these roads moreover come under the exclusive jurisdiction of military courts, as is the case for all military zones and facilities.

**Extractive Sectors**

The acceleration of land reclamation and agricultural projects owned or run by the military since Sisi assumed the presidency highlights how state agencies are driving home these advantages over the private sector. The NSPO set up some of its earliest land reclamation in military zones in the south of the country in the 1990s, but it has undertaken massive greenhouse cultivation and fish farming projects in more densely populated areas since 2014. The NSPO moreover uses military conscripts as labour in what are in effect large state-owned farms, in what is supposedly a free-market economy. Sisi gave a sense of the scale during his inauguration of a new NSPO greenhouse farm in August 2019, anticipating that military-run food production would provide 10–15 percent of market needs.\(^{(25)}\) The Minister of the Public Business Sector, Hisham Tawfiq, appeared to confirm the trend to market concentration by complaining, a few months later, that the dairy sector was highly fragmented and ‘needs a giant project to avoid any crisis that may occur if individ-


Egypt is already below the threshold of water poverty and heading toward absolute water scarcity by 2025, prompting the government to restrict rice cultivation by civilian farmers in the Nile Delta, but the military enjoys unfettered access to water for state-funded projects and for its own. Along with the new cities being built under military management, NSPO projects are fed with water lifted from underground aquifers or transported by canal from Lake Nasser or the Nile river. This is a particularly energy-intensive and costly process, but the military is able to undertake it without regard to economic feasibility or environmental impact. This has enabled agri-businesses established by Gulf investors in some land reclamation schemes to receive water below true market cost, allowing them, literally, to export water. Not only are NSPO fisheries major consumers of fresh water, but they have been set up in prime locations: the lagoons of the densely-populated and farmed delta and of northern Sinai, and along the new Suez Canal expansion constructed under military management in 2014–15.

The focus on rentier activities has extended under Sisi to military involvement in the extraction and marketing of natural resources. Until 2014, military involvement was largely indirect and informal. This mostly comprised the bribes and illegal fees demanded by EAF retirees (and civilian officials) working in local government departments to issue quarrying and mining licenses to private contractors. Income did not accrue to the Ministry of Defence, but in 2015 a government decree required approval for the extraction of mineral wealth anywhere in the country and empowered it to levy fees on all output at production sites. The ministry moreover received exclusive rights to the proceeds of extracting and processing raw materials from mines and quarries found on military-controlled land.

Since then, the NSPO has built marble and granite plants with a production capacity greater than the country’s entire current output, putting it in a potentially monopolistic position. In 2016 it acquired a majority stake in the public company that controls Egypt’s sole black sands site, which produces heavy metals such as titanium and zirconium with an expected export value of $176 million annually. It also acquired a stake in gold pros-

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pecting, which alone accounts for 1 percent of GDP, and expanded its role in producing and marketing phosphates and fertilisers.\textsuperscript{32} The overwhelming majority of extraction sites are in military-controlled zones, through which the military both spearheads the expansion of the state’s stake in these sectors and injects itself into external trade.

Subordinating the Private Sector

The military’s expansion in at least some of these extractive industries poses a direct challenge to private companies. This reflects the fourth feature of the evolving nature of state capitalism under the Sisi administration, namely its reorientation and realignment of relations with the private sector. Although the latter accounts for 70–75 percent of GDP and of jobs, the state remains very much in the driving seat in setting economic goals and priorities, and is the sole investor in public infrastructure. With public spending estimated at 31 percent of GDP in 2016, the state is also the source of a large share of the private sector’s turnover, especially for large and medium enterprises.\textsuperscript{33} For Amr Adly, this is the institutional explanation for the lack of private sector market integration and underdevelopment that, in Egypt, gives rise to what he calls ‘cleft capitalism’.\textsuperscript{34}

The massive surge in public spending on housing and infrastructure since late 2013 has probably increased the share of business that private companies derive from the state, since they undertake the actual work. This has also amplified the centrality of political connections and nepotism in securing public contracts, especially for the military, which has the legal power to award contracts for projects it manages by ‘direct order’, or non-competitive bidding. Military agencies have leveraged the ability to grant or withhold contracts in order to extract greater than normal profit margins while compelling private companies to accept significantly smaller ones, or none at all, in the public works projects it manages. The latter represented approximately one-quarter of the total in 2014–18, indicating a significant transfer of private capital – in the form of denied profits or of compulsory absorption of state costs – in order to underwrite government schemes and benefit military-held funds.

Sisi has repeatedly portrayed state investment in infrastructure as a benefit to private companies, which are relieved of sinking their money into establishing industrial parks and the like. But private companies have shown relatively limited appetite to locate businesses in

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the zones most favored with state funding. This appears to be both consequence and
cause of the preference of the president and the military to privilege foreign investors in
the Suez Canal economic zone, in part because they can leverage international credit and
technology. The continuing ambiguity of the legal and regulatory frameworks governing
investment in ventures established jointly with military agencies or in strategic zones con-
trolled by the Ministry of Defence acts as an additional deterrent for domestic companies
from investing there.

The complete exemption of the military from the jurisdiction of civilian courts means
that business disputes involving it cannot be taken to arbitration. Poor enforcement of
contract and concerns over the military’s tax advantages also discourage foreign compa-
nies from investing in Egypt. But companies from countries whose governments have
good political relations with the Sisi administration – such as China, Russia, and Italy – are
likely to perceive a lower risk. And even when larger, well-connected Egyptian private
companies are eager to partner on military-supported projects, it can still take them years
to win approval, as was the case for the investment by Carbon Holdings in the massive
Tahrir Petrochemicals Complex on the Gulf of Suez. This makes military agencies what
Diwan, Keefer, and Schiffbauer dub ‘a large crony market leader’, at least in relation to
projects for which they manage the award of contracts. Their research shows that public
business sector and private companies that are politically connected receive bigger slices
of the subcontracting market, with the balance made up by a much larger number of less
productive small companies using vintage technologies and serving local market niches.

The fact that the administration has allowed six years to pass since it launched its
mega-projects without providing a suitable legal framework confirms both the power of
military interests and Sisi’s general view of economic development as first and foremost
a state-led affair. In theory, state investment could provide venture capital to open up
and develop new economic sectors, absorbing risk and then handing over to private com-
panies. This was certainly the rationale Sisi offered in April 2020 for military-managed
mega-projects in areas such as the East Port Said development zone. But he did more to
set the tone by berating the private sector at the same time for failing to invest in Sinai,
blithely overlooking the obstacles to its involvement. He similarly skirted the obvious
question of why private companies would invest in projects designed without consultation
with them and lacking feasibility studies, arguing that ‘the return on basic infrastructure
projects is national security … a price tag cannot be set on [this?]’. Clearly, Egypt diverges

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35 ‘Special Report: From War Room to Boardroom. Military Firms Flourish in Sisi’s Egypt’, Reuters, 16
37 Mohamed al-Gali, Samir Hosni, and Mohsen al-Bideiwi, ‘President Sisi: We Have Implemented
38 ‘Sisi: Are There Businessmen Ready to Construct Roads and Tunnels in Sinai at a Cost of Billions?’,
39 Nour Rashwan, ‘President Sisi: We Have Spent 600 Billion [Egyptian] Pounds to Develop Sinai, National
com/news/view.aspx?cdate=22042020&id=f0ccc532-5e07-40ee-b6ef-ca8df4458ed3 (accessed 6 January
2021).

sharply from, say, the East Asian model of state or state-sponsored capitalism, in which governments stimulated impressive private sector growth by leading investment in specific economic activities, creating industrial development funds, and providing other positive encouragements, especially making land available to private business.

Far from opening up new ground, military companies have expanded aggressively into tradable commodity sectors dominated by the private sector. The military had previously avoided these sectors, but at Sisi’s urging it has taken over ailing private companies or established new ones in the production of cement, steel, phosphates and fertilizers – all of which enjoy heavy trade protection. These markets were already over-supplied, and so military entry has inflicted severe losses on private producers who have had to reduce utilisation of existing capacity and stockpile unused materials and output. Previously, private companies benefited from joining public counterparts in protected sectors. But the entry of military companies into the same sectors under terms that allow it to set market price – that is, as both buyer and seller – transform the picture.

The shift of market share to military companies raises the costs of participation for private companies, who then burden the government with demands for compensatory subsidies. By September 2020, non-military cement manufacturers were suffering a 40 percent glut in capacity. The drop in market demand was worsened by the COVID-19 pandemic, but the steep decline had already started in 2018, when the massive new military cement factory at Bani Suef came online. Public sector companies have also been among the hardest hit. The Iron and Steel company, for example, had debts and arrears amounting to EP9.1 billion and losses of EP783.8 million by March 2020 (for a 410 percent ratio of losses to capital).

The above-mentioned acquisition of Egyptian Steel reveals another facet of state capitalism 3.0, namely the readiness of the military or other politically-connected agencies to exploit the financial travails – caused or at least exacerbated by their own interventions – of private companies in order to take over their market share or acquire them. In public, the military has justified its investment decisions in terms of breaking (non-existent) monopolies and stabilising supply and prices. But a more obvious factor is that the military feels that it can behave in this manner because military-managed public works and the military’s own enterprises offer it an assured market for its output. The Ministry

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41 For more on military expansion into the cement and steel sectors and the impacts on civilian manufacturers and markets see: Sayigh, ‘Owners of the Republic’, pp. 212–16.
42 The company’s problems were aggravated by the failure of the Egyptian Steel company, which was acquired by the NSPO in 2018, to honour a pledge to buy 230,000 tons of scrap iron from Iron and Steel. Confirmed in ‘Iron and Steel, All Possibilities Are Open’, Hapi Journal, 23 August 2020, available at: https://bit.ly/3bi6ma9 (accessed 6 January 2021).
of Military Production has applied a similar logic since 2013, using its newfound political influence to poach public procurement contracts from other government ministries that would normally have gone to civilian competitors (both private and public), thus assuring a captive market for its mostly loss-making companies.44

The powerful political position of the military – and of key security agencies such as the General Intelligence Directorate, which is extensively staffed by EAF officers – and the tentacular spread of senior EAF retirees throughout the state apparatus – adding a further layer of bureaucratic power – greatly enhances its leverage.45 This was translated into the purchase (often under duress) of a swathe of private media and broadcasting companies since 2014, and extends to the extortion of board membership or equity from private entrepreneurs in return for issuing the necessary paperwork allowing them to register start-ups. It also allowed the NSPO in 2017 to elbow private businesses aside to take its marble and granite production capacity to 80 percent of Egypt’s total, and then launch a phosphate and fertilizer factory complex in 2019 with a production capacity greater than the entirety of Egypt’s total output.46

Predatory behaviour is both justified and enabled by Sisi’s prioritising income-generation at apparently any cost. The president has fuelled the trend by legally empowering a growing list of military (and security) agencies to form their own commercial ventures. In December 2015, he moreover issued a decree authorising any government entity to establish public limited companies after obtaining cabinet approval, paving the way for expanded encroachment by both civilian and military agencies on the private sector’s share of various markets.47 The government went a step further in September 2020, when it reversed a 50-year contract previously given to private sector company KATO Investment in 1999 to construct and operate Alamein International Airport, in order to re-assign it instead to the Ministry of Defence.48

The Sisi administration seeks private sector investment, but exclusively on its own terms. It perceives generating income and providing commodities at affordable prices for select constituencies to be of overriding importance politically, and regards disruption to relations with the business community as a tolerable consequence. State control of land, external trade, and natural resources is clearly leveraged to maximise these ends. Sisi’s political priorities underlie his endorsement of the dumping by the Ministry of Defence and NSPO of large amounts of cheap imported chicken and meat in domestic markets to benefit low-income groups, undercutting and damaging local private producers. Similarly, in 2018 the NSPO joined three other state-owned companies in forming a joint venture aiming to be the ‘exclusive commercial agent of all phosphate producers in Egypt’, although twelve major private companies already serve the sector. The following year, Sisi placed land surrounding the major tourist destination of Hurghada and 47 Red Sea islands used by private tour operators under military control. The minister of tourism later hinted at the justification, accusing private tourist companies of ‘not contributing a single [Egyptian] pound to support tourism’.

Sugar-coating State Capitalism

These various developments embody the distinctive fifth feature of the version of state capitalism evolving under Sisi: the striving to streamline public spending and increase the state’s financial efficiency, while shifting part of the burden of state-led, capital-intensive activities onto private investors. In effect, Sisi seeks to trim and reallocate rents, utilising the military to spearhead and secure the process.

The Egyptian government has considerably reduced spending on energy and food subsidies since Sisi assumed the presidency, and brought the public sector wage bill down from its historic rate of 7–8 percent of GDP to 5 percent. The ratio of non-performing loans in the banking sector has been brought down to its lowest levels since the record high of 2005, a significant part of which is borne by state-owned banks that, by investing in other public entities, effectively buy their debt. And in September 2020, Sisi ratified Law 185 of 2020 (amending Law 203 of 1991 that established the public business sector), stipulating that state-owned companies incurring losses exceeding half their capital should be liquidated and allowing public sector companies to be placed under private management.

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(while remaining in state ownership). This is in addition to a planned overhaul of 127 companies in the public sector that are officially reported as collectively over EP45 billion in debt (although state-owned textiles companies incurred approximately EP49 billion in losses and debts alone), and to bring younger blood into company management.

Restructuring the remaining public business sector is a bold step, since it represents a further weakening of the core social constituency on which every presidential administration since Nasser has based itself and sought to appease. This followed two years of failed attempts by the government to privatise its loss-making businesses, which met considerable resistance from both managers and workers. In late 2020, the new law prompted an attempted flight of state-owned companies seeking to leave the Public Enterprise Ministry in order to find shelter from the new measures by seeking to be placed under other ministries.

Sisi has been more circumspect in tackling another important pillar of his public sector constituency and a major vested institutional interest, namely the discretionary ‘special funds’ held by many government ministries and agencies. Known more commonly by the unflattering label of ‘black boxes’ and numbering 6,061 in 2013, they were estimated a year later to hold $9.4 billion in deposits, which do not appear in the general budget. On Sisi’s order, the state treasury has charged a 10 percent annual levy on the special funds since 2014, raised to 25 percent in 2016, but their de facto status as ‘no more than companies belonging to the [state] entity that owns the funds’ has not changed. Apparently the

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Yezid Sayigh

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The president feels unable to dismantle the funds altogether and recover their deposits fully, highlighted by the exemption of the military’s special funds from the levy. Instead, he has directed government ministries to ‘become self-sufficient... and not become overdrawn on the state treasury’.58

These various measures have been insufficient to increase state revenue or generate capital on the scale the president seeks, however, compelling the government to borrow heavily. As a result, the public debt-to-GDP ratio reached an elevated 90.3 percent by June 2019, while foreign debt rose to $112.7 billion by December.59 The scale of borrowing is itself a reflection of the overweening power of the state, which means that the Sisi administration can incur sovereign debt at virtually any level it wishes in pursuit of its ever-widening array of ‘national projects’.60

The resort to borrowing reflects the failure of Sisi’s parallel striving to attract private sector funding for state-led projects and, when this fails, to allow the military and select state institutions to take market share away from it (as shown in the previous section). Sisi’s approach paid off initially. Domestic bank depositors invested EP32 billion in response to Sisi’s call for the Suez Canal expansion he launched in 2014 to be funded entirely by Egyptian resources.61 However, the government was able to repay the investment certificates on time in 2019 largely thanks to the 50 percent devaluation of the Egyptian pound in the meantime – indicating a roughly 50 percent ‘haircut’ in the dollar value returned to depositors. There have been no similar attempts since to finance public infrastructure exclusively with private capital.

The construction of an entirely new administrative capital demonstrates this. Announcing the project in 2015, the prime minister boasted it would not cost the Egyptian state ‘a single millim’, as it would be financed by commercial funding in partnership with private companies and foreign investors.62 The Administrative Capital for Urban Development

Company (ACUD), which manages the project and is owned jointly by the Ministry of Defence, NSPO, and NUCA, has maintained the fiction by claiming that it is funding construction with revenue from the sale or leasing of state land – which is, of course, a nationally-owned resource. In reality, borrowing is an important source of funds (as with the canal expansion), but this is increasingly at risk. Concerns about project viability prompted major Emirati firms to pull out, suspension of a $3 billion Chinese loan over concerns about repayment, and the failure of talks over a $20 billion Chinese investment.63 By May 2019, at most 20 percent of investment had come from abroad.64

A proposal touted by Sisi since August 2018 to float military companies on Egypt’s stock exchange offers further insight to his approach to financing. He has presented this as a magnanimous opportunity for private sectors to acquire shares in successful public enterprises, but in reality it constitutes an effort to offset the cost of subsidising them while enabling them to expand further into civilian sectors.65 For once, government ministers were visibly reluctant to embrace the idea, and Sisi finally shelved it, possibly because flotation would require financial disclosure and posed the potential risk of losing control of military companies to private shareholders.66

Instead, the Sovereign Fund of Egypt (Tharaa) has emerged as the president’s preferred vehicle to bring private investment into public entities and projects, while leaving the state – or, more accurately, the president – in control.67 Law 177 of 2018 establishing the fund awarded the president the power to transfer ownership of unused state assets to it, while shielding his decisions from judicial appeal.68 Parliament subsequently approved an amendment to the law in July 2020 additionally including ‘utilised’ state assets within the president’s gift.69

64 Aidan Lewis and Mohamed Abdellah, ‘Egypt’s New Desert Capital Faces Delays as it Battles for Funds’, Reuters, 13 May 2019, available at: https://reut.rs/396gqyn (accessed 8 January 2021). Anecdotal evidence shows that the military and the president’s entourage have alternatively coaxed and coerced some of the country’s best known private real estate developers into investing in the new capital, in the hope of projecting confidence and drumming up buyers to shore up funding for future phases of state-led construction.
66 For example, Minister of Public Enterprise Sector Hisham Tawfik was careful, if not downright evasive, when asked about Sisi’s proposal on national television; interview by Lamis al-Hadidi, 4 November 2019, al-Qahirah al ‘An, available at: https://bit.ly/3hSPng5 (accessed 8 January 2021).
This highlights the contrast with sovereign wealth funds in other countries that have large domestic savings and current account surpluses – both of which Egypt lacks. Unlike its peers, Tharaa relies in effect on rebranding under-utilised capacity or resources and inefficient companies. It is supposed to play the role of ‘an accelerator’ for placing select state assets under partial private control, according to Minister of Planning and Economic Development Hala El-Saeed.70 But in the view of one market analyst this makes it ‘a sovereign holding company’ rather than a sovereign wealth fund.71

A second important feature setting Tharaa apart from many of its peers is that it offers Sisi a means to avoid the rules and regulations that pertain to public funds. This moreover extends to oversight. The role of the state’s Central Accounting Agency, whose powers and independence have been steadily eroded by Sisi since 2015, is reduced from reviewing and auditing – assessing financial soundness and spending integrity – to merely submitting overall financial statements and activity reports to the president and parliament.72 Nor is it apparent that Tharaa submits to review by the Administrative Monitoring Authority, headed and overwhelmingly staffed by active duty and retired EAF officers, which is now Egypt’s most powerful audit agency.73

In this respect Tharaa is a scaled-up version of the Tahya Misr (‘Long Live Egypt’) fund that Sisi established in 2014. With a remit to support social and economic development among the urban and rural poor, Tahya Misr is financed through donations from the public, private businesses, and state agencies, and lies outside the state budget. A legal amendment issued in July 2020 stipulated that ‘the president of the republic will decree the method of supervising, managing and administering financial and administrative affairs of [Tahya Misr], in accordance with the nature and activity of the fund to enable it to carry out its mission without restriction by the governmental regulations referenced in any other law’.74 Crucially, while this model has been used elsewhere – Tunisia’s Fonds de Solidarité Nationale established by former president Zine al-Abdine Ben-Ali comes to mind – it is now being applied in effect to Tharaa as well.

The military is once again spearheading Sisi’s approach to financial and asset management. In April 2015, then Prime Minister Ibrahim Mahlab appointed the head of the Financial Authority of the Ministry of Defence as treasurer of Tahya Misr and an EAF brigadier general as its financial director.75 Not surprisingly, the president’s financial affairs


advisor is an EAF major general too. The overlaying of military and administrative roles is leading to further synergies. In February 2020, the company managing the new administrative capital, ACUD, revealed that it will transfer ownership of assets worth EP50 billion to Tharaa. This assures its military stakeholders future dividends from real estate sales and leases. ACUD was additionally granted ownership of the buildings in central Cairo that will be vacated by government ministries moving to the new capital, granting it more real estate in a prime location. In the same month, Tharaa also agreed to include ten NSPO companies in a portfolio of assets for promotion and investment, and in December announced that two were ready for public offer.

Egypt’s sovereign fund is emerging as a device to solicit private investors with the assurance of profits, in ways that maintain both state control over the assets and the opacity of their true finances. As if to further underline ambiguity about sources of funding and how it is spent, private businessmen have come under sustained pressure to donate to Tahya Misr, a practice that has spread far beyond large firms to include smaller businesses, such as hotels in popular tourist destinations, which reportedly are expected to make monthly donations. Indeed, the very fact that Sisi went out of his way to reassure leading businessmen in December 2015 that failure to donate to Tahya Misr would not lead to nationalisation or confiscation of their businesses spoke volumes about the nature of the relationship – as much as it did about his administration’s need for private capital and how little of it has been forthcoming.

A Familiar Shell Game

In September 2020, the Egyptian government approved establishment of a new agency under the Ministry of Finance that would have the legal remit to manage assets and funds reclaimed by the state and to invest them outside the general budget, with profits accruing to the state treasury. These include assets and funds that are recovered from cases of embezzlement, placed under government receivership, nationalised, or merely under-utilised. While increasing the efficiency of state resources makes obvious sense, it is typical

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80 Various anonymised interviews.
of Sisi’s administration that various ministries and agencies will bandwagon to undertake similar activities regardless of whether or not they are the best equipped to do so. In this case, the Ministry of Finance will duplicate to at least some degree what Tharaa was established to do.

More importantly, these investment vehicles so far add little to economic value by providing venture capital for the private sector to transform manufacturing, integrate technology, or upgrade services and increase commodity exports. Instead, they appear distinctly speculative. In effect, Sisi’s version of state capitalism is a variation on a familiar shell game: it transfers capital from the private sector and to the state, and from both to institutions he establishes or favours – most prominently the Tahya Misr fund, Tharaa, and the military. His approach offers higher efficiency, but remains crucially reliant on borrowing and politically-motivated foreign assistance to make up for fundamental economic shortcomings that his approach fails to address, let alone resolve: low productivity and declining investment, mounting public and foreign debt, and above all, a chronic shortage of domestically-generated revenue and capital.

After seven years of high-profile public spending on housing and infrastructure and on massive edifice projects such as the Suez Canal expansion and the new administrative capital, the Sisi administration has been unable to attract more than what the World Bank calls ‘sluggish’ foreign direct investment. Not only is most of this directed at one sector, energy, but it has moreover declined sharply since 2017.83 Egypt’s other productive sectors are left struggling with diminishing levels of private investment, domestic as well as foreign. In light of the inability to generate surplus capital from these sectors, the focus on real estate investment becomes all the more apparent as an especially large Ponzi scheme, or what Diwan, Keefer, and Schiffbauer label ‘pyramid capitalism’.

Nor has company performance – both private and public – shown signs of sustained improvement despite Egypt having had one of the highest nontariff barrier frequencies in the world until at least 2010.84 Indeed, campaigns launched by Sisi and echoed incessantly by government and military business leaders to ‘buy Egyptian’ and ‘resettle’ or ‘localise’ (tawteen) technology and manufacturing know-how in Egypt reveal the continued failings of a political economy model that successive administrations have remained adamantly resistant to restructuring. Touted as a means of reducing imports, achieving foreign currency savings, and increasing local content and economic value added, indigenisation has addressed none of the shortcomings that doomed Nasser-era efforts at import substituting strategies, and remains a mere slogan. Underscoring this, joint ventures assign much (if not all) of the actual manufacture or construction of technology-intensive projects to foreign partners, with Egyptian public companies doing little more than securing necessary bureaucratic permits, providing state land as equity, and assembling equipment or vehicles using kits supplied from abroad.

Reflecting these hard realities, Egypt ranked 140th worldwide in the economic globalisation index for 2017, having declined from a maximum (since 1970) of 62.93 points in

84 Diwan, Keefer, and Schiffbauer, ‘Pyramid Capitalism’.
2007 to 45.63 points, compared to a world average for 188 countries of 59.06 points in the same year.85 Three years later, the COVID-19 pandemic placed its political economy model under even greater pressure. In some respects, its trade and industrial protectionism does not differ from the worldwide trend, but it is far from harnessing the automation, online activity, advanced intellectual property generation, and data repository building that will determine which economies will bounce back in the post-pandemic global economy.86 An especially significant indicator in this context is that Egypt’s capital investment (purchases of new plant and equipment by firms leading to greater future production) stood at only 16.66 percent of GDP in 2018, compared to a world average based on 157 countries of 24.54 percent.87

New Management

The military is central to state capitalism 3.0, and to the consolidation of the political and social trends that are associated with it. Researchers stretching from Anouar Abdel-Malek to Zeinab Abul-Magd have highlighted its role in Egyptian state and society since the 1950s, but the fusion of its bureaucratic, economic, and ideological power and narrowing of its social base are peculiar to state capitalism 3.0.88 Presidential control over the EAF in the Nasser era was successfully contested by Defence Minister Abdul-Hakim Amer, Nasser’s successor Anwar Sadat engineered a more balanced relationship, while Mubarak secured EAF loyalty and political acquiescence by allowing it to acquire economic and bureaucratic sinecures that I have labelled elsewhere as the ‘Officers’ Republic’.89 Under Sisi, in contrast, the military is emerging as his full partner in remodelling the rentier state, reshaping its political, bureaucratic, and economic management. For Heba Khalil and Brian Dill, the military underpins ‘a seemingly conflicting model of statist neoliberalism, which partially seeks neoliberal reforms, while reinforcing the state’s centralised control over the economy’.90

EAF officers, whether in service or retired, both spearhead Sisi’s energetic drive to extend the state’s reach into all spheres and ride on its coattails. No central or local government initiative to reclaim land, expand agriculture, build new cities, or extend associated infrastructure now takes place without some measure of formal consultation with military agencies, even if they are not directly responsible for implementation. At the very

89 Sayigh, ‘Above the State’.
90 Khalil and Dill, ‘Negotiating Statist Neoliberalism’, p. 588.
least, permission to use state land for any of these purposes requires the approval of both the Ministry of Defence and of the National Center for Planning State Land Uses, whose head is almost always a retired EAF officer. Many of the governors and senior ministry- or provincial-level officials involved in approving projects, awarding contracts, and issuing permits are also EAF retirees. Military approval has also become mandatory since 2014 in other areas, such as the extraction of mineral wealth from quarries and mines anywhere in the country.

At least as significant is the military’s role in the attempt to revive and reconfigure an import substituting industrial strategy. This is most graphically reflected, in the first instance, in a governmental requirement issued in June 2020 that all state bodies seeking to import goods or services from abroad must obtain approval from the National Authority for Industrial Development or the Ministry of Military Production. The latter ministry moreover heads the Committee on Digital Production and is a member of the Digital Transformation Coalition, positioning it to influence any future investment of political or financial capital in joining the so-called Industrial Revolution 4.0 in manufacturing and related industries and value creation.

In the second instance, military agencies are investing major efforts in the revival or construction of state-owned factories, most prominently in the textile sector, which is estimated to account for 17 percent of GDP and to employ 1.2 million (this is besides military-owned factories in the cement, steel, and fertiliser sectors, where they have acquired shares of up to one-quarter of national production capacity). The NSPO is a lead partner in the development of what is proudly billed as the ‘largest cotton spinning company in the world’, itself located in a major new hub built by the EAF Engineering Authority at Roubiki, near Cairo. Seeking to revive yet another Nasser-era industrial giant, various government ministries and military agencies have concluded a slew of agreements with foreign companies and governments to establish manufacturing ventures in the automotive sector in Egypt, encompassing electric cars and buses, train engines and carriages, and industrial and agricultural vehicles. Military representatives now routinely attend meetings between government ministers to discuss plans for localising the automotive

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industry and overhauling the cotton and textiles sector, bringing them closer to setting industrial policy and goals.\textsuperscript{95}

The fact that there is next to none of the research and development (R&D) base needed to attain meaningful technology transfer – nor a private sector positioned to feed and expand associated spin-off activities – indicates strongly that such efforts replicate the focus on capital-intensive projects, without tackling the long-term fundamental problems confronting the economy. George Abed, a former director of the Middle East and Central Asia Department at the IMF, noted in 2019 for example, that Egypt spends only 0.6 percent of GDP on R&D compared to 4.3 percent in South Korea and Israel, 2.2 percent in Singapore, 2 percent in China, and 1.3 percent in Malaysia and Brazil.\textsuperscript{96} (Tellingly, there are few instances of Egyptian defence production today that do not rely on Nasser-era technology and processes.)\textsuperscript{97}

Repeated investment in massive new factories and industrial zones feeds into the nationalist public discourse that the Sisi administration and military promote actively, but obscures the obstacles that continue to impede Egypt’s integration into the global manufacturing value chain. Furthermore, the model of state-led and military aggrandisement diverges sharply from the conclusion drawn in a World Bank study that larger firms are more effective in advancing development objectives in low- and middle-income countries as ‘they are more likely to innovate, export, and offer training and are more likely to adopt international standards of quality, among other contributions’ – not least because in Egypt’s case these do not open ‘markets to greater competition … breaking oligopolies, removing unnecessary restrictions to international trade and investment, and establishing strong rules to prevent the abuse of market power’, let alone ensuring that ‘private actors have the skills, technology, intelligence, infrastructure, and finance they need to create large ventures’.\textsuperscript{98} Although transforming the textile sector from its previous focus on production of high-quality raw material requires building a capital-intensive industry and makes economic sense, this is delivered by an administration and its military partner that focus on output and delivery, with resulting ‘surges of output that don’t match what the market needs or can absorb’.\textsuperscript{99}

\textsuperscript{95} For example, a meeting involving the prime minister, ministers of public enterprise and of trade and industry, and the NSPO director-general reported by the Spokesman of the Egyptian President, 25 July 2020, available at: https://bit.ly/39fwhNi (accessed 8 January 2021).


Conclusion: Perpetuating Rentierism Without Rent

That Egypt faces enormous challenges is indisputable. Important policy shifts and massive public investment in a range of sectors since Sisi came to power have contributed to macroeconomic stabilisation, and underpin the projection by the IMF in October 2020 that Egypt will weather the COVID-19 pandemic with a growth rate above zero in 2021, one of only a few Middle East and North African economies to do so. None of this would have been possible without the influx of Gulf assistance worth some $23 billion in 2013–15, the $12 billion IMF Extended Fund Facility programme of 2016–19, and a further IMF emergency loan and Stand-By Arrangement totalling $8 billion in 2020. But instead of seizing the opportunity to implement deeper reforms that favour openness in markets and in politics and thereby reduce the country’s continuing vulnerability to external shocks and high dependence on politically motivated injections of capital, the Sisi administration has raised the stakes by investing even more deeply in state capitalism 3.0.

Ironically, through their financial subventions and political support, foreign donors and international financial institutions are enabling Sisi to avoid tackling the fundamental contradictions undermining his efforts to revise and streamline Egypt’s rentier state. Especially telling of this collective failure is the lack of a domestic private sector supply response, whether to opportunities created by government initiatives and foreign capital flows or to challenges such as the COVID-19 pandemic. After nearly seven years of Sisi’s economic management, private investment is at 6 percent of GDP, even lower than during Nasser’s supposedly socialist era.

But this is not merely a policy failure, whether foreign or Egyptian. Rather, at the heart of state capitalism 3.0 is a strategic shift in the nature of the social and institutional alliances that it both serves and rests on. As Steven Heydemann argues, the Sisi administration is one of the further advanced among its regional peers in consolidating what he describes as a ‘repressive-exclusionary social pact’. ‘As a result’, he continues, ‘the chief beneficiaries of earlier strategies of contained populist inclusion and mobilisation, social groups which had achieved a measure of economic and social mobility via their ties to the state bureaucracy, public sector industries, and ruling parties, [have] found themselves newly exposed to the volatility of the market, increasingly insecure, and increasingly marginal to ruling elites’.

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102 Ibid, p. 11.
Far from restoring the old social contract that Nasser-era nostalgicists impute to him, Sisi is in fact imposing economic precarity on the middle classes as a means of extracting the financial means to preserve a much narrower ruling order. This is reflected in the rise of the poverty ratio of those living on less than $5.50 a day, from 61.9 percent in 2015 to 70.4 percent in 2017 (compared to a world average based on 65 countries of 20.04 percent).\footnote{Given that 32.5 percent of Egyptians lived below the poverty line of $1.50 a day by mid-2019 (with 6.2 percent in extreme poverty), the growth of an impoverished middle class under Sisi has been especially notable.}

The problems and shortcomings facing Egypt are familiar, and yet their harnessing with a level of despotic power exceeding that of any previous presidential administration sets state capitalism 3.0 of the Sisi era apart.\footnote{I am grateful for the reminder of Michael Mann’s reference to ‘despotic power’ in Toby Dodge, ‘Gramsci Goes to Baghdad; Understanding the Iraqi State Beyond Collapse, Failure or Hybridity’, Draft Paper, LSE Middle East Centre Workshop (Online), 3 October 2020.} There is some potential for Egypt to move gradually, fitfully, and even inadvertently towards a situation in which maintaining a state-controlled economy becomes untenable. But for now, nothing that Sisi has done alters what the IMF 2019 report on Egypt described as ‘long-standing problems of weak governance, rent seeking, vulnerabilities to corruption, and the heavy presence of the state in the economy’. Egypt now ranks 143th on governance, falling 25 places over the past decade, with executive constraints declining from 125th to 160th, rule of law from 68th to 100th, and government integrity from 78th to 116th in the same period.\footnote{For poverty rates figures in 2019, according to the chairperson of the Central Agency for Public Mobilization and Statistics (CAPMAS), see: Khairat Barakat, ‘32.5 Percent of Egyptians are Living Below the Poverty Line: CAPMAS’, Ahram Online, 30 July 2019, available at: https://bit.ly/38llzFJ (accessed 6 January 2021).}

In 1967, a disastrous war with Israel both weakened Nasser and allowed him to contain the military, but Sisi’s 1967 moment is more likely to follow a social and economic blowout as the effects of the COVID pandemic transform global business models and trade over the medium- and long-term. Without a fundamental break in the structuring of economic access and opportunity in Egypt, Sisi and any successors in the presidency will remain perpetually vulnerable to the contradictions of his rentier state and to the competitive rent-seeking of the very state agencies his power depends on.

\footnote{See: https://bit.ly/2Lw7RXq (accessed 22 September 2020).}


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Egyptian army soldiers stand guard during the opening of the Rawd Al-Faraj bridge in Shobra district, Cairo, Egypt, 15 May 2019. © KHALED ELFIQI/EPA-EFE/Shutterstock