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EGYPT: RETURN OF THE DEEP STATE With the referendum the military secures its privileges, but its main challenge is the economic crisis *

Eckart Woertz, Senior Research Fellow

If someone fell into a coma in 2011 before the Egyptian “revolution” and woke up today he or she would not notice many changes. Then as now a general ruled, the opposition was illegal or curtailed, elections were managed, the turnout was low, but results were stellar. With the 98 per cent approval of the new constitution by only 39 per cent of voters the deep state is back in Egypt. In a way it was never gone. When Mubarak became untenable the army let him fall in order to preserve its vested interests. During their short rein the Muslim Brotherhood and President Mohamed Morsi never managed to penetrate the pillars of the ancien regime, the Ministry of Interior, the judiciary and the military.

With the new constitution the latter has solidified its position. It appoints the Minister of Defense for the next eight years and retains extensive rights to charge critics in military courts. In the upcoming presidential elections next summer this process will likely come full circle; General Abdul Fatah al-Sisi has already said that he would stand ready if the people called him.

The new constitution cements the privileges of the military, which presides over an array of economic interests ranging from bakeries to car factories and bowling alleys. The military is not only a state within a state it is also an economy within an economy, characterized by stasis and unfair advantages. Its shadowy networks of enterprise control between 8 and 30 percent of Egypt’s GDP according to various estimates. It enjoys tax privileges and supply monopolies. Cheap labour in the form of recruits helps, too. Who would have thought that such benefits would be given up easily?

The blunders of Morsi and the Muslim Brotherhood played into the hands of the military. They showed autocratic aspirations and failed to build a broad-based reform coalition after winning low turnout elections by a narrow margin. Their conservative and discriminatory agenda alienated women, secularist Egyptians and Christians who constitute about 10 percent of the population.

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Morsi also proved incapable of easing Egypt's economic malaise. The resulting tamarrod movement and the protests of millions against his rule were not staged by the military, but genuine expressions of widespread discontent. When Morsi was toppled, the same people who brought down Mubarak applauded helicopter gunships that showed the army's support for the manifestations. Many aspects in the new constitution like minority rights, formal gender equality and the outlawing of parties that are based on "religion, race, gender or geography" undoubtedly come as a relief to many Egyptians. After three years of turmoil and neighbouring countries like Syria and Libya in freefall, wishes for calm and a strong man are widespread.

Given the dismal track record of Morsi's short reign and his reactionary agenda one is hard-pressed to feel sympathy with Egypt's first democratically elected president. Yet his removal through a coup d'état rather than democratic due process and the subsequent ban of the Muslim Brotherhood may prove costly in the future. It excludes a large part of Egypt's divided society from participation and will encourage the fringes to revert to violence as already evidenced by attacks on politicians, police stations and churches.

Meanwhile Egypt's economic crisis continues unabated. Before the downfall of Mubarak the country was a darling of the World Bank, whose Ease of Doing Business Index (EDBI) called Egypt the world's leading reformer in 2008. In 2010, the country had been among the top ten reformers of the EDBI for four years in a row.

This tells us more about the construction of such indices than about reality. Real GDP growth rates of 5-7 per cent were appealing, but they did not trickle down to the general population. Household incomes did not improve in the 2000s. Now, even the growth rates are gone. Tourism is down and unlikely to recover unless the security situation improves. Egypt has turned into a net oil importer at the end of the 2000's and its natural gas production has declined instead of increasing. It has received emergency deliveries of Liquefied Natural Gas from Qatar in 2013 and might have to turn to Israel for imports of gas from newly discovered fields in the Eastern Mediterranean.

Its manufacturing industry struggles to compete with Asian producers in mass markets like textiles, while countries in southern Europe have gained competitiveness after internal devaluations. Power cuts, unrest and haphazard policies have negatively affected business and some multinationals like GM or Electrolux have suspended operations citing security concerns.

The Egyptian economy is now on life support and dependent on financial transfers from Saudi Arabia, Kuwait and the UAE. They have partly replaced funds from Qatar, which placed its bets on Morsi's Muslim Brotherhood. Gulf funds have allowed Egypt to refuse financial emergency aid from the IMF, which would have come with stipulations of economic reform. However, UAE's Deputy Prime Minister Sheikh Mansour Bin-Zayed said in October that such aid would not last forever. Egypt may soon face tough choices.

Egypt's neighbours reacted to the toppling of Morsi with thinly disguised delight and unusual unity. Saudi Arabia and Syria welcomed it. Israel trusts the generals more to keep the cold peace of Camp David and rein in Hamas. Gulf countries have developed an existential angst regarding spillover effects of the Arab spring. Fears of meddling in their internal affairs have bordered on the theatrical in the case of Dubai's police chief Dahi Khalfan who claimed that the Muslim Brotherhood was planning to overthrow Gulf governments.

Morsi's state visit to their arch nemesis Iran in 2012 did not help. It led to fears of Egyptian-Iranian rapprochement after decades of heartfelt enmity: Egypt granted the Shah exile who is buried in Cairo's Al-Rifa'i mosque, the Islamic Republic retaliated by naming a street in Tehran after Khalid Islambouli, the assassin of President Anwar al Sadat.

Rather than selling products, Egypt now offers its strategic position and political favours to the Gulf to get the foreign exchange it needs to function. The question is how long this can be sustained and what will happen if it stops. A deep state that presides over a torn civil society without shared pluralistic traditions will be ill equipped to deal with the repercussions and will likely lose cohesion.