

BULLETIN

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Populism vs. Progress after the Presidential Elections in Egypt

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Most Egyptians are disappointed with the developments in post-Mubarak Egypt but are already reconciled to the extreme presidential candidacies in the run-off elections. A victory for the Islamists signals more institutional wrangling, a confrontation with the army, and a battle over the future constitution, but it also guarantees more efficient cooperation between the legislative and executive powers. Meanwhile, Egyptian economic and social problems are swelling. As soon as the new government is formed, the U.S. and EU will be pressed hard to keep their aid promises.

Current Developments. Muhammad Mursi, the Freedom and Justice Party chairman and Muslim Brotherhood candidate, most probably will win the Egyptian presidential run-off elections on 16–17 June. He already secured 25% of the votes in the first round and will snatch most of the voters who supported moderate Islamist Abd al-Munaim Abou al-Futouh (18% in the first round) and some who were with Hamdin Sabbahi (22%) and Amru Mousa (11%). Mursi's opponent—the last Mubarak-appointed prime minister and considered his heir—Ahmad Shafiq surprisingly came second in the first round with 24% of the votes. The members and supporters of the former regime party (National Democratic Party) as well as Christians and other minorities voted for Shafiq, but his support base is unlikely to significantly expand in the run-off election.

In Egyptian society, the resentment towards regime remnants overpowers the fear of Islamist political domination. Although, since the parliamentary elections in January, the Brotherhood has been rigorously criticised for not keeping pre-electoral promises, which in turn made them lose some of their initial support and added to the belief that they will not do as well in the next parliamentary elections.

The disillusionment with the direction and pace of changes in Egypt dominates popular sentiment. Neither Mursi nor Shafiq enjoy cross-party support. On the contrary, both represent extreme political options—in the first round together they won a mere quarter of the eligible votes, not actual votes. Overall, in actual votes four candidates each received an average of 20% strong support. In the run-off elections, some liberals, secularists, or Copts will not vote at all, so turnout might not exceed 50%. However, Egyptians are already reconciled with the outcome. Unless Shafiq wins, major protests are therefore rather unlikely.

Political Issues. The final two candidates largely owe their success to populist themes: a greater role for Islam in politics (although the MB has never specified that slogan), the return of stability and public safety in the streets, and future prosperity. Economic themes did not resonate well with voters, and so were mostly abandoned, although those will be the most pressing issues for the new government.

According to the current revised constitution, the new president will be the linchpin between the highest state institutions. He is the head of the armed forces, who, together with the coalition parties, will nominate the new government. In the event of Mursi's victory, this will prove an easier task, albeit still long and painstaking, than if Shafiq becomes president. The MB will most likely keep the crucial ministries for itself but might share other ones with the secular parties (i.e., *Wafd*) to create an impression of inclusiveness. Liberals and leftists remain rather distrustful of the Brotherhood's intentions.

The greatest test for the peaceful coexistence of state institutions will begin with the formation of the new government. The current interim period has been prolonged by inconclusive efforts to write a new constitution. The current constitution obfuscates relations between legislative and executive powers. The new parliament, for example, is ineffective and marginalised. One of its major responsibilities was to elect the Constitutional Assembly, tasked with drafting the new constitution, but it was only in June that the main political parties and SCAF agreed on its makeup: members of political parties (39%) and public figures (61%), including unionists, judges, religious leaders, etc. Overall, two difficult state-building processes will coincide: the formation of a democratic government and drafting of a new constitution.

Economic Issues. Before the “awakening” in 2011, Egypt was among the so called CIVETS, second-tier rising powers after BRICS—even during the economic crisis, the Egyptian economy grew 5% annually. After the fall of Mubarak, investments began to flow out of the country while economic growth plunged to 0.3% in the second half of 2011. Standard and Poor’s rating of Egypt dropped from “BB” to “B”. The fear of losing popularity and short-term action rather than a long-term strategy drive economic policy. In fiscal year 2011/2012, subsidies (mainly food and fuel) rose by 42% while state salaries increased by 27%, adding to an already substantial budget deficit and shrinking foreign reserves to \$15 million (from \$35 million).

In the current budget (2012/2013) presented to parliament for approval, the deficit will reach \$23 billion, which amounts to 10% of Egypt’s GDP, while more than 75% of budgetary spending will be eaten by the subsidies, salaries for the six million-strong state workforce, and debt service payments. Securing adequate funds while the deficit is growing and fluidity and reserves are contracting will not be possible without outside help. The fundamental challenge for the new government will be to secure those funds, curb economic deficiencies, and counterbalance the negative long-term trends. Economic themes do not resound enthusiastically in Egyptian society, however, as post-revolutionary emotions and populist tendencies are high and everyone is still preoccupied with politics.

Anticipating its electoral victories, the politically dominant Muslim Brotherhood drafted an ambitious economic programme, “The Renaissance”. It prioritises economic growth over ideology. MB wants close cooperation with the private sector to increase investments in infrastructure, introduce development schemes to create jobs, enhance the quality of education and health care and to fight corruption. MB claims they will finalize the year-long negotiations with the IMF over a \$3.2 billion loan.

Conclusions. Even if the IMF agreement is reached, Egypt will still need the financial aid pledged by the international community last year when the Deauville partnership—G8 and international organisations—offered Egypt \$20 billion in aid. The pledge only covers reform projects on political and economic transformation, and according to the donors those have not yet been implemented. In effect, financial aid is not forthcoming and cannot be spent for example on service payments of foreign debt, which nears \$35 billion (10.2% of it is German, 10.9% French, and 9.3% North American). If an agreement with the IMF is reached, Egypt could apply for negotiations with the Paris Club on its foreign debt relief. Even though the results of the relief may only be felt in the long-run, the EU and U.S. should encourage Egypt to pursue those negotiations, but if it is unable to meet the criteria, they should offer debt relief on a bilateral basis.

The longer the conflict over the election results and the formation of a new government last, the stronger the populist sentiment, including economic populism, will be. This phenomenon is all the more dangerous for Egypt as it is in the most sensitive phase of socio-political transition, when audacious and unpopular decisions are needed. Growing populism could lead to the failure of Egyptian democracy as a result of economic decline and poverty. The Muslim Brotherhood’s good governance ability should not be discredited prematurely, but an organization with such a strong social legacy is particularly susceptible to the temptation to increase social spending.

If the president and main political powers in parliament can swiftly nominate the government, and it does not introduce reforms deemed controversial to the international community and business (such as instituting behavioural norms for tourists), the conditions for economic growth and investors will return. Of all the North African countries that have been transforming, Egypt is certainly the one with the greatest potential for growth.