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Egypt's models for economic development have since 1952 depended heavily on external financial support. Nasser had to turn to the Soviets when his model of Arab Socialism dissolved into non-sustainable budgetary and balance of payments deficits. Sadat's *infitah*, an Egyptian version of neo-liberalism, similarly failed to generate adequate economic growth. He was thus forced in the mid-1970s to appeal for aid to the newly enriched Gulf oil exporters and to the Americans to cover financial shortfalls. Mubarak's crony capitalist version of neo-liberalism similarly failed to kickstart the economy. A balance of payments crisis forced him to despatch Egyptian troops to support the American effort to dislodge the Iraqi army from Kuwait in return for a write down of some $30 billion in foreign debt. The economic legacy inherited by Sisi was thus neither compelling in form nor in results. It is therefore not surprising that he chose to adopt yet another economic model, nor is it surprising that, given the track record of its predecessors, it has failed to produce the goods.

Current Crisis

This failure has become abundantly clear since late 2022 when the terms and conditions of the long delayed fourth IMF loan since 2016 became public. At $3 billion, it amounted to only one third the amount originally sought by Egypt and exactly the same amount being considered by the IMF to bail out Lebanon, a country with some five per cent of Egypt's population. Moreover, the accompanying IMF Staff Agreement issued in January 2023 laid out the most stringent conditions ever imposed by the IMF on Egypt, including many which apply directly to the sprawling military economy, the very backbone of the entire economy Sisi has created, so rightly termed 'Sisinomics'. The loan was also made conditional on further capital inflows from GCC countries, but which in this case are to be almost exclusively in the form of purchases of Egyptian assets—primarily shares in state owned enterprises—rather than in unrestricted deposits in the Egyptian Central Bank.

The long delay and relatively small amount of the loan, combined with its dependence upon Gulf investments, suggest that Egypt has not only worn out much of its welcome at the IMF, but also that the powers behind it, key of which are Washington, Brussels, and Gulf capitals, have tired of the profligacy and development shortcomings of Sisinomics. In the case of the US and EU they may also have wearied of Sisi's courting of Moscow. International investors in

Egypt's sovereign debt, who in the wake of the previous three IMF loans had ploughed funds into the country's foreign currency bonds and local currency treasury bills, similarly evinced dissatisfaction by keeping their hands in their pockets, waiting to assess the possible impacts of the loan and its conditionality before risking their money.

Selling Egypt's Family Jewels

Egypt was thus left with no choice but to announce partial privatisations of thirty-two of its most profitable state owned enterprises (SOEs). The targeted purchasers were those from the Gulf, whether sovereign wealth funds, SOEs, or private companies. Preference for sales to anchor investors rather than flotations of shares in Egyptian SOEs on the Cairo stock exchange was dictated by the desperate need for hard currency those foreign investors would provide. Selling these jewels in the public sector crown reflects the hope that it will help correct both fiscal and balance of payment deficits sufficient to again attract hot money, of which almost $25 billion flowed out in the spring of 2022, as investors took fright over the economic consequences for Egypt of Russia's invasion of Ukraine.

This strategy entails both political and economic risks. The Egyptian street may react against sales of profitable public assets to wealthy GCC investors as it did to the transfer of Sanafir and Tiran islands to Saudi Arabia in 2017. The potential downsides for the economy are less immediate. They stem from loss of SOE profits to the public purse and from direct, negative impacts on the cost of debt servicing. Three banks and two insurance companies are slated for partial privatisation. All are profitable, largely because the government is their principal client, absorbing over half of the total credit they provide. And a good client it is, paying an interest premium of about seven per cent above the overnight deposit rate of some eleven per cent. Until now the government has thus regained some of the costs it incurs for servicing its debt through the profits of these five financial institutions.

While it remains unclear as to whether the IMF loan combined with revenue from privatisations will generate sufficient forex to prevent a default, it is already apparent that much of the relevant world, along with many Egyptians, have lost confidence in Sisi's economic model, at the core of which is militarisation of it combined with profligate borrowing for prestige projects with limited economic benefits. Having failed to adequately grow the agricultural, manufacturing, or private service sectors, Sisi's economy remains dependent on the big four generators of foreign currency over the past half century: tourism, Suez Canal revenues, remittances, and hydrocarbon exports. Not only are these sources insufficient to support the population of at least 104 million, they are volatile, vulnerable, and unable to expand fast enough to keep up with population growth, much less outpace it.

Economic Prospects

The present economic plight is thus reminiscent of the era of Khedive Ismail, in which the ruler's profligacy precipitated national bankruptcy. It also parallels contemporary Lebanon, in which attempts to attract inward capital flows by coupling a pegged currency with high interest rates finally collapsed, causing the Lebanese Lira to lose ninety-nine per cent of its value, for inflation to rise to 170 per cent and for capital flight to replace inward flows of hard currency. The Egyptian house of financial cards though does have one trump card that Lebanon does not have. Lebanon has been deemed too small to spend much to save whereas Egypt (until now) has been deemed, by its vital supporters, too big to fail. Those willing to try to save it have done so primarily through multinational financial institutions, such as the IMF, World Bank, and regional development banks. These institutions have served as veils behind which leaders of nations supporting Egypt hide from their potentially irate taxpayers were they to know their taxes support a profligate dictator on the Nile. Whether the too-big-to-fail theory will continue to apply in the face of lack of confidence in Sisinomics and other pressing global financial needs is a vital question.

But even if external support continues, Egypt itself faces costs and limits to economic sustainability if that is to continue to rest primarily on the threats its poses to others in the event of its collapse. They include the need to appease external supporters, thus restricting Egypt's autonomy in foreign and even domestic policies. The interest of at least some of those external supporters does not necessarily include rapidly expanding Egypt's economy. Both the cost of doing so and geopolitical implications might discourage them. Escaping economic dependency thus requires not only funding from benefactors, whatever their motives, but also requires adopting a development model that extracts maximum benefits from Egypt's particular circumstances. This raises the interrelated questions of what exactly constitutes Sisinomics and what the implications of that economic model are for the future of the country's politics.

Sisinomics and its Shortcomings

Its main features appear to be borrowed from GCC states, most notably the UAE. In the Egyptian version the military plays the leadership role assumed by royal families/tribes in the GCC. The fundamental problem of Egypt modelling its economy on the GCC prototype is that whereas those countries are oil rich rentier states, Sisi's Egypt is a heavily indebted lower middle-income country with a population more than double that of all GCC countries. While Egypt enjoys some rents from gas and oil, their ratio to population is a fraction of that in the GCC.

A subsidiary shortcoming of the model is its basis on highly centralised decision making, typically lacking careful cost/benefit analyses by experts. The articulate Egyptian public, which had expanded under Sadat and even more notably under Mubarak, has been throttled by the Sisi regime. It is now difficult to identify an Egyptian economist with access to the media who offers independent commentary. If Sisi has an economic brain trust upon whom he relies for analysis and policy recommendations, its membership is unknown. Those filling the key formal positions in the cabinet and government agencies are specialised in finance, not development economics, presumably because they are considered trustworthy and because the regime deems them vital to its efforts to obtain forex and does not welcome broader advice on the economy.[1]

A cost of concern with managing ever more precarious finances displacing broader economic considerations is that Sisinomics offers no strategy for growing the economy as an integrated whole, as opposed to executing self-standing projects, increasingly owned and operated by the military. Construction, especially of physical infrastructure, represents the purest form of this projectized economy. It is the sector that has absorbed the largest share of investment and of personal attention from Sisi, who delights in ribbon cutting. Egypt's is a segmented economy in which small and medium enterprises struggle to survive and have virtually no hope of expanding by selling products and services to larger firms.[2] Egypt must therefore import a high proportion of intermediate goods in production chains. The nascent car industry, for example, which has been such since founded by Nasser in the 1950s, still just assembles imported kits which cost consumers more than fully imported vehicles would were they not impeded by tariff and non-tariff trade barriers. Morocco, by comparison, now produces considerably more than half the components for its expanding auto industry.[3] The large Egyptian pharmaceutical industry imports most of its ingredients,[4] and like the tiny auto industry, exists behind various tariff and non-tariff barriers. Devaluation of the Egyptian Pound thus tends to increase costs of domestic manufacture, as the profound and continued decline of the key indicator of business activity, the Purchasing Manager Index (PMI) suggests.[5]

Related to centralisation of economic decision making is the ever more prominent role of the military in most areas of economic activity. Yezid Sayigh has described in detail the downsides of this militarisation of the economy, which range from likely mis-investment of public funds, to squeezing private sector growth, to corruption coupled with mismanagement of economic enterprises and entire sectors.[6] Although there are no reliable comparative metrics, Egypt's economy is among if not the world's most militarised one. It is worth noting that no military economy, whether Pakistan's, Brazil's, or any other, has ever produced sustained rapid growth. The probable explanation is that military economies are inherently rent seeking in that they exploit state resources thanks to their insider status in regimes they dominate. In Egypt's case the primary resource is control of land, which is key to such activities as mineral extraction, construction, logistics, energy intensive processing, real estate and tourism. The military's secondary resource is preferential access to government contracting.

Another side-effect of centralisation and segmentation of the economy is that an increasing share of its benefits are allocated to those within or connected to the regime or deemed potentially useful to it. As a result, human resource development is floundering. It is bifurcated into those favoured by the state as opposed to those ignored, who are thus provided few incentives to upgrade skills.[7] The relative paucity of government resources committed to public education is in stark contrast to the largesse bestowed on the private. Sisi's sovereign wealth fund, for example, placed in 2021 over half a billion Egyptian Pounds in the investment bank EFG Hermes' for-profit education account, which invests in the construction and operation of private schools. The sovereign wealth fund's contribution includes its commitment to obtain 'land and licenses for the construction of new schools,', i.e., using its governmental status and connections for the benefit of EFG Hermes' account.[8] The government estimated that in 2022 private investment in schools would reach some 8.9 billion Egyptian Pounds, compared to 6.5 billion for public schools. As analyst Mohamed Ramadan notes, this means 'that 10% of students in private education receive more investments in building schools than the 90% in public schools'.[9] Former Minister of Education Tarek Shawki went so far as to challenge the constitutional provision for free education, saying that this principle 'needs reconsidering'.[10]

The World Bank's newly created Human Capital Index provides a useful comparative measure of Egypt's human resource development and especially of its educational sector. On that Index Egypt scores abysmally low. An Egyptian child now averages 11.5 years of school by their 18th birthday. If corrected by performance as measured by globally standardised tests, 'learning-adjusted years of school' are only slightly more than half that—6.5 years. Almost half the time the average Egyptian student spends in school, in other words, is wasted. According to these harmonised test scores, students in Egypt score 356 on a scale where 625 represents advanced attainment and 300 represents the minimum, a score well below that predicted by Egypt's GDP per capita and the lowest recorded score in North Africa.[11] The World Economic Forum ranks the skills of Egypt's graduates 133rd out of 137 countries evaluated.[12]

Sisi's Egypt is cleaving the population into cadres and favoured constituents, on the one hand, and those left behind, on the other. The overhaul of the educational system facilitates that bifurcation. While it may create a reasonably well-educated elite capable of performing technical tasks allocated it by the government, it will inevitably also create a vast pool of poorly or completely uneducated, underequipped, un- or partially employed proletarians. The labour force participation rate, having dropped to 47 per cent, is too low to propel broad based economic growth, to say nothing of even providing family incomes above the poverty line for at least a third of the population. As *The Economist* notes, 'More than 80% of working-age adults are either sitting at home or toiling in low-paid, insecure jobs'.[13] The increasingly bifurcated educational system will likely further depress labour force participation in the face of population growth and economic stagnation.

What Sisinomics is Not

The Sisi political economy model differs significantly from those of his predecessors. It does not rest on the Nasserist twin pillars of a large, empowered public administration coupled with a social contract. Sisi has side-lined the former with the military and administrative/economic organisations under his direct command, such as the sovereign wealth fund and the Administrative Monitoring Agency. The civil service as a proportion of the labour force has been substantially reduced, as has the comparative remuneration of its employees. The social contract, which began to decay under Sadat, has been further eroded by reductions and removals of subsidies, deterioration of public services, increased indirect taxes, and the comparative and even absolute decline of public employment.

The Sisi model also differs from the crony capitalism which commenced under Sadat and reached its apogee under Mubarak. Sisi is no Putin in that he has not surrounded himself with oligarchs with whom he shares the spoils. While some of the ‘whales of the Nile’ remain economically active, many have offshored much of their wealth and have been forced to accommodate military run or connected enterprises that have entered their business sectors. The rents which underpinned their profits, such as provision of gas at highly subsidised rates or restrictions on market entry by competitors, have been reduced.

Sisinomics’ Strengths and Weaknesses

The primary strength of the Sisi regime has been that it offered hope to Egyptians to overcome the economic, administrative, and political malaise that predated the 2011 uprising. The putative slogan associated with Mussolini that he would make the trains run on time sums up this hope, which in the case of Italy proved to be wane, as it most likely will be in Egypt. The tangible manifestations of responding to that hope are infrastructure projects, again as they were in Mussolini’s Italy. They are intended not only to serve functional purposes, but also to instil pride in the nation and confidence in its ruler. They are, in short, intended as replacements for the withered Nasserist social contract.

As for their utility, it is yet to be determined. Some projects, such as the $58 billion New Administrative Capital, are clearly of a vanity nature. Others, such as the $25 billion Russian backed nuclear reactor in Dabaa, are intended primarily as symbols of Egypt’s national power, both hard and soft in this case. Transportation infrastructure is primarily devoted to private vehicular traffic, so of greater benefit to the middle and upper classes than those unable to afford vehicles, to say nothing of the collective costs of inserting roads and bridges into densely populated areas. Sisi seems to be reprising Mussolini’s promise but with the alteration that it is to have automobile drivers rather than trains arrive on time.

Improvements in human infrastructural capacities are bifurcated between those who can afford them and those who cannot. Public health care has deteriorated as precipitately as public education, as private clinics and hospitals have flourished. Gated communities with attractive villas, seaside complexes, and new sporting facilities have proliferated along with informal housing for the poor. Beneficiaries of the upscale improvements thus have tangible proof that their hopes are being realised. Others are left to mire in their hopelessness, rendered more unpalatable by their awareness that for the wealthy, hope has been realised. But whether this bifurcation of Egyptian society has rendered it into a truly volatile one or has caused it in general to be pleased that Sisi has reined in some of the ‘slackness’ he inherited by addressing the problem of ‘mafish nizam,’ (no system/order), remains unclear. The latter interpretation is leant additional weight by the chaos and systemic collapses in neighbouring states such as Sudan, Libya, Lebanon, and Yemen, of which Egyptians are regularly reminded by Sisi himself.

Weaknesses of the Sisi model--in addition to its exacerbation of class and regional differences, its overemphasis on physical and relative neglect of human infrastructure, its failure to integrate economic activity particularly by small and medium enterprises, and its profligacy especially as regards military expenditures—can be summed up as financial irresponsibility. Sisi, like Khedive Ismail and the Lebanese political elite, has spent beyond Egypt's means. He has tried to build a rentier state without rents, instead relying on credit and squeezing domestic consumption of public goods. The constant need to attract capital, just as in Lebanon, has profoundly distorted the economy by raising interest rates to world leading levels, by providing inadequate credit to the private sector, by redirecting budgetary allocations to debt servicing away from expenditures on public goods, and by seeking to sustain the Pound's overvalued exchange rate, creating the need for sudden and dramatic devaluations which wreak financial havoc. These negative side effects intensify in lockstep with growing indebtedness.

Political Implications

The central question is whether the faltering economy would propel political opening. In two scenarios this would be the case. The first is that Sisi himself, under pressure from international supporters coupled with growing domestic discontent, pre-emptively opens political space. This happened in several Arab countries, including Egypt, when in the late 1980s oil earnings plummeted.

While an opening is possible, Sisi's political character is an obstacle. He refuses to share the political limelight and rules through a coterie of military and intelligence officers, including his sons. It is difficult to imagine him permitting autonomous civil society organisations and political parties to emerge and push for more political opening. His instincts are to control. The greater the pressure of economic decay, the more he is likely to increase rather than relax repression.

The second scenario might be labelled a Mubarak or Sudanese one. It would take the form of a coup d'etat by the military seeking to retain its powers by dumping the unpopular president and reaching a deal with opposition forces that had become increasingly active, as in 2011. History is unlikely to repeat itself in this way, however, because the current regime grants insufficient space in which an opposition could crystallise and apply pressure. While this obstacle might be overcome were Egypt's international creditors to demand political liberalisation, as the Bush Administration did of Mubarak, since the key creditors are Gulf regimes that seems unlikely. A pre-emptive coup led by officers fearful of anticipated consequences of Sisi remaining in power and further alienating the population is possible. But given his astute coup proofing, that also seems unlikely. In sum, the prospects that a political opening might provide the opportunity for an opposition to strengthen and induce Sisi to dramatically change course, and/or a discontented military replacing him and allying at least tactically with opposition elements, are remote.

Two other scenarios seem more likely even if they are diametrically opposed. The more probable one is that the Sisi leopard does not change his spots, nor do potential oppositionists. In other words, the current situation continues, more or less, as long as Sisi lives. Egypt's creditors may provide sufficient debt relief and fresh capital infusions to maintain stability and his rule. Egypt might benefit financially from a settlement in Libya if one is ever reached. The military may perform more missions in support of Egypt's Gulf backers, thus ensuring their continued political and economic support. The beneficiaries of Sisi's rule may become more visibly committed to the preservation of his power and to the system as a whole. The lower classes can be corralled even more tightly in their informal neighbourhoods and economic niches, closely watched and isolated from potential oppositionist political leadership.

The less probable of these two scenarios is popular explosion. Since political space is unlikely to be expanded, political pressures will not be released. They could boil over. This would not take the form of popular, largely peaceful demonstrations as in 2011. Instead, it would be more akin to a revolution in that it would embrace violence and be driven by the political energy of rage of the impoverished. The growing incidence of strikes in various enterprises may presage this type of explosion, although the strikers tend to be privileged, at least in comparison to the vast numbers of those in informal employment. The demands thus far have been exclusively of a bread-and-butter nature, not overtly political. More likely given the level of surveillance and oppression is that protests and outbreaks of violence driven by largely local issues coalesce into a national movement joined by deserting elements from the regime's agencies of coercion, most notably the Central Security Force. But this scenario probably requires the level of deprivation, actual and relative, to rise even higher than at present such that a significant proportion of the population becomes truly desperate. That is possible, but if signs of it were to become manifest, they might stimulate a new round of generosity by Egypt's supporters.

In conclusion, the Sisi model is not economically sustainable, but the regime may be sustained nevertheless thanks to external support coupled with internal repression. Presumably this is the President's calculation for otherwise his behaviour is difficult to understand. His primary attention is focused on cultivating or implicitly threatening those supporters, crafting foreign policy to serve their interests or to signal that the costs of withdrawing support for him would be profound. He is, in sum, presenting Egypt as a country too big to fail without dire consequences for others. In that regard his model has been remarkably successful, probably because it is based on a realistic assumption, unlike the model's domestic economic principles, which might best be summed up by the phrase 'build it and they will come'. That notion, however, is neither theoretically convincing nor empirically correct, so Sisinomics is highly unlikely to be self-sustaining.

About the Author

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