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“An effective economic transition in Egypt need not be a zero-sum game.”

## Diffusing Egypt's Demographic Time Bomb

### Summary

- Limited opportunities for economic progress and political expression helped force Egypt's youthful population on the streets and precipitated the demise of long-time leader Hosni Mubarak. Prospects for stability are linked to the government's ability to address youth employment—a core demand of the protesters.
- The January/February 2011 protests could be the tip of the iceberg. Robust and sustained action is needed to improve human security, starting with employment and income generation opportunities.
- An effective economic transition in Egypt need not be a zero-sum game. Done correctly, employment-based economic restructuring that focuses on the most vulnerable (and volatile) segments of the population could lay the foundation for a stronger, stable and more peaceful Egypt.
- The next steps in Egypt's revolution will tackle the difficult task of expanding economic opportunity and providing space for more representative, accountable and participatory governance. Fundamentally, this would require the Egyptian government and military to progressively cede control of the levers of economic power.
- Employment creation that focuses on the youth is not a silver bullet and will not guarantee success on its own. It will, however, broaden the constituency for reform by making Egypt's youth bulge more involved in shaping the destiny of the country's 82 million citizens.

### Background

Limited opportunities for economic progress and political expression helped force Egypt's youthful population on the streets and precipitated the demise of long-time leader Hosni Mubarak. Prospects for stability are linked to the government's ability to address youth employment—a core demand of the protesters. There is a lot of potential in Egypt. The country enjoyed GDP growth rates above 4 percent for most of the last decade, while investment inflows rose from an annual average of \$1.5 billion from 1995–2005 to \$10 billion in 2006, before dipping to \$6.7 billion in 2009 (partly on account of the global financial crisis).<sup>1</sup> However, this progress has not translated into broad-based economic development and human security, leaving a significant proportion of Egyptians unemployed, disaffected and frustrated. Just over half of Egypt's 82 million citizens are under 25 years old, many of whom are unemployed.

Although unemployment is a long-standing problem in Egypt, a number of factors could account for its catalytic role in the momentous uprising that started on January 25, 2011. First, there is a worrying disconnect between Egypt's educational system and employment prospects. The vast majority of new graduates are not equipped with the skills demanded by the growing economy, leaving them alienated and dissatisfied. Second, privatization which gained momentum after the mid-1990s led to massive retrenchment and the creation of an underclass, part of which has been described as Egypt's three million temporary worker time bomb.<sup>2</sup> This led to an upsurge in strikes and public protests since 2006. These groups were therefore relatively easy to organize and mobilize. Third, the growing gap between the rich and poor stoked resentment, particularly among the unemployed. Flaunting ill-gotten wealth with impunity incensed the population. Fourth, the effects of the global financial crisis impacted remittances to Egypt, which fell by \$1.5 billion in 2009 (an annual drop of 13.5 percent) as the global downturn took its toll on the Gulf states that employed Egyptian migrant workers. Remittances were the only safety net available to many Egyptians. Fifth, rising food and fuel prices exacerbated the situation. In the last few years, Egyptians saw their real incomes severely eroded in the face of uncontrollable price hikes of basic necessities. The recent global recession made things much worse for many Egyptians, and the population living in poverty rose precipitously.<sup>3</sup> These factors combined to help push Egypt's restless population over the tipping point—many felt that they had little more to lose.

The January/February 2011 protests could be the tip of the iceberg. Robust and sustained action is needed to improve human security, starting with employment and income generation opportunities, if stability is to be guaranteed. This report analyzes this problem and offers some recommendations.

## Demographic Inequality

The gap between Egypt's rich and poor widened to a chasm as economic reforms of the 1990s led to improvements in macroeconomic aggregates but poverty and disillusionment worsened. Hundreds of university graduates swelled the ranks of the jobless.<sup>4</sup> The gap between the unemployed youth and the emerging rich class heightened societal tensions and facilitated the mobilization of thousands of protesters. The confluence of political exclusion and socioeconomic marginalization imposed by Egypt's ruling classes sustained the revolution and empowered the demonstrators to demand immediate reform.<sup>5</sup> Egypt's youth felt marginalized and excluded, particularly in the wake of extensive fraud during the November 2010 elections. As Frances Stewart's work explains, underlying intergroup inequalities may not trigger political revolt, but they are crucial in understanding the dynamics of mass participation and sustained action. Egypt's youth were buffeted by the 'perfect storm.' Unfair parliamentary elections and the wave of political unrest in Tunisia may have lit the fuse but underlying socioeconomic inequities fuelled continued unrest that led to the ouster of the Mubarak regime. Redressing this imbalance requires a combination of safety net initiatives and improved job opportunities in both public and private sectors.

## Prospects for Employment-Based Economic Reform

Achieving meaningful change will not be easy. It will entail reversing the pernicious impacts of decades of state control and sustained efforts to bridge the yawning demographic divide in Egyptian society. Egypt's political economy is rooted in a history of managed state control designed to ensure the survival of ruling regimes. The socialist Nasser era was based on a wave of nationalization in the 1960s, which saw the state wrest control of the economy, initiate a land distribution program and introduce price controls. Although Sadat's *Infitah* (open-door) policy, introduced in 1974, was ostensibly market oriented, the era was characterized by a rentier economy which

helped institutionalize corruption and eventually became a fiscal burden. By the early 1980s, Egypt was facing major economic crises which the Mubarak regime made a number of unsuccessful attempts to address via shock macroeconomic therapy, debt relief and privatization. In spite of these attempts, social costs were significant and corruption was not contained.

The next steps in Egypt's revolution will need to tackle the difficult task of expanding economic opportunity and providing space for more representative, accountable and participatory governance. Fundamentally, this would require Egypt's ruling class to progressively cede control of the levers of economic power. Although public data are not available, analysts suggest that that Egypt's military industrial complex could have influence and control of as much as one-fifth of the Egyptian economy. The military produces cars and other transport vehicle, household utensils, bottled water and other foodstuff. It runs military hotels, resorts and clubs. It also has its own weapons and military equipment production.<sup>6</sup> In recent years the government collaborated with the *nouveau riche* in what could be described as a web of institutionalized corruption and cronyism. The military saw this as both a political and economic threat. One of the main grievances of the recent uprisings was against the perception of rampant corruption in the country. If the new government fails to deal with this issue expeditiously then the economy and stability of Egypt could be at serious risk.

Egypt is a strategically important country. It is a vital node for international telecommunications given that some of the most important fiber optic cables go along its coast and through the Suez Canal connecting Asia to Europe and beyond. The Suez Canal is also vital for the transport of oil and liquid natural gas as well as for carrying close to 8 percent of the world's container traffic. The Suez is also an important transit zone for military movements of many countries. Egyptian airspace is important for vital commercial as well as military air routes. Egypt is the most populous Arab country and is an intellectual, cultural and religious center for not just the Arab world, but the Muslim world. Egypt is a vital partner in Western-Islamic relations in many ways. It is also an important partner for peace in the region via the Camp David Accords and its efforts with the Palestinians and others. Egypt is a connector between the Arab world, Asia, Europe and Africa in trade, diplomacy and security. In short, it is a country whose importance goes well beyond its region. Then, there is the immigration problem facing especially the Europeans if the economy of Egypt does not develop properly and if Egypt becomes destabilized.

An effective economic transition need not be a zero-sum game. Done correctly, employment-based economic restructuring that focuses on the most vulnerable (and volatile) segments of the population could lay the foundation for a stronger, stable and more peaceful Egypt.

## Diffusing Tensions: New Life After the Protests

Making progress requires a phased approach:

First, avoid the temptation to overreach. Multiple projects would be wasteful. Targeted interventions that remove obstacles and constrains would be preferable. For example, it takes over 1,000 days to enforce business contracts, 72 days to register property and 4.2 years to close a business.<sup>7</sup> Addressing these issues could help unleash the dynamism of Egypt's private sector, demonstrate that government jobs are not the only option and absorb a fair amount of Egypt's unemployed.

Second, take a closer look at how best to integrate Egypt's small and medium-scale industries in the value chain of core businesses in the manufacturing and service sectors. Most reform efforts have focused on expanding opportunities for large-scale enterprises (owned by the ruling class.) Exploring modalities to foster growth among small manufacturing and service firms would create space for new entrants. The net result will be a positive-sum game; not the zero-sum game feared by the elite. This is a potentially quick-impact way to leverage existing human resources and diversify opportunity.

## ABOUT THIS BRIEF

In the wake of the January/February upheavals, USIP convened a working group to examine the multifaceted challenges facing Egypt's new government and its people. USIP's Raymond Gilpin partnered with economists Paul Sullivan and Amal A. Kandeel to analyze the situation. Raymond Gilpin, a development economist with twenty-five years of experience in developing and transitional economies, directs USIP's Sustainable Economies Center for Innovation. Amal A. Kandeel is an adjunct professor at Georgetown University and an independent economic development consultant. She lived in Egypt for twenty-four years and provides advisory services to a broad range of clients in the United States, Egypt, United Kingdom and Jordan. Paul Sullivan is a professor of Economics at the National Defense University and an adjunct professor at Georgetown University. He has been involved with Egypt for over seventeen years and lived in Egypt from 1993–99 while teaching at the American University in Cairo.



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Third, introduce initiatives that would help align Egypt's education and training institutions with the realities and requirements of a vibrant economy. This would make the workforce more prepared for the job market and encourage much-needed investment.

Fourth, adopt a conflict-sensitive approach to economic reform. Any strategy must prioritize vulnerable groups, emphasize equity, disadvantage spoilers and aim to diffuse tensions.

## Conclusion

Employment creation that focuses on the youth is not a silver bullet and will not guarantee success on its own. It will, however, broaden the constituency for reform by making Egypt's youth more involved in shaping the destiny of the country's 82 million citizens. Egypt will need a lot of help. Employment generation is important but the main goal is a better human development of the entire population. This would include education, health, water and much more. US economic and human development project aid to Egypt declined over the last couple of decades, from around \$900 million in 1990 to about \$250 million in 2010. Military aid to Egypt has also declined from its high of about \$2.5 billion in 1983 to about near constant \$1.3 billion annually in recent years. Two issues are noteworthy—military assistance vastly overshadows economic aid and per capita economic assistance could be improved.<sup>8</sup>

In the medium-term, a more engaged and empowered youth population could be the foundation of a more prosperous, pluralistic and peaceful Egypt.

## Endnotes

1. For detailed information on foreign direct investment flows to Egypt see UNCTAD, *Egypt, World Investment Report 2010*, [www.unctad.org/sections/dite\\_dir/docs/wir10\\_fs\\_eg\\_en.pdf](http://www.unctad.org/sections/dite_dir/docs/wir10_fs_eg_en.pdf).
2. Mohamed Abdel Salem, *Egypt: 3 Million Workers are at Risk Due to Temporary Employment*, *Bikyamasr*, 28 October 2010, <http://bikyamasr.com/wordpress/?p=19516>.
3. For a discussion of unemployment and poverty in Egypt see UNDP, *Youth in Egypt: Building Our Future*, *Egypt Human Development Report 2010*, <http://www.undp.org/Portals/0/NHDR%202010%20english.pdf>.
4. For an analysis of the genesis and implications of underemployment and unemployment among Egypt's youth see [www.prb.org/pdf07/youthinMENA.pdf](http://www.prb.org/pdf07/youthinMENA.pdf).
5. Michelle Swearingen, *Group Inequality and Conflict: Some Insights for Peacebuilding*; U.S. Institute of Peace, May 2010, [www.usip.org/publications/group-inequality-and-conflict-some-insights-peacebuilding](http://www.usip.org/publications/group-inequality-and-conflict-some-insights-peacebuilding).
6. For discussions of Egypt's military-led industries see *Egypt's Arms Industry Depend on U.S.*, UPI.com, 15 February 2011 [http://www.upi.com/Business\\_News/Security-Industry/2011/02/15/Egypt-arms-industry-depend-on-US/UPI-47071297794481/](http://www.upi.com/Business_News/Security-Industry/2011/02/15/Egypt-arms-industry-depend-on-US/UPI-47071297794481/) and *Janes World Defense Industry: Defense Industry Overview*, Janes Information Group, July 2010 & December 2010 report, [www.janes.com/articles/Janes-Sentinel-Security-Assessment-North-Africa/Defence-production-and-R-D-Egypt.html](http://www.janes.com/articles/Janes-Sentinel-Security-Assessment-North-Africa/Defence-production-and-R-D-Egypt.html).
7. For the World Bank's indicators on enforcing contracts and registering property see *Egypt, World Bank Doing Business, 2011*, <http://www.doingbusiness.org/data/exploreconomies/egypt>.
8. For an analyses of the nature and scope of U.S. assistance (military and non-military) to Egypt in recent years see Jeremy M. Sharp, *Egypt: The January 25 Revolution and Implications for US Foreign Policy*, Congressional Research Service, 11 February 2011, [www.fas.org/sqp/crs/mideast/RL33003.pdf](http://www.fas.org/sqp/crs/mideast/RL33003.pdf).