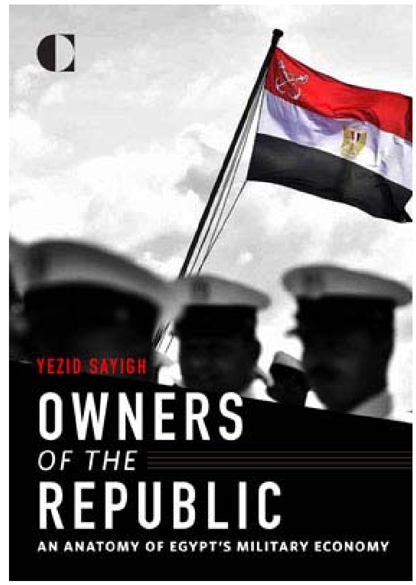
How Egypt's Military Owns the Economy

by Patrick Clawson

Owners of the Republic: An Anatomy of Egypt's Military Economy. By Yezid Sayigh. Washington, D.C.: Carnegie Endowment for International Peace, 2019. 339 pp. Free download.



Sayigh has written a lengthy account of the military's role in the Egyptian economy. Fortunately, the book provides an excellent two-page summary; also, an interview on the Carnegie Middle East Center website sets out the book's main points.[1] He argues that "the Egyptian military accounts for far less of the national economy than is commonly believed," which makes sense if one understands that many Egyptians believe the military controls the entire economy. That said, military enterprises are not limited to quasi-defense-related activities such as ship-building or running gasoline stations. As Sayigh notes, "The military delivers massive infrastructure projects, produces consumer goods ranging from food to household appliances, manufactures industrial chemicals and transport equipment, and imports basic commodities for civilian markets."

He also explains, "The military now manages approximately one-quarter of total government spending in housing and public infrastructure." That might not be so bad, except that the "military sinks enormous amounts of capital into unproductive projects" and refuses to account to anyone for its expenditures. Of many examples, perhaps the most egregious is the construction of a new capital east of Cairo. Sayigh explains that many military factories and farms appear to earn little profit while paying out large sums to senior or retired officers.

But after acknowledging the opacity of the military economy, Sayigh argues unconvincingly, "Nonetheless, sufficient detail can be assembled to support the contention made in this report that the net income of the formal military economy cannot exceed a few percentage points of GDP [gross domestic product]." If one adds up the many joint ventures that the military controls, its GDP share must be several times what Sayigh suggests. Plus, as he acknowledges,

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[1] Yezid Sayigh interview, You Tube, Nov. 18, 2019.

the share of GDP does not capture the military's full economic might from "relationships with public and private sector companies … governmental economic agencies ... compulsory take-overs of private firms [most visibly in the media] or the predatory acquisition of equity or board membership in start-ups."

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Indeed, the military uses its regulatory powers to extract wealth even where it produces nothing. For instance, it controls the distribution of building materials, which means that no building can be done without its approval. Most lucratively, the military is fully authorized to utilize state land for commercial purposes—which amounts to nearly all land not already developed.

Sayigh argues that the military economy has grown because President Abdel Fattah Sisi has "shown his contempt openly for the civilian agencies of his own state." Sayigh also acknowledges that Sisi's "corollary article of faith ... [is] that the military is also a far better economic performer than the private sector." Egypt has long been plagued by excessive government regulation—indeed, micro-management—of private business. But Sisi has made the problem worse by entrusting the military to carry out directly many economic activities for which it has no special expertise. Were private companies allowed to direct investment, they would do so more efficiently, and they would select projects more wisely.

Sayigh also downplays the prominent role the military played when Gamal Abdel Nasser was president from 1954 to 1970. Indeed, Sayigh's account does not start until after Nasser's death. As he explains, the reduction in spending on the military from 16 percent of GDP in 1970 to 9 percent in 1978 posed a considerable, political problem. President Anwar Sadat solved it by giving the military a more prominent role in the economy especially the veto over all use of state land.

Sayigh makes few recommendations about what can be done by Egypt or the West—more specifically Washington—to change the military's economic role. Under the best of circumstances, reforming the current system would be a daunting challenge. Officers depend upon military-run economic projects both for salary supplements while serving and for jobs when retired. The size of the officer corps has also swelled far beyond defense requirements. But absent an alternative source of income and jobs, the military can be expected to use its influence to throttle any reforms.

Sisi shows no interest in reducing the military's economic role—quite the contrary. Private businesses are increasingly critical of Sisi, who initially had considerable support because of his willingness to make badly needed macroeconomic reforms, especially by reducing subsidies. Yet there is no obvious alternative to Sisi, who presents the choice as either himself or chaos with the Muslim Brotherhood potentially back to power.

Despite the military's increasing interference, Egypt's economy appears to be growing, with a 5.5 percent average annual increase in inflation-adjusted GDP in 2018-20, coming after an average annual 4.3 percent rate in 2014-16. But these figures are misleading, especially factoring in Egypt's extraordinary 2.6 percent annual increase in population—among the highest in the Middle East. Still, it is a mystery that Egypt could now be growing at a higher rate than the 1.75 percent annual growth of 2000-09, when its economy was better run.

Egypt's economic performance is still good enough for the country to muddle along, despite being weighed down by the military-run economic activity. There is simply no possibility that Egyptian elites would listen to foreign advice, such as that offered by Sayigh, to reduce the military's role in the economy. Nor is such advice likely to be forceful: Foreign governments are content so long as Egypt remains more-or-less stable and its terror groups contained.

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