

By Jeffrey Gedmin and Michele Dunne

Libya may be burning, but it's Egypt that must succeed—economically, first and foremost—if democracy in the Middle East is to have a chance

CAIRO — There's still a whiff of euphoria here. Members of the April 6 Youth Movement beamed as they told us over breakfast how they had learned from young Serbs, Georgians, and Tunisians about how "to make their revolution." A young academic eagerly told us of the pleasure she and her friends now derive from the power simply to say "no" to symbols of authority. A group of senior businessmen sounded like NGO idealists as they spoke with us over dinner about the new Egypt and its future.

For three decades, Egyptians had seen civil society, political life, and personal freedom repressed under the heavy-handed rule of strongman Hosni Mubarak. They feel they can breathe now.

The Middle East's unfolding crises will feature the unpredictable along with the mainstays of the region's politics: alliances of convenience, brutal power, and bloodshed.

In Cairo you experience Egyptians bursting with pride. They've taken their country back and done so peacefully through people power. Who wouldn't want the celebration to last?

But it's also beginning to dawn on the architects and enthusiasts of the revolution that began on January 25 that Egypt now faces truly daunting challenges.

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The March 19 constitutional referendum, and the extremely confusing political process since then, has highlighted the problems involved in steering the country toward free parliamentary and presidential elections and toward the writing of a new constitution. From a place where few cared to talk politics, and even fewer to participate in them, Egypt has become a nation of political analysts and civic activists, enthusiastically discussing, debating, and changing calculations and strategies as each new day brings with it a fresh harvest of political developments.

When it comes to the economy, though, most are pensive. On the one hand, everyone with whom we spoke is hopeful about the country's long-term prospects. Egypt is 83 million people with a young population. The country has matchless assets for tourism, once the country is deemed safe and stable again. It has the agricultural capacity of the Nile Valley, as well as some mineral wealth. And certain economic fundamentals are not as bad as one might expect. Mubarak's government, for all its ills, had actually carried out a significant program of structural

reforms that won Egypt plaudits from the World Bank for its business-friendliness in recent years.

But serious economic problems—and key questions about policy—loom in the short term. As a young Egyptian businessman puts it, for now "it's all lose-lose."

With a budget deficit that is approaching 10 percent of GDP and climbing, the transitional government has expanded the size of its already swollen bureaucracy from 6 to 7 million (out of a total labor force of 19 million) and raised public wages 15 percent. Wage increases are intended to avoid immediate trouble from the 35 to 40 percent of young people who are out of work. They will also impose an enormous burden on the government and Egyptian economy for years to come. At the same time, government subsidies, in particular for fuel, are badly in need of revision. It might be a year or more before there is an elected president and government in place that can even begin to think about tackling such sensitive issues.

If Egypt manages to make it through the next 12 months without a severe crisis, there will still be many questions about whether it has the political will to adopt the policies needed to attract the foreign direct investment critical to generating 700,000 jobs per year for its burgeoning labor force.

Everyone says they understand that this means embracing a free market philosophy, but they also insist that the new economy will need to have a much broader social justice component to leave behind the corrupt cronyism of the Mubarak years. You hear a lot about social justice in Egypt now: from nationalists, leftists, and the reform-minded; from the military and the Muslim Brotherhood. It's a code word, of course, for big government spending. But it's also the price of social peace, Amr Moussa told us. Moussa is secretary general of the Arab League and a leading candidate to become the country's next president. Like Mohamed El Baradei, the former head of the International Atomic Energy Agency who is his main competitor for the presidency so far, Moussa is in essence a Europe-style Social Democrat. For good or for ill, there's no shock therapy in Egypt's near future.

What can the West do?

For one thing, the West must keep the faith and commit to supporting Egypt for the long haul, for Egypt's own sake and for the sake of creating a successful Arab democracy. How ironic and tragic it would be, if, after having faithfully supported the unpopular Mubarak regime for so many years, we deserted Egyptian democrats now because things look difficult?

Right off the bat, the US should work with the EU and other actors in the region to devise a comprehensive plan to stave off short-term disintegration of the Egyptian economy. Debt relief in tranches, for instance, could reward key milestones in democratic development such as the holding of free parliamentary and presidential elections, reform of internal security services, lifting of restrictions on judicial independence, and the writing of a constitution that enshrines democratic processes and the rights of all citizens. Beginning free trade talks with the United States and a process toward a closer relationship and freer trade with the EU (though short of accession) would be major motivators for a future Egyptian government to get serious about the

steps it must take to attract investment and promote growth.

The West will need to manage its expectations. The fact is that the political constraints are so numerous, no matter what steps a new Egyptian government endeavors to undertake, little of significance will be solved in the short-term. But we should already be at work encouraging a return toward pro-growth policies and cautioning the Egyptian government against taking on further new commitments—such as public sector hiring—that will dog its every step in the future.

What can Egyptians do?

Egypt's new leaders will need to manage expectations of the Egyptian people as well. Egyptian leaders should discourage unrealistic thinking among the public that Mubarak's returned assets or the stopping of high-level corruption will be the panacea to cure the country's economic ills. There are economic truths that must be spoken. Sooner or later, bitter medicine will simply be unavoidable, if Egypt is to put itself on the right economic path. While speaking frankly about the challenges ahead, the new leadership should seek to create economic success stories that can capture the popular imagination and align with the country's newfound pride.

Many of the color revolutions of several years ago—from Ukraine to Lebanon—ended in a funk. The current exuberance will fade and the doldrums will come to Egypt, too. But doldrums and funk cannot be permitted to lead to failure. The consequences for Egypt—and the region—would simply be too severe.

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