

Businessmen and Authoritarianism in Egypt

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Abstract

The main concern of this thesis is to examine how the Mubarak authoritarian regime survived for three decades, especially after the introduction of economic liberalization. I argue that the Mubarak regime created a new constituency of businessmen who benefited from economic reform and in return provided support to the regime. Based on interviews with Egyptian businessmen and political activists, this thesis examines the different institutional mechanisms used by the regime to co-opt businessmen and based on predation of public and private resources. Extending the literature on clientelism, I create a typology of regime-businessmen relations in terms of authoritarian clientelism, semi-clientelism, patron-broker client relationships, and mutual dependency. The thesis further examines how the regime dealt with an opposition that refused to enter into its clientelistic chain. I demonstrate how the regime weakened this opposition by creating among them a divided political environment on different levels (i.e., among the legal and illegal opposition, inside the legal opposition, and among the illegal opposition). This thesis demonstrates that there are businessmen who are supportive of authoritarianism; however, they may also oppose authoritarian regimes, not for their own business interests but rather for their own political/ideological stance. This thesis concludes that the 25th of January Revolution showed the failure of Mubarak's political economy of authoritarianism based on predation and co-opting businessmen.

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Introduction

Over the last decade, there has emerged a body of literature that seeks to explain the longevity of authoritarianism in the Middle East (Maye Kassem 1999, Eberhard Kienle 2001, Eva Bellin 2002, Ellen-Lust Okar 2004, Jason Brownlee 2007, Lisa Blaydes 2011). This thesis seeks to contribute to the literature on authoritarian survival. It examines the survival of Mubarak's regime for over three decades (October 1981–February 2011) by focusing specifically on the role of businessmen in both supporting and opposing the regime. Since the 1990s, the visibility of businessmen in politics has grown. For instance, in the 2005 Parliament the number of businessmen was 22 percent, compared to 17 percent in 2000 and 12 percent in 1995. Moreover, four businessmen were appointed to the 2004 Nazif cabinet, and two years later their number rose to six. In 2002, the President's son, Gamal Mubarak, headed the Policies Secretariat in the National Democratic Party (NDP), and a large number of businessmen were appointed to the Secretariat.

The existing literature on the role of businessmen is divided between the scholars who argue that businessmen are agents of democratization (Moore 1966; Moraze 1968; and Hobsbawm 1969) versus those who argue that businessmen may see the continuation of authoritarianism to be in their economic interests and, therefore, do not necessarily oppose it (Bellin 2002). In this thesis, I set out to explore the degree to which either of these arguments about businessmen in politics applies to the Egyptian case.

Research Questions

This thesis seeks to answer the following question:

To what degree did businessmen contribute to the survival of authoritarianism over the three decades of Mubarak's rule (1981-2011)?

Other sub questions emerge from this question as below:

(1) Why did businessmen get involved in politics under the authoritarian rule of former President Hosni Mubarak? (2) Why did the regime allow businessmen to become engaged in politics? (3) What was the relationship between the regime and those businessmen who did not engage in politics? (4) Did all businessmen support the regime? If not, how did the regime deal with businessmen opposing the regime?

This research finds that businessmen's support for or opposition to authoritarianism is not contingent upon their economic interests. It is contingent upon other factors that include the nature of their relations with the regime and their personal or ideological beliefs/values. The thesis uncovers the diversity of relations between businessmen and politics.

Why businessmen and Authoritarianism? Situating the Research Questions

The answers to these research questions are important for understanding the role of businessmen in sustaining or opposing authoritarianism, particularly in a context of a shift from a state-led to a market-led economy. This shift created new challenges for Egypt's authoritarian regime, as its control of a large public sector had enabled it to provide socioeconomic benefits to Egypt's citizens in return for obedience to the regime (Ayubi 1995). Egypt began its economic transition in 1991, with an increase in neoliberal economic reforms after 2003. On the one hand, economic liberalization increased Egypt's business class, potentially constituting an economically powerful opposition to the regime, as business classes had done in other developing countries. For instance, in the Philippines under Marcos (1965-1986), Filipino businessmen in 1984 filled the ranks of the demonstrations against Marcos (Huntington 1991, p. 67). Simultaneously, as the Egyptian regime speeded up neoliberal economic reforms, it created more social deprivation. For instance, during the period from 2003-2007, there was a decrease in

public spending on social services like health, education, and social security. In health, public spending fell by 25 percent, and in education it fell from 16.2 percent to 12.6 percent as a proportion of total government expenditure (Bush 2012, p. 66). With a reduction in social services negatively affecting the majority of citizens, this weakened the relationship between the state and the citizenry and threatened the regime's legitimacy.

I argue that in order to defuse the challenges of economic liberalization, the regime deepened its ties to some businessmen in order to create a new political economy of authoritarianism. However, this was too narrow a constituency to provide legitimacy to the regime. An indicator of this was the outbreak of the revolution on January 25, 2011.

This study attempts to go beyond the representation of businessmen as supportive to authoritarianism and democratization depending on their economic interests (Bellin 2002). It also attempts to go beyond the representation of businessmen as unable to shape laws and policies for their own economic benefit (Adly 2009). While accepting some of the arguments put forward by (Bellin 2002) and (Adly 2009), this thesis argues for a less black and white understanding of the role of businessmen under authoritarianism. This thesis attempts to provide a framework for understanding the different roles of businessmen in either opposing or supporting authoritarianism.

This thesis has emerged in an attempt to find answers to some of the questions raised in the course of my political and professional background. Since the late 1990s, I have been interested in understanding why authoritarianism has persisted in Egypt. In order to deepen my understanding of the situation, I decided to join the NDP. A few years later, I was one of handful young females who were appointed to the newly established Policies Secretariat, headed by the President's son Gamal Mubarak. The Secretariat has included a number of business tycoons in

addition to academics and intellectuals. At the monthly meeting of the Secretariat, members would rush at the beginning of the meeting to greet the young Mubarak and exchange brief words with him. The regular presence of businessmen in the meetings raises questions for me about the reasons, which led them to engage in politics. Are they looking for their own business interests, or the interest of the country? Is their presence in this Secretariat to support Mubarak's regime and the project of hereditary succession? (*Al-Masry Al-Youm*, March 10, 2010)¹.

On an independent level, I participated in two research projects that examined the Muslim Brothers (MB) in elections and Parliament. Through these projects I conducted several interviews with the MB and visited their offices many times during the period from 2005 to 2008. During my interactions with the MB, I had in mind several questions. Why do they engage in politics by joining the MB organization, despite their constant detention and arrest by the regime? Is their opposition to the regime for the benefit of the country? Or are they looking for the benefits of their MB organization?

During my professional career, I worked from 2006 to 2008 in an Egyptian think tank, which allowed me to meet with different opposition activists. My interactions with them led me to raise questions about whether they wanted democracy for the country or whether they were playing the role of a "loyal" opposition that actually supports rather than opposes Mubarak's regime? Do we have different types of opposition? And why is the opposition divided and not united against the regime?

¹ The only Policies Secretariat meeting that Gamal Mubarak missed since the establishment of the Secretariat in 2002 was in March 2010 when he was accompanying his father in Germany for treatment. Only half of the members of the Secretariat attended this meeting, which suggests how members, including businessmen, were attending these meetings to meet with Gamal and create a personal relationship with him for their own personal benefit rather than for the benefit of the party.

²Egypt's economic reform could be identified in three generations. In the first generation (1991-1998) the

To sum up, through my various professional experiences, I was confronted with conflicting evidence about the role of different political actors in either opposing or supporting authoritarianism. I chose to examine the role of businessmen from different political backgrounds in an attempt to understand the different roles they played in Egypt under Mubarak and if they were agents of democratization or supportive to authoritarianism.

Original Contribution

The thesis seeks to make an original contribution in a number of ways. First, it attempts to go beyond the concept of co-optation as dyadic and static. By examining how in light of the economic liberalization, co-optation was flexible and took a variety of form, I seek to add to the Middle East literature on clientelism.

Second, this thesis seeks to fill the gap in the existing literature on clientelism, which does not discuss what would happen in case the opposition refuses to be co-opted. I also seek to add to the literature by examining how the regime used divide-and-rule tactics among an opposition that refuses to be co-opted. Building on Ellen Lust-Okar (2004), who argues that the regime created a divided political environment between the legal and illegal opposition, this thesis seeks to argue that the division among the opposition took other levels as well. The regime created a division inside the legalized opposition parties who turned radical, which resulted in two parties: one legal and one illegal. Then, the regime created division among the illegal parties/movements.

By providing a detailed examination of case studies on businessmen from different political backgrounds, I make an original empirical contribution to the study of businessmen in Egypt. This study also seeks to make a contribution to understanding the role of businessmen in comparative politics.

Methodology and the Process of Doing Field Work

The role of Egyptian businessmen in Egyptian politics and their relationship to authoritarian survival and collapse under Mubarak is selected as a case study through which to explore my research questions. The time period for this study is 1990 until February 2011. In this research, I examine relatively large-scale businessmen whose scale of activity tied them to the regime. Their business activities cover different sectors, including trading, investment, industrialization, agriculture, tourism, telecommunication, or in some cases, mutlisectoral activities. I also examine bureaucrats turned into businessmen.

The reason for choosing this period is that implementation of the structural adjustment program in Egypt started in the early 1990s, heralding a new period in Egypt's political economy. The end date of this study has been chosen because this is when Mubarak's regime was overthrown. The fieldwork for this research started around a year before the 25th of January revolution (from December 2009 and ended in September 2010).

I have used qualitative research methods to answer my research questions on the role of businessmen in authoritarian survival. Through interviews, newspaper articles, secondary sources, and interpellations submitted to Parliament, I was able to construct case studies about different types of businessmen and their relationships with the regime (i.e., authoritarian clientelism/semi-clientelism/mutual dependency/ patron-broker-client relationship versus radical opposition that refuses to be co-opted). Through these case studies, I analyse the role of businessmen in authoritarian survival and renewal.

I selected the interviewees after making a short list of large-scale businessmen who come from different political backgrounds: NDP businessmen, independent businessmen, and businessmen from opposition organizations and movements. I have chosen a case study approach to allow for an in-depth understanding and analysis of businessmen's relationships with

the authoritarian regime. For instance, Robert Yin (1984) defines the case study research method “as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.” (p. 23). Businessmen examined in this research have entered into clientelistic relations with the regime, and they have been classified based on their institutional tool of co-optation by the regime: (1) businessmen were co-opted by running for Parliament as NDP members or independents, (2) other businessmen who did not engage in politics and were co-opted through social network relations with Mubarak and his family, (3) other businessmen who were co-opted by joining the loyal opposition parties. This is why I have examined these three categories of businessmen in three different chapters: parliamentary businessmen, Mubarak’s family and businessmen, and opposition businessmen. I believe that these classifications provide a comprehensive examination of samples of different types of large-scale businessmen who were co-opted by the regime through different institutional mechanisms. In order to complement my case study approach to businessmen and authoritarianism, I examine in each of these classification examples of the businessmen who refused to be co-opted by the regime.

The data I have collected were triangulated by information from different sources to check their accuracy. For instance, I conducted more than 60 interviews with NDP businessmen, opposition businessmen, opposition parliamentarians, political activists, economists, bankers, members of business associations, and journalists. During the interviews, I presented myself as a PhD student, without revealing my party affiliation, in order to gain the credibility of the interviewee; however, in very rare cases I revealed my membership in the ruling party to the interviewees with whom I had met several times and developed a friendship outside of the

fieldwork project. When dealing with data collected through interviews, it was important to check the information. So, I triangulated the data from interviews with other sources, including other interviews, newspaper articles, court rulings, interpellations, and other secondary sources. I faced some problems in triangulating the data. For instance, I looked for data about the corruption of businessmen, since the mechanisms of their corruption could reveal their relationships to the regime. But under authoritarianism the collection of these data represents certain challenges for the researcher. The data that I have collected include court rulings about specific cases of businessmen's corruption. I requested permission from the Centre of Legal studies in the Ministry of Justice to get copies of some court rulings; however, the centre refused to give me permission. This is a common practice by authoritarian regimes, which are usually suspicious of anyone looking for information, especially PhD students enrolled at foreign universities.

Another type of data that helped in triangulating my data were the interpellations submitted to Parliament by opposition parliamentarians. These interpellations were important because they present direct accusations against the government regarding their involvement in the corruption of businessmen and enabled me to identify those businessmen implicated in corruption and the role of the regime in it. Attached to the interpellations are first-hand documents about business-government relations and corruption in Egypt (for example, contracts about selling state-owned lands and factories). But these interpellations were not available in the library of Parliament following a fire in Parliament in the summer of 2008, when these documents were burnt. So, I had to meet with the opposition parliamentarians independently to obtain these interpellations. The topics of the interpellations that I have collected include the

corruption of businessmen in different sectors, like the steel industry, the monopoly in telecommunications, and corruption in the selling of state-owned lands and in privatization.

Other data that have been collected for this research and that helped in triangulating my information include newspaper archives from semi-government newspapers, such as *Al-Ahram Daily*, *Al-Akhbar*, and *Rose Al-Youssef*. Despite these newspapers being pro-government in their coverage, they are useful because they cover government policies. Moreover, these newspapers provided in-depth interviews with regime elites, including the former president, the then ministers, and the leading members of the NDP and NDP businessmen. I have analysed and quoted from these interviews. Then, after the revolution, these newspapers started to cover the corruption of Mubarak's regime, his family, and NDP businessmen.

I have used opposition newspapers like *Al-Destour*, *Al-Masry Al-Youm*, *Al-Wafd*, *Al-Youm Al-Sabae*, *Sout Al-Oma*, *Al-Usbu'* and more independent newspapers, like *Al-Ahram Weekly*. These newspapers were useful in covering the corruption of businessmen. But when it comes to the former president, his wife and his sons, their business corruption was never covered. However, after the collapse of Mubarak's regime, more information became available in these newspapers about the business corruption of the Mubarak family.

In triangulating my data, I have also used secondary literature in English and Arabic on Egypt's political economy. This secondary literature is based on empirical data gathered through interviews, from newspaper archives, minutes of meetings of the People's Assembly, reports from the Central Agency for Public Mobilization and Statistics (CAPMAS), reports from human rights organizations, reports from the Central Bank, copies of police investigations (of businessmen). After the revolution, more books were published in Arabic that include empirical data about Egypt's political economy and the corruption of businessmen co-opted by the regime.

Finally, the process of triangulating the data was sometimes faced with obstacles. For instance, when I met with NDP business steel tycoon Ahmed Ezz and asked him about accusations about his illegal acquisitions of *Al Dekheila* Steel Industry, he denied them and then refused to continue the interview. So I met with his competitors in the steel industry and workers in the steel industry, and I relied on parliamentary interpellations and information from different newspapers. An example of another challenge in triangulating the data was when I met with Egyptian businessmen living in London. These businessmen have fled the country because of financial or political problems with the regime. In order to avoid being misled by the information they provided me, I had more interviews in Cairo with senior bankers who provided me with oral information about the irregularities of these businessmen. So in each case study that I wrote, I used a cross-checking method by triangulating my data with information from different sources, newspapers articles, other interviews, court rulings, interpellations, and empirical data published in books.

Organization of the Thesis

The following chapters examine the role of businessmen in the survival of Mubarak's authoritarianism. I demonstrate how the regime created new relationships with businessmen by co-opting some of them while excluding others. After the introduction of economic liberalization, the co-option of businessmen took a variety of forms. This included the continuous subordination of businessmen to the regime based on credible threats of coercion, or a form of political bargaining between businessmen and the regime due to the increase in their structural and financial power, or the power of businessmen that could increase to the extent that they were able to threaten the regime's power. In other cases, the regime delegated its role in the provision of social services to businessmen, which led to a triadic clientelistic relationship composed of the regime, the businessmen, and the clients. On the other hand, there are

businessmen who were illegal/radical and refused to be co-opted by the regime, which led them to be excluded from participating in the formal political process; also the regime created a division among them. The different varieties and flexibilities of co-option and the regime's exclusion of the radical opposition and the divisions created among them, promoted a new political economy of authoritarianism.

The thesis is divided into five chapters in addition to a conclusion. The first chapter surveys the literature on authoritarian survival or renewal. The literature is classified into two groups: the political economy approach and the institutional approach. The aim is to create a framework to analyse businessmen in Egypt under Mubarak.

The second chapter starts with a historical background about the rise of modern Egyptian capitalism in the 1920s until the overthrow of the monarchy in 1952. The chapter then examines businessmen under Nasser, Sadat, and Mubarak in the 1980s. The aim is to argue that the political economy of authoritarianism relied on co-opting the loyal businessmen, while excluding those who represented a challenge to the regime.

Chapter three demonstrates the growing political role of businessmen in Mubarak's Egypt after 1991, and particularly after 2004, when neoliberal economic reforms were accelerated. The chapter examines the role of businessmen in Parliament and the ruling party. It demonstrates the change in the relationship between businessmen and the regime and how they contributed to the reshaping of authoritarianism. The chapter will document how NDP businessmen and independent businessmen were co-opted by the regime through existing institutions (elections, Parliament, and the ruling party). This co-option was flexible and took different forms that varied from authoritarian clientelism, semi-clientelism, mutual dependency, and patron-broker client relationship.

The fourth chapter examines empirical cases of businessmen who are not engaged in politics, but who created personal relations with the Mubarak family. The aim is to show that the regime not only co-opted businessmen through existing political institutions. It also created social institutions through informal alliances and social networks with businessmen not involved in politics, through which the regime helped these businessmen to grow successfully in return for their loyalty to the regime. These businessmen also played a role in helping the enrichment of the Mubarak family.

The fifth chapter focuses specifically on businessmen in the loyal and radical opposition, like *Al Ghad*, *Al Wafd*, and the illegal organization the MB, and the political movement *Kefaya* (Enough). The relationship between the regime and opposition businessmen is discussed to illustrate how the regime selectively co-opted the loyal opposition, while it harassed and excluded the illegal/radical opposition. The chapter also argues that the regime has weakened the opposition by creating a division not only among the legal and illegal opposition, but also among the illegal opposition.

In the concluding chapter, the consequences of Mubarak's new political economy of authoritarianism are assessed. The regime's predation and co-option of businessmen may appear to be a useful instrument for the maintenance of the political status quo; however, the chapter reflects on how the 25th of January revolution proved the failure of the new political economy of authoritarianism.

Chapter 1

The Uprising, Authoritarianism and Political Transformation

1.1 Introduction

By the beginning of the year 2011, the economic and political climate in Egypt was highly charged. On the economic level, the economic reforms started in the early 1990s produced some success, like increase in the growth rate of GDP by an average of 4.5% over the previous two decades (Kinninmont 2012). In 2007, foreign direct investment increased to \$11 billion, compared to \$400 million in 2004, and Egypt's exports increased by 20 percent (Shahin 2013, p. 56). However, the majority of the population was hurt by the economic reforms. For example, economic growth failed to translate into providing adequate jobs. During Mubarak's last years of rule, unemployment among university graduates reached 40 percent for men and 50 percent for women (Shahin 2013, p.56). The proportion of the population living below the national poverty line rose from 16.7% in 2000 to 22% in 2008 (Kinninmont 2012). The number of shanty towns increased and reached more than 1,000 spread around 20 governorates with a population of 17.7 million (Shahin 2013, p.56).

On the political level, the previous decade witnessed protests and demonstrations from different segments of the society. As El-Ghobashy (2012) writes:

Egypt's streets had become parliaments, negotiating tables and battlegrounds rolled into one. To compel unresponsive officials to enact or revoke specific policies, citizens blockaded major roads with tree branches and burning tires, organized sit-ins in factory plants or outside ministry buildings, and blocked the motorcades of governors and ministers. Take this small event in the logbook of popular politics from January 2001, one of forty-nine protest events that year recorded by just one newspaper. Workers at the new Health Insurance Hospital in Suez held a sit-in to protest the halt of their entitlement pay. State security officers and local officials intervened, prevailing upon the authorities to reinstate the pay and fire the hospital director. By 2008, there were hundreds of such protests every year, big and small. In June 2008, thousands of residents in the fishing town of Burg al-Burullus blocked a major highway for seven hours to protest the governor's abrupt decision to halt the direct distribution of flour to households. Police used tear gas and batons to disperse demonstrators, and ninety people were arrested (pp.23-24).

In parallel, since 2000 Gamal the son of President Mubarak became visible in the political scene. His grooming in the ruling party over the previous decade, confirmed that he had been prepared to inherit the presidency. In 2010, the parliamentary elections were rigged in favour of the ruling party. This led the opposition to unite and establish a shadow parliament. Mubarak criticized the opposition by saying “let them have fun”, which highly outraged the population, especially that the next presidential election was scheduled one year later; and the most likely candidates were either Mubarak or his son Gamal. As political scientist, Emad Shahin (2013) explains:

Fraudulent elections have been a common trigger factor in many prodemocracy revolutions, and Egypt was no exception. Its political and economic elites have grown completely isolated from society and were even more determined to push for the succession of Gamal Mubarak, despite growing popular opposition to this plan. Ahmed Ezz, a business tycoon, top NDP official and close associate of Gamal, wanted to make sure his friend’s path to the presidency was secure and smooth, and as a result, he oversaw one of the most tainted parliamentary elections in the country’s recent history (p. 58).

By the time January 25, 2011 arrived, the protestors went to the street with economic and political grievances. They complained about the emergency law, police torture, the rigging of elections, the low minimum wage, inflation, and unemployment. These complaints were reflected in their slogan: “bread, freedom, social justice, and dignity” (Mady 2013, pp. 314-315).

Mubarak’s three decades of authoritarian rule, collapsed after 18 days of popular mass uprising. Those who participated in the uprising were the youth of the middle and the upper classes, the poor, the upper classes, the workers, the peasants, women, Copts, old people, urban and rural residents (Shahin 2013, p. 54). As journalist, Hossam el-Hamalawy (2011) wrote on his blog, one day after the collapse of Mubarak’s regime:

In Tahrir square you found sons and daughters of the Egyptian elites together with the workers, middle class citizens and the urban poor. Mubarak has managed to alienate all social classes in society including [a] wide section of the bourgeoisie.

The breadth of opposition to Mubarak illustrates how his regime alienated the majority of the population, relying for its survival on the cooption of a small constituency of businessmen,

who benefitted from economic liberalization to accumulate wealth illegally and, in return, provided support to the regime. We can consider Egypt as a predatory state, in the sense of Peter Evans (1989), in that the state elite were looting for their own interests at the expense of the interests of the rest of the society.

This chapter discusses the existing literature on authoritarian regime survival in light of my research question of this thesis: ‘To what degree do businessmen challenge or support authoritarianism?’ I have classified the literature on authoritarian survival/renewal into two groups: the political economy approach and the institutional approach. The former looks at how changes in the relationship between the state and the market, or the state and the nature of the economy, impact political outcomes. From this approach, I build on the argument of Eberhard Kienle (2001) that economic liberalization has increased authoritarianism. In addition, I discuss the argument of Amr Adly (2009) that businessmen in Egypt under Mubarak were not able to capture the state and, in light of my empirical findings, I question the validity of his argument. I also discuss the argument of Eva Bellin (2002) that businessmen’s support of authoritarianism is contingent upon their economic interests, and I question the validity of generalizing this argument to businessmen in Egypt. I also examine the variety of relationships developed by authoritarian regimes with businessmen to maintain their regimes’ survival.

However, the political economy approach does not explain how businessmen became dependent upon and subordinate to the regime. This is why in addition to the political economy approach; this research combines elements from the institutional explanations to authoritarianism. From this approach, I build on the work of Maye Kassem (1999), Jason Brownlee (2007), Lisa Blaydes (2011), and John Sfakianakis (2004), who argue for the important role of institutions as tools for co-option to maintain the survival of authoritarian

regimes. However, my empirical findings question the validity of co-optation as the static concept presented in the literature on authoritarian renewal, especially after the introduction of economic liberalization.

Having reviewed this literature, I combine both approaches in order to create a framework for examining the case of Egypt. I argue that it is necessary to consider both the institutional mechanisms for co-opting businessmen as regime allies and excluding businessmen who are regime opponents as well as the structural power of businessmen in different historical eras as a result of political economic processes.

Before discussing the literature on authoritarian survival/renewal, the following section examines state-society relations and authoritarianism in Egypt under the Nasser and Sadat regimes and the Mubarak regime in the 1980s.

1.2 Authoritarianism and State-Society Relations in Egypt

This section aims to provide a context for the reasons for the regime's co-optation of businessmen in Egypt. To understand this, it is important to provide a brief historical overview of Egypt's political economy and authoritarianism before discussing it in more detail in the following historical chapter. Moving from Nasser to Sadat, we find that each President used his economic policies (socialist or liberal) in ways that created a constituency that supported him and helped in maintaining his regime, as the following section will discuss.

Nasser (1956-1970) maintained his regime by providing benefits and welfare services to co-opt the popular forces (the workers, peasants, and middle classes) into the state; in return they provided support to the regime (Ayubi 1995). For instance, Nasser's land reform legislation in the 1950s and the 1960s redistributed 12 percent of the country's land. The aim of the land reform was to give land to the landless peasants (Bush 2007, p. 1601). In addition to land

reform, the rents of agricultural land and real estate were fixed at very low levels. Rent contracts became inheritable, which made the tenants almost half owners. If the owner wanted to sell his agricultural land or real estate, he had to get the approval of the tenant, who obtained half of the amount of the sale in return for vacating the property (Farah 2009, p. 35). Also, the workers benefited from Nasser's socialist policies. The import-substitution industrialization (ISI) was successful in its early years. During the period of 1960-1965 industry grew annually at 9 percent, and total GDP growth reached 5.5 percent. The numbers of the labour force increased during this period from 6 million workers to 7.3 million workers, which is a total increase of 22 percent (Farah 2009, p. 35). The increase in growth rate enabled the state to extend social services like health care, food subsidies, education, etc. (Pratt 2000/2001, p. 113). For instance, during the period from 1952 to 1966, the number of schools built averaged one a day, and the number of those receiving free primary education rose by 1.3 million to 3.4 million (Bush 2007, p.1603). This is how Nasser created a constituency (composed of the middle class, the workers, and the peasants) that supported his policies and benefited from them (Farah 2009, p. 36).

Unlike Nasser, Sadat (1970-1981), upon coming to power, shifted away from socialist policies. For instance, in the early 1970s, Sadat returned the sequestrated properties (i.e., land taken from the landowners during Nasser's land reform) to their owners (Bush 2009, p. 55). Moreover, in 1974 Sadat introduced the open door economic policy *Infitah*, which gave the private sector a greater role in investment. The *Infitah* provided an opportunity for businessmen to engage in parasitic activities. For instance, they made quick profits and benefited from shady deals at the expense of society. This suggests how the experience of economic liberalization in the 1970s, as Nadia Farah (2009) argues, resulted in a predatory state. Farah (2009) used Peter

Evans' (1989) definition of predatory, which means that those who control the state seem to plunder and fulfil their own interests at the expense of the interests of society (p. 52).

Unlike Sadat, who initiated the *Infitah*, Mubarak, upon coming to power in 1981, announced the return to central planning and the major economic role of the state (Soliman 2011, p. 38). During the 1980s, the regime appealed to the lower-class segment of society for its support. Mubarak's speeches in the 1980s stated that he was against selling the public sector. For instance, in a speech in 1985, Mubarak said: "to start with, we don't sell the public sector...we don't dissolve it, and this should be clear for all" (Zaki 1999, p. 96). Mubarak was also critical of economic reforms. On the occasion of Farmers Day on September 8, 1988, he criticised the International Monetary Fund (IMF):

The IMF acts like someone in the rural areas in the past who made himself a wiseman – a doctor. He is not a doctor or anything. A patient, for example, needs a treatment for one month. Instead of this doctor telling the patient to take the medicine daily for 1 month, he tells him to take all the medicine today and tomorrow and that he will recover the day after. Of course, he will take the medicine to go to sleep at night and will not wake up in the morning. He dies. This is the IMF. It writes a prescription for those who require prolonged treatment, just as for those who require short treatment...I tell the IMF that economic reform should proceed according to the people's standard of living. One should not come and say increase the price by 40 percent. Surely, no one will be able to live. This will not be an IMF process: it will be a slaughter. No state can accept such a system, and many states have criticized it (cited in Sadwoski 1991, p. 253).

The economic policies of the 1980s led to a decline in real income and an increase in unemployment, which "threatened to produce exactly what some feared would be the result of orthodox economic reforms: riots and political instability" (Lofgren 1993, p. 411). At the international level, in the early 1990s, the total external debt amounted to \$49 billion (Farah 2009, p. 41), and Egypt was "turning into an eternal beggar for debt forgiveness and emergency loans" (Lofgren 1993, p. 411). This situation was further aggravated by the 1991 Gulf war, when more than a million workers returned to Egypt from Kuwait after the war. The war negatively affected the amount of worker remittances and also led to a reduction in tourism

(Farah 2009, pp. 41-42). The total cost of the war to Egypt was estimated by the World Bank at \$4.5 billion (Faksh 1992, pp. 50-51).

Due to these unsustainable economic conditions, Egypt entered into negotiations with the IMF and the World Bank. According to Youssef Boutros Ghali, the then Minister of Economy and a member of the Egyptian negotiating team, “the overriding instruction from President Hosni Mubarak to the team was to reach an agreement that would quickly trigger the debt relief arrangements offered by the Paris club” (Ikram 2006, p. 61). In fact, Egypt’s role in the Gulf war through military and political help “had inclined the donors to look favourably on attempts to resuscitate the economy. They not only seconded the efforts of international organizations, but also undertook bilateral actions, especially in the forms of write-offs and rescheduling of Egypt’s debt” (Ikram 2006, p. 61). In May 1991, Egypt signed an agreement with the IMF and in November 1991 signed an agreement with the World Bank.² This arrangement, the Economic Reform and Structural Adjustment Program (ERSAP), aimed at stabilizing the economy and starting structural reform. The reforms included improving the balance of payments, the lifting of price controls, a reduction in government subsidies, the imposition of new taxes, and the privatization by selling the public enterprises. The economic reform represented a significant change in Egypt’s political economy, which until then had been based on state-led development and the state as the most important economic actor.

The regime’s new stance regarding economic reform was reflected in Mubarak’s speeches. Unlike his speeches in the 1980s that described the IMF as someone who pretends to

²Egypt’s economic reform could be identified in three generations. In the first generation (1991-1998) the economy was stabilized and 1/3 of the state-owned enterprises were privatized. The second generation of reform (1998-2004) focused on trade and institutional measures. The third generation of reform (2004-present) witnessed the accelerated implementation of liberal economic policies and the accelerated pace of privatization. For more information, see Alissa (2007) pp. 4-5.

be a doctor and prescribes the wrong medicines, his speeches after the implementation of the structural adjustment programme supported economic reform. For instance,

he has characterized subsidies as social injustice, since the rich also benefited, asked why the public should bear the burden of losing state companies and argued that socialist countries which fixed prices destroyed their economies (Hinnebush 1993, p. 164).

Those who were negatively affected by the economic reform were particularly the poor, like the peasants and workers. For instance, Mubarak's Law 96 of 1992 ended the legal rights of tenants, which was introduced by the Free Officers in 1952. This means that landlords were allowed to retake their lands from the tenants and also charge them a market-based rent, which increased the rent by around 400 percent (Bush 2009, p.58). As Ray Bush (2009) comments:

The ruling NDP managed to achieve two significant aims: demonstrating to the international community its serious intent to 'modernise' tenure, and providing enhanced security for landowners, a social class closely aligned to Mubarak's party (p. 58).

Moreover, by the mid-1990s, several state-owned firms were privatized; however, this has not improved the working and living conditions of workers. For instance, while textile workers in the private sector earn double the salary of the public sector workers, the former work 12-hour shifts compared to the latter's 8 hours. Also, textile workers in the private sector seldom receive the health and social benefits that they are supposed to get. There was also no security that protected their jobs in private sector companies. This is because before starting a new job in private sector companies, workers are asked to sign an undated resignation letter, which means they can get dismissed any time by the employer (Beinin & el-Hamalawy 2007). This explains why liberal economic policies were unpopular with a large number of citizens and met with a lot of resistance, particularly amongst workers and peasants.

So how did Mubarak and other authoritarian rulers renew their authoritarianism after the introduction of neoliberal economic policies that undermined their legitimacy amongst significant constituencies? To answer this question, I examine the existing literature on the

renewal of authoritarianism, dividing it into two categories: the political economy approach and the institutional approach. The next section will review the political economy approach to explaining the renewal of authoritarianism.

1.3 The Political Economy Approach

Some authors have sought to explain the survival of authoritarianism in terms of the political economy. In particular, they focus on the transition from state-led to market-led economies, which rather than leading to greater political liberalization, as predicted by modernization theories, has led to the maintenance of authoritarianism.

For instance, Nazih Ayubi (1995) argued that economic liberalization will not directly lead to political liberalization, but to a more complex picture of multiplicity of interests. He explained:

The state bourgeoisie wants some expansion in the private sector but not the disappearance of the public sector. The private sector calls for economic liberalization but wants to continue to make use of patronage and asks for state support and protection. This prevents political-economic relations from becoming transparent: only 'transparency' would delineate the political from the economic, the public from the private, the employer from the employee – thus expanding the political arena in which politics of individuals, groups, parties and classes can take place (p. 407)

Indeed, Eberhard Kienle (2001) argues that economic liberalization necessitates greater authoritarianism. He writes:

...the economic evolution affected the evolution of liberties because the regime lost, or was afraid to lose, control over a number of activities and actors previously directly dependent upon it. Those measures which led to a redistribution of resources limited the exercise of such control through patronage. And those measures which sought to liberalize the economy limited the influence of the regime over the running of part of the economy. In both cases, it seems the regime sought to compensate for this loss of control by new restrictions on liberties (p. 5).

However, authoritarian regimes were not able to rely on restrictive measures alone to maintain their rule. As Stephen King (2009) argues in reference to Egypt, Syria, Algeria, and Tunisia:

Economic reform policies created and favoured a rent-seeking urban and rural elite supportive of authoritarian rule and took resources away from the workers and peasants who increasingly had the most to gain from democratization. Thus, the privatization of state assets provided rulers with the patronage resources to form a new ruling coalition from groups that would be pivotal in any capitalist economy: private-sector capitalists, landed elites, the military officer corps, and top state officials, many of whom moved into the private sector and took substantial state assets with them. At the same time, ruling parties

maintained elite consensus and contained the dissatisfaction of the lower strata in the new multiparty arena by offering them a dwindling share of state resources. In the end, political openings in the four countries culminated in transformed authoritarian rule (pp. 4-5).

Other authors argue that even though this new constituency benefited from economic liberalization, they could not influence the policies for their own benefit. For instance, by focusing on post-liberal Egypt, Amr Adly (2009) argues that even though the regime created rent-havens and cronyism in favour of its new constituency of businessmen, they could not capture the state. He writes:

Given the rampant corruption State-business relations developed in post-liberal Egypt, there is a wide consensus that Egyptian business has never gained significant capacity to shape public policies, [laws and regulations]... There are ample examples that reveal limited business influence on law making: the transfer of public property into private hands has been quite slow and went according to the pace determined by the ruling regime that often considered the interests of unionized labour. Moreover, the State could pursue public policies that run against big business through signing unilateral trade liberalization measures exposing uncompetitive domestic sectors to foreign competition, joining the TRIPS (Trade-related Intellectual Property Rights Agreement) with its negative prospects on pharmaceutical firms, and last but not least the gradual removal of tariff barriers on automobiles in the context of the Euro-Egyptian associational agreement which is expected to squeeze big Egyptian firms out of the market (Adly 2009, pp. 14-15).

Different authors have conceptualized the relationship between authoritarian regimes and businessmen in different ways: dependency of businessmen on regimes; dependency of regimes on businessmen; or bargaining between regimes and businessmen. Yet, in all cases, authors argue that regime-business relations result in authoritarianism. For instance, critiquing the modernization paradigm, Eva Bellin (2002) argues that in Tunisia under former president Ben Ali industrial capitalists enjoyed the benefits of state sponsorship and became dependent upon the regime, which led them to have less interest in challenging authoritarianism:

In the case of capital, state sponsorship has spelled compromised autonomy for the private sector and, hence, political timidity. Beyond owing their origins to state largesse, delivered in the form of subsidized start-up capital, subsidized infrastructure, and protected markets, many private sector industrialists find that their economic well-being continues to be beholden to the goodwill of the state. Trade protection and fiscal concessions still buoy the profitability of many firms, and spot subsidies and support programs distributed by the state on a discretionary basis have helped many firms restructure to face foreign competition on a firmer footing. The state's adoption of a more market-driven strategy of development has diminished the role of discretion in the provision of state support to the private sector but has not yet eliminated it. Friendly collaboration with state elites, not public contestation, continues to be important to private sector success. Entrepreneurs have good reason to remain aloof from campaigns for democratization, since their embrace would be interpreted by regime elites as provocative and confrontational (p. 149).

Bellin (2002) confirms her argument that businessmen's political leanings were contingent on their business interests by examining businessmen's dependency on and independence from the state in other countries. For instance, in South Korea during the post-war era, the state was extensively sponsoring the private sector, which made them "diffident about democratization." However, the 1980s worldwide recession caused by the oil crisis led the Chun regime (1980-1988) to adopt a structural reform program that reduced state support to the private sector in credit supplies and protection of the domestic market, and policy loans were eliminated. But by the mid-1980s Korean industry became competitive and did not need state protection from foreign competitors, which explains why businessmen became sympathetic towards democratization. The same situation, the author continues, was evident in Brazil. During the 1960s its infant industry was dependent on different forms of state support. As a result, private sector capitalists were keen to support the authoritarian regime since it prioritized their interests. However, by the late 1980s the state reduced its support to businessmen, which made them support a democratic transition (Bellin 2002, pp.162-166). A similar pattern is also described with regards to Turkey by Onis and Turem (2002).

Others have argued that the maintenance of authoritarianism is not a result of businessmen being dependent upon regimes, but rather that regimes became dependent upon businessmen. For instance, Samer Soliman (2011) argues that in Egypt, after the decline of the rentier revenues, economic liberalization in the 1990s failed to secure additional revenues for the state (Soliman 2011, p. 51). So to adjust to the decline in its rentier revenues, the state has been transformed from rentier to predatory (Soliman 2011, p. 97). Soliman (2011) used Margaret Levi's (1988) definition, which defines the predatory state as a state that will set income generation above any other consideration, and will do anything to collect more money from society, even by

unconstitutional means or by ruining the economy. One of the mechanisms that the Egyptian predatory state used to increase its revenue was by appealing to businessmen to engage in philanthropic activities (Soliman 2011, p. 125).

The regime may have turned more and more to the private sector for help in the 1990s, but it ensured that this help remained under its control and came from quarters it felt it could trust...in the wake of the [1992] earthquake, the president's wife championed a campaign to collect donations to repair the schools that had been destroyed and to build new ones. The appeal was directed primarily to the regime's loyal base in the business community. As part of the campaign, the names of donors were announced on television immediately after they had made their contribution—the state paid its debt of recognition upon receipt (Soliman 2011, p. 127).

In other cases, the regime became dependent on businessmen because of their structural or collective power. For instance, in South Korea under Park (1961-1979) chaebols—which are large diversified conglomerates and cover different sectors of the economy—originated and expanded. The regime provided them with protection, cheap loans, preferential tax treatment, and export subsidies (Shafer 1997, p. 112). In return for the regime's illegal assistance for the expansion of chaebols, businessmen were paying political funds for the Presidency and the ruling party (Moran 1999, p. 571).

However, Beatrice Hibou (2004) argues that with the increase in the financial power of businessmen their relationship with the regime took the form of bargaining. In reference to the Tunisian businessmen's donation to the National Solidarity Fund (NSF) established in 1992 by former President Ben Ali, she writes:

[The NSF] is...a system of taxation because of the obligatory nature of the contributions; 'private' due to the absence of any public controls and in terms of the methods of gathering and distributing funds in the name of a single personality...Even if [the NSF] is not included in the national budget nor subject to parliamentary control, and even though the fund belongs personally to the president of the Republic...nonetheless, we cannot say that the [NSF] constitutes simply a process of extraction. We cannot reduce this mechanism to the simple capture of wealth, albeit used for social welfare purposes. Rather, these funds constitute a form of 'exchange' in which real services are traded for control and other political benefits...Contributors are listed and receive a receipt for their contribution, even those living abroad. Entrepreneurs and other influential businessmen who fail to make their voluntary contributions find themselves excluded from public markets and other economic opportunities, and run the risk of an audit or other administrative scrutiny (Hibou 2004, p. 215).

Within the literature that adopts the political economy approach, there are different understandings of the relationship between businessmen and authoritarianism. Bellin (2002) argues that it is in the economic interest of businessmen to support authoritarianism in contexts of state-led development and economic protectionism. Soliman (2011) argues that with the decline of rentier revenues, the state became predatory by extracting rents from businessmen in exchange for providing them with services. Moran (1999) argues that the increase in the structural and financial power of businessmen led the regime to become dependent on their financial funding; however, Hibou (2004) argues that the increase in the power of businessmen has led to the development of a bargaining relationship between them and the regime.

Another set of literature focuses on the different institutional tools used by authoritarian rulers to maintain their rule through co-optation. The following section will review this literature.

1.4 The Institutional Approach

Several authors have discussed the use of co-optation by authoritarian regimes in the Middle East to maintain their rule. This section reviews this literature in order to identify and disaggregate the different institutional mechanisms (both formal and informal) of co-optation. I start by discussing the definition of co-optation. Then I review the literature on the different institutional mechanisms for regime co-optation of supporters and containment of opponents. I argue that there are gaps in the literature on authoritarian renewal regarding co-optation. Finally, the last part examines the regime's tactics in divide and rule among the opposition in case it refuses to be co-opted.

1.4.1 Definition of Co-option

Co-option is a process of incorporating individuals into the state's institutional framework. It functions within a system of clientelism, which is characterized by patron-client structure.

Carl H. Lande (1977) defined clientelism as:

a vertical dyadic alliance: an alliance between two persons of unequal status, power or resources each of whom find it useful to have an ally superior or inferior to himself (p. xx).

Other authors have provided a more detailed and clarified definition of clientelism. For instance

James C. Scott (1972) explains that:

The patron-client relationship - an exchange relationship between roles - may be defined as special case of dyadic (two person) ties involving a largely instrumental friendship in which an individual of higher socio-economic status (patron) use his own influence and resources to provide protection of benefits, or both, for a person of lower status (client) who, for his part, reciprocates by offering general support and assistance, including personal services, to the patron (p. 92).

While in a clientelistic relation the balance of power is in favour of the patron, the process of reciprocity distinguishes patron-client ties from other relationships.

A patron may have some coercive power and he may also hold an official position of authority. But if the force or authority at his command are alone sufficient to ensure the compliance of another, he has no need of patron-client ties which require some reciprocity. Typically then, the patron operates in a context in which the community norms and the need for clients require at least a minimum of bargaining and reciprocity (Scott, p. 93).

Within this unequal reciprocal relation, the patron subordinates the client by making credible threats of coercion. As Fox (1994) writes:

The focus here is on specifically *authoritarian* clientelism, where imbalanced bargaining relations require the enduring political subordination of clients and are reinforced by the threat of coercion. Such subordination can take various forms, ranging from vote buying by political machines, as under semi competitive electoral regimes, to a strict prohibition on collective action, as under most military regimes, to controlled mass mobilization, as in communist or authoritarian populist systems (p. 153).

1.4.2 The Different Institutional Mechanisms for Co-option

This section examines the different institutions (formal and informal) used by authoritarian regimes as tools for co-option to maintain their survival. These institutions are elections, the parliament, the ruling party, corporatist groups, and social networks. The aim is to

show how these different institutions co-opted the regime's supporters and loyal opponents into a patron-client structure.

The use of elections by regimes in co-opting individuals has been discussed by several authors. Huntington (1991) argued that during the third wave of democratization (from 1974-1990) some elections kept incumbents in power, but that these cases were exceptional and in the general trend, elections removed autocrats (pp. 178-179). Contrary to Huntington's arguments, elections seem to be one of the institutional mechanisms that authoritarian rulers use to maintain their survival. For instance, a decade after Huntington's third wave of democratization, Jason Brownlee (2007) observed that a large number of countries introduced multiparty elections but were still under authoritarianism (p. 6). The type of political system that includes non-competitive multiparty elections and limited pluralism seems to conform to Juan Linz's (1964) earlier definition of authoritarianism:

Authoritarian regimes are political systems with limited, not responsible, political pluralism; without elaborate and guiding ideology (but with distinctive mentalities); without intensive nor extensive political mobilization (except at some points in their development); and in which a leader (or occasionally a small group) exercises power within formally ill-defined limits but actually quite predictable ones (p. 297).

Since the transition to democracy did not happen in all countries, a number of authors have tried to explain why elections do not lead to democratic transition but, instead, to authoritarian survival. The conventional argument for why authoritarian leaders hold multiparty elections is because they enhance the legitimacy of the autocrat. As Samuel Huntington (1991) wrote:

when their performance legitimacy declined, authoritarian rulers often came under increasing pressure and had increasing incentives to attempt to renew their legitimacy through elections. Rulers sponsored elections believing they would either prolong the regime of their rule or that of their associates (pp. 174-175).

However, some authors argued that there are other functions to elections than providing legitimacy to the ruler. For instance, Lisa Blaydes (2011) argues for the important role of elections in the distribution of spoils to co-opt the regime supporters. She writes:

The authoritarian leadership needs a mechanism to provide members of the political elite with continued 'payment' in exchange for their support. One strategy to accomplish this might have been to appoint individuals to parliament or some other body and distribute benefits on this basis. However, those that would have been excluded from the distribution of spoils could have become embittered and sought strategies of overthrow the leadership. In addition, the regime would continually face the challenge of picking the right people. Through elections, on the other hand, the regime distributes access to state resources in what is perceived to be on a fairly free and competitive basis (p. 54).

Authoritarian regimes were not able to rely on co-opting only the regime supporters to maintain their rule. Maye Kassem (1999) argues for the role of elections in co-opting both the regime supporters and opponents. In explaining why Mubarak held multiparty parliamentary elections, she writes:

...Egypt's democratization efforts as reflected in its contemporary electoral framework functions predominantly as a mechanism for reaffirming and, more importantly perhaps, expanding the regime's informal grip on political participation so as to include political opponents and their supporters. This strategy is based on the logic that, within a specific setting, a multi-party electoral arena could be utilised by the regime as a means of providing, at various levels of the political and social structure, the opportunity to participate in the existing political system and, in most cases, to gain access to a share of the resources it commands. In this way, disparate political activists and their potential supporters would be recruited into the regime's informal system of containment and control (p. 1).

However, gaining access to a share of the state resources through election could not be a useful tool for co-option when the regime faces strong opposition. For instance, Jennifer Gandhi and Adam Przeworski (2006) argue that when the opposition is strong, it is co-opted through its participation in elections and thus in legislatures that influence policy. Dictators make more extensive policy compromises to keep the opposition from rebelling. They write:

Policy compromises require an institutional forum, access to which can be controlled, where demands can be revealed without appearing as acts of resistance, where compromises can be hammered out without undue public scrutiny, and where the resulting agreements can be dressed in a legalistic form and publicized as such. Legislatures are ideally suited for these purposes (2006, p.14).

This argument does not seem to conform with most of authoritarian regimes, since the main job of parliamentarians in authoritarianism is to provide services to their constituents rather than to legislate (Lust-Okar 2009, p. 124).

Other authors argue that in order to understand authoritarian survival, we should turn our attention to the institution of the ruling party. For instance, Jason Brownlee (2007) argues for the

important role of the ruling party in co-opting the regime's coalitions and containing their contestation. In reference to regime survival in Egypt under Mubarak and Malaysia under Mahatir, Brownlee (2007) writes:

Both rulers entered their positions in control of parties, and those organizations continue to lay the groundwork for what will follow them. For the past fifty years, the NDP (and its forebears) and UMNO have dominated electoral politics and kept their opponents from power. By providing opportunities for long term advancement and political influence, these parties have curbed elites' incentives to exit the regimes or push for change from the outside. Motivations to defect have been dulled, if not eliminated, and public dissent from the party has been confined to localized rebellions (p. 156).

Unlike the process of co-optation that incorporates individuals or small groups (i.e., through election, the parliament, the ruling party), in corporatism co-optation is based on socioeconomic classes and targets larger social groups. Corporatized groups include trade unions, professional syndicates, business associations, and other interest groups, and they receive economic benefits as well as inclusion in policy making in return for their support for the regime (Schmitter 1974). In Egypt, different types of corporatist institutions have been either included or excluded depending on their support or opposition to the regime. For instance, Nasser reinforced the economic power of the trade union "through far-reaching redistributive reforms, including codetermination and profit sharing in the nationalized and state-run enterprises" (Bianchi 1990, p. 214). In fact, Nasser's support to the workers corresponds with his economic policy of state-led development that depended on workers as one of the constituencies that provided support to his regime. On the other hand, when Sadat faced resistance from the peasants' corporatist agricultural cooperatives due to his economic policy, he abolished its national confederation and shifted its resources to village banks controlled by allies of the ruling party. As a result, the agricultural cooperative "was powerless to prevent Sadat's reversion to openly, inegalitarian, neocapitalists policies..." (Bianchi 1990, p. 215).

However, after the introduction of economic liberalization, Egyptian regimes did not have the type of state resources to sustain corporatist relations that previously existed. For instance, Ninette Fahmy (2002) argues that under Mubarak a new and tighter form of corporatism replaced the classical corporatism, which Fahmy (2002) labels as *co-integrationism*.

[It is] a strategy of co-option of top group leaders into the system and integrating their interests with that of the state using special privileges, patronage networks, and institutionalized corruption (p. 105).

Along the same line, John Sfakianakis (2004) argues that economic liberalization allowed for the emergence of networks in which the regime's coalitions were co-opted. In this clientelistic relation, this network of beneficiaries (businessmen and bureaucrats) provided support to the regime in return for their self-enrichment. He writes:

The wealth that these businessmen amassed over the course of the decade could not have been accumulated without their crony ties to the state...As such, their fortunes depended on an economic system that rewarded those closest to the state and not necessarily the most innovative or efficient. And not surprisingly, this type of accumulation benefited state officials as well as bureaucrats-turned-businessmen. Privatizing the state became a process by which wealth was generated for both...The composition of this network was hybrid, and included high state officials that had developed important accumulative and investment interests in Egyptian business, as well as those emanating from the ranks of the business elite. These groups formed an alliance not only because some had joint projects in the formal sector of the economy, but also because business was conducted on the basis of the transfer of contracts in return for money (p. 84).

In other cases, the regime formed particular patron-client relations with specific businessmen in return for their substantial funding to the regime and the enrichment of important figures in the regime. This was evident in Indonesia under Suharto. When Suharto came to power in 1965, the most immediate coercive threat to him was the military, so he created personal relations with ethnic Chinese businessmen and granted them exclusive parts of the Indonesian market. In return, these businessmen had to share funds that personally enriched the generals and they also had to provide provisions for troops (Winters 2012, pp. 158-161). For instance, Liem Bogasari was "among the circle of trusted ethnic Chinese businessmen with whom Suharto established close connections. [Liem Bogasari used his contacts with the regime

and] acquired several export licenses and held import monopolies on cloves” (Dieleman 2007, pp. 46-47). Winters (2012) explains:

Liem and other similarly positioned businessmen profited handsomely, but it was always understood from the beginning that in exchange for lucrative deals, Suharto could direct key military officers or elite political figures to Liem and others to be taken care of in generous [spoils sharing]. Sometimes this only meant envelopes stuffed with \$100 bills, or sometimes it meant meeting operational needs for troops or building barracks...(p. 161).

Other authoritarian rulers created particular patron-client relations with specific businessmen to implement development goals that aimed to legitimize their regime. For instance, in South Korea (1961-1979), Park developed personal relationships with Chung Ju-Yung of Hyundai and Cho Chung-hun of Hanjin. In return they helped Park achieve his development goals. For instance, Chung fulfilled Park's goal of developing the ship-building industry, and Cho privatized the government-owned airline (Moran 1999, p.572).

In other cases, network relations could be used as a tool for co-option and exclusion. For instance, in Syria under Hafez al-Assad, informal networks served to exclude the opposition and co-opt loyal businessmen. For instance, Bassam Haddad (2012) argues that following the populist authoritarian unraveling, the regime thought of bringing the private sector back in. However, the regime feared a resurgence of businessmen who had strong roots and relations with the traditional market *suq* (of manufacturers and artisans) from which the Muslim Brotherhood were recruited. So out of security concerns the regime established informal networks with particular loyal businessmen (Haddad 2012, pp. 43-44). As Haddad writes:

The showdown between the state and the [Islamists] between 1979 and 1982 further catalyzed selective rapprochement between state and business in the form of informal networks. The civil unrest, very much tied to the power of the then-weakened traditional business community, accelerated the formation and consolidation of economic networks (p. 87).

The different institutions examined above (elections, parliament, political parties, corporate institutions, and social networks) have been created by dictators to co-opt potential clients. The dictator, who is the patron in this clientelistic relation, can change the result of the

election, reverse legislations to be in his favour, and dissolve the parliament, the political parties, or the networks that he had created. For instance, King Hussein of Jordan opened and closed the legislature twice. In Algeria, after the Islamic Salvation Front was about to win the majority of seats in the 1992 election, the military suspended the second round of elections and dissolved the parliament. This means that the dictator always has the power to threaten the use of force (Gandhi & Przeworski 2006, p. 22), which suggests how in authoritarian clientelism, the patron can subordinate the client by making credible threats of coercion.

1.4.3 Gap in the Literature on Authoritarian Renewal Regarding Different Forms of Co-option

The literature discussed above does not explain that authoritarian clientelism is flexible and can take different forms. For instance, as mentioned in the section on the political economy approach, the introduction of economic liberalization increased the financial and structural power of businessmen, which in turn developed a new bargaining relationship between them and the regime. Businessmen thus became less subordinate to the regime, a change that leads to semi-clientelism. This means that the patron (i.e., the regime) uses less coercion and only threatens the clients (i.e., businessmen) with benefits removal. As Fox (1994) writes:

If the authoritarian-clientelistic combination of material inducements and coercive threats is to be effective, elites need to appear to be able to enforce compliance. If instead they lack the means to uncover, oversee, and punish noncompliance, then the deals they strike with their subordinates are much less enforceable. Semiclientelist power relations induce compliance more by the threat of the withdrawal of carrots than by the use of sticks. Semiclientelism differs from authoritarian clientelism because it relies on unenforceable deals (pp.157-158).

Moreover, the client may become as strong as the patron, which makes the relationship change from semi-clientelism to mutual dependency. Patterns of mutual dependency between the regime and businessmen were evident in Russia under Boris Yeltsin. For instance, before Yeltsin's 1996 re-election, the polls showed that his communist opponent was far ahead (Klebnikov 2001, p. 212). At the same time, Yeltsin's communist opponent was considered a threat to the wealth and political connections of businessmen (Mohiuddin 2007, p. 683). This

meant that it was in the interest of both the businessmen and Yeltsin for him to be re-elected for a second term. In this context, a relation of mutual dependency developed between Yeltsin and businessmen. On the one hand, Yeltsin allowed key firms to be sold off at bargain prices to politically favoured businessmen, which led to the rise of oligarchs. On the other hand, in return for amassing huge fortunes out of the privatization, the oligarchs helped Yeltsin in his political campaign through their financial support and by providing sympathetic coverage through their media outlets—the press and TV empires (Rutland 2009, pp. 163-164).

It seems that Yeltsin also depended on oligarchs for the enrichment of his family. For instance, Yeltsin's son-in-law headed the Russian airline Aeroflot owned by Boris Berezovsky, one of the oligarchs who became wealthy during privatization. In the late 1990s, an arrest warrant was issued for Berezovsky for profit skimming at Aeroflot; however, the charge was dropped (*The Telegraph*, March 24, 2013). This is because, as one author put it, “while the president had to publicly denounce corruption, any action taken against Berezovsky would implicate him as well” (Mohiuddin 2007, p. 684). This situation reinforced the mutual dependency between them.

Other patterns of mutual dependency between the regime and businessmen are evident in South Korea. For instance, as mentioned earlier, in South Korea under Park (1961-1979) chaebols were established and grew through the support of the regime. But over time, the regime's legitimacy became dependent on the success of chaebols. As one author writes:

Over the course of Park's rule, the regime's legitimacy became inextricably tied to the fate of the economy, and the fate of the economy increasingly depended on the burgeoning chaebol. While maintaining the upper hand over business, subsequent regimes have all reneged on early promises of taming the chaebol and have pursued pro-growth strategies relying on the chaebol as the engines of that growth (Fields 1997, p. 128).

Consequently, despite the precarious financial position of the chaebols, their importance in the economy “limit[s] state leverage and force[s] the state ‘into the role of lender of last resort’

because the bankruptcy of a chaebol ‘would threaten not only the financial but the economic stability of the country’“(Shafer 1997, p. 112). This suggests that the relation between the regime and chaebols has been transformed from mere co-option to mutual dependency in which each one of them needed the other for survival.

However, by the 1980s the symbiotic relations between the regime and businessmen changed in favour of the latter. Businessmen did not need to rely on the regime for support, and “many of the chaebols were sufficiently large to provide on an in-house basis many of the financial services that the state had previously supplied” (Bellin 2000, p. 192). This has encouraged businessmen to convert their economic power into political power in order to challenge the regime. For instance, in 1991 Chung Ju-Yung, founder of Hyundai (which is the largest industrial chaebol in South Korea), established a new political party, the Unification National Party (UNP), which aimed to challenge the ruling Democratic Justice Party (DJP). In 1992, Chung’s party got 17 percent of the popular vote in the general elections. In the same year, Chung made a bid for presidency (Bellin 2000, p. 191).

The literature on authoritarian renewal with respect to clientelism has discussed the role of elections, parliament, and the ruling party in co-opting regime supporters and opponents of the regime’s structure. This means that clientelism has been examined as a static and dyadic relationship that links the client (i.e., regime supporters or opponents) to their patron (the regime) in a clientelistic chain. However, clientelistic relations are flexible and can take a triadic form that includes the patron, the broker, and the client (Scott 1972, p. 95). This research demonstrates that in Egypt, after the implementation of economic liberalization and after the state reduced its role in the provision of social services, we find the emergence of triadic relations that include the patron (the regime), the broker (sub patron), and the client. This means

that the institutions of elections, parliament, and the ruling party examined above have provided an opportunity for regime supporters and opponents to gain access to a share of state resources; but in turn the regime supporters act as brokers to distribute some of these spoils to the clients in their constituencies.

Paying attention to the varieties and flexibility of clientelism furthers understanding of how authoritarian regimes renew their authoritarianism through different forms of co-opting businessmen, thus preventing them from playing a democratizing role in politics.

1.4.4 Opposition Refuses Co-option

Despite the varieties and flexibility of co-option, it is not always a successful mechanism for authoritarian regimes since the opposition may refuse to be co-opted. As long as the opposition is not willing to be recruited into the regime's clientelistic chain, they are less likely to win elections or even expand their private businesses. However, the literature on clientelism is not sufficient to explain how authoritarian regimes can survive in the face of an opposition that refuses to be co-opted. This is because the non-co-opted groups can ally with other members of the opposition, which can constitute a challenge to the regime. This is why authoritarian regimes depend not only on co-option, but also on divide and rule tactics among the opposition to ensure their survival. For instance, overcoming divisions amongst the opposition could result in authoritarian collapse, as it did in Iran after the Shah eliminated all opposition parties, leading to a broad coalition of opposition forces that succeeded in overthrowing the Shah (Lust-Okar 2004, p. 173).

Sydney Tarrow (1998) argues that instead of repressing all the opposition, most authoritarian regimes rely on selective repression to divide their opponents and perpetuate their rule:

By negotiating with some elements among the spectrum of contenders, governments encourage moderation and split off the moderates from their radical allies...especially when it coincides with the decline of mass support and with factionalization inside the movement, this policy of facilitation and selective repression pushes radicals into more sectarian forms of organization and more violent forms of action and encourages moderates to defect (pp. 149-150).

In Morocco, King Hassan II divided opposition groups into loyalist and radical factions.

This division, as Lust-Okar (2004) argues, prevented political unrest, despite the economic crises in the 1980s. She writes:

In Morocco, political party elites were sharply divided from groups left out the political system. The palace controlled the loyalist opposition's participation in the political arena and limited its demands. Loyalist opposition elites were required to accept the king's supremacy and support Morocco's bid for the Western Sahara. Within these constraints, however, they acted as the king's 'spokesmen of demands', providing an important channel of communication between the masses and the palace. In return, they enjoyed government subsidies and privileged access to the palace. Illegal opposition, mainly religious based-societies, remained outside this system. Many questioned the legitimacy of the king and the political system, including the role of the included parties. Despite their potential for antiregime activity, however, King Hassan II allowed the growth of Islamic opposition in the early 1980s, attempting to counter his secular opponents. He thus fostered a divided political environment (p. 162).

In Egypt the divided environment between the secularists and the Islamists created by the Mubarak regime weakened the opposition, as Shehata (2010) writes:

[D]ivisions between Islamists and non-Islamists in the Egyptian opposition have weakened the ability of the opposition parties and movements to build broad-based alliances that are capable of effectively challenging the hegemony of the authoritarian regime...The Egyptian regime for its part has successfully manipulated and deepened these divisions and asymmetries to ensure its continued survival and the continued weakness and fragmentation of its challengers (pp. 2-3).

The divided environment was not only among the Islamist and non-Islamist opposition groups. For instance, Prime Minister Ali Lofty (1985-1986) formed a joint committee between the government and the businessmen that aimed for better understandings between them. But the composition of the members in the committee showed the regime's attempt to create a division among the businessmen. This was manifested in the regime's inclination towards more representation from the Egyptian Business Association (EBA), against the chambers of commerce and of industry. While this resulted in conflict among the different business groups, the regime continued to defend the committee and the EBA (Fahmy 2002, p. 171). As Fahmy (2002) writes:

In creating such conflicts among the business community...the state ensures the fragmentation of the business community and keeps the power of the wealthiest among them within check, thus preventing their evolution into a strong autonomous pressure group.

The regime has used formal and informal institutions to co-opt potential allies. However, the literature we examined is not sufficient to explain the different varieties and flexibility of clientelism. In addition, what would the regime do when the opposition refuses to be co-opted by the regime? What are the consequences of their refusal to be co-opted on the regime's survival? Since these questions are not answered in the literature on co-option, this research will fill this gap by focusing on how the regime uses a variety of clientelism to co-opt its supporters and also the tactics used to divide and rule among the opposition and within the groups that could challenge the regime.

1.5 Research Questions Emerging from the Gap in the Literature Review and the Framework for Analysis

In Egypt, authoritarian regimes have used their control of the economy to promote their survival. In the post-1952 revolution, the regime utilized populist rhetoric and policies to co-opt the lower classes of society. However, after Mubarak committed himself to economic liberalization in the early 1990s, he had to reduce populist policies, threatening the loss of support from the lower classes of society. As a result, the regime's new political economy of authoritarianism had to look for a new constituency that could support Mubarak's regime, and later, the project of hereditary succession. In order to understand how Mubarak maintained his survival for almost three decades, especially after the introduction of economic liberalization, this research uses both the political economy approach and the institutional approach.

From the political economy approach, this research builds on the work of Kienle (2001), who argues that economic reform has been accompanied by more authoritarianism. I also build

on the work of King (2009), who argues that authoritarian regimes renew their authoritarianism by creating a new constituency that provides support to the regime.

I agree with Adly's (2009) argument that economic liberalization has resulted in uneven distribution of property rights for businessmen close to the regime; however, I do not agree with the rest of his argument that businessmen under economic liberalization were not able to capture the state and shape laws for their own economic benefit. This is because this research demonstrates that with the economic liberalization, there has been an increase in the structural and financial power of businessmen, which allowed them in few cases to influence laws to enhance their profits. Relevant examples to be discussed in the dissertation are the case of Ahmed Ezz and the amendment of the monopoly law in Chapter three, and the 1997 investment incentive law tailored for the Sawiris family in Chapter four. In other cases, the increase in the power of businessmen allowed them to have some bargaining relationship with the regime. Relevant examples to be discussed are the cases of the loan MPs (members in parliament) in Chapter three and the case of businessman Wagih Siag in Chapter four.

Also, while I agree with Bellin's (2002) argument that businessmen were supporting authoritarianism for their own business interests, since they were economically dependent on the regime, this research argues that businessmen may also oppose authoritarianism and sacrifice their wealth and private business. This is not because they are agents of democratization, but because of their ideological stance. A relevant example will be discussed in the case of the Muslim Brothers businessmen in Chapter five.

From the formal and informal institutional approach, this research builds on the work of Kassem (1999), Blaydes (2011), Brownlee (2007), and Sfakianakis (2004), who argue for the importance of institutions as tools for co-optation to strengthen authoritarianism. I also build on

the argument of Sfakinakis (2004) on how network relations between the regime and its coalitions helped enrich bureaucrats who turned into businessmen. However, this research further argues that the regime allowed bureaucrats to accumulate wealth—through their own network relations—not only to provide support for the regime, but also in return for their help in the enrichment of the Mubarak family and their associates. A relevant example will be discussed in the case of the Minister of Housing Ibrahim Soliman in Chapter four.

Moreover, the literature on authoritarian renewal regarding co-option (through parliament, elections, the ruling party, and social networks) did not discuss clientelism's flexibility and variable forms. The literature, also, did not discuss the fact that despite the varieties and flexibility of clientelism, not all businessmen agreed to be recruited into the regime's clientelistic chain. For instance, businessmen who were members of radical opposition parties or organizations like the Muslim Brothers (MB) refused to be co-opted by the regime. This is why this research builds on the work of Lust-Okar (2004), who argues for the importance of creating a divided environment among the legal and illegal opposition. While I build on Lust-Okar's (2004) argument, my research further argues that authoritarian regimes created a divided environment not only among the legal and illegal opposition, but also inside the legalized opposition by particularly targeting businessmen like in the case of *Al Ghad* party discussed in Chapter five. The regime has also created a division among the illegalized opposition like the Muslim Brothers and *Kefaya* (Enough) movement discussed in Chapter five.

This research fills the gaps in the literature, in both the political economy approach and the institutional approach, by answering the following questions: What is the role of businessmen in authoritarian renewal/survival? Other sub questions emerge from this question. How far were businessmen able to capture the state and influence policies for their own benefit? Why did

some businessmen refuse to support Mubarak's authoritarianism to the extent that they sacrificed their wealth and private business? What are the varieties of clientelistic relations used by the regime to co-opt businessmen, especially after the introduction of economic liberalization? How did the regime weaken the opposition that refused to be co-opted? Why would the authoritarian regime allow bureaucrats to turn into businessmen and accumulate wealth in illegal ways?

This research argues that after the introduction of neoliberal economic policies, Mubarak's regime co-opted a large number of businessmen (supporters and loyal opponents) through formal and informal institutions. Businessmen from the ruling party, loyal opposition, or those affiliated with the regime through network ties agreed to be co-opted into the regime's clientelistic chain because their business interests coincided with the survival of Mubarak. On the other hand, the radical opposition, like the illegal Muslim Brother organization, refused to continue in their co-option by the regime and has opposed Mubarak's authoritarianism. Their opposition to the regime was at the expense of scarifying their wealth and private businesses because of their ideological stance.

In order to weaken the opposition that refused to be co-opted, the regime created a divided environment among the legal opposition which was loyal and agreed to be co-opted and the illegal opposition like the MB. This divided political environment further increased when the regime created a division among the different illegal opposition groups like the MB and the *Kefaya* movement.

The divided environment created by the regime among the legal/illegal opposition and among the illegal opposition prevented all opposition groups from playing an important role in the 25th of January revolution in either supporting or opposing the regime. Rather, it was the people and the mobilizing efforts of youth groups and social movements that sustained the

protests. The opposition political parties, including the MB, came late to the protests and also tried to hedge their bets by negotiating with the regime. The 25th of January Revolution illustrates how Mubarak's policies and the political economy of authoritarianism undermined the possibility of opposition parties forming a coalition either for or against the regime. However, the role of businessmen in the MB can help us to understand the nature of MB policies in the post-Mubarak government.

Chapter 2

Egyptian Businessmen in a Historical Perspective

2.1 Introduction

This chapter starts by providing a background on the relations between Egyptian landowners/capitalists and the British during the period of the British occupation (1882-1952). I argue that Egyptian capitalists like Talaat Harb refused foreign interference in the economy and established local industries and companies. Then the chapter examines businessmen under Nasser, Sadat, and Mubarak during the 1980s. I argue that the political economy of authoritarianism from Nasser to Mubarak relied on co-opting businessmen. As mentioned in the previous chapter, Nasser introduced land reform to redistribute the land, and at the same time he created a new constituency composed of the middle class, the workers, and the peasants, who supported and benefited from his socialist policies. However, while Nasser's regime excluded the big landowners of the old regime from political and economic life, he did not turn against all of them. Nasser co-opted members of the upper class from the old regime, as well as the state bourgeoisie, for the purpose of implementing his national development plan.

This chapter also argues that Sadat co-opted the *Infitah* bourgeoisie, who were linked to foreign capitalism through trade and foreign franchises for the purpose of allying with the West. I argue that Sadat's economic liberalization provided an opportunity for the *Infitah* bourgeoisie to be co-opted at different levels (by foreign capital and by the regime through high government officials). In an exceptional case, businessman Osman Ahmed Osman entered into a clientelistic relationship with President Sadat. At each of these levels of co-option, the *Infitah* bourgeoisie engaged in parasitic activities that relied on quick and high profits.

Mubarak started his rule by excluding the parasitic bourgeoisie associated with Sadat by dismissing them from the ruling party; however, to ensure survival of his regime, he co-opted

other members of the *Infitah* bourgeoisie, such as the owners of the Islamic Investment Companies. But when their economic power increased to the extent that they could threaten the regime, he then prevented them from continuing in business.

2.2 Businessmen under the Monarchy and the British Occupation

The formation of the new class of big landowners started under the rule of Mohamed Ali Pasha (1805-1849). He co-opted members of his own family, army commanders, bureaucratic cadres, and local notables by granting them large plots of land in return for their loyalty (Cuno 1980, p. 262; Ibrahim 2002, p. 111). The big landowners were able later to expand on land ownership due to international factors that included the American civil wars in the 1860s, which led to an increased demand for cotton. The profits made from selling cotton were reinvested in buying or reclaiming more land. Another factor that contributed to land concentration was the British occupation of Egypt in 1882. From 1882 until Egypt's modicum independence in 1922, the British encouraged the export of cotton by co-opting the big landowners and giving them credit facilities through Egyptian banks that were only extensions of London banks. Bank loans helped the landowners fund their agriculture or purchase more land (Ibrahim 2002, pp. 111-112). Also, big landowners made a lot of profit from exporting cotton; however, the British co-option of the big landowners did not help improve Egyptian industry. Cotton exported to England was imported back to Egypt in the form of finished textile goods, which is why Egyptian capitalists like Talaat Harb sought investment opportunities outside the agricultural sector by developing local industry. Harb's first experience in business started in 1905 when he was appointed director of Kom Ombo Company, owned by the Jewish Soares brothers. In 1910, Harb started writing a series of articles asking Egyptians to gather their economic resources for a national economic struggle against the British. Harb's campaign led to the founding of Bank Misr in 1920 (Sadowski 1991, pp. 96-97). This was accomplished with the support of the capital

of Egypt's big landowners. The bank was established with start-up capital of LE 80 thousand. Harb raised funds for Bank Misr by relying on the support of large landowners who contributed 92 percent of this capital. Then, after the establishment of Bank Misr, Harb used funds from the banks to develop industry by establishing the Misr Group, which depended only on Egyptian capital. The companies established by the Misr group in the 1920s included Misr Printing Co., Misr Ginning Co., Misr Transport Co., and Studio Misr (Imam 1986, p. 38).

In 1930 the tariff system was amended, which reduced taxes to 5 percent on essentials and raised them to 50 percent on luxury items and products that are equivalent and produced locally (Ibrahim 2002, p. 114). This resulted in an eleven-fold increase in the production of local textiles from 1930 to 1937, while it was a loss to the British in one of their most valuable markets. Calico Printers and Bradford Dyers are two British factories that were affected by the decline in the export market. They sought to establish British factories in Egypt; however, they were only allowed to create joint business ventures with leading Egyptian companies. Calico Printers entered Egypt in 1933 in an arrangement with a local firm, the Filature National D'Egypt. In 1938 Bradford Dyers entered into a joint venture with the Misr Spinning and Weaving Company, which is one of the ventures of Talaat Harb's Misr Group. Both companies were obliged to work as subordinate affiliates with local Egyptian companies (Tignor 1980, pp.108-109). In his annual message to Bank Misr, Harb said to the shareholders "that the Misr firms blocked Bradford's original intention to enter the country as an independent producer and had captured its technical and managerial skills for itself" (Tignor 1987, p. 61).

By the time the Second World War erupted, import substitute industrialization was almost complete, and Egypt was advanced and self-sufficient in a number of industries. By 1939 Egypt was able to produce consumer goods like sugar, alcohol, cigarettes, shoes, soap, boots,

cotton cloth, etc. Chemical and pharmaceutical industries started in 1940. It is worth mentioning that Egypt did not go beyond producing consumer goods until the Nasser period, which will be discussed later. Even though during the period from 1920 to 1950 Egypt witnessed development and structural changes, there was no increase in GNP per person, and it is even estimated that it fell (Tignor 1980, pp. 110-114). By the late 1940s, neither the free market economy nor the partnership with foreign capital helped the economy create jobs for the growing number of the young and the poor (Ibrahim 2002, p. 116). In addition, the Second World War had worsened economic conditions in the country. Recession and high inflation had increased income inequalities. In 1950 wages represented 38 percent of GDP, while profits absorbed 62 percent of GDP. By the end of World War II, unrestricted foreign trade had resumed, which increased competition among cheap foreign imports compared to local industry. British troops were still in Egypt and would have stopped any attempts to control free trade, since it was beneficial for them (Farah 2009, pp. 30-31). The political and economic turmoil in the country ended in July 1952 when a military coup by the Free Officers, led by Gamal Abdel Nasser, overthrew the monarchy.

The next section will discuss how Nasser's political economy of authoritarianism relied on the exclusion of landowners of the 1952 revolution from economic and political life; at the same time it co-opted members from the upper class of the old regime, as well as the state bourgeoisie, in the purpose of implementing the national development plan.

2.3 Businessmen under Nasser

As mentioned in the previous chapter, Nasser created a new constituency of workers, peasants, and middle class that supported his socialist policies. He also introduced land reform to abolish large landownership. The first reform law was issued in September 1952 and put a 200 feddans ceiling on land ownership. Two other reform laws were implemented in 1961 and

1969. The laws reduced landownership to 100 feddans per person, and then restricted ownership even more, to 50 feddans per person. This is how Nasser's regime eliminated the economic base of the power of the landed elites (Farah 2009, p.32). As a result of land reform, 900,000 feddans were taken from big landowners (about 2000 families) and redistributed to small farmers and deprived peasants. On the political level, many of the big landowners were politically isolated (Ibrahim 2002, pp. 121-122).

After the 1952 revolution, Nasser's regime showed its commitment to industrialization. In 1956, the Ministry of Industry was established. One year later it prepared its five-year industrial development plan (1960-1965). The plan aimed to increase the annual growth rate of production from 6 to 16 percent. In order to achieve this goal, private capital had to contribute 55 percent of total investments (Zaki 1999, p. 60). But the capitalists refused to engage in the state's industrial plans, and their refusal can be explained as follows: First, the Free Officers wrongly distinguished between the landowners and the capitalists. It seems that they had not understood that both the landowners and the capitalists were fractions of the same class (Zaalouk 1989, p. 25). Second, during the late 1950s Nasser used vague concepts in describing capitalists, which made them unwilling to engage in his industrial plans. For instance, while he assured businessmen that the government supported patriotic capitalists, at the same time he threatened exploitive capitalists. The reluctance of capitalists to implement the government industrial plan encouraged Nasser in 1960 to nationalize all their industrial and commercial assets. By 1964 all banks and large companies in every field of the economy had been nationalized (Zaki 1999, pp. 62-63).

Even though Nasser eliminated the economic and political power of the landowners from the old regime, who could have represented a challenge to his rule, and threatened exploitive

capitalists, he did not turn against all businessmen from the old regime. Laws issued during the 1950s suggest that the regime was not against all Egyptian capitalists. For instance, in the late 1950s, British and French companies were sequestered, and a number of laws were issued in 1957 to end foreign control over the economy. Law 22 required all banking and business to be run by only Egyptian joint stock companies. Law 23 required the same for insurance companies. Law 24 stated that commercial agents in import and export companies must be Egyptian (Zaalouk 1989, p. 34). This law allowed for an increased number of millionaires who worked as commercial agents for foreign companies during the period of the 1950s (Abdel Malek 1968, p. 4). For instance, according to the son of a pasha and large landowner who worked as a commercial agent for a foreign company in the late 1950s, he said:

Thanks to Nasser that the Egyptianization process took place and so allowed [me] to take the place of previously foreign-owned companies and set up [my] own business...those who had begun business during this epoch had been able to build on an extremely strong basis, which meant they could continue their business and in time dominate the market (cited in Zaalouk 1989, p. 63).

The number of registered agents of foreign companies from 1957 to 1961 was 1284 Egyptians, and they included members of landed elites from the old regime like Serag El Din and Younes, who were one of the largest land-owning families (Zaalouk 1989, p. 63). Nasser seems to have encouraged the creation of a new class of commercial bourgeoisie who engaged in trade, since the state needed large amounts of imports to implement its first five-year industrial development plan (1960-1965) (Zaalouk 1989, p. 35). At the same time, this type of business activity seems to have been convenient for the upper class from the old regime, who were looking for secure areas for investment that had high and secure profits (Zaki 1999, p. 66). As Malak Zaalouk (1989) explains: The agents of this class “would have to find individual means of integrating and surviving [and] the path that offered the most secure, inconspicuous shelter was the whole area of trade” (p. 35). This suggests that a clientelistic relationship had developed between the

regime and the traders. In return for providing the regime with the imports they needed for implementing the industrial development plan, they were allowed to accumulate money, despite Nasser's socialist goals, which aimed for social justice and redistribution of wealth.

The private sector capitalists working in contracting were also co-opted by Nasser's regime. During this period, the public sector had a shortage of personnel, so a large number of contracts were given to private subcontractors to engage in the first five-year plan (1960-1965). As a result, many small and medium capitalists accumulated substantial wealth by doing what the public sector was supposed to do (Zaki 1999, p. 74). For instance, during the five-year industrial development plan (1960-1965), the private sector took up to 70 percent of the contracts, compared to the public sector, which dealt with the 30 percent left (Zaalouk 1989, p. 42).

Nasser's regime also co-opted a new class that emerged in society—the state bourgeoisie.³ The rise of this class occurred because there was a shortage of qualified personnel to work as managerial elite upon the formation of the public sector. So a large number of the pre-1952 businessmen were recruited by the state to work as administrators and civil servants. Other members of the state bourgeoisie were recruited from the civil service, and a smaller number came from the army and the universities (Zaalouk 1989, pp. 40-41). Since the new class of state bourgeoisie fulfilled the regime's aim of filling the required positions in the public sector, this then infers the formation of a clientelistic relationship between them and the regime. Evidence suggests that in this exchange relationship, the state bourgeoisie doubled their incomes through either legal or illegal means. High-ranking state bourgeoisie received compensations, extra

³Malak Zaalouk (1989) called the new class that emerged in the 1960s the state bourgeoisie. They comprise the upper stratum of the bureaucratic and managerial elites, high-ranking civil servants, army officers and directors, and managers of public sector companies. Samia Saeid Imam (1986) used the term bureaucratic bourgeoisie to refer to the elements that held positions in the state apparatus or the public sector and benefited from the social and economic changes during the 1960s.

salaries, and bonuses that they did not deserve. For instance, in 1964 bonuses that were paid to the state bourgeoisie included 37 bonuses given in different names for only one type of bonus. The state bourgeoisie also engaged in illegal means to accumulate wealth through commissions, brokerage, and bribes (Imam 1986, p. 97).

One of the private capitalists who made a fortune during Nasser's socialism is Osman Ahmed Osman. This was possible because he entered into a clientelistic relation with Nasser himself. In the late 1940s, Osman founded a small engineering office, which in few years grew to into the Arab Contractor Company. In 1950, Osman went to Saudi Arabia and took advantage of the oil boom. Within a short time, Osman's company was bidding on multi-million dollar projects in several Arab countries. In the mid-1950s, Osman returned to Egypt and his company won a \$48 million contract to construct part of the Aswan High Dam (Baker 1990, p. 19). In the middle of the project, Nasser initiated the nationalization of major industries, including Osman's Arab Contractor Company. Despite the nationalization of Osman's company, evidence suggests that he was co-opted by Nasser. For instance, while Osman's domestic operations were nationalized, Nasser signed a law tailored for Osman, which exempted firms that did a substantial part of their business abroad from public sector recruitment and wages. Nasser's tailored law allowed Osman to relate salaries and job tenure to productivity rather than to government regulation (Baker 1990, pp. 20-21). This means that Osman was theoretically like any other public sector manager, but he was allowed to run his foreign business as a private company and to maintain foreign exchange accounts abroad (Waterbury 1983, p. 182). Osman benefited from this tailored law by transferring some of the profit from his Egyptian operations to foreign subsidiaries, while shifting expenses like depreciated machinery to his public company in Egypt (Sadowski 1991, p. 112). In return, Osman's companies in the Gulf provided service to

the Egyptian intelligence by carrying intelligence equipment back and forth with their shipments (El Gamal 1992, p. 196). Moreover, Osman built private villas for the Nasser family, demanding only a symbolic price for his work (Waterbury 1983, p. 182).

The discussion above suggests that Nasser's political economy of authoritarianism co-opted members of the upper class from the old regime and the state bourgeoisie for the purpose of implementing his national development, and in return, they were allowed to accumulate wealth either legally or illegally. This may explain why Nasser's socialism did not produce redistribution. For instance, the income gap between rural and urban areas increased in favour of the latter (Waterbury 1983, p. 210). The economic crisis worsened when Egypt became involved in two wars: the Yemen war (1963-67) and the 1967 Arab-Israeli war. Both wars were funded by reducing investments rather than consumption (Farah 2009, p. 37). The 1967 defeat obstructed economic growth, since the annual military expenditure from 1967 to 1973 rose up to 25 percent of GDP. By the time of Nasser's death in 1970, foreign borrowings had increased Egypt's external debt by five times (Zaki 1999, p. 73).

The following section will examine President Sadat, Nasser's successor, and his political economy of authoritarianism, which created the *Infitah* bourgeoisie. I will then discuss how President Mubarak dealt with the *Infitah* bourgeoisie during the 1980s.

2.4 Businessmen under Sadat and Mubarak

When Sadat came to power in 1970, there was little expectation for foreign or Arab investment as long as Egypt was approaching a war. In October 1973, Sadat went to war against Israel; however, one year after the war, economic conditions had not yet improved, as Sadat explained:

So that I can give you an idea of what the opening is all about, I must go back to the fourth of Ramadan of last year [October 1, 1973], six days before the battle. I invited to this same house in which we are now seated the members of the National Security Council... and I laid before them the situation and asked them

to advance their own opinions...There were some who advocated fighting, and others who said we were not ready...At the end I wanted to tell them one thing only, that as of that day we had reached the 'zero stage' economically (*marhalat al-sifr*) in every sense of the term. What this meant in concrete terms was that I could not have paid a penny toward our debt instalments falling due on January 1 [1974]; nor could I have brought a grain of wheat in 1974. There wouldn't have been bread for the people, that's the least one can say...But as soon as the battle of October 6 was over, our Arab Brethren came to our aid with \$500 million...and this sum would never have come had we not taken effective action in regards to the battle. But despite these dollars, we are now in the same situation we were in a year ago, perhaps worse (cited in Waterbury 1983, pp. 127-128).

Sadat thought that in order to attract foreign investments, Egypt had to ally itself with the West, and especially the United States (Farah 2009, p. 38). In 1974, Egypt resumed its diplomatic relations with the United States and started receiving aid. By late 1970s, Egypt became the second largest recipient of USAID after Israel (Weinbaum 1985, pp. 210-214). The USAID aimed to strengthen industry, raise exports, improve productivity and help in expanding employment (Weinbaum 1985, p. 214). Moreover, the United States believed that economic assistance through USAID would produce new entrepreneurs who would demand more political liberalization (Cook 2005, p. 95).

To encourage foreign and Arab investors to invest in Egypt, it was important to provide legal motivations (Waterbury 1983, p. 128). As mentioned in the previous chapter, in 1974 Sadat introduced the open door policy *Infitah* that gave the private sector a big role in investment. For instance, Law 43 of 1974, amended by Law 32 of 1977, allowed foreign investment in Egypt in all fields, provided guarantees against nationalization, and new investments were exempted from tariffs and taxes during the first five years. Egyptian private investors were also granted the same guarantees and exemptions. Also, Law 93 of 1974 allowed Egyptians to import goods and act as agents of foreign firms (Hinnebush 1985, pp. 272-273).

This explains why the political economy of authoritarianism under Sadat "created a new social force linked with world capitalism through trade and foreign franchises" (Imam 1986, p. 138). This was evident in the case of commercial agents of foreign firms, who because of the

Infitah laws became linked to western capitalist countries. For instance, Decree 1976 Number 247 of the Ministry of Commerce stated that purchasing committees in the public sector were not allowed to accept offers from foreigners or a foreign company except through an Egyptian commercial agent (Zaalouk 1989, pp. 119-120). This means that commercial agents were allowed to sell their goods to the public sector, since it was the country's largest importer and purchaser of foreign commodities and their payments were secured. The capital of the majority of agents ranged from LE 1000 to LE 30,000, and the average was around LE 11,352. This is considered a very small amount compared to the profits they made. For instance, one owner of a commercial firm obtained adjudication among several others from the railway authority worth LE 20 million for one year, and his formal commission was 2 percent. Another commercial agent obtained a tender for the Alexandria Port Authority for the sale of cranes worth \$8 million and he got a commission of 10 percent (Zaalouk 1989, pp. 121-122). The quick profits that the commercial agents were making suggest how this *Infitah* bourgeoisie were engaging in parasitic⁴ activities that were unproductive (Imam 1986, p. 131). On several occasions Sadat admitted that he knew about their parasitic activities; however, the leadership chose to provide them with protection on the pretext that turning against them was contrary to the western model of economic liberalization (Imam 1986, pp. 137-138). Evidence suggests that different segments of the bourgeoisie benefited from the *Infitah*. For instance, the background of the commercial agents for foreign firms included remnants of the pre-1952 revolution bourgeoisie, such as members of El Badrawi Ashour and Serag El Din families (many of them began with the Egyptianization movement in 1957), the state bourgeoisie who emerged under Nasser, and traditional trading and industrial bourgeoisie families (Zaalouk 1989, p. 132).

⁴ Other parasitic activities that the *Infitah* bourgeoisie engaged in included shipping operations, contracting, real estate speculation, trade in foreign goods, brokerage.

The increase in the financial power of the commercial agents through the excessive commissions they were receiving suggests that they entered into clientelistic relationships with foreign capital. *Al Amereya* project is a case in point. In 1977 the public sector Bank Misr asked for permission from the General Investment Authority to establish *Al Amereya* project, which is a complete industrial textile complex with a total cost of LE 530 million. The project included foreign participation of imported technology. It was hastily accepted by the investment authority within only four days (Imam 1986, p. 141). The foreign partners in the project were Chemtex of the USA and the Misr Iran Textile Company (MIRTEX) (Waterbury 1983, p. 152). There was a large opposition campaign against this project, which was led by the General Industrial Organization, the Misr Company for Synthetic Silk, and the Ministry of Industry. They argued that the project was a duplication of other existing industrial textile projects. A media campaign in the weekly *Rose Al-Youssef* magazine revealed that five commercial agents involved in this project had received excessive commissions for the supply of textile equipment from abroad (Zaalouk 1989, pp. 6-9). The case of *Al Amereya* project suggests that the political economy of authoritarianism under Sadat provided an opportunity for Western capitalist countries to co-opt the commercial agents. Through the excessive commissions they received, they were able to influence the outcome of government decision making. Zaalouk (1989) explains the dependency of commercial agents on foreign capital:

Although local commercial agents extract their profits from the national economy, namely the public sector, their primary customer, they are none the less dependent upon and subservient to their multinational principals. On one level they are dependent upon them for paying and transferring undeclared part of the commission abroad and for obtaining a formal agency contract in order to fulfil registration requirements. On a broader level, they are dependent upon foreign capital loans and the foreign productive market exporting its goods to the local market. It might be argued that multinationals are in turn dependent upon their local agents for the sale of goods. This is not totally incorrect, but one must ask who is the dominant in this interdependent relationship. Local commercial agents, who desperately compete for agency contracts among themselves, are not protected by law for any breach of the contract; they do not hold a very secure position since contracts are made on a yearly basis; and they are restricted by the exclusivity clause in the contract, while foreign firms may have more than one representative for a single commodity, thus giving them a privilege position (p. 125).

Another segment of the bourgeoisie who benefited from *Infitah* was the new arrivistes, who found an opportunity for making quick profits (Zaki 1999 pp. 85-86). An example of this type is Rashad Osman, a famous NDP member of Parliament from Alexandria. Rashad was an illiterate, who in 1975 smuggled a large quantity of hashish into the country. Out of the profit he made, he started an import-export business and accumulated a fortune estimated at several hundred of million pounds (Christine-Aulas 1982, p. 11). Evidence suggested that Rashad made his fortune out of illegal transactions and that he bribed a number of ministers (Imam 1986, p. 132). In return for these bribes, he seems to have been protected by the regime in his corrupt business practices. Rashad's case suggests how the *Infitah* policy led to the emergence of patron-client relations between high government officials and businessmen. This is another level of co-opting the *Infitah* bourgeoisie.

The discussion above suggests that Sadat's political economy of authoritarianism provided an opportunity to co-opt the *Infitah* bourgeoisie on different levels: First, co-opting the *Infitah* bourgeoisie by the western capitalist countries that gave excessive commissions to the commercial agents (i.e., the case of *Al Amereya* project). Second, through high government officials who helped the *Infitah* bourgeoisie accumulate wealth illegally in return for bribes (i.e., the case of Rashad Osman).

But in an exceptional case, businessman Osman Ahmed Osman entered into a clientelistic relationship with President Sadat himself, which allowed him to influence policies for his own benefit. Osman had had relations with the Muslim Brothers since the 1950s, when he left Egypt to work in Saudi Arabia. Through Osman's connection, in 1971 Sadat promised the Muslim Brothers a safe return to Egypt. Sadat needed the Muslim Brothers to counterbalance the influence of the Nasserites and the leftists. This was the first official service that Osman made

for Sadat (El-Gamal 1992, p.197). In this clientelistic relationship, in 1974 Osman was appointed as a Minister of Housing and Reconstruction. Evidence suggests that Osman used his position in the cabinet to serve his own private business. For instance, a special law, 62 of 1974, allowed him to import materials and equipment required for reconstruction without going through the process of general procurement. This law gave him the right to import in 1976 a large amount of Spanish construction steel. Members of Parliament questioned the high prices of construction steel, and a special parliamentary committee made a list of accusations that included nepotism, conflict of interest, and receiving foreign kickbacks (Waterbury 1983, p. 183). Osman's clientelistic relationship with Sadat was reinforced when one of his sons married one of Sadat's daughters (Moore 1980, p. 124).

By the late 1970s, *Infitah* did not succeed in attracting the foreign investment aimed to enhance development. Only one tenth of the new investment in the late 1970s could be attributed to *Infitah*. Even many of these investments were not in the productive sector (like industry and agriculture). During the 1970s, only one-half of the investment was in manufacturing; the rest was in banking, housing, and 25 percent of it was in tourism. The investment in manufacturing was in light consumer industries, which competed with existing Egyptian industry. For instance, plants established by foreign investors produced matches and soft drinks; instead of being exported, as the government expected, they only competed in the market with the national industries (Hinnebush 1985, pp. 273-274). Also, the *Infitah* had negative consequences, since it did not lead to equal distribution among the citizens. For instance, the liberalization of foreign trade encouraged abuses against the public. Subsidized goods were smuggled for hard currency in order to import luxury goods that were sold at high prices. A number of wholesale traders monopolized the economy. Twenty large merchants

controlled the meat trade, three the seed trade, nine the paper market, eleven the pipes, and ten the soft drinks (Hinnebush 1985, p. 280).

On October 6, 1981, Sadat was assassinated by Islamic extremists while watching a military parade on the eighth anniversary of the October victory. Upon coming to power in 1981, Mubarak started by eliminating the power of *Infitah* parasitic bourgeoisie associated with Sadat (Soliman 2011, p. 38). The richest of these parasitic bourgeoisies was Osman Ahmed Osman. In 1980 Osman published a contentious book about Nasser, which caused public anger and obliged Sadat to remove him from the cabinet. Then, when Mubarak came to power, he already had an excuse to remove Osman from the NDP (Kassem 1999, p. 78). Also, lesser parasitic bourgeoisie were dismissed from the party with the excuse that the new President would not tolerate corruption. For instance, two months after Mubarak assumed power; Rashad Osman was stripped of his parliamentary immunity and was removed from the party because of charges of illegal profiteering from timber sales. Mahmoud Soliman, another NDP deputy from Rosetta constituency, was also dismissed from the party because of charges of drug trafficking. Salah Abou El Magd, NDP deputy for Kom Ombo, was another parasitic bourgeoisie who was dismissed from the party on charges of trading in state land (Kassem 1999, p. 78). However, Mubarak's exclusion of the *Infitah* parasitic bourgeoisie from the ruling party did not mean that he turned against all businessmen who appeared during Sadat's economic liberalization. It seems that he only eliminated those who were directly associated with Sadat. For instance, among the *Infitah* bourgeoisie whom Sadat allowed to survive under his rule were the owners of the Islamic Investment Companies. These companies were allowed to emerge due to the 1974 investment law of the *Infitah*. The Islamic Investment companies are not mainly Islamic, despite their title. Indeed, some of these companies were owned by Christians or, if not, they had

Christians or Jews who deposited in them (Ayubi 1991, p. 191). They were investment companies in the sense of inviting deposits; in return they paid very high rates of return, which reached 25 percent on deposits, compared to banks that gave only 17 percent (El Saad, A 2009, pers. comm., 6 October - London). This may explain why by the mid-1980s, the number of these companies reached more than 150, and around one million Egyptians had invested in them by depositing their funds (Springborg 1989, p. 47). These companies were accepting deposits as investment banks, but unlike banks, they were not under any controls and regulations. Investors did not have the right to review the activities of the companies or to know about its budget (Zubaida 1990, p. 153).

The majority of the owners of these companies came from humble backgrounds and had benefited from Sadat's *Infitah*. For instance, Ashraf El Saad was the son of a low-ranking government official. He migrated to France for couple of months to work as a dish washer but could not save any money, so he returned to Egypt and traded illegally in foreign currency and made millions out of these transactions. He then established El Saad Islamic Investment Company (El Saad, A 2009, pers. comm., 6 October– London). The situation is nearly similar to the case of Fathi El Rayan, head of El Rayan group. He also came from a humble background. It is alleged that in 1983 El Rayan's name was included on the Minister of Interior's list as a well-known illegal currency dealer (Zubaida 1990, p. 152). He then established El Rayan Islamic Investment Company, which in few years became the largest one in Egypt. For instance, in 1986, for \$14 million, he bought the residence of the US Ambassador, a building that the US government had declared unfit for habitation (Springborg 1989, pp. 47-48). By 1987, the capital accumulated by all the Islamic investment companies was around LE 12 billion, including \$2 billion in foreign currency (Ayubi 1991, p. 190). The total amount of foreign currency that these

companies had access to was more than the Central Bank (Springborg 1989, p. 53). For instance, according to Ashraf El Saad,

In 1986 then Prime Minister Atef Sidki asked to meet with the owners of the Islamic companies. El Rayan, me, and many other owners of the Islamic companies attended the meeting. Sidki told us that the Council of Ministers urgently needed \$400 million. El Rayan paid a check with this amount to the Council of Ministers (El Saad, A 2009, pers. comm., 6 October - London).

This suggests that the Islamic Investment Companies had entered into a clientelistic relation with the regime. In such a relationship, these companies were allowed to function and grow. This may also explain why in 1987, one year later, Mubarak allowed himself for the first time to appear in advertising campaigns for these companies. Government and opposition newspapers published advertisements in which Mubarak was laughing and was surrounded by the owners of the Islamic Investment Companies (Springborg 1989, p. 57).

The increase in the financial power of the owners of the Islamic Investment Companies allowed them to co-opt high government officials by appointing them as consultants in their companies. For instance, former Minister of Interior Nabawi Ismail was appointed to the board of El Rayan (Springborg 1989, p. 52). Also, several former ministers were appointed to work as consultants for Ashraf El Saad's company, e.g., Mostafa El Said, former Minister of Economy, and former Prime Minister Ali Loutfy, who earned 25 thousand Egyptian pounds per month (El Saad, A 2009, pers. comm., 6 October - London).

Despite the Islamic Investment Companies' clientelistic relationships at different levels with the regime (either co-opted by the regime or acting as a patron by co-opting high government officials), when they began crossing the red line, they were excluded by the regime from continuing in their business activities. It is argued that the Islamic Investment Companies tried to start an insurance project and involve the members of the armed forces in it. It is also argued that they participated in funding a number of militant Islamic organizations (Ayubi 1991,

p. 194). As a result, the regime issued Law 146 in June 1988 to regulate these companies and open their budgets for official inspection. However, many of these companies were not willing to cooperate and reveal their investment activities, so the government started cracking down on them. In the same year, it seized the assets of El Rayan, and in 1992 the Socialist Prosecutor sequestered the properties of Ashraf El Saad (Sullivan 1994, pp. 63-64).

The period of the 1980s under Mubarak also witnessed the continuation of a number of *Infitah* bourgeoisie in parasitic activities in which they subverted state resources and converted them into private wealth. For instance, government regulations prohibited exporting goods and services produced with subsidized inputs. However, the ZAS airline company made considerable profit by breaking this regulation. It was Egypt's only private air freight carrier and was founded in the early 1980s by the Zorkani brothers, who seem to have entered into clientelistic relations with leading figures in the ruling party (Springborg 1989, pp. 81-82). As Robert Springborg (1989) explains:

Decisions such as that to award the privilege to ZAS to purchase unlimited quantities of subsidized aviation fuel are made at the very highest levels and require influence, exchange of favors, and/or bribes. Businessmen who have gained access to the resources of the state in this way and those in the state apparatus and/or political elite who have made such access possible have no interest in changing this system. For them, the milking of the state's resources, combined with monopolistic and oligopolistic control of markets, guarantees substantial rewards (p. 82).

While the *Infitah* introduced in 1974, "granted individual entrepreneurs much greater freedom in the market place, it did not include reforms to increase the independence and flexibility of their traditional associations" (Bianchi 1989, p. 162). For instance, the Federation of Egyptian Industry (FEI), and the General Federation of the Chambers of commerce that were established in pre-1952 remained in the same corporatist structure that was inherited since Nasser's days (Bianchi 1989, p. 165). Even after the introduction of economic liberalization, no changes were introduced to their structure and mandates. For instance, the FEI remained subject to decree 1958 according to which the Minister of Industry appointed its president and one third

of the members of the board. Moreover, the Federation's decisions are subject to the Minister's veto (Kienle 2001, p. 36). Similarly, in the 25 Chambers – the regional bodies- of the General Federation of the Chambers of Commerce, only half of the members were elected and the other half were appointed by the Minister of Supply and Trade. At the beginning of the 1980s, the presidents of 20 regional chambers were local representatives in the NDP (Kienle 2001, p. 36).

The corporatist structure of the FEI and the chambers of commerce led businessmen in the early 1970s to think of establishing private business associations independent of the state (Ezz-El Din 2003, p. 26). In 1979, the Egyptian Business Association (EBA) was formally registered. During the 1980s, other business associations were established like the Alexandria Business Association, the Association of Investors of 10th of Ramadan, and the Association of Investors of 6th of October. However, all these new associations remained under state control. This is because they function under the umbrella of the Ministry of Social Affairs, which limits their political role. As one author notes, although there were communication channels between the business associations and the government, “associations of this nature have no formal input with regard to the socioeconomic policies of government.” (Kassem 2002, p. 69). However, business associations used informal means to influence policies, as former president of the EBA, Adel Gazarin said: “the influence of the EBA, in reviewing government bills and decisions depended on personal contacts of its members instead of the power of the association” (Gazarin, A 2010, pers. comm., 7 February).

There are also joint chambers of commerce like the Egyptian-American Chamber established by a presidential decree in 1982. It plays the role of the official representative of the private sector during negotiations over aid provided to Egypt (Fahmy 2002, pp. 173-174). The American chamber provides varieties of services to its members including the yearly

organization of trade fairs to the U.S. to help its members conduct trade. The chamber's research centre publishes information on specific sectors and economic issues. In addition, the chamber's career development centre offers training programs to enhance the expertise of member and non-member companies (American Chamber of Commerce in Egypt 2014). Whilst the Egyptian-American and American chambers of commerce are ideologically pro-economic liberalization, there is inconclusive evidence in the existing literature regarding their influence in economic decision-making.

After providing a background on the business climate in Egypt during the 1980s, it is worth turning our attention to other actors like the military who have benefited from economic liberalization. The military moved into civilian manufacturing in 1986, after negotiating a deal with General Motors to manufacture passenger cars. USAID pledged \$200 million from its aid budget to subsidize this project (Springborg 1989, p. 110). The military is also making profits from controlling vast amount of lands. This has been possible due to a law that allows it to seize any public land for 'defending the nation'. Nevertheless, the military leaders have used this law to acquire public lands to construct real estate projects in different areas in Egypt (Abul-Magd 2011). The military has also invested in the agriculture sector through the acquisition of reclaimed land and the development of food processing industries, especially in meat, fruit and vegetables. The food security division of the military is the largest agro-industrial complex in the country. In 1985-1986, it produced 488 million Egyptian pounds, which is nearly one fifth of the total value of Egyptian food production (Springborg 1989, p. 113). The military was able to make profits in food production not because of the superior quality of its products, but rather because of their repressive means. The enlisted soldiers were forced by the army to spend their modest salaries on military-produced food products at the army canteens located in faraway

areas, where non-military products are not sold (Abul-Magd 2011). The military had also played an important role in the construction of bridges, roads and several infrastructure projects. All these activities allowed for an opportunity for patronage and personal profit making (Springborg 1989, p. 99).

While different actors have benefited from the *Infitah*, others were seeking political reform. For instance, since the mid-1980s the judges have been demanding judicial supervision of the elections. They believed that one of the fundamental components of political and democratic reform is through transparent elections; however, the government disregarded their demands until 2000, when the supreme constitutional court ruled for judicial supervision of elections (Said 2008, pp. 120-122). As will be discussed, in the following chapter even though there was judicial supervision of the elections, security forces arrested opposition activists or prevented their supporters from voting.

Judges have varied in their attitudes towards the former regime. Some judges were not opposing the regime: as one senior judge commented on the rigging of elections, “it is not good to prevent people from voting. But this was a mission of state.” Others were disgraced (Brown 2012, pp. 4-5), and refused to rig the elections. For instance, a wafdist lawyer and a businessman who ran for election in 2000, in *el Bagour* constituency against the then NDP organization secretary Kamal El Shazly, related a story about a judge who refused to change the result of the election, he said:

After the counting of the votes, I won the election. El Shazly asked the judge to change the result of the election, but he refused. [So, to replace this judge by another one who would rig the election], El Shazly asked him to pretend as if he is sick. Then, El Shazly called the ambulance, which carried the judge on the stretcher. [This was the only possible way to get the judge out of the polling station]. Then, another judge was hired and signed the result in favour of El Shazly (Kamel, M 2010, pers. comm., 10 June).

Against this background of economic and political reform, there was a deteriorating economic condition. In the year, 1986 significant changes happened in the Egyptian treasury.

For instance, the price of petroleum dropped by 50 percent, which caused a fall in the revenues of petroleum to \$1.2 billion—down from \$2.26 billion in 1985. Moreover, Suez Canal revenues fell from \$1 billion to \$900 million. The economic conditions further deteriorated when Washington refused to give Egypt \$265 million in aid until it implemented the economic reforms prescribed by the IMF (Soliman 2011, p. 44). In 1987 Egypt signed an agreement with the IMF, but it was only partially implemented (Lofgren 1993, p. 408). According to the agreement, the government was supposed to reduce public spending, but it increased spending from 54 percent of GDP in 1986-1987 to 57.2 percent in 1987-1988 (Soliman 2011, p. 44). The increase in public spending led to the rise of public domestic debts by the end of the 1980s (Abdel Khalek & Korayem 2001, p. 10). As a result, of deteriorating economic conditions, in 1991 the regime agreed to proceed with the economic and structural reforms as prescribed by the IMF and the World Bank. The 1990s economic reform increased the financial and structural power of businessmen, which also involved them in new types of corruption, as the following chapters discuss.

2.5 Conclusion

With the exception of the experience of Egyptian capitalists like Talaat Harb, who resisted co-option by foreign capital, businessmen under Nasser, Sadat, and Mubarak during the 1980s entered into clientelistic relationships with these regimes. The political economy of authoritarianism, moving from Nasser, Sadat, to Mubarak, relied on co-opting businessmen, but in different ways. Despite Nasser's elimination of the political and economic power of landowners from the old regime he could not implement his industrial development plan without co-opting members of the upper class from the old regime. They were allowed to work in trade and contracting and to accumulate wealth in return for providing services to Nasser's national development plan.

Sadat wanted to attract foreign investment and ally with the West, which is why his political economy of authoritarianism relied on creating a rich social force linked to foreign capitalism. Sadat's economic liberalization resulted in the co-option of the *Infitah* bourgeoisie at different levels (by foreign capital or by the regime through high government officials).

Upon coming to power, Mubarak excluded Sadat's *Infitah* bourgeoisie by dismissing them from the ruling party for corruption charges. At the same time, he co-opted other members of the *Infitah* bourgeoisie, such as the owners of the Islamic Investment Companies; however, when they became a challenge to the regime, they were prevented from continuing in their businesses and their companies were closed.

Chapter 3

Parliamentary Businessmen

3.1 Introduction

The primary concern in this chapter is to challenge the view that businessmen and liberal economic policies play a democratizing role in politics. For instance, in an analysis of the British House of Commons, Andrew Eggers & Jens Hainmueller (2009) argue that members of the Conservative Party used their political influence to obtain lucrative outside employment. Winning a seat doubled an MP's wealth over the course of a lifetime in comparison to other candidates that lost their elections. In a cross-national study in 47 countries, Maria Faccio (2006) estimates that politically connected firms received a cumulative abnormal return of 1.28% when their officers became members of Parliament. These returns increase in countries with widespread corruption.

In this chapter, I map the different types of businessmen's engagements in politics. I argue that in Egypt economic liberalization has strengthened authoritarianism by enabling certain businessmen to expand their businesses and achieve large profits through illegal practices (for example, the cases of Ahmed Ezz, the members in parliament (loan MPs), Ramy Lakah, and Mohamed Abul-Enein). However, with the increase in the financial and structural power of businessmen, the regime dealt with the political challenges of economic liberalization, implemented in the early 1990s, through co-opting businessmen. I build on the work of Maye Kassem (1999), Lisa Blaydes (2011), and Jason Brownlee (2007), who argue for the importance of political institutions as co-option tools for maintaining the survival of authoritarian regimes. However, my findings are distinct from Kassem's (1999), Blaydes' (2011), and Brownlee's (2007), since I argue that the regime's co-option of businessmen has not been static but took a variety of forms (i.e., authoritarian clientelism, semi-clientelism, patron-broker-client

relationship, and, in an exceptional case, mutual dependency). As for businessmen who refused to be co-opted, the regime has actively undermined their potential to become a real opposition, as in the cases of Ibrahim Kamel and Anwar Esmat El Sadat. (To avoid confusion with President Sadat, Anwar Esmat El Sadat will be referred to as El Sadat throughout the text.)

In these varieties of clientelistic relations with the regime, businessmen have helped authoritarianism survive. As mentioned in the previous chapter, since the early 1990s the Egyptian state has been running in debt, so businessmen were needed to provide direct financial funding to the ruling party, for election campaigns, and to maintain regime legitimacy by providing social services in their constituencies to replace the withdrawal of state services. As Hazem Kandil (2012) writes:

Between 1992 and 2002, domestic debt increased from 67 to 90 percent of GDP. The state was in fact running on debt. And since the ruling party lived off state finances, it too was running on debt. But who were the creditors? Half of the debt lay with public-sector banks, which had little choice but to obey the rulers, even when they went beyond regular deposits and dabbled into the pool of pensions and social security funds. A second source was treasury bills, though raising money through this route was time-consuming and cumbersome. The easiest and most readily available way to keep the political machine solvent was to count on the generosity of regime-friendly capitalists. [A]s monopoly capitalists began taking charge of the ruling party and [were elected in the parliament], they assumed financial responsibilities as well. They funded NDP conventions; they launched government media campaigns; they paid bribes to stifle the opposition; they bought votes and organized pro-regime demonstrations; and so on. Reliance on the generosity of friendly capitalists increased systematically. The 27 percent state budget deficit in 2011, an estimated L.E. 140 billion, revealed that the regime was sinking deeper and deeper into debt (p. 211).

Varieties of strategies for co-opting parliamentary businessmen are used as examples in this chapter. The aim is to substantiate how different types of co-option of parliamentary businessmen prevented them from playing a democratizing role, and thus helped renew Mubarak's authoritarianism.

3.2 The Case of Ibrahim Kamel: A Business Tycoon Dismissed from the NDP

Ibrahim Kamel's case suggests how the regime managed to stop an independent business tycoon from becoming a potential challenge to or check on the regime. Kamel is an Egyptian international business tycoon (Kamel, I 2010, pers. comm., 16, 23, and 27 June)⁵. His business involved the establishment of a number of international companies that worked in diverse economic areas. After living a number of years in Switzerland, he decided to return to Egypt in 1988 in order to retire and help the poor in his hometown, *Sirss el Lian* in *el Menoufiya* governorate. He had no political motive. After Kamel returned to his hometown, he found that the main problem was unemployment, which is why he thought of providing the people in *Sirss el Lian* with jobs in a clothes factory, since this is a labour-intensive industry. He then established a clothes factory, which employed around 1000 workers.

Kamel comes from a political family. His paternal uncle was a member of Parliament before the revolution. So in 1989 when the former NDP member of Parliament in *el Menouf* constituency died before the end of the parliamentary term in 1990, the governor approached Kamel and asked him to run for election as an NDP candidate; however, Kamel refused and ran as an independent candidate.

This is because when Sadat changed the system and set up platforms, I visited all the parties (Wafd, NDP, Tagammu'). None of them had a program, or nobody knew what they wanted. I also met with senior members in the NDP, and when I asked what is your program, they said: we do what the President tells us to do.

Running as an independent candidate, Kamel got 28,000 votes against the NDP member, who got only 1600 votes. Then, in the next parliamentary election in 1990, Kamel ran again as an independent and won the election. After joining Parliament Kamel received a phone call from the then presidential advisor Mostafa El Fekki, who told him that "President Mubarak is asking

⁵ Unless otherwise specified, information provided in this section is from intensive interviews with Ibrahim Kamel.

why you are not attending the party's meeting." However, Kamel did not join the party until a few months later, after he had a meeting with the voters in his constituency, who asked him to join the NDP so that he could help provide them with services. As Kamel commented: "This is how it is, the NDP member can easily get acceptance on the services for his constituency."

Kamel differed from other NDP businessmen, as Kassem (1999) explained:

Kamel's case is, however, the exception rather than the rule because the majority of NDP [businessmen] who reach public office do not have the same degree of economic independence. Yet, the majority of them do not have the personal wealth to be compared with an international financier such as Kamel (p. 87).

The fact that Kamel was financially independent in his business made him less likely to be co-opted by the regime. For instance, after Kamel joined the NDP, he managed to recruit 10,000 new members for the party. Based on these new memberships, the then NDP Organization Secretary Kamal El Shazly promised him he would have a role in the nomination of candidates for the local council election. However, Kamel disagreed with El Shazly over the way candidates were nominated for the local council election. After this disagreement, Kamel read in the newspaper that he had been dismissed from the party. After Kamel's dismissal from the NDP, El Shazly told Kamel: "We don't like people like you, who have opinions. We want people who just stamp and accept our orders."

This was not the only disagreement between Kamel and the party. Before his dismissal from the NDP, and during one of the parliamentary sessions, Kamel disagreed with certain economic legislative issues. In fact, it is not common for an NDP member to criticize a policy introduced by the government. For instance, Kamel said that we can introduce real economic reform only if "President Mubarak first took his big red pen to the 40,000-odd laws passed in the last 40 years. Then we'll know where we are" (cited in Kassem 1999, p. 86).

Before Kamel was dismissed from the NDP, his private business, which aimed to help the poor in his constituency in *Sirss el Lian*, was doing well. His clothing factory was exporting

clothes, and they had orders to make products worth around one million dollars every month to his clients in the United States. But since Kamel refused to be co-opted, he was punished by the regime, both in his political career and his economic project in *Sirss el Lian*, as the following section will discuss.

In order to get raw materials like textiles, buttons, etc., Kamel's bank in Egypt had to write a letter of credit to the exporting country to import the goods, which come in the name of the bank. Then, the bank gives the tariffs department a letter of credit, called a drawback, to guarantee that the raw material will be exported in the form of ready-made clothes. This means that if the imported raw material is not fabricated or exported, Kamel would pay the tariffs. This operation was divided among three different banks: Cairo-Paris Bank, *Al Dakahlia* Bank, and *Misr* Bank.

In 1994, Kamel's clothing factory requested the *Misr* Bank to raise his credit from 1.5 million to 13 million pounds. One year later, the bank's board of trustees issued a letter agreeing to raise the credit of Kamel's clothing factory. After the bank raised the amount of credit, the imported raw materials came to the tariff department based on the new raise.⁶ However, El Shazly interfered and caused Kamel trouble after his dismissal from the NDP, and the bank suddenly refused to deal with Kamel. As a result, the bank left the raw material in the tariffs department. Kamel could not get the raw material from the tariffs department, since only the bank had the authority to release the raw material.⁷ So, Kamel's factory went into debt, and he went to court to accuse the bank of creating trouble for him. At the time of the interview the case was still in court.

⁶ The information is from a letter sent from Ibrahim Kamel to Mrs. Pola Hafez, the director of the legal department in Bank Misr, dated February 6, 2005.

⁷ The information is from a letter sent from Ibrahim Kamel to Dr. Mohamed Barakat chairman of the Board of Trustees in Bank Misr, dated August 28, 2004.

Kamel went to meet with the French director of Cairo Paris Bank (this bank was a branch joint venture of Cairo bank and Banque du Paris). The director told Kamel: “This is politics...I can do nothing...I am sorry and embarrassed. This is not our decision. This decision is from the Egyptian side.” Then Kamel went to the head of Cairo Bank, Mohamed Abou el Fatah,⁸ who told him that “this is a political decision.” As a result, Kamel’s factory went into debt.

Kamel ran for the 1995 parliamentary election as an independent candidate after being dismissed from the NDP. Due to his opposition to the regime, Kamel was denied his seat. During the counting of the votes, Kamel knew that he was going to win the election since he had many more votes than his competitor. Then, after the votes were counted, a police officer came to Kamel and told him: “We are sorry...even though you won the election; we have to change the result in favour of the NDP candidate.” Kamel raised a case in the court against the NDP candidate, claiming that the NDP candidate forged the election. In 2000, the court ruled in favour of Kamel, saying that election was forged by the NDP candidate. However, Kamel could not get his seat in Parliament through the court ruling, because according to the Constitution, Parliament, which is dominated by a majority of the NDP, is the master of its own decision. Article 93 in the Constitution (1971 Constitution)⁹ states that:

The People’s Assembly shall be competent to decide upon the validity of the membership of its members. The Court of Cassation shall be competent to investigate the validity of contestations on membership presented to the Assembly after referring them to the Court by the Speaker of the Assembly. . . . The result of the investigation and the decision reached by the court shall be submitted to the Assembly to decide upon the validity of the contestation within sixty days from the date of submission of the result of the investigation to the Assembly. Membership shall not be deemed invalid except by a decision taken by a majority of two-thirds of the Assembly members.

Then in the 2000 parliamentary election Kamel ran for election as independent candidate, and El Shazly told him, “I will bring you an NDP competitor that you can’t defeat. He is Ahmed

⁸More information about the irregularities in Cairo Bank, and how the loans were based on political decisions, will be discussed later in the section on loan deputies and in the case of Ramy Lakah.

⁹ All articles are quoted from the 1971 Egyptian Constitution.

Ezz.”This was the first time Kamel had heard of this candidate. Unlike Kamel, Ezz is considered an outsider to *Menoufia* Governorate. His presence in this area started only in the 1990s, when he opened a steel factory at Sadat City (which is in *Menouf* constituency).

The 2000 parliamentary election was the first election to be held under judicial supervision, which means that it should be fair. Although it was cleaner than the former elections, it had irregularities. As Mona El-Ghobashy (2012) explains:

The management of the 2000 parliamentary elections had more subtle, though no less significant, consequences. Bench judges experienced numerous instances of harassment and obstruction from security agents, and several engaged in verbal and physical confrontations with police as they protested police blockades of roads to polling stations and intimidation of non-NDP voters. Contrary to Law 73’s stipulation that it is the prerogative of the supervising judge at the polling station to determine the station’s periphery, security agents essentially trapped judges inside polling stations while violence and harassment raged outside (p. 138).

Similar patterns of irregularities and security interference in the 2000 parliamentary election are evident in the case of Kamel. After the votes were counted, the judge did not announce the result, which was in favour of Kamel. So Kamel went to the polling stations to ask the judge why the result had not been announced. The judge said: “I can’t do anything.” Then, after a while, a State Security officer went to talk to the judge, and the judge told him that he could not announce a forged result and refused to sign it. Five minutes later, the district chief of police (*ma’amour el qism*) announced the result in favour of Ezz, and the result was not signed. Again Kamel raised a case in court against this forged result. Kamel won the case; however, he could not get his seat since, as mentioned earlier, Parliament is the master of its own decision. The same story was repeated in the 2005 parliamentary election, when Kamel ran for election against Ezz. According to Kamel, before the start of the counting of the votes, he read in the newspaper that Ezz had won the election. The judge told Kamel, “We had to announce that Ezz won...this is a political order.”

Kamel made his wealth independently of the state, and his fortune is based abroad,¹⁰ which suggests why he refused to enter into a clientelistic relationship with the regime. As a result, he was punished. On the political level, he was dismissed from the ruling party and lost his seat in Parliament. On the economic level, Kamel's initial project in his constituency aimed at constructing six clothing factories, each to employ 1000 workers, but he was abandoned by the regime and could not continue his project. In fact, Kamel's case is considered a typical example of the regime's new political economy of authoritarianism that started in the 1990s, when banks were used to control businessmen by either causing them trouble in their business or by giving them loans without collateral, as will be discussed later in the section on loan MPs.

The next section will examine the political and economic rise of businessman Ahmed Ezz, who replaced Kamel in his parliamentary seat in *Menouf* constituency. Unlike Kamel, who was economically independent of the regime and refused to be co-opted, Ezz depended on the regime to build his fortune. This made him enter into a clientelistic relationship with the regime, as the following case will discuss.

3.3 The Case of Parliamentary Steel Tycoon: Ahmed Ezz

Unlike Kamel, who made his fortune while living abroad, Ahmed Ezz accumulated his wealth through his co-option by the regime. In the early 1990s, Ezz owned three small factories that made steel and ceramics (El Ezz Steel Rebar, El Ezz for Flat Steel, and El Gawhra for Porcelain and Ceramic products). But before discussing Ezz's growing role in business and politics, I will provide some background to the political and economic environment at this time.

In 1998, Gamal Mubarak established the Future Generation Foundation (FGF), which is an NGO that aimed to promote the image of Gamal among the youth. Ahmed Ezz was one of the

¹⁰Kamel confessed in the interview that his wealth is based abroad, and he has no properties in his name in Egypt. The only few properties he has in Egypt are in the name of his wife and his son.

few businessmen appointed as board members of the FGF.¹¹ Two years later, Gamal started engaging in politics through his appointment to the General Secretariat of the NDP, which is considered the apex of the ruling party. Gamal aimed to reformulate the foundations of the NDP and make it more convenient to his neoliberal policies, and he needed a new constituency that would support his policies; businessmen were this new constituency. As Mohamed Fahmy Menza (2013) noted:

In this case, best fitting with Gamal's persona and affiliations, the suggested power base was the newly flourishing business community of Egypt—mainly comprising prominent businessmen who were on the rise in Egypt's adoption of a more liberal economy (p. 108).

In order to co-opt these businessmen in the party, in 2002 Gamal headed the newly established Policies Secretariat, and many of the prominent businessmen were appointed to it. Since 2002, the Policies Secretariat has been in charge of formulating the main macro-economic level policies adopted by the NDP (Menza 2013, p. 108).

The implementation of neoliberal economic policies after 2000 provided a new opportunity for the regime to renew its authoritarianism by co-opting businessmen. Ezz was one of the businessmen who benefited from this opportunity. For instance, in 2000 he was appointed to the General Secretariat of the NDP. Two years later, he was appointed to the steering office of the newly formed Policies Secretariat. Then, in 2005, he was further promoted in the party as the NDP Organization Secretary, replacing the party's apparatchik Kamal El Shazly. The regime's political co-option of Ezz seems to have provided him with protection in his business, as he implied by his words when he was asked about his reasons for joining the NDP. He said:

The reason I was attracted to join the NDP is Mubarak's leadership *za'ama*, and not because it is the party in power...and because the head of the party [Mubarak] is a guarantee *damana*, a leader and a trust (Kamal 2008, p. 6).

¹¹Other business tycoons were appointed to the board of the FGF, e. g., Moataz El Alfi, Galal El Zorba, and Rashid Mohamed Rashid.

Moreover, in 2000 Ezz was elected to the Parliament as an NDP member in the *Menouf* constituency in the governorate of *Menoufyia*; this means he replaced Kamel in his parliamentary seat and also headed the Budget and Planning committee in Parliament. Then, a few years after his election to Parliament, he was transformed from an owner of small factories of steel and ceramics to a steel tycoon who monopolized the steel industry,¹² as the following section will discuss.

The government-controlled Alexandria National Company for Iron and Steel¹³ (*Al Dekheila*) had experienced considerable success since its establishment in 1982. Due to this success, the board of directors decided in the late 1990s to expand its activities and to produce steel plate. The new project needed equipment from abroad. In order to delay the payments of tariffs for the new imported equipment, an agreement was made between *Al Dekheila* and the Ministry of Finance. The agreement was conditional on submitting to the bank a letter of credit for the postponed amount of money; however, on June 20, 1999, the Ministry of Finance broke the agreement and asked the bank to liquidate the letter of credit (El Hariry, A 2002, interpellation).

The leadership seems to have been aware of this obstacle. For instance, the then chairman of *Al Dekheila*, Ibrahim Salem Mohamdein, sent a petition to the President requesting that he

¹²In Egypt, there are 19 companies working in the steel and iron industry. Two of them are owned by the public sector; the Egyptian Iron and Steel company in Helwan, established in 1955, and the Alexandria National Iron and Steel Company (*Al Dekheila*), established in 1982. The rest of the companies are owned by the private sector and include Kouta Steel Group, Suez Steel, Beshai Steel, Aswan for Iron, and the Arab Steel Factory, which account for around 26 percent of the market.

¹³ The share of the company is owned by a different banks and companies, which include the Alexandria Bank, the Arab Investment Company, Misr Insurance Companies, Misr Bank, National Bank, Egyptian General Petroleum Corporation, Cairo Bank, African Bank for Development, the Japanese Group, International Finance Corporation, etc.

prevent the liquidation of the letter of credit. However, there was no response from the leadership, and the bank liquidated the letter of credit (El Hariry, A 2002, interpellation)¹⁴.

Opposition parliamentarian Abu El Ezz El Hariry explained that these obstacles seem to have been tailored by the regime to facilitate Ezz's acquisition of *Al Dekheila*. For instance, he said:

There was a conspiracy by the government to cause financial problems for *Al Dekheila*...Why did the Ministry of Finance take possession of the financial deposits - the letter of credit- that were deposited with the customs department for the import of new equipment for the new project? The liquidation of the letter of credit by the Ministry of Finance has caused financial problems for *Al Dekheila*. At the same time, the Arab fund loan, which was approved by the People's Assembly and allocated to *Al Dekheila*, was blocked. Both the letter of credit and the Arab fund loan would have been sufficient to overcome any financial deficit coming out of the expansion...The reason for all these problems was to move the ownership of *Al Dekheila* gradually to Ahmed Ezz (El Hariry, A 2010, pers. comm., 24 April).

Due to the financial problems that faced *Al Dekheila*, it had to resort to small loans in order to finish the new project. During this tailored crisis, Ahmed Ezz presented an agreement of intentions in September 1999 to buy assets in *Al Dekheila*. Even though he had to pay a substantial amount of money, this transaction was not advertised in the newspapers for two consecutive days as the law specifies." (El Hariry, A 2002, interpellation).

In his first attempt to acquire *Al Dekheila*,¹⁵ Ezz bought twenty percent of the assets. Even though he had a small percentage of the assets, he became the chairman of the board of *Al Dekheila*. This is illegal, since his company was represented by only four seats on the board of directors. Then, in his capacity as a chairman of the board of *Al Dekheila*, Ezz reduced the company's steel production. This resulted in a surplus of the billets, which are raw materials used in the production of steel rebar. The excess billets were bought by Ezz to be used in the production process in his private company, El Ezz Steel Rebar (in Sadat City). Moreover, Ezz

¹⁴ A copy of this letter has been obtained from opposition parliamentarian Abou El Ezz el Hariry. The letter was included among the documents that El Hariry submitted in his interpellation.

¹⁵It is worth mentioning that the selling of *Al Dekheila* was not part of the privatization program that was introduced by the government in the early 1990s. In other words, *Al Dekheila* was not listed among the companies to be privatized; however, as one former parliamentarian commented over Ezz's acquisition of *Al Dekheila*, he said: *Al Dekheila* was neither privatized nor sold; it was stolen by Ezz."(El Hariry, A 2010, pers. comm., 24 April).

prevented steel producers from buying the billets at prices even higher than what he offered (El Hariry, A 2010, pers. comm., 24 April). For instance, in 2001 one of the steel producers, whose business had been affected by Ezz's monopolistic practices, filed a complaint to the Minister of Economy and Foreign Trade in which he wrote:

After Ezz headed *Al Dekheila*, he reduced the production of steel rebar. This had led to a surplus in the billets produced by *Al Dekheila*, which amount to 45,000/40,000 tons monthly. Ezz bought this extra quantity of billets and then he used it in his own private steel rebar factory to produce the steel rebar. This instead of producing it in *Al Dekheila*! Our company has submitted several proposals to buy the billets from *Al Dekheila* with prices higher than what Ezz is paying, but our request has not been considered for more than a year now.¹⁶

A few weeks after Ezz became chair of *Al Dekheila*'s board, then Prime Minister Atef Ebeid said in *Al Gomhouriya* newspaper on March 30, 2000, that good management made *Al Dekheila* the second-best factory in the world (El Hariry, A 2002, interpellation). In his comments, the former Prime Minister was praising the management of Ezz, which suggests that Ezz's acquisition of *Al Dekheila* was supported by the regime.

Despite the government's support for Ezz, his corrupt activity was known to the public. After Ezz's acquisition of *Al Dekheila*, newspapers widely covered his corrupt practices. For instance, former Editor-in-Chief, Ibrahim Seada, wrote on June 16, 2001, in *Akhbar Al-Youm* newspaper (one of the most widely read newspapers), an article on how Ezz prevented local steel factories from buying billets from *Al Dekheila* with prices even higher than what El Ezz private factories were paying (Ebeid 2001, p. 11; Seada 2001, p. 4).

Then, in his second attempt to acquire more assets in *Al Dekheila*, in February 2006 Ezz—in his capacity as chairman of *Al Dekheila*—exchanged the assets between *Al Dekheila* and his private company El Ezz Steel Rebar. Independent parliamentarian and journalist Mustafa

¹⁶ This information is available in a letter sent to the Minister of Economy by one of the prominent steel producers, Gamil Beshai. The letter is dated June 9, 2001. Mr. Beshai has provided me with a copy of the letter.

Bakri accused Ezz of illegally exchanging these assets. In a communication he submitted to the General Prosecutor (*al nai'b al-'amm*) he wrote:

Although the General Assembly of *Al Dekheila* approved the exchange of assets, in fact the assets of El Ezz Steel Rebar are much less than the assets of *Al Dekheila* in productivity and profit...this exchange was not between two companies that were owned by one individual. However, the exchange was between El Ezz Steel Rebar (which is owned by Ezz), and *Al Dekheila*, in which Ezz at this time owned only 20.89% of the assets...As a result of the exchange, the assets of Ezz in *Al Dekheila* jumped from 20.89% to 50.28% [this is how Ezz became the main shareholder in the company] (Shalabi 2008).

The press coverage of Ezz's irregularities, and his accusation to the General Prosecutor (*al nai'b al-'amm*) (who is appointed by the President), suggests that the leadership was aware of, and perhaps encouraging the way in which Ezz acquired *Al Dekheila*; therefore, in return for Ezz's economic protection by the regime, he had to share some of his profits in the form of direct financial support for the ruling party. For instance, after his election to Parliament in 2000, Ezz established an NGO entitled "The National Association for Economic and Political Studies." This NGO started as a consultancy office for Ezz on the issues of finance to provide him with assistance for the committee of budget and planning that he was heading, and a number of university professors worked in this NGO to assist Ezz. Then, when the Policies Secretariat was established in 2002 Ezz's NGO became highly involved with this Secretariat. Some of the leading members in the Policies Secretariat were employed in this NGO to perform different tasks of the Secretariat and got substantial monthly salaries. Ezz's NGO also helped prepare annual conferences. For instance, the policy papers of the annual party conferences are prepared by the NGO (Shehata, A 2010, pers. comm., 15 May). Ezz also provided substantial funding for preparations for the annual conferences. For instance, according to the report of the Attorney General to the US Congress on the administration of the foreign agents' registration act, Ahmed Ezz paid to the Qorvis Communications Company \$204,463 for the six-month period which ended in March 31, 2008. As stated in the report

[Qorvis] facilitated and coordinated media and press appearances on behalf of the foreign principle, as well provided media monitoring and analysis. The registrant also assisted in preparing and drafting speeches [for the NDP conference] (US department of Justice 2008).

In fact, both the Policies Secretariat and the annual conferences had an important role in the grooming of Gamal, which explains why Ezz's main financial contribution was directed to them. As Joshua Stacher (2012) writes:

Gamal Mubarak fully consolidated his position as an executive elite by 2002. Subsequent annual NDP conferences left no room for doubt...[In the 2004 annual conference] [p]arty Secretary General al-Sharif's most substantial contribution was to introduce Gamal Mubarak, who was frequently interpreted and praised throughout his speech by the party faithful. [T]he Policies Secretariat strength within the party appeared to be the 2004 conference's key outcome. The president's address stressed that the key objective was to introduce younger elements into the party with the aim of pushing them to take up positions of responsibility (p. 106).

Ezz's direct financial support to the regime was not limited to the project of hereditary succession, but he also supported the survival of Mubarak's regime. For instance, Ezz funded Mubarak's 2005 presidential campaign. This funding included, among other things, the payment of the staff who worked for three months during the parliamentary campaign in the party's office in *Roxy*. The program of the 2005 presidential campaign—with all its components and promises—was prepared in Ezz's NGO. Moreover, after Ezz headed the NDP Organization Secretariat in 2005, he appointed more employees to assist him in the daily work of the Secretariat. For instance, the NGO had for each governorate, one employee representing it to handle the daily work of the Organization Secretariat. In addition, these employees work on solving the problems of the MPs. One university professor worked in this NGO for couple of years explained the power of Ezz through the involvement of his NGO in all the details of the ruling party and Parliament. He said:

All important legislation is studied in the NGO before being submitted to the Parliament. Also, the NGO prepares answers to NDP parliamentarians whenever there are interpellations submitted from the opposition so they can defend the minister. Whenever there are important parliamentary sessions, employees in the NGO are in charge of texting messages to NDP parliamentarians to attend and vote. [He added] this NGO is the kitchen of policies. It is making the policies of the country (Shehata, A 2010, pers. comm., 15 May).

The substantial funding that Ezz was donating to the ruling party and Mubarak's 2005 presidential election suggests how he emerged as an oligarch à la Russia. As mentioned in Chapter One, the Russian oligarchs made their wealth during Yeltsin's rule by buying state-owned assets at cheap prices during privatization. In return, Russian oligarchs donated substantial funding to Yeltsin in his re-election campaign. Similarly, Ezz, as mentioned earlier, bought the *Al Dekheila* state-owned factory at a much cheaper price than its true value; in return, he provided substantial funding to the regime through his funding of the ruling party and Mubarak's 2005 presidential campaign. Even though the presidential election was non-competitive, Ezz's substantial funding suggests his emergence as an oligarch who attempts to influence the policies for his own interest.

It seems that before the rise of the young Gamal and other businessmen like Ezz in the party, the NDP did not need substantial funding. This is because since its establishment in 1978 the NDP has relied on the state for its funding. For instance, the NDP headquarters overlooking the Nile in downtown Cairo was inherited by the NDP from its predecessor, the Arab Socialist Union (ASU). It used to be the building of the governorate and was built by public funds (Kienle 2001, p. 59). The NDP depended on the state largesse. It received funds from the state budget and freely used state media to advertise (Kandil 2012, p. 165). Before the rise of Gamal in the NDP, the party was engaged in fewer activities and therefore needed a smaller budget. For instance, party conferences were held every three years and sometimes every five years and not every year, as the new party's by-laws specified in 2002 (El Tarouty 2004, p. 38). There was no need to fund a campaign for Mubarak's presidential election as there had been in 2005. This is because Mubarak used to renew his presidential term through a referendum every six years before the amendment of Article 76 of the Constitution in 2005, which allowed for direct

presidential election. In addition, the NDP used to secure a majority in each parliamentary election through the rigging of votes; however, after the judicial supervision of elections in 2000, the situation changed, and “the NDP started using the rich people to run for election, because they pave their ways into election by paying money” (Kamel, M 2010, pers. comm., 10 June). For instance, the 2005 parliamentary election witnessed an increase in vote buying, As Samer Soliman (2011) writes:

According to some reports, the price of a vote had climbed to more than 500 L.E. in such electoral districts as Nasr City, where there was a neck-in-neck race between the business tycoons Fawzi Al-Sayyid and Mustafa Al-Sallab. Parliamentary seats have become subject to the laws of supply and demand. Clearly there was a greater demand, largely due to the judicial supervision of the polls. On the supply side, people sensed the increased demand for their votes, and rising unemployment and the economic doldrums into which the Egyptian economy had sunk induced many to sell them. Those willing to sell naturally held out for the highest bidder. In the electoral districts where the competition was the most intense or in which business magnates were most determined to obtain a People’s Assembly seat with the prospect of a parliamentary immunity that comes with it, the going price of a vote soared (pp. 146-147).

This suggests how limited democratic reforms made by the regime through election had increased the trend of corruption. But corruption was not only through vote buying in elections, but also inside Parliament. This was evident when Ezz served his own interest by influencing the amendment of Law No. 3 of 2005 on the Protection of Competition and the Prohibition of Monopolistic Practices in a way that allowed him to enhance his monopolistic practices, which suggests symptoms of state capture by certain businessmen. The draft of Law No. 3 of 2005 went through many stages (Farouk 2011)¹⁷. First, Minister of Trade Rashid Mohamed Rashid proved that there was a monopoly in the steel industry and called for toughening the penalty for monopoly to be proportionate with what monopolists make. As a result, the government proposed a draft law, which provides for penalizing monopolists with 10 percent of their annual revenues. Then, when the bill was submitted to the Shura Council, the members asked to raise the fine to 15 percent (Abdalla 2009). When comparing the various stages of drafting the law and

¹⁷ For more information about empirical figures on the monopolistic practices of Ezz, see Abdel Khalek Farouk (2011).

its final form, it is clear that all the suggested penalties were more severe than what has been legislated in the final form.

In the final draft of the law, the penalty was changed from a percentage of profits (15 percent) to a maximum fine of L.E. 300 million Egyptian pounds (Kotb 2008). It is worth mentioning that if the monopolies are fined as percentage, Ahmed Ezz would have to pay 1.6 billion Egyptian pounds (Abdalla 2009).

The leadership seems to have been aware of how Ezz passed the monopoly law to enhance his monopolistic practices; however, Mubarak did not take any serious action to stop Ezz. As former Speaker of Parliament, Fathy Sorour, has confessed:

I complained to the President, and told him that [this law] should not pass. So, the President talked to the party's secretary general Safwat El Sherif to resolve the issue. El Sherif came to my office and called in Ezz and told him about the president's objections...however, Ezz stuck to his guns and said that he is not going to change the law, and in case I will try to amend it, he will tell the NDP majority to refuse it...At this stage, I felt that Ezz is more powerful [than the President] and he represents a dangerous power and disobeys the President (Mosalem 2011b).

This infers how the relationship between the regime and Ezz developed from mere co-option to mutual dependency to the extent that they needed each other. On the one hand, the regime could not turn against Ezz, since he was the main sponsor for the ruling party, Mubarak's presidential campaign, and the project of hereditary succession of Gamal Mubarak. On the other hand, since Ezz made his fortune through illegal practices, he then needed the regime for protection.

Despite the mutual dependency between Ezz and the regime, when the 25th of January 2011 protests started, this relationship became a liability to the regime. At this stage, the leadership decided to fire Ezz from the party; however, this had an implication for the party's ability to mobilize its members. As former senior member in the NDP, Ali El Din Hillal said:

Ezz was one of the first sacrificial lambs that Mubarak offered up to the crowds because of the population's disdain of him as a leading crony capitalist. Yet, when Ezz left, he took more than four hundred names and

contacts of party organizers from across the country. Even had it wished to countermobilize, the party cut its own organizing arm off (cited in Stacher 2012, pp.8-9).

The extent of the mutual dependency between Ezz and the regime meant that the survival of both depended on it. The flip side of this relationship was that when one collapsed, both collapsed. In Egypt, this form of mutual dependency, in which the regime and a businessman are equally strong and can threaten each other, is considered an exception rather than the rule. The exception occurred in the case of Ezz is because he merged economic and political power.

Apart from this exception, different forms of clientelism have emerged between the regime and businessmen in which the regime was stronger and could protect or threaten a businessman in his business and political career; in other cases the increase in the financial power of businessmen allowed them to have a bargaining relation with the regime despite their illegal business activities, which led to a semi-clientelistic relationship. The following case of Loan MPs will discuss this point.

3.4 The Case of Loan MPs (Nuwwab El Qurud)

Before discussing the case of the loan MPs, I start by providing background on businessmen and the banking sector in the 1990s during economic liberalization. One of the economic reforms implemented in the 1990s that enabled businessmen to trade the money of the banks was the abolishment of the restriction on lending volume to a single customer, on strict loan conditions, and also on credit ceilings to both public and private banks (Ikram 2006, p. 182; Roll 2010, p. 352). For instance, during the 1990s, 46 businessmen held around 47 percent of Cairo Bank's loan portfolio. Two of these businessmen had loans worth more than the bank's capital base (Kotb & Mohsen 2007). Moreover, according to a report on the banking sector during the 1990s, 343 clients received 42 percent of the overall credit facilities allocated to the private sector. Also, out of this group only 28 clients received 13 percent of the overall credit

(Abdel-Latif 2001). One of the corrupt cases in which banks made unguaranteed loans to businessmen is the case of loan MPs, as the following section will discuss.

The case of loan MPs started in 1994, when the head of *Al Nile* Bank's board of directors, Issa El Ayouty, returned from a six-month business trip to Saudi Arabia. Upon his return El Ayouty found out that his daughter—Alia El Ayouty, Vice President of *Al Nile* Bank—had married MP businessman Mahmoud Azzam in May 1995, against her father's will. He also discovered that his daughter illegally gave loans from the bank to her husband and other businessmen close to her husband. In order to protect himself against these illegal banking practices, El Ayouty brought accusations against his daughter to the Organization of Administrative Control, the Central Bank, and the General Prosecution (Fahmy 2007, pp. 21-22; Abdel Rahman 2007, p. 10). As a result, of these accusations, in August 1995 the General Prosecution (*El Niaba El A'ma*) started investigations with members of the Organization of Administrative Control, who revealed the following:

NDP MP businessman Mahmoud Azzam used his close relationship with Alia El Ayouty, Vice President of *Al Nile* Bank, to get loans worth more than 179 million Egyptian pounds. Knowing that Azzam did not provide any guarantees for these loans and that the Central Bank forbade the banks to deal with him, El Ayouty did not register the loans in his bank accounts (El Karam 1997, p. 17).

NDP MP Ibrahim Aglan, board member of *Al Dakahlia* Bank, used his relationship with Tawfik Abdou Ismail,¹⁸ director of *Al Dakahlia* Bank and head of the Planning and Budget Committee of the People's Assembly, and gave loans to his brother, businessman Yassin Aglan,

¹⁸ Tawfik Abdo Ismail is also a businessman and a former minister in two cabinets during the Nasser and Sadat regimes.

which were worth more than 200 million pounds, without requiring guarantees (El Karam 1997, pp. 17-18).

Khaled Mohamed Mahmoud, NDP MP and son of the former Minister of Local Government, used his relationship with Alia El Ayouty in *Al Nile* Bank and Tawfik Abdou Ismail in *Al Dakahlia* Bank to get unguaranteed loans from both banks worth tens of millions of pounds (El Karam 1997, p. 146). The investigation further revealed that the group of four NDP MPs mentioned above formed a network of 18 individuals that included businessmen and bankers who managed to get loans from eight different banks, and in addition to them, *Al Nile* Bank and *Al Dakahlia* Bank (Farouk 2005, p. 50)¹⁹.

The investigation of the four loan deputies started when Parliament, on December 30, 1995, gave them permission to testify in front of the General Prosecution (*El Niaba El A'ma*), but without removing their parliamentary immunity.²⁰ One month later Parliament agreed to withdraw their immunity based on a request from the Minister of Justice (Farouk 2005, p. 49). During the trial of the loan deputies, they retained their memberships in Parliament. In fact, this was possible due to the institutional impediments in the Constitution, as Article 96 stated:

No membership in the People's Assembly shall be revoked except on the grounds of loss of confidence or status or loss of one of the conditions of membership or the loss of the member's status as worker or farmer upon which he was elected or the violation of his obligations as a member. The membership shall be deemed invalid on the grounds of a decision taken by two-thirds of the Assembly members.

Based on this article, the loan deputies were protected and kept their memberships in Parliament during their trial, as one author observed:

What was interesting to observe was that even during the trial, the state continued to protect its corrupt politico-economic entrepreneurs. Ironically, instead of being dismissed from parliament or at least having their membership frozen pending court rulings, these MP businessmen continued 'business as usual': in the

¹⁹ These banks are *Al Nile* bank, *Al Dakahlia* bank, *Al Mohandess* bank, bank credit lyonnais, Commercial Alexandria bank, Cairo bank, *Feisal* Bank, Cairo-Barkclays bank

²⁰ According to Article 99 of the Constitution, "Except in cases of flagrante delicto, no member of the People's Assembly shall be subject to a criminal prosecution without the permission of the Assembly. If the Assembly is not in session, the permission of the Speaker of the Assembly must be taken. The Assembly must be notified of the measures taken in its first subsequent session."

mornings they stood in the court behind bars accused of squandering public funds and harming public interests while in the afternoons they were acting in Parliament as public representatives and as the people's legislators (Fahmy 2007, p. 32)

Then, in 2002, the Supreme Security Court ruled against the accused and they got prison sentences ranging from seven to fifteen years in prison. The corruption of these businessmen led Judge Ahmed Ashmawi to state in his court ruling:

The case is not a case of members in parliament, because the parliament withdrew their membership when it knew that they are criminals...It is not also a case of loans, because what they did was not taking loans from banks but rather they were looting the money of the banks. The court feels sorry for being unable to pass the death penalty against the accused...[The judge added] I ask the legislator to amend the law in order to make the death penalty the maximum punishment in this type of case (Ruling of the Supreme Security Court for Emergency 2002).

But after the court (which is independent in its decisions) sentenced the loan MPs, the regime continued to protect them by finding a way for their release, even though they had been proven guilty. This was evident when Kamal El Shazly suggested in 2004 that Parliament amend Article 133 of the Central Bank law (Abdel Rahman 2007, p. 10). The newly amended article of Law 164 of 2004 was issued to change some articles of Central Bank Law 88 of 2003. According to the old article, when a court case is filed, and before the final court ruling takes place, the accused can make a settlement with the banks in which they should pay back all the money they acquired in return for dropping all charges (Fahmy 2007, pp. 34-35). The old article suggests that the relation between the regime and the businessmen was authoritarian clientelistic, based on credible threats of coercion. This means that either businessmen pay all the money they looted or they would be jailed. However, the newly amended article is based on less coercion and more negotiation as it made it possible for the accused to negotiate a repayment of part of their debts in return for dropping all charges, even after the final court ruling had found them guilty (Fahmy 2007, p.35).²¹

²¹The amendment of this law enabled similar cases to reconcile with the banks in the future.

There was a debate among bankers over the amendment of this law. There were those who argued that reconciliation with the businessmen was necessary and not a special favour to support them. For instance, Mahmoud Abdel Aziz, former head of the Federation of the Egyptian Banks, defended the newly amended article by saying that:

This amendment was a must and not an option...because when a businessman borrowed money from the banks his aim was to make a project; however, when he started the project he may find that the taxes were raised, and the feasibility studies were made on the basis that the dollar, for example, costs three pounds and now became seven pounds...This is why we reconciled with our clients, and exempted them from hundreds of millions (Mostafa 2005, p. 5).

On the other hand, Ahmed El Baradei, who headed the Cairo Bank from 2000 to 2005, found that many irregularities happened during the 1990s and argued against this law. For instance, he said:

There is a difference between a crime and the insolvent customer...if you did not commit a crime, and you are an insolvent customer, then you should pay back to the bank everything you have, except a minimum amount to leave, like a house and a car if you need it for work...None of those who have been sent to court were insolvent customers, but they were presented to court for crimes that should be punished by the law; unfortunately, law 164 allows you to steal, and then reconcile with the banks by paying any amount and keeping part of your loot; and the charges are dropped (El Baradei, A 2010, pers. comm., 25 May).

El Baradei's argument seems to be more plausible when comparing the difference between the banking practices of the businessmen in the 1980s and the 1990s and the political economic environment in the two periods. For instance, according to former Head of Bank Misr Al Motahad, Hassan Hussein in the 1980s there were respected businessmen who worked in trade and industry. They would open a letter of credit and when the goods arrived, they would pay the banks. But in the 1990s, businessmen were trading with the banks' money. For example, those who had political connections bought pieces of land for a nominal price. Then they would get loans from the banks based on the value of this piece of land after the bank had highly inflated its price. These people were involved in unproductive activities and made money using state owned lands (Hussein, H 2010, pers. comm., 16 June). The increase in the volume of bank loans has been possible because of the implementation of economic liberalization. As mentioned earlier,

economic reform in the banking sector has allowed for the abolishment of the restriction on lending volume to a single customer, to strict loan conditions, and on credit ceilings. Empirical figures suggest that the bank loans have aggravated economic conditions. For instance, when Atef Ebeid headed the cabinet in 1999, he found a loss of 50 billion Egyptian pounds (El Baradei, A 2010, pers. comm., 25 May). The fiscal implications of these loans suggest why the regime chose to negotiate with the businessmen over settling their debts. As former Head of Bank Misr Al Motahad Hassan Hussein explained,

Since Farouk El Okda was appointed Governor of the Central Bank in 2004 [who is a close associate of Gamal Mubarak], the most important thing was to amend the Central Bank law and reconcile with the businessmen. El Okda wanted to change the environment. There was a general pressure on the banks to reconcile with the businessmen and not to arrest them...they don't pay back the whole amount, but negotiate on paying part of it, and they will get out (Hussein, H 2010, pers. comm., 16 June).

We can term this clientelistic relationship that developed between the regime and the businessmen who took unguaranteed loans as semi-clientelistic. This new clientelistic relation allowed businessmen to bargain and negotiate with the regime on paying only part of the money they looted from the banks.²² In this semi-clientelistic relation that emerged in the context of the economic liberalization, the bargaining induced compliance by the threat of benefit removal. The benefit here means paying only part of the money they had looted from the banks.

The case of loan MPs also suggests that the Egyptian state was predatory, in the sense of Peter Evans (1989) those who control the state were looting at the expense of the interest of the rest of the society. Stephan Roll (2010) observed that in a surveillance regime like Egypt's, public banks could not have been giving loans worth millions of dollars without the knowledge of the leadership (p. 363) because the banks' reconciliation with businessmen was based on a political decision by the leadership. As Hussein noted,

²² For instance, several cases of reconciliation proved that the banks got only half of the debts from businessmen. Money was paid back by instalment over a number of years. For more information, see *Al-Destour* newspaper May 13, 2009, p. 5.

Before any reconciliation with the clients, the head of any bank (public or private) should ask the permission of the governor of the Central Bank, who is directly appointed by Mubarak. This makes it all a very political decision (Hussein, H 2010, pers. comm., 16 June).

The following section will examine the case of Ramy Lakah who, despite his trouble with the banks, was able to develop a different clientelistic relationship with the regime.

3.5 A Cosmetic Opposition Businessman in Parliament: The Case of Ramy Lakah

Ramy Lakah is an Egyptian-French Catholic businessman whose private business includes construction, health care equipment, and aviation. Since the mid-1990s Lakah had been in financial trouble with the banks (Nour, A 2009, pers. comm., 17 December), which made him enter into an authoritarian clientelistic relationship with the regime in order to seek protection.

In an interview, the former head of Cairo Bank, Ahmed El Baradei, explained Lakah's financial corruption, he said:

Lakah's problem was fraud and not the inability to pay back his debts to the bank. Lakah has been accused of fraud by the Capital Market Authority, the Investigation of Public Funds, and the Organization of Administrative Control. In 1998, Lakah falsely inflated the capital of his companies by increasing the value of its shares. Lakah then sold 10 percent of one of his artificially inflated companies to the Cairo Bank for 120 million Egyptian pounds. Then Lakah got loans from the bank based on the fraudulent papers and the artificially inflated value that he claimed for his companies²³ (El Baradei, A 2010, pers. comm., 25 May).

Lakah's financial corruption explains why he was trying to ingratiate himself with the regime, as the case of *El Kosheh* suggests. For instance, in August 1998 two Copts were murdered in *El Kosheh*, a village in Upper Egypt (*Sohag* Governorate). Most of the citizens living in this village are Coptic Christians. During the process of investigation, hundreds of Copts were tortured while in detention. The Egyptian Organization for Human Rights (EOHR) published a report on the Internet about *El Kosheh* events. The main objective of the report was to write about police brutality, without addressing the position of Copts in Egypt. Nevertheless,

²³ For instance, it was common for the former head of Cairo Bank Mohamed Abou el Fatah during the 1990s to get political orders by phone from one of the ministers to give loans to businessmen without guarantees. Abou el Fatah never rejected any of the orders of the minister because he knew that these businessmen were close to the regime. In return, this minister helped Abou el Fatah to renew his contract in the bank four consecutive times after he reached the age of retirement. For more information, see *Al Ahrar*, February 13, 2003, p. 8.

the report mentioned that in order to avoid sectarian hatred, the police did not want to accuse Muslims of murdering the Copts and had to attach the crime to a Copt (The Egyptian Organization for Human Rights 1998). Through the EOHR report, international newspapers had access to information about this event. For instance, the British newspaper Sunday Telegraph wrote a story in October 1998 about the brutality of Egyptian police with the Copts; however, the article exaggerated considerably and had little similarity to the EOHR report. For instance, the article ran a headline stating that: “Egyptian Police ‘Crucify’ and Rape Christians—Thousands of Copts in Egypt Have Been Nailed to the Doors of their Homes, Beaten, Tortured as Authorities Crack Down on Non-Muslims” (Pratt 2005, pp. 81-84).

At the time this report was published, Lakah was a board member of the EOHR, and he claims that his membership in this organization at the time of this report was published triggered his first clash with the regime (Lakah, R 2010, pers. comm., 16 October - London). However, evidence suggests that Lakah was rather supportive of the regime. For instance, in response to the Sunday Telegraph coverage to *El Kosheh* events, Lakah published several advertisements in foreign newspapers such as the New York Times, the Herald Tribune, the Washington Post, and the British Daily Telegraph, in which he denied the persecution of Copts and demanded no interference in Egyptian national affairs (Hamouda 2005, p. 115).

Moreover, in March 2000 during Mubarak’s visit to Washington, D.C., a group of emigrant Copts who are living in the U.S. organized a demonstration in front of the White House while holding pictures of the Coptic victims of *El Kosheh*, thus accusing the Egyptian government of discrimination against Copts (Khalil 2000). As a result, Lakah funded trips for a large number of emigrant Egyptians from New York and New Jersey to Washington, D.C., to support Mubarak during his visit to D.C. As Journalist, Adel Hamouda (2005) observed:

I saw Lakah in Washington, D.C.; in the middle of the demonstrations in the garden next to the White House...There were hundreds in the demonstrations. The participants were Muslims and Copts who don't know discrimination and intolerance. As for the other side, counter demonstration participants were very few (p. 115).

In 2000, Lakah run for the parliamentary election as an independent candidate. But in 2001 a court verdict withdrew Lakah's membership in parliament because of his dual nationality. Lakah then fled Egypt without paying back his loans to the banks and lived between London and Paris (Lakah, R 2010, pers. comm., 16 October - London)

Based on Lakah's financial accusations (mentioned above), the Supreme Security Court then issued a court ruling in January 2003 to sequestrate Lakah's money and properties. Despite the court ruling, the prosecution did not investigate this criminal case (Kotb & Mohsen 2008; Miry 2003, p. 7). However, this does not mean that Lakah's legal case in the court has been terminated; Lakah's file at the General Prosecutor (*al nai'b al-'amm*) has not been closed. In other words, "Lakah's file is in the drawer of the General Prosecutor; it is neither closed, nor opened." (Kamel, M 2010, pers. comm., 10 June). This means that in politically sensitive cases the General Prosecutor (*al nai'b al-'amm*) conducts investigations against the accused and refers him to court based on a decision from Mubarak. The judicial authority law enabled the regime to either protect or threaten businessmen like Lakah. As one author writes:

Under the 1972 law on Judicial Authority, the general prosecutor is appointed by presidential decree from among vice-presidents of courts of appeal, counselors of the Court of Cassation, or chief public attorneys...no specific qualifications or conditions are required of the new appointee. The appointment of the general prosecutor has remained a political decision made solely by the political authority, which is the president of the republic (Khalil 2008, pp. 63-64)

This suggests that in Lakah's case the regime used threats of coercion, i.e., to open his corruption file at any time. This led to the formation of an authoritarian clientelistic relationship between the regime and him. This also explains why Lakah fled the country out of fear of being prosecuted. Then, nine years later, Lakah reconciled with the banks due the amended Central Bank Law 164 of 2004 (discussed earlier), which allows local banks to settle disputes with

clients if debts are repaid; charges are then dropped. According to Lakah's bank reconciliation, two-thirds of his debts were forgiven, and he returned to Egypt (El Baradei, A 2010, pers. comm., 25 May)²⁴. In this authoritarian clientelistic relation, Lakah continued playing the role of an opposition candidate who is supportive to Mubarak after his return to Egypt. For instance, in a newspaper interview in 2010 Lakah was asked if he supports the nomination of Mubarak for another term. For instance, he said,

I support President Mubarak; because he represents stability, but I am not supporting the NDP...I will only support Mubarak because he is now the most convenient candidate...I don't think Ayman Nour or Mohamed El Baradei can fill his position (cited in Khaled & Marwan 2010).

Unlike Lakah, other opposition businessmen refused to enter into a clientelistic relationship with the regime since they were critical of Mubarak, his son Gamal, and his inner circle, as the following case of Anwar Esmat El Sadat demonstrates.

3.6 Anwar Esmat el Sadat: a Real Opposition Businessman in Parliament

Anwar Esmat El Sadat is a businessman and a nephew of former President Anwar El Sadat. Upon the death of President Sadat, Mubarak ordered the arrest of Esmat El Sadat (President Sadat's younger brother) and his sons, including Anwar, on charges of making profits through their ties with the late President Sadat. However, later the prosecution's investigation proved that they were innocent (El Sadat, A 2010, pers. comm., 26 July). Anwar's younger brother explained what happened to them:

Our money was sequestrated [for a number of years], and we were jailed for eight months and thirteen days, during which time the press followed the orders of the authorities and drummed it into people's heads that we were thieves. (Essam El-Din 2011e).

El Sadat's private business includes tourism and maritime trade. In 2005, he engaged in politics by running for parliamentary election as an independent candidate in *Al Tala* constituency. As soon as he was elected to Parliament, El Sadat removed his name from all his

²⁴For more information about Lakah's reconciliation with the banks, see Kotb 2010 (a) (b). *Al-Masry Al-Youm*, March 13, 2010; *Al-Masry Al-Youm*, March 14, 2010.

private companies and devoted himself to politics. After his election to Parliament, the regime tried to co-opt him, but he said:

After I was elected to the Parliament, I was asked by Ahmed Ezz to join the NDP; however, I refused because the voters elected me as an independent parliamentarian...Ezz asked me to join the NDP to make sure I am not going to criticize the government or present interpellations ²⁵ (El Sadat, A 2010, pers. comm., 26 July).

Then, two years after his election, he was expelled from Parliament. According to El Sadat, there are two reasons he was expelled from Parliament. First, his request for the investigation into Zakariya Azmi, Presidential Chief of Staff and one of Mubarak's inner circle, by the Social Prosecutor; second, because of an interpellation he submitted about the monopolization of *El Sokhna* port by one of Gamal Mubarak's closest friends (El Sadat, A 2010, pers. comm., 26 July). The following section will discuss these two points.

On February 3, 2006, *El Salam* 98 ferry, which is owned by business tycoon and Shura Council member Mamdouh Ismail, a close associate of Zakaria Azmi, sank in the Red Sea after a fire on board. The boat was carrying more than one thousand passengers. The parliamentary fact-finding committee concluded that Ismail was responsible for this disaster (Essam El-Din 2006b). Six weeks after the sinking of the boat, the Shura Council lifted the immunity of Mamdouh Ismail. Their slowness in lifting Ismail's immunity allowed him to flee the country. This was possible, as opposition members in Parliament said, because of his friendship with Zakaria Azmi. (Essam El-Din 2006a). After Ismail fled the country, El Sadat requested an investigation of Azmi by the Social Prosecutor. In his request, El Sadat accused Azmi of helping Mamdouh Ismail monopolize maritime transport in the Red Sea, and also facilitating his escape from the country after the sinking of *El Salam* 98 ferry. However, due to the institutional and legal constraints in the People's Assembly by-law, the steering office of Parliament refused to send

²⁵ It is worth mentioning that NDP members are not allowed to present interpellations.

this request to the Social Prosecutor. Even though the request for investigation was dropped, this was a tough accusation for Azmi. As Sorour told El Sadat: “It was the first time I had seen Azmi shaking like this in Parliament, when you asked for an investigation of him (El Sadat, A 2010, pers. comm., 26 July)

Moreover, El Sadat submitted an interpellation, in which he accused Gamal Mubarak of awarding one of his closest friends and AUC classmate Omar Tantawi contracts that would enable him to monopolize *El Sokhna* port (El Sadat, A 2006, interpellation)²⁶. According to El Sadat, after this interpellation Sorour told me, “Now I can say that you are about to travel from Parliament [hinting that I will be expelled from Parliament soon]” (El Sadat, A 2010, pers. comm., 26 July). In fact, it was not long after Sadat presented this interpellation that he was expelled from Parliament. The background of his expulsion is related to a cheque in the amount of half a million dollars that El Sadat issued to guarantee the economic activities of one of his friend’s companies. When his friend’s company went bankrupt, El Sadat found that his company was also declared bankrupt. So El Sadat met with Sorour and explained to him that the court rule is flawed and is not directly involved in the case. Sorour told him there was no problem, as long as he was going to appeal in court. But in the evening of the same day, Sorour called El Sadat and said, “Come to my office tomorrow morning. It’s urgent...new things have come up.” On the following day, El Sadat met Sorour in his office and Sorour told him: “You should know there are legal and constitutional matters, and there are political matters. Regarding the latter, I have no control over them. I have been asked [by the authority] to expel you from Parliament. And God be with you.” Sorour convinced El Sadat to pay a half million dollars in order to help support his case in Parliament. The following day, before attending the parliamentary session, El

²⁶ When Sadat submitted this interpellation to Parliament, he did not mention the name of Omar Tantawi; otherwise, the steering office of the parliament would have refused to send the interpellation for discussion in Parliament. But during the discussion of the interpellation, El Sadat mentioned the name of Omar Tantawi.

Sadat paid the money, even though he did not have to. Then, during the parliamentary session, Sorour asked the members to vote on the dismissal of El Sadat from Parliament since the court had declared his bankruptcy; however, El Sadat sent a petition to Sorour asking to postpone the voting to the evening session until he got an official document saying that the court of appeal would issue its final ruling on the following day. But Sorour insisted on the vote and El Sadat was expelled from Parliament. As El Sadat said, “This was a game.”(El Sadat, A 2010, pers. comm., 26 July).

Even though El Sadat was stripped of his parliamentary membership, the court of appeal ruled in his favour to stop implementation of the ruling that declared his bankruptcy. Then El Sadat raised a case in court and got compensation from Parliament, but his membership had already been dropped (El Sadat, A 2010, pers. comm., 26 July). The case of El Sadat suggests how businessmen who refused to enter in a clientelistic relation with the regime have been weakened politically, which prevented them from becoming a real opposition.

The following section will examine how the regime used its obedient parliamentary businessmen to play the role of intermediaries with clients in their constituencies.

3.7 The Case of Patron Broker Client Relationships

As mentioned in Chapter One, with the introduction of economic liberalization the state withdrew from the provision of social services. This section discusses how economic liberalization transformed the clientelistic relation between the regime and parliamentary businessmen from dyadic to triadic, thus including the regime as a patron, businessmen as brokers, and voters as clients. In this triadic relation, the regime plays the role of a patron who subcontracts businessmen to act as brokers in the provision of social services to voters in their constituencies. The services offered by the parliamentary candidates seem to be of significance to the voters. For instance, in the 2005 parliamentary election, candidates who acted as brokers

distributed to potential voters CDs, pens, mobile phones, meat, and in some cases offered to pay phone bills. In other cases, parliamentary candidates also traded food for votes. When the 2005 parliamentary campaign occurred during Ramadan, candidates sponsored free meals in poor neighbourhoods. In some constituencies, families were given vouchers to claim free chicken. In other constituencies, fast food was delivered to homes (Blaydes 2006).

Illustrative of patron-broker-client relations is multimillionaire Mohamed Abul-Enein.²⁷ He started his business during the period 1973 to 1987 as an importer and distributor of different types of ceramics. Then, in 1988 he established his own factory, Ceramica Cleopatra (Gobe 1999, p. 81). In 1995, the regime co-opted Abul-Enein when he was appointed by Mubarak to the People's Assembly.²⁸ Then, from 2000 to 2010 Abul-Enein was elected to Parliament as an NDP member representing *El Giza* constituency in *El Giza* Governorate, and he also headed the Industry and Energy committee in Parliament. While Abul-Enein's co-option started on the political level, it soon became economic, when he was allocated state resources in illegal ways. For instance, in an interpellation submitted to Parliament by Gamal Zahran, head of the independent parliamentary bloc, he uncovered the corruption of the regime in the case of Abul-Enein when he violated Article 95 of the Constitution,²⁹ which states that:

No member of the People's Assembly shall, during his term, purchase or rent any state property or sell or lease to the state or barter with it regarding any part of his property, or conclude a contract with the state in his capacity as entrepreneur, importer or contractor.

According to Zahran's interpellation, during Abul-Enein's first term in parliament (1995-2000) as a member appointed by the President, he bought from the state large pieces of prime

²⁷ Other NDP parliamentary businessmen, like such as Ahmed Ezz, Hisham Talaat Moustafa, and Abdel Wahab Kouta, have been involved in corruption by buying state-owned lands.

²⁸ In the Shura council where one-third of the seats are filled by presidential appointment, it is common to find businessmen appointed. But in the People's Assembly only ten seats are filled by presidential appointment out of 444 filled by election. So, these ten seats are more likely to be filled by intellectuals rather than businessmen.

²⁹ Other parliamentary NDP businessmen have been involved in corruption in buying state-owned lands, for example, Ahmed Ezz, Hisham Talaat Moustafa, Abdel Wahab Kouta.

land for multiple use (agriculture, industry, etc.) in strategic locations like *Shark el O'wainat* (*Wadi el Gedid*) Governorate, *Misr Ismailia Road*, and *Gulf of Suez* (Zahran, G 2009, interpellation). It is worth mentioning that parliamentarians are supposed to respect the laws and the Constitution. For instance, Article 90 in the Constitution states that:

Before exercising his duties, the member of the People's Assembly shall take the following oath before the Assembly: 'I swear by God Almighty that I shall sincerely safeguard the safety of the nation, the republican regime, attend to the interests of the people and shall respect the Constitution and the law'

The leadership seems to have been aware of how Abul-Enein acquired this land. For instance, on different occasions President Mubarak made official visits to Abul-Enein on his agricultural land in *Shark el O'wainat* (as mentioned earlier, it is one of the lands that he bought in illegal ways). During these visits, Abul-Enein would brief Mubarak about the agricultural development on his farm (*Al-Ahram daily*, March 30, 2005; *Al-Ahram daily*, April 12, 2001). This suggests that President Mubarak was not only aware of the corruption in the selling of lands, but seems to have encouraged it as long as the lands were given to his own co-opted businessmen.

The fact that Abul-Enein made his fortune through illegal practices, which seem to be encouraged by the leadership, suggests why he accepted the role of a broker to the voters in his constituency by replacing the state in the provision of social services. For instance, Abul-Enein makes an annual profit in his business of 150 million Egyptian pounds. He spends yearly around 15 million Egyptian pounds in his constituency in the form of social services to the poor (Kamel, M 2010, pers. comm., 10 June).

Unlike Abul-Enein, whom the regime sought to co-opt, other businessmen have competed to play the role of brokers to the regime. This was evident in the 2005 parliamentary election, when in each constituency there were generally from three to five businessmen running for the same seat. This competition was among NDP businessmen, independent businessmen

who are members in the NDP but were not nominated, businessmen who are real independents, as well as other candidates. The average amount spent on these campaigns ranged from five to seven million Egyptian pounds (Arafat 2009, p. 70). For instance, in the 2005 parliamentary election, Shahinaz El Naggar, an NDP member who ran as an independent candidate—since she was not nominated by the party—spent around 10 million Egyptian pounds on her parliamentary campaign in *El Manial* constituency. After winning the election she registered herself in Parliament as an NDP member (Menza 2013, p. 135). El Naggar is an hotelier who comes from a rich family. In her constituency she provided monthly stipends for 500 families ranging from 20 to 50 L.E.—in addition to other charitable activities in the constituency, such as giving gifts to orphans on orphan’s day and providing material for upholstery for poor women who were getting married. Also, her health center provided services to her constituency at a nominal price (50 piasters per patient). In the same constituency, El Naggar’s competitor Mamdouh Thabet Mekky was a millionaire businessman working in the leather industry. Mekky was nominated by the NDP as the official party candidate and lost against El Naggar. After his election to Parliament in 1990 in *El Manial* constituency, he had established a social service bearing his name, which provides vocational training and medical services for people in the constituency (Blaydes & El Tarouty 2011, pp. 83-84).

Similar patterns of NDP businessmen who played the role of brokers in their constituencies while running against each other is evident in the 2005 parliamentary election. For instance, in *Qasr El Nil* constituency, both NDP members Hossam Badrawi, a medical services entrepreneur, and Hisham Moustafa Khalil, a wealthy businessman, ran against each other. While the former was nominated as the official party candidate, the latter was not nominated, despite his membership in the party. Later he was registered in Parliament as an NDP member

after winning the election. During the parliamentary campaign, Khalil provided services to the constituents. For instance, in poor areas in *Kasr El Nil* constituency, such as *Boulaq*, many constituents did not have tap water, and Khalil paid for water to be delivered to their houses. In addition, he paid to repair streets and paint houses in this area. In *Al-'Aini* area in *Kasr El Nil* constituency, Khalil also paid for 1500 meters of sewage pipe to be brought to the residents of this area. His competitor Badrawi also provided social services. His two NGOs in the constituency supported 400 orphans, and he provided free medical care at a local clinic (Blaydes & El Tarouty 2011, pp. 80-81).

The regime has created a divided environment among NDP businessmen running for parliamentary election. The institutional mechanism for this division was through the electoral law introduced in 1990 for individual candidacy, which replaced proportional representation. Unlike proportional representation, which prevented intraparty competition, the new electoral law encouraged competition among party members (i.e., businessmen). The intraparty competition between NDP businessmen seems to have been advantageous to the survival of the regime, since it encouraged each of these businessmen to invest more in social services to win the support of the voters; and at the same time, it prevented their unity and ensured their fragmentation.

3.8 Conclusion

In this chapter, I have argued that, in the context of economic liberalization, the regime of Hosni Mubarak attempted to stay in power by using different types of co-optation with businessmen. These varieties of co-optation varied from authoritarian clientelism, semi-clientelism, and a patron-broker client relationship. But Ahmed Ezz had an exceptional clientelistic relationship with the regime, which started by mere co-optation and developed to

mutual dependency. However, such a relationship was an unintended consequence of developing clientelistic relations with businessmen in light of economic liberalization.

These varieties of clientelistic relationships were achieved through the formal institution of Parliament, the ruling party, and elections, as well as the informal institutions of corruption and nepotism. The regime rewarded loyal parliamentary businessmen with immunity from prosecution and, therefore, protection for the illegal ways in which they increased their wealth, for example, through obtaining bank loans without collateral. Loyal businessmen in Parliament were also rewarded by the regime by being able to buy state-owned companies and state-owned lands at very low prices. Indeed, parliamentary businessmen bought state-owned lands despite this being against the laws of Parliament. The market reforms introduced after 1990, in the name of economic liberalization, facilitated these corrupt and illegal practices. Indeed, it is not only that loyal businessmen in Parliament were financially rewarded for their loyalty to the regime. Economic liberalization provided new opportunities for economic predation on the part of businessmen, while participation in Parliament and the NDP enabled some businessmen to shape decision-making in a way that suggests symptoms of state capture. Businessmen also helped the regime maintain its legitimacy by providing social services in their constituency, which compensated for the withdrawal of state spending on welfare services after the introduction of the economic reform programme.

In other words, in the context of economic liberalization, a new oligarchy that included businessmen was both a response to economic reforms and was facilitated by economic reforms and structural adjustment. Overall, this chapter has demonstrated that there is not one type of regime-businessmen co-option after 1990. The regime's relationships with businessmen showed variety and flexibility in co-option. The divided environment among them clearly prevented

businessmen from being structurally powerful and providing a check on the regime or from playing a democratizing role. In other cases, businessmen supported the survival of the regime without their direct engagement in politics, as the following chapter will discuss.

Chapter 4

The Social Networks of the Mubarak Family and the Businessmen

4.1 Introduction

The primary concern in this chapter is to conceptualise the personal relationships that developed between Mubarak with certain businessmen. This chapter argues that there are businessmen who did not engage in politics (i.e., by running for parliamentary elections or joining political parties) but sought to build personal relationships with Mubarak, as well as with high government officials like Ahmed Bahgat and Mohamed Nosseir. Other businessmen, such as Naguib Sawiris and his family, created network relationships with the Mubarak family. In these traditional clientelistic relations, businessmen varied in their proximity to Mubarak, his family, and to high government officials, which had implications for their reallocation and abuse of state resources (e.g., selling state lands and state enterprises at reduced prices, giving public bank loans without collaterals, tax evasion, and natural resources).

Then, in return for their benefits from economic liberalization through their personal relationships with Mubarak, his family, or high government officials, these businessmen played the role of allies to the regime. For instance, they provided TV and newspaper support to Mubarak, his family, and his regime, as well as philanthropic and charitable activities to compensate for the state's withdrawal from the provision of social services. On the other hand, businessmen who failed to enter into patron-client relationships with the regime have been subject to coercion in their businesses, as in the case of Wagih Siag.

This chapter also builds on the work of John Sfakianakis (2004), who argues that economic reform provided an opportunity for the emergence of network relations, which helped Mubarak's regime survive and enriched his ruling coalitions, including businessmen and bureaucrats turned into businessmen. But my findings are distinct from Sfakianakis's (2004),

since I argue that the role of businessmen like Hussein Salem and bureaucrats turned into businessmen, such as Minister of Housing Ibrahim Soliman, who entered into patron-client relations with Mubarak and his family, was not limited to providing support for the survival of Mubarak's authoritarianism; their role also contributed to the enrichment of the Mubarak family.

As Amr Adly (2011) writes:

[T]he Mubaraks [served] as the nodes of broader networks of state officials and crony businessmen. In this setting, Mubarak and his sons would use their formal and informal leverage to issue public acts that would allocate public assets and market positions to people who are closely allied to them with the final aim of self-enrichment... This pattern of self-enrichment is much closer to state-capture, where the state ceases to pursue public good and serves the private interest of its rulers and their associates (p. 2).

Businessmen who entered into traditional patron-client relations with Mubarak, the Mubarak family, or high government officials are used as examples in this chapter. The aim is to substantiate how the varieties of clientelistic relations that developed between the regime and businessmen during economic liberalization have helped renew Mubarak's authoritarianism and the self-enrichment of his family.

4.2 A Businessman Affiliated with the Regime: Ahmed Bahgat

Ahmed Bahgat is a self-made businessman who became in only a few years one of Egypt's business tycoons. In 1982, Bahgat finished his PhD at Georgia State Institute of Technology in the United States. Subsequently, he succeeded in inventing an electronic guiding device that showed Muslims the direction to pray. Bahgat received one million dollars for his invention (El Saeid 1998, p. 9). In 1984, when Mubarak was visiting the United States, Bahgat managed to meet with him. During the meeting Mubarak convinced Bahgat to return to Egypt. Mubarak told Bahgat, "If people like you don't come to Egypt, who is going to develop the country?" After this meeting, Bahgat decided to return to invest in Egypt (El Saeid 1998, p. 9). The fact that Bahgat sought out a meeting with Mubarak could demonstrate that he wanted to create personal relations with Mubarak, which paid off in terms of him being able to create

economically beneficial patron-client relations with the regime. For instance, upon his return from the United States in 1985, Bahgat established a new company that manufactured TVs. Until 1985, regulations prohibited private companies from producing TVs; however, an exception was made for Bahgat. As one author noted, “Indeed, [Ahmed Bahgat] used his ties with senior officers to obtain a license to manufacture Gold star televisions” (Gobe 2007, p. 256). During the 1990s Bahgat’s group expanded to include diversified companies such as household appliances, furniture, telecommunications, and medical equipment. One of the Bahgat group’s biggest projects was Dreamland, a real estate development established in one of Cairo’s new suburbs—6th of October City. This project includes residential communities, recreation, entertainment, shopping and sport facilities, and was built on 1950 feddans. Bahgat seems to have managed to secure this large plot of land by relying on his networks with the regime. In the early 1990s, the then Minister of Housing and New Communities, Mohamed Ibrahim Soliman³⁰ (1993-2005), sold by direct order to Ahmed Bahgat 1950 feddans of land in 6th of October City for much less than its original price (Sayed 2011).

For instance, Soliman sold Bahgat the 1950 feddans for a price of 50 pounds for each meter, and the money was supposed to be paid in instalments. But this price did not reflect the real value of the land. Bahgat then paid only five pounds for each meter and did not continue the instalment payments. Bahgat then repriced the land through the stock exchange, and sold parts of it with a newly inflated price (30 times more, i.e., 1500 pounds per meter). In addition, he got loans from public banks and used the land that he obtained by illegal means as collateral. These loans exceeded two billion Egyptian pounds (*Al-Masry Al-Youm*, January 21, 2013). This example shows how the 1990s experienced a significant upward shift in the types of corruption that the regime was engaging in. Unlike in the 1980s, when the regime allowed only Bahgat’s

³⁰ Ibrahim Soliman will be discussed later in the chapter.

company to produce televisions, in the 1990s the regime started allocating state resources (i.e., state-owned lands) to private individuals. As Timothy Mitchell (2002) explains:

[T]he state also subsidizes urban property developers, selling public land cheaply and putting up the required expressways and bridges in rapid time...If one's first reaction is amazement at the scale and speed of these developments, one soon begins to wonder about the contradictions. The IMF and Ministry of the Economy make no mention of the frenzied explosion of the capital city, and the state's role in subsidizing this speculative neoliberalism goes unexamined. A bigger problem is that structural adjustment was intended to generate an export boom, not a building boom. Egypt was to prosper by selling fruits and vegetables to Europe and the Gulf, not by paving over its fields to build ring roads. But real estate has now replaced agriculture as Egypt's third-largest non-oil investment sector, after manufacturing and tourism. Indeed, it may be the largest non-oil sector, since most tourism investment goes into building tourist villages and vacation homes, another form of real estate (pp. 274-275).

Bahgat continued expanding his private business, and in 2001 he founded the private channel, Dream TV. A background for the landscape of private media is needed before discussing the case of Dream TV. Although there are private channels in Egypt, they are not independent. This is because the ownership structure of private channels allows the government to automatically be awarded partial ownership. For instance, in the case of Dream TV, the government owns 10 percent of the station. Also, private channels that operate in the government Media Production Free Zone, located in 6th of October City, are offered tax exemptions and land. This helps them cut the expenditures of the normal costs of operation, but such a privilege does not seem to be for free. This is because to operate in this zone, any channel requires a license from a state body (the General Authority for Free Zones), which has the right to cancel licenses for channels that criticize the government and its policies (Fandy 2007, pp. 27-29).

Bahgat did not seem to care about the content of the channel; he established the channel only to market his product. For instance, at the time Bahgat established Dream TV, he owned a number of factories, and he would spend around 40 million pounds a year on advertising. So, instead of paying this money for advertisements, he got the idea of establishing his own TV station, where he could advertise his products (Shehab 2002). However, one year after its

establishment, Dream TV became embroiled in controversy when it broadcast in 2002 a lecture held at the American University in Cairo by the Egyptian intellectual Mohamed Hassanein Heikal, in which he raised the issue of hereditary succession in Egypt. This issue, concerning the possible “inheritance” by Gamal Mubarak of his father’s presidency, was considered a “red line” in public debate. In addition, talk shows such as *Ra’is al-tahrir* presented by Hamdy Qandil and *‘ala al-qahwa* presented by Ibrahim Eissa criticized the shortcomings of the Egyptian government. In 2003, Qandil and Eissa were both suspended for criticizing the Egyptian government (Osman 2004).

However, Ibrahim Eissa blamed his dismissal from Dream TV on Bahgat’s dependency on the regime:

When I signed for Dream, I had my conditions: to be allowed to express myself freely and present what people are feeling... Things were going perfectly, but after great success and marvelous reactions, their eyes were opened and the scissors of the editors had to start... But when the prime minister himself insists on cancelling my program in order to support Ahmed Bahgat in this financial troubles, this is really a question mark (Osman 2004).

Eissa’s words suggest that Bahgat had violated the patron-client relationship with the regime by allowing criticism of the government to be expressed on his TV channel, leading the regime to enforce this patron-client relationship by using the banks to threaten Bahgat’s business. For instance, Bahgat denied that he had defaulted on any loans, saying in 2002 that his total assets (1.7 billion LE) were more than the total sum he had borrowed from the banks over a number of years (1.6 billion LE) (Shehab 2002). Yet, in May 2004, the government prevented Bahgat from travelling abroad until he settled the billions of pounds he owed to the National Bank of Egypt and the New Housing Communities Authority (Essam El-Din 2004). As Dream TV’s CEO claimed:

Even if Bahgat was not in a financially vulnerable position that necessitated the government support of his business, it remains within the government’s capacity to put him in one (cited in Fandy 2007, p. 27).

The regime's enforcement of its clientelistic relations with Bahgat could explain why Bahgat continued to play the role of a regime ally, as demonstrated by his support for Mubarak in the 2005 presidential elections. In these first competitive presidential elections, there was a limit on the time allocated by state TV to each presidential candidate. To counter this limit, the Mubarak campaign made a deal with Dream TV. According to the deal, Dream TV would have exclusive rights to broadcast Mubarak's campaigns, but this did not have any effect on the channel's coverage of the other candidates. At the same time, Dream TV benefitted from this deal since the demand for advertisements during the broadcast of Mubarak's campaign was three times the average for that time slot (Levinson 2005).

As a private channel owned by a businessman who was one of the regime's allies, Dream TV continued its support for the regime even during the mass protests against Mubarak in 2011. A few days after the outbreak of the 25th of January Revolution, Mona El Shazly, the host of *El Ashara Masa'*, one of the most popular talk shows on Dream TV, was supportive of Mubarak following his second speech, in which he said that he was not going to run for election again and would stay only until the end of his term in September 2011 (Mosalem 2011a; Lindsey 2012, p. 59). After airing this speech on her talk show, El Shazly cried and sympathized with Mubarak. A few days later, El Shazly revealed on the air that she had been instructed how to cover the demonstrations. She said: "They told us to say 'dozens' of demonstrators" (Lindsey 2012, pp. 59- 60).

The fact that Bahgat was one of the allies of the regime and his interests coincided with the survival of the regime is best illustrated by the problems he faced after the fall of Mubarak. The banks confiscated the assets and properties of Bahgat in Dreamland in amounts equivalent to his debts worth 3.2 billion Egyptian pounds (Yacoub 2013). This suggests that Mubarak's

regime used Bahgat's debts to threaten him to be obedient to the regime and to support it. If Bahgat had not obeyed, the regime could have put Bahgat's business in financial trouble at any time. We could term this type of relationship between the regime and Bahgat, which is based on credible threats of coercion, as authoritarian clientelism.

An example similar to Bahgat's Dream TV and freedom of expression is the case of Ibrahim El Moallam and *Al-Sherouk* newspaper. El Moallam is a businessman who did not engage in politics. He owns *Al-Sherouk* publishing house and also the daily independent newspaper *Al-Sherouk*, which was established in 2009. But before discussing his case, it is important to provide background on the regulations for publishing newspapers. There are three types of newspapers: government-owned newspapers, political parties' newspapers, and private newspapers. First, the editors-in-chief of the government-owned newspapers, *Al-Ahram*, *Al-Akhbar*, and *Al-Gomhuriya*, were appointed by the President of the Republic, which made them supportive of the government. Second, established political parties have the right to publish newspapers, but Article 14 Law 40 of 1977 empowers the Committee of Political Parties (CPP) to stop a party's newspapers and activities if the committee deems it necessary to the national interest (1971 constitution).³¹ The third type of newspaper is private and requires a license from the High Press Council, which is constituted by a decree of the President of the Republic; the speaker of the Shura Council serves as the chair. The Council decides within 40 days after an application. In case of refusal, the Council provides reasons to the applicant, who may appeal to the court; however, the law does not clarify the reasons for refusal. In fact, it is not easy to obtain a license for a newspaper because security forces have to approve it. For instance, while the license should be approved within 40 days by the High Press Council, applications were usually delayed, which meant that license applications were refused (Mendel 2011, pp. 10-11). The

³¹ All articles are quoted from the 1971 constitution.

structure of ownership of newspapers is another difficult condition to establish for private newspapers. This is because newspapers must be in the form of cooperatives, and no single person can own more than 10 percent of the overall capital. However, according to one author, “It is unclear whether these rules are enforced in practice; at least some major print media titles appear to be owned, or at least controlled, by individual businessmen” (Mendel 2011, p. 11). This means that the regime has the right to prevent a businessman from complete ownership of a newspaper if they apply this condition. But at the same time, they may ignore this condition and give a newspaper license to a businessman who has entered in a patron-client relation with the regime. For instance, Ibrahim El Moallam seems to have been allowed to have the majority of shares in *Al-Sherouk* because he developed a patron-client relation with Suzanne Mubarak, the wife of President Mubarak. This relationship started when Suzanne Mubarak was visiting the Heliopolis Club, and El Moallam asked permission from her guards to greet her. Then the relationship started to develop when he met her in the Alexandria library and told her in front of the people: “Mrs. Mubarak, I am your servant before I am the servant of Egypt.” A few weeks later, El Moallam was invited by Mrs. Mubarak to attend an event in *Masr El Gadida* library. As soon as she arrived, El Moallam greeted her and kissed her hands (El Shazly 2011b). Through this patron-client relationship, El Moallam started to print books for Suzanne Mubarak for the yearly “Reading for All Festival.” This is an initiative launched in 1991 by Mrs. Mubarak that attempted to provide books to the underprivileged classes, and El Moallam made millions out of printing books for this yearly festival (El Shazly 2011a)

However, it seems that El Moallam violated this patron-client relationship with the Mubarak family when in the summer of 2010, the novelist Alaa El Aswany wrote a series of weekly articles in *Al-Sherouk* in which he criticized the project of hereditary succession and

Mubarak's authoritarian regime. As a result, the regime used threats of coercion when the security forces went to El Moallam's carton factory and closed it with red wax, claiming the factory did not have a fire extinguisher! El Moallam understood that the real reason was because of El Aswany's articles. For two weeks, El Aswany did not write his weekly articles (El Aswany, A 2010, pers. comm., 20 August). But after El Aswany resumed writing and wrote an article criticizing the failure of Mubarak in ruling the country, El Moallam's factory was closed again. El Aswany was told that there was a lot of pressure put on El Moallam by State Security because of his articles that were critical of the regime and also Mubarak. El Aswany decided to stop writing for *Al-Sherouk* newspaper since he did not want to cause more problems for El Moallam in his work (*Al-Emarat Al-Youm*, October 6, 2010). This suggests how the regime formed an authoritarian clientelistic relationship with El Moallam by threatening him in his private business.

While proponents of neoliberalism argue that private ownership of media presents a challenge to the state monopoly of media and can become an avenue for criticizing ruling regimes (Besley & Prat 2002), the cases of Dream TV and *Al-Sherouk* newspaper contradict the existing literature on neoliberalism. As mentioned earlier, increasing private ownership of media did not challenge the editorial content of the state-owned media; it complemented it. This also seems to conform to Eberhard Kienle's (2001) argument on how the regime controlled the information market that emerged as a result of economic liberalization, which increased authoritarianism (p. 158).

The following case will examine businessman Mohamed Nosseir, who like Bahgat and El Moallam, developed an authoritarian clientelistic relation with the regime.

4.3 The Case of Mohamed Nosseir

In 1974, Mohamed Nosseir established the Alkan Group, which by 2002 was made up of eleven companies and engaged in activities including construction, petrol, pharmaceuticals, aviation, travel, and cotton yarn manufacturing, in addition to financial services (Sami 2002). In the early 1990s, Nosseir was invited by his childhood friend Mamdouh El Beltagui, the then Cairo NDP Provincial Secretary, to join the party; Nosseir attended few party meetings and decided not to continue. Also, in the late 1990s, Nosseir was offered the position of Minister of Trade, but he refused (Abdel Meguid 2008b). Nosseir is a businessman who chose not to engage in politics, but rather relied on his good relationship with the government. When asked if he was a member of Egypt's "charmed circle," he said:

No. no...To the charmed circle I say: good luck. But I believe that the further away one is from power and the lower one's profile, the better. I have a good relationship with the government. I respect it, but I do not like close involvement (Sami 2002).

In fact, Nosseir's good relations with government officials allowed him to benefit from the privatization process. As Sfakianakis (2004) explains:

Certainly, the biggest privatization that Egypt experienced in the early stages of the privatization process was the sale of Coca Cola in 1993. It was a deal that involved most prominently, among other members of the political elite, the quintessential elite businessman of the 1990s, Mohamed Nosseir. He benefited from his relations with Atef Sidqi [the then prime minister] as well as Atef Ebeid [the then minister of public sector enterprises] to purchase with little competition the Coca Cola factory, which he resold two years later, at a price more than triple its cost. After all, Nosseir and the rest of the crony business elite were only doing what the structure of the economy had allowed them to do: provide politically helpful services to the regime (p. 89).

However, Nosseir's case demonstrates how good relations with the regime did not always guarantee increased wealth. Whilst Nosseir's networks enabled him to make profits from the privatization process, in other instances his relations could not protect his business, as in the case of the Citadel project. The idea of the Citadel project started in 1997 when Nosseir was invited with a group of businessmen to meet with Mubarak and the cabinet of ministers. The aim of the meeting was to discuss the implications of Israel's integration in the economy of the region after

the 1993 Oslo agreement (i.e., Israel's investment in the region and the possibility it would control the economy of the region) and the potential for Egypt to lead the region economically. Mubarak raised the question of whether Egypt was ready to attract investors. Nosseir answered by saying that Egypt should have financial districts like Canary Wharf in London and La Defense in Paris. Mubarak looked at Nosseir and asked, "Can you make such a center?" Nosseir answered, "I will do it, President." (Abdel Meguid 2008b; *Al- Alam Al-Youm*, September 25, 2006). Nosseir's answer suggests that his relationship with Mubarak was not only based on subordination and obedience to the regime, but it also entailed private businessmen being asked to finance and provide projects for the public good. Reports suggest that this type of relationship between businessmen and the regime was not uncommon. Apparently, Mubarak reminded successful businessmen that "personal wealth entailed social obligations...He secured a commitment from entrepreneurs to fund the construction of a considerable number of public schools. When he found out that the commitment was not translated into reality he unambiguously threatened the hesitating donors that social mobility could work both ways, downward as well as upward" (Kienle 2004, p. 288). The regime's authoritarian clientelistic relationship with Nosseir means that he was one of those businessmen whose businesses could be threatened if they did not provide support to the regime in the form of public projects. This may explain the flow of resources from Nosseir to the regime in the form of charitable activities. For instance, one of his charitable projects was the renovation of *Om Dinar* village in *Imbaba* district in cooperation with the government. These have included changing the water and sewage systems and the renovation of the schools, the health unit and the youth center (Abdel Meguid 2008a).

The obligatory nature of contributions in this authoritarian clientelistic relationship suggests how predatory the state was, as Margaret Levi (1998) defined it, which means it would do anything to take money from society. But here the regime chose to develop this predatory relationship with businessmen, who have benefited from economic liberalization and in return had to provide support to the regime.

In 1998, Nousseir got the required approval and started preparing for his two billion Egyptian pounds project on land that he bought in 1976 in the *Muqqatam* district adjacent to the Citadel. (The Citadel is a twelfth-century walled fortress located next to Mohamed Ali Mosque and is considered one of the landmarks of Cairo). Nousseir labelled his project the Citadel, and it included a financial center, housing, entertainment, a shopping mall, the Egyptian stock exchange, offices, cinemas, an underground garage, and a five-star hotel (Abdel Meguid 2008b; Hefny 2009; *Al- Alam Al-Youm*, September 25, 2006). But in 2006, the Governor of Egypt froze the construction at the site after the Supreme Council of Antiquities (SCA) at the Ministry of Culture and a number of archaeologists complained that the construction was illegal and could threaten both the Citadel and Mohamed Ali Mosque (El-Aref 2007; Fillion 2008). By 2006, Nousseir had spent 300 million Egyptian pounds on the design and early stages of construction (Khatir 2006). Then, after a long battle between the SCA and Nousseir, the SCA involved UNESCO, which recommended lowering the height of the complex, and Nousseir scaled it back (El Kadi 2010; Fillion 2008). It appears that the authoritarian clientelistic relation between the regime and Nousseir obliged him to build this project without carrying out the necessary preliminary research into the site. He paid a price for his blind obedience since his project was delayed for a number of years. However, as will be discussed later in the chapter (in the section

on the monopoly of telecommunications), Nousseir also obtained personal financial gain from his relationship with the regime.

The following section examines the case of billionaire Naguib Sawiris. Unlike Bahgat and Nousseir, who developed an authoritarian clientelistic relation with the regime, Sawiris's relationship with the regime was based on mutual dependency, as the following section will discuss.

4.4 The Case of Billionaire Naguib Sawiris and his Family

Diane Singerman (1995) focuses on how the context of political repression of lower-income Egyptian families (*Sha'bi*, the popular sector) creates informal networks which help them in making a living, finding employment, and gaining access to education and subsidized services. But these networks involved different corruption measures, such as bribing teachers and officials in charge of exam results and using violence and fraud to obtain subsidized goods. Singerman's (1995) argument could be contrasted with the role of the families at the elite level, such as the Sawiris family, who rely on their networks to gain access to state resources through different corrupt means, as the following section will discuss.

The patriarch of the Sawiris family is Onsi Sawiris, whose father was a lawyer and landowner. Onsi is the father of Naguib, Samih, and Nassif. In 1950, Onsi established his first construction family. In a few years, it became one of the largest contractor companies in the country. But in the 1960s, his company was nationalized, and for five years he worked in his own company and received a monthly salary from the government. In 1966, Onsi was allowed to travel to Libya, where he stayed for twelve years. However, after Sadat's signing of the Camp David Accords, Libya considered Egypt to be an unfriendly country, leading Onsi and many other Egyptians to leave Libya. Onsi returned to Egypt in the late 1970s and established his own company, Orascom Construction Industry (OCI). By the early 1990s, OCI became the largest

private sector contractor, and it diversified its activities. Each of its diverse sectors became an independent identity. For instance, in 1998 Naguib, the eldest brother, bought the government-owned first mobile operator and headed Orascom Telecom³² (OT), which monopolized the telecom industry (as will be discussed later). The second part of OCI to become independent by the late 1990s was Orascom Hotels and Development (OHD), which was headed by the middle brother, Samih. By the mid-1990s, Nassif, the youngest brother, headed the OCI, which became a multinational construction company (Jenkins 2009; Hassan 1999). In 1998, the Sawiris family established the Renaissance Company, which managed several movie theatres. Also, Nassif, the youngest brother, was a member of the Business Secretariat in the National Democratic Party. In 1995 Naguib Sawiris's mother, Yousria Loza, was one of the ten appointees appointed by Mubarak in the People's Assembly. The Sawiris family's relationship with the regime was not only through Parliament and the ruling party. For instance, on different occasions, Mrs. Suzanne Mubarak inaugurated the development market organized by the Sawiris Foundation for Social Development. During these events, Mrs. Mubarak would meet with Onsi Sawiris and his wife Youria Loza, who would brief her about the activities funded by the Sawiris Foundation (El Kharadly 2003). On another occasion, Suzanne Mubarak inaugurated the nursing institute funded by the Sawiris Foundation in El Gouna, Hurghada. Onsi, Samih, Naguib Sawiris and Yousria Loza attended this event and met with Mrs. Mubarak (*Al-Akhbar*, May 14, 2010).

The Sawiris family used their networks with the Mubarak family to shape laws to benefit their private businesses. For instance, in 1997, an investment incentive law was passed to offer fiscal exemptions to very large companies in the cinema industry, of which there were only two: a public sector company and the other Sawiris company "Renaissance." This legislation

³² Orascom Telecom will be discussed later in the chapter in the section on monopoly in the telecommunication sector.

suggests symptoms of state capture by the Sawiris family (Kienle 2004, p. 287). Kienle (2004) explains:

Of course, nothing would have prevented the Sawiris brothers from informing the regime of their wish that their company, Renaissance, be granted special treatment. They were clearly in a position to transmit such a request, probably to the President himself. They owned and managed companies that for instance in the field of public works and defense installations, provided services no other company in Egypt was able to provide. With important interests in the United States, they could simply have withdrawn from Egypt, had they been treated with insufficient respect. Curtailing their business activities in Egypt or destroying their companies would have worked against the interests of the regime itself; arresting them for whatever reason would have prompted the collapse of their business run according to the recipes of 'hands-on-management', which made the owners indispensable. (p. 290).

The size of the Sawiris family business and its importance for the Egyptian economy meant that the state was practically obliged to tolerate the family's illegal business practices. For instance, in order for Naguib's OT to be able to get Mobile contracts in countries like Jordan and Algeria it had to increase its capital. In 1999, OT used false bank certificates to raise its capital by LE 400 million. As a result of this increase, the company had the right to issue stock market shares. The capital market authority confirmed that these certificates were false and refused them. However, it did not inform the prosecution, and only asked the Sawiris family to credit the raise of capital (LE 400 million) in its account. But this was not an immediate request by the capital market authority. The Sawiris family had enough time to make profits out of the raise made from the falsified certificates. They issued 40 million stock exchange shares, and each was sold for LE 55. This made a profit of LE 2200 million. This means that the Sawiris family had enough time to make a profit out of these false certificates, and paid back the LE 400 million from the money of the shareholders after putting the new shares for general subscription in the capital market (Lasheen 2001, p. 8; *Sout Al-Oma*, October 17, 2001, p. 8).

The state's toleration of the illegal business practices of the Sawiris family seems to have helped in the expansion of the Sawiris business. For instance, Naguib's OT became one of the largest conglomerates in Africa, the Middle East, and Asia. By 2007 OT had expanded its

operations in countries like Algeria, Tunisia, Pakistan, Bangladesh, and Iraq. In 2008, Naguib was ranked number 60 on the Forbes list (*Jadaliyya*, November 18, 2011)

Whilst the Mubarak regime enabled the Sawiris family to abuse state resources and engage in illegal practices for personal enrichment, in return the Sawiris family provided political support to Mubarak and his regime. This was evident in the media outlets that Naguib founded (a private newspaper *Al-Masry Al-Youm*, and the private TV channel ONTV). The independent newspaper *Al-Masry Al-Youm* was founded by Naguib and other businessmen in 2004, and he owned 33 percent of the shares. Although its news coverage is considered to be neutral and balanced and to discuss both positive and negative news about the government (El Masry 2012), when it came to the President, his wife Suzanne, and his son Gamal it avoided direct criticism (Cooper 2008). Magdi El Galad, editor-in-chief of *Al-Masry Al-Youm*, was asked in a 2010 TV interview on *Modern Horya* channel about his opinion on publishing news in *Al-Masry Al-Youm* to support Gamal Mubarak to run for president after his father. He answered that he would not publish such news, which infers that the newspaper was trying to present itself as neutral, but he added that on a personal level he supports Gamal. El Galad said:

My personal opinion is I may vote for Gamal for president because we are from the same generation...He may do good things for the country...I am with the new blood...On a personal level, I love and respect Gamal. He did good things in the economy (El Galad 2010, You Tube).

When the editor-in-chief of *Al-Masry Al-Youm* praises the young Mubarak during a TV interview, he indicates sympathy for the project of hereditary succession. In 2007, Naguib launched a private TV satellite channel called ONTV, which supported the regime, since it had “a vague political agenda, to counter what he considers the negative impact of ‘religious extremism.’” (*Oxford Business Group*, May 18, 2007). Moreover, in October 2010 the popular ONTV talk show *Baladna Belmasry*, hosted by the outspoken media figure and editor of *Al-Destour* newspaper Ibrahim Eissa, was suspended and Eissa was dismissed from the channel.

Sources suggest the reason behind Eissa's dismissal was the channel's opposition to his criticism of prominent figures in the regime (Abdel Raouf & Abbas 2010). The timing of Eissa's dismissal was the run-up to the 2010 parliamentary elections, when there was a clamp down on criticisms of and opposition to the regime in anticipation to the transfer of power to the young Mubarak (El-Ghobashy 2010).

Despite Naguib's support for the regime through his private media, he was the main financier of the Democratic Front Party, which was an opposition party established in 2007. In the following chapter, I examine what happened to businessmen who founded or joined political opposition parties. Yet Naguib was not subjected to the same treatment as these other opposition businessmen. In an interview with the then President of the Democratic Front Party Osama El Ghazaly Harb, he explained:

The Sawiris fortune is billions, so donating to the party around one million a year is nothing for him. Unlike other businessmen who prefer to donate money to the ruling party for political support and to accumulate wealth and get protection from the regime. Sawiris is considered an exception. Most of his investments are abroad. He is considered relatively independent, because no one is completely independent of the regime. At the same time, if Sawiris has problems in his companies this could threaten for example the stock exchange, and this is a sign of his strength. This means the stability of the Sawiris empire is good for the country. If Orascom falls, this can affect the stock exchange and the Egyptian economy...Sawiris is strong (Harb, O 2010, pers. comm., 6 April).

Harb's words reconfirm that the size and importance of the Sawiris family businesses protected Naguib from any negative consequences of his funding of an opposition party. The regime needed the Sawiris family investment and was not in a position to turn against them. At the same time, while Naguib was the main financier of the Democratic Front Party, this opposition party did not represent a challenge to the regime (it was, as I discuss in the next chapter, a "loyal opposition party"). Nevertheless, allegedly, when Naguib wanted to become a member of the party, security told him not to join it, and he agreed not to.³³ In other words, the

³³ Information provided –off the record – by an Egyptian journalist who told me that the state security instructed Sawiris not to join the party.

relationship between the regime and Sawiris seems to be based on mutual bargaining rather than on credible threats of coercion (as in the cases above of Bahgat, El Moallam, and Nosseir).

Naguib stated on many occasions his support for Mubarak. For instance, in an interview with Charlie Rose in 2008 Naguib said: I support Mubarak because he is a wise man and did a lot of things for Egypt. Sawiris continued his support for Mubarak during the eighteen days of the revolution; for instance, after the outbreak of the revolution, he called *El Mehwer* channel and cried out of sympathy and love to Mubarak. In a TV appearance with BBC Arabic he claimed that Tahrir Square does not represent the Egyptians, and insisted that Mubarak should stay and said that this is also the opinion of many Egyptians. He also repeated this opinion in a phone call to his channel ONTV by saying that he is against the removal of Mubarak (El Aswany 2012).

The size and importance of the Sawiris family fortune protected it from the threats of coercion that the Mubarak regime made to other businessmen in its networks. Unlike other clientelistic networks between the regime and businessmen, the Sawiris family participated in a more symmetrical clientelistic network with the regime. The regime needed Sawiris investments, because if their businesses were in trouble, as mentioned earlier, this could affect the Egyptian economy. This may explain why the state tolerated the Sawiris family's illegal business practices. At the same time, the Sawiris family depended upon the survival of Mubarak's regime for their wealth, which explains why they provided political support for the regime, whilst their wealth also protected them from abuse by the regime. This suggests the development of a clientelistic relationship between the regime and businessmen, based on mutual dependency.

However, after the revolution, Naguib was able to reinvent himself from an ally of Mubarak to a supporter of the 25th of January revolution. For instance, a few months after the

revolution, Naguib established the Free Egyptian Party. Naguib did not hold any position in the party, but he was its main financier. The fact that Naguib had turned against the Mubarak regime is illustrated by his words during a media conference of the Free Egyptian Party when it was being established. He said, “There are no conditions for joining the Free Egyptian party. The only ones who are not allowed to join it are the *feloul of the old regime*—the NDP members in Parliament and the local councils—who have spoiled political life” (*Al-Wasat*, April 7, 2011).

Then, after the election of MB President Mohamed Mursi (2012-2013), Naguib seemed to have been concerned about the prospects for his family business under the rule of the MB. This is because the Finance Minister initiated a criminal case against Onsi Sawiris and his youngest son Nassif for alleged tax evasion. According to the accusation, the OCI owed the state LE 14 billion in taxes on profits it had gained from selling its cement sector in 2007 to the French company Lafarge. As a result, in March 2013 the General Prosecutor put the names of the father Onsi and his son Nassif on the arrival watch list. This means that they were to be detained as soon as they arrived in Egypt (Abdel-Razek 2013). However, a few months later the tax authority reconciled with the Sawiris family when they agreed to pay around 1 billion dollars in instalments over five years, with an immediate payment of \$357 million. As a result, Onsi Sawiris and his youngest son returned to Egypt and the travel ban on them was lifted (*Al Arabyia*, May 24, 2013). Commenting on this incident, Naguib said:

In the President’s speech [on 6 October 2012], he singled us [the Sawiris family] out, and said we owe taxes...They filed a case against us that is completely false (cited in *Ahramonline*, May 4, 2012).

This suggests why Naguib, who was looking out for his business interests, would fund, as he admitted, the rebel movement *tamarod* to remove Mursi. The movement was founded by a handful of young activists who collected, by June 30, 2013 (one year after Mursi was sworn into office in 2012), more than 22 million signatures for a petition demanding that Mursi step down.

But collecting millions of signatures from citizens all over the country should have been a difficult task, since the young activists needed financial and administrative support. But this task seems to have been possible because Naguib allowed the *tamarod* movement to use facilities in the offices and branches of his Free Egyptian Party all over the country (*Al-Youm Al-Sabae*, July 12, 2013). On June 30, millions of Egyptians went to the street demanding that Mursi leave, which allowed the military to interfere on July 3, 2013, and remove Mursi.

The case of Naguib could be contrasted with the case of Ahmed Ezz, discussed in the previous chapter. While both developed a relationship of mutual dependency with the regime, the fact that Naguib did not engage in politics made him maintain public neutrality towards Mubarak and allowed him to distance himself from the regime after the 25th of January revolution.

After examining the cases of both Naguib and Nousseir, the following section will examine how economic liberalization has strengthened authoritarianism by allowing both of them to monopolize the telecommunication sector.

4.5 The Case of Monopoly in the Telecommunication Sector: Naguib Sawiris and Mohamed Nousseir

The first Global System for Mobiles (GSM) network was launched in 1996 by Telecom Egypt (TE), which is owned by the government and which controlled the telecommunication sector. In 1998, the TE was transformed into a corporation and a joint-stock company (Kamel 2004). In the same year, the National Telecommunication Regulatory Authority (NTRA) was established as a semi-independent body, “whose role is to oversee all telecommunications activities such as the allocation of frequencies, granting licenses, monitoring the quality of services and prices and preventing monopolies.” (Wahish 2001). In May 1998, the TE offered to sell its first GSM. Both Naguib and Nousseir submitted a bid. Nousseir’s bid was higher than

Naguib's, but it was the latter who won the first mobile line (Mobinil). Six months later Nosseir got a license for the second mobile line and chaired Vodafone Egypt (formally branded Click) (Sami 2002). By giving Naguib the first mobile license instead of Nosseir, the government helped enhance his profits. This is because Mobinil, as the first mobile operator, inherited the state-owned mobile company with around 80,000 subscribers; however, Vodafone had to start from scratch to attract customers and it spent LE 1.1 billion to build its infrastructure (*Business Monthly*, November, 1999).

Why did Naguib get the first mobile line instead of Nosseir? One author explained this by saying that this could not have been possible without “Sawiris enjoy[ing] good relations with the Mubarak regime, since such licenses were usually awarded to individuals with friendly ties to the ruling party” (*Jadaliyya*, November 18, 2011). While Nosseir also had good relations with the regime—as illustrated above by his purchase of Coca-Cola—the size and importance of the Sawiris family businesses in comparison to Nosseir suggests that the Sawiris family had greater structural power based on the size of their business. For instance, before TE sold its first GSM to the private sector, Mervat El Telawi, in her capacity as a Minister of Social Insurance (1997-1999), bought one quarter of the shares of TE with money from social insurance. El Telawi aimed to double the money derived from insurance, because this is one of the companies that can make high profits. However, the then Prime Minister Kamal El Ganzouri forced her to sell these shares because he wanted to sell TE shares to only one investor (Badawi 2010). The investor that El Ganzouri wanted to give the first GSM was Naguib.

Several years later, Nosseir seems to have been still angry with El Ganzouri for not awarding him the first license. This may explain why he blamed him for economic conditions in the early 2000s. He said: “...the crisis is because of mistakes made by the government. Not

Prime Minister Atef Ebeid's...Former Prime Minister Kamal El-Ganzouri, in his final months, crippled the economy” (Sami 2002).

Both Naguib and Nosseir used their networks with government officials to enhance their monopolistic practices. For example, both mobile companies (Mobinil and Vodafone) were granted market exclusivity until the end of the year 2002. Then, at the end of the four-year exclusivity period of the two mobile operators, TE applied and bought a third mobile license from the NTRA; however, after buying the license TE returned it to the NTRA and relinquished the project. In an interpellation submitted to Parliament by Abou El Ezz El Hariry, he argued that TE could have made a guaranteed profit out of the third mobile network, and questioned the reasons for postponing the third mobile network (El Hariry, A 2004, interpellation). On the one hand, government officials argued that a third network was not economically feasible (Abdel-Razek 2005). This opinion was also shared by Mohamed Nosseir, who said:

The market at present cannot and should not sustain a third competitor...the revenues of the two existing networks are falling. Not on a large scale, but they are going down. The rate of new customers coming to the networks has also dropped dramatically. And so a third entrant will only take clients away from the two existing networks (Sami 2002).

Naguib also was against a third mobile network entering the market, citing the bad economic conditions during this time. For instance, he said:

There's definitely a place for a third company. But the current economic situation is bound to affect the new entrant at a time when people are saving money because their incomes are being reduced. Tourists are staying away and people are losing their jobs. I think it will be difficult to attract new clients (Sami 2001).

On the other hand, other sources suggest that the reason for the postponement of the third mobile network was that the two mobile companies wanted to enhance their monopolistic practices. For instance, evidence suggests that both Naguib and Nosseir bribed Mohamed Nazif, the then Minister of Telecommunications, and Akil Beshir, TE chairman, to postpone the third mobile network's entrance into the market (Farouk 2008 pp. 136/156). Moreover, empirical figures support the argument that the market was not saturated. For instance, from 2002 to 2005

the number of customers for the two mobile operators (Mobinil and Vodafone) increased from 4 million to 14 million (Farouk 2008, p. 149). The following table demonstrates the net profit in millions of Egyptian pounds of the two mobile companies from 2002 to 2005 that resulted from the market monopoly:

The net profit in millions of Egyptian pounds of the two mobile companies from 2002 to 2005

Years	Mobinil	Vodafone	Total
2002	422,8	370,2	793,0
2003	915,2	814,9	1730,1
2004	873,1	777,9	1651,0
2005	1397,0	1233,0	2630,0
Total	3608,1	3196,0	6804,1

Source: (Farouk 2011, p. 196)

But after the postponement of the third mobile line, both Mobinil and Vodafone had to pay 1450 million Egyptian pounds to NTRA. Mobinil agreed to pay its share of 780 million pounds in instalments over five years. As for Vodafone Egypt, it paid its share by selling 25.5% of its shares to TE (Farouk 2008, pp. 152-153). How did Nousseir manage to implement this Vodafone transaction in a way that allowed him to make profits at the expense of TE? In fact, Nousseir had strong relations with TE Chairman Akil Beshir, who had been his business partner, with a 15 percent share, since 1975 in one of his private companies (*Al-Wafd*, September 30, 2012). Beshir justified this decision by saying that “forming a partnership with Vodafone was a better option” than launching a third mobile network (Wahish 2003). Yet empirical figures suggest that this transaction was in favour of Nousseir rather than TE. For instance, the price of

one share in this transaction was 10,4 Egyptian pounds (while the issue price was only 5 pounds). Then, in 2006, TE bought another 24 percent of Vodafone Egypt's shares at a price of 100 Egyptian pounds for one share. But this was an overrated price, since its price in the market at this time did not exceed 30 Egyptian pounds; this raises questions about who benefited from this transaction. Meanwhile, Nosseir owned 5 percent of shares in Vodafone Egypt, which he bought for 60 million Egyptian pounds at the time of their issuance. He later sold his shares for 1200 million Egyptian pounds (Farouk 2011, pp. 195-196).

Supporters of neoliberal economics argue that deregulation leads to efficiency and greater competition. For instance, in the US as a result of the deregulation of telecommunications from 1984-1987 the profitability of mobile companies rose in 1984 relative to 1981; however, it then fell by 1987 due to competition. During the period from 1981 to 1987, the productivity of the firms increased. Also, competitive pressures from new entrants to the telecommunication industry encouraged incumbent companies to reduce their prices during the period from 1984 to 1987 (Majundar 1992).

However, in Egypt deregulation of telecommunications did not lead to competition between the two mobile companies, Mobinil and Vodafone; it led to a duopoly in the market, which enabled both Sawiris and Nosseir through their network relations with the regime to make large profits at the expense of the state.

The following section examines the case of businessmen Hussein Salem and Wagih Siag. While the former developed a particular patron-client relation with Mubarak, the latter failed to enter in a patron-client relation with the regime.

4.6 The Case of Taba Land: Hussein Salem versus Wagih Siag

Wagih Siag is an Egyptian businessman who holds Italian citizenship. Siag never engaged in politics. He comes from a family known in the hotelier business. In 1989, Siag bought a piece of land in Sinai governorate from the Egyptian government at the market value at that time. The total amount paid was 975 million Egyptian pounds for 650,000 square meters. This land is 6 km from the town of Taba³⁴ on the border with Israel. After Siag bought this land, the Egyptian government started building infrastructure—a water desalination plant, an electricity plant, an airport, etc. All these projects have raised the value of the land. Siag's project included a hotel, Siag Resort, and a gambling casino. The land had many advantages: it was only 1.5 kilometres from the sea, and Siag had a license to build 8 meters above sea level. From 1990 to 1994, Siag started basic construction of the project, and in 1994, he entered into an agreement with the Israeli company, Lumir. However, in 1995, the then Minister of Tourism, Mamdouh El Beltagui, cancelled the contract for sale of the land to Siag. Siag met with El Beltagui, who asked him if he had an Israeli partner. Siag told him no, but that he had just signed a contract with an Israeli agent for a time share. El Beltagui asked Siag to cancel the contract with the Israeli agent, which he did. However, El Beltagui decided to continue with cancelling the sale contract, claiming that Siag would not be able to finish the project in the agreed time. This was despite the fact that Siag was proceeding with the project per the agreed-upon schedule. Siag met with El Beltagui again, who told him: "I have taken orders from higher authorities to take the land. I have to implement the order despite my will. This order is bigger than me" (Siag, W 2009, pers. comm., 16 October - London).

³⁴ Although Israel withdrew from Sinai on the April 25, 1982, it did not withdraw from Taba until the April 29, 1988, when an international arbitration committee ruled in Egypt's favour.

Then, in the year 2002, the President issued Decree Number 205 to expropriate the property and allocate it to public benefit and to be used as instructed by the then Prime Minister Atef Ebeid. The latter issued Resolution Number 315 for the year 2003, declaring a natural gas pipeline would be constructed on Siag's land (Siag, W 2009, pers. comm., 16 October - London).

The gas was to be exported to Israel through the East Mediterranean Gas company (EMG), which is a gas company established in 2000; businessman Hussein Salem had the majority of the shares. (EMG will be discussed later in this section). This means that Siag's land was not really expropriated for public benefit, but was reallocated by the regime to another businessman. Then, when Siag discovered Salem's name in this project, he understood the reason for taking his land from him. Siag said, "This is corruption to the extent that the President and his entourage [networks] are above the law." (Siag, W 2009, pers. comm., 16 October - London). According to political scientist Hassan Nafei, he said:

El Beltagui did not take the land from Siag because he had an Israeli partner. Egypt has official relations with Israel and deals with tens of Israeli companies. In addition, Siag had already cancelled his contract with the Israeli company. The most likely reason for taking the land was to give it to Salem (Nafei 2009).

So Siag filed a suit against the minister's resolution in the administrative court. Even though Siag won the case, the court decision was never implemented. Siag won another court ruling, which cancelled the President's and Prime Minister's decrees. Despite Siag having won all the cases, no steps were taken by the government to give him back his land (Siag, W 2009, pers. comm., 16 October - London). This suggests that Siag was not part of any patron-client relation with the regime that would help him protect his business, as he implied in his words:

Egypt is owned by some people in the regime. But I am an outsider...I found that out later on when the court rulings were never implemented. At the beginning I thought that when a minister or a prime minister is removed, things will change. For instance, when Ahmed El Maghrabi, who is my friend, became the minister of tourism in 2004, I thought the court ruling would be implemented; however, nothing has changed (Siag, W 2009, pers. comm., 16 October - London).

Although Siag was not protected by the regime, he was protected by his Italian nationality. When Siag realized that there are people in Egypt who are above the law, he used his Italian citizenship and filed a lawsuit before the International Arbitration Centre of the World Bank³⁵ in 2005. Siag asked for compensation based on the price of the land at this time, and also the price of the real estate that he had built (Siag, W 2009, pers. comm., 16 October - London).

But what is the importance of Hussein Salem to the regime? And why did the regime favour Salem rather than Siag in the case of the Taba land? A brief background about Salem is important to understand his relationship with the Mubarak regime and even the President himself. Salem is an Egyptian-Spanish businessman. (He was born in Egypt and acquired Spanish citizenship as an adult.) He is an ex-intelligence officer who, in the late 1970s, was appointed as the Egyptian Commercial Counsellor in Washington, DC. In 1980, Salem resigned from his government job and started his first company (ETSCO), which is an American-Egyptian transport and service company, and two of his partners were former CIA officers (Yehia 2012, p. 84). In his book *The Veil*, journalist Bob Woodward claims that Mubarak, who was at this time Sadat's Vice President, is the one who helped Salem to establish ETSCO in order to transport U.S. weapons to Egypt and that in return Mubarak received commissions (Essam El-Din 2011d).

The relationship between Salem and Mubarak continued and evolved until Mubarak became President. For instance, one of Salem's friends, Ambassador Amin Yousri, revealed a story that showed how close Salem was to Mubarak:

In the mid-1990s, I met with Salem at the Semiramis Intercontinental Hotel in Down Town Cairo. While we were drinking coffee, an American Jewish businessman approached Salem and asked if he could facilitate a meeting with Mubarak. In the next morning, I saw picture of this businessman standing next to Mubarak in the newspaper (cited in Yehia 2012, p. 116).

³⁵Wagih Siag waived his Egyptian nationality to be able to file a lawsuit against the Egyptian government before the International Court of Arbitration

It seems that Mubarak and his family formed a particular patron-client relation with Salem so he could enhance their self-enrichment. For instance, a prosecution general statement said that Salem built the Mubarak family four villas, which were estimated at LE 40 million. The Mubarak family paid only LE 14 million in return for helping Salem buy large plots of land in Sharm El Sheikh (Essam El-Din 2011c)³⁶. For instance, from 1988 until 2010, Salem acquired 2.5 million square meters in *Sharm El Sheikh*, where he constructed and ran two water desalination plants, a huge golf course, a massive conference hall, and the luxurious hotel chain Maritime Jolie Ville. This chain consists of three five-star hotels in *Sharm El Sheikh*: Jolie Ville Resort & Casino, Jolie Ville Golf & Resort, and Jolie Ville Royal Peninsula Hotel. Salem bought this land, where he constructed these projects for much less than the real price. For instance, he bought the land at the per meter price of LE 2 to LE 5, while the real price ranges from LE 5 thousand to LE 50 thousand (Yehia 2012, pp. 129-132; El Shazly 2011). This suggests how the reallocation of state resources to Salem has been possible through his clientelistic relation with Mubarak and his family. As Mamdouh El Zoheiry, former Governor of South Sinai Governorate (1993-1997), admitted during the prosecution investigation in May 2011, he said: “The land has been given to Salem without any auction...Salem could not have gotten these large plots of land in one city [*Sharm El Sheikh*] without his strong friendship with Mubarak” (cited in Yehia 2012, p. 132).

It is worth mentioning that unlike Bahgat and Nosseir, as mentioned above, who were involved in an authoritarian clientelistic relation with the regime and had to provide services (e.g., in the form of media support to the regime or charitable activities), Salem did not have to play this role. It seems that his role was to provide services only to the Mubarak family. For

³⁶The charges against the Mubarak family regarding the Sharm El Sheikh palaces have lapsed because the alleged crime took place more than ten years ago.

instance, his only charitable activity in *Sharm El Sheikh* was a mosque that he built in 2008, which is located few minutes from the Mubarak family villas, but far away from the citizens of the city (Yehia 2012, p.132). This suggests that the mosque was built specifically as a service for Mubarak to pray in it rather than for citizens. Salem's lack of social provision in *Sharm El Sheikh* is an example of how the regime marginalised the Bedouin from national development.

As one of the Bedouin put it:

Hussein Salem and his friends who invested in *Sharm El Sheikh* have not provided us with any service that we can remember; however, they increased our suffering and made us feel marginalised...We never worked in their hotels...My modest tourist project was a cafeteria in a tent that was shut down by the regime because it did not have a license." (cited in Yehia 2012, pp. 133-134).

Also, young workers who came from other governorates to work in *Sharm El Sheikh* were complaining that they pay high rents for a small apartment (around LE 1500 per month) and also that they spend a lot of money to buy water. Unfortunately, Salem did provide them with any services like affordable accommodations or cheap water. For instance, through his water desalination plants he was selling one cubic meter of water for LE 16 (Yehia 2012, p. 133).

The regime continued to reallocate state resources to Salem. This was evident in two business projects that dealt with Israel. It should be noted that there is much hostility in Egyptian society towards the Camp David Accords signed in 1979 and normalization with Israel. For instance, in the early 1990s professional syndicates were against normalization with Israel and threatened its members with an investigation if they travelled to Israel. Also, the Union of Egyptian Authors dismissed one of its members because he visited Israel and wrote a book about it (Ebeid 2009, p. 147). Any business relationship between Egypt and Israel is perceived by Egyptian society as normalization. Despite the hostility of Egyptian society toward normalization, the Egyptian regime engaged in business relationships with Israel. For instance, the idea of one of the projects with Israel that was assigned to Salem started after the 1993 Oslo

agreement with the PLO, when Israeli Prime Minister Yitzhak Rabin, Israeli Foreign Minister Shimon Peres, and Mubarak agreed to establish a joint venture oil refinery project. Three years later, the Middle East Refinery Project (MIDOR) was established with 80 percent private capital divided equally between Egypt and Israel and a 20 percent share for the Egyptian Petroleum company. Salem's Israeli partner was Yossi Maiman (whose name will appear again in Salem's gas company EMG), owner of the Israeli company Merhav (Yehia 2012, p.114). However, MIDOR was not a successful project and faced several problems. For instance, it did not have former experience in the oil industry, and banks were reluctant to finance its activities. Also, MIDOR was a political decision, which did not take into consideration that the market was already saturated (Adly 2011, p. 13). Salem's Israeli partner Maiman sold his share to the National Bank of Egypt. Sources suggest that "Salem secured a commission for himself for managing to get the bank into the deal!" (Adly 2011, p. 13). Despite the failure of MIDOR, Mubarak assigned to Salem another business project with Israel. The new project aimed to export gas to Israel through the EMG Company (as mentioned earlier it was established in 2000 on land expropriated from Siag).EMG was formed by a partnership between businessman Hussein Salem (65%), the Egyptian National Gas company (10%), and Israeli businessman Yossi Maiman (25%) (Bar-Eli 2007). In an interview, Salem admitted that it was Mubarak who asked him to export gas to Israel. For instance, he said: "Mubarak told me that the gas deal with Israel will be a strategic point in the relations between Egypt and Israel" (*Ahramonline*, May 4, 2012). But some sources suggest that the gas deal benefitted Israel, the Mubarak family, and Salem at the expense of Egypt. Egypt sold the gas to Israel at a very low price, which led to the loss of \$714 million (Essam El-Din 2011b). Moreover, a Kuwaiti newspaper, *El Jarida El Kuwaitia*, published documents that accused both Mubarak's sons (Alaa and Gamal) of making

commissions worth hundreds of millions of dollars in return for their support for exporting gas to Israel (*El Jarida El Kuwaitia* cited in *Haaretz*, March 7, 2011; Essam El-Din 2011d). In 2008, Salem sold his shares in EMG, reporting that, “My \$95 million investment increased to half a billion dollars by the time I sold my share in the [EMG].” (*Ahramonline*, May 4, 2012). This suggests that Egypt was a ‘predatory state’, as conceptualized by Peter Evans (1989). Those controlling the state (i.e. the Mubarak family and their associate Hussein Salem) were looting for their own interests at the expense of the interests of the rest of the society.

The case of the Taba land illustrates the flow of resources from private businessmen (e.g., the expropriation of Siag land) to the Mubarak family and their associate (Salem). Despite the regime’s coercion in expropriating the land from Siag, in the end he got compensation by seeking support from an external agency, which is the Arbitration Center in the World Bank. In 2009, Siag won his case against the Egyptian government, and the International Arbitration Center ordered the Egyptian government to pay him \$132 million. As a result, Siag sought through the International Arbitration Center to confiscate the money of both Bank Misr and the National Bank branches in Paris and London (Goueida 2010, pp. 123-127).

Siag seems to have realized that since there is no rule of law, he could only do business in Egypt by entering into a patron-client relation with the regime. This became possible after he won his case in the International Arbitration Center. The regime stopped using coercion with Siag (i.e., when the expropriated his Taba land by force) and agreed for the first time to negotiate with him. We can term this clientelistic relationship that emerged between Siag and the regime, which is based on bargaining, as semi-clientelism. The regime’s negotiation with Siag allowed him to resume his investments in Egypt provided that he waive all lawsuits and claims relating to his disputes with the government in front of Egyptian courts and other bodies of litigation abroad

(Zaghloul 2009). This means that the bargaining relation induced compliance by the threat of benefit removal (i.e., returning to invest in Egypt) and not the threat of coercion. In return, Siag agreed to get paid only \$74 million (Goueida 2010, pp. 123-127).

At the end of January 2011, a few days after the outbreak of the uprising, Salem flew to Dubai on a private jet with a bag containing \$500 million in cash. He then escaped to Spain, where he was arrested in June 2011 by Interpol. Salem was accused, as mentioned earlier, of corruption charges and of exporting gas to Israel for less than the market price. Salem escaped extradition because of his Spanish citizenship. Then, in June 2012, Salem was sentenced in absentia to 15 years in prison for squandering public funds in the gas deal with Israel. Salem appealed against the conviction, and the case is still under review.

This case suggests that the new political economy of authoritarianism was not only aiming at the survival of the authoritarian regime; it also aimed at the enrichment of the Mubarak family. This became possible when the Mubarak family developed a particular patron-client relationship with Salem. Then, in return for Salem helping in the enrichment of the Mubarak family, the regime helped and protected him in accumulating wealth in illegal ways.

4.7 The Different Levels of the Chain of Beneficiaries: Mubarak Family and Their Associates

This section shows that the self-enrichment of the Mubarak family was not only by creating particular patron-client relations with businessmen. The Mubarak family has also created clientelistic relations with high government officials, which served as another mechanism for their self-enrichment. The former Minister of Housing Ibrahim Soliman is a case in point. Soliman was born in *Bab El Sha'aria*, which is a poor suburb in Cairo. Soliman's father started his career as a carpenter, and later owned a small workshop to manufacture furniture in *Bab El Sha'aria*. After finishing his Bachelor's degree in engineering, Soliman travelled on a

government scholarship to Canada to get his PhD. Soliman earned his PhD and returned to Egypt to lecture in Ain Shams University. In the early 1980s, Soliman opened a small engineering consultancy office; however, after his appointment to the cabinet in 1993, he closed his consultancy office. In 2005, Soliman was elected to Parliament as the NDP candidate representing *El Gamaliya* constituency (Khatab 2005, pp. 40-42).

Suzanne Mubarak at one time would send Soliman to France to buy her expensive antiques. Also, Soliman was in charge of decorating the presidential palaces (Abdel Radi 2011). This suggests the particular patron-client relationship that developed between the Mubarak family and Soliman. Based on this relationship, the Mubarak family would use Soliman to help in their own self-enrichment. For instance, in 2006, Soliman allocated large plots of land for the Palm Hills Company in 6th of October City. Fifty-five percent of the company is owned by Mansour³⁷ and El Maghrabi³⁸ (both are maternal cousins), who are from the circle of business tycoons associated with the Mubarak family, and is the second-largest real estate company in Egypt. Soliman allocated the land by direct order in violation of the auction law (Essam El-Din 2011a). According to the amended tender law (Law 89 of 1998), which replaced the former tender law (Law 9 of 1983), the state is obliged to sell the land to investors by bidding rather than direct order (Essam El-Din 2011a).

After the 25th of January revolution, documents revealed that Alaa Mubarak was a shareholder in Palm Hills Company with 3.6 percent of its capital. Alaa sold some of his share in Palm Hills to El Mansour and El Maghrabi on March 10, 2008, for 247.7 million Egyptian pounds, making a profit of 218 million Egyptian pounds (Shalabi 2011).

³⁷ One of the members of the El Mansour family, Mohamed Mansour was appointed Minister of Transportation from 2005-2009.

³⁸ Ahmed El Maghrabi was appointed Minister of Tourism (2004-2009) and Minister of Housing (2009-2011).

One year later, Alaa made another profit in Palm Hills. For instance, during the General Assembly meeting of Palm Hills on March 31, 2009, Alaa's name appeared with the names of other shareholders. During the meeting, a decision was taken to raise the value of the shares of Alaa from 33 million Egyptian pounds to 49 million Egyptian pounds. This profit was made because of the allocation of an additional 11 million square meters to Palm Hills through direct order. Evidence suggests that the beneficiaries were not only members of the Mubarak family but also their close associates. Other names were mentioned during the Palm Hills Assembly meeting and included Omar Tantawi (Gamal Mubarak's closest friend and classmate at the American University in Cairo) and Mamdouh El Gammal (Gamal Mubarak's father in-law) (El Karnashawi 2011).

At the top of the chain of beneficiaries for self-enrichment was the Mubarak family and their associates (friends and in-laws). Then, at a lower level of the chain of beneficiaries, there were high government officials like Soliman, who in return for helping in the enrichment of the Mubarak family, were allowed to accumulate wealth through their own clientelistic relations. For instance, an interpellation submitted to Parliament by opposition parliamentarian El Badri Farghali stated that the EnviroCivic Consultancies owned by Ibrahim Soliman's brother in-law Daa El Mouniri (which is a small engineering consultancy office) had monopolized the implementation of the Ministry of Housing's construction projects since the appointment of Soliman to the cabinet in 1990s. The total cost of these projects was 8 billion Egyptian pounds (Farghali, El B 2002, interpellation)³⁹. This suggests how within a few years Soliman became a very rich businessman. For instance, in the early 2000s, Soliman bought a big villa in Heliopolis, which is built on 4000 square meters. He also bought a villa looking out on to the sea in the

³⁹ Attached to the interpellation of the pamphlet of EnviroCivic, which stated the projects that it implemented from 1992-2000. According to the pamphlet, 98% of the projects were awarded through the Ministry of Housing.

North Coast of Marina compound. The total amount of both villas cost around 40 million Egyptian pounds (Khattab 2005, pp. 298-299).

Soliman's case suggests how the new political economy of authoritarianism that started in the early 1990s allowed businessmen to accumulate wealth by entering into patron-client relationships with high government officials. It also suggests how high government officials like Soliman took advantage of economic liberalization and turned into businessmen.

4.8 Conclusion

Proponents of economic liberalization argue that market reforms like privatization and deregulation improve economic efficiency by reducing the role of the state and increasing the degree of private sector competition (Megginson & Netter 2001). However, in Egypt the process of economic liberalization has led to corruption and cronyism. Examples of cronyistic practices, such as those mentioned in this chapter, were evident in the non-transparent sale of state-owned assets (e.g., state owned-lands in 6th of October City to Bahgat, the state-owned Coca-Cola factory to Nosseir, the state-owned first mobile line to Naguib, and state-owned lands in Sharm El Sheikh and natural resources to Salem). This suggests how state-owned assets have been transferred below value and without competition to a few selected businessmen who benefited from economic liberalization at the expense of the rest of the citizens.

The regime's clientelistic relationships with businessmen have not been static, however, because economic liberalization has reproduced clientelism in various forms (e.g., authoritarian clientelism, semi-clientelism, and mutual dependency), which helped maintain Mubarak's authoritarianism. The regime developed authoritarian clientelistic relationships with both Bahgat and Nosseir based on credible threats of coercion. In such relationships, the regime allowed Bahgat and Nosseir to benefit from economic liberalization; in return, we find a flow of resources from them to the regime in different forms, such as media support and social services.

Economic liberalization has allowed Naguib to form an exceptional clientelistic relationship with the regime. Naguib and his family business have invested in different sectors of the economy (e.g., telecommunications, real estate, tourism, media, and the cinema industry), which led to the development of a mutually dependent relationship with the regime. Based on this relationship, it was in the interest of the Sawiris family to support the Mubarak family and his regime through his media outlets and philanthropic activities.

In the case of Siag, after he won his case against the government, he entered into a semi-clientelistic relationship. This relationship was based on bargaining and the threat of benefit removal rather than the threat of coercion.

The clientelistic relations between the regime and businessmen have not only aimed at the survival of Mubarak regime. In some cases, Mubarak and his family developed particular patron-client relations with certain businessmen or high government officials with the aim of self-enrichment, as in the cases of Salem and Soliman.

Unlike businessmen examined in this chapter who chose not to engage in politics and who relied on their personal relationships with the regime or the Mubarak family or government officials, other businessmen engaged in politics by joining the opposition. The following chapter will examine how the regime dealt with opposition businessmen.

Chapter 5

Businessmen in the Opposition

5.1 Introduction

This chapter aims to answer the question of how the Egyptian authoritarian regime dealt with businessmen in opposition parties and opposition movements who refuse to be co-opted. In order to answer this question, I build on Ellen Lust-Okar's work (2004), which finds that authoritarian regimes create a divided political environment among the legal and illegal opposition. However, my findings are distinct from Lust-Okar's (2004), since I argue that in Egypt the regime creates a divided environment among the opposition on other levels. On one level, the regime co-opts some businessmen in legalized opposition parties and uses them to create a divided political environment inside those opposition parties that refuse to be co-opted by the regime's clientelistic chain. On another level, the regime creates a divided political environment among the illegal opposition.

This chapter begins by discussing the significance of businessmen in opposition political parties in the context of regulations for establishing political parties under Mubarak. It also introduces Holger Albrecht's (2010) typology of political opposition in order to understand the attitude of the Mubarak regime to different opposition figures. It then goes on to discuss several cases (Moussa Mostafa Moussa in *Al Ghad* party, El Sayyid El Badawi in *Al Wafd* party, Medhat El Haddad in the Muslim Brothers organization (MB), and Hani Enan in the *Kefaya* movement) that illustrate how the regime dealt with different opposition businessmen in order to suppress the political opposition as a whole.

5.2 Businessmen in Egypt's Political Opposition

In Egypt, the funding of political parties seems to be restricted by regulations stated in the Constitution. For instance, according to Article 11 of Law 40 of 1977 parties are not allowed to accept funds from abroad or from a company or institution (even if it is Egyptian) (1971 constitution)⁴⁰. The resources of the party are composed of the subscriptions and donations of its members, and the profit it makes from non-commercial activities, e.g., issuing newspapers; however, under authoritarianism, political parties find it difficult to create a wide base of members who can subscribe to political parties. This means that the subscription of party members cannot cover the routine expenses of political parties, which include spending on election campaigns and party conferences and other expenses for establishing offices all over the country, their administrative staff, etc. That is why having a significant number of wealthy members is important to provide funding for political parties. For instance, regarding South Korea under the Park Chung-hee regime (1961-79), one author remarked that “no party could be effective unless it had many wealthy members, or unless it could secure secret illegal donations – something the ruling party could do, but which an opposition party would find immensely difficult” (Kang 2002, pp. 185-186).

As mentioned in Chapter Three and Chapter Four, most businessmen prefer to join the ruling party or remain independent and rely on their network ties with the regime. Despite the limited number of businessmen in the opposition, the regime attempts to co-opt them; otherwise, they could use their structural and financial power against the regime. For instance, in Egypt in each opposition party or movement, the regime co-opts the most prominent businessmen, as in

⁴⁰All articles are quoted from the 1971 Constitution.

the case of businessmen Moussa Moustafa Moussa in *Al Ghad*, El Sayyid El Badawi in *Al Wafd* party, and Hani Enan in the *Kefaya* movement.

Albrecht (2010) has distinguished between different types of opposition under authoritarianism:

(1) Regime-loyal opposition that works within the confinements of the authoritarian regime and includes legalized political parties.

(2) Tolerated opposition, which emerges in the society independently from the state and which the state keeps under control by using a mix of co-optation and coercion.

(3) Anti-system opposition, which includes Islamic movements and also groups who advocate human rights and democracy. These groups reject the discreet forms of co-optation by the regime. The regime forbids these groups from participating in the formal political process and may also legally prosecute them.

(4) Radical opposition challenges the authoritarian regime to the extent that they are perceived as dangerous. In such cases, the regime would use high levels of repression, which would lead to their exclusion from the formal political process (pp. 21-23).

The significance of Albrecht's typology is that it promotes understanding of how the regime was dealing with the opposition, especially during the different stages of their transformation.

5.3 Opposition Businessman: Moussa Moustafa Moussa and *Al Ghad* Party

Al Ghad Party was established as an opposition party in 2004. It included members from different professional backgrounds, in addition to businessmen. The aim of those who joined the party seems to have been to achieve democracy. As wealthy businessman and senior member in *El Ghad* party, Omar Said Al-Ahl, implied in his words:

One of the main objectives of *Al Ghad* party – before its establishment officially, and after it was founded – was to amend the Constitution...The 1971 constitution gives the President enormous power...He is

everything... We wanted to limit the power of the President...and also limit his tenure (El-Ahl, O 2010, pers. comm., 26 August).

However, this stated aim is contradicted by the actions of some of *Al Ghad's* members. Multimillionaire businessman Moussa Mostafa Moussa is a case in point. In 1981, the Moussa family started the SCIB Company, which made paints, construction chemicals, and waterproofing products. By 1997, their SCIB Company expanded and partnered with the Sawiris family. In 2004, Moussa started engaging in politics. He was one of the founders of *Al Ghad* party, and became deputy chairman of the party. Moussa's brother Ali was one of Gamal Mubarak's closest friends, and was a member of the Policies Secretariat of the ruling party. But before discussing the involvement of Moussa in politics and how his role in *Al Ghad* was an obstacle to democracy, the following section will give a brief background on the circumstances under which *Al Ghad* party was established and about its leader Ayman Nour.

Nour graduated from the Faculty of Law, Mansoura University, and later earned a PhD from Russia. He worked as a lawyer and had a law office in downtown Cairo. He was also a journalist and wrote a daily column in *Al Wafd* newspaper. In 1995, Nour was elected to Parliament as a *wafdist* member in Cairo governorate in *Bab El Sha'aria* constituency. As a political activist from a loyal opposition party, which is legalized and works within the confinements of the authoritarian regime, Nour promised the then Minister of Parliamentary Affairs, Kamal El Shazly, that he would not cross the red line and criticize Mubarak. Moreover, Nour "developed excellent relations with high-ranking government ministers, and provided State Security with information on *Al Wafd* party activities to curry favour with the regime" (Trager 2012, p. 121).

However, after his re-election to the 2000 Parliament, Nour ran for the position of deputy speaker in Parliament and got 161 votes out of 454 seats. This is considered a high number of

votes for an opposition member in Parliament, which also suggests that he must have gotten most of the votes from National Democratic Party (NDP) members, since they represented 88 percent of the seats in the 2000 Parliament.⁴¹ According to Nour, after this event “I started to be targeted by the regime.” (Nour, A 2009, pers. comm., 17 December).

But how did the regime target Nour? Inside each opposition party, the regime had co-opted political activists and businessmen. For instance, in *Al Wafd* party, Noaman Goma’a has been co-opted by the regime since he became a vice president of the party. Goma’a is a very wealthy lawyer who represented several multinational companies. Part of his wealth could be contributed to his connection with the regime. For instance, in the early 1990s, when Goma’a was vice president of *Al Wafd*, he used his friendship and connections with the then Minister of Agriculture, Youssef Wally, and bought large plots of agricultural land in *Giza* Governorate at much less than the market value (El Sheikh, M 2010, pers. comm., 20 April). Since Goma’a was co-opted by the regime, it is not surprising that he would be used to get rid of Nour, as the following section will discuss.

In March 2001, a few months after Nour ran for the position of deputy speaker in Parliament, Noaman Goma’a, the then President of *Al Wafd* party, fired Nour. The background of his expulsion from the party is related to his support of Farid Hassanein, a *wafdist* parliamentarian, who was charged by Goma’a of inciting rebellious actions in the party. Goma’a expelled both Hassanein and Nour, even though Nour was only one of many of *wafdist*s present during this incident. According to Hassanein,

⁴¹In the 2000 Parliament, the opposition parties (liberal, Nasserit, Tagammu’, and El Wafd) got 16 seats. Out of the 16 seats, Al Wafd got 7 seats. In addition to the 16 seats won by the official opposition parties, the illegal Muslim Brothers organization got 17 seats. This means that the total number of opposition in Parliament was 33 seats (official opposition parties and Muslim Brothers). Parliament had 454 seats (444 elected and 10 appointed). So this suggests that out of the 161 votes that Nour got, maybe 33 came from the opposition, and the rest (128 votes) must have come from NDP members.

Goma'a is just using the incident to get even with Nour, because he doesn't like him and is jealous of him...In the beginning I had thought that Nour was paying for my supposed mistakes, but I soon discovered that it was the other way round (cited in Shehab 2001).

Since Goma'a was co-opted by the regime, firing Nour from the party does not seem to be an independent decision that he took by himself. As Nour said, "Goma'a was told by the authorities that I am dangerous and can challenge his leadership, and he should get rid of me." (Nour, A 2009, pers. comm., 17 December).

After his dismissal from *Al Wafd* a few months later and in October 2001, Nour joined Misr party (The Egyptian Socialist Arab party). Nour was appointed by Gamal Rabie, the president of Misr party, as the first deputy of the party and also the editor-in-chief of the party's newspaper. The Misr party was an inactive party. For instance, since May 2000 it had not published its newspaper; also, in the 2000 parliamentary elections, it did not nominate candidates. On October 25, 2001, the Misr party informed the Higher Parties Council (HPC) of new changes in its leadership. On the same day, at night, another Misr party member—Wahid El Oksory, who is a retired military officer—held a party meeting in his house that included 500 discontented party members. During the meeting, Rabie was dismissed from the party and El Oksory was elected as the party president (Stacher 2004, pp. 231-232).

At the same time, the regime continued to prevent Nour from participating in the formal political process (i.e., preventing him from joining legalized political parties like Misr party). So, as with *Al Wafd* party, when the regime used its co-opted party member Goma'a to get rid of Nour, in the case of Misr party the regime used its co-opted party member El Oksory to create a division in the party; hence preventing Nour from being a member of the party. As Nour said, "I've seen his house. It fits ten people – thirteen maximum...it was a tactic by the government to create infighting so they had a reason to close the party due to a leadership struggle" (cited in Stacher 2004, p. 232). In fact, a few days later, the HPC froze the Misr party's activities because

of the dispute among its leadership (Stacher 2004, p. 232). Similar patterns in which the regime has used its agents to create division inside opposition parties are evident in the case of *Al Ghad*, as the following section will discuss.

Before examining the division inside *Al Ghad*, I will start by giving a background on how it was established. After Misr party was frozen, Nour started drafting a program to establish a new party to be called *Al Mostakbal*. While working on the program of *Al Mostakbal* party, Nour received several phone calls from the authorities asking him to call Gamal Mubarak and invite him to join the new party; however, Nour refused (Nour 2012). This suggests that Nour refused to be co-opted, which signalled to the regime that he had been transformed into an “anti-system” opposition.

Then, one day Nour read in *Rose Al-Youssef* magazine that the young Mubarak would establish a party called *Al Mostakbal*, so Nour decided to change the name of his new party and called it *Al Ghad* (which is closer in meaning to *Al Mostakbal*) (Nour 2012). Nour belonged to the “anti-system” opposition and refused to be co-opted by the regime (by inviting the young Mubarak to join his party), so it is not surprising that the establishment of Nour’s *Ghad* party would face several obstacles by the regime, as the following section will discuss.

The establishment of political parties is subject to Law No. 40 of 1977, which required the creation of political parties to be in accordance with the will of the regime. According to the law, a special committee is to be established and is named the Committee for the Affairs of Political Parties (CPP). This committee is in charge of receiving all applications for the creation of new parties. Fifty of the founders of the party are required to make powers of attorney to the deputy founder of the party to establish the party. According to Article No. 8 of Law No. 40 of 1977, the committee is composed as follows:

The head of the Consultative Council (*Majlis el Shura*/Shura Council), as a President of the CPP, and the following are the members of the committee:

The Minister of Justice, the Minister of Interior Affairs, the Minister of the People's Assembly, three ex-Judges or their deputies, who should not be affiliated to any party and are chosen by the President (Law No. 40 of 1977).

This means that the CPP is a tool of the government and is used to manipulate the creation of political parties according to the will of the regime. In the words of one author, "The committee owes its loyalty to the executive and thus the formation of the parties is effectively at the discretion of the government" (Fahmy 2002, p. 68). It is worth mentioning that between 1977 and 2000, the CPP only licensed the application of the Socialist Labour Party. The other opposition parties that were created during this period were approved by administrative court rulings that overturned the decisions of the CPP (Moustafa 2007, p. 94).

Similar patterns of controlling opposition political parties are evident in other authoritarian countries. For instance, in Jordan, the main concern of King Hussein in legalizing political parties was to make sure that "such parties agreed in advance to support the constitution and the monarchy." (Kassem 1999, p. 4). Similarly, in Morocco, when King Hassan re-established the multiparty system in 1977, "potential parties were forced to demonstrate their allegiance to the king and his policies if they were to be allowed to compete." (Kassem 1999, p. 4).

According to Wael Nawara, one of the founders of *Al Ghad* party and a businessman who owns a small advertising company, "Since Nour has refused to be co-opted by the regime, then the CPP rejected three times to give his *Ghad* party a license." (Nawara, W 2010, pers. comm., 13 April). In the third attempt to establish *Al Ghad*, the party submitted to the CPP 5000 powers of attorney from its founders, while the law required only 50 powers of attorney. The party founders made the powers of attorney to the two deputies' founders of the party Nour and

Moussa in the public notary *El Shahr El Akari* to establish the party (El Sheikh, M 2010, pers. comm., 20 April). Even though the party had submitted many more than the required number of powers of attorney, the CPP claimed that *Al Ghad's* platform did not differ significantly from already established parties (Nawara, W 2010, pers. comm., 13 April). As Kienle (2001) argues regarding the CPP licensing the creation of new parties:

most of the programmatic conditions were so vague and general that it was easy to reject almost any demand for the creation of a new party by pointing to one section or another of its manifesto (p. 29).

But after the CPP refused to create the party for the third time, *Al Ghad* challenged the CPP decision in the administrative court. In order to avoid losing the case, CPP chairman Safwat El Sherif offered Nour a new deal: stop the judicial process and in return, *Al Ghad* party would be awarded its party license, and Nour accepted the deal (Nawara, W 2010, pers. comm., 13 April).

After being granted the CPP approval on October 28, 2004, *Al Ghad* was supposed to abide by the red line and avoid criticizing Mubarak. However, after the establishment of *Al Ghad* it emerged as a "radical" opposition that refused to be co-opted—to the extent that it was perceived by the regime as dangerous, which was illustrated by two events. First, after *Al Ghad* was officially established, on January 19, 2005, its seven members in Parliament presented a project for a new Constitution. It should be noted that until this time, the amendment of the Constitution was considered taboo. Mubarak has repeatedly said that there was no need to amend the Constitution. For instance, in an interview in the early 1990s with prominent journalist Makram Muhammad Ahmed, Mubarak said:

The various groups that wish to change the Constitution seek different and conflicting goals. In all frankness, I am not in favor of such a change at present, since tampering with the Constitution is dangerous and will pit different classes and different interest groups against each other. I do not wish to

engage in polemics over the Constitution....this is not the time for it; we are in a process of development (cited in Zaki 1999, p. 122).

One decade later, Mubarak's regime seems to have insisted on the same opinion regarding the amendment of the Constitution. For instance, when in 2004 Safwat El-Sherif was asked during a party meeting about the possibility of amending the Constitution, he said, "The amendment of the Constitution is possible, but it is not a priority at this time in order to preserve the unity of the society" (Abdel Raouf & Abbas 2010).

Second, the party appointed Ibrahim Eissa⁴² as editor-in-chief of its newspaper (Nawara, W 2010, pers. comm., 13 April)⁴³. Eissa was considered an opponent of Mubarak and of hereditary succession. Appointing Eissa as an editor-in-chief meant the party's newspaper would be criticizing Mubarak and the hereditary succession of his son Gamal. The fact that *Al Ghad* emerged as a "radical" opposition party may explain why on January 27, 2005, the party's leader, Ayman Nour, was arrested and stripped of his parliamentary immunity. Nour was arrested 90 days after the establishment of the party, and nine days after his party presented a proposal for a new constitution. Nour was accused of forging signatures for the powers of attorney that were submitted to the CPP (Nawara, W 2010, pers. comm., 13 April).

Even if Nour had forged these signatures himself, or someone else had, Nour was the one to be arrested as soon as the case was triggered, even though the powers of attorney were made to both the party deputy founders, Nour and Moussa. In fact, two days before the arrest of Nour, Moussa had travelled abroad. Moussa's sudden travel at this time seems to have been tailored by

⁴² Ibrahim Eissa will be discussed in more detail in the section below about El Sayid El Badawi and *Al-Destour* Newspaper.

⁴³It should be noted that established political parties had the right to publish newspapers and periodicals without the prior consent of the Higher Press Council. But at the same time, Article 14 of Law 40 of 1977 empowers the CPP to stop a party's newspapers and activities if the committee deems it necessary in the national interest.

the regime. For instance, according to retired judge and senior member in *Al Ghad* party, he said:

I do not doubt that Moussa was told by the authorities to travel abroad at this time. This is the way of the authorities. They would tell you travel without telling you the reasons for it (El Sheikh, M 2010, pers. comm., 20 April).

It is also less likely that Moussa would have been arrested in the same way as Nour. Moussa has good relations with the regime, and his brother Ali is one of Gamal Mubarak's closest friends (El Sheikh, M 2010, pers. comm., 20 April).

Upon his return from abroad Moussa was taken from the airport by a police car to State Security, where he was interrogated for nine hours, after which he was acquitted (Kassem, H 2010, pers. comm., 23 March). But Moussa should not have been acquitted. This is because since both Nour and Moussa were deputy founders of the party, in case of any accusations, both should have been tried. Moreover, Nour should not have been the only one to be blamed for the forged signatures for powers of attorney. Before the submission of the powers of attorney to the CPP, they were kept in the office of Moussa, not Ayman. As a businessman, his office had facilities to keep the documents, photocopy them, etc. However, during the investigation Moussa was told by Security to say that he had nothing to do with the powers of attorney (El Sheikh, M 2010, pers. comm., 20 April). To save himself from any trouble, Moussa followed the instructions of State Security. For instance, after his meeting with State Security, Moussa went to meet Hisham Kassem (a senior member of *Al Ghad* party) in his office to evaluate what happened to Nour. Moussa's conversation with Kassem reflects how he had been threatened by State Security to the extent that he started turning against Nour rather than supporting him. As Kassem said:

Moussa told me that we have to play it down; otherwise, they will destroy us. We should not organize press conferences or say that what happened to Ayman is political oppression. He asked me to adopt his

point of view and that this would be for the sake of both the party and Ayman (Kassem, H 2010, pers. comm., 23 March).

In light of the discussion at the beginning of this chapter on the co-optation of opposition businessmen, the regime co-opted Moussa, who was the party's vice president and one of its wealthiest businessmen, especially after it perceived how Nour's *Ghad* has been transformed into "radical" opposition. Moussa's co-optation by the regime is illustrated by his attempt to change the party's policies. This co-optation was part of a regime strategy to exclude Nour, who was considered by the regime to be dangerous and therefore "radical" opposition, and to maintain *Al Ghad* as a regime "loyal" opposition. Before the arrest of Nour, the regime had scheduled a National Dialogue between the NDP and the opposition parties, and *Al Ghad* was one of the parties invited. The first session of the dialogue took place after the arrest of Nour, and the then Secretary General of *Al Ghad* party, Mona Makram Ebeid, replaced Nour in the session and presented the party's proposal for a new constitution (Ebeid, M 2010, pers. comm., 11 June). The new constitution presented by Ebeid on behalf of the party was entitled "Tomorrow's Constitution: Their Words are For History and Our Words are for the Future," which included 209 articles that aimed to introduce a liberal platform (Meital 2006, p. 266). After the arrest of Nour, Moussa was ordered by the regime to replace Ebeid in the following session of the national dialogue. During this session, the then Secretary General of the NDP, Safwat El Sherif, asked Moussa whether *Al Ghad* party still insisted on an immediate constitutional amendment. Moussa responded by saying no, that they would postpone the constitutional amendments and that it was up to President Mubarak to decide when to amend the Constitution (Nawara, W 2010, pers. comm., 13 April). According to Ebeid,

During a party meeting, Moussa recounted to us that after he had told the National Dialogue that there would not be a request for constitutional amendments, Kamal el Shazly pointed to him with the thumb upwards (Ebeid, M 2010, pers. comm., 11 June).

Ebeid interpreted this as a sign of approval from the regime (Ebeid, M 2010, pers. comm., 11 June). This confirms that the regime considered Moussa to be a “loyal” opposition that works within the system created by the regime.

Another sign of Moussa’s co-option by the regime was his immediate removal of Ibrahim Eissa as editor-in-chief of *Al Ghad* newspaper, following his return from abroad, and his replacement with a journalist with strong ties with State Security (Nawara, W 2010, pers. comm., 13 April). Approximately two months later, Nour was released; however, charges against him were not dropped. A few months later, Nour ran in the first competitive presidential elections, which took place in September 2005. He came second after Mubarak. During the presidential elections, Moussa did not make any financial contributions to *Al Ghad*’s party campaign, whilst his associate in the party, Ragab Hillal Hemeida, put banners in the streets to support Mubarak. Simultaneously, in an indirect way, the regime sent a message to Nour saying that if he left Moussa in his position in the party, there could be concessions regarding his court case. This meant that Moussa would direct the party as the authorities wanted. However, after the presidential election, Nour fired both Moussa and Hemeida (Nawara, W 2010, pers. comm., 13 April). As a result, in May 2006, Nour lost his court appeal and was sentenced to five years in prison, “for what most people believe are trumped up fraud charges”⁴⁴ (Bush & Keenan 2006, p. 177).

The sentence of Nour, however, was not a sufficient solution to deal with a “radical” opposition party. Since the party had already been legalized by the regime, creating a divided environment inside the party was one way to destroy it. To create this division the regime used

⁴⁴ After the 25th of January Revolution, Nour submitted a petition to the General Prosecutor for a retrial. He argued that the witness had later changed his testimony and confessed that Habib El Adly, then Minister of Interior, had ordered the witness to forge the party documents, and that he was threatened with being jailed for the rest of his life if he did not forge the party documents. However, the Court of Cassation refused Nour’s appeal.

its co-opted businessman inside the party, Moussa. For instance, Moussa and Hemeida, following State Security instructions, formed another wing of *Al Ghad* and held a General Assembly for the party. Those who attended the General Assembly were not members of the party, but workers from Moussa's factories and other non-*Ghad* members. These members elected Moussa as president of the party and showed their loyalty to the regime (El Sheikh, M 2010, pers. comm., 20 April)⁴⁵. Moreover, in October 2005, Moussa issued a newspaper called *Al Ghad*. In its first edition, it called for Gamal Mubarak to be the next president (Trager 2012, p. 145). From 2005 until 2007, Moussa filed several court cases against Nour over *Al Ghad*. Then, in 2007, the CPP, headed by the then NDP Secretary General and head of the Shura Council Safwat El-Sherif, approved Moussa's wing of the party as the legal party (Nawara, W 2010, pers. comm., 13 April).

The division in *Al Ghad* resulted in two wings of the party—one legal and approved by the regime and headed by Moussa, and the other illegal, unlicensed, and headed by Nour. The fact that Moussa's wing was a tool created by the regime to destroy the originally legalized *Al Ghad* party is reflected by how Moussa viewed his role as an opposition party. For instance, he said, "we respect [Mubarak]. He is the President of Egyptians. We are not against him. Going in elections does not mean that you disrespect someone" (cited in Trager 2012, p. 152).

Moreover, in return for Moussa's role in creating division inside *Al Ghad*, he was rewarded in his political career with a seat in the Shura Council elections in 2010 in the Giza constituency. In his daily column in *Al-Destour* newspaper, Ayman Nour wrote:

Moussa has been looking for years for a constituency in which to run for election, but the Giza district was not one of his choices; however, it was the choice of the security machinery (Nour 2010, p. 5).

⁴⁵It should be noted that Mursi El Sheikh was one of those who defected from Nour's wing and joined Moussa's wing; however, he soon returned to Nour's wing after realizing that Moussa's wing is run by State Security and does not oppose the regime.

The elections were apparently rigged in favour of Moussa, as political activist Mohamed Abou El Ghar said: “The casting of the ballot showed that Moussa had more than 100,000 votes, despite the fact that those who voted in the elections were only a few thousand.” (Abou El Ghar 2010). Similarly, in an interview with the Washington-based think tank, the Carnegie Endowment, Nawara (2010) said:

Opposition candidates and National Democratic Party candidates enter the electoral race with a predetermined outcome. This was shown in the [June 2010] Shura Council elections. In the *Giza* district, the National Democratic Party candidate was defeated by the government-supported *Ghad* Party candidate. The reports indicated that 7,000 voters participated while the *Ghad* Party candidate—who was not even from the district—received 119,000 votes. This is a miracle; how can a candidate who is not from the National Democratic Party receive 119,000 votes when there are only 7,000 voters?

The jailing of Nour was a signal from the regime to political activists and businessmen that whoever attempts to become a “radical” opposition will end up in jail. In addition, the division in the party weakened Nour’s wing, since it became unlicensed by the regime. As a result, in addition to many of the ordinary members who left Nour’s wing, all big businessmen also left it. For instance, big businessmen who were already members of the party realized that direct confrontation with the regime would not lead to the democracy they aimed for; in addition, there was the risk of being harmed in their business. As one senior member in *Al Ghad* said:

There were a number of businessmen who joined *Al Ghad*, like Omar Said Al Ahl and others; however, after the arrest and trial of Nour, the goal they wanted to achieve [democracy] was not accomplished, so they left the party... And after the split between Ayman and Moussa, no businessmen joined the party (El Ghatrify, N 2010, pers. comm., 8 July).

Other businessmen who were aspiring to join *Al Ghad* changed their opinions and decided to join opposition parties that are officially licensed by the regime. For instance, Mohamed Mansour Hassan, a multimillionaire businessman and son of Mansour Hassan (a prominent politician and former minister under Sadat), attended party meetings in December 2004 before the arrest of Nour and was considering becoming a member of the party. One month later, Nour was arrested, and Hassan continued attending the meetings during the 45 days

of Nour's arrest. After his temporary release, Nour met with Hassan and asked him to officially join the party, but Hassan refused and told Ayman:

This is not a true party. During the period of your arrest I attended the party meetings regularly, and noticed that there were elements planted in the party [by State Security], like Moussa, that aimed to stop it from working...Moussa and his associates in the party should be dismissed (Hassan, M 2010, pers. comm., 18 April).

However, from his perspective as a politician, Nour thought that it was too early to take this decision. A few months later, Nour dismissed Moussa, and the regime created a division in the party, which resulted in two wings. Then Nour called Hassan, asking him to join his wing; however, Hassan refused again. Later on, Hassan decided to join the Democratic Front Party, which is an opposition party established in 2007 and not "radical" in its opposition to the regime. Hassan's case shows how the regime's co-option of a businessman like Moussa in *Al Ghad* reduced the credibility of the party as opposition, which made Hassan reluctant to join *Al Ghad*. Even after Nour dismissed Moussa from the party, the regime's division within *Al Ghad* resulted in Nour's wing becoming unlicensed by the regime. Instead of joining an unlicensed party, some opposition activists preferred to join a non-radical but licensed opposition party, rather than a "radical" party not approved by the regime. For instance, Hassan admitted that the Democratic Front Party is not as "radical" as *Al Ghad*, he said:

We were not confronted by the authorities...You should know that until now we have not yet succeeded and success is what leads you into danger...Our party has few members and we are not popular in a way that threatens the regime. They are monitoring us very closely to see what we have achieved. If they find that we are popular enough and have followers, then, this would be their indicator. We are not like *Al Ghad* party that had a charismatic leader like Ayman Nour. Also, *Al Ghad* started very strong during its establishment, i.e., they were texting messages to inform people about their new party, and unlike our party, Nour was surrounded by a large number of youth (Hassan, M 2010, pers. comm., 18 April).

As a result, Nour's wing of *Al Ghad* was left with a handful of small businessmen who decided to remain and continue in challenging the regime. However, their presence in the party does not represent any challenge to the regime because they were not financially strong. As for Moussa's wing, it also did not represent any threat since it remained subordinate to the regime.

In other cases, the regime co-opted businessmen from loyal opposition parties in order to tame a radical newspaper. The following section on El Sayyid El Badawi and *Al Destour* newspaper will discuss this point.

5.4 Pharmaceutical Tycoon El Sayyid El Badawi, President of *Al Wafd* Party: The Case of *Al-Destour* Newspaper

El Sayyid El Badawi is a pharmaceutical tycoon. In 1996, El Badawi established SIGMA pharmaceutical industry. He was elected to *Al Wafd* Party Higher Committee in 1989. In 2000, El Badawi became *Al Wafd's* Secretary General, and in 2010, he was elected president of the party. In 2008, he founded *Al Hayat* satellite TV channel (*Jadaliyya*, November 18, 2011). Then, in August 2010, after he was elected president of *Al Wafd* party, El Badawi and Reda Edward (another businessman in *Al Wafd* party's highest committee) bought *Al-Destour* newspaper. *Al-Destour* is an independent newspaper and was considered the most critical of the regime. The total amount paid in 2010 for *Al-Destour* was 16 million Egyptian pounds, and El Badawi had the largest percentage of shares (Eissa 2010, p. 19). Three weeks after buying *Al-Destour*, El Badawi fired its editor-in-chief, Ibrahim Eissa, who had previously been editor-in-chief of *Al Ghad* newspaper before Moussa took over the party. Eissa had been known as a critic of the Mubarak regime. *Al-Destour* was launched in 1995 but was banned by the authorities in 1998 because it published a statement by *al-Jama'a al-Islamiyya* that contained a death threat to three Coptic businessmen, including Naguib Sawiris (Shehab 2008; El-Nahhas 2005). In 2001, the Supreme Administrative Court ruled in favour of publishing *Al-Destour*, but it was not until 2004 that the regime allowed it to reopen. The clashes between the regime and Eissa did not end after the reopening of *Al-Destour*, and, in 2008, Eissa was sentenced to prison for six months for publishing an article that questioned Mubarak's health (Shehab 2008).

The buying of *Al-Destour* newspaper two months before the parliamentary elections of 2010 and one year before the scheduled 2011 presidential elections, especially among rumours of potential hereditary succession, suggests that El Badawi was co-opted by the regime to suppress any opposition. On being fired by El Badawi, Eissa commented that the regime wanted “absolute silence on the part of the press as parliamentary and presidential elections approach” (Shehab 2010)

Evidence suggests that El Badawi had entered into a clientelistic relation with the regime. This may explain why a very rich businessman and an opposition politician paid millions to buy an anti-regime newspaper, fire its editor-in-chief, and destroy his reputation in such a way. El Badawi’s pharmaceutical business seems to have expanded because of his connections with the regime. In 2005, Mubarak visited El Badawi’s pharmaceutical company SIGMA. At this time, El Badawi’s pharmaceutical factory was a small one, and it was not common for Mubarak to inaugurate small factories. Two years later, El Badawi’s factory became one of the largest and most important pharmaceutical factories in Egypt (Ibrahim 2013). Moreover, to operate his satellite TV channel *Al Hayat*, he needed government licenses, and “it was believed that the Mubarak regime handed out such licenses only to loyal individuals that it trusts.” (*Jadaliyya*, November 18, 2011). Moreover, El Badawi’s relations with the government have helped him violate laws (El Mawola 2012), and keep the security services at bay (Trager 2012, p. 106). For instance, the Ministry of Health issued decree 350 for the year 2009 to prohibit the sale of Tramadol - a pharmaceutical painkiller – and classified it as an addictive drug (Ministry of Health 2014). Despite the ministry’s decree, El Badawi’s pharmaceutical company continued selling the Tramadol, claiming that it is not addictive and could be sold with prescription, thereby enhancing its profit (El Mawola 2012).

This clientelistic relationship, whilst benefitting El Badawi greatly on an economic level, operated to limit his political independence. El Badawi knew that the regime could easily remove him from his position as the party president by creating a division inside the party—like what happened with his predecessors Noaman Goma'a and Mahmoud Abaza.⁴⁶ This suggests that El Badawi's business (i.e. pharmaceutical company, satellite channel) and political career (i.e. leadership of the party) were very dependent on the regime. In case of disobedience, the regime was able to use credible threats of harming him economically and politically. This type of clientelism is authoritarian in nature.

To protect himself, El Badawi played the role of an obedient “loyal” opposition to the regime. For instance, this was evident in the first three weeks after El Badawi bought *Al-Destour* and before he fired Eissa. As Eissa related: One day Reda Edward called me and said, stand beside El Badawi for the sake of *Al Wafd*, and stop the daily column of Ayman Nour. But Eissa refused. In fact, *Al-Destour* was the only newspaper that allowed Ayman Nour to write a daily column (*Shebak* Nour) when he was imprisoned. That a jailed person could manage to send his daily column clandestinely to a newspaper and be published is considered an unprecedented event. After Nour was released from prison, he continued writing his daily column in *Al-Destour* (Eissa 2010, pp. 20-26). In another incident, El Badawi called Eissa regarding an article that Mohamed El Baradei wrote on the occasion of the anniversary of the 1973 (October) War. In the article, El Baradei wrote that in the 37 years since the 1973 war, Egypt “had not progressed politically or economically.”(Howeidy 2010)

El Badawi told Eissa that the article threatened their interests: “It will cause us many problems.” But Eissa insisted on publishing the article. So to prevent Eissa from publishing the

⁴⁶ For more information about the division that happened in 2006 in *Al Wafd* between Goma'a and Mahmoud Abaza, see (El-Nahhas 2006).

article, El Badawi decided to fire him from *Al-Destour*. Edward told Eissa: “We were about to be destroyed today because of El Baradei’s article...Mubarak himself was going to destroy us and threaten our interests” (Eissa 2010, pp. 25-26). After the firing of Eissa, El Badawi was much criticized in the media and also by his party members. To calm the situation, he sold his *Al-Destour* shares to his partner Reda Edward. El Badawi then later apologized to *Al Wafd* Higher Committee by saying that “*Al-Destour* incident was the worst decision he’d ever made” (Trager 2012, p.109).

El Badawi is not an exceptional case of a businessman in a “loyal” opposition party like *Al Wafd* who was co-opted by the regime. For instance, Business tycoon Salah Diab owns Pico Company, which includes diversified activities such as petroleum, agriculture, and real estate, and is one of the businessmen who benefited during the Mubarak regime. Diab is also a member in *Al Wafd*’s High Committee. After the 25th of January revolution, investigations revealed that in the mid-1990s Diab bought 750 feddans on Cairo Alexandria Desert Road from the government for the purpose of reclaiming the land for agriculture. However, Diab did not use the land for agricultural purposes and instead built resorts on it and made big profits. Moreover, Diab bought the land at much less than the market value for 300 L.E per feddan, while the value of a feddan at this time was 8000 L.E. (Shaaban 2011).

Diab became supportive of Mubarak’s regime, despite his membership in *Al Wafd*. In 2004, Diab and other businessmen established the daily independent newspaper *Al-Masry Al Youm*,⁴⁷ in which he owned the highest number of shares. As mentioned in the previous chapter,

⁴⁷*Al-Masry Al-Youm* was known as a newspaper that does not cross the red line with the Mubarak family. For instance, in 2007, there was an attempt by business tycoon Hisham Talaat Moustafa to buy *Al-Destour* newspaper and *Sout Al-Oma*, another opposition newspaper, and he wanted to pay 8 million dollars for this transaction. This means he wanted to buy both editors-in-chief Ibrahim Eissa and Wael El Ebrashy. Moustafa said to Ibrahim Eissa, “I wanted to buy *Al-Destour* and *Sout Al-oma* newspapers and do not want any politics in them. I only want the

Al-Masry Al-Youm never criticized the President and his family. Moreover, on different occasions, Diab confirmed his loyalty to Mubarak's regime. One year before the 2011 scheduled presidential election, Diab was asked in a newspaper interview if he would vote for Mubarak.

He said:

Of course I will vote for Mubarak...No one can doubt his patriotism...I might differ with him on his ways, but I don't differ with him on his goals...He is improving many things in the country (Moussa 2010).

Unlike El Badawi, who entered into an authoritarian clientelistic relationship with the regime, other businessmen refused to enter the regime's clientelistic chain—for example, the Muslim Brothers (MB), who as a result were detained, tortured, and prosecuted by the regime. The following section will discuss how the regime dealt with MB businessmen.

5.5 The MB Businessmen and the Case of *Al Azhar* Militia

Unlike opposition parties that are legalized by the CPP and lack the ability to mobilize the masses, the MB under Mubarak was a banned organization, but it was legalized after the 25th of January revolution. It had operated semi-clandestinely and had a large number of supporters throughout Egypt. MB popularity is usually considered to be a result of its extensive social network, which provides services to the poor (Al-Awadi 2005, p. 63). So why would the Egyptian regime allow the MB to function despite its illegality and popularity? To answer this question we should understand the different types of relationships between the MB and the Mubarak regime.

In the 1980s, the MB was a “tolerated” opposition by the regime. In order to keep it under control the regime had used both coercion and co-option with the MB. Regarding the former, the regime created a division between the MB and the other legal opposition parties by refusing to grant the MB official admission to the system (Lust-Okar, 2005, p. 141).

politics of *Al-Masry Al-Youm*. I want to give it as a present to my father [Mubarak]. However, Moustafa's offer was refused by both editors-in-chief. (See Eissa 2010, p. 17.)

Simultaneously, the MB was allowed to run in the 1984 and 1987 parliamentary elections on the party list of the legal opposition parties (*Al Wafd* and Labour parties respectively) (Lust-Okar 2005, p. 141). One author explains the reasons for Mubarak allowing the MB to engage in politics in 1980s:

Mubarak had no option but to reconcile himself with political and social forces until his regime stabilized. He also tolerated the Muslim Brothers, alongside leftists and the Wafd Party, in order to create a broader national front against the threat posed by the extremist *al-jihad* and *al-Jama'a al-Islamiyya* groupings. By accommodating the [MB] in the political process in 1984 and 1987, Mubarak aimed to buy the support of the moderates and to signal that the new regime was not antagonistic to the Islamist movement in general, but only towards its violent wing (Al-Awadi 2005, p. 63).

At the same time, during the 1980s, the MB was a weak opposition party that could not attempt to challenge the regime. This may explain why they accepted the role of a “tolerated” opposition. As the then MB supreme leader Omar El Tulmasani implied:

When we were released from the 1981 detention, we were in a state of near recession. We set to looking for a lawful means to carry out our activities without troubling security or challenging the laws. Allah saw fit to find us a lawful way in the views of officials. The parliamentary session had just ended and thinking began on the new parliamentary elections. It was the opportunity of a lifetime, and had the [MB] let it slip from their hands they would surely be counted among the ranks of neglectful (cited in El-Ghobashy 2005, p. 378).

On the societal⁴⁸ level, the regime allowed the MB to engage in professional syndicates, university student unions, and charitable organizations, provided they did not merge their social services with politics (Al-Awadi 2004, p. 161). As a “tolerated” opposition it seems that there was an unspoken contract between the MB and the regime. The MB was allowed to operate as long as it respected the regime’s rule (i.e., their social activities were apolitical). As one MB member in the Engineering Syndicate said:

In the initial years of our presence in the syndicate we did nothing but services, services, services. We did not speak politics, because we realized that if we did so from the outset, people would not listen. We needed to provide services first. As a result, people began to gather round us. It was only then that we could talk to them about our political views. We would expect them to support us, since by then they knew us better (cited in Al-Awadi 2005, p. 67).

⁴⁸For instance, in 1987 the MB won 54 of the 61 contested seats in the Engineers’ Association. In 1988, they won all 12 seats in the Medical Doctors’ Association; and in 1989, the Islamic list won a considerable number of seats in the Commercial Graduates Association. See Arafat (2009) p. 172.

However, the regime's tolerance towards the MB changed after they started violating the rules of the game. This was evident when they merged the social services offered to the victims of the 1992 earthquake with politics.

[i]t is possible that the regime was worried by media comments on the failure of the state in contrast to the success of [the MB]. However, what certainly aggravated the regime was the way [the MB] turned the crisis into a political campaign. The movement exploited the earthquake-damaged areas and promoted its political concerns by displaying banners that carried the slogan 'Islam is the solution.' These banners were placed on tents and in relief headquarters belonging to the movement or the syndicates that it controlled. This was the same slogan that the MB had used in 1987 to run its political campaign for parliamentary elections, and despite the different context, the repetition of the slogan confirmed the regime's scepticism. (Al Awadi 2005, p. 73).

When the MB used the slogan "Islam is the solution" in the early 1990s, then regime started to consider the MB as a "radical" rather than a "tolerated" opposition. This is because they were not just refusing co-option; they also started to challenge the regime. At the same time, the regime continued to create a division between the MB and the illegal opposition. For instance, in 1993, after the renewal of Mubarak's term in a referendum, he held a National Dialogue with the legal opposition parties and did not invite the MB. As (Lust-Okar 2005) writes:

Explicitly excluding the Muslim Brotherhood and other illegal opposition forces, Mubarak underscored the red line between acceptable and unacceptable opposition. The Dialogue had a rocky start as the opposition members and the government argued over the composition of its membership and, more importantly, over the agenda, but the majority of moderate, legal opponents eventually chose to play the game, shoring up the regime (p. 148).

Once the MB became a "radical" opposition, the government moved to suppress them. Throughout the 1990s, the regime cracked down on the MB and tried them in military courts, accusing them of attempts to revive an illegal organization. The 1966 law of the military judiciary states that "during the state of emergency, the President of the Republic has the right to refer to the military judiciary any crime which is punishable under the Penal Code or under any

other law”⁴⁹ (Kassem 1999, p. 58). For instance, around 1033 civilians were tried in military courts during the period from 1992 to 2000, which resulted in 92 death sentences and 644 sentenced to prison (Kassem 1999, p. 40). It is worth noting that verdicts in military courts are subject to ratification only by the President and they are unappealable (Kassem 1999, p. 59). The first trials of MB members by military courts during Mubarak’s regime were concomitant with the 1995 parliamentary elections, when 84 MB were arrested and 54 of them were tried by military courts and got prison sentences ranging from three to five years. The second trial was in 1996 and is known as the case of *Al Wasat* Party. This case was triggered after a number of young MB members applied for legal party status under the name of *Al Wasat*, which was refused by the CPP. As a result, 13 MB members were arrested and 8 were tried by military courts and got prison sentences ranging from three to five years. The third trial of the MB by military court was in 1999. It was known as the case of the professional syndicates because of all of the 20 arrested were members in the syndicates and 15 of them were sentenced to from three to five years. The fourth trial by military court was in 2001 and included a number of university professors. Twenty-two MB members were arrested and 15 were tried by military courts and got prison sentences ranging from three to five years (Sawasiya 2008, pp. 78-79). The regime has also cracked down on the MB on other occasions (in 2004 and 2007) that will be discussed in detail later in this section.

Even though the regime started prosecuting the MB after they became a “radical” opposition, they continued to violate the rules of the game. For instance, they ran for the 2000 parliamentary election, which was the first election to be held under judicial supervision, as

⁴⁹ In December 2006, Mubarak submitted a request to Parliament to amend 34 articles of the Constitution. One of the amended articles, Article 179, states that the President of the Republic will be able to choose the court before which a suspect will be tried as long as it is mentioned in the Constitution or the law. It could be ordinary court or exceptional courts like the military courts.

independent candidates. The MB candidates got 17 seats in Parliament—compared to only one seat in the 1995 Parliament—and thus represented the largest opposition bloc (El-Ghobashy 2012, p.138). This suggests how the MB started to become a concern for the regime. For instance, Sherif Wally, the then NDP Giza youth secretary and a member of the Shura Council, implied in his words how the MB was on the verge of becoming a challenge to the regime. He said:

...it was not all clean elections. Sometimes we had to stop the Muslim Brothers from emerging. ...Especially a lot in the third stage of [voting], because in the first stage not a lot of people [i.e., MB-inclined voters] entered [the process]. In the second stage they entered and they found themselves successful. So in the third stage they didn't believe it, so they began [turning out in greater numbers]. They were moving like hell (cited in Brownlee 2007, p. 136).

In return for the MB winning 17 seats in Parliament, the regime continued to crack down on them. The best illustration of the regime's crackdown on the MB is the case of MB businessman Medhat El Haddad. After graduating from the Faculty of Engineering, Alexandria University, El Haddad established a number of companies, which included construction, real estate investment, import and export, and conference organization. El Haddad was also politically active. He ran for parliamentary elections several times (Shura Council in 1995, People's Assembly in 1995 and 2005) and lost all the elections. According to El Haddad, each time he ran for election, the result was forged in favour of the ruling party candidate. After each election, El Haddad raised a case in the court about the forging of election results. In 2000, he got compensation from the court for the forging of the 1995 Shura Council⁵⁰ vote (Cairo Court of Appeal 2000) and in 2002, he got compensation from the court for the 1995 People's Assembly⁵¹ elections (Cairo Court of Appeal 2002). On different occasions during the 1990s, El Haddad

⁵⁰ For instance, the Court of Appeal ruled for a compensation of 30,000 Egyptian pounds for Medhat El Haddad, for the 1995 Shura Council election because of police irregularities, which eliminated his chance of winning.

⁵¹ Similarly, in 2002, the Court of Appeal ruled for a compensation of 20,000 Egyptian pounds for Medhat El Haddad for the 1995 People's Assembly election because of irregularities during the election by the Ministry of Interior, which invalidated the election.

was arrested by state security and sentenced by the court because he belonged to an illegal organization. But in May 2004 his arrest seems to have been a message from the regime that it would start using more violence with the MB. For instance, El Haddad was arrested from his house at midnight and taken to *Mazara't Tora* Prison. He was detained in *Mazara't Tora* with 57 other MB members who came from different professional backgrounds; they included businessmen, university professors, engineers, pharmacists, and accountants. The State Security police closed 21 companies, pharmacies, and commercial stores that they owned in six different governorates. Then, on June 5, 2004, El Haddad and around 11 other MB detainees were kidnapped by State Security police from *Mazara't Tora*. They were put in a microbus, blindfolded and handcuffed, and were taken to a secret prison in *Madinat Nasr*, located around 10 meters under the building of State Security. After the prisoners arrived, State Security started torturing El Haddad and the other MB detainees with different types of torture. For instance, businessman Haddad was slapped severely by the Security police several times on his face. The Security police took off his trousers, and every few hours someone would stop by and threaten to kill him (El Haddad, M 2010, pers. comm., 15 April). Another of the MB detainees, businessman Mohamed Osama, was stripped of all his clothes by Security and was beaten with electric shocks in sensitive parts of his body. Then, after six days of torture, they all returned to *Mazara't Tora* Prison and were detained for six months (Mohamed 2005).

Another example of how the MB continued to violate the rules of the game is when in March 2005 they organized a demonstration that included 10,000 demonstrators who were asking for a quicker pace of reform (Arafat 2009 p. 172). The MB slogans demanded more freedom and an end to emergency law. This means that the MB crossed the red line, since they were not allowed to challenge domestic issues in demonstrations. They were only allowed to

hold big demonstrations on foreign policy issues (e.g., Palestine, Iraq) (International Crises Group 2005, p. 19). One author explained that this new strategy of the MB is “a response to [their] thorough exclusion from the national dialogue [held few weeks earlier]...and the emergence of *Kefaya*)⁵² (Arafat 2009, p. 172). Even though the government harassed hundreds of MBs, they continued to hold big demonstrations. For instance, in a single day on May 4, 2005—on the occasion of Mubarak’s birthday—the MB organized forty-one surprise rallies in which 70,000 people from eighteen governorates participated (Arafat 2009, pp. 172-173). The MB held this demonstration independently without cooperating with the other political forces; also, they held the demonstration without informing Security in order to get the required approval (*Al-Shark Al-Awsat*, May 5, 2005). As a result, of this demonstration, a few days later several hundred members of the MB were arrested, including one of its senior leaders, Essam El Arian (International Crises Group 2005, p. 19).

A few months later, the MB started preparing for the 2005 parliamentary elections. Before the election, the Guidance Bureau asked the MB offices in the governorate to prepare a list of potential candidates who would run for election, and the list exceeded more than 200 candidates. At this stage, the regime seems to have been trying different tactics to suppress the MB, since outright coercion and persecution was not working. Instead the regime tried co-option, which was evident when State Security held meetings with Khairat El Shatter (the second deputy of the MB Supreme Guide and a millionaire businessman) and asked him to contest only 120 seats out of the 444 (El Haddad, M 2010, pers. comm., 15 April). The fact that El Shatter agreed to meet with State Security suggests that being a “radical” opposition did not prevent the MB from bargaining with the regime when it was in their interest.

⁵² Kefaya movement will be discussed in the following section.

But the regime's "voter intimidation and ballot stuffing failed to stop the Brothers' affiliates from winning a historic eighty-eight seats..." (Shehata & Stacher 2012, p. 160), which suggests that the MB continued to refuse to be co-opted. The 88 seats won by the MB in the 2005 parliamentary election seem to have been much more than what the regime expected in their political bargain with El Shatter. For instance, one author commented on the significance of MB success in the 2005 election. He writes:

The Muslim Brothers' success at the ballot box did not merely reflect the growing popularity of the Islamist group. It also marked a fundamental change in the Brothers' strategy, of working toward active political participation rather than merely seeking to survive (El Amrani 2012, p. 156).

After the MB won 88 seats in the election, they held a press conference in which Mahdi Akif, the then MB Supreme Guide, said that he would instruct the newly elected MB members to push for democratic reforms, mainly to reduce the powers of the President and putting a limit on the President tenure (El Amrani 2012, p. 157).

The one responsible for this transformation was El Shatter, which made him a particular target for punishment by the regime (El Haddad, M 2010, pers. comm., 15 April). The regime punished El Shatter and other MB members one year after the 2005 parliamentary elections in a case that became known as *Al Azhar* militia. The background to this case was that in December 2006 a dozen young MB students of *Al Azhar* University held a military-style parade demonstration. During the demonstration the MB students wore black uniforms and masks and marched from the student center to the university main gate. Six of the masked students stood in the middle of a square formed by the other MB students; they performed martial exercises reminiscent of demonstrations held by *Hamas* and *Hezbollah* (Shehata & Stacher 2012, p. 169). After this parade, pro-government newspapers started a negative campaign against the MB. The headlines of the newspapers had a statement, which stated that "the group ordered its militias to

travel abroad for military training in preparation for taking over the regime" (*Al-Ahram Weekly*, December 27 – 2 January, 2008). The regime seized the opportunity by exploiting fear of the rise of Islamists to power and their potential use of violence and started its largest crackdown on the MB from December 2006 to January 2007. During this period, State Security forces arrested 40 members of the MB, including businessmen and university professors. Out of the 40 arrested, 25 were sentenced by the military court and got prison sentences ranging from three to seven years. The accusations included money laundering and financing an illegal political organization (Sawasiya 2008, pp. 64-65). The arrest of MB businessmen aimed at breaking their financial power, and most prominent of the arrested MB businessmen was Khairat El Shatter, whose assets were frozen. Companies owned by the accused businessmen were closed, and the products were confiscated. These companies included publishing houses, import/export firms, and pharmaceutical and construction companies; the total amount of frozen assets was valued by tens of millions of dollars (Shehata & Stacher 2012, p. 173).

Closing the companies of the MB businessmen could affect their performance in parliamentary elections because MB members are required to donate around eight percent of their income to the MB (Tammam 2009). For instance, a university professor who is a member of the Guidance Bureau of the MB, and who was also sentenced in the case of *Al Azhar* militia, revealed that:

The funding of the MB is from the donations of the members. Everyone pays whatever he can afford. Donations may not be in money, it could be in gifts like providing banners for the parliamentary candidates...Supporting the candidates is not a crime. I myself, when I was a candidate for election, some people supported me by providing banners, organizing conferences, etc. This is the crime that El Shatter was accused of. But this is not a crime; it is just a political accusation (Bishr, M 2010, pers. comm., 13 March).

Around half of the 25 MB members sentenced in the case of *Al Azhar* militia were businessmen, and among them was MB businessman Medhat El Haddad. Even though he had been arrested and tortured in 2004, he had not stopped participating in politics and was arrested

again in 2007 in the case of *Al Azhar* militia. When I asked El Haddad why he insists on engaging in politics by joining the MB and donating money to them, which could put his life and his private business at risk, he revealed the following:

I engage in politics because I want the Islamic *Sharia*’ to be the law of the country. Joining the MB is religion [a religious duty], my engagement in politics and business is religion [a religious duty].⁵³ I work in business and politics to take reward *thawab*. I donate money to the MB, because this is the highest of charity *sadaka*, it is *Jihad* for the sake of God, and it has a double reward. I can die for *El Jihad* and become a martyr. What’s going on now with the MB is like what happened to the Prophet and his companions. The state securities are like the infidels *el koufar*, because they confiscate the properties of the MB. It is similar to what the infidels *el koufar* did with the companions of the Prophet. We want a civil rule that applies the Islamic *Sharia*’. If the NDP applies *Sharia*’, I will join it (El Haddad, M 2010, pers. comm., 15 April).

When I asked El Haddad why he thinks the regime is excluding and torturing the MB, his answer implied that they are perceived as dangerous to the regime:

The regime wants to protect itself against the MB because we [the MB] are popular, and they [the regime] fear that we may put them (the regime) and its members on trial because of the mistakes they committed against the society, like torturing the people, and the MB in prison, the trial in military court, the emergency law, forging elections, etc...(El Haddad, M 2010, pers. comm., 15 April).

From El Haddad’s answers, we can substantiate the reasons for MB businessmen to engage in politics. It seems that MB businessmen have opposed Mubarak’s authoritarianism, not because they wanted to achieve democracy but because they were willing to sacrifice their lives and private businesses in order to implement *Sharia*’. This means that their opposition to the regime has to do with their ideological stance rather than their belief in democracy.

Despite the MB’s views about mixing religion and politics, they were a “tolerated” opposition as long as they were subordinate to the regime and abided by the rules of the game during the 1980s. However, in the early 1990s the MB were transformed from a “tolerated” opposition to a “radical” opposition that refused the regime co-option of the 1980s. After they won 88 seats in the 2005 Parliament, then, from the point of view of the regime, any attempt to

⁵³ El Haddad referred to verses of Quran to confirm that his words are coming from Islam. *Surat Al Goma’a* verse number 10 “And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed. *Surat Al Omran* verse number 104: “And let there be [arising] from you a nation inviting to [all that is] good, enjoining what is right and forbidding what is wrong, and those will be the successful ones.”

co-opt was no longer advantageous, since they had been transformed into a “radical” opposition that represented a danger to the regime. It is not surprising, therefore, that the regime would continue to crack down on the MB. This was manifested in the largest crack down on the MB in the case of *Al Azhar* militia in 2006/2007, which aimed at breaking their financial power. Then, in the 2010 parliamentary election, the regime reached with the MB the opposite end of the spectrum of co-option, which is extreme exclusion from the political realm. This means that the regime had widened their exclusion of the MB to the extent that they were prevented from gaining any seats in Parliament.⁵⁴ This new type of MB exclusion has been possible through new strategies employed by the NDP during the 2010 election. For instance, the NDP introduced open constituency (*el da'ara el maftouha*), in which two or three candidates were nominated by the NDP in the same constituency. The division of votes between the NDP candidates and the MB candidate in a constituency prevents any candidate from winning in the first round (i.e., from getting 50 percent plus one of the votes), especially the MB candidate. Then, in the second round of election, the votes would be combined and given to only one of the NDP candidates against the MB candidate (Ezz 2010)⁵⁵.

Unlike MB businessmen who shifted from a “tolerated” to a “radical” opposition, other opposition businessmen began as “radical,” then transformed into “loyal” opposition like Hani Enan, sponsor of the *Kefaya* movement. Even though Enan became “loyal” to the regime, the *Kefaya* movement remained a “radical” opposition. The following section will discuss how the

⁵⁴For instance, in the 2010 parliamentary election, only one seat was won by an MB candidate who did not abide by the MB decision to boycott the run-off election.

⁵⁵This information is from an article written for *Al-Ahram* by Ahmed Ezz. For instance, in *Shubra Al-Kheima* constituency in *Qalyoubia* Governorate, the MB candidate Mohamed El Beltagui could not get the majority of votes (50%+1) in the first round against the two NDP candidates, Magahed Nassar and Hani Tawfik. This is because the votes had been divided among the candidates. Both NDP candidates got 26,434 votes, while the MB candidate got 9798 votes. Then, in the second round, the votes of the NDP candidates (two or three) would unite against the MB candidate.

regime weakened *Kefaya* by creating a divided political environment among it and other illegal opposition like the MB.

5.6 The Case of Hani Enan: Sponsor of *Kefaya* Movement

Hani Enan is a multimillionaire businessman who imports medical equipment and provides turnkey hospitals. For the last two decades, Enan has been the main importer of medical equipment to the military forces. On the political level, Enan belongs to the “1970 generation,” which was involved in the student movement in Egyptian universities during the 1970s. In 2004, Enan resumed his political activity, when he and other political activists founded the Egyptian movement for change, *Kefaya* (Enan, H 2010, pers. comm., 22 March). The Arabic meaning of the word *Kefaya* (enough) expressed the main demand of the movement: for Mubarak to relinquish power. While the main core of the *Kefaya* movement consisted of the 1970s generation of activists like Enan, the membership was also open to all activists in their individual rather than institutional capacity. For instance, the movement included political activists from the left like *Al Karama* party (Nasserite), liberals like *Al Ghad* party, as well as Islamists from *Al Wasat* party, the Labour party, and the MB. What is common among all these parties is that they were not part of the legal opposition, since they were not licensed by the regime, except for *El Ghad* party, which became illegal only after the division in the party, as mentioned earlier.

As the only businessman in *Kefaya*, Enan was its main sponsor. From 2005 to 2008, he spent around 300,000 Egyptian pounds on the movement. The amount he paid covered expenses for renting an apartment for the movement, paying salaries for administrative staff, organizing receptions, and paying money for organizing demonstrations, etc. As a result of his financial contribution to *Kefaya*, Enan has been slightly harmed in his private business. For instance, after Enan’s involvement with *Kefaya*, his license to submit tenders to the military forces was banned

by the security. To solve this problem, Enan relied on distributors who submit the tender instead of him. It is worth noting that the security knows that the distributor is working for Enan (Enan, H 2010, pers. comm., 22 March). This suggests that the regime started sending warning signs to Enan that if he were to continue funding *Kefaya* then his business would be put in more trouble. Enan seemed to have gotten the message, and distanced himself from *Kefaya* and its main aims. For instance, in a newspaper interview with Enan in 2009, he said that

I withdrew from *Kefaya* because the movement had already played its role in mobilizing the street...I am proud of this...I see that *Kefaya's* role has ended...and the continuation of some of its leaders in the movement is considered a failure...Some of them wished to unite the opposition and to walk in a demonstration of a million protestors that would overthrow the regime...But this did not and will not happen in Egypt...(Samih 2009).

In another newspaper interview, Enan declared his support to Gamal Mubarak to be the future President of Egypt (El Desouki, Ragab & Ebeid 2009). When I interviewed Enan in 2010, he repeated his new stance, that *Kefaya* was not intended to be a danger to the regime. He said:

Unlike the MB, who are dangerous to the regime, I am not. I can't mobilize the street, but I can mobilize public opinion. I don't wish to be a danger to the regime; however, I only wish to shake the regime. I push the people and then, they move a bit (Enan, H 2010, pers. comm., 22 March).

The withdrawal of Enan from the movement not only affected the financial ability of the movement, but also was a warning sign to other businessmen not to fund or join the movement. Despite the transformation of Enan from a “radical” to “loyal” opposition, the goals of the movement remained a threat to the regime. So to weaken the movement the regime created a divided political environment between *Kefaya* and the MB (which was the largest opposition group). For instance, on July 20, 2005, both *Kefaya* and the MB for the first time organized a joint demonstration. The MB supporters numbered around 5000, and *Kefaya* had only several hundred. The MB shouted slogans like “with our blood and soul we redeem you Islam.” On the other hand, *Kefaya* members’ slogans directly attacked the regime. They said: “Down with Mubarak” and “Enough with Mubarak.” In the middle of the protests MB members left because

they said that they don't want to insult the President, even though during previous protests, especially in a large one organized by the MB two months before on Mubarak's birthday' (as mentioned earlier), they criticized him directly (Sahgal 2008, p. 163). But what are the strategies used by the regime to create this division among the illegal opposition? The regime used different punishments for *Kefaya* and the MB, which helped prevent their unity. For instance, when MB leaders were asked "why they participate only 'half-heartedly' (if at all) in opposition demonstrations...Brotherhood leaders retort that while *Kefaya* demonstrators get roughed up, their supporters are hauled in for indefinite periods" (Hamzawy & Brown 2010, p. 14). In other instances, the regime divided the two groups by bargaining with one of them against the other. For example, in December 2006 the *Kefaya* movement started preparing meetings to celebrate its second anniversary. One of the ideas proposed in these meetings was to hold a big demonstration in front of Cairo's High Court (*Dar El Kada' El Ali*) in downtown. One of the members of the MB Guidance Bureau participated in these meetings and agreed that the MB would participate in the demonstration. However, the MB later excused itself and said that it could not participate for internal reasons related to the MB. Then, one day after they decided to withdraw from the demonstration, MB senior member Essam El Arian, who was detained in 2005, was released. Sources suggest that a deal was made between the regime and the MB, and in return for not participating in the *Kefaya* demonstration, El Arian was released (*Islam online*, December 10, 2006).

Due to the divided political environment created by the regime, *Kefaya* became a weak movement, which could not represent a challenge to the regime. For instance, when Mubarak was asked in an interview with the Kuwaiti-based *Al-Syassa* newspaper what he thinks when people tell him about *Kefaya*, he said, "This is not bothering me, because I know who is behind

them whether it is *Kefaya's* or other demonstrations” (*Al-Sahifa Al-Kuwaitiya*, May 14, 2005). The leadership was assured that he could break the financial power of any opposition businessmen if they crossed the red line and funded an opposition movement. In addition, the regime was also successful in weakening any movement through its divide-and-rule tactics.

5.7 Conclusion

Albrecht's (2010) typology of the opposition enabled an examination of how the regime dealt with different types of opposition, especially during their transformation (loyal, tolerated, anti-system to radical). If the opposition transforms into anti-system/radical, the regime uses its divide-and-rule tactics to create a divided political environment to weaken the opposition. For instance, Lust-Okar (2004) argued that authoritarian regimes created division among legal and illegal opposition. This was evident when the Mubarak regime labelled the MB as an illegal organization while granting official status to loyal opposition parties. However, this chapter found out other levels of division created by the regime to weaken the opposition: one level is inside legalized parties, as in the case of *Al Ghad* party, which resulted in one party being legal and another party illegal; another level of division was among the illegal opposition, as in the case of the MB and *Kefaya* movement.

But the different levels of division among the opposition created by the regime did not prevent the outbreak of the revolution and the fall of Mubarak's regime, as the concluding chapter will discuss.

Conclusion

Introduction

This thesis has attempted to address the reasons for the survival of authoritarianism for the three decades under Mubarak's rule. To address this issue I have focused on the case of businessmen in Egypt. Contrary to the arguments of the modernization paradigm, this thesis has found that businessmen were not agents for democratization. Instead, my research found that there are businessmen who have played a role in supporting authoritarianism for their own economic interests; however, there are also businessmen who opposed authoritarianism and sacrificed their businesses because of their ideological/political views.

Empirical Findings

The research question this thesis set out to answer is: To what degree did businessmen contribute to the survival of authoritarianism over the three decades of Mubarak's rule (1981-2011)? My research has shown that some businessmen played an important role in the survival of authoritarianism. This was contingent upon the creation of a new political economy of authoritarianism under the Mubarak regime. First, contrary to Amr Adly's (2009) arguments, this thesis demonstrates that businessmen were able to capture the state and influence policies for their own benefit. Relevant examples are the cases of Ahmed Ezz in Chapter Three and Naguib Sawiris in Chapter Four. Ezz used his power in Parliament and amended the monopoly law in a way that enhanced his profit. Naguib used his social network relationship with the Mubarak family to tailor the 1997 investment incentive law, which offered him fiscal exemptions. It was in the interests of both Ezz and Naguib to support Mubarak's authoritarianism since their interests coincided with the survival of the regime. However, it was also in the interests of the regime to allow these businessmen to become rich. Ezz provided substantial funding to the

ruling party and Mubarak's presidential 2005 campaign. Naguib used his media outlets (*Al-Masry Al-Youm* newspaper and his private TV channel, ONTV) to provide political support to Mubarak and his regime.

This thesis built on the argument of Sfakinakis (2004) on how network relations between the regime and its coalitions (businessmen and bureaucrats) provided support to the regime in return for their self-enrichment. However, this thesis further argues that the regime also allowed bureaucrats to accumulate wealth, not only to provide support for the regime, but also in return for their help in the enrichment of the Mubarak family. The case of Ibrahim Soliman, the Minister of Housing in Chapter Four, demonstrates how the private office of his brother-in-law monopolized the projects of the Ministry of Housing after his appointment to the cabinet in the early 1990s. Empirical findings in this thesis demonstrate that Soliman was encouraged by the regime to accumulate wealth illegally in return for helping in the enrichment of the Mubarak family. This was also a role that businessman Hussein Salem played with the Mubarak family. Empirical findings in Chapter Four demonstrate how Salem helped to enrich the Mubarak family through the East Mediterranean Gas Company, which exported gas to Israel.

Third, empirical findings demonstrate that not all businessmen were supporting authoritarianism for their economic interests. The case of *Al Azhar* militia in Chapter Five demonstrates that the Muslim Brothers businessmen opposed authoritarianism and sacrificed their own businesses in order to implement *shari'a*. This empirical finding is contrary to Bellin (2002), who argued that businessmen support authoritarianism for their own economic interests.

Empirical findings demonstrate that Egypt had two different types of predatory state (Evans 1989, Levi 1988). Evans' (1989) predatory state is demonstrated in the case of the loan MPs, when they looted the banks at the expense of the interest of rest of the society. Levi's

predatory state (1988) was demonstrated by the extraction of money by force from businessmen as discussed in Chapter Four, when businessmen were asked to finance and provide projects for the public good. The two different types of predatory state (Evans 1989; Levi 1988) discussed in the dissertation demonstrate that the state was harsh toward society and the businessmen; however, businessmen were allowed to accumulate wealth in illegal ways because they had entered into a clientelistic relationship with the regime in return for their donations. But the rest of the society (excluding businessmen who were co-opted by the regime) was looted and getting nothing in return. This then explains the failure of Mubarak's political economy of authoritarianism, which was based on predation and co-opting businessmen.

Theoretical Contribution

This thesis demonstrates that the political economy of authoritarianism in Egypt has relied on co-opting businessmen. As discussed in Chapter Two, under Nasser the political economy of authoritarianism relied on co-opting businessmen for the purpose of national development. Sadat co-opted the *Infitah* bourgeoisie, who were linked to foreign capitalism, for the purpose of allying with the West. As discussed from Chapters Two to Five, Mubarak co-opted businessmen for the sake of regime survival and the enrichment of his family.

This thesis examines the different institutional mechanisms of the Mubarak regime's co-option of businessmen. It went beyond the concept of co-option as dyadic and static. This thesis demonstrates that in light of economic liberalization, the political economy of authoritarianism intersected with different types of clientelistic relations. Co-option became flexible and took varieties of form (i.e., authoritarian clientelism, semi-clientelism, patron-broker client relationship, and mutual dependency). The varied means of co-opting businessmen demonstrate how the regime prevented them from playing a democratizing role in politics.

Ramy Lakah in Chapter Three, Ahmed Bahgat, Ibrahim El Moallam, and Mohamed Nosseir in Chapter Four, El Sayyid El Badawi in Chapter Five, entered into authoritarian clientelistic relationships with the regime. This clientelistic relationship was based on their subordination to the regime and was reinforced by credible threats of coercion. The regime used Lakah's file of financial corruption at the General Prosecutor's office to threaten him. Even after Lakah returned to Egypt and reconciled with the regime by settling his debts with the banks, he was still under a credible threat of having the file documenting his corruption opened at any time, which made him continue in his support of Mubarak and his subordination to the regime. In the case of Bahgat, the regime used his debts to the banks to threaten his business in case he became disobedient. This ensured that both he and his private channel Dream TV were subordinate to the regime. In the case of El Moallam, when his *Al-Sherouk* newspaper criticized the project of hereditary succession and Mubarak's authoritarian regime in one of its articles, then the regime used credible threats of coercion by closing his carton factory, claiming that the reason was it did not have a fire extinguisher. Nosseir's authoritarian clientelistic relation with the regime was demonstrated by his subordination to Mubarak when he was ordered to do the Citadel project. This subordination was reinforced by credible threats of coercion when he was one of those businessmen who had to provide support to the regime in the form of charitable activities. El Sayyid El Badawi's economic and political careers were dependent on the regime for survival. This dependency forced him into an authoritarian clientelistic relation with the regime based on credible threats of losing both his business and political career in case of disobedience. Therefore, he obeyed the regime when he was ordered to buy the radical newspaper *Al-Destour* in order to tame it. Other businessmen entered in semi-clientelistic relationships with the regime: the loan MPs in Chapter Three and Wagih Siag in Chapter Four.

In the case of the loan MPs, as a result of economic liberalization, the credit ceilings of the banks were abolished, which allowed businessmen to loot the banks' money. This increased the structural and financial power of businessmen and allowed them to enter into a semi-clientelistic relationship with the regime based on bargaining and less subordination. Similarly, the increase in the financial power of Siag after winning his case against the Egyptian government allowed him to enter into a bargaining relationship with the regime. The loan MPs bargain with the regime allowed them to pay back only part of the money they had looted from the banks. Siag's bargaining with the regime allowed him to return to Egypt to resume his private business. In both cases, the bargaining relationship induced compliance by the threat of benefit removal (i.e., the benefit of paying back only part of the money they had looted from the banks in the case of loan MPs and the benefit of returning to invest in Egypt in the case of Siag) and not by threat of coercion.

This thesis has demonstrated that economic liberalization transformed the relationship between the regime and parliamentary businessmen into a triadic relationship, as mentioned in Chapter Three. This triadic relation involved the regime (as a patron), the parliamentary businessmen (as broker), and the voters (as clients). In this triadic relationship, parliamentary businessmen played the role of brokers and replaced the state in the provision of social services to their constituencies.

The varied ways of co-opting businessmen demonstrate how the regime renewed its survival after the introduction of economic liberalization. One group of businessmen entered into authoritarian clientelistic relationships with the regime based on subordination, which was reinforced by credible threats of coercion. Another group of businessmen entered in semi-clientelistic relationships with the regime based on the threats of benefits removal rather than

threats of coercion. A third group of businessmen entered in a patron-broker-client relationship with the regime, and replaced the state in the provision of social services. Businessmen who refused to be co-opted by the regime, as in the cases of Ibrahim Kamel and Anwar Esmat El Sadat discussed in Chapter Three, were punished by the regime and were prevented from engaging in politics.

Mubarak's regime weakened the opposition, as Ellen-Lust Okar (2004) argued, by creating a divided political environment between the legal and illegal opposition. But this thesis further demonstrates that the regime created a divided environment among the opposition on different levels. On one level, the regime co-opted particular businessmen in legalized opposition parties, such as the case of businessman Moussa Moustafa Moussa in Chapter Five. Moussa was used by the regime to create a divided environment inside *Al Ghad* Party when it turned to radical opposition. This division resulted into two wings: one legal, headed by Moussa, and the other illegal and not approved by the regime, headed by Ayman Nour. The regime's division of *Al Ghad* weakened the party. Rich businessmen like Omar Said Al Ahl and Mansour Hassan and others left *Al Ghad* because this division prevented them from accomplishing the democracy that they were aiming for. On another level, the regime created a divided political environment among the illegal opposition, as with the Muslim Brothers and *Kefaya* movement discussed in Chapter Five.

The Failure of Mubarak's New Political Economy of Authoritarianism

Mubarak's new political economy of authoritarianism relied on co-opting regime supporters and the loyal opposition. However, the new political economy of authoritarianism has proved its failure with the outbreak of the January 25th revolution. For instance, in exceptional cases the regime's co-option of businessmen resulted in unintended consequences. As discussed in Chapter Three, in light of economic liberalization, the regime's co-option of Ezz

was transformed from mere co-option to mutual dependency. This thesis demonstrated that the survival of both the regime and Ezz required mutual dependence. Ezz controlled a lot of organizational data in the party, not only in his capacity as an organization secretary, but also because of his substantial financial funding through his NGO, which was involved in all the details of the party. Three days after the outbreak of the revolution on January 25, Ezz was dismissed from the party. After Ezz's dismissal, he took with him hundreds of names of party organizers all over the country and contact information for them. This meant that the organizing arm of the party had been cut off, which made the party unable to mobilize its members to counterbalance the protestors in *Tahrir Square*.

The regime's control over the media (newspapers and private channel) by co-opting their owners, as in the cases of Bahgat and El Badawi, did not prevent the protestors from going to *Tahrir Square*. The call for participation in the 25th of January demonstration was announced a couple of weeks earlier through the social media "Facebook." The regime had underestimated the role of youth groups and activists in the social media and only focused on co-opting the businessmen who own the private media. For instance, Bahgat's authoritarian clientelistic relationship with the regime ensured that he was subordinate to the regime. Dream TV was supportive of Mubarak in the first few days after the outbreak of the revolution; however, the regime's co-option of Bahgat turned out to be unimportant when the number of protestors in the street was increasing. At this stage, the Dream TV talk show announcer could not continue to hide the truth from the public and revealed the real number of protestors in the street.

Naguib Sawiris, as discussed in Chapter Four, developed an exceptional relationship of mutual dependency with the regime. This meant that the survival of Mubarak's regime was in his business interest. During the 18 days of the revolution, Naguib continued his support of

Mubarak by appearing on different talk shows on either his private channel ONTV or in other private channels. During his appearances on these talk shows he cried out about his love for Mubarak and said that Mubarak should stay in power until the end of his presidential term. Naguib and the other businessmen who controlled the private media could not play a role in preventing the protestors from going to *Tahrir Square*, and the number of protestors continued to increase until the removal of Mubarak on February 11, 2011.

The patron-broker-client relationships that the regime developed with parliamentary businessmen helped provide social services to the voters in their constituencies; however, the outbreak of the revolution demonstrated that the demands of the citizens had not been met by the state or even their brokers (i.e., businessmen). This was evident in the slogan of the revolutionaries in *Tahrir square* that asked for “Bread, liberty, and social justice,” which means that their demands were not only political, but also economic.

The opposition that turned radical and refused to be co-opted was excluded, and the regime created a division among them. However, the different levels of division among the opposition (among the legal and illegal and among the illegal) undermined the possibility that they could form a coalition either for or against the regime. As mentioned earlier, the 25th of January revolution proved that the real opposition to the regime came from youth groups and social media activists.

Recommendation for Future Research

There are several potential interesting paths for future research that emerge from this thesis. First, we need to understand the real political objectives of the Muslim Brothers and not just consider their slogans in isolation. Consequently, this potential research could shed more light on the nature of the economic and financial interests behind them and their local, regional, and international connections.

A second venue for future research could be the transformation of businessmen during democratic transitions. One of the businessmen discussed in this thesis, who reinvented himself after the 25th of January revolution, is Naguib Sawiris. A potential topic for research is to examine businessmen who were co-opted by the Mubarak regime and whether they managed to survive economically after the fall of Mubarak's regime or if they economically collapsed after the 25th of January revolution.

A third area for research could examine whether Mubarak's political economy of authoritarianism and the different types of co-opting businessmen during his rule could be replicated in the post-Mubarak era.

Future research could also fill the gap on the limitations of this study on businessmen who were important to the survival of Mubarak's regime, but were not the pillar of authoritarianism. Potential areas of research could focus on the role of the security forces and the military during and after the Mubarak era.

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