

## The Egyptian twin capital gap

by

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While large parts of the Middle East sink deeper and deeper into sectarian strife and civil war the region's most populous country, Egypt, prepares for a giant leap forward to spur economic growth. Egyptian president Abdel Fattah Al-Sisi invites businesses from all over the world to attend a landmark economic summit in March. By focussing strongly on attracting financial capital Egypt might turn a blind eye, however, on the serious lack of so-called social capital without which the economy hardly can take off.

### Big ticket

Bearing in mind that former autocrat Hosni Mubarak was forced to step down following protests fuelled by widespread poverty, the Egyptian rulers must keep a close watch on the economy if they want to avoid Mubarak's fate. This month's economic conference at the popular Red Sea holiday resort Sharm El-Sheik is the latest and most prestigious project for promoting the economy by attracting badly needed foreign investment.

The government's response to Egypt's economic challenges is anything but modest. Next to the Sharm El-Sheik conference several billion-dollar projects like the Suez Canal extension launched in October last year or the land reclamation project are supposed to create jobs and to spark an economic recovery.

Big-ticket projects are bound to make headlines and to attract the attention of millions. As a side they also increase the government's popularity. At the same time, however, they are also bound to miss their ultimate target of multiplying themselves into a fully-fledged boom if the business environment is inadequate.

### It's the business, stupid

International investors and local business people have long argued that Egypt suffers at least as much from a lack of a supportive business climate as from a lack of capital. The government also acknowledges the issue but little is done to remedy the problem. No wonder, therefore, that Egypt ranks only 113 out of 189 countries in the 2015 edition of the doing-business survey of the World Bank.

Although this rank represents an improvement over the past years it fails to take notice of problems which apparently run much deeper. As a 2014 study conducted at the German University of Cairo shows, the country's stock of social capital is worryingly depleted.

### Bonding and bridging

According to a widely used definition social capital is the disposition to create or maintain personal networks for the purpose of social integration. Social capital helps bonding between group members and bridging between whole groups. The bridging function of social capital is usually considered economically beneficial as it fosters cooperation and the mutual gains from specialisation and exchange between several layers of society.

Egypt with its highly fragmented society would clearly need a considerable stock of social capital in

order to integrate young and old, the rich and the poor, government and civilians, farmers and city dwellers, the educated and the illiterate, north and south, Arabs and Bedouins, Copts and Muslims etc. Unfortunately, as GUC research shows, usual measures of social capital show an evident lack of this resource.

Social capital is easier defined than measured. The study therefore follows the custom of gauging the manifestations of social capital rather than the stock of capital as such. For convenience, research conducted in the US and in Eastern Europe after the fall of the iron curtain serve as a blueprint and reference point (see for example Govorkhin, Ganina, Lavrov, Dudinstev, 1989, and more recently Gudkov, 2010). With hindsight, the then poor results for the Ukraine and Russia especially in comparison to the US and Germany as regards the attitudes towards entrepreneurship and private sector companies may help understand the differences in economic performance of, for example, Poland and East Germany on the one hand and Russia and the Ukraine on the other.

The impact of social capital is measured in the three dimensions individual attitudes towards business including the labour market, interaction with government and exchange with other citizens. Generally speaking, the results for Egypt are similar to those for the US when it comes to appreciating the roles of entrepreneurs and the private sector for economic development whereas the distrust in any form of government activity but also in other individuals runs equally deep in Russia and in Egypt. The following examples shall highlight the main findings.

It's the government, stupid

Asked, if they expect the government to positively respond to a neighbourhood's initiative to clean-up the streets around the block, only 19 percent respond "yes" in Egypt. This figure exactly matches the Russian response rate while for the US 58 percent are registered. Maybe more worrying is the response to the inquiry about the government's attitude towards individuals' economic ambitions. Inquiring about agreeing with the statement "The government can give so much trouble and nuisance to rich people that it spoils all the pleasure that the money may bring.", no less than 59 percent of Egyptians agree, outnumbering even the Russians (55 percent). In the US only 38 percent share that view.

In the same vein respondents attest to a rather negative view of the government's attitude towards its citizens. As much as 69 percent Egyptians (Russia: 68) state that they often feel distressed or humiliated after having to deal with government organizations or institutions. For the US the corresponding figure is just 48 percent.

These results come along with an overall positive attitude towards private sector business which match the American attitudes at large. Interviewees were asked about the better job opportunities for equally skilled workers. While in the US 77 percent think the better jobs are in the private sector, this share is even 90 percent in Egypt compared to only 66 percent in Russia. Likewise, 95 percent of Egyptians assert that "The most capable and energetic people are quitting work in government enterprises [...] and are starting to work in cooperatives, private enterprises, and so forth". This number compares to just 65 percent for Russia.

Reservations about the business climate extend beyond the government. Inquiring the perceived obstacles to set up a cooperative, 40 percent of the Egyptian survey participants agree with the view that "The world of business is full of cruel and dishonest people, some as bad as bandits. [...]" This figure compares to 25 percent for Russian participants. On the positive side, only 8 percent (Russia: 11) assert that "Social opinion is hostile to cooperatives and private enterprises, and some of my friends and relatives wouldn't support [me]."

The following example hints at possible negative repercussions of the business climate on actual entrepreneurial attitudes. While on the one hand in all three countries close to 70 percent of respondents prefer setting up an enterprise over the status quo if this endeavour would for sure double the standard of living at the price of hard labour (fourteen hours, six days a week), this share drops on the other hand to only 57 percent in Egypt if chances of success decrease to only one in four. By contrast, Russian and US respondents maintained their preference for the entrepreneurial path.

Finally, if social capital serves as the glue that unites society the following example raises reasons for concern. Asked how likely the outbreak of a civil war within the next five years was, 64 percent of the interviewees considered it “quite likely” (21 percent) or “possible” (43) while only 22 percent ruled out this possibility.

#### The twin gap

According to the research results government-citizen and government-business relations are all but friendly. Moreover, also within the business community distrust seems to be rife. It has yet to be thoroughly investigated to what extent this lack can be considered causal for the apparent poor economic performance and whether this lack also affects private business relations.

Social capital is considered an important foundation for economic and societal development. Egypt currently faces a severe lack of this resource which adds to the missing financial capital. The government should therefore put as much effort in the formation of social capital as it puts in luring domestic and foreign investors.

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