Centre for Economic and Regional Studies of the Hungarian
Academy of Sciences – Institute of World Economics

MTA Közgazdaság- és Regionális Tudományi Kutatóközpont
Világgazdasági Intézet

Working paper 227.

May 2017

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NEW DEVELOPMENTALIST EXPERIMENTS IN BRAZIL AND EGYPT - A COMPARATIVE STUDY

WP

Centre for Economic and Regional Studies HAS Institute of World Economics
Working Paper Nr. 227 (2017) 1-53. May 2017

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ISSN 1215-5241
ISBN 978-963-301-643-5

Centre for Economic and Regional Studies HAS
Institute of World Economics
Working Paper 227 (2017) 1-53. May 2017

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Abstract

The paper investigates the state-led development experiments in Brazil and Egypt, and highlights their merits and shortcomings in the light of most recent difficulties in both countries. Using institutional and political economy approach we compare the new Brazilian development-oriented approach to its Egyptian counterpart, and also look at their results, while trying to explain the main differences between the two cases. The way how Brazil has achieved pro-poor and inclusive growth since the Millennium offers some useful lessons, but in the light of most recent events it also provides a cautionary tale for other emerging and developing countries. At the same time the lack of pro-poor stance and neglect of inclusivity helps to explain political (and economic) turmoil of recent years in Egypt.

More recently both countries have turned towards a more market- (business-) oriented approach, however with different background. After 2014 the Sisi government in Egypt seemed to turn back the time and strengthened its commitment to the state-led developmentalist approach while relying mainly on old Nasserist practices and institutional ties. This Sisinomics might have been however short-lived, as the new IMF agreement (November 2016) and its prescriptions signal a new economic policy turn. In Brazil after the rather implicit neoliberal turn during the hasty economic policy (mis-)management of the Rousseff government, in 2016 the new Temer government has much more explicitly committed itself to market-oriented reforms, and with this to the aim of significantly cutting back the role of state in economy.

JEL: O10, O53, P16, P52

Keywords: new developmentalism, Egypt, developmental state, economic policy

1. Introduction

In this paper we empirically test how the concept of developmental state was applied in two emerging countries, with the aim to formulate new lessons and insights for other less developed and emerging countries. In our case studies we analyse to what extent the developmental states have been adapted to new external and internal circumstances

[1] The research was part of a postdoctoral scholarship at the Hungarian Academy of Sciences and was partially financed by the NKFIH project No. 112069, "Varieties of Capitalism – Varieties of Direct Economic Intervention of the State". The paper is an updated and revised version of the presentation held at the 2nd The Role of State in Varieties of Capitalism (SVOC) conference organized by IWE CERS HAS and CENS CEU, Budapest, 10-11 November 2016.

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in the eve of the twenty first century, and through this how successful the state can contribute to multidimensional development in the chosen countries, and whether these developments (if any) can be sustained. For this we apply methods of comparative economics, and we have deliberately chosen countries not so commonly analysed in developmental state (DS) literature: Brazil and Egypt. We are aware that these countries are not only atypical in DS literature, but represent also a strange choice for a comparative analysis. For empirically testing our former theoretical argumentation (Ricz, 2015, 2016) we explicitly aimed to analyse emerging countries outside the East-Asian region, where the testing of the DS approach would have been more "trivial", but still we looked for countries with strong roots and experiences with the state-led development approach. Brazil seemed to be a good "laboratory" for testing the new DS approach, as it not only had an extended experience with the old DS in the 20th century, but also after the Millennium it was regarded as a role model for new developmentalism (see e.g. Amann-Barrientos, 2014, 2016). Our choice of Egypt as a second case study might also seem strange, as there are numerous other African countries much more often analysed in DS literature (such as Botswana and Mauritius in the old DS approach, or Rwanda, Ethiopia or South Africa more recently). In fact Egypt (as Brazil) had also embarked upon a state-led development path during the mid of the last century (the Nasserist period), and even though several attempts to turn towards a more market-oriented approach, the state continued to play an extended role in the economy. Even though Egypt has achieved significant economic growth during the recent decades, the 30 year-long reigning of president Hosni Mubarak is often considered as a "non-developmental regime", and finally it led to the revolution in 2011, and political (and economic) stability has not returned to the North-African country ever since.

We are convinced that the analysis of the Brazilian case highlights some shortcomings of the new developmental state approach (á la Brazil), which have become more spectacular through sequential social demonstrations in Brazil since 2013, the economic recession since 2014, the Petrobras corruption scandal since 2014 and the resulting impeachment process in 2016. Active state interventions in Brazil have reached impressive social results since the Millennium (decreasing poverty and inequality, though the latter is still at extremely high level), and its most important parts have been kept and even extended after the global financial crisis (GFC) in 2008-9. This spectacular success story was however backed by favourable external conditions (during the 2000s), and the new world economic "winds" blowing after the GFC as well as the exhaustion of the credit-led domestic demand growth quickly led to the exhaustion of the new Brazilian model. The economic growth rate of GDP after an impressive 10% in 2010, has decelerated throughout 2011-13, and turned into recession in the second half in 2014 (Ipeadata, 2016). The unfolding economic crisis was accompanied by increasing social discontent and layered by a political crisis, leading to a change in government, which resulted in a total turnaround in the economic policy approach (in the second half of 2016).

The Egyptian case has been also highlighted by recent political and economic processes of the country and its narrower region (which has entered the front pages of the written media due the so called Arab Spring), but in our research we look at the Egyptian case as an African (military-led) developmental state. In Egypt (as in Brazil) the state has traditionally played an expanded role in economic life, and some parts and effects of this heritage are still in place even though the numerous reforms put in life in several waves (such as in 1974, in 1991, or more lately after 2004). In the first decade after the millennium the Egyptian economy has performed well (on average 4-5% annual GDP growth), but it has suffered significant decline due to external economic and internal political events in 2011 and is struggling since then. In social terms the picture is even more nuanced: poverty[3] has increased in the period between 2000 and 2011 from 17% to 25% and to approx. 28% by 2015 (WDI, 2016). The deficiencies of the multidimensional development (political and social inequalities, corruption, etc.) were so extreme that these led to the revolution in 2011. After a short interplay of the Muslim Brotherhood governance, renewed social protests led to a military intervention backed by significant support of large parts of the society (also called second revolution) and the (political and economic) restoration of the old regime began under the presidency of Abdel Fattah el-Sisi. In the light of these changes (and the new challenges in the eve of the twenty first century), it is especially interesting to analyse what can the state do, what room for manoeuvre it might have to foster and facilitate development, and not least what kind of state might be able to accomplish this.

[3] Measured in terms of the proportion of population living under the national poverty line.

Most recent political and economic turmoil in both countries has shed light on shortcomings and severe deficiencies in both countries socio-economic achievements, and makes the analysis of both cases even more actual and interesting. Though both cases can be considered as “moving targets”, which makes not only our analysis of most recent processes more difficult (and in part allows some speculative formulations on the future), but one of its results is, that the case studies are still in “work in progress” phase, and day-to-day evolutions might alter the interpretation of the most recent processes and affect the scenarios for the future.

2. Main characteristics of the Brazilian and Egyptian development paths

During the first half of the 20th century both Brazil and Egypt were considerably less developed (both in economic and social/human development terms) compared to the leading economies of the world (Global North). In their regional context, however, both countries were considered relatively modern economies (although mostly because of the underdevelopment of the surrounding countries).

Looking at long term economic development trends we can state that both Brazil and Egypt have fared relatively (though by far not exceptionally) well. Average growth rates were 4,1% in Brazil and 4,8% in Egypt on yearly basis during the 1965 and 2016 period, however this has to be complemented with at least three further facts. First, while population growth rates have been constantly declining in Brazil (starting form 3% reaching the 2% threshold in 1988, and being below 0,9 recently), in Egypt the population is still increasing by more than 2% yearly. Thus looking at per capita growth rates Brazil fares better with 2,3% yearly averages for the same period contrasted to Egypt’s 1,8%. Second, looking at per capita GDP levels, Brazil’s initial advantage (of being the double of the Egyptian levels) has been shrinking over time[4], and Egypt did manage to close somewhat up to the Brazilian level and stands currently at around 70% of the Brazilian GDP per capita levels[5] (see Figure 1 in Annex). To illustrate the same in a somewhat different way: Egypt managed to double its GDP per capita level between

[4] In Brazil the GDP per capita level in 1960 was 2335 USD, while in Egypt only 991 USD (1990 Int. GK$). In 2010 the same values were 6879 USD for Brazil and 4267 USD for Egypt (in the same terms, as used by The Maddison project, 2013).

[5] Measured in constant 2011 international dollars, the Brazilian GDP per capita was 14455 USD, while the same in Egypt was 10250 in 2015.

1980 and 2010, while in the same period Brazil has achieved only a 30% increase in its GDP per capita levels. The third characteristic for both countries is the high volatility of the growth rates (see figure 2 in Annex), which predicts already the heavy exposure of both countries to external factors (such as commodity prices or tourist numbers), recurrent crises and in the case of Egypt the significance of military conflicts (a rather general characteristic for Middle Eastern countries).

Looking at regional and international perspectives (See Table 1 in Annex) we can state that Brazil has performed above regional and world averages in the periods from 1966-1980 (with exceptional high growth rates around 8 % yearly), and again from 2001-2010 (with rather moderate growth rates of 3,7%). Egypt has outperformed its regional competitors between 1980 and 2010 (the Mubarak era), being well above world or OECD averages, with an average growth rate around 5%. During the last 5 years however both countries has lost their economic dynamism, with Brazil being stuck in its most severe economic crisis since the 1930s, but also Egypt is heading severe economic problems and is in fact stagnating in per capita terms. Both countries have suffered complex political, economic and social turmoil during the most recent period, to which we turn at the end of our paper.

Looking at broader defined development achievements we can see that both countries have achieved significant advances in *human development* during the second half of the last century.

Measured in terms of the Human Development Index (HDI) Egypt was improving at a slightly higher rate than Brazil, starting however from a lower base[6]. During the last 5 years however (due to the economic and political turmoil in both countries) Brazil has gained 3 places in its ranking from 78 in 2009 to 75 in 2014 (among 188 countries of the world), while Egypt has lost 3 places within the same period (from 105 to 108). Looking beyond the composite index we can see that Brazil has a slight advantage in almost all development dimensions (for details on health, education and income components see Table 2 in Annex).

A more striking difference appears between the two countries looking at more recent trends in *poverty indigence*. In Brazil economic growth since the Millennium was

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[6] In 1990 Egypt's HDI was 0,546, contrasted to 0,608 in Brazil, the same values in 2014 were 0,690 and 0,755 respectively (UNDP, 2016).

accompanied by decreasing poverty, whatever poverty line is taken into account. Extreme poverty (people living under 1,9 dollar a day) fell from 13,62% in 2000 to 3,66% in 2014, and considering the 3,1 dollar a day rate significant improvement (from 25,82% to 7,56%) took place in the same period (WDI, 2016). For Egypt unfortunately we have not found any up-to-date numbers of internationally comparable poverty data. However according to some estimates one fifth of all Egyptians lived under the 2 dollar a day poverty at the Millennium (Femise, 2013: 27) and this share has been on the rise since then.

We can get a more detailed picture of the trends and changes in poverty looking at the national poverty lines (even though comparability problems). Brazil has managed to significantly decrease both the share and number of people living under the national poverty line between 2000 and 2013 (from almost 25% to below 9%, amounting to more than 26 million people being raised out of deprivation). In the same period in Egypt the poverty ratio has increased by almost 10% (from 16,7% to 26,3%), resulting in more than 12 million people slipping under the national poverty line within slightly more than a decade (Figure 3 in Annex). The situation in both countries is further complicated by huge within country differences, and much higher poverty rates in the rural areas, still the striking difference prevails in the trend of changes during the last decade and a half.

The picture changes somewhat if we look at *income inequalities*, traditionally extremely high in the largest South American country (with GINI at around 60%), while in Egypt the average historical level of the GINI coefficient oscillates around 40%. The trends of changes show however into the same direction, as both countries have managed to decrease income inequalities (at least if measured by GINI) since the Millennium: in Brazil it fell from close to 59,33% in 2001 to 51,48% in 2014 (WDI, 2016)[7], while in Egypt it improved slightly from 32,76% in 2000 to 30,75% in 2008 (WDI, 2016). Though in the latter case the empirical literature is rather inconclusive

[7] We have to note however that Brazil is still one of the most unequal countries of the world (it was ranked 18th among 155 countries in 2011) and even though decreasing by 8 points, the Brazilian Gini coefficient is still extremely high (with values around 51%). Furthermore according to some estimates this decreasing trend has been halted (and even reversed) during the last years' economic crisis, and the prospects are not better either in the wake of the most recent political changes.

about the direction and level of changes (see Verme at al. 2014), and some authors argue in favour of increasing trends of inequalities in Egypt[8].

Looking at economic structures we can state that at the beginning of the last century both economies were mainly relying on commodities export (with main export products being coffee for Brazil, and cotton for Egypt)[9]. Already in 1960 the economic structures of the two countries differed significantly, and more recent changes also show some divergence (for more details see Table 3 in Annex). As long as in 1960 in Brazil the agricultural sector was responsible for 21% of GDP, the industry already stood at 37% (out of which 30% was the manufacturing sector!), while services added up to 42%. Egypt at the same time was a much more rural and less industrialized country, with agricultural added value of 30%, industrial 24% and services 46% of the GDP.

In Brazil the industrialization drive was the main structural change until the 1980s, when industrial added value to GDP reached 45% (out of which the manufacturing sector accounted for 35% of GDP). However in the mid of the 1990s an apparent de-industrialization process started, and was accelerated after the Millennium, leading to significant decreases in both industrial and manufacturing production. By 2015 the Brazilian industry accounted for a mere 23% of the GDP, with less than a half of it coming from the manufacturing sector (11% of the GDP). In Egypt the tendencies were into the opposite direction: the agricultural sector decreased steadily from 30% in 1960 to 11% in 2015, the industrial sector reached 37% in the early 1980s, then fell back to below 30% in the 1990s, and since then reached previous levels of 37% in 2015. The share of the manufacturing sector increased slowly but constantly until the Millennium to 19% of the GDP (from 10% in 1960), and fall back to slightly above 16%.

Looking at the labour market trends, first we refer back to the already noted significant differences in population trends, and highlight that quick population growth rates resulted in quickly growing labour force stock in Egypt, while the pace of employment creation clearly lagged behind (see Figure 3 in Annex). This resulted

[8] The revolution in 2011 and more recent events in the North-African country also underline the fact that the decreasing trend in inequalities was not present in the perceptions of the Egyptian people, and one of the main drivers behind the social upheavals and the revolution(s) was the lack of social justice and equity.

[9] Both countries embarked on an import-substitution industrialization (ISI) economic policy path, though Brazil started with ISI policies a few decades earlier, already in 1930, while in Egypt it only began after regaining its independence in the early 50ies.

unemployment rates oscillating historically around 10%, and youth (and female) unemployment numbers are three-times higher. In Brazil on the contrary unemployment was slightly decreasing since the Millennium, and this trend was only reversed as the economic crisis in 2014 started to unfold. According to national data (Ipeadata, 2016) in 2015 it has reached 9,5% (while this covers only officially registered unemployment, and according to estimates the real numbers are somewhat higher).

Another strikingly different trend took place in wage earnings that have typically been on the rise in Brazil, while constantly decreasing in Egypt. In Brazil minimum wage laws and steady rises in minimum wages have been spilling over the formal and informal economy, and resulted in increasing average wages throughout the whole economy since the Millennium. This resulted in the significant increase of the wage share in GDP from 38% in 2003 to 48% in 2011 (Ipeadata, 2016). In contrast in Egypt the share of wages in GDP was historically low in international comparison (28,7% in 2000), but has further decreased after the Millennium, and barely reached 25% in 2009 (Morsy et al, 2014:2). This has also added up to the growing dissatisfaction of the Egyptian middle classes (that finally led to the revolution in 2011).

To sum up we can conclude that the Brazilian socio-economic path (especially since the Millennium) seems to be more inclusive, than its Egyptian counterpart, looking at decreasing poverty, inequality and unemployment levels, accompanied by large increases in the wage share in GDP. However in the light of still extremely high (and institutionally reproduced) income-inequalities (with a Gini coefficient being above 50%) in the biggest South American country and due to the fragility of the reached progress (as shown by the events and reversal of some trends since 2013), we have to be cautious not to over-emphasize the Brazilian results.

3. Strong roots of the state-led developmentalist approach

Both countries have a long tradition with state-led developmentalism, and also after the Millennium both have initiated a thorough reform process, though with different elements and directions, and with significantly differing socio-economic effects. Even though there can no chronological compliance be drawn between the economic policy cycles of the two countries, there are some similarities as shown in the following table.

Table 1: Variations of economic policies

<table>
<tr><th>Period</th><th>Brazil</th><th>Period</th><th>Egypt</th></tr>
<tr><td rowspan="2">1930-1985</td><td rowspan="2">The ‘old’ Brazilian development model (Getúlio Vargas, Juscelino Kubitschek – among others)</td><td>1956-70</td><td>The ‘old’ Egyptian development model (Gamal Abdel Nasser)</td></tr>
<tr><td>1971-81</td><td>Open-door policy (infitah), liberalization (Anwar Sadat)</td></tr>
<tr><td>1985-2002</td><td>Democratization and turning to the market (José Sarney, Fernando Collor de Mello, Itamar Franco, Fernando Henrique Cardoso)</td><td rowspan="2">1981-2011</td><td rowspan="2">(Non-)developmental regime of Hosni Mubarak</td></tr>
<tr><td>2003-2015</td><td>New development-oriented experiment (Luiz Inácio Lula da Silva, Dilma Rousseff)</td></tr>
<tr><td rowspan="2">2016-</td><td rowspan="2">Pro-market and pro-business turn (Michel Temer)</td><td>2011-2014</td><td>Political turmoil (SCAF, Mohamed Morsi)</td></tr>
<tr><td>2014-</td><td>A new development-oriented experiment (Abdel Fattah el-Sisi)</td></tr>
</table>

Source: own construction

Both countries embarked on a state-led development path by the mid of the last century, as a spontaneous answer to the external and internal changes (and nationalistic feelings). This experiment started earlier in Brazil and also lasted longer (1930-85). Egypt has turned towards state developmentalist model (often also dubbed as Egyptian socialism[10]) after its independence (1952), but in fact it was realised under Nasser (1956-70). It was however in Egypt, where the first attempt to open up and liberalize the economy – and dismantle the old developmentalist approach – took place, starting with 1971 under Sadat. This was accompanied by a right-about turn in foreign policy-orientation, turning away from the Soviet Union, and starting a long-lasting strategical relation with the US and the international financial institutions (the IMF and the World Bank).

[10] We have argued elsewhere (Ricz, 2016), that the Nasserist developmentalist experience can be regarded as a special variety of the classic developmental states, as it fits the original DS definition formulated by Chalmers Johnson (1982).

In contrast in Brazil until the mid-80s the main characteristics of the old DS were maintained, and it was only after the democratization process[11] starting in 1985, that important changes in economic policy design followed. It was however only after 1995 (the Real Plan) and the economic stabilization, when most important steps towards the market-oriented transition of Brazil were taken. Besides economic stabilization, structural reforms as well-known from the Washington Consensus, such as liberalization, privatization and deregulation were introduced, however in a rather special "Brazilian manner", and these never went so deep, as for example in Chile or Mexico. With words of Kerstenetzky (2014:175) the best term for this economic policy period in Brazil could be *the state-led governance by the market*.

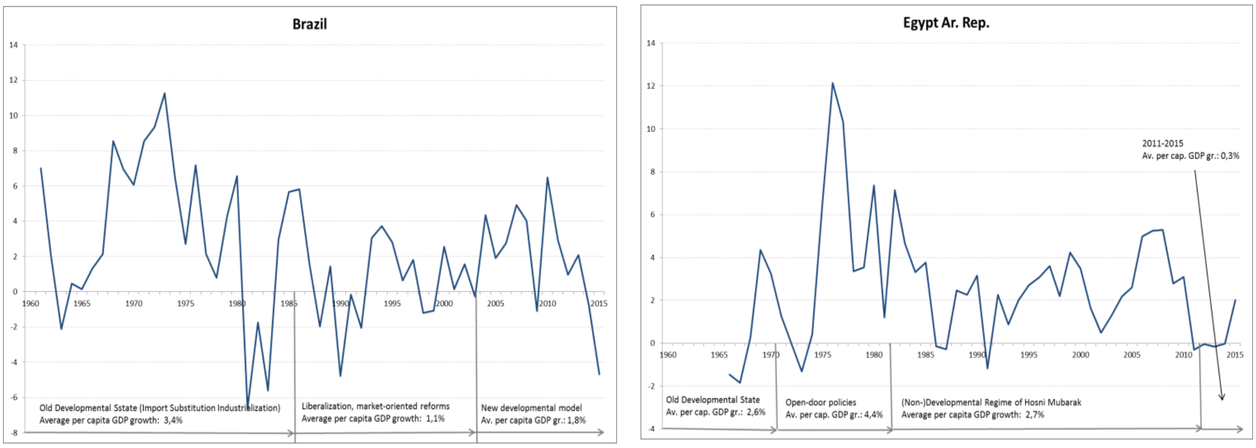
We can state in general, that in both countries (Brazil and Egypt) despite a range of so called *neoliberal reforms* and "de-statization", the traditionally oversized state and its widespread interventions continued to characterize many areas of the economy by the end of the twentieth century. Some further critics of this period in Brazil concern: the selective access to capital, credit and quality education, and the dysfunctionality of the labour market (the high and increasing share of the informal sector). Though unquestionable are the results in the area of democratization in Brazil, heavy critics affected the system of political representation and the unfinished state reform, as well as the neglect of social issues. While in Egypt the dominance of the state sector also remained strong, it is enough to recall that the majority of the jobs concentrated in the public sector, basic public services were provided by state-owned enterprises and an extended system of food (and oil) price subsidies was maintained. It is straightforward to see that important institutional and economic policy legacies of the old DS survived, and have left lasting bias on the institutional, economic and social structures of both countries.

Before looking at the general characteristics of the old DS models of the two countries, and without going into detailed analysis of the economic policies of this period, in the next figures we can see that the old Brazilian developmental state has reached better results in terms of per capita GDP growth (Figure 1). The Egyptian

[11] In fact the main driving force behind the democratization process in Brazil was the failure of the old developmentalist model, undoubtedly proven by the debt crisis, and this led to the loss of political legitimacy of the military rule and with this inherent changes in political (but also economic and social) spheres started.

economy also experienced some outstanding growth periods, these have however rather coincided with the opening up of the economy in the 1970s.

Figure 1: Average per capita GDP growth in different economic policy cycles in Brazil and Egypt



Source: own construction based on World Development Indicators (WDI, 2016)

Both the Brazilian, and even more so the Egyptian cases are less analysed examples in the DS literature, however in this paper we argue, that the classic developmental state definition of Chalmers Johnson (1982:23) was applicable for these countries during their development-oriented experiments in the mid of the last century. As both countries were capitalist, plan-rational states, with long term commitment to the developmental-oriented approach, applying active state interventionism in order to achieve main socio-economic objectives and represented by social consensus regarding the central role of state in development, as well as regarding the main socio-economic objectives.

Even though we argue that the classic DS definition applies, we do not claim, that the Brazilian or Egyptian old DS model was identical or even similar to the East-Asian classic DS model, indeed there were significant differences both in their design and characteristics, and also regarding their socio-economic outcomes. Before however highlighting these differences, first we sum up some general (classic) characteristics the old DS models in Brazil and Egypt, to support our view that these can be analysed within the DS literature framework.

Table 2: Main characteristics of the "old" DS in Brazil and Egypt

Brazil	Egypt
Spontaneous answer to external and internal changes (later also ideology)	
Active role of the state in economy (fine-tuning): regulated consumer prices and wages, direct and indirect state interventions, centralized investment decisions, financial repression	
Central role of economic planning	
Selective and discretionary industrial policy	
Import-substitution industrialization (and switch to export-orientation)	
Maintenance of private ownership	
Heavy reliance on SOEs	Land reform and Egyptianization (but no total nationalization)
Social policies for the urban working class	Special welfare „model": free public services, extended public employment
Restricted political freedom (authoritarian regimes – with democratic intervals in Brazil)	

Source: Own construction

As illustrated in the table above (Table 2) the old developmentalist experiments of the two countries can be paralleled with each other, and also with some of the core features of the classic (East-Asian-type) DS. There are however important differences, from which we highlight the role of *land reform* in Egypt (with not only redistributive social consequences, but it has also eliminated an important political force, the land-owning oligarchs) and the special (socialist) *welfare model*, based on free public services and extended public employment. Both have resulted a socially more equitable (though economically and financially distorted and unsustainable) development path for Egypt during the second half last century (with first cleavages however already appearing in the late 80s and 90s).

A common characteristic of the Brazilian and Egyptian experiment is the *fluid, weakly institutionalized bureaucracy*, in which appointments structured power and representation (and which is in stark contrast with the meritocratic, Weberian-style bureaucracy of the East-Asian classic DS models). In Brazil (with some exceptions such as the Brazilian National Bank for Economic and Social Development – BNDES) these huge bureaucracies were overcentralized, fragmented, with low professional ethics, low salaries and poor training, typically high corruption rates, and unsurprisingly little public esteem (Schneider, 1999). In the same vein the Egyptian state is often presented as having an "*oppressive bureaucracy, which is seen as unwieldy in size and economically over-politicized and irrational*" (Nimis, 2005:12)[12].

Regarding the state-business relations the common Brazilian and Egyptian characteristic is the so called *political capitalism*, where profits and investment are not driven by market mechanisms but depend on decisions made by the state, thus the state has pervasive and discretionary control over resource allocation (Schneider, 1999). At the same time the Brazilian and the Egyptian state had much lower state capacities to exert discipline over the business sector, than did for example the South Korean state (as Amsden (1989) has put it). Even though there were some exceptions, as for example Nimis (2005:35-36) describes the case of the Arab Contractors Corporation (ACC, often also cited referring to its founder Osman Ahmed Osman Co.) as an example of a mutual dependency of the Egyptian state and the company, and their relationship as a growth-oriented policy network. Such cases were however both in Egypt and Brazil by far not the rule but rather the exception.

Finally (but not independently from the previous points) an important common characteristic of the Brazilian and Egyptian development models, rooting in their old state-developmentalist experiments were (and remained) the cosy relations between the state and business sector. The dominance of political ties over the rule of law, even though some ups and downs managed to survive until most recently, and led to the tyranny of corruption in both countries in the eve of the twenty-first century[13].

All in all despite some general features, that favour the categorization of the old Brazilian and Egyptian developmental experiments as old developmental states, their classic state-led development models represent a special variety of capitalism, which has to be distinguished from the classic East-Asian developmentalist model, and is often

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[12] Even though it also had some signs of autonomy, if we look at its power to enact policies to serve the national development vision, and remain rather independent from particular interest groups of the society. A good proof for this was the land reform of 1952 which in fact eliminated the old landowner class, while the July Decrees of 1961 run contra the interest of the corporate elites (Nimis, 2005). Still compared to its East-Asian counterparts, it rather often served political interests and the social aim of full employment.

[13] This is however not uniquely valid in the case of the analysed countries, it is enough to recall the most recent scandals in South Korea, to see how the legacies of the old DS approach survive and how the balance of power changes in the new setting of the twenty-first century's globalization tendencies, as the state is getting weaker, while the business sector and the society is gaining more and more power.

called in the literature bureaucratic (or as Schneider (2013) calls it hierarchical market) capitalism.

Finally to sum up, we argue that both in Brazil and Egypt the development-oriented approach has strong precedents, mainly rooting in the presented old DS models characterizing the analysed countries in the mid of the last centuries. During the following decades, in different time periods, but several ambitious attempts were made to dismantle the old economic roles of the state. However, we argue that both on the level of institutions, both in economic policy practices strong continuities prevailed in both cases, and have until most recently influenced economic life in both countries.

4. New developmentalist experiments after the Millennium

In Brazilian economic policies 2003 marks an important milestone, as with the electoral victory of the Workers Party (PT – Partido do Trabalhadores) and Luiz Inácio *Lula* da Silva as new president a new development-oriented economic policy cycle started. The change in political orientation and in economic policies was stark and contrasting: the strengthening of the role of state in development was at the core of the new development model, and manifested the most in new active industrial, social and labour market policies. The inherent and overarching pro-poor approach became the trademark of the Lula regime.

After 2011 however first signs emerged to question the sustainability of the new DS regime, and at the latest in 2014 it became clear that it cannot be sustained neither economically, nor politically. The economic recession started in the second half of 2014, and was accompanied by a massive corruption scandal (surrounding the Petrobras, the national oil giant of Brazil, and other large companies, incorporating in fact almost the entire political elite), and finally led to a political crisis, which was “resolved” (at least temporary), by the impeachment of the governing president (Dilma Rousseff) and a new era started (under the presidency of Michel Temer and the PMDB – Brazilian Democratic Movement Party) with the political turn to the right, and with market-oriented and austerity reforms (in the context of a severe economic crisis).

In contrast in Egypt the reigning of Mubarak was (at least politically) unchallenged[14] in the eve of the new Millennium, still important economic policy reforms took place since 2004, under the Prime Minister Ahmed Nazif (and with the rise of Gamal Mubarak and his closest circle). These economic policy changes basically aimed at decreasing the state influence in several areas (neoliberal restructuring), but at the same time posed significant burdens on the lower and middle classes, while giving disproportionally large advantages to the domestic and foreign capitalist class (especially to certain groups of the business class). These changes were however by far less explicit (than in the case of Brazil) and did not mark a clear economic policy shift. This non-developmental regime of Mubarak managed to survive (with a low-cost but a politically and socially finally unsustainable strategy) until 2011, when it was ended by the revolution, and has left the country in severe political and economic turmoil with heavy social costs and consequences.

We argue, that looking on economic policies (and their development outcomes) since the Millennium it is possible to contrast some main similarities and differences in Brazil and Egypt, and this analysis also serves to better understand the background of their most recent political and economic turmoil (and their social driving forces) in both countries (as well as the failure of their new developmentalist experiments).

In the following section we look at economic policy changes through the lens of the new developmental regime approach (Pempel, 1999; Ricz, 2016) in a tripod structure. Thus we analyse 1. the social contract and alliances, 2. the institutions and the quality of policy making, and 3. the developmentalist bias of public policies, but first we shortly present the context in which these changes emerged.

4.1. Global and regional, political and economic context after the Millennium

To present the unique features of the new development experiments of Brazil and Egypt after the Millennium we focus on the regional political context and the global economic framework. The third element, strong traditions with the old DS approach, was presented in the previous section. We are convinced that in order to better

[14] Even though social discontent was on the rise since the beginning of the new Millennium, and became an organized phenomenon on the national level in the electoral year of 2005.

understand the current role of state in development in Brazil and Egypt, its historical evolution plays a key role, as legacies of the past heavily affect the present situation (strong path dependencies prevail).

In Brazil, the *regional political context* after the Millennium was characterized by the 'turn to the left', meaning that between 1998 and 2015 leftist presidents were elected in fifteen Latin American countries. These regimes have varied in the degree of departure from market-oriented economic policies, but all have introduced or strengthened redistributive social policies. Brazil under Lula represents a classic example of a moderate leftist regime in Latin America.

In Egypt, and in the wider Middle East and North Africa (MENA) region a much more complex political context was paved by *internal military conflicts* and *strategic interests of the global powers* (especially US). The non-developmental regime of Mubarak can only be understood and analysed taking into account the special role and position of Egypt in the MENA region, or the Arab world. For this the Egyptian self-image is a good starting point: the *Egyptian identity* is a very complex phenomenon, and can be best described by drawing up concentric circles: firstly Egyptian, secondly Arab, thirdly African, and finally Muslim (N. Rózsa, 2015). This regional political context has to be complemented with the very *specific roles of the* (muslim and Coptic Christian) *religion and the military* in Egypt (and also in the Arab world) (N. Rózsa, 2015; Csicsmann, 2010; Rutherford, 2013; Shenker, 2016; Ricz, 2016).

As for the other important element of the specific context in the eve of the new Millennium we have to refer to the *global economic environment*: the commodity boom and rising demand for commodities (mainly from Asia) and for tourism (also from Europe), the low interest rates and in more general terms to the overly optimistic business climate of the so called golden decade (1997-2007). High growth rates of the US economy and the emerging markets (mainly in Asia and Africa) have acted as locomotives for the world economy in this period. Though the economic boom was also driven by the spread of new information and communication technologies, the intensification of financial globalization, the spread of financial intermediation, low interest rates and the positive economic expectations (mood) preceding GFC. These favourable factors have also contributed to the relative good economic records in both Brazil and Egypt during the first decade after the Millennium.

4.2. Social contracts in Brazil and Egypt in the eve of the 2000s

As the first layer of the new DS regime (Pempel, 1999), we first look at the social contracts in Brazil and Egypt. The new, inclusive *socio-economic alliance,* built up by Lula and the PT represents a main *discontinuity* with former economic policy periods in Brazil. In this new social pact very diverse socio-economic groups were associated, mainly through the low-inflation regime, but also via different channels resulting from the special mix of public policies (Wylde, 2012:177). While the support of traditional national elites was maintained through the continuity of their main existing constituencies, the inclusion of the poorest parts of the society was a new and unique phenomenon. The poor were bought in to support the regime via social and compensatory income programmes, and the overall *developmental vision* of the Lula regime, the new approach to development combining financial stability with economic growth and social justice. Lula was able to incorporate also the middle classes into these new social-economic alliances mostly via his convincing managerial capacities at the local level. Even the organized civil society has contributed to the strong coalition of interests and all this has led to an (at least in Brazilian context) unusually strong (wide and inclusive) power base for Lula and his regime. In a short and catchy way Saad-Filho (2007:18) explains this new social contract as a successful attempt to build up an "alliance of losers", all interest groups who had suffered the most under the previous neoliberal period (during the 80s and 90s).

In strong contrast to the Brazilian story, in Egypt the 2000s were characterized by the struggle to maintain the old social contract built upon the paternalistic promise of the old DS approach, where high social welfare spending and extended public employment schemes served to compensate for limited political rights. Cleavages emerged already from the early 2000s on this old social contract: there were more and more signs pointing towards the growing social tensions and discontent, while at the beginning protests were mainly organized on local levels, by the election year 2005, there were already protests organized on national-level (Csicsmann, 2017).

Despite average economic growth rates close to 5% in the decade preceding the 2011 revolution, Mubarak's (selective) liberalization efforts and market-oriented economic policy reforms caused considerable resentment and tension in the majority of society. As shown in the first part of the paper economic growth did not trickle down to the larger part of the society (on the contrary poverty increased, and close to 50% of the Egyptian population is still living under less than 2 dollar-a-day (Femise, 2013:27)). Rising inflation and consecutive currency devaluations have pushed the wage earners into ever worse economic situation, as mainly imported food products have become more and more expensive. As a consequence the livelihood of ever larger social strata has been endangered. As a result of the privatization of some large state-owned companies fewer new jobs were created, and the alreadyhigh unemployment, especially among young people grew further. Finally the 2011 revolution undeniably proved that the old social contract was broken, and the majority of the Egyptian society has called (and is still calling) for a new one.

4.3. The quality of policy-making and questions of institutionalization

As a second pillar of the new developmentalist experiments we describe changes in the quality of policy-making and the institutionalization of the new developmental visions. On the level of institutions and policy-making the starting point of the Brazilian analysis is the *new Constitution* enacted in 1988. Besides the extensive social rights agenda, it implied the democratization of policy-making, and resulted in wide-ranging decentralization processes coupled with the extension of participatory mechanisms. Decentralization meant not only that executive (and financial) capacity was transferred to local levels, but this was conditioned upon the setting up of participatory councils to include the representatives of various interest groups. The Brazilian policy making processes are mostly described with the word 'pragmatism', meaning that economic policies aim to solve specific problems, and reforms are bundled together to help their political approval, and not enacted as a pre-defined reform programme.

There was however a clear ideational shift in the understanding of development, moving away from the old developmentalist approach purely obsessed with economic growth and neglecting distributional issues. The new developmentalist approach has grown out of the new Constitution guaranteeing wide-ranging social rights to ensure a decent life to *all* citizens. A totally new approach compared to the exclusionary characteristics of the old developmental state model. Based on the new social contract the move towards more participatory and more consultative policy making became an inherent feature of the new Brazilian model.

Significant advances have been made in practices of democratic deliberation in public policy formulation, becoming evident in the creation of public consultation councils (e.g. Council for Economic and Social Development called CDES[15] or the Brazilian Agency for Industrial Development, ABDI[16]), government and social movements dialogues and participatory budgeting procedures (Kerstenetzky, 2014:186-187). While the setting up of new thematic social ministries, such as the Ministry of Social Development[17] or the Ministry for Agrarian Development (separate from the Ministry of Agriculture[18]) can also be considered as institutionalization efforts of the new developmentalist bias in Brazil.

Besides all achievements in improving the quality of policy-making Brazil still bears the 'usual' shortcomings of young democracies. It is enough to refer to wide-spread clientelism and patronage, and more recently to the corruption scandals[19]. These highlight that despite some achievements via numerous anticorruption measures, corruption has remained severely entrenched in Brazil's institutional and political system. This resulted in the lack of accountability and transparency of the Brazilian policy-making, and has culminated in the political crisis (and one of the world's largest corruption cases) in Brazil. Finally we anticipate that under the Rousseff administration significant economic and policy challenges emerged, that have posed severe threat upon the institutionalization of the new developmentalist approach and in 2016 with the new Temer government taking office after the successful impeachment of Dilma Rousseff, the fall of Lula's developmentalist model undoubtedly became reality.

The tyranny of corruption is the clear linkage to the Egyptian case, but before we look at this, first we need to emphasize some distinctive features of the Egyptian case. The first important note is the lack of democratization process in Egypt. The Egyptian political system can be best described by its double (layered) structure: the coexistence of the archaic, patrimonial arrangements and modern power structures (N. Rózsa,

[15] Conselho de Desenvolvimento Economico e Social
[16] Agência Brasileira de Desenvolvimento Industrial
[17] Ministerio de Desenvolvimento Social
[18] Ministerio de Desenvolvimento Agrario
[19] 'Mensalão' (2005 –) and 'Petrobras' (2014 –) scandals are the most often cited cases.

2015:64). The one-person-led authoritarian political system (military dictatorship) is complemented (layered) by a democratic institutional system, which is in fact just a tool to pretend (or to maintain the semblance of) being democratic, that is, the system provides legitimacy towards the Western powers. Although there are basic democratic institutions, their real significance is negligible. It is enough to recall in this respect that during Mubarak's thirty-year reigning the ‘state of emergency’ was in force in Egypt (and which was finally lifted in 2012), and no vice-president was named until the revolution[20].

A typical feature of this (neo-)patrimonal system is, that citizens have no or little say over the state’s (rent-) income allocation, and in more general terms in political decision-making or in economic policy-making. This regime was able to operate until it assured a “decent life” for its supporters (especially the public sector employees, civil servants and public officials, as well as some parts of the urban poor and private sector workers), at the same time however it ruthlessly (and violently) eliminated all factors and forces endangering (or opposing) the regime, the systematic political repression was a constant characteristic[21].

This relative balance and stability came to end however during the 2000s: on the one hand redistributional needs of the system’s "silent support base" intensified, while the state revenues declined (partly due to the decline of external rents, partly because of the worsening and outdated extractive and productive capacities of the state). These tendencies were clearly indicated by continuous protests, strikes and demonstrations after the Millennium (see more Adly, 2013:210-213).

On the other hand however the intensification of the *workers' protests* coincided with the emergence and strengthening of the *political opposition movements*, which is well demonstrated by the foundation of the Kefaya! (enough!) movement in 2004 – the first organized opposition movement in Egypt in the post-1952 era (N. Rózsa, 2015:121). Finally, in the 2005 elections, the Muslim Brotherhood gained 20% of the votes, which

[20] On 29 January 2011 Omar Suleiman was finally appointed to the long-vacant Vice Presidency, amid the struggle for political survival of Mubarak, which could however no longer stop the protests and the revolution.

[21] With significant ups and downs however, as for example the electoral year of 2005, and the constitutional amendments in 2007 were interpreted by numerous analysts as first signs of political liberalization, while the elections in 2010, and the strengthening of repression preceding it, have inherently showed how illusionary these views were (Csicsmann, 2017:94).

meant 88 seats in parliament. Although these two processes (the workers' protests and the emergence of organized political opposition) were independent of each other, in fact their timing, their coincidence in time was a major factor (driving force) behind the Egyptian revolution, and also added up to its outcome.

The relations between the public and private sector is also characterized by a dichotomy in Egypt: on one hand the political and economic elite (big business) are closely intertwined, on the other hand, the public sector was unable (and perhaps unwilling) to build up close institutional ties with the ("average") private sector. While during the 90s the private sector gained significant weight in the economy – in 1983 it accounted for 43% of the GDP, and corresponded for 30% of investments in 2001, the numbers increased to 72, and 66% respectively (Adly, 2013:91) – the state did not allow the establishment of representative, consultative organizations and channels, did not authorize the members of the private sector to independently organize from below. Thus, neither the flow of information nor the channels for lobbying, and enforcing interests was insured, and apparently this was not in the interests of the state (neither in representative nor in regulatory perspective) (for details see Rutherford, 2013:199-230).

The existing forums and organizations were functioning under public authority and dominance, and virtually the institutions remained trapped in the Nasser's (centralized planned economy) legacy. Among numerous examples we can mention the General Federation of Trade Unions (GFTU), or Egyptian Chamber of Commerce, the Egyptian Industrial Association, or the Association and Council of Exporters). These all served the interest of large farmers and have to a certain extent institutionalized informal, personal relationships, and therefore inherently led to perpetuating clientelistic relations and led to the spread of crony capitalism.

To sum up, even though significant differences in the Brazilian and Egyptian cases, and the undeniable improvements in the Brazilian institutional setting and quality of policy making, the common feature of both countries was that political ties dominated (or overwrote) the rule of law, and finally resulted in the tyranny of corruption.

4.4. Economic policy orientation: developmentalist bias in public policies

As the third layer of our analysis (in line with the new DS concept) we turn towards economic policies, and look at their developmentalist bias. On the first sight there is a big contrast between Brazil and Egypt and their economic policy-orientation after the Millennium. While in Brazil significant changes did occur towards a developmentalist and pro-poor economic policy orientation, contrary to that, in Egypt on a rather selective way some market-oriented reforms were introduced, with some important anti-poor bias.

In Brazil President Lula and the Workers Party was on the one hand committed to improve the situation of the so called “forgotten class”, the lower deciles of the society, while on the other hand and not independently from the leftist ideology (supported by the continent wide changes of the pink tide) embarked on a new developmentalist approach, in which the state plays an important role in promoting social and economic development.

At the core of the new development-oriented Brazilian experiment was a special package of policies, with the following main elements: 1. tight and conservative monetary policies and the low-inflation regime; 2. complementary microeconomic policies, with active role for (“new-old”) industrial policies, and an extended infrastructural investment plan to act “as a catalyst for social change” (Wylde, 2012: 149); 3. active pro-poor social policies and 4. extensive labour market interventions. These factors all together and mutually reinforcing each other represented a particular mix of economic and social policies that facilitated a successful, (and compared to previous periods) more stable and inclusive development trajectory in the first decade of the twenty-first century in Brazil.

Even though we argue that the Lula administrations have made a significant step towards a more inclusive approach to development in Brazil, we also have to draw attention to important weaknesses and shortcomings, such as unfavourable changes in the production and export structure, underinvestment in infrastructure, heavy dependence on commodity prices and on the rise of household credits. These contradictions were also inherently part of the new Brazilian developmentalist model, and finally contributed to its demise.

In contrast the Mubarak era in Egypt was essentially characterized by the selective application of free market principles, without that the improving of the well-being of the majority of Egyptian society or even that the extension of human and political rights or choices would have entered the development agenda. By the end of 2016 we now know that this strategy was not sustainable (and led to the revolution in Egypt on 2011, and resulted in the removal of Mubarak from power), but it had managed to survive ("function") for 30 years. Though we argue that it was only viable (temporarily) within its very specific socio-political context, and its "supportive/enabling" internal and external conditions have fundamentally changed at the latest by the mid of the 2000s.

In 2004, with the government of Ahmed Nazif a new economic team has gained power, which represented a much more united and committed standpoint towards economic liberalization than ever before (Rutherford, 2013:223). The following period, between 2004 and 2010 (at the first sight at least) can be characterized by in-depth reforms both in terms of institutional operation and also regarding state capacities and economic policies. If we add to this the substantial devaluation of the Egyptian pound and significant steps in trade liberalization (see e.g. EU-Egyptian partnership), which resulted in a considerable correction of relative prices, and led to the realization of positive incentives and market signals for export products and activities, then we see a significant step towards dismantling the state-led approach. Meanwhile, new export promoting subsidy schemes were introduced (albeit with limited financial resources), and also the Industrial Modernization Center (founded in 2000, in PPP construction and with EU support), has contributed to the improving competitiveness of the industrial sector.

Still looking at the numbers one can easily see, that Egypt has realized a strange combination of inward-looking industrialization and a simultaneously implemented trade liberalization. Even though industrial production, and also the weight of the manufacturing sector increased (from 12% to GDP in 1980 it reached almost 20% in 1999), the latter's share in export remained stable (at around 37% of total export) and as a share of GDP it even decreased[22] (Adly, 2013:72).

[22] It is interesting to note that after the opening up of the Egyptian economy in the early 80s it was well integrated into the world economy (with exports reaching 33% of GDP, and imports being at 48%),

Even though in economic policy rhetoric Egypt turned towards an outward oriented export promoting and export-diversification strategy, the implementation was hampered by a number of (institutional) factors. In short, the reforms between 2004 and 2010 were brought in too late (and remained superficial) and have been implemented rather partially. There was no comprehensive and effective strategy to restructure the composition of export, thus dependency from energy export remained, and the share of manufactured goods in the total export stagnated. The new institutions that were set up to promote trade and export activities, were typically formalizing earlier informal, rent-seeking relationships and thereby undermined the effectiveness of both policy-making and the capacity of the state in terms of implementation.

Numerous other policy areas could be presented to prove, that in the post-2004 period the implemented measures and changes in economic policies (in the spirit of reducing the economic role of the state) have significantly increased the burdens of the lower and middle social classes, while providing disproportionately large advantages for certain circles of the business sector (along political ties). Without going into detailed analysis (for this see El-Naggar, 2009: 36-41), we mention the following areas, where the anti-poor bias was the strongest and most evident: tax system, competition policy, trade liberalization (espec. tariff reduction), labour market interventions.

Just to highlight some evidence for our argumentation on anti-poor (or anti-labour) evolution of economic policies it is enough to refer to changes in the wage share in GDP, which has been constantly decreasing ever since the 1980s (from 48% by the end of the 1980s, to 29% in 1995 and to below 20% by 2007) (El-Naggar, 2009: 49). Having this in mind it is less surprising that according to estimates close half of the Egyptian population lives under 2 dollar-a-day, or as the above mentioned author (ibid) formulates it even the "privileged class", the 95% of the nearly 6 million state employees and their families can be regarded as poor according to any international standard.

It was also in the early 2000s when Hosni Mubarak's son, Gamal Mubarak and his close friends, a young group of technocrats have been raising influence. This new generation of Western educated technocrats had good relations with the traditional business elite, and took advantage from this. Sometimes interpreted as a significant

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while after all the „liberalization reforms" of the 1990s, in 1999 exports barely reached 15% and imports 23%. With Henry and Springborg's (2001:142) words Egypt was in fact de-globalizing.

improvement in the relations between the public and private sectors, the information flow between them and the strengthening of communication and cooperation has not taken place via formal institutionalized channels, but much more via personal connections (mainly on private mobile phones) and subsequently led to further escalation of corruption. At the same time there was an important shift in appointment practices: in leading economic positions, as well as in the top bureaucracy positions those businessmen and other members of the (intertwined political and business) elites emerged, who were considered as being 'good friends' of the existing regime. As a result the emerging new economic (and political) order, was much more big-business friendly[23], than in traditional textbook sense, market-friendly.

According to Transparency International (TI) Egypt ranked as 111st among 180 countries in 2009, which is a significant decline compared to previous years (in 2006 it ranked 70th, while in the early 2000s its ranking was around 60th) (TI, 2016a). In this regard it is indicative that the Kifaya! (enough!) movement, which started in 2004 has also named as the fight against corruption as one of its priorities (and in 2006 it published a 274-page study, the Corruption Report in Egypt). During and after the Revolution corruption has remained virtually unchanged, and only after Sisi came to power into 2014, it improved somewhat (in the TI's ranking to the 94th place). Even in 2015, according to the latest survey, 50% of respondents paid a bribe for using public services in Egypt within a one year period (in the Middle Eastern region the situation was worse only in Yemen) (TI, 2016b).

Similar tendencies took place in Brazil, if we consider its worsening rankings by Transparency International from 54th in 2003 to 69th in 2010 and to 76th in 2016 (TI, 2016a). Still we argue that in the largest South American country significant institutional changes took place during the last 10 to 15 years in the areas of the judiciary, police, investigation and prosecution. Even a few years ago it would have been unimaginable that members of the political and economic elite would be sentenced to prison for money laundering or corruption cases, as we can observe in the Operation Car wash, the

[23] It could be illustrated with numerous examples how in the absence of rule of law, transparency and accountability political ties and relations have started to dominate Egypt's economic life already starting in the 1990s, and how this trend has become "chronically dominant "after 2004 (Adly, 2013:96). El-Naggar (2009:46) describes spectacularly the privatization of the Egyptian American Bank as an „*unholy marriage between the state and business that is characteristic of the current regime*".

investigation of the corruption case surrounding the national oil company, Petrobras. Even though these events might cause that corruption is perceived to be increasing, on the medium or longer term these might add up to changes in the positive direction. This institutional development hand in hand with the increasing role of the internet and the use of social media might also add up to significant changes with respect to the attitude of the Brazilian society and decrease the social acceptance of corruption (which is today an integral and inherent part of everyday life).

To sum up it is easy to see both in Brazil and Egypt that a special variety of capitalism, the *capitalism of the cronies* has emerged (and has been maintained, even strengthened during the last decades), where principles of the rule of law are dominated by political ties, and corruption is more often the rule and not the exception, and this is a systemic characteristic of both regimes.

5. Troubles and struggles in Brazil and Egypt post-2010

Looking at the last 5-6 years we can state that for both Brazil and Egypt it has been a very turbulent period in both economic and political terms. In Brazil changes started rather on the economic front, with decelerating growth rates from 2011, turning into recession in the second half of 2014, and finally (coupled with a wide-ranging corruption scandal) led to political instability starting in 2015 and ending in the impeachment of Dilma Rousseff in 2016.

In Egypt the sequence of changes (at least on the surface) was the other way around: social demonstrations starting in January 2011 culminated in a revolution, and managed to remove Hosni Mubarak from power (after his reigning over 30 years). After a short interplay of the Muslim Brotherhood and Mohamed Morsi (as democratically elected president of Egypt), social discontent and upheaval arose once again and military intervention followed[24]. After a short transitional governance, and after resigning from

[24] Morsi and the MB have however strengthened the Islamist line in policy-making and everyday life (with restrictions of the freedom of assembly and freedom of speech), and this together with growing economic and social problems has led to ever growing discontent in large parts of Egyptian society. First, in December 2012 millions took to the streets against the proposed constitutional changes and the Morsi system, and after another huge demonstration wave in June 2013, al-Sisi backed by the Armed Forces (SCAF) has managed to break up the power of Morsi and the MB. The perception and interpretation of these most recent political events is still controversial, ranging from military coup, towards labelling it

his military posts, Abdel Fattah al-Sisi was elected and inaugurated as president in June 2014 and is acting ever since. This political turmoil was accompanied by very weak and worsening economic performance in Egypt, mainly driven by the collapse of incoming tourism and the slowing down of foreign direct investment. This has finally led to severe social consequences. During the most recent months (autumn 2016) the shortage of dollar, soaring food prices (and with it rising inflation), and even shortage of basic food was among the most important economic challenges, which led to negotiations with the IMF about a 12 billion USD loan (approved on 11 November, 2016).

All in all both countries have "managed" to get onto the front pages of international media under the headlines of "heading towards the worst economic crisis since the 1930s". Without going into deep statistical analysis of the current crises, the figures in the second section and the annex reveal the deteriorating tendencies in almost all fields in both economies. In Brazil the economy is decelerating since 2011, and it is in deep recession for the second consecutive year, with growth rates around -3,7% and -3,8% in 2015 and 2016. In Egypt the economy has grown by 4,2% in 2015/16 and is expected to grow by 3,3% in 2016/17 (well below the planned 5% level), which shows some signs of improvement compared to the preceding period (2011-2014) and its growth level at around 2 %. If we take however the high population growth also into account, then it is easy to see, that after years of stagnation the economic growth still remains below 2% on yearly average. Unemployment is on the rise, in Brazil above 10%, while in Egypt close to 13% (but as shown in the second section, youth unemployment is almost three-times higher). Prices are soaring, with inflation being above 10% in both countries, but in some cases even much higher (e.g. food prices in Egypt), and interest rates have been increased to historically high levels in both countries to curb inflation (and without much success if we look at the numbers). The budget deficit is increasing and is above 10% in both countries, as is also the governments' indebtedness (in Brazil it is expected to reach 70% of GDP in 2016, while in Egypt it is above 90%). In Egypt a 40% drop in the tourists arrivals and lower than expected FDI flows also worsen the situation, and have led to international reserves to decrease to critical low levels. Whereas both countries' currencies have lost more than half of their values during the last 1-2 years,

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as a second revolution. Those who interpret these events as the manifestation of the democratic will of the Egyptian people, mostly refer to the Tamarod movement that managed to collect 22 million signature to force Morsi to resign and call for early elections.

though in Brazil it was rather a continuous and gradual process, while in Egypt the free-floating of the pound started only in November 2016 (linked to the IMF demands in exchange for $12 bn loan over three years), and led to a sharp (48%) devaluation of the Egyptian currency.

These economic difficulties (and political instability) have naturally led to rising social discontent, which is at its heights even currently in both countries. In Brazil demonstrations started already in 2013 caused by increases in public transfer fees, but then culminated in regular protests against the football world championship (and its biasing effects on developmental investments – asking for more schools and hospitals instead of sport facilities). In 2015 and even more so during the first half of 2016 people mainly went to streets to protests against or for the Dilma Rousseff government while it faced the impeachment process. The streets did not remain empty long as soon after the new government (of Michel Temer) took the power, demonstrations started again, first against the composition and restructuring of the new government (which was composed exclusively by elderly, white, conservative men – many of whom faced corruption charges – and at the same time several Ministries were eliminated, such as the Ministry for Culture and Human Rights[25]). And secondly, more recently a rising student movement is emerging since October 2016, protesting against the new education model and the so called PEC 55 (former PEC 241) constitutional amendment, which freezes government spending for 20 years at its current level.

In Egypt despite the heightened suppression of any social movement by the Sisi government (on even a more violent and spectacular way as under the 30 years of Hosni Mubarak), protests arise on regular basis (though they are less documented (see Kandil, 2016)). While in spring 2016 the direct cause of demonstrations was the transfer of two islands to Saudi Arabia, more recently (autumn 2016) social discontent arose because of food (and dollar) shortages, and increasing poverty and inequalities. For 11 November 2016 mass protests were announced, organized mainly on social media – partly by the so called "Ghalaba Movement", the marginalised movement. This was however "prevented" on the one side by extensive interventions by the government (police and security forces) already preceding the announced date, but on the other hand the

[25] The first was originally planned to be subordinated to the Education Ministry, while the latter was in fact to be eliminated. Finally due to extensive protests and outcry of artists the Ministry for Culture was reinstated.

society, civil organizations and political parties were also divided and hesitant to support the protest, as many of them saw the MB's involvement in the background.

Recent economic problems can at least partially be explained by important changes in the external context of the two countries. The global economic context has changed at the latest after the GFC, lower commodity prices and decreasing demand growth (mainly from Asia and towards primary products) have all affected both economies, while increased security challenges (lowering the demand for international tourism), and increasing food prices have posed significant burden on Egypt[26].

The regional political context has undergone significant changes as well. In Egypt the Arab spring and its demonstration effects (spreading via new and social media channels) have contributed to a new "enlightenment" of the society (espec. across the new generations). While Brazil was also affected by the continent-wide political changes leading to the end of the pink tide, and resulting in the turn to the right across some Latin-American countries (which was also driven by the discontent with the new leftist regimes that emerged after the Millennium, and was forged in many countries by a so called succession crisis[27]).

Due to important internal dynamics and changes in both countries we have witnessed emerging cleavages on the prevalent social contracts, which was first broken in Egypt (at the latest shown by the revolution in 2011), but also fall apart in Brazil during the governance of Dilma Rousseff. In both countries the construction of a new social pact is still awaiting.

On the economic policy front in Egypt it was not until 2014, and by Sisi's rise into power, that any new direction could be identified (as in the preceding period the interim and the Morsi governments only struggled to restore the governability of the country and to stabilize their political power). The unfolding "Sisinomics" contains many

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[26] While Egypt is traditionally very exposed to external changes (such as to oil and food prices, tourist arrivals, remittances and regional political changes), the case of Brazil is maybe even more complex. Brazil can still be considered as a relatively closed economy, as its export to GDP ratio barely reaches 13%. Taking into account this, we have argued elsewhere (Ricz-Nagy, 2016) that besides changes in the external context, important internal constraints to economic development have also added up to the most recent economic crisis in Brazil.

[27] This means that the succession of the charismatic leaders of the left turn was not effectively resolved, in some cases the successors could not fulfil the expectations (such as Maduro after Chavez in Venezuela or Dilma after Lula in Brazil), or the elected leftists president remained/or aims to remain in power via questionable methods, mostly constitutional changes (such as Morales in Bolivia or Correa in Ecuador).

elements of the Nasserist, old developmental approach. In contrast to that, in Brazil the milestone is rather the year of 2016, when Temer (first temporarily and after September as inaugurated president) took power, and after a rather eclectic (ad hoc and discretionary) economic policy (mis-)management (under the Rousseff government) the new economic policy direction is unmistakably dominated by the market-oriented, neoliberal line.

5.1. Unfolding economic policy directions in Brazil (2016 –) and Egypt (2014 –)

Finally we turn our focus towards the main characteristics of the most recently unfolding economic policy directions in Brazil (2016 –) and Egypt (2014 –). We are fully aware the fact that the very short time period (especially in the case of Brazil) in some aspects allows to formulate some speculative statements.

Let us start with Egypt: between 2011 and 2014 first under the interim governance of the SCAF (Supreme Council of the Armed Forces) and then during the Mohamed Morsi and the Muslim Brotherhood's government *political manoeuvring* and some populist decisions dominated the economic policy agenda. Not without any reason El-Dahshan (2016:203) describes the economic policy achievements of this period with the term „*destructive inaction*".

Under Sisi's presidency this has changed fundamentally, and a much more ambitious and explicit economic policy package started to unfold (at the latest after the grandiose economic conference held in Sharm el-Sheikh in March 2015), and has been dubbed "*Sisinomics"*.

Sisi's economic program might remind us in many ways to the old, Nasserist times: first, (at least on the rhetorical level) the emphasis was laid on social welfare and tackling poverty, with special focus on housing and education (N. Rózsa, 2015: 126); second, state-owned (or at least state-led and -dominated) mega-projects were aimed to be the main tools to re-start (big push) economic growth in Egypt. With the most prominent mega-project being the construction of the New Suez Canal and related development projects, but some other ambitious plans were also announced, such as the new capital project (45 billion US dollars) or a port development project with Chinese co-operation and capital (10 billion US dollars).

The new Suez Canal mega-project quickly became the flagship project of the Sisinomics, and clearly indicated a sharp break with the preceding rather cautious and gradual policies and also demonstrated the highly curbed developmental ambitions of Sisi, and the return to the old, Nasserist state-led developmentalist approach. At the same time it has also shown the initial euphoria and social support behind the Sisi regime, as the necessary budget was raised “immediately” by issuing very low value, tax-free and high yield bonds, 82% of which was acquired by private individuals.

These initial euphoric feelings were however soon followed by more critical views, as it soon became clear that the preparation and design of the mega-project was very incomplete (and hasty), with no feasibility study, no proper risk assessment, and excessively optimistic impact assessments. This excessive optimism became soon a general feature of "Sisinomics" and the (old) new development-oriented approach.

Sisi not only turned to the people of Egypt to support his ambitious development plans but also attempted to mobilize the domestic big capitalist class, as the “Long Live Egypt” (Tahya Masr!) program was announced. Its target was to receive donations from the Egyptian business elite to support the realization of the “Egyptian Dream”, at least its Sisi’s version, in form of domestic development projects. According to official announcements until the end of the year 2014 donations have reached 7 billion Egyptian pounds[28], though this was rather a debated number, still it shows not only Sisi’s strength and big ambitions, but also reveals us something about the asymmetries of state – business relations, as no serious big businessmen dared to stay away from the program.

A number of initiatives and economic policy changes (typically by presidential decrees) aimed at increasing investor confidence and boost investment in Egypt. Among these we highlight the Egyptian Economic Development Conference[29] (EEDC) held in Sharm el-Sheikh in March 2015, which was preceded by extensive press coverage and very high expectations. The donor and investor conference was propagated as a considerable success story: the Gulf countries have announced an economic aid package of 12,5 billion dollar, and investment deals totaled 38,2 billion dollars, with further, additional agreements on future projects worth 92 billion dollars. Global companies

[28] http://www.madamasr.com/en/2016/04/06/feature/economy/tahya-masr-how-sisi-bypassed-auditing-a-multi-billion-pound-fund/

[29] The website of the conference: http://www.egyptthefuture.com/

have also appeared, such as Siemens, which signed a 9 billion dollar deal, unique even in the company's history. The high level of the economic support coming from the Gulf States clearly showed the political acceptance of the Sisi regime in the region, but other transactions also demonstrated the confidence of the international business community.

Although (at least initially) the Egyptian private (big business) sector has positively assessed the results of the EEDC, rather cautious expectations regarding future investments could be felt. And not without any reason: it can be seen from statistical data, that the initial enthusiasm and ambitious promises were not followed everywhere by actions and real contracts. Looking at quarterly levels of incoming FDI, it can be seen that during the first quarter of 2015 (at the time of the EEDC) deals worth 2,9 billion dollar were registered, while in the second quarter with a significant decline "only" 690 million dollar FDI followed. In the third quarter of the same year the value of incoming capital was close to 1,4 billion dollars, which is however comparable to the corresponding data from the previous year (2014) – which stood at 1,1 billion dollar looking at quarterly averages (Esterman, 2016).

Egypt’s new five year macroeconomic framework and strategy (STRAT_EGY[30]) was also published during the EEDC, and can be considered as the revival of five-year economic planning, as known from the old developmentalist model. The STRAT_EGY is in fact a rather optimistic medium term economic plan with two main focus: ensuring macro-economic stability, and to restart and promote economic growth. For these aims it foresees structural interventions to improve the investment climate, such as fiscal consolidation measures or reforms of the tax system and the restructuring of the public expenditures (mainly related to energy price subsidies and public wages). It also contains an export promotion strategy building primarily upon the promotion of FDI, free trade agreements and on supporting the diversification of export towards higher value added products.

The Sisinomics besides its officially claimed pro-business stance has also strengthened the economic role of the military, which is traditionally extended and complex (though rather non-transparent) in Egypt. Without going into detail (for this see Abul-Magd, 2016) we refer to the modification of the Public Procurement Act in

[30] http://www.mof.gov.eg/MOFGallerySource/English/Strategy.pdf

2013 (under the interim president, Adly Mansour), that stated that in cases of emergency, the Egyptian government can choose directly whom to contract. Following this the Egyptian Army has closed contracts worth 1 billion US dollars for projects, none of which can be considered as real emergency: construction of bridges and tunnels, housing projects and rehabilitation of slums.

To demonstrate the significant economic role of the army we highlight that since August 2012 it took part in the implementation of 1350 development projects in areas such as the development of transportation infrastructure, education, health, water supply and housing (El Dahshan, 2016: 213). The army's participation in the three major national development projects might be also indicative: the construction of a new Suez Canal; the road network development; and the "statization" of a more than one million acres of land.

The social embeddedness of the army is traditionally high in Egypt (and would need a separate study for a deeper analysis), and this was well demonstrated in 2014, as the vast majority of the Egyptian society has chosen Sisi (who resigned from his military posts according to the prescriptions of the Constitution, and was elected as a civilian) and with him (albeit implicitly, but still clearly) the Egyptians have voted for the army. Here we aim to emphasize however that the time of big state development projects returned, and the commitment to the (old) nationalistic developmentalist approach reveals important parallels with the Nasserist development model.

At the same time even though in Sisi's rhetoric the commitment to social justice does appear to some extent, in practice not much happened until now (on the contrary see e.g. the reduction of tax rate for the highest income bracket from 30% to 22,5%). There are some initiatives to decrease or tackle social tension, such as the attempt to create a social net supported by the World Bank to help the poorest, with mixed results however. The implementation of targeted subsidy programs in Egypt faces many obstacles, mainly due to problems with identification of the beneficiaries (because of the poor Egyptian registration system and an extensive informal and non-registered sector, which is estimated to cover 40% of the economy).

To sum up we emphasize that further action in the area of social justice and inclusion is urgently needed in Egypt, as the events of 2011 and 2013 have shown that the

Egyptian society has reached its limits of tolerance, the former social contract has broken, and in the meantime no new one has emerged yet. If Sisi's current economic policy is to be followed, and further business and investor-friendly measures will be in place, there will be more and more compensatory measures needed to increase social welfare, to improve the situation of the poorest and most vulnerable sections of society, if the government wants to avoid another social upheaval.

As long as the initial economic support coming mainly from the Gulf countries (mainly from Saud-Arabia) has created economic policy space for Sisi, and led not only to delays in the front of economic reforms, but also resulted the suspension of discussions with the International Monetary Fund (IMF). During early 2016 (and in the light of some new regional political conflicts) the negative tendencies of the Egyptian economy have once again added up (soaring food prices and rising inflation, hand in hand with further dropping tourist arrivals have led to a severe foreign currency shortage, and led to decreasing international reserves and to significant devaluation of the Egyptian pound), and the renewal of talks with IMF became unavoidable.

Finally after months of preparatory work in November 2016 the agreement between Egypt and the IMF was approved. This contains in fact a bailout package, a 12 billion dollar loan facility for three years, and according to the official statement it aims to support the Egyptian government's reform program, that primarily aims at plugging a budget gap and rebalancing the currency markets.

Among the reforms agreed upon there are subsidy cuts, the introduction of a Value Added Tax (VAT) and the reduction of bureaucratic hurdles for foreign investors. The IMF conditions also touch on monetary policy issues mainly to ease the chronic dollar shortage and to reduce inflation to single digits, but aims, such as bringing down the budget deficit and government debt, promoting growth and creating more jobs also appeared (while efforts also have to be made to reduce Egypt's public sector wage bill).

One of the first and very spectacular move was that the Egyptian central bank gave up on 3rd of November 2016 the pegging of the Egyptian pound to the US dollar, which immediately led to a to a devaluation by almost a half (48%). The floating of the currency was followed by a cut in subsidies for fuel and plans to increase the rate of VAT to raise government revenues is currently debated.

To underline main differences compared to the old developmentalist approach we highlight that according to the new economic policy approach Egypt should stop subsidizing products (such as gasoline or bread), and rather make sure that the poor people have a minimum income level and can survive and have access to education and healthcare. Until now these changes emerge rather on the rhetorical level, and less in economic policy practice.

Without going into deeper details with this program and planned reforms, it is straightforward to see that it assures a new direction in public policies, and might represent a new turning point for Egypt, and might mean the end of Sisinomics, or at least a substantial modification of it, however the realization of reforms and their real effects will become evident only in the coming months, years.

Before turning to Brazil, we first sum up the main elements of Sisinomics: a business-friendly approach, ambitious mega-projects (such as the 'New Suez Canal') as the trademarks of the state-led development, combined with the strengthening of the role of the military as an engine of development. We highlight, that even though the short time period since the Sisinomics has been materialized, at the latest during 2016 it became clear, that it has carried many risks (of repeating the failures of the old developmentalist approach) and it neglected most important demands (that were main driving forces behind the revolution in 2011, and the renewed social upheavals in 2013), such as social justice and economic inclusiveness. Whereas on economic front the failure of Sisinomics were maybe even more evident and proved by the 12 billion dollar loan agreement with the IMF, which presupposes the acceptance of the IMF conditions regarding restructuring the economy and introducing a strict (neoliberal) economic reform program (with important additional elements to raise social welfare and to ensure inclusive development).

Turning to Brazil, we first have to note, that even though in political terms the shift took place in 2016 (on a temporary basis in April 2016, and finally in September 2016), when Michel Temer and his new government took power, to understand most recent events we have to go back to the end of 2010, and the first Dilma Rousseff presidential term. Not only economic growth started to decelerate by then (turning into recession during the second quarter of 2014), but clear and deliberate policy choices (often overseen by many analysts) also date back, and took place already under the Rousseff governance (thus during the PT era and its leftist coalition). Serrano and Melin (2015) call it "Brazil's Neoliberal U-Turn", as it explicitly aimed at reducing the direct role of the state in the Brazilian economy (even though important social policies remained in place).

In Lula's new Brazilian development model the public sector (including SOEs and public banks) was clearly the major actor to stimulate aggregate demand and to generate supply-side structural change, mainly through its investments. By the end of 2010 there was a clear economic policy change, turning away from this model and trying to satisfy the growing criticism coming from Brazilian corporations, banks, the media, and the conservative opposition, claiming that the Brazilian state has been intervening "too much" in the economy. The "ideology" behind the following (rather ad hoc) economic policy decisions was the belief that the state could be withdrawn from leading the economy, and the private sector would immediately step in. The government started to provide incentives for private investment, mainly in the form of (unconditional) tax cuts, tried to reduce (the traditionally and extremely high) interest rates (though this was quickly reversed) and a first large exchange rate devaluation also took place (Serrano – Melin, 2015:2).

Even though all economic indicators (see section 2 and annex) have shown towards the ineffectiveness of this new economic policy direction, the second term of the Rousseff government went on even after 2015 with its market-oriented (rather a Brazilian-type business-friendly) strategy. By then it was primarily aiming to "tackle" the unfolding economic crisis, mainly via austerity measures, such as public spending cuts, interest-rate hikes, increasing the utility prices and reducing the availability of credit in the economy. By the end of 2016 we know, that with these measures the Brazilian government has "managed" to add up to the worst economic crisis in Brazil's modern economic history.

This controversial economic policy turn became much more explicit and obvious in 2016, when the new government of Michel Temer came into power. Among the first economic policy steps[31] the announcement of a large privatization program, and a 20-

[31] It might be worth to note that as a first political step of Michel Temer the new (by then interim) cabinet after the removing from power Dilma Rousseff via the impeachment process in May 2016 was put together by exclusively white, elderly men (with a rather conservative stance). This has resulted heavy

years public spending cap (in form of a constitutional amendment, called PEC 241 or more recently PEC 55) already demonstrated the main economic policy direction. But further plans (such as the social system reform and the pension reform) even more radically indicate the commitment the neoliberal turn and the radical driving back of the role of state in the Brazilian economy (with immense social costs and threats lying – at least up to now – however outside of the new government's focus).

The "Project Growth" is the name for the ambitious privatization plans, containing 32 infrastructural projects mainly in transport, energy, mining and sanitation sectors and an expected budget of 24 billion USD until 2018. To attract the much needed private (and foreign) investments several procedural and technical changes have been made (ranging from the publication of English language bidding calls and rules, via lowering local content requirements, to the easing and speeding up of environmental licensing procedures), however often with debatable content.

Instead of going into deeper details of the new privatization plans, we refer back to the privatization plans of Dilma Rousseff, to show the rather strong continuity in economic policy terms. Already in 2012 the Rousseff government announced to sell state asset to private investors through long term concession deals, guaranteeing the right to operate roads, rails, ports and airports with the total amount of the proposed projects being around 45 billion USD within five years. Several adjustments had to be made to the original plans to offer adequate returns to potential private investors, and this led to delays in implementation in many of the projects, and the planned targets were never reached. Still the media was writing about a "new privatization wave in Brazil"[32], and these plans were not at all welcomed by large parts of the society, and even less by the electorate. As the PT has been traditionally opposing privatization back during the Cardoso period, and the theme of privatization still does not fit into any leftist political discourse in Brazil.

The second round of the privatization phase under Dilma was related to some of the remaining primary airports to be privatized by long-term concessions, with two peaks, one prior to the Football World Cup in 2014 and the latest one in 2015 (preceding the

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criticism, as Brazil is an ethnically and culturally very diverse and mixed country, and many social groups felt not to be represented by an all-men, all-white cabinet for which nobody has voted. Even the legitimacy of such a government was questioned by many social groups and movements.

[32] For example Forbes, 2012

Summer Olympic Games in 2016). Together with some other concession programmes announced in June 2015, to attract private investment the government envisaged projects summing up to 25 billion USD within the period between 2015 and 2018. These plans turned out to be overly optimistic, and might warn us not to have too high expectations about the realization of the most recent "Project Growth".

The government's new infrastructural program received the name Investment Partnership Program (PPI), but can be seen as the continuation of the PAC (Growth and Acceleration Program), which were implemented under Lula and Dilma. The PPI envisages investments of 500 billion Brazilian reals (approx. 125 billion US dollars) over the 2016–2018 period (Amann et. al, 2016:6), and its principal sectoral focus is on oil exploration and production industry (to be complemented with some inter-city highway developments covering however less than 10 % of the foreseen budget – solely 49 billion reals). To once again highlight the main difference to Lula's new developmentalist approach we recall, that under the PAC first phase (between 2007-10) almost 40 % of its budget was allocated to social and urban infrastructure, while in its second phase (between 2011-14, thus under Dilma) this has already almost disappeared (with a share of 0,4% of the total budget going to social and urban infrastructural developments), and this latest trend seems to continue according to the new plans of the Temer government (and its almost exclusive focus on the energy sector).

We have to contextualize the newly accepted public spending cup (approved on 13 December 2016), which freezes most federal expenditures (and its structure) in real terms for the next 20 years (and makes it via constitutional amendment, such as to be revised the earliest in ten years) under these above mentioned trends.

This public spending cap is an extremely divisive measure. Its proponents mostly highlight the need to regain market confidence and to cut budget deficit and keep inflation under control to avoid a future debt crisis. Everybody who knows more or less the Brazilian public system, would agree, that there is an urgent need for thorough reform, but the PEC 55 amendment has raised critics form all sides of the political (and ideological) spectrum. More conservative critics highlight, that the spending cap will not be effective against the growing budget deficit as it does not include the social security system (that currently covers more than 40% of the mandatory government expenditures). Some other critics even go further and claim the PEC 55 to be unconstitutional, as according to the Brazilian Constitution 18% and 13,7% of annual tax revenues have to be spent on education and health (Garcia, 2016). What is maybe more important for us, and lies also beyond the mass social protests across the country, are the fears that this measure harms the poor, who disproportionately rely on services provided by the government. At the same time it also harms future economic growth prospects, by freezing up (and even worsening) the current status of the educational and health system, thus further hurting the development of human capital, one of the main driving forces of economic growth in the eve of the twenty-first century.

Without going into deeper analysis we add a note on the effects of the Olympic Games (and the preceding Football World Cup), which on the first place have posed excessive fiscal burdens on Brazil, and especially on the state of Rio de Janeiro, while also have distorted its infrastructural developments for the last 5-6 years, and due to the resulted indebtedness and fiscal problems, are expected to put further burden on the inhabitants (mainly on the poorer parts of the society) as well as on its public systems (mainly on the education and health system, as well as on the urban infrastructure and other services).

Without going more into detail with most recent economic policy decisions and plans, it is straightforward to see that even though with different background (in Egypt rather as a result of an external pressure – from the IMF, while in Brazil as a result of the changing internal balance of power and the new political changes) both countries have turned towards a more pro-market, or pro-business agenda. However rather along the dominance of political ties and cosy state-business relations (instead of transparent and equal rules), which represents heavy challenges towards the expected results. Recent corruption scandals in Brazil are evidences for this, but there are also some cases in Egypt (e.g. surrounding some major development projects or the ever growing influence of the military), which are maybe less documented or highlighted in the international media.

Social challenges, and problems with the inclusivity in most recent trends are another common point, and propose some lessons for other (developing and emerging) countries, to which (lessons) we turn in the final section of our study.

6. Lessons and conclusions

Below we outline some conclusions and lessons in light of the Brazilian and Egyptian experiences, and resulting from the comparative analysis of the two cases. First we start with some theoretical considerations, and then extend on more practical lessons.

First of all we recall that substantial changes occurred in external and internal environments of states with developmental aspirations, and these have led not only to changes in the room for manoeuvre for these states, but have also changed expectations and perceptions as well as decisions of economic actors and individuals. These changes meant that the specific context that enabled the (rather relative and temporary) successes of the classic DS models has changed significantly. In both the Brazilian and Egyptian case we have argued that important continuities in both economic policies and on the institutional levels remained intact even after the Millennium, thus both development experiments were doomed to fail, as they did not manage to effectively react on the new challenges of the 21st century[33].

For the East Asian states, the so called classic developmental states the Asian Financial Crisis in 1997-99 was a milestone signalling the end of an era (and a beginning of a new one), while changes in their specific context have already started years, even decades earlier and in fact these added up while culminating in the AFC. In this paper we have argued however, that even after the Millennium, during the new development-oriented experiments in Brazil and Egypt, decision-makers failed to react effectively to the new challenges of the 21st century. Thus the driving forces behind most recent political and economic turmoil in both countries are to a certain extent similar to those, lying behind the fall of classic developmental state paradigm. At the same time we argue that more recent Brazilian and Egyptian troubles were not the result of unfavorable coincidences, but they have to be regarded as systemically driven failures, and originate in fact in the very same changes of external and internal context of the classic developmental states, which can be summed up along the following argumentation:

[33] Among these new challenges we can mention according to Michelle Williams (2014) the following: 1. As a fifth challenge we draw attention the increasing share of the financial sector, the financialization (see also Fine, 2016), while the long lasting effects of more recent financial crises, the following prolonged recession periods, and the new norms of the world economy, with substantially lower growth rates mean also different external context for any state with development-oriented aspirations.

1. Structural transformation of the economy: global, transnational organization of economic production, and growing complexity of economic activities undermine direct state guidance and "picking winner" strategies in industrial sector, whereas domestic subsidies in a globalized production line do not necessarily increase domestic investments and production. An illustrating case can be the failure of the "national champion" strategy of Brazil.
2. Significant societal changes: a more urbanized and "enlightened" society is less probably accepting authoritarian and repressive regimes (see the dynamics of the Arab spring[34]), while at the same time might lead to increasing consumerism (as in the case of Latin America[35]).
3. Changes in global financial system and capital market leave no or very limited room to development models based on state directed and repressed national finance systems, where resource allocation is subordinated to long term industrial goals rather than any efficiency measures (let alone price signals). For this a good illustration is the (unfavourable) structure of the Egyptian industrial transformation, with the excessive bias towards energy-intensive industries is clearly a direct result of the extensive energy-price subsidies. Successful integration into the globalized financial system and capital market is however preconditioned on institutional reforms, as relational banking and cosy relations between the state and business sector are not compatible with the new global rules of the game. And this can be perfectly illustrated with the corruption scandal surrounding the Brazilian oil giant, the Petrobras (and other big Brazilian companies), which was actually an extended kickback scheme, in which companies were "systematically" bribing senior Petrobras officials and other public offices to get "overbilled" contracts from the Petrobras. Money obtained

[34] The 2011 Egyptian revolution has well demonstrated the changes in the preferences of the Egyptian society. Due to the described "quasi-enlightenment" process the younger generation has put into question the old political elite's leadership skills, and demanded effective participation in political decision making, which in principle could have been a driving force behind democratization - we saw however that in Egypt it led to an emerging culture of street politics, and led to the revolution (which successfully ended the 30 years reigning of Hosni Mubarak), but the brief "democratic interval" was followed by a rapid restoration of the old regime.

[35] In Brazil the exhaustion of the domestic-led development alternative is often also led back to the mistakes of the active social policy interventions, which excessively relied on conditional cash transfers, leading to excessive consumerism and to emerging new mass consumption patterns, with heavy reliance on household credits to finance the new lifestyles, while on the other hand neglecting to improve the social (mainly health and educational) infrastructure and services (see e.g. Lavinas, 2016).

from this "obscure businesses" was also used to political campaign financing, and thus the vicious circle closes between the political and business sector.

4. Changes in corporate governance are inevitable consequences of the above described trends, as above certain development levels, increases in investments have to be accompanied by better management practices, efficient resource allocation (and well-functioning capital markets) along with foreign ownership (and knowledge) (Joh, 2007). Even though we did not extend on this topic in our analysis, even in this field both Brazil and Egypt are lagging behind the averages of other emerging countries (for more information on Egypt see Shehata - Dahawy, 2013; while on Brazil Black et al, 2010).
5. Changes in state – business relations were also forged by the changes in the economic and social context, on the short run the Northeast Asian states could discipline the business sector, however on the longer run with intensifying integration into the world economy and efficiency criteria coming to fore, the capabilities of the state have weakened and crony capitalism emerged (with rent-seeking and corruption becoming the rules and not exceptions). In Brazil and Egypt the state's disciplinary power was already weak during their old (classical) development-oriented attempts, so it is less surprising that in line with the intensification of global economic integration the already cosy state-business relations became hotbeds for corruption and crony capitalism prevails in both cases (the typical cases of a weak state captured by business interests).
6. Legitimacy of the mostly authoritarian, strong developmental states was provided on the one hand by US security considerations during the cold war, on the other hand by the exceptional growth performance that equally benefitted different classes of the society, at least in most East Asian cases. In Latin America different legitimizing forces prevailed, with stronger ideological base and historical legacies. In Egypt (as in some other Middle Eastern countries) the internal legitimacy was provided by the paternalist promise of the state, and the provision of free public services, an extended public employment scheme, and low (subsidized) food and oil prices. Both internal and external legitimacy bases were broken down already by the 1990s, but due to some "cheap survival strategies" managed to exist even during the 2000s in Egypt, the 2011 revolution

however has undoubtedly shown the fragility of the old developmentalist approach. For the case of Brazil we have told a somewhat different story, but all in all the new, inclusive social contract also broke down because of internal cleavages and external constraints arising at the latest after 2010.

We argue that the classic model of DS has reached its limits already by the end of 1990s, as inherently signalled by the AFC, we have shown however, that this did not mean the end of the story. Though significant changes took place both in Brazil and Egypt, after the years and decades of market-oriented and structural reforms, the state still played a significant role in both economies, and important continuities (both institutional and in economic policies) with the old development-oriented approach prevailed. Thus we have argued that both countries remained (to a certain extent) trapped in the old DS approach (even though more substantial changes did take place in Brazil, while in Egypt the continuities were undoubtedly stronger), and their current economic, political and social difficulties can be better understood via the analytical lenses of the DS approach.

On a more practical level we have shown that a very mixed picture emerges on the socio-economic and institutional development path of Brazil and Egypt during the last decades. While in Brazil a socially more inclusive and more equitable development path[36] was accompanied by the deindustrialization of the economy and the re-primarization of the exports (with new dependencies towards China), the new developmentalist model emerged under Lula was clearly not sustainable (in a less favourable external context and with the exhaustion of the domestic demand led model based on heavy increases in the private sector's indebtedness).

In contrast in Egypt the (non-)developmental regime of Mubarak has tried to keep intact the paternalistic promise towards the society (as well-known from the old DS approach), which proved to be however also unsuccessful, if we look at rising poverty levels, and at the extremely low (and decreasing) wage share in GDP. The Egyptian development model was in fact characterized by the continuous dependency on external rents and the ever growing dominance of clientelistic, rent-seeking behaviour.

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[36] Which is however also often criticized as active social policies, mainly cash transfers did not manage to invoke transformative changes (in Mkandawire's (2007) sense in the lower social classes, but rather led to the creation of new (financial) dependencies (Lavinas, 2016).

We have argued however that even though Lula's developmental experiment did fail in certain areas, still it managed to build up a wide social base (and a new inclusive and democratic developmental vision) and resulted in a much more equitable and pro-poor development record, than its Egyptian counterpart. Looking at these achievements, and the role of democratic values and institutions, that at least partially lie behind these, will help us to understand our more optimistic feelings towards the Brazilian case, and deeper worries for the Egyptian transition (even though in Brazil the GDP has been decreasing by approx. 3,8% in both 2015 and 2016, while the Egyptian economy managed to increase by 4,2% in 2015/16 and is expected to grow by 3,5% in 2016/17, this latter seems to be considerably better, even if we take into account the high yearly population growth rate standing above 2% in Egypt).

We have also shown that both countries did introduce some market-oriented reforms (with differing timing and on a rather slow and incomplete manner) but the implementation took place more often than not along the dominance of political ties (instead of rule of law) and the result in both countries was the spread of crony capitalism and finally during the most recent years the tyranny of corruption.

To sum up we have shown in both cases that if traditional explanations of under-development are left behind, the role and quality of state, and the lack of inclusive development became important explanatory factors of development outcomes. Thus we claimed that the old developmentalist approach was not able to reach striking results neither in the Brazilian, nor in the Egyptian case, and one main factor behind this was the lack of inclusivity. Namely progress in economic growth and in multidimensional development has not trickled down to larger part of the society, thus inclusive development was not achieved (with the exception of the 2000s in Brazil, when some positive changes occurred). We have also argued that recent changes (since the Millennium) in the world economy have fundamentally changed the perception of earlier results of classic developmental states, and have significantly altered the possibilities to sustain and finance developmentalist models on the long term.

Finally even though some positive results of the Brazilian experiment, and rather the lack of it in the Egyptian case, both countries have failed to make significant steps towards a viable new developmentalist model in the 21st century (which would be in line with the latest theoretical results, according to e.g. Fine et al, 2013; Mazzucato, 2013; Ricz, 2016, Wade, 2014; Williams, 2014)

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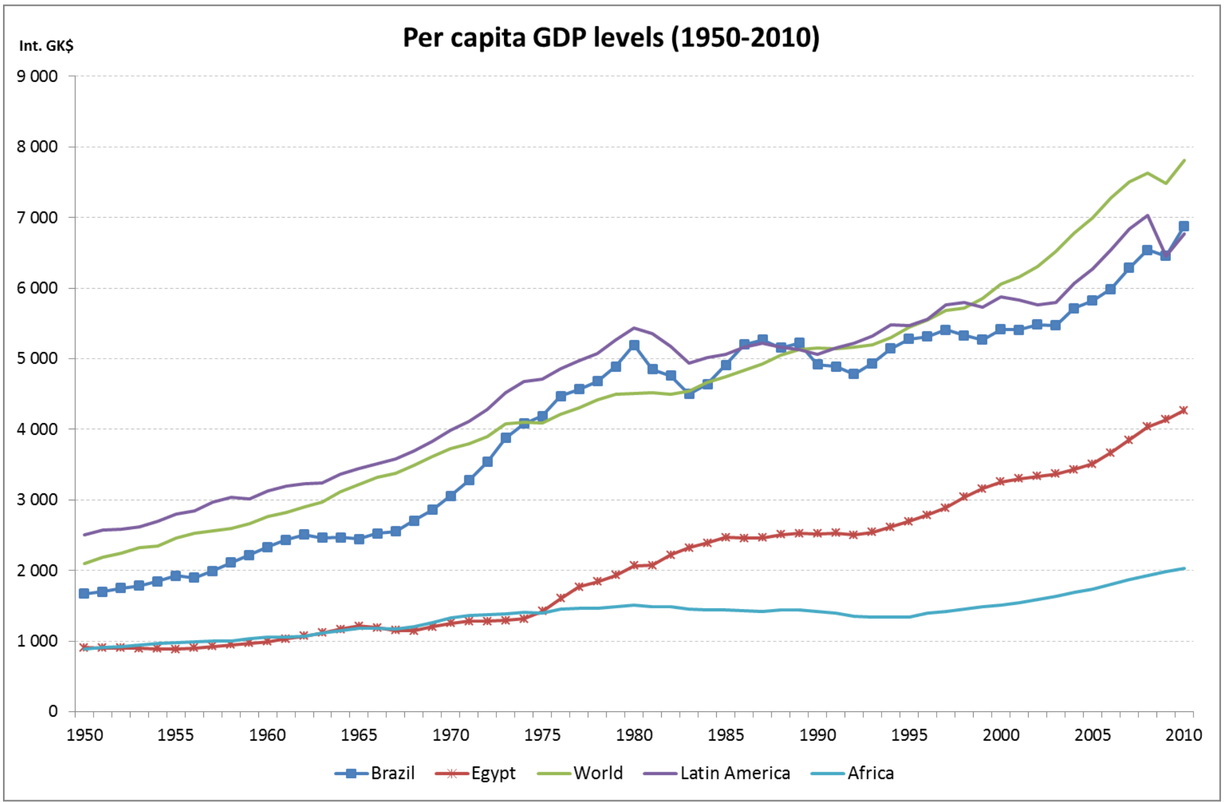
Annex

Figure 1: GDP per capita levels in Brazil and Egypt (1966-2015) in regional perspective



Source: own construction based on the Maddison project (2013)

Figure 2: High volatility of GDP growth rates in Brazil and Egypt (1965-2016)

Source: own construction based on WDI (2016)

Table 1: Brazil and Egypt growth records in comparative perspectives (1966-2015)

	GDP growth rates (yearly averages)					
	1966-70	**1971-80**	**1981-90**	**1991-2000**	**2001-2010**	**2011-15**
Brazil	7,8	8,5	1,8	2,6	3,7	1,0
Latin-America and the Caribbean	5,9	6,0	1,5	3,1	3,3	2,1
Egypt, Ar. R.	3,4	6,7	5,5	4,3	4,9	2,5
Middle East and North Africa	3,9	7,3	1,8	3,8	4,8	3,2
World	5,2	3,8	3,2	2,8	2,6	2,5
OECD	5,1	3,5	3,2	2,7	1,6	1,6

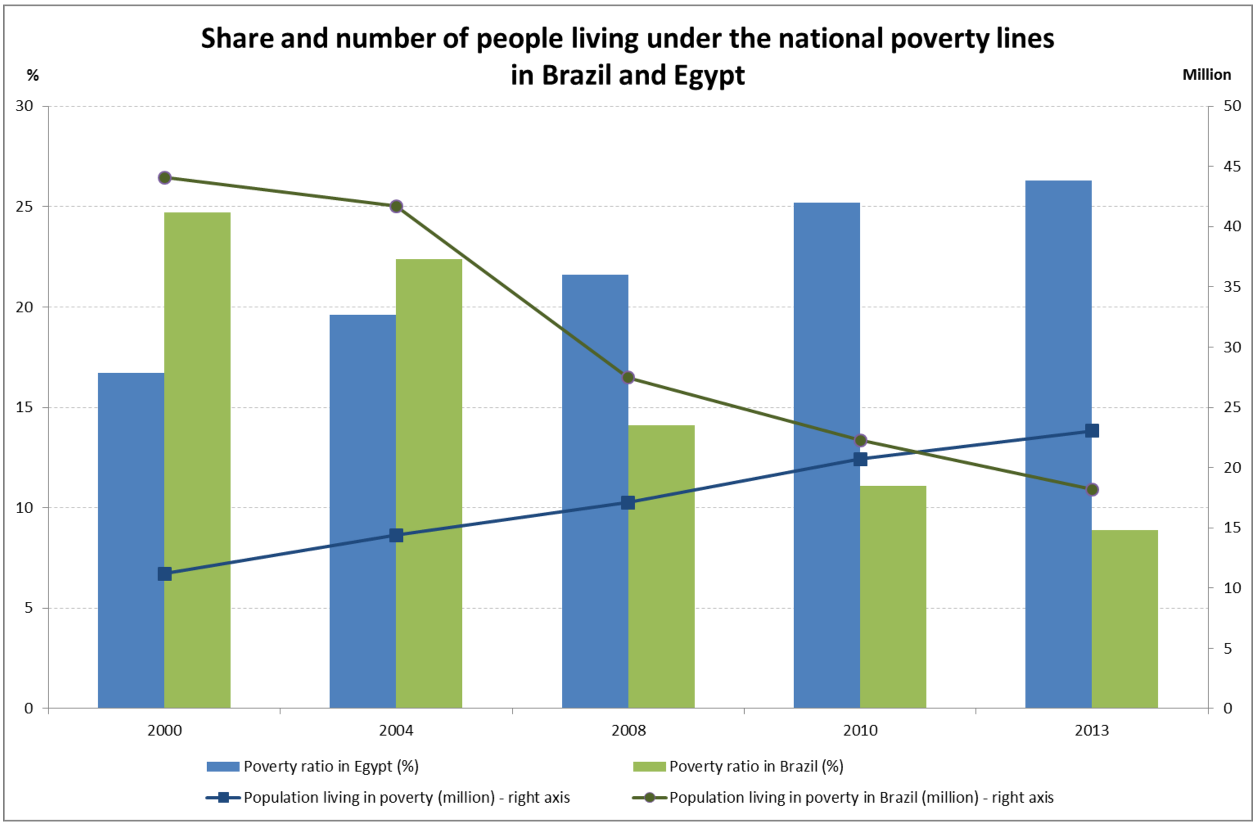
Source: own construction based in WDI (2016) data

Table 2: Human Development Index and its components in Brazil and Egypt in 2014

Country	Human Development Index	Human Development Index	Life expectancy at birth	Expected years of schooling	Mean years of schooling	Gross national income per capita	GNI per capita rank minus HDI rank
	Rank	Value	(years)	(years)	(years)	(2011 PPP $)	
Brazil	75	0,755	74,5	15,2	7,7	15 175	-1
Egypt	108	0,690	71,1	13,5	6,6	10 512	-12

Source: UNDP, 2015

Figure 3: Contrasting changes of poverty in Brazil and Egypt (2000-14)



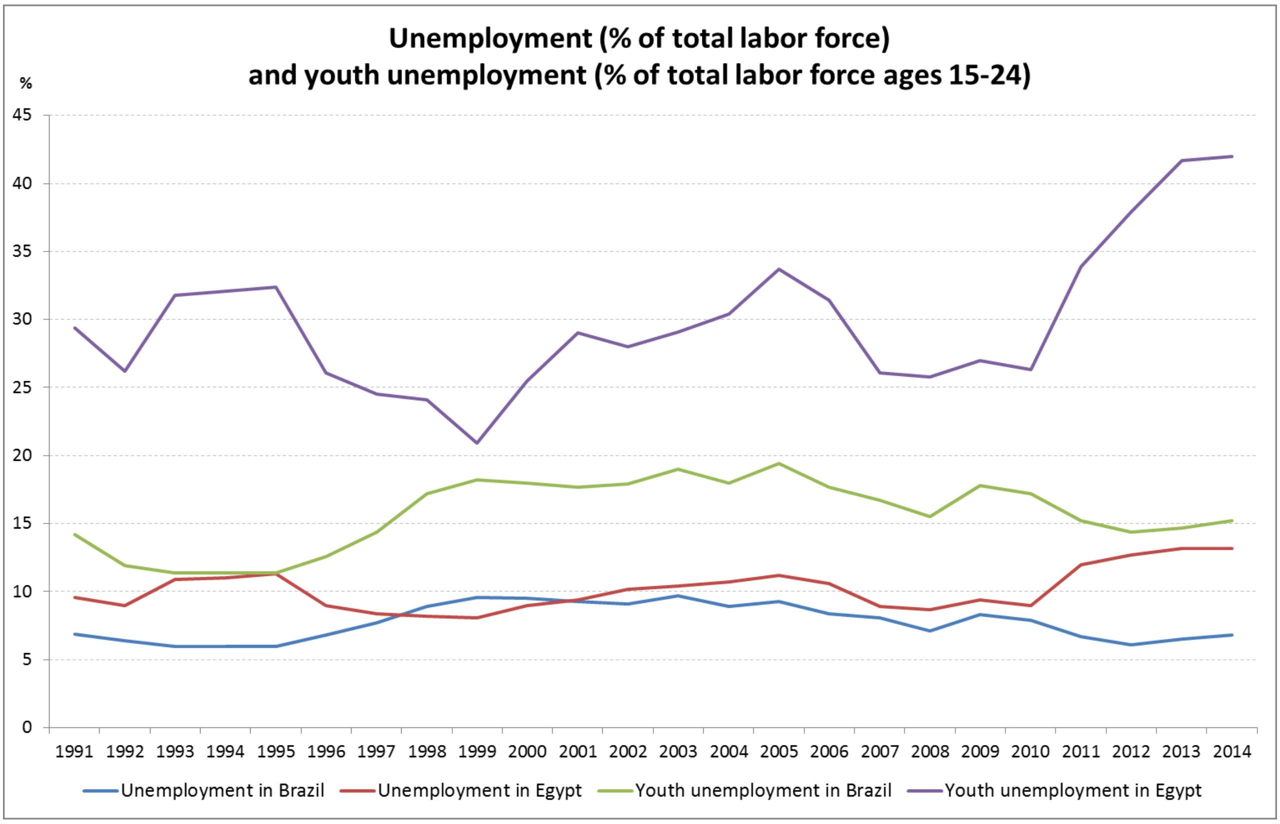
Source: own construction based in WDI (2016) data

Table 3: Structural changes of the Brazilian and Egyptian economies (value added in % of GDP)

	Brazil				Egypt			
	Agriculture	Industry		Services	Agriculture	Industry		Services
			Manu-facturing				*Manu-facturing*	
1960	21	37	*30*	42	29	27	*n.d.*	45
1970	12	38	*29*	49	29	28	*n.d.*	42
1980	11	44	*33*	45	18	37	*12*	45
1990	8	39	*30*	53	19	29	*18*	52
2000	6	27	*15*	68	17	33	*19*	50
2010	5	27	*15*	68	14	38	*17*	48
2015	5	23	*11*	72	11	36	*17*	53

Source: own construction based on WDI (2016)

Figure 3: Changes in unemployment levels in Brazil and Egypt (1991-2014)



Source: own construction based on WDI (2016)