After being marginalized and suppressed for decades, the Islamist movements have emerged as powerful political parties in Egypt and Tunisia, both of which have experienced democratic transitions since early 2011. While out of power, these movements frequently criticized the economic policies of secular Arab regimes and put forth ideas on how they would combat poverty, inequality, and corruption. Now that they are in power in Egypt and Tunisia, these movements will have the opportunity to implement their ideas. Various economic interest groups—domestic business communities, workers, government employees, foreign investors, and international lending organizations—are closely monitoring the economic agendas and actual economic policies of the Islamists in these countries in search of clues as to how they will manage their respective economies as policy makers.

A lot is at stake, as the political crisis that has followed the ouster of authoritarian regimes has led to a deterioration of economic conditions in both countries. The economic challenges that these countries face—including high unemployment rates, inequality, and large deficits—require urgent and immediate attention, and there will be little room for error or experimentation. This Brief analyzes the economic programs and policies that the Muslim Brotherhood in Egypt and the Ennahdha Islamists in Tunisia proposed during their recent political campaigns, along with the policies and programs that they are likely to implement in practice. It begins by identifying three
important factors that will influence these Islamist parties' choices with respect to economic policy: 1) the current economic challenges facing their countries; 2) their economic ideology, vis-à-vis the teachings of Islam on economics and commerce; and 3) the relative influence of various socioeconomic interest groups within the Islamist movements. The proposed economic agendas of the Muslim Brotherhood and Ennahdha will then be analyzed in light of these three factors. Finally, the likelihood that these Islamist parties will be able to both implement their agendas and improve their respective economies will be assessed.

**Current Economic Challenges in Tunisia and Egypt**

After their recent parliamentary and presidential victories, the Islamist parties of Egypt and Tunisia now have to deal with, and not only theorize about, major economic challenges facing their respective countries. The economies of both countries were already in difficult shape when mass uprisings toppled the Mubarak and Ben Ali regimes in early 2011—and the uprisings and political crisis that followed intensified the economic crisis in both countries throughout 2011. The subsequent economic deterioration in turn yielded new political and social challenges. The Islamists who put forward detailed economic agendas for the long-term economic development of their respective countries have accordingly had to deal with these economic emergencies first.

In both countries, the overthrown regimes had implemented a multitude of economic reforms during the previous two decades that resulted in the privatization, deregulation, and globalization of many sectors of their economies. These market-oriented reforms had led to higher economic growth and a gradual increase in per capita income, as demonstrated in Charts 1 and 2. But the economic benefits of these reforms were unevenly distributed. The undemocratic nature of the previous regimes, along with pervasive corruption and nepotism, had resulted in a sharp increase in income and wealth inequality.¹ And the higher rates of economic growth had failed to generate adequate employment opportunities for the growing number of young educated job seekers.

![Chart 1: Annual Economic Growth Rate (%)](image)

Source: IMF, *World Economic Outlook Database*, April 2012. (The 2011 figures are IMF estimates.)
The global economic and financial crisis which began in 2008 had an additional adverse effect on both countries, resulting in slower economic growth and the loss of jobs. The European Union is the largest economic partner of both Egypt and Tunisia, and the economic recession in Europe constituted a severe blow to the tourism industries of both countries. The total number of tourists visiting Tunisia fell from 7 million in 2010 to 4.8 million in 2011. This decline reflects not only the drop in European tourists but also a loss of Libyan tourists in 2011 due to the violent uprisings in that country. The number of international tourists visiting Egypt likewise fell, from 14.7 million in 2010 to 10 million in 2011, and tourism revenues declined by 30 percent as a result.

The decline in international tourism to both countries is partly a result of concerns on the part of the international community with regard to political stability, safety, and the rule of law—all of which deteriorated in both countries after the uprisings. Owing to their association with the previous regimes, the police were generally discredited in both countries, and the incidence of lawlessness increased. And these safety and stability concerns also had an adverse effect on the inflow of foreign investment.

The interim governments that came to power after the uprisings in Egypt and Tunisia reacted to these deteriorating economic conditions by increasing government spending and domestic borrowing, which in turn led to higher government deficits and increased inflationary pressures. One major source of the deficit in Egypt is a huge food and energy subsidy program that the Mubarak government did not dare to reform—even though in practice some of these inefficient subsidies have served the rich and the urban middle class more than they have benefited the poor. Unless these subsidies are reformed, their fiscal burden will cause a severe economic crisis within a few years. Furthermore, both Egypt and Tunisia also face large external debt burdens—a burden that is of more concern in Tunisia, where external debt amounted to 48 percent of the annual economic output (GDP) in 2010.

Economic activity in Egypt and Tunisia has also been adversely influenced by a surge of social activism on the part of labor unions, public employees, and unemployed youth. These groups are taking advantage of the more liberal post-uprising political climate to express their grievances. In Tunisia, unions in many industrial units have openly challenged the authority of owners and senior managers while frequently using the [French] slogan Dégage (Leave) against them to assert this point. The resulting protests led to a visible reduction in industrial and mining output as well as the loss of many jobs between January 2011 and January 2012. They also forced more than 150 foreign firms to suspend operations in Tunisia during this period. These labor activities, along with the uncertainties surrounding the security of private investment, have had an adverse effect on both domestic and foreign investment.

Islamic Ideology and Islamic Economic Thought

From its early rise in seventh-century Arabia, Islam was a political movement with a broad objective of governing all the affairs of Muslim societies according to a set of ethical norms rooted in the Quran and the Sunna. Influenced by the economic institutions of the Arab tribes in which it emerged, Islam encourages trade and the protection of private property. At the same time, Islam also holds individual believers and the ruler—the government—responsible for providing charity to the needy and the poor.

Islam tolerates income and wealth inequality but calls on the rich to avoid conspicuous consumption and to give charity (zakat). Another Islamic rule governing economic behavior is the prohibition of charging interest (usury), which has led to the establishment of Islamic banking institutions in many Muslim countries since the 1970s. Both zakat and Islamic banking reflect the emphasis of Islam on moral responsibility in economic behavior: They both are perceived as acts of sacrifice on the part of individuals for the benefit of society.

Modern thinking among Muslim intellectuals about economic behavior and economic institutions began in the early twentieth century with the writings of Sayyed Abol-Ala Mawdudi, Sayyid Qutb, and Mohammad Baqir Al-Sadr. All of them were trying to present an Islamic alternative to capitalism and communism based on the moral teachings of Islam. They have been succeeded by
What has emerged in this body of literature is often referred to as the Islamic Economic System—a system based on a number of core principles of Islam such are a) towhid (belief in one God), b) justice and goodwill, c) ikhtiar (free will), d) fardh (responsibility), e) tazkiyeh (spiritual purity), and f) khala'fah (the accountability of mankind before God). Islamic economists argue that an Islamic economic system grounded in these principles accepts the legitimacy of private property and private enterprise and relies on market mechanisms for resource allocation. It differs from capitalism, however, in that it seeks to achieve a balance between self-interest and social responsibility. Such a balance will be attained, it is intended, by means of consumers, producers, and government policy makers applying Islamic moral values (such as the prohibition on charging interest) to guide their behavior.

Overall, the teachings of Islam on economic issues that demand specific actions or restrictions on economic behavior are limited to zakat, the prohibition of usury, prohibitions on the production and consumption of forbidden (haraam) products, and specific inheritance rules. The pious and orthodox Muslim supporters of the Muslim Brotherhood and Ennahdha are expected to call for enforcement of these Islamic restrictions. The ultraconservative Salafi movements will also demand strict enforcement of Islamic rules and moral restrictions throughout society. The Salafis have emerged as important political blocs in both countries. In Egypt’s parliamentary election, the Salafi Nour party won more than one-fifth of the seats, and its support for Mr. Morsi played a crucial role in his presidential victory. Unlike the Muslim Brotherhood, which appears to focus on pragmatic and populist policies that will please a diverse segment of voters, Salafis believe that Islamic law takes precedence over the popular will. In a recent interview with Al-Shorouk daily newspaper, Sheikh Yasser Borhami, the influential preacher and spiritual leader of Egypt’s Salafis, offered the following advice for President Morsi:

I would say that he who upsets the people for the sake of pleasing God, then both God and the people will be satisfied with him. And he who angers God for the sake of satisfying the people, then both God and the people will be displeased and angry with him.11

The Islamic call for charity and responsibility toward the poor will also influence the economic policy choices of Islamists. These concerns will encourage Islamist policy makers to develop and maintain social welfare programs and to introduce formal institutions for the collection and distribution of zakat.

Factions and Interest Groups within Islamist Movements

A common commitment to Islam does not eliminate diversity of opinion among Islamists on various issues. This diversity of views is rooted in the diversity of economic and social classes from which Islamist groups such as the Muslim Brotherhood grew. Islamist movements gained popularity in Egypt, Tunisia, and other Arab countries beginning in the 1970s, primarily as a result of the failed developmental policies of secular authoritarian governments, which alienated many social groups for a variety of reasons. What attracted many individuals to Islamist movements was not only their religiosity, but their discontent with existing social and political conditions as well.

Richards and Waterbury argue that the supporters of Islamist movements in recent decades came from four socioeconomic groups: a) counter-elite businessmen and professionals, b) frustrated intellectuals, c) unemployed or underemployed university and high school graduates, and d) urban lumpen proletariat.12 To these one could add the large group of urban and rural poor who developed sympathies for Islamist movements mostly in response to the financial assistance and social services that Islamists have offered in poor neighborhoods.

Such a diverse social and economic base, however, can lead to the prevalence of opposing views on economic policy within Islamist movements. The business wing of an Islamist movement, for example, is typically dominated by small and medium-size business owners. In addition to voicing general demands for pro-business policies such as deregulation and lower taxes, this group is likely to call for the removal of anticompetitive considerations such as corrupt, government-supported monopolies of the sort that dominated the economies of Tunisia and Egypt under Ben Ali and Mubarak. This group of business owners is usually a relatively large one within Islamist movements, and it is likely to play an important role in the formulation of Islamist economic policies in both countries.

In Egypt, moreover, religious businessmen have been very influential in the Muslim Brotherhood. The most prominent business leader in the Brotherhood is
Khairat el-Shater, who served as deputy chairman of the organization and has been credited with drafting the movement’s economic agenda for the 2011 parliamentary elections. He was subsequently selected as the Brotherhood’s candidate for the 2012 presidential election but was disqualified by the election commission.

At the other end of the spectrum, workers, unemployed job seekers, and government employees will also exert influence on Islamist parties’ economic policies. They are likely to push for government job creation, improved job conditions, and higher minimum wage rates. Soon after the collapse of authoritarian regimes in both Egypt and Tunisia, these groups began to mobilize and demonstrate for these demands. Some have also engaged in labor protests and strikes against larger business units and government ministries in both countries.

**Economic Agenda**

In preparation for their political campaigns, both Ennahdha and the Muslim Brotherhood published their economic agendas. The proposed policies of both movements reflect the influence of the three factors we explored above. They also reflect the attempt of Islamists to alleviate the concerns of the business communities in their respective countries, who were worried about Islamists imposing radical and anti-business economic policies.

The Muslim Brotherhood’s economic agenda is part of a comprehensive socioeconomic development plan called the Nahda (Renaissance) program. Intensive work on this development plan began in March 2011; the person in charge of the project was the aforementioned Khairat el-Shater, who invited a wide range of experts and scholars to contribute and created several working committees. In a pragmatic and outward-looking move, the Nahda planning committee sent teams of experts to more than twenty-five developed and developing countries to learn about their development experiences. The fact that the Brotherhood selected el-Shater to head the Nahda program indicates that the market-oriented faction of the movement is exerting more influence on the movement’s economic agenda than the government-oriented faction.

Ennahdha’s economic agenda is part of a comprehensive document, entitled “Ennahdha Movement Programme for Freedom, Justice and Development in Tunisia,” that was released in 2011. According to this document, Ennahdha wishes to address such economic shortcomings of the previous regime as unemployment, regional imbalances, and corruption (p.24). The policies recommended by Ennahdha to address these issues reflect a strong commitment to free enterprise capitalism, with an active role envisioned for small and medium-size enterprises. The plan envisions a major tax reform to reduce the burden of taxes on lower- and middle-income families and enterprises while shifting a larger share of the tax burden to higher-income households and large corporations (pp. 31–32). It also calls for a shift of development funds and government spending to less developed regions in order to reduce the income and development gap between various regions of the country. These are supplemented by offers of financial and technical support for private-sector investment in deprived regions (pp. 37–38).

Based on statements by and publications of the leadership of Ennahdha and the Muslim Brotherhood since the January 2011 uprisings, both movements are trying to find a compromise centrist economic model rather than moving to either a government-dominated or extreme capitalist model. This centrist model can best be described as an “Inclusive capitalism,” as opposed to what many critics have described as the crony capitalism that was in place under the pre-uprising regimes in Egypt and Tunisia. Islamists perceive Inclusive capitalism as a free enterprise economic system in which the benefits of economic growth and development are distributed among all citizens instead of being reserved for a small political and business elite. They prescribe fair and free competition as the remedy that will distribute the benefits of economic growth in a more equitable manner.

This emphasis on competition also reflects the Islamists’ positive view of the role of market mechanisms in the economy. Instead of trying to achieve fairness through price controls or the nationalization of private property—measures that enjoy some support among more orthodox Islamists such as the Salafis—the Muslim Brotherhood and Ennahdha believe that government should play a supportive role with respect to markets and private investment. Accordingly, they focus on the promotion of fair competition and the elimination of corruption. Ennahdha’s program for the promotion of tourism, for example, calls for the adoption of an “open sky” policy (reducing the regulations and restrictions governing the operations of international airlines in Tunisia), which will reduce the cost of flying to Tunisia. Islamist politicians likewise point to endemic bribery and government corruption as root causes of economic inequality and have pledged to fight corruption and nepotism at all levels of government.

Their support for competitive markets does not imply that the Islamist parties in either country are interested in reducing the size or activities of government. On the
contrary, some anti-poverty social programs are likely to expand. What both parties have pledged to address however, is the large government deficit. President Morsi’s government is trying to address this issue by means of a comprehensive consumer subsidy reform that will replace the current general subsidies with targeted subsidies for low-income and poor households. In recent years these subsidies have accounted for 27 percent of Egypt’s fiscal budget. Reforming these subsidies, it is hoped, will help restore investor confidence by reducing the budget deficit.19

The economic agenda of Islamists also calls for economic engagement with the international community. Both the Muslim Brotherhood and Ennahdha have expressed full support for attracting foreign investment and promoting trade and tourism. To a large extent they have done so out of necessity. Ennahdha’s economic agenda calls for a reduction of dependence on (interest-based) international loans while encouraging the inflow of direct foreign investment. It also calls for attracting foreign investment through Islamic financial instruments which appeal to pious Muslim investors.20 Both Ennahdha and Muslim Brotherhood leaders are looking at rich oil-exporting Arab countries as important sources of foreign investment and have shown an interest in developing closer economic ties with these countries, particularly Saudi Arabia.21 Islamists are aware of the religious devotion of some of the wealthy investors in oil-rich GCC countries and plan to attract these investors by offering Islamic financial services such as Islamic banking and Islamic bonds that comply with Shariah prohibitions against charging interest.22

Both Islamist movements have also pledged to maintain their warm diplomatic relations with Europe and the United States. Ennahdha has given high priority to expanding Tunisia’s trade and investment relations with Europe and seeks to achieve a “privileged partnership” status with respect to the European Union.23 The Muslim Brotherhood has even offered assurances regarding honoring the 1978 peace treaty with Israel so as to address the concerns of Western countries in this regard. It has likewise expressed a commitment to its Qualified Industrial Zone (QIZ) agreement with Israel, which qualifies QIZ products with a minimum required level of Israeli content for tariff-free export to the U.S. market.24

Another major challenge for Islamist parties arises from the nature of the democratic institutions with whom they will need to engage. Given the new democratic institutions of Tunisia and Egypt, the Islamist parties could be tempted to pursue short-sighted populist policies in order to appease voters and stay in power—which might force them to compromise some necessary but unpopular economic policies. In order to revitalize their industries, for example, Islamist governments will have to confront the unrealistic wage and ownership demands of some labor unions and professional syndicates that have been empowered after the democratic transitions in Egypt and Tunisia.

But in the current political environment of these countries, taking action against labor protests and work stoppages is likely to be unpopular, and Islamists can be expected to avoid direct confrontations with workers. Instead, they are likely to try to resolve disputes by supporting higher minimum wages or offering wage subsidies to industrial units. Ennahdha’s economic agenda, for example, calls for an automatic annual adjustment of the minimum wage by the rate of inflation plus one percent.25 Such a policy will lead to increased government spending on wage subsidies and hence to larger fiscal deficits. The Islamist government of Tunisia has already announced that although it wants to reduce the budget deficit in the long run, in the immediate future it will allow for more government and deficit spending in order to stimulate the economy.

Insistence on the part of pious and orthodox Muslims that Islamic morality restrictions be enforced could also pose a challenge for the Muslim Brotherhood and Ennahdha. Demands for the enforcement of Islamic restrictions on permissible women’s dress, for example, or for prohibition of alcoholic beverages will have an adverse effect on tourism, which is so vital for economic recovery in both countries. With respect to Islamic banking, orthodox Muslims will pressure the Islamist parties to enforce anti-usury laws, but a comprehensive ban on charging interest would have adverse effects on the banking system.

In matters of this kind, pragmatism is expected to prevail, and so Islamist parties are likely, for example, to support

Challenges to Implementation of Islamists’ Economic Policies

One of the main challenges that Islamic movements in Tunisia and Egypt will encounter is the difficulty of accommodating the diverse economic demands of the various social groups that support them. Some of these demands might be incompatible with one another. First, the demands of business might come into conflict with labor demands, such as for higher wages and increased benefits. Raising the minimum wage and enhancing benefits for workers, however, will increase operational costs for business owners and will also increase the cost to government of wages for public employees. Increased government spending will also make it more difficult for the government to achieve macroeconomic stability, which is needed to attract foreign loans and investment.
a tolerant female dress code. And instead of replacing conventional banking with Islamic banking, they are likely to develop parallel banking systems which offer both Islamic and conventional banking services.

Conclusion

The economic agendas of the Muslim Brotherhood and Ennahdha incorporate many short- and long-term objectives, but two important goals stand out: a promise to lift the economies of Egypt and Tunisia out of recession, and a commitment to achieve economic justice by reducing inequality and transforming their economic systems from crony capitalism to inclusive capitalism. Will they be able to fulfill these promises? In this Brief many of the challenges that they will face were discussed, and in light of these challenges their likelihood of success is less than certain. In addition, operating in democratic environments and worrying about success in future elections might push either of these Islamist parties toward populist economic policies that might offer short-term remedies but lead to more economic instability down the road.

Nevertheless, a number of factors in both countries leave room for optimism. The first and most important factor is that the process of democratic transition has moved forward, and both countries have avoided the extremes of either political chaos or a retreat to dictatorship. This is best demonstrated by the successful conduct of parliamentary and presidential elections in both countries and the emergence of a general consensus on the legitimacy of the political process.

Second, both the Muslim Brotherhood and Ennahdha have so far remained committed to moderate and pragmatic economic policies. This moderate course can be expected to restore confidence within the business community and boost investment. And a third positive factor is the goodwill and support of the international community. The United States, the European Union, and the oil-rich GCC countries (after some initial hesitation) have welcomed the democratic transitions in Tunisia and Egypt despite their reservations about the victories of Islamists in both countries. They are expected to offer financial support and encourage private investment in both countries over the next few years. But in order to attract international investment from these countries and others, the Islamists in charge must persuade their workers and labor unions to limit their push for uncompetitive high wages and moderate their hostile attitude toward management. The Islamists must also resist the pressures of the ultraorthodox Salafi Muslims for mandatory imposition of Islamic social restrictions.

Fortunately there are some indications that the post-uprising economic decline has come to an end. The most recent economic data for the first quarter of 2012 show some improvement in economic growth and in the magnitude of tourism to both countries in comparison with 2011.

Endnotes

1. The significance of economic concerns in the context of these uprisings is best demonstrated by the most popular slogan of the Egyptian revolution, which was heard often during protests: “Bread, Freedom and Social Justice.” See William Shaub, “The Roots of Revolution in Egypt,” Arbitrage Magazine, December 16, 2011.
4. The general energy subsidies, for example, are most beneficial to owners of cars and large homes, who consume more energy intensive products than the poor. For a detailed account of these inefficiencies in Arab countries, see Bassam Fattouh and Laura El-Khatiri, “Energy Subsidies in the Arab World,” Arab Human Development Report Research Paper Series, United Nations Development Programme, Regional Bureau for Arab States, 2012.
6. “Sunna” refers to the words, behavior, and teachings of Mohammed, the founder and Prophet of Islam, that are not included in the Quran. Muslims believe that the Sunna, alongside the Quran, can provide guidelines from which to derive rules and moral norms applicable to all Muslims.
10. These Islamic economists argue that that an economic system based on teachings of Islam is more efficient and more equitable than western capitalist economies. The publications of these economists as been surveyed by Timur Kuran who criticizes their analyses for methodological weaknesses and simplistic approach. See Kuran, Timur, Islam and Mammon: The Economic Predicaments of Islamism, (Princeton, NJ: Princeton University Press, 2004).
11. For an English translation of the original Arabic article, see “In Translation: Sheikh Yasser Borhami on Morsi and Shari’a,” Arabist, June 30, 2012. The original Arabic article is at Shorouk News.
The advocates of active government intervention in economic affairs within the Brotherhood are best represented by economist Abdel Hařez El Sawy, who leads the Freedom and Justice Party’s economic council. (The Freedom and Justice party was created by Brotherhood supporters as the political wing of the movement.) El-Sawy favors an active industrial development policy in which government selects specific industries for accelerated growth and development and offers them financial and infrastructure support for this purpose. Mohamed El-Dahshan, “Where Will the Muslim Brotherhood Take Egypt’s Economy?” Yale Global, February 6, 2012.

This inclusive growth strategy was explained most recently by Tunisian economist Ridha Chkoundali, who is considered the architect of Ennahdha’s economic agenda. See Ridha Chkoundali, “Un nouveau modèle de développement pour la Tunisie” (working paper presented at a conference entitled “Emerging New Economic Policy Makers in the Arab Mediterranean: Economic Agendas of Islamic Actors,” Barcelona, Spain, July 3–4, 2012).*


It is worth noticing that Mr. Morsi selected Saudi Arabia for his first official foreign visit in early July. He is eager to expand Egypt’s economic ties with Saudi Arabia and other GCC countries.

In another, related policy, the Muslim Brotherhood and the Salafists have jointly compiled a list of firms whose economic and financial transactions are compatible with Islam, in an effort to make it easier for pious investors to identify these firms for investment purposes. See Fawaz A. Gerges, “The New Capitalists: Islamists’ Political Economy,” Open Democracy, May 10, 2012.*

The Morsi government has requested a reduction in the minimum required Israeli content from 10.5 to 8 percent, but it wishes to maintain the QIZ arrangement. See “Egypt Seeks to Amend Trade Agreement with U.S., Israel,” Egypt Independent, September 24, 2012.*

* Weblinks are available in the online versions found at www.brandeis.edu/crown
The Economic Agendas and Expected Economic Policies of Islamists in Egypt and Tunisia

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