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The Invisible Hand of Islam:  
Islamic Business and the State Relations in Turkey and Egypt

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**Abstract**

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This dissertation concentrates on the roles of Islamic business groups in creating opportunities to influence policy outcomes in countries with restricted political environments where secular regimes limited the space for Islamic groups to organize in both civil and political society. The comparative analysis of the experiences of Turkey and Egypt, with respect to state-Islamic business relations, illuminates more theoretical questions of why some states were able to transform their relations with political Islamic groups, while others failed to do so? By emphasizing the dynamic nature of state-Islam relations, this study suggests that Turkish Islamic entrepreneurs' commitment in favor of a liberal democracy and free market contributed to ease the tension between the secular state and Islam since the ascension of the AKP in the last decade. Egypt, in contrast,

continues to experience severe crisis between political Islamic movements and the state, and the MB, the most influential Islamist organization in the country, keeps being excluded from the political system. This dissertation argues that the state's accommodation of Islam can be explained by the extent to which Islamic groups were attached to market forces. Islamic groups' behavior over time and their differences from one another in undertaking a market-oriented direction can be explained through different levels of engagement of Islamic groups with elements of the state during the process of market transformation. This dissertation specifically investigates two variables, which may have an effect on determining the levels of engagement of Islamists with the state: The nature of market coalitions during economic liberalization and localized versions of Islam with a particular emphasis on the strength of religious community structures.

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## INTRODUCTION

In November 2006, in the Central Anatolian province of Kayseri, *Time Magazine* interviewed Celal Hasnalcaci, a local manufacturer of denim jeans for export. In his office decorated with photographs of young models striking provocative poses in low-cut denim outfits, Hasnalcaci expounded on the interplay between Islam and business. According to *Time*, the region is at once a heartland of Muslim conservatism and Europe's biggest supplier of lingerie. When asked to comment on this seeming anomaly, Hasnalcaci merely shrugged and said "Business is business." His response, like none other, encapsulates the attitude of the successful provincial religious business elites in Turkey.

Hassan Malek, an Egyptian businessman, offered a stark contrast to Hasnalcaci's serene success. Malek, the owner of the biggest computer company in Egypt in the 1990s and a member of the Muslim Brotherhood, was arrested and charged with financing and belonging to an illegal organization and attempting to support a coup in 1992. His company was closed, and he was thrown in jail. After his release, he restarted his business and established several enterprises, including some furniture and clothing factories. In December 2006, at the outset of a pilgrimage to Mecca with his family, Malek was arrested along with 39 other Muslim Brotherhood businessmen on charges of funding the Brotherhood's activities and of threatening public order.

Celal Hasnalcaci and Hassan Malek, who share the same strong Islamic beliefs, are both products of Turkey and Egypt's respective economic liberalization programs. Even though both countries started to open their economies around the same time, their market reforms, liberalizing the economy, affected Islamic businessmen in radically different ways.

Islamic businessmen's very different experiences in Turkey and Egypt can shed light on the more general question of why some states were able to transform their relations with political Islamic groups, while others failed to do so.

In November 2002, the pro-Islamist Justice and Development Party (AKP) came to power in Turkey by receiving 34.6 per cent of the votes and 366 of the seats in the National Assembly. By the July 2007 and the June 2011 elections, the AKP continued to remain the strongest party, increasing its share of the vote to 47 per cent and 49.9 per cent respectively. The AKP, in its party program and various publications, defines itself as a conservative democratic party which accepts the secular framework of the state, democratization and liberalization in political life, and conservatism in social life. Due to the rigid understanding of secularism outlined in the Turkish Constitution that excludes religious groups from political life, the AKP insisted that it had departed from the anti-systemic and confrontational Islamist National Outlook (Milli Gorus) Movement.<sup>1</sup> Since then, Turkish political life has been shaped by the inclusion of pious outsiders into the organization of the secular state. For some scholars such a shifting relationship between the Turkish Islamic actors and the secular state represents the Gramscian concept of 'passive revolution' (Tugal 2009), 'slow motion revolution' (Ozel 2009)<sup>2</sup> or 'silent revolution' (Yavuz 2009) in Turkey.

Unlike Turkey, the tense relations between the Egyptian state and political Islam did not significantly change. Egypt experienced protracted violent clashes between Islamic movements and the state, and Islamic political parties continued to be excluded from the political system. The Muslim Brotherhood, the most influential Islamist organization in the country, has been an illegal organization since the 1950s. Even though the Egyptian state allowed the Muslim

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<sup>1</sup> The National Outlook Movement under the leadership of Necmettin Erbakan openly pursued the Islamization of the Turkish state as its ultimate goal.

<sup>2</sup> In a private conversation.

Brotherhood to form tactical coalitions with non-Islamist parties in the 1980s, and to run independent candidates since the 1990s, the Egyptian state intermittently launched repressive campaigns against the Muslim Brotherhood by condemning it as an illegal organization with ties to extremist groups.

In 1996, a moderate and less confrontational wing, named the *Hizb al-Wasat* (Center Party) emerged within the larger organization of the Muslim Brotherhood.<sup>3</sup> This group sought a clear stance against violence, respect for democratic procedure and for the views of others (*al-ra'y al-akhar*), and acceptance of religion as a framework of values (Utvik 2005, Wickham 2004). From the time of its inception, the Wasat Party applied four times to the Political Parties Committee (PPC) for legal party status. However, each time the appeal was rejected by the PPC, on the pretext that the Wasat Party was conspiring to create a legal front for the outlawed Muslim Brotherhood. As a result, the Wasat Party continued to remain unapproved. The initiation of the Wasat Party also received a fierce opposition from the leaders, the so-called “old guard” within the Brotherhood. In the words of Abdul Ila Al Madi, who is a founding member of the Wasat Party, “the pressure from the Brotherhood is more intense than that from the government” (Takayuki 2007).

This dissertation examines the roles of Islamic business groups in creating opportunities to influence policy outcomes in two of the most important countries in the Islamic world. The central question of my dissertation involves the very different results in Turkey and Egypt as Islamic businessmen tried to influence public policy in their respective secular states. Turkish Islamic entrepreneurs were successful in transforming the secular state agenda toward political Islamic groups in a ‘slow motion revolution’ in the last two decades of the twentieth century.

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<sup>3</sup>An Islamist centrist (*Wasatiyya*) movement began to emerge among journalists, professionals, and the younger generation of the Muslim Brotherhood in the late 1980s.

Their commitment in favor of a democratic and liberal system eventually transformed the uneasy relationship between the secular state and Islam, especially since the ascension of the AKP in the last decade. Their Egyptian counterparts, in contrast, remained weak, marginalized, or even actively repressed. The sole exception was the brief period of time between the January 25<sup>th</sup> uprisings in 2011 and the military takeover in July 2013. My research examines how Islamic business groups tried to influence policy outcomes in two of the most important countries in the Islamic world, with startlingly different results.

Islamic businesses are an integral part of the Turkish and Egyptian economies, and required to follow the rules set by the secular state. The term “Islamic business” is problematic, since there are no specific rules concerning the conduct which noticeably separates Islamic economic activities from their secular counterparts in Turkey and Egypt. Additionally, making such blanket generalizations about “Islamic business” is complicated because there are important ideological and organizational differences amongst various Islamic business groups. I employ the categorization “Islamic business groups” to refer to various individuals and economic groups who are affiliated with Islamic political movements/parties, religious communities, and business associations. I also employ this term to denote business people who see Islam as a solution to major political and socioeconomic problems.

This dissertation argues that Islamic groups’ behavior over time and their differences from one another in undertaking a market-oriented direction can be explained through different levels of engagement of Islamic groups with elements of the state during the process of market transformation. I argue that the state’s accommodation of Islam can be explained by the extent to which Islamic groups were attached to market forces.

This study aims to shed light on the state's engagement with Islamic business actors. I suggest that the multiple levels of engagement of Islamic business groups with the state in the early phase of economic liberalization transformed the interaction between Islam and the state in Turkey. The 1980 military junta and the civilian government under Motherland Party rule (1983-1991) utilized the doctrine of Turkish-Islamic synthesis as an official ideology to create a basis for legitimizing themselves and also to reduce the appeal of radical leftist ideologies during the ensuing period of market liberalization.<sup>4</sup> A synthesis between the market economy and religious values was formulated as an extension of the "Turkish-Islamic synthesis" in the new direction of the country. Provincial Islamic entrepreneurs who accessed important resources, such as credit from state banks, preferential treatment in public contract, emerged in this new direction, and became facilitators for the geographical expansion of market reforms. As these provincial Islamic business groups began to prosper and integrate with the global economy, they generated enormous resources outside the control of the Turkish state, and invested these resources in their political party (the AKP), which were committed to a more liberal and moderate stance in favor of business interests. Their commitment, in turn, assisted in deepening the attachment of the Turkish Islamists to free market policies in Turkey. Due to their increasing interests in the economic liberalization process, Islamic business groups chose the path based on a strategy of co-existence and avoided direct confrontation with the state in Turkey.

By contrast, in Egypt the process of economic liberalization mainly reinforced the pre-liberalization economic structure, leaving the provincial groups at the margins of political and economic power (Yildirim 2010). The state shut the Islamic businessmen out from opportunities associated with liberalization as it engaged in cronyism and continued to repress Islamic

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<sup>4</sup>The term "Turkish-Islamic Synthesis" refers to an intellectual doctrine which considers Islam as an integral part of Turkish nationalism. For more details see Chapter 1.

businessmen. The deterioration of economic conditions, coupled with the state's decreasing role in providing social services, provided an important avenue for the MB to become a legitimate rival to the regime. Motivated primarily by the sheer instinct of keeping its hegemonic role as opposition, the MB leadership maintained an ambiguous position regarding market policies in the group's official electoral and party programs. Even though some members of the MB (especially in the leadership cadre) had strong business interests during the process of economic liberalization, the MB articulated its public discourse according to its main constituencies who were not benefiting from market transformation. The regime, on the other hand, capitalized on the MB's social program to alleviate the devastating effects of economic liberalization for the masses. Not only state repression, but also the MB's (tactical) reticence in clarifying its economic agenda had the effect of undermining its capacity to produce an interpretation of Islam which could be compatible with the entrepreneurial spirit and market forces during the Mubarak era.

In the following section, I will locate this study within the existing literature on the social movements and state-centric approaches and identify unanswered questions in that literature regarding my central puzzle: why do conflictive or accommodative patterns of state-Islam relations emerge in countries with restricted political environments?

### *Islamic Parties and the Idea of Moderation*

#### *I. The Social Movement Literature*

According to Wickham moderation is a process that entails “abandonment, postponement, or revision of radical goals that enables an opposition movement to accommodate itself to the give-and-take of normal competitive politics” (2004, 206). In the same way, Schwedler defines moderation as “movement from a relatively closed and rigid worldview to one

more open and tolerant to alternative perspectives” (2006, 3). As an emerging paradigm in the area of Islamic politics, social movement theory seeks to explain under what conditions Islamist activists become moderate, how they mobilize people and what strategies they use to gather support ( Wiktorowicz 2001, 2004; Berman 2002; Schwedler 2006; Eligur 2010). Social movement theory explains the moderation of Islamic political movements through analyzing (what are referred to as) strategic calculation hypothesis and political learning thesis (Utvik 2005, Hefner 2005, Wickham 2004).

The strategic calculation hypothesis, named as a behavioral change by Schwedler (2007) and tactical moderation by Wickham (2004), assumes that when Islamic parties are in opposition, they strategically calculate the ways through which they can maximize their votes to come to power or by joining coalition governments. In the same manner, when these Islamic parties are in power, they are said to avoid confrontation and seek further moderation in order to retain their authority (Yavuz 2009). Islamic groups’ willingness to participate in electoral processes and to embrace the rules of the game is the main indicators of the strategic calculation hypothesis.

This hypothesis proposes an ideological change after an initial tactical change, as Islamic groups are already in the electoral game and participate in legal politics. They have no choice but ‘to continue moderating their strategies and ideologies, as otherwise they would lose their popular appeal among potential voters/electorates” (Arifianto 2012,18).

However, the strategic calculation hypothesis has several important limitations that have been addressed by several scholars. As Schwedler points out “participation in elections cannot address the possibility that a group may adopt moderate political behavior for strategic purposes, while harboring a more radical political agenda.” Ideological moderation, which would be

realized after behavioral change, is difficult to assess empirically as it entails the scholar finding out “what’s in the heart of another individual’ (2007, 59; Arifianto 2012, 218).

Secondly, the strategic calculation hypothesis has been unable to explain the timing of the ideological moderation of the Islamic parties. In Turkey, even though Islamic parties have been part of the political system since the foundation of the *Milli Nizam* (National Order Party) in 1970, it took the Turkish political Islam thirty years to establish a moderate conservative party.<sup>5</sup> In a case study of Egypt, the Muslim Brotherhood formed some electoral alliances with non-Islamic parties since the 1980s, yet this experience did not induce an overall political Islamic moderation (Gumuscu 2009).

The political learning thesis, on the other hand, asserts that Islamic parties will eventually become more moderate and willing to accommodate political and economic systems as they grow in power. Levy defines the process of political learning as “a change of beliefs (or the degree of confidence in one’s beliefs) or development of new beliefs, skills, or procedures as a result of observation and interpretation of experience” (Levy 1994, 279). The political learning thesis expects that the interaction of Islamic political actors with the “others” (either state officials or ideological rivals) would lead to attachment to democratic norms and values (Wickham 2004). In Wickham’s account, for example, the previous experiences of the leaders of the Wasat Party in the professional associations and their collaborative interaction with secular opposition are quite significant in explaining how they became more accommodative and

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<sup>5</sup> Milli Nizam (the National Order Party) was established in 1970 by Necmeddin Erbakan, and closed down by the military coup in 1971. Milli Selamet (the National Salvation Party) was formed, and terminated by the 1980 coup. In 1983, Erbakan founded Refah (the Welfare Party), and became Prime Minister in 1996 in coalition with Ciller’s Dogru Yol (True Path Party). Refah was closed by the Constitutional Court after the “February 28<sup>th</sup> process.” After the banning of Refah’s successor Fazilet (the Virtue Party), a younger generation of National Outlook Movement politicians formed the AKP in 2001.

tolerant of others in Egypt. According to her, the Wasat Party leaders engage in “democratic learning” in response to their continued repression (2004, 224).

This thesis, however, has not adequately addressed why only sections of the party, rather than the whole, lean towards moderation (regardless of their almost identical political experiences). Obviously, not all political Islamic actors took the same lessons from their experiences with the National Outlook Movement’s Parties in Turkey and with the MB in Egypt. Some opted to stay in their home parties and became quite hostile to the idea of the formation of the new rivals within the Islamist polity. The political learning thesis does not provide robust evidence to demonstrate that how political learning which is thought to take place at the individual level would be accepted as party doctrine.

More importantly, the political learning thesis is inadequate in explaining how a change in beliefs or ideas of the political leaders would resonate with the society. As Yildirim rightly puts it “Even if the Islamist leaders moderate as a result of social learning, how do they convey the message of moderation to their societal base and make sure their constituents also embrace these shifts?” (2010, 11) Despite the Wasat Party adopting a more liberal position on various sensitive issues— including the role of Islam in political and economic life, principles of democracy, minority rights and liberal economy (in sharp contrast to the MB’s public discourse)— it didn’t gain popular support. Unlike the AKP, the Wasat Party did not have a significant effect on the course of Islamic politics in Egypt.

Neither the strategic calculation hypothesis nor the political learning thesis can sufficiently explain the varying scales of Islamic moderation in different countries. They both propose unilineal and mechanistic processes to account the changes experienced by Islamic groups.

The political process model (PPM) variant of the social movement theory attempts to alleviate some of these issues by proposing a new thesis: The PPM asserts that movement entrepreneurs do not determine their goals, strategies, and tactics with respect to mobilization in a vacuum, rather that opportunity structures – the conditions of the broader political environments – play a crucial role (Hafez 2003, Schwedler 2006, Wickham 2002). This model focuses on changing elite alliances, the declining capacity of states to repress dissent, or the availability of new external actors.

The concept of political opportunity structure (POS) is the core variable of the PPM in explaining the emergence, mobilization and outcome of social movements. Several social movement scholars conceptualized the POS mainly in terms of two elements: the formal legal and institutional structure of a given polity, and the informal structure of power relations characteristic of a given system (Eligur 2010, Kriesi 1992). David S. Meyer argues that “political process theories identify social movements and then read back to find expanding political opportunities, which risks conflating opportunities with mobilization. This deficiency creates a danger that POS becomes a tautology” (2004, 55). Nonetheless, the political process model poses its own set of limitations due to its assumption that external political opportunities must first become available before challenging groups can generate collective action (Morris 2000, 4). It also remains insufficient to explain how opportunities translate into collective action.

The tendency to see political opportunity structures as explanatory variables behind the rise of social movements creates a gap in academic literature. Scholars tend to neglect the possibility of social mobilization in countries where authoritarian secular regimes restrict public and political spheres for the organization of Islamic opposition groups. As a result, the theoretical

literature is heavily based on the results of case studies that analyze social movements in western liberal democracies.

For example, Paul Burstein argues that in undemocratic environments social movement organizations would have little impact because governments are not accountable to people and that they simply would not feel the need to respond to social demands (1999). In the same way, Quintan Wiktorowicz, who works on the social movement account of Islamism, claims that in less open political systems, social movement organizations would have little impact. This he ascribes to the vulnerability of state repression and manipulation. Wiktorowicz states that “the efficacy of formal organizations depends upon the particular political context in which they operate” (2001, 3). This approach is quite problematic because it is incapable of explaining how non-political Islamic actors (Islamic business groups, for example) influence politics “in authoritarian political systems in which freedom of speech and association are circumscribed, and as a consequence, independent political activity is to varying degrees, restricted” (Wickham 2002, 6).

Due to the structural biases in the literature, PPM theorists usually tend to ignore human agency and cultural aspects – ideas, beliefs systems, rituals etc. as independent variables affecting the rise and evolution of social movements (Goodwin and Jasper 1999; Morris 2000). In accounting for Islamic moderation, the PPM draws attention to the role of political and economic liberalization to create new opportunities for Islamic movements, and it explains these opportunity structures completely outside the control of Islamic activism (Eligur 2010). This account neglects the fact that strategic decisions in the process of economic liberalization also depend on interaction between Islamic movements and the state, and state policies and Islamic movements’ responses mutually condition one another. Therefore a perspective which looks at

the rise of Islamic movements “not as a simple outcome of broadening opportunities in the structure but as a specific manifestation of the historical evolution of state-society relations with actors at its heart” is necessary (El-Mahdi 2009, 1018).

## *II. State-centered accounts*

A comparison of the contrasting outcomes of the relations between state and Islamic groups in Egypt and Turkey in recent years reveals some of the difficulties with the existing literature’s state-centric approach. The leading assumptions in the literature tend to give state centric and linear accounts that emphasize the role of state repression by focusing on the timing of repression, levels of repression, its perceived illegitimacy, and the institutional context under which it is applied (Gartner and Regan 1996; Mason and Krane 1989, Della Porta 1996). The main body of the literature takes a state-centered approach and emphasizes how states shape the identities, goals, and strategies of the Islamist groups. The theoretical literature heavily depends on the studies that analyze how states determine the accommodative or confrontational nature of the Islamist movements, not the opposite. These studies assign to the Islamist groups primarily a reactionary or defensive role (Ozbudun 2000, Sullivan and Abed-Kotop 1999, Ajami 1983).

If we want to explain the differing scale of Islamic moderation in Turkey and Egypt, state repression, which has been present in both countries, cannot sufficiently capture the variation in the level of moderation within the political Islamic movements. For example, many scholars who try to explain the emergence of the AKP, see “the post -modern coup” of February 28, 1997, as the main reason behind the split within the National Outlook movement in Turkey (Atacan 2005, Cizre and Cinar 2003). In the meeting of the National Security Council in 1997, Islamic fundamentalism was declared as the most serious threat to national

security, and the military dictated a list of 18 anti-Islamist measures to restrict the activities of the ruling Islamist Refah (Welfare) Party and Islamic capital. After this intervention, the Refah Party was closed by the Constitutional Court, and the Capital Markets Board of Turkey (SPK) froze the assets of some Islamic holding companies because of their so-called illegal money (Adas 2009). Fulya Atacan argues that the party closure exerted extra pressure on the party members and forced some groups to follow an integrationist line with secular establishment in the aftermath of the February 28 process (2005, 187-89). Atacan's argument ignores the fact that neither military intervention nor party closure is a new experience for the Islamists. As Gumuscu rightly asks, why did it take four different parties in three decades, all closed down by the Constitutional Court, for Turkish Islamists to realize that the state would not allow them to pursue Islamism? (2009, 4)

The state-centered approach is inadequate for understanding the changes (occasionally inconsistent) and the constant adaptations to state politics. It fails to clarify the various circumstances which pressure states to change conflict-ridden antagonistic relationships with the various social forces. Such conceptualization of state policies as an independent variable has proved to be problematic as it doesn't account for the significant changes that the state itself has experienced as a result of its interaction with the Islamic groups. This reading ignores the complex nature of the relationship between Islamic movements and state, and how policies are formed as a result of struggles and negotiations between different state actors and the Islamic forces.

In the case of the Turkish state, as Serif Mardin argues, the ability of Islam to operate within the framework of the state was not only a "present day development" but rather the result of a longer process (1991). Although various sects, Islamic orders and religious associations

were closed down by the new Republic, they went underground, and found subtle ways to survive. For example, *Naqshbandi* orders utilized the state-owned mosques as new centers of Sufi activism by taking civil service jobs at the Directorate of Religious Affairs of the state (Yavuz 2003). After the introduction of the multiparty system in 1950, the Democrat Party (DP) began to accommodate Islam more visibly.<sup>6</sup> Along with an expanding free market, the 1980 coup embraced the idea of “national Islam” through the policies of the Turkish-Islamic Synthesis. These interactions between the state and Islam constitute the setting where secular state and Islam interpenetrate (Mardin 2005, 148).

The existing literature downplays the mutually transformative relationship between the state and Islamic movements. Borrowing from Joel S. Migdal (2001), I analyze the state as a multi-layered social organization in order to overcome the analytical dichotomy between the state and various Islamic actors. My approach draws on Migdal’s “state in society” approach which suggests that state policies do not solely reflect the state rulers’ interests and visions, but are formulated as a result of the state’s engagement with powerful social forces (Migdal et.al.1994, 2001). My dissertation examines how various Islamic actors and states shape each other and the political map of their countries. This approach enables me to analyze the state-Islam relationship not as a zero-sum game, but as the ongoing engagement over the rules for daily behavior. Business is one area where we can see the interactive relationship between state and Islamic movements. My dissertation evaluates how state policies and Islamic business responses mutually condition one another.

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<sup>6</sup>For example, the new DP government temporarily cancelled the sentence of the *Nur* movement’s leader Said Nursi. It also allowed a return to Arabic for the call to prayer and built new mosques.

### ***The Main Arguments***

This dissertation demonstrates how Islamic business groups created their own opportunities to influence policy outcomes in countries with restricted political environments where secular regimes limited the space for Islamic groups to organize in both civil and political society. By tracing the shifting Islam-state relations since the economic liberalization period, I analyze how the state's engagement with Islamic business groups can change the nature of the state. I attribute a central role to the concept of “political society” which allows me to follow the “changing basis of the state's symbolic system and its behavior” (Migdal 2004, 112). Stepan defines political society as “arena in which the polity specifically arranges itself for political contestation to gain control over public power and the state apparatus” (1988, 4). My dissertation's main focus is on political society at the local level where the political party, municipal authorities, associations, religious community structures, or local private people can merge to shape the state's policies. This focus enables me not to attribute a main role to the political party in the account of the changing relations between Islamic movements and the state.

I specifically investigate two variables, which may have an effect on determining the levels of engagement of Islamists with the state: The nature of market coalitions during economic liberalization and localized versions of Islam with a particular emphasis on the strength of religious community structures.

#### ***1) The nature of the market coalition during the economic liberalization:***

My first hypothesis explores the extent to which different market coalitions between state and various social forces have been important for the fate of Islamic business groups in Turkey and Egypt. My operational variable is founded on the premise that economic liberalization

policies constitute a strong base for a critical juncture. This therefore creates new political and economic reorientation in society and generates new coalitions at both domestic and international levels. Alignments between state and various social forces determine the course of market reforms and, in turn, are determined by them (Collier and Collier 1991, Ozel 2006, Baylouny 2008).

On the basis of the comparison of the Turkish and the Egyptian experience I hypothesize that, where economic liberalization has been geared to accommodating provincial, medium-sized businesses (which have been dominated by Islamic businessmen), the state will most likely reorient itself to support those business groups. As these provincial Islamic business groups begin to prosper and integrate with the global economy, they will commit to a more liberal and moderate stance in order to forward their own business interests. Their commitment, in turn, assists in shifting the state's position favorably towards the political-business Islamic groups.

I suggest that the multiple levels of engagement of Islamic groups with the state in the early phase of economic liberalization transformed the interaction between Islam and the market-oriented policies in Turkey. Market policies provided significant incentives for Islamic business groups to redefine their interests in Islamic politics and consequently transformed the uneasy relationship between the secular state and Islam. During the contentious politics of the February 28 process, Islamic business groups chose the path based on a strategy of co-existence and avoided direct confrontation with the state in Turkey. In the aftermath of the declaration of Turkey's official candidacy for full membership in 1999, Islamic business groups started to advocate Turkey's EU membership which promised to enable Islamic groups to enhance their economic and political position vis-à-vis the military. This process overlapped with the marginalization of economically disadvantaged radical sections of political Islamic groups by the

growing liberal tide within the Turkish Islamic movement at the end of 1990s. The focus on Islamic business activity in turn led to the transformation of the secular state agenda toward political Islamic groups.

Due to the implementation of economic liberalization policies which was based on a market coalition between big business and the state bureaucracy and the exclusion of small and medium sized enterprises in the peripheral quarters, Islamic business groups did not find ways to attach to market forces in Egypt. The Egyptian state process of economic liberalization simply reinforced the pre-liberalization economic structure, leaving peripheral groups at the margins of political and economic power. The Islamic business groups (mainly small and medium sized enterprises) were one of the losers of the economic liberalization process. As these provincial Islamic business groups did not prosper and integrate with the global economy, they lacked the economic and political resources to affect the course of Islamic politics in Egypt. As a result, Islamic entrepreneurs were left with a lack of economic and political resources to affect the course of Islamic politics in Egypt. More importantly, they had no incentives to reconsider their relations with the state for pragmatic reasons which business interests required.

The Egyptian state implemented economic liberalization called *Infitah* (open door policies) in two stages in 1970s and 1990s. The main allies of *Infitah* were a small group of big business and large public sector enterprises.<sup>7</sup> During *Infitah*, the economy remained centrally run, and the private sector had been reliant on the state. Moreover, economic opening did not create any significant change in the manufacturing sector, and its export capacity. In 2002, exports accounted for only 10 percent of output (Rivnik 2009, 111). The SMEs were excluded from the incentives and cheap credits that were made available to big business.

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<sup>7</sup>The public sector expanded over 3.5% per annum between 1973 and 1982 (Shafik 1995, p. 13).

In 1991, Egypt signed a stand-by agreement with the International Monetary Fund for economic stabilization and structural adjustment. The government increased energy prices, reduced subsidies, and cut government spending and the budget deficit. These policies led to the retreat of the state from its welfare programs, and unemployment drastically increased. Not surprisingly, the middle and lower classes have been seriously harmed by economic liberalization programs. Since the early 1990s, the Muslim Brotherhood continued to attract professionals, such as doctors, lawyers, and engineers –the new middle class – those “who have found that despite their advanced educations, opportunities for advancement remain largely closed and in the hands of the dominant elites” (Clark 2004, 17). These professionals have employed Islamic polity by building institutional alternatives (private voluntary organizations, such as clinics, schools, day care centers) to those of the secular state (Wickham 2002). According to Gumuscu, the Muslim Brotherhood’s success in the professional syndicates and its comparative absence in business associations demonstrate that the mainstream political Islam has been captured by lower-middle classes whose interests have been hurt by economic reforms (2009).

In the absence of the integration between different sections of the society and the market reforms, economic liberalization policies sharpened class struggles which had empowered ideological rigidity within political Islam in Egypt. Unlike the case of the Turkish AKP, a market-orientated direction in the Egyptian political Islam failed to reinforce strong moderate tendencies within Islamic political groups.

## 2) *Localized versions of Islam in Turkey and Egypt: The strength of religious community structures during the economic liberalization*

My second hypothesis explores the extent to which localized versions of Islam in Turkey and Egypt helped shape the particular model of capitalism and state-economy relations that were adopted. My main focus is on religious community structures. I analyze the extent to which the existence of strong religious community structures can be important elements for the success of Islamic business groups. I use the term religious community structures to denote Sufi orders (such as *Naqshbandi* and *Kadiri*) and the webs of Islamic networks (such as the neo-*Nurcu Gulen* Movement). Such structures had the effect of creating a powerful network based upon trust relations among Islamic economic actors. I analyze how Islamic business groups in Turkey have utilized informal structures to accumulate wealth and eventually to challenge the power dynamics first within an Islamic constituency, and then in the relationship between the state and Islam in Turkey.

I hypothesize that engagement between state and Islamic business is more likely in cases where religious community structures are robust. Pre-existing religious networks facilitate wealth accumulation for Islamic movements during market transitions by providing welfare services, communal solidarity, and mobility. The more an Islamic movement benefits from wealth accumulation by using religious community structures, the more it finds innovative ways of incorporating into politics.

As Mardin argues in his study on the *Nur* movement, the boundaries of the private sphere expanded in Turkey to accommodate religious activities that had been banned or marginalized in the public and political spheres for a long time (1989, Turam 2007, Yavuz 2003). Since the second half of the 1980s, the *Naqshbandi* and *Nur* movements began to dominate Turkey's post-

1983 export economy. Within the *Naqshbandi* order, for example, the community of Iskenderpasa Mosque which has strong relations with powerful families (such as the Ozal and the Topbas) encouraged their members to become rich to compete with the existing Kemalist political and economic structure (Atasoy 2004, Maigre 2006).

In order to assess the effect of the religious community structures on wealth accumulation in Turkey, my dissertation mostly focus on the networks and activities of the Iskenderpasa Community of the Naqshbandi Order and neo-Nurcu Gulen movement in Turkey. I argue that the Iskenderpasa Community utilized material development as a means of revitalizing Islam for social, political and economic life since the introduction of the multiparty regime in Turkey. The Community's attitude of combining elements of religious activism with a nationalist identity was in contradiction with the radical Islamic approach in politics. The Iskenderpasa Community did not envision the secular state as an absolute enemy and pursued a gradualist and accommodationist attitude centered around civil society.

My dissertation suggests that the Iskenderpasa Community established material development as an important pillar in its project of reinvigorating Islam in Turkey. Zahid Kotku, the leader of the Community enriched the old Sufi saying: "*bir lokma, bir hirka*" (one piece of bread, one wollen cloak) by adding the words "one Mazda." Mazda, the Japanese car company, denoted the importance of the material development aspect of his teachings. As active economic actors, the Community members started articulating a particular economic understanding of Islam since the early periods of market transformation in Turkey.

I argue that following the Iskenderpasa Community, the Gulen movement deepened this particular economic understanding of Islam in Turkey.<sup>8</sup> It can be said that the Gulen movement

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<sup>8</sup>The Nur movement was established in the early years of the Turkish Republic under the leadership of Bedüizzaman Said Nursi, author of several volumes of Qur'anic exegesis known as *Risale-i Nur*. After the death of Nursi, the the

is now the most ambitious and well-organized Turkish Islamic advocacy network with its extended networks of schools around the world, several media outlets, television stations, and business related NGOs (Yavuz 2003, Turam 2007, Ebaugh 2010). It has made Islamic activism compatible with the liberalization process and practices with the market economy more successfully than any other religiously-inspired groups ever did in Turkey.

The Gulen movement constituted important ties with the new Anatolian bourgeoisie by setting up trade networks that used inroads established by the movement's schools (Hendrick 2009). The followers of the Gulen movement formed "The Association for Social and Economic Cooperation between Pacific Asian Countries, PASIAD," in South East Asia, and "The Turkey-African Countries Cultural, Social, and Economic Development Association," AKSIAD, in Africa. These associations support trade links between local businesses and affiliated Turkish enterprises in Southeast Asia and Africa. In 2005, "The Confederation of Businessmen and Industrialists in Turkey," TUSKON, was established by 124 separate Anatolian regional associations.<sup>9</sup> I argue that as a result of this process, a symbiotic relationship emerged between Islamic new bourgeoisie, its dominant party (the AKP), and the grassroots organization (the Gulen Movement) in Turkey.

This is contrasted with my case study on Egypt where religious community structures did not have any significant roles in wealth accumulation for Islamic business groups during the process of market transformation. While Sufi orders remained illegal in Turkey, the Egyptian state has played a direct role in organizing the Sufi orders in Egypt since the Ottoman times. The transformation of the Sufi orders into the bureaucratic system seriously obstructed the channels

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Nur movement went through a number of processes of fragmentation: the Gulen, Yeni Asya, Okuyucular and Yazicilar have emerged as the manifestations of Nursi's legacy in Turkey.

<sup>9</sup>For more information, see <http://www.tuskon.org>, <http://www.pasiad.org/> and <http://www.aksiad.org>

by which Sufi orders could independently gain political and economic power. While political Islam represented by the MB was in opposition to the state, the Sufi orders accepted a subordinate position. This provides a stark contrast to the Turkish Sufi orders' involvement in political and economic life in Turkey.

In this process, the Muslim Brotherhood strengthened its central position within the course of Islamic politics in Egypt. As a way of holding a secure place in the bi-polar system in Egypt, the MB adopted a critical discourse against the regime's market transformation policies and prioritized welfare activities during Mubarak's rule. The MB strongly supported interventionist state that would alleviate the effects of the structural adjustment policies while it constantly called for a limited state power in policies. As a way of keeping this contradiction unresolved, business interests were kept at a low profile in the MB's engagement with the state. The MB's ideological incongruities, which called for strong state intervention in the economy to alleviate the negative impact of market transformations for the MB's constituent, and a limited state power in politics, diminished its ability to formulate a clear socio-economic project regarding Islamic business interests in Egypt.

### ***Research Method and Data Collection***

My dissertation research is based on comparative qualitative analysis. In my small-n comparative study, I examine Turkey and Egypt in a "most similar cases" with respect to the state's relation with political Islamic groups. In the words of George and Bennett, "most similar cases are ideally the cases that are comparable in all respects except for the independent variable, whose variance may account for the cases having different outcomes on the dependent variable" (2005,81). I use Mill's "method of difference" to analyze the specific contribution that Islamic

business groups have made to both the peaceful and troubled relations which exist between the state and political Islamic movements in Turkey and Egypt.

In order to alleviate the problems associated with small-n analyses, my dissertation examines distinct periods across my cases through comparative historical analysis. Comparative historical analysis offers tools well adapted to the analysis of temporal processes, which is essential in determining both the intended and the unintended consequences on substantive patterns of state policies. It is only after analyzing temporal processes that we can clarify causal mechanisms in small-n comparative research.

I analyze Turkey and Egypt as the most similar cases for several reasons. Even though Turkey and Egypt have predominantly Sunni Muslim populations and have hosted robust Islamic movements, Islam has been one of the most contentious issues in the modernization and democratization of these two countries (Ibrahim 1996, Sakallioglu 1996, Yavuz 1997, Heper 2002, Tessler 2002). From a historical perspective, Turkey and Egypt went through similar experiences throughout the twentieth century with respect to their “authoritarian secularist regimes that attempted to shape everyday lives in accordance with secular, authoritarian, national capital accumulation projects” (Tugal 2009, 235). However the state control over religion accompanied with high levels of Islamist political activism in both countries. In their confrontation with politically active version of Islam, Turkey and Egypt promoted “official Islam” through state institutions of the Directorate of Religious Affairs and al-Azhar, respectively (Dede 2008).

What is more intriguing is that Islam continued to serve as the main source of national identity in both countries where the secular state and Islam found venues to coexist while continuing to confront each other at the same time (Tepe 2008, 348). Both states prohibited the

establishment of political parties based on religion but Islamic political parties started participating in national elections in Turkey since the early 1970s, while the MB participated in electoral policies in the form of tactical coalitions with non-Islamist parties in Egypt in the 1980s.

In terms of economy, Turkey and Egypt pursued similar developmental strategies throughout the 20<sup>th</sup> century. Import Substitution Industrialization (ISI) policies nurtured a big business class with organic ties to the state in both countries. After serious economic crises resulting from the limitations of ISI strategies, both countries opened their economies in the mid-1970s, and in the early 1980s under authoritarian settings. In Turkey, the military regime introduced economic liberalization policies, while in Egypt it was the authoritarian rule of the Sadat and Mubarak regimes which implemented market transformation programs.

In both cases, the market transitions were coupled with lenient policies towards Islamist groups to counterbalance the leftist political movements. In Turkey, both the military regime and the civilian government under Motherland Party rule (1983-1991) adopted the doctrine of Turkish-Islamic synthesis as an official ideology to reduce the appeal of radical leftist ideologies during the market transformation. In Egypt, Anwar Al-Sadat chose to accommodate Islam in his fight with the Nasserist coalition of the secular leftist forces when he embarked on *infitah* policies in the 1970s. However, when both regimes started perceiving Islamists as threats, they tightened their grips on Islamists even further. The post-modern coup of 28 February 1999, when the pro-Islamic Refah Party was forced to resign and many Islamic businessmen were arrested on the pretext of funding Islamic fundamentalists against the secular state, illustrates the high point of confrontation between the regime and political Islam in Turkey. In Egypt, the regime increased its clampdown on Islamists through various methods since the early 1990s.

My dissertation fieldwork research is based on archival research for data compilation and in-depth interviews with businessmen and local politicians as well as academics and journalists. My fieldwork started in January 2011 in Turkey, where I spent a year conducting my research. During this first period, I conducted archival research in the archives and libraries of state agencies' (Istanbul Municipality's Ataturk Library and the State Planning Organization), major business organizations (Turkish Industrialists and Businessmen Organization– TUSIAD, and the Independent Industrialist and Businessmen Organization – MUSIAD), and various university libraries in Istanbul and Ankara for data-compilation on the issues around state-Islamic business interactions during the process of economic liberalization. I analyzed a wide variety of economic data and government statistics about export rates and other economic and financial indicators focusing on trade and financial liberalization in Turkey. I also made use of a variety of materials such as records of parliamentary debates, public speeches and major national newspapers. Additionally, I surveyed various Islam-oriented newspapers (*Zaman*, *Yeni Safak*), and periodicals (*Aksiyon*, *Cuma*, *Girisim*, *Yeni Zemin*) owned by the Gulen Movement, and the publications of MUSIAD and TUSKON's local branches in order to understand how business elements have been constituted as an economic and political force within Turkish Islamic movement since the 1980s. Due to the abundance of the material I used simple random sampling.<sup>10</sup>

During the second period, I conducted interviews with Islamic businessmen, Islamic politicians and academics in Kayseri, Konya and Gaziantep. I have chosen Kayseri, Konya and Gaziantep as the representatives of the Anatolian Tigers for multiple reasons. First, these cities have been historically important trading centers along the old Silk Road. I tried to see the extent

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<sup>10</sup> Simple random sampling is a sampling scheme in which all possible combinations of  $n$  units may be formed from the population of  $N$  units with the same chance of selection (Singh 2003, 71).

to which the provincial Islamic business groups in Central Anatolia were able to utilize their historical advantage in the new economic context. Second, Islamic sects and religious community structures which played an important role in the formation of the Anatolian capital have been quite active throughout the Republican history in these cities. Finally, since the Refah Party (Welfare Party) won 19 per cent of the vote that resulted in their controlling 329 municipalities in the 1994 elections, Islamic municipalities played an important transformative role in Islamic politics in these cities through and have provided key opportunities for political learning (Yavuz 2009, 62-3). Islamic businesses have enjoyed local financial opportunities provided by local religious administrators. I try to examine the reciprocal relationship between political and economic power.

My main interviewees were members of Islam related business associations, such as MUSIAD, TUSKON and ASKIAD. I conducted a total 25 interviews in Turkey. I mostly used snowball sampling as a means of finding my respondents. The interviews lasted almost one hour most of the time. In my interviews, I used open-ended questions to reveal my interviewees' own experiences and I asked them to describe the extent to which their businesses benefited from the shifting relations of the Turkish economy since the economic liberalization in the 1980s. I also asked them to assess their (changing) relations with the state as well as their businessmen associations and Islamic political parties in Turkey. I noted respondents' answers on separate sheets and categorized them into themes. I highlighted the most frequently repeated themes.

In the second phase of my research, I went to Egypt in winter of 2012 during the first anniversary of the revolutionary events which led to the fall of the thirty-year rule of Hosni Mubarak in February 2011, and I completed my research in May 2013, a month before the military coup that ousted the country's first democratically elected Islamic president, Mohammad

Morsi. Conducting dissertation fieldwork in the midst of the tumultuous times has been both challenging and promising. The collapse of the Mubarak regime gave Islamic groups (mainly the Muslim Brotherhood) a historical opportunity to be part of envisioning a new political and economic order in Egypt. New sets of questions were generated on the triangular relationship between business, the state, and Islam, which made my dissertation research experience even more worthwhile.

During my fieldwork research in such a dynamic environment in Egypt I was affiliated with the Political Science Department at the American University in Cairo (AUC) and the Netherlands Flemish Institute in Cairo (NVIC). The archival and field research I conducted in Egypt was very similar to that which I conducted in Turkey. My archival research was mainly carried out at library of the AUC, the *Dar al-Kutub al-Misriyya* (the Egyptian National Library), and the library of the NVIC. In addition to the books and academic journals, I surveyed state statistics and records of parliamentary hearings (to the extent that they are available) related to the issues around market reform process, state-Islamic business interaction as well as Islamic political activism since the mid-1970s.

During this second phase, I mainly conducted interviews with Islamic businessmen (small businesses owners who are affiliated with Islamic political movements/parties as well as the members of the recently launched MB's businessmen association, the Egyptian Business Development Association –EBDA) in Cairo and the Beni Suef area. I conducted a total of 21 interviews with Islamic businessmen whom I was introduced to through the contacts I established in the field. In my interviews, I used open-ended questions to learn about my interviewees' personal and business histories. Then, I asked more specific questions regarding drawbacks of the Egyptian economic liberalization process on the SMEs and/or Islamic

businesses as well as state control of religion and Islamic political activism since the Nasser regime. I also gave them the opportunity to express their ideas about the recent political changes as well as the growing engagement of the Muslim Brotherhood in political and economic life in Egypt.

I also conducted interviews with big businessmen from the Egyptian Businessmen Association (EBA) and the Egyptian Junior Businessmen Association (EJB) on the implementation of the economic liberalization programs, their strategies of organization, activities, and domestic and international cooperation. Additionally, I covered the 2012 presidential elections for one of the leading Turkish newspapers, *Haberturk*. I observed the campaigns and interviewed local Islamic politicians, journalists and the electors at the polls during the 2012 presidential elections in the greater Cairo area.

Throughout my dissertation, I will treat my interviewees anonymously and will not reveal the real names of my interviewees. I will specify the categories (such as businessman, party member) and locations. Giving the actual names of my respondents could be especially dangerous due to Egypt's current political situation in the aftermath of the military coup in July 2013, and the recent conflict between the Gulen movement and the ruling AKP in Turkey.

The rest of the dissertation is composed of four empirical chapters and a concluding chapter. The first chapter starts with the short account of the Turkish pre-liberalization economic model and continues with the economic liberalization program focusing particularly on the emergence of provincial Islamic SMEs through flexible production. The last part of the chapter analyzes changing economic interests of Islamic business groups in Islamic polity and explains how Turkish Islamic entrepreneurs were successful in transforming the secular state agenda

toward political Islamic groups in a ‘slow motion revolution,’ in the last two decades of the twentieth century.

The second chapter provides a brief historical background to examine how the Naqshbandi tradition developed in the specific context of Turkey. The second section of the chapter introduces the Iskenderpasa Community of the Naqshbandi Order and analyzes the Iskenderpasa Community’s mobilization strategies in its attachment to the market forces and political liberalism especially during the market transformation in Turkey. The third section focuses on the networks and activities of the neo-Nurcu Gulen Movement in order to analyze its impact of creating a powerful network based upon trust relations among Islamic economic actors in Turkey.

Chapter Three turns to Egypt and provides an empirical account of economic liberalization process in Egypt. It starts with the Egyptian pre-liberalization economic structure and continues with Anwar Sadat’s *Infitah* (economic opening) policies, focusing particularly on the emergence of Islamic banks and investment companies. The last part of the chapter examines Husnu Mubarak’s structural adjustment reforms in the creation of the market coalitions of big business and state bureaucracy by excluding the small and medium sized enterprises in the peripheral quarters.

Chapter Four opens with a discussion of the reasons for the political and economic weaknesses of Sufi religious orders and the strengthening of the MB’s position in the course of the Egyptian political Islam. The second section of the chapter examines the Muslim Brotherhood’s political and economic responses to the economic liberalization policies in order to understand the social components of political Islamic constituencies and the marginalization of business interests in the MB’s public agenda. The following section introduces more market-

oriented Wasat Party as an internal challenge to the configuration of power between the regime and the MB in favor of business interests. The rest of the chapter discusses the post-revolutionary MB's economic program in order to demonstrate the tactical nature of the MB's economic agenda during the Mubarak regime.

## CHAPTER 1

### ECONOMIC LIBERALIZATION POLICIES AND (ISLAMIC) MARKET COALITION IN TURKEY

*In the Refah (Welfare) Party, there were groups demanding sharia rule. Refah did not represent the local values we are now cultivating. The ideology of the party was partially shaped by alien imports. Our vision was at odds with the rest of the party. The despotic rule of Erbakan Hoca made it impossible for us to realize our vision under the rubric of the National View. We believe that modernization and being Muslim complement each other. We accept the modern values of liberalism, human rights, and market economy.*

Abdullah Gul, Turkish President <sup>11</sup>

As stated in the introduction, my first hypothesis explores the extent to which different market coalitions between state and various social forces have been important for the strength of Islamic business groups in Turkey and Egypt. In this chapter I analyze the implementation of the Turkish economic liberalization and examine its impact on the formation of Islamic market coalition in Turkey. I argue the initial coalition between the state and Islam in the early phase of economic liberalization transformed the interaction between Islamic constituencies and the state in Turkey. Economic liberalization policies have been geared to accommodating provincial, medium-sized businesses (which have been dominated by Islamic businessmen), and the state reoriented itself to support those business groups in Turkey. As these provincial Islamic business groups began to prosper and integrate with the global economy, they committed to a more liberal stance in order to forward their own business interests. Their commitment, in turn, assisted in shifting the state's position favorably towards the political-business Islamic groups.

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<sup>11</sup> June 26, 2002 (cited in Tezcur, 157).

This chapter is divided into three parts: In the first section I briefly analyze the Turkish pre-liberalization economic model that had led to capital accumulation mostly in Istanbul and exclusion of Islamic business groups from the economic sphere. The second section examines the economic liberalization program focusing particularly on the emergence of provincial Islamic SMEs through flexible production. Finally the third section demonstrates changing economic interests of Islamic business groups in Islamic polity and explains how Turkish Islamic entrepreneurs were successful in transforming the secular state agenda toward political Islamic groups in a ‘slow motion revolution,’ in the last two decades of the twentieth century.

### ***Pre-Liberalization Economic Structure Prior to 1980***

The Turkish business environment was shaped by Turkey’s position as a late-industrializing country in the international context of late capitalism.<sup>12</sup> At the initial stages of the industrializing process, the state became an important agent by providing financial resources and sharing the risks taken by the individual actor. Therefore, in the Republican period, the emergence of the private sector was closely related with its position vis-à-vis the political power. In order to be successful, the businessman had to convince political authorities of his desire and ability to serve the state through entrepreneurial activity (Bugra 1994, 50-1). To restate this, it is not easy to characterize the business activity without understanding the development project undertaken by the political authority.

In the institutional environment of a typical late-industrializing country where the resources of the state were transferred to businessmen via state tenders, subsidized credits, inputs from state-owned enterprises and an easy access to foreign exchange; certain business enterprises developed more successfully in Turkey. At the initial stage, new entrepreneurs were mainly

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<sup>12</sup> ‘Late industrialization country’ is used here to refer a developing country where industrialization takes place without an indigenous technology producing capacity. See Bugra 1994, 16.

involved with commerce and construction, however after the mid-1950s, they began to be involved in industry. When the local production of previously imported goods began, the import of these goods was banned. Therefore, producer firms enjoyed monopolistic or oligopolistic power in the local markets and were organized under the new organizational framework of holding companies (Cokgezen 2000, 528-29).<sup>13</sup> As Bugra points out “these enterprises have almost invariably grown very big through a strategy of horizontal and vertical integration encouraged by politicians that had a distinct distaste for small enterprises considered to be inefficient and inappropriate for the objective of modernization that has always remained a major policy goal” (Bugra 1998, 523-24). The SMEs were expected to be eliminated by more efficient and advanced large firms because of their “informal” and “pre-modern” relations and technologies (Taymaz 2001, 44).

Before the economic liberalization in the 1980s, development of small and medium-sized enterprises committed to Islamic values in the heartland of Anatolia had been neglected. The economic activities of 88 per cent of holding companies were concentrated around three biggest cities of Turkey – Istanbul, Ankara and Izmir. In 1970s Istanbul alone accounted for 49 per cent of all major industrial establishments in the country and received 40.5 per cent of financial and physical incentives (Danielson and Keles 1985, 35; Ertugal 2003, 11). As a result the import-substituting bourgeoisie of the big cities with their privileged access to Ankara enjoyed an oligopolistic position until the liberalization period.<sup>14</sup>

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<sup>13</sup>It is important to notice that the first generation of the Turkish bourgeoisie was composed of this group of businessmen.

<sup>14</sup>After the military coup in 1960, state planning was introduced by the new constitution and state control over the economy re-intensified. Import substitution industrialization (ISI) became the main development policy between the 1962-1977 period which was a decade and a half of uninterrupted capital accumulation. The nascent industrial bourgeoisie enjoyed a captive market in the urban areas under protectionist policies, overvalued exchange rates, cheap credit and tax exemptions (Pamuk 1981, 127-28).

Marmara	Aegean	<i>Mediterranean</i>	North East	South East
8,537,251	765,339	691,135	10,546	29,636

**Table 1.1** Distribution of public development and investment credits on a region basis in 1975 (TL), Source: The Turkish Union of Banks

Marmara	Aegean	<i>Mediterranean</i>	South East	East	Central Anatolia	Black Sea
757	332	342	114	56	284	356

**Table 1.2** Major industrial private establishments by region in 1977, Source: State Planning Organization

Istanbul	Ankara	Izmir
2346	563	415

**Table 1.3** Major industrial private establishments in Istanbul, Ankara and Izmir in 1977, Source: State Planning Organization

State-created industrialists in Turkey had no desire to challenge the authoritarian regime and its direct intervention in capitalist development (Keyder 1987, 198-99). The words of Ali Kocman, the former TUSIAD chairman, reveal some important aspects of the traditional relations between the state and early bourgeoisie of Turkey:

In this country our philosophy has always been that of taking the ‘Papa State’ (*devlet baba*) as paramount, refraining from challenging it, and of pursuing an economic policy, not in spite of, but with the ‘Papa State’. ...Hesitancy on the part of the members of the private sector to run for public office stems from the philosophy of not challenging the ‘Papa State’, from the belief that the state would not bode well for them. Let me give you an example. Today in Turkey every businessman thinks that even if he had not done anything illegal, the state, if it chooses to, may find a pretext and crush him (cited in Heper 1985, 103).

ISI strategy achieved relatively high growth rates in the 1960s and 1970s in the Turkish economy. The rates of growth manufacturing industry averaged over ten per cent per year, and the gross national product grew by more than seven per cent (Pamuk 1981). However as observed in many countries that adopted similar strategies, the ISI policies proved to be

unsustainable due to severe structural problems in the highly protected and heavily regulated economy and the ensuing fiscal crisis of the state in the late 1970s (Pamuk 1981, 27-29; Taymaz 2001, 55). More specifically, Yildirim categorizes the problems of the ISI in the Turkish economy under three groups: 1) failure to develop intermediate and capital goods industries, 2) the need for the importation of the technological foundation to develop industries beyond basic consumer goods production, and 3) the extraordinary high levels of profits and protection enjoyed by the new industrial bourgeoisie (2010, 73).

Turkey left ISI strategy and adopted economic liberalization program around the time of the 1980 military coup. The Turkish economic liberalization policies reshaped Turkish capitalism and the relations between the state and the economy, changing the dominant economic model in the country. My main aim in the following section is to detail the specific components of economic liberalization process and to make a causal connection between structural adjustment policies and the changing relation of Islam to the state due to the emergence of provincial Islamic business groups in Turkey.

### ***Structural Adjustment Policies and the Emergence of Provincial, Mostly Islamic SMEs through Flexible Production***

On January 24, 1980, Suleyman Demirel's minority government announced an IMF backed stabilization program, known as the January 24 Decisions (*24 Ocak Kararlari*). Turgut Ozal, the Undersecretary and the Deputy Minister, tailored the austerity measures by emphasizing the need for a market economy with less governmental intervention, readjustment of the tax system, deregulation of the labour market and privatization (Atiyas 1995). An export-oriented policy based on the market economy was adopted and the restrictions on exchange rates and interest rates were abolished (Cokgezen 2000, 532). The main objective of this shift was to

liberalize the Turkish economy and to encourage private sector activities with the aim of integrating Turkey into the global commodity and financial markets.

Only eight months after the January 24 Decisions, the Turkish military executed its third *coup d'état* on September 12, 1980. The 1980-83 military government further deepened austerity measures by keeping Turgut Ozal as the Deputy Prime Minister in the military cabinet. The generals' main concerns, in this period, were on stabilizing the economy decreasing the rate of inflation and solving the balance of payment through supporting export-oriented sectors.

After the interim military rule, the Motherland Party (ANAP) led by Ozal formed a new government following the general elections held on November 6, 1983.<sup>15</sup> The Motherland Party, as a catch-all party, was able to receive the votes from the religious segments of society. As a religious person, Ozal made an explicit reference to Islam in his party program. He explained his liberalization policies through the lenses of Islam as follows:

Order in Islam is based on the concept of unity (*tevhid*). In this order everything has a specific place and function, and moves in an organic relation according to certain rules. In the contemporary context what we mean by an organic relation is a functioning free market with its basic principles... There has always been similarities in the Western and Islamic market principles. First of all, both of them are free. In the Islamic market the prices are set freely and by the market mechanism as well. The Islamic market is superior in dealing with the formation of monopolies. On the one hand there is almsgiving (*zekat*) and on the other hand the principle of profit sharing instead of interest prevents monopolies.<sup>16</sup>

Ozal accelerated the market reforms by expanding the breadth and depth of the structural adjustment process. The main aim of the structural adjustment program was to improve the balance of payments positions and achieve sustainable growth via greater outward orientation

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<sup>15</sup> Turgut Ozal was a member of the Naksibendi religious order and a parliamentary candidate on pro-Islamic NSP in the 1977 general elections. Until he became the prime minister in December 1983, he worked as the chairman of the Islamic Scientific Foundation in Saudi Arabia.

<sup>16</sup> Ozal's speech delivered in Paris in 14 November 1985 in the conference titled "Islam and West". In Cemal, H. 1988. *Ozal Hikayesi* (Ankara: Bilgi Yayınevi, 1989), 153. quoted in Sarfati 2009, 174.

and reliance on market incentives (Onis and Ozmucur 1991, 20). The program had five main pillars: 1) Price liberalization, 2) Trade liberalization involving government support for exports and gradual elimination of quantitative import restrictions and tariffs, 3) Capital market and financial liberalization, 4) flexible exchange rates policy, 5) Fiscal austerity measures, including reductions on public spending and the introduction of VAT (value added tax).

The immediate success of the new strategy was quite remarkable in the Turkish economy. In the period between 1981 and 1987, export revenues increased 15 per cent on average (Aysan and Hacıhasanoglu 2007, 160). Export income increased from US\$ 3 billion in 1979 to US\$ 12 billion in the late 1980s (Keyder 2004, 68). The inflation was also tamed from 89.6 per cent in 1980 to 26.0 in 1983. The GNP growth rate increased continuously until 1987 when it reached its 20 years' peak of 9.8 per cent (Taymaz 2001, 57).

	<b>GNP Growth</b>	<b>Inflation</b>	<b>Exports</b> <b>(Dollars Value)</b>	<b>C. Account</b> <b>Deficit/GNP</b>	<b>Budget</b> <b>Deficit/GNP</b>
<b>1977</b>	<b>3.9</b>	<b>23.5</b>	<b>-10.6</b>	<b>7.0</b>	<b>6.1</b>
<b>1978</b>	2.9	50.3	30.5	2.9	2.9
<b>1979</b>	-0.4	64.8	-1.2	2.4	4.0
<b>1980</b>	-1.1	108.6	28.7	6.3	3.9
<b>1981</b>	4.1	36.7	61.6	4.0	1.7
<b>1982</b>	4.5	27.0	22.2	2.4	2.3
<b>1983</b>	3.3	30.5	-0.3	4.3	3.0

<b>1984</b>	5.9	50.3	24.5	2.9	4.9
<b>1985</b>	5.1	43.2	11.6	1.9	2.3
<b>1986</b>	8.1	29.6	-6.3	2.6	2.7
<b>1987</b>	7.4	32.0	36.7	1.7	4.4

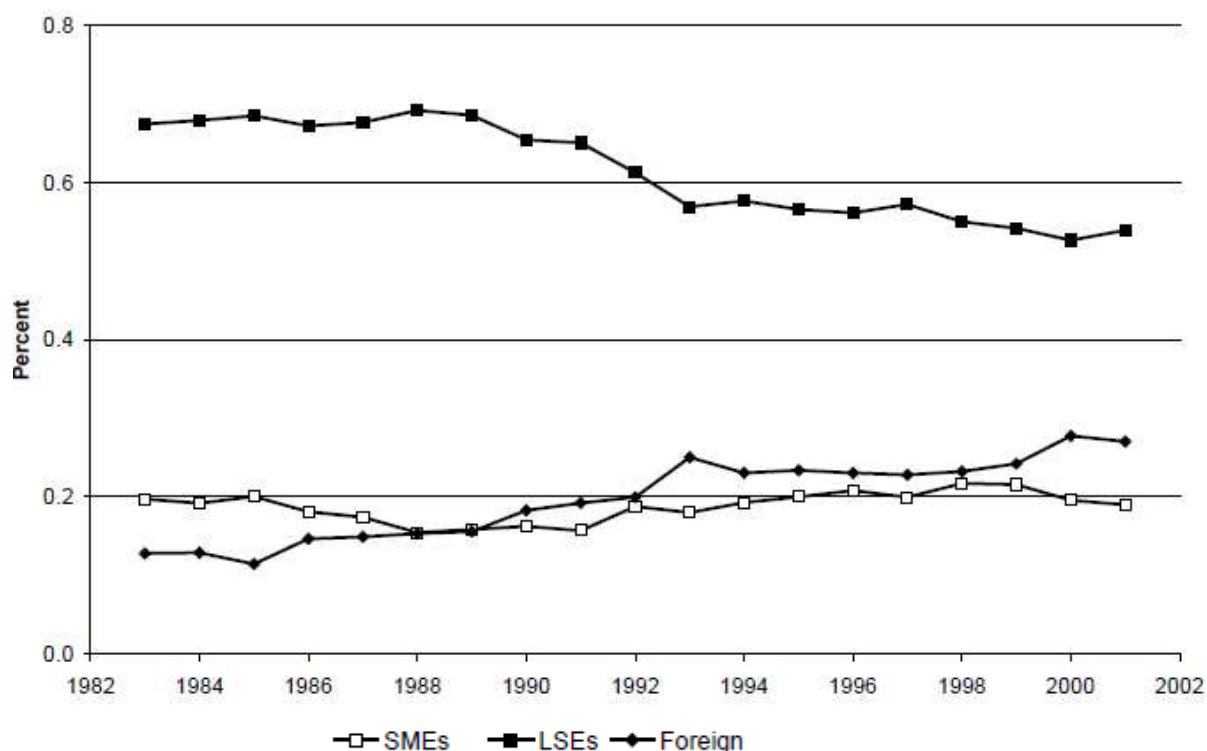
**Table 1.4** Basic Macroeconomic Indicators, 1977-1987 (Percentage Increases and Ratios),  
Source: Onis and Ozmucur 1991

The structural adjustment program initiated in the early 1980s was a big departure from the import substitution strategy of the past decades. The state supported big business and the industrial bourgeoisie concerned with losing their privileges opposed Ozal's policies (Henry and Springborg 2001, 201). The vast majority of big business was not well equipped to compete in world markets in changing conditions. For example, the Koc and Sabanci Holding exported only six per cent of their turnover in 1986, and produced mainly for the domestic market. (Eralp 1990: 241, Patton 1992: 118-119). According to a study published in 1986 by the Istanbul Chamber of Industry, an increasing number of Turkey's Fortune 500 companies of Turkey experienced net losses, 35 in 1984 and 55 in 1985 (Patton 1992:118-119). Taymaz, Voyvoda and Kamil's recent work also shows that even though large scale enterprises (LSEs) produced the highest share of value added in total manufacturing – their share in manufacturing output was 70 per cent in the 1980s, the value added share of LSEs decreased to an average level of 50-55 per cent by 2000 (2010, 5-6).<sup>17</sup>

On the other hand, adjustment to producing for export had been quick for the SMEs. Export-oriented SMEs utilized export subsidies, tax breaks, and devaluation of the currency and

<sup>17</sup> It is important to acknowledge that apart from firm size, there were important variations across sectors in producing for exports.

became the main beneficiaries of the liberalization period in Turkey.<sup>18</sup> A far-reaching network of SMEs in the central Anatolian provinces also “profited from an abundant stock of unskilled, cheap labor and from inner-group religion based norms of trust and cooperation” (Karadag 2010).



**Figure 1.1** Distribution of value added by firm type, 1983-2001, Source: Taymaz, Voyvoda and Kamil 2010, 24

In the global shift from Fordist mass-production to flexible production, the world has experienced the rise of “industrial districts,” formed by regionally located small and medium enterprises (Bugra 1999, 12). What we observe in the Turkish case is that some smaller enterprises committed to Islamic values, located in certain towns of Anatolia specialized in particular lines of production. According to Caglar Keyder, “as Turkish exports gravitated toward

<sup>18</sup> There is no single definition of an SME among various public agencies and institutions in Turkey. Following Taymaz I use the State Institute Statistics definition which uses employment as the measure of size. In this context SMEs are defined as establishments with less than 100 employees (Taymaz 2001, 50-51).

labor-intensive manufactures, a number of smaller Anatolian cities with craft traditions and non-unionized workforces, where household could be incorporated in subcontracting deals, began to emerge as regional industrial centers. Most of the production in these towns, the so-called Anatolian Tigers, was located on buyer-driven networks: businessman contracted directly with retail chains and volume buyers in Europe” (2004, 68).

When I asked about the reasons of the success of the Anatolian Tigers, an interviewee in Kayseri, a businessman whose food processing company exports its products from Central Asia to Africa said that “the wandering lion doesn’t famish” (gezen aslan ac kalmaz). According to him, each businessman is a lion who needs to explore new lands to feed his family.<sup>19</sup> The increasing export trend in Anatolian cities seems to demonstrate his point. The tables below illustrate exports performance of some Anatolian towns.

	1996	1997	1998	1999	2000	2001
<b>GAZIANTEP</b>	352	423	455	463	470	536
<b>KAYSERİ</b>	147	169	201	209	274	339
<b>KONYA</b>	276	322	323	342	352	462
<b>ISTANBUL</b>	12,264	12,788	13,483	13,931	14,030	15,991
<b>ANKARA</b>	1,519	1,295	1,319	1,299	1,385	1,630
<b>IZMIR</b>	2,229	2,149	2,263	2,301	2,293	2,670

**Table 1.5** Number of Exporting Companies (1996-2001), Source:Ministry of Economy

<sup>19</sup> Fieldwork interview in Kayseri, January 15, 2012.

	1996	1997	1998	1999	2000	2001
<b>GAZIANTEP</b>	224,931	392,915	442,673	412,946	420,108	579,565
<b>KAYSERI</b>	207,498	228,498	248,702	221,137	255,472	322,538
<b>KONYA</b>	62,550	84,159	73,077	84,471	87,061	107,173
<b>ISTANBUL</b>	13,779,298	15,812,387	15,822,052	15,213,216	16,042,330	17,629,598
<b>ANKARA</b>	779,129	996,970	1,464,474	1,490,041	1,340,387	1,532,882
<b>IZMIR</b>	3,199,616	3,240,787	3,462,154	3,194,430	3,013,040	2,739,911

**Table 1.6** Value of Total Exports (\$), Source: Ministry of Economy

The above-mentioned logic of flexible production brought another major development in Turkish economic life. Social relations of reciprocity or networks of reciprocity began to characterize the new economic activities (Bugra 1999, 13). The effects of the organic forms of belonging in networks of solidarity defined on basis of kinship, neighborhood, ethnicity or religion are frequently used to explain the success of the advent of industrial districts formed by regionally located small and medium enterprises. Since, the second generation of the Anatolian bourgeoisie gathered around two main shared values – Islam and locality, the influence of Islam on the success of the Anatolian Tigers is the most cited one.

The invigoration of Anatolian capital identified with the Islamic and local values has some interesting implications for the modernization project of the Republic which aimed to westernize the country and to destroy the local particularisms. Islam, in the words of Keyder, was the most blatant expression of the local (2004, 69). In the authoritarian regime of the early Republic, the relations between state and religion were characterized by the virtual exclusion of

peripheral Islam from the secularist political center. During this period, even though peripheral Islam was not allowed to participate in national politics, it continued to play an important role in society. Secularization did not have a transformative effect and it lacked the legitimacy for the masses (Gole 2000). Even though the Islamist groups crushed by the secular state lost their public status and economic power, they continued to exist underground under the single party authoritarianism.

After the introduction of the multiparty system in 1946 a new politics began – Islam was institutionalized by “peripheral groups in their attempt to share in the benefits of modernization through clientelist participation in, rather than categorical rejection of, the secular institutions of the Republic” (Sunar and Toprak 2004, 163). In this period, the state started to accommodate Islam by training imams and other civil servant religious cadres to urge political support for the state. However it was not until the 1980s that the Turkish state changed its policy over Islam.

Emin Adas argues that in addition to economic restructuring, in the 1980s there was a decisive shift in the state’s policies toward religion, which he calls, a la its companion, “religion adjustment reforms” (2003,62). The 1980 coup promoted “Turkish-Islamic synthesis” in order to mitigate ideological divisions and to promote a “tamed” version of Islam as a factor of national unity.<sup>20</sup> The doctrine of “Turkish-Islamic synthesis” based on the triad of “the family, the mosque, and the barrack” supported the idea that the pre-Islamic Turkish culture and Islamic civilization share many values such as justice, morals, family and the belief in one immortal God. The Turkish-Islamic synthesis was originally introduced by rightist intellectuals and thinkers gathered around the Intellectuals’ Hearth (*Aydinlar Ocagi*) on 14 May 1970 for the

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<sup>20</sup> Keeping national unity was one of the biggest challenges of the military regime due to the political polarization in the country. The Turkish society was deeply divided by ideological polarization between right-wing ultranationalists (*ülküçüs* – idealists) and radical left-wing groups. Following the 1980 coup, 650,000 people were arrested, 230, 000 were indicted, 14, 000 were expelled from citizenship, 517 were sentenced to capital punishment, 50 were executed and 171 were killed by official torture (Kuru 2006).

purpose of “expanding national culture, national consciousness and Turkish nationalism” (Kurt 2010, 123). The Hearth adopted Ziya Gokalp’s doctrine that Islam was the essence of the Turkish nation and culture (Guvenc et al 1991).

Both the military regime and the civilian government under Motherland Party rule (1983-1991) utilized the doctrine of Turkish-Islamic synthesis as an official ideology to create a basis for legitimizing themselves, and also to reduce the appeal of radical leftist ideologies and non-Turkish strands of Islamic influences (Rabasa and Larrabee 2008, 37). Based on her interviews with retired generals, Turkish nationalists, Islamists, and politicians, Banu Eligur argues that even though the Turkish-Islamic synthesis does not appear in any official documents,” the synthesis was adopted as a new set of values guiding policy choices about education, religion, and culture in the post-1980 period” (2010, 201). For example, it is possible to see the footprints of the Turkish-Islamic synthesis in the Fifth Five Year Development Plan (1985–9). The plan stated that “the strengthening of national integrity will be secured by conveying the common cultural legacy of the past to the young generations and developing in them a sound historical consciousness” (DPT, Fifth Five Year Development Plan (1985–1989), (1985,218).

The Turkish-Islamic synthesis played an important role in the general framework of the 1982 Constitution. The 1982 Constitution made religious instruction (Sunni Islam) in primary and secondary schools mandatory after fifty-five years of the establishment of the republic.

According to Article 24 of the 1982 constitution, on “ Freedom of Religion and Conscience,”

Education and instruction in religion and ethics shall be conducted under State supervision and control. Instruction in religious culture and moral education shall be compulsory in the curricula of primary and secondary schools. Other religious education and instruction shall be subject to the individual’s own desire, and in the case of minors, to the request of their legal representatives.

During the 1980s the number of official religious staff increased 70 per cent and the number of religious schools grew 80 per cent. State funds were extensively used for building new mosques. Between the years 1983-1991, two thousand mosques were built per year, and by 1990, the total number of mosques in Turkey was 63,675 (Sakallioğlu 1996, 247-48; Adas 2003; Eligur 2010, 125).

In the aftermath of the 1980 military coup Islamic values and Islamic groups started to become more visible in the economic life as well. As a religious person, Ozal openly vocalized the need for a synthesis between market economy and religious values. Ozal's emphasis on Islam in economic life can be also thought as an extension of the Turkish-Islamic synthesis which formulated Islamic values as a prerequisite for economic growth (Eligur 2010, 107). In this context it is necessary to pay special attention to Islamic banks in Turkey because Islamic banks became an important catalyst for the visibility of Islam in economic field by "setting examples for alternative economic institutions for local entrepreneurs, contributing to the Islamization of economy as well as helping some Islamic entrepreneurs to emerge, survive and in some cases, flourish" (Adas 2003, 82). As stated earlier, Islam was utilized together with a free-market ideology, and Islamic banks were an important part in the process of liberalization of finance. As Islamic banks expanded geographically across Turkey, they became important partners for Islamic business groups (mainly small and medium sized). As result Islamic banks had a significant effect on inducing capital accumulation for Islamic business groups in Turkey during the process of economic liberalization.

### ***Islamic Banks in Turkey***

Islamic banks can engage in all the activities of a commercial bank but they are distinguished from the conventional banks by rejecting the conventional banking practices of

charging interest on loans and paying interest on deposits. Islamic banks are generally sub-sectors of national banking systems and compete with conventional banks; only Iran, Pakistan and Sudan have primarily or exclusively Islamic banking systems (Starr and Yilmaz 2007, 1115).<sup>21</sup>

With respect to Quran's prohibition against *riba* (interest), Islamic banks suggest an alternative mechanism based on profit- and- loss sharing (PLS). Islamic banks "share in the profits-and risk of losses-of the borrowers' business transactions, and they divide their share of the profits, in turn, with investors who have deposited funds in the bank" (Moore 1990, 234). Islamic theoreticians praise the PLS mechanism for stimulating entrepreneurship and economic development because of the partnership between the banks and their depositors. However, in time, Islamic banks have started to use more financial products in order to have low risks and high profits (Emin 2003, 76). It is estimated that PLS types of investment constituted only 5 per cent of Islamic banks' assets (Warde 2000).<sup>22</sup>

In the case of Turkey, the emergence of Islamic banks was one of the most important consequences of the Turkish economic liberalization policies. The first Islamic banks were introduced in Turkey in 1985. Decree no. 83/ 7506 of 16 December 1983 allowed Islamic banks

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<sup>21</sup> Islamic banks are currently operating over 300 institutions in 80 countries (Arslan and Ergec 2010, 156). Additionally some major conventional banks including Citibank, HSBC, Union Bank of Switzerland, Goldman Sachs have launched Islamic banking divisions that operate internationally. The first independent interest free bank established by the western banks is the Islamic Investment Bank founded by Citibank, Bahrain in 1996 with a capital of USD \$ 20 millions. See "the Participation Banks Association of Turkey" for further information: [http://www.tkbb.org.tr/en/index.php?option=com\\_content&task=blogcategory&id=46&Itemid=83](http://www.tkbb.org.tr/en/index.php?option=com_content&task=blogcategory&id=46&Itemid=83)

<sup>22</sup> Islamic modes of finance can be divided into two types: Either they provide direct finance as capital funds through partnership (*musharaka* and *mudaraba*) or they provide indirect finance through leasing (*ijarah*) and sale contracts (*murabaha*, *bai ajil*, *salam*, and *istisna*), (Yousri Ahmad, 2006). The extent to which *murabaha* and *ijarah* are different from interest based transactions is a matter of discussion. Warde strongly argues that *murabaha* and *ijarah* "disguise the interest through semantic games and other *hiyal* (ruses)" (Warde 2000, 134). Timur Kuran makes a similar argument by saying that "*murabaha* financing does not effectively involve risk-sharing and so should instead be seen as a cumbersome form of interest" (1995, 162).

to operate under the name of “Special Financial Houses” (SFH) in Turkey.<sup>23</sup> According to Asutay, such a name was given with the objective of avoiding the use of “Islamic” as a descriptive label, despite the fact that it functioned with *Shari’ah* compliant products (2007, 12).

Islamic banks were important for Ozal’s economic liberalization program for a number of reasons: First, Ozal intended to bring hidden capital to the capital markets where many Muslims were traditionally excluded because of its basis on *riba* (interest).<sup>24</sup> The second reason was to attract the Middle Eastern capital to invest in Turkey and to have good relations with the Arab countries. Even during the military regime, the General Kenan Evren, the architect of the 1980 military coup, defined Turkey as an “inextricable part of the Islamic Community,” and emphasized the necessity of close relations between Turkey and the Muslim world as follows:

We are in the endeavor of elevating our relations with the Middle East and Islam countries by developing and strengthening the existing historical, cultural, and spiritual ties and by achieving the productive cooperation in all areas that serves the interests of all sides. (cited in Eligur 2010, 116).

The ties with Muslim countries were further developed under Ozal rule. The Fifth Year Development Plan (1985-1989) specifically emphasized the importance of investments of Gulf countries on the quality, technologies, and marketing capacity of the Turkish economy.<sup>25</sup> In this

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<sup>23</sup> Official Gazette 18256. The decree reserved for the Prime Ministry the right “at all times” to supervise the special financial houses, and favored “special finance houses’ over the conventional banks. While the conventional banks were supposed to place 10 to 15 per cent of their assets in the Central Bank, only 10 per cent of current accounts and 1 per cent of investment accounts of Islamic banks were to be blocked in the Central Bank (Moore 1990, 247 ).Until 1999 this decree was in effect.

<sup>24</sup> It was overly estimated that some 50 billion dollars of savings was kept outside the banking system due to the lack of Islamic banks (Adas 2003, 80). However contrary to the initial expectations, the growth and development of Islamic banks in Turkey has been slow. Their market share in the Turkish banking was less than 1 percent before 1990, and could not exceed 2 per cent until 1994 (Jang 2001, 144). As of 2000 Islamic banking sector constituted a tiny portion of the banking system, holding less than 3 per cent of its total. See Treasury Statistics and the Banks in Turkey report of the Banks Association of Turkey.

<sup>25</sup> DPT, *Fifth Five Year Development Plan (1985–1989)*, 209.

favorable environment Islamic banks mostly from Gulf states were established in Turkey, and Turkey received substantial aid from Islamic Development Bank (Warde 2000; 24,79).<sup>26</sup>

Sheikh Saleh Kamel's *Al Baraka* group and Prince Mohammed Faisal's *Dar al Mal al Islam* were the first ones that came to Turkey. They established *Al Baraka* Turkish Finance House and the Faisal Finance House in 1985.<sup>27</sup> During the 1980s, Al-Baraka Turk performed better than Faisal Finance because of its connections with Ozal government. The third Islamic bank, Kuwait Finance House was established in 1989 as a joint venture between the Kuwait Finance House (49.9 per cent), the Turkish Foundation General Directorate (29.9 per cent), the Kuwait State Social Security Institute (9 per cent), the Islamic Development Bank (9 per cent), and the Turkish Religious Affairs Foundation (1 per cent) (Baskan 2004, 225).<sup>28</sup>

Anadolu Finance House, Ihlas Finance and Asya Finance were established by Turkish private investors. Anadolu Finance, established in 1991 was owned by Boydak Group.<sup>29</sup> Ihlas

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<sup>26</sup> The Islamic Development Bank (IsDB) is an international financial institution established in Jeddah, Saudi Arabi in December 1973 with the aim of fostering economic development and social progress of member states and Muslim communities in accordance with the principles of the Shari'ah. The present membership of the Bank consists of 56 countries. The basic condition for membership is that the prospective member country should be a member of the Organization of the Islamic Conference (OIC), pay its contribution to the capital of the Bank. <http://www.isdb.org>. IsDB was given a tax exemption by Turgut Ozal on his very early days of his premiership. Yesilada makes a point that "it is interesting to note that this decision came soon after Korkut Özal, the younger brother of the Prime Minister, became a consultant for the Islamic Development Bank (IsDB) (1989,3).

<sup>27</sup> Moore notes that Al-Baraka and Faisal Finance financed Turkish oil imports – in the respective amounts of \$150 million and \$50 million annually. Korkut Ozal, the younger brother of Turgut Ozal as well as the leading Turkish shareholder of *Al Baraka* Turkish Finance House was alleged to have had an interest (1990, 248).

<sup>28</sup> According to Birol Yesilada, there is a strong relationship between the flow of Saudi capital in the 1980s and the resurgence of political Islam in Turkey. He further argues that "the flow of the Saudi capital into Turkey did not aim simply at economic payoffs. Rather, it brought with it some crucial political and social goals that could threaten the secular nature of the Turkish republic" (1989)

<sup>29</sup> Boydak Holding was established in 1957 in Kayseri and operates its activities in from furniture, textile, chemistry, marketing, iron-steel, logistics, and energy to informatics. Boydak Holding operates in 8 sectors with 35 companies and 7 different brands comprises the companies such as İstikbal, Bellona, Mondi, İstikbal Regina Mutfak & Banyo, Hes Kablo, Boyteks, Form Sünger among the most important brands of Turkey. In 2000, the export volume in these four companies of the Istiklal Group was more than 35 million US dollar. [http://www.boydak.com/en/p/20\\_boydak-group-in-brief.aspx](http://www.boydak.com/en/p/20_boydak-group-in-brief.aspx)

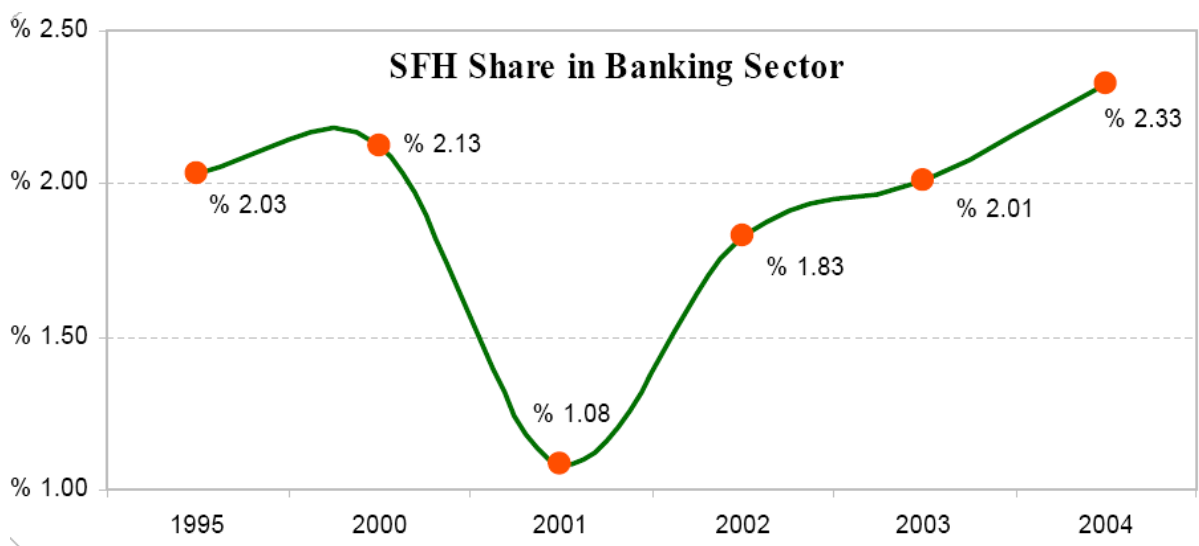
Finans House was founded by one of the largest Islamic companies, Ihlas Holding in 1995.<sup>30</sup>

Asya Finance was founded by the Fethullah Gulen Community in 1996 (Bulut 1997, Moore 1990).

	1996	1997	1998	1999	2000	2001
<b>Al-Baraka Turk</b>	41	34	31	22	21	27
<b>Kuveyt Turk</b>	18	16	15	14	15	31
<b>Faisal Finans</b>	13	8	7	8	7	12
<b>Anadolu Finans</b>	8	9	8	7	8	10
<b>Ihlas Finans</b>	-	20	27	30	40	0
<b>Asya Finans</b>	-	-	6	9	9	17

**Table 1.7** Share of each special finance house in the consolidated balance sheet , Source: Central Bank Annual Reports

<sup>30</sup> Ihlas Finance House, which possessed about 40 per cent of the Islamic banks' total assets in 2000, went bankrupt due to liquidity problems during the 2001 economic crisis in Turkey. Turkey. The Banking Regulation and Supervision Agency (BRSA), which has been the banking authority since June 1999 stopped the activities of the Ihlas group.



**Figure 1.2** Special Financial House share in banking sector, Source: Tumay 2005, 31

As Figure 2 demonstrates, Turkish Islamic banks have expanded their market share of total banking deposits since the mid-1990s. However their overall growth trend decreased following the February 28 process, and this trend was intensified after the collapse of Ihlas Finance in 2001 (Jang 2005,165). On February 28, 1997 at the National Security Council (NSC),<sup>31</sup> the military presented Prime Minister Erbakan with a list of recommendations to fight with anti-secular activities. In June 1997 Erbakan resigned, and the Welfare Party was closed by the Constitutional Court in January 1998. Islamic banks openly coined the derogatory term “green capital” for their activities of funding illegal Islamic movements at the National Security Council (NSC) meeting. This process had been termed a “silent” or “post-modern” coup.

Two years after the February 28 post-modern coup,<sup>32</sup> the bank law of 1999 brought new regulations for Islamic banks in Turkey. The new law constituted three different types of banks in

<sup>31</sup> The National Security Council (NSC) was established after the 1980 coup, composed of five top commander chiefs of the army and five cabinet member.

<sup>32</sup> As explained in introduction, in the meeting of the National Security Council in 1997, Islamic fundamentalism was declared as the most serious threat to national security, and the military dictated a list of 18 anti-Islamist measures to ruling Islamist Refah (Welfare) Party and Islamic capital. After this intervention, the Refah Party was closed by the Constitutional Court, and the Security Exchange Committee (SPK) froze the assets of some Islamic holding companies because of their so-called illegal money (Adas 2009).

the Turkish banking system: commercial banks, investment and development banks, and interest-free banks. Although Islamic banks were regulated separately from commercial banks since their inception, the bank law of 1999 made them part of the Turkish banking system under the name of “interest-free banks.” The new law made Islamic banks compulsory to reserve the same ratios, and same liquidity ratio as the commercial banks. They were also required to make weekly reports of their foreign-currency position to the central bank (Starr and Yilmaz 2007, 1115-1117). However Islamic banks still could not be members of the Banks Association, and were not covered by deposit insurance fund. It was not until May 2001 that Islamic banks were guaranteed by the deposit insurance fund of the state under the new Banking Act no. 4491.

In 2006, the names of Islamic banks were converted to “participation banks” by the new regulations promulgated in 2005. In the beginning there were seven interest-free banking institutions, but today they are four active “participation banks” in Turkey: Albaraka Turk, Bank Asya, Kuveyt Turk and Turkiye Finans (Arslan and Ergec 2010, 159).<sup>33</sup>

There were 115 special financial house branches in Turkey before the meltdown of Ihlal Finance in 2001. Their branches increased to 148 in 2002, 188 in 2003 and 256 in 2004. By 2009, the total number was 560. According to the data of 2009, Turkiye Finans has the largest number of branches as 180 followed by Bank Asya with 158, and Bank Asya has the largest number of employees as 4074.<sup>34</sup>

What is more important is that Islamic banks have become significant partners for emerging Islamic business groups in Turkey. Even though it is not so easy to arrive at definite

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<sup>33</sup>Faisal Finance became Family Finance in 2001 when it was sold to Ulker Group. Then Anadolu Finans and Family Finans merged into the name of Turkiye Finans in 2005. In 2008, the Saudi Arabia’s largest bank, the National Commercial Bank bought the 60 per cent share of Turkish Finance.

<http://www.turkiyefinans.com.tr/tr/hakimizda/tarihce.aspx>

<sup>34</sup>The Participation Banks Association of Turkey’s statistics

[http://www.tkbb.org.tr/en/index.php?option=com\\_content&task=blogsection&id=30&Itemid=382](http://www.tkbb.org.tr/en/index.php?option=com_content&task=blogsection&id=30&Itemid=382)

conclusions due to the unavailability of publicly accessible data on the relationship between Islamic banks and their clientele, my interviews revealed that many Islamic businessmen, probably a majority, have chosen to work with Islamic banks. During my dissertation fieldwork in Kayseri, Konya and Gaziantep, I questioned various businessmen on their preferences with whom they do business. Many of them expressed their preferences for interest-free banking without mentioning any names. One of my interviewees based in Gaziantep, who exports the orthopaedic leg trolleys answered my question as follows:

I used to be a carpenter. Then we decided to start a business with my brother in the mid-1980s. We wanted to take advantage of Ozal's policies, but it was not something very easy for us. We needed money to buy machineries. Instead of taking loan from the conventional bank with the huge interest rates, we had a *murabaha* contract. Then the bank bought capital for us and we paid it back, *elhamdulillah*.<sup>35</sup>

	1988-91	1992-95	1996-99	2000-02	2010
<b>Konya</b>	2	3	6	7	18
<b>Kayseri</b>	1	2	4	5	12
<b>Gaziantep</b>	1	1	3	4	10
<b>Denizli</b>	1	3	3	4	5

**Table 1.8** Local branches of Islamic banks, Source: Annual reports of each Islamic bank

The expansion of the Islamic banks and the strength of the Islamic business groups in certain Anatolian cities also seem to confirm the relationship between the two. As Figure 3 illustrates the number of Islamic banks' branches have substantially increased as Islamic business groups became prosperous in Konya, Kayseri, Gaziantep and Denizli, the so-called Anatolian Tigers.

<sup>35</sup> Fieldwork interview, in Gaziantep, January 20, 2012.

***Rising Islamic Economic Interests and the Independent Industrialists and  
Businessmen's Association (MUSIAD)***

As I argued previously, liberalization of the Turkish economy changed the political and economic map of Turkey by challenging the state-centric development model that had hitherto worked to benefit capital accumulation in Istanbul. The creation of Islamic business groups in Anatolian cities the 1980s and 1990s was one of the most important outcomes of Ozal's export-oriented economic policies. According to Hasan Kosebalan, "it was only natural for upwardly mobile business interests on the periphery of Turkish politics to bring with them to the public space a normative background rooted in Islam. However, the conflict between these societal forces and the contenders was economic rather than cultural and ideological" (2005, 32). SMEs in Central Anatolia find Islamic symbols and ethics useful for struggling with state regulation of the economy and big industrialists who enjoy state patronage.

The Independent Industrialists and Businessmen's Association (MUSIAD),<sup>36</sup> established in 1990 by four young Islamic businessmen, was a direct challenge to the economic dominance of the state supported big business organized around the Turkish Industrialists and Businessmen's Association (TUSIAD).<sup>37</sup> In one of his interviews, Omer Bolat, the former president of MUSIAD, explains the foundation of MUSIAD in the following:

There are two reasons for the birth of MUSIAD. First; after the 24 January 1980, a liberalization period started in Turkey in economy, policy and social life. This is the period that the Anatolian people started to crack his shell in every area. In bureaucracy, policy, art, culture, business and economy the Anatolian people started to say "I am in." With his high education, power of enterprises and vision, his voice was heard in the economy. That's how this came out as the cooperation platform of the new comers of the Anatolian originated enterprises in Turkey. The second reason is; among the important

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<sup>36</sup> It is important to note that because of MUSIAD's pro-Islamic connotations, the first letter of the acronym "M" is often read as "Muslim" rather than as "mustakil" which means "independent" in Turkish.

<sup>37</sup> TUSIAD was established in 1971 by the big industrial and commercial groups in the Istanbul region. TUSIAD has only one Anatolian branch, founded in Ankara in 2002. By 2011 TUSIAD has 600 members representing more than 25 000 firms. 80 per cent of TUSIAD's member firms were established before 1980.

effects that the MUSIAD members became stronger in the economic life there was an understanding on cooperation, self-capital and own family savings. This is a power that we take from the Islamic belief.<sup>38</sup>

In the analysis of the ways in which religion is used in MUSIAD's discourse, according to Bugra, a recent re-appraisal of "ethnic capitalism" by I.Light and G.Karageorgis proves to be highly useful. These writers argue that, ethnic entrepreneurs might enjoy advantages that others do not, not in spite of but thanks to their minority status in society. "Reactive solidarities" that are enhanced by "relative satisfaction arising from nonacculturation to prevailing labor and living standards" might balance their disadvantages (in Bugra 1998, 528). Since Islamism emerged an ideology of the "excluded" whether they are entrepreneurs, intellectuals or unskilled labor (Onis 2001), Light and Karageorgis's argument can be applied to Islamic businesses in Turkey. The Islamic businesses were able to develop a shared sense of identity to survive under the hegemony of the ruling Republican elite, switching the disadvantage into solidarity (Jang 2005, 211). Islam, rather than being the cause of the contention, became a common denominator for those who were discontented with their inferior status. In other words, religion served as an emblem to denote differences of Islamic business groups from the urban elites of the Republican era.

In the 1990s MUSIAD became the most far-reaching businessmen association. While MUSIAD had had 400 members in 1991, it increased to 3,000 by 1998. In 1998 the member enterprises' annual revenue was \$2.79 billion (Eligur 2010, 243). Today MUSIAD has 3,150 senior members and 1,750 young members representing more than 15,000 companies in its 31 branches all over Turkey with 94 allied contact points in 44 countries. It is claimed that MUSIAD represents 15 per cent of the Turkish GNP.<sup>39</sup>

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<sup>38</sup> [http://www.worldbulletin.net/news\\_detail.php?id=6014](http://www.worldbulletin.net/news_detail.php?id=6014)

<sup>39</sup> <http://www.musiad.org.tr/en/Tarihce.aspx#>

Member companies are traditionally concentrated in labour-intensive sectors such as manufacturing, textiles, garments, building materials, leather, carpets, construction/construction materials and food processing. Textile and clothing sectors especially experienced a take-off in the 1980s (Pinarcioglu 1998, Adas 2003, 42). Since the mid-1990s, MUSIAD companies have also specialized in furniture making, computing and electronics, banking and the media (Atasoy 2009, 117). Table 1.8 shows the distribution of sectors and the number of companies among the MUSIAD members.

<b>Distribution of Sectors</b>	<b>Number of Companies (as 2009)</b>
Publishing and advertising	2,108
Information technology	713
Furniture	3,237
Energy and environment	1,341
Food and agriculture	3,470
Services	1,388
Construction and building tools	5,438
Chemicals, metals and mining	2,042
Logistics	278
Machinery	1,650
Automotive	722
Health	544
Textile and leather	3,905

**Table 1.9** Distribution of sectors and the number of companies among the MUSIAD members.<sup>40</sup>

More than 80 per cent of member countries were established in the post-1980 period. As of 1995, 1330 of 1776 MUSIAD member companies had been established since 1980.<sup>41</sup> In my personal interview, one of the head executives of MUSIAD's Gaziantep office, stated that economic liberalization policies in the 1980s were the turning point for the Anatolian capital. According to him, prior to economic liberalization, the state's resources were reserved for the small privileged group in Istanbul, and those groups in Istanbul looked down on business in Anatolian Turkey. He gave the SANKO Holding as an example:

When the SANKO Holding applied for the TUSIAD, the TUSIAD sniffed at the SANKO. Now, the TUSIAD is begging the SANKO to be a member but the SANKO doesn't go.<sup>42</sup>

He acknowledged Turgut Ozal's personal role in changing the balance of power between the Istanbul capital and the Anatolian capital as follows:

Ozal took a group of businessmen from Anatolia to the foreign countries. In the meeting rooms at the airports, he himself gave lectures about foreign trade to the local businessmen. He opened the way for us. Then, the Anatolian Tigers roared and built their development spirit with their own resources. ...<sup>43</sup>

In the post-1980 period, MUSIAD provided a platform to voice the concerns and demands of the SMEs in the central Anatolian provinces. On various occasions, MUSIAD has highlighted the issues of tax reductions, bureaucratic procedures, facilitation of credits, vocational training, and social security costs (Yildirim 2010, 218).

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<sup>40</sup> <http://www.musiad.org.tr>

<sup>41</sup> MUSIAD Catalogue 1995.

<sup>42</sup> Sanko Holding is one of the biggest business groups in Gaziantep which consists of many companies in textile, construction, finance, energy, food, health care, education. It employs over 14,000 people. <http://www.sanko.com.tr/eng/default.asp>

<sup>43</sup> Fieldwork interview, in Gaziantep, January 21, 2012.

MUSIAD also offers a number of services to its members. MUSIAD defines its aim as to “encourage its members to reach out to foreign markets and establish business ties with foreign companies.”<sup>44</sup> For achieving these aims, it regularly organizes international fairs and conferences, as well as an International Business Forum (IBF) and a World Economic forum for the countries of the Muslim world. At the same time MÜSİAD’s Foreign Relations Commission conducts research on other countries’ potential for trade. For example in 2000, the commission issued a report called “The North African Market” and sent it to the member companies. MUSIAD’s educational services are also striking. The MUSIAD Academy Project organizes a Businessmen/Manager Training program exclusively for MUSIAD members. Education Commission has also launched the MBA program in cooperation with the Fatih University Education Center. The aim of this program is defined as “to enable MÜSİAD members to understand the world, manage their companies with correct models in new competition environment and adapt fully to the changing processes.”<sup>45</sup>

Ali Bayramoglu, a former president of MUSIAD, explains MUSIAD’s mission of offering its members the most up-to-date facilities as the following:

To establish an economic power, which belongs to people and to educate them has never been TUSIAD’s aim. They are only trying to be influential with authorities who are in power and to look out for their own interests in terms of new laws and decrees. On the other hand, MUSIAD has always aimed to guide its members in their business activities, consult with them, develop their economic potential and form a system, which would also benefit the Turkish economy as a whole. When all these points are taken into consideration, it can be seen that TUSIAD’s umbrella is too narrow for us.<sup>46</sup>

MUSIAD’s commitment to a free-market economy offers useful insights into understanding the association’s state image. MUSIAD seeks to reduce state power in politics and

<sup>44</sup> MUSIAD website <http://www.musiad.org.tr/en/MusiadHakkinda.aspx?id=4>

<sup>45</sup> *ibid.*

<sup>46</sup> “MÜSİAD: Proving that business and faith do mix,” *Turkish Daily News*, June 7, 1996.

economics. In April 2000, MUSIAD issued a report called “Constitution Reform and Democratization of Administration” which strongly argued for downsizing the state, decreasing the power of the NSC and reducing government consumption. Erol Yarar the founding president of MUSIAD, said, “Without attaining economic independence, the *umma* of Islam will not be able to achieve their political independence. Muslim cannot stand for statism; they argue for a free market economy...” (quoted in Eligur 2010, 204). Free market ideology was legitimized by making direct references to the market in Madina which was praised as non-monopolistic, tax-free, non-interventionist, fair and moral (Yavuz 2006). Yarar claimed that “the invisible hand of Adam Smith had characterized the Medina market, the Prophet Mohammad had said that it was Allah who determined the prices.” (quoted in Maigre 2005).<sup>47</sup>

MUSIAD’s state imagery based on rules and institutions of local and national conditions offers a stark contrast to the Kemalist state’s social engineering role. MUSIAD suggested an alternative understanding of modernization which does not downplay the Islamic beliefs of the people. Concurrent with the IMF and World Bank recipes, “MUSIAD has accepted the shift in focus from state institutions to a reliance on the autonomy of the individual and the primacy of human rationality” (Atasoy 2009, 118). In one of his interviews, Erol Yarar defined the businessmen organized around MUSIAD as the genuine bourgeoisie class in Turkey.<sup>48</sup> By making this claim, he directly criticizes most of the TUSIAD member companies who have their origins in the state-led industrialization project of the 1930s. Yarar further articulated his claim as follows:

This nation finally recognizes those who for years in spite of unfair credit and protection have not contributed to this country’s technological and economic development. These same people have looked down on the people’s beliefs, earned easy money behind closed doors and then appeared as heroes (1997, 44).

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<sup>47</sup> Çerçeve, 18, 1996.

<sup>48</sup> *Star Gazetesi*, 20 Temmuz 2009.

Yildiz Atasoy rightly argues that “the political legacy of Kemalist developmentalism (which historically marginalized Anatolian small capitalists) continues to have a profound ideological effects on the reproduction of differences between large Istanbul-based and small Anatolian capitalists” (2009, 114). The tension between the two reached its peak immediately following the post-modern coup of 28 February 1999, when the pro-Islamic Welfare Party was forced to resign and many Islamic businessmen were arrested on the pretext of funding Islamic fundamentalists against the secular state.<sup>49</sup> The military declared Islamic reactionism (*irtica*) as the number-one threat to Turkey, (Cicek 2008, 19) and established the West Working Group (*Bati Calisma Grubu*) to fight with the threat of Islamism in the country.

According to the military, 2,500 associations, more than 1,000 companies (both in Turkey and Europe), 800 schools, 19 newspapers, 50 radios and 20 television stations became part of Islamist reactionism in Turkey.<sup>50</sup> The West Working Group in its report on Islamist companies announced a list of companies that provided financial assistance to Islamic activities. The *Milliyet* newspaper published the names of the companies blacklisted by the military.<sup>51</sup> These companies were Kombassan Group, Asya Holding, Bel-Çar, the Ülker biscuit company, the Ihlas Corporation, Albayrak, Ittifak, Ipek Mobilya, YİMPAŞ, SETAŞ, Yozgatspor, the Kuwait Turkish Finance House, the Faisal-Family Finance House, the Al Baraka Turkish Finance House and Asya Finance House. The military also revealed the numbers of the companies owned by the various tariqats in Turkey.<sup>52</sup>

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<sup>49</sup> The president of MUSIAD, Ali Bayramoglu was accused of supporting Fethullah Gulen and of inciting people malice based on religious differences in his speeches. *Radikal*, 6 July, 1999.

<sup>50</sup> The military announced these numbers at the press briefing on June 11, 1997. *Milliyet*, June 12, 1997, p.19.

<sup>51</sup> *Milliyet* June 7, 1997.

<sup>52</sup> According to the report the Fethullahcıs owned 215, the Naksibendis owned 56, the Suleymancıs owned 29 and the radical Islamist had 31, and Kadirıs had 7 companies.

In March 1998, *Yeni Yuzyil* Daily published a detailed chart about the Islamic businesses as Table 1.9 illustrates below<sup>53</sup>

<b>Name</b>	<b>Place of Establishment</b>	<b>Field of Activity</b>	<b>Number of Firms</b>	<b>Number Of Workers</b>	<b>Number of Shareholders</b>
Kombassan	Konya 1989	Motor vehicles, trade centers, etc	40	8,000	26,000
Yimpas	Yozgat 1980	Marketing, foodstuffs, etc	24	4,000	30,000
Ittifak	Konya 1988	Machine production, freight, trading, etc	5	1,150	14,000
Adim	Istanbul 1993	Construction, insurance, publications, car trading, etc	3	100	250
Silm	Ankara 1993	Tourism, construction, car leases, etc	3	200	90
Kilpas	Konya 1988	Trade, foodstuffs, packing, etc	3	80	800
Anadolu	Istanbul 1993	Health services, construction, textiles, etc	11	1,050	400
Sayha	Konya 1993	Data services, tourism, granite, marble, etc.	10	550	5,000
Asya	Istanbul 1992	Trading centers, car purchases, foodstuffs, manufacturing, etc	3	200	1,000
Estas	Sivas 1997	Eccentric Production	6	—	—

<sup>53</sup> *Yeni Yuzyil Daily*, March 3, 1998.

Ulker                      Ankara 1970                      Foodstuff                      —                      1,000                      Joint

The Security Exchange Committee (Sermaye Piyasasi Kurulu, SPK), a government institution which oversees accounting and stock market activities of the companies in Turkey, froze the assets of some Islamic holding companies because of their illegal money collection in Turkey and abroad (Adas 2003, 159). In the same line, Ankara Commercial Court decided that all of Kombassan's bank accounts would be blocked "as a precaution due to the claims of SPK for capital increase without the consent of the Board" (Avcu 2010,196).

The military distributed a list of Islamic companies to the newspapers in order to mobilize and organize the secular groups against Islamic forces. Guven Erkaya, the chief of the navy forces, later confirmed that in the process of February 28, the military wanted unarmed forces to solve the problem, rather than to take a military action.<sup>54</sup> The support of ultra-secular civil society associations such as the as the Association for Supporting Modern Life (*Çagdas Yasami Destekleme Dernegi*), the Pro-Atatürk Thinking Association (*Ataturkcu Dusunce Dernegi*), the United Women Platform (*Birlesik Kadınlara Platformu*), the Mustafa Kemal Association (*Mustafa Kemal Dernegi*), the Faculty Members Association (*Ogretim Uyeleri Dernegi*) and of some large media conglomerates, the *Dogan* and *Sabah* Groups, to the military had been quite striking in the post-February 28 process.

In this process Islamic entrepreneurs and intellectuals stressed the regional and size related differences rather than religious identity itself, and "condemned the post-modern coup as a common plot of the military and Istanbul capital against Anatolian capital." For example, according to Sevket Kazan, the former RP Minister of Justice, the February 28 process was

<sup>54</sup> December 5, 2006, Ertugrul Ozkok "28 Subat't Hala Destekliyorum", <http://www.haberpan.com/28-subati-hala-destekliyorum-ertugrul-ozkok-ordudan-daha-cok-sivil-toplum-guclerinin-haberi/>

plotted by the rentier capital at a time when they were attempting to end the privileges of these groups in the economy (Adas 2003, 59). One of my interviewees in Gaziantep who is in construction sector also thinks that the February 28 process should be read in terms of economics. According to him:

There was an economic battle behind the discourse of “*Seriat geliyor*” (Sharia is coming). The member companies of MUSIAD were blacklisted on the pretext that they provided money to the reactionist groups. This was a big game. TUSIAD also became the part of the game.<sup>55</sup>

My interviewees also pointed out the organic ties between the military and big capital while they commented on the post-modern coup. The Armed Forces Mutual Fund (OYAK) was established in 1961 in order to maintain a high level of autonomy from civilian rule. OYAK’s General Committee was composed of the Ministers of Defense and Finance, the Chief of General Staff and the commanders of the four armed forces (Hale 1994,174). Due to its privileged position, OYAK became one of the biggest financial groups in automobile, cement, electronic, service, construction, food, agriculture, petroleum, and travel industry in Turkey.<sup>56</sup> In 1984, OYAK’s assets reached \$300 million (Bianchi 1984,70). Similarly, The Naval, Air-Force and Land Forces Foundations have also been important players in economy. The military constituted close ties with the leading industrialists such as Koc, Sabanci and Eczacibasi (Karabelias 1999, 141-143). For example in the early 1960s, OYAK and Koc Holding established a joint venture for the local production of Fiat cars (Bugra 1994, 248).

One of my interviewees from the Kayseri branch of MUSIAD thinks that the military supported economic liberalization policies during the 1980s because of the privileged economic

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<sup>55</sup> Fieldwork interview in Gaziantep, January 2012.

<sup>56</sup> By 1999, OYAK had a share at different rates in the following companies: OYAK-Renault (47.66 per cent), Mardin Cement (51 per cent), Adana Cement (57 per cent), Oysa Iskenderun Cement and Oysa Nigde Cement ( a joint investment with the Sabanci Group), TUKAS (70 per cent), OYAK Brokerage House, OYAK Bank, Axa OYAK Insurance, Omsan Transportation, Oytas import and export company, OYAK Construction (Avcu 2010).

benefits it received. However the military changed its position when Islamic business groups started to challenge the interests of the traditional old business elite in the 1990s by entering privatization bids to buy state enterprises. He says that when Kombassan<sup>57</sup> was able to buy Petlas<sup>58</sup> with \$35 million, it became the target of the military and old business class coalition.

Despite the military's assault on MUSIAD, MUSIAD utilized the process of 28 February to represent itself as the platform for all SMEs in Turkey, not simply the Islamic ones. MUSIAD's discourse was built on an equal and free competition. On March 7, 2000 MUSIAD took a number of measures to downplay its Islamic identity in a meeting with its member companies. MUSIAD told its members to use economic components instead of religious and sacred symbols in their commercials. The member companies were prohibited using the name "Islamic holding" because of its connotations with the army's green capital list in the eyes of the public opinion. Ali Bayramoglu, the president of MUSIAD at the time of the meeting, advised MUSIAD members to activate their relations with the Capital Markets Board of Turkey and the Undersecretariat of Treasury.<sup>59</sup>

In the highly polarized environment of the "secularist" and "Islamists" following the post-modern coup in 1997, MUSIAD increased its public stature through its policy position on behalf of the SMES in Turkey, and allied with the "reformist" wing of the political Islamists who vocalized a more liberal and moderate stance in favor of business interests. This process overlapped with the marginalization of economically disadvantaged radical sections of political Islamic groups by the growing liberal tide within the Turkish Islamic movement at the end of

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<sup>57</sup> Kombassan was established by Hasim Bayram in Konya in 1989, and grew rapidly in various sectors ranging from textiles, packaging and building materials to agricultural equipment, air travel and retail by mobilizing Islamic networks in Turkey and Germany. It issued shares in exchange for guest labours' remittance in Germany and elsewhere in Europe. Kombassan came to public attention when it financed Erbakan's Anatolia tour during the 1996 elections. *Turkish Daily News*, Aug. 14, 2001.

<sup>58</sup> Petlas was the first company that produced military aircraft tyre in Turkey.

<sup>59</sup> *Milliyet*, 8 March 2000.

1990s. To understand this process better one should analyze the relationship between Islamic business groups and Islamic political parties in the 1990s. I argue when provincial Islamic business groups began to prosper and integrate with the global economy, they committed to a more liberal and moderate stance in order to forward their own business interests. Their commitment, in turn, assisted in shifting the state's position favorably towards the political-business Islamic groups.

*The Ties between Islamic Business Groups and Islamic Political Parties in the 1990s*

As Adas argues “although it is difficult to document its true nature and extent, the organic ties between the *Refah Partisi* (Welfare Party) and MUSIAD were well known and publicly pronounced by the officials and members of MUSIAD” (2003, 140). In a survey conducted in 1996, the majority of MUSIAD members expressed their support for the Refah Party.<sup>60</sup>

The Refah and MUSIAD shared similar positions regarding with the role of Islam in society, a vibrant criticism of the secular character of the Turkish state, the relationship between state and economy and so on. On various occasions, Erbakan criticized secular and pro-Western big business groups in Turkey because of their connections with Zionism and Western imperialism. The Refah Party’s motto, the “Just Order” based on the socio-economic order which is free from interest, exploitation, monopolies was quite similar to MUSIAD’s repeated themes in its various publications about a moral capitalist economy.

In terms of foreign relations, both MUSIAD and the Refah Party advocated building stronger economic and political ties with Muslim nations. MUSIAD proposed a number of projects for economic union among Islamic countries, such as the “Cotton Union” between Turkey, Pakistan, Uzbekistan and Turkmenistan to increase international competitiveness in cotton production and industry first in these four countries, and then in “all other Turkic and

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<sup>60</sup> *Turkish Daily News*, June 7, 1996.

Muslim countries from Balkans to East Asia upon eternal religious and national relations (MUSIAD 1996, 4; Onis 1997, 759-60).

In line with the position of the Refah Party, MUSIAD openly opposed the Custom Union agreement signed in 1995, and Turkey's entry to the European Union. MUSIAD utilized a civilizational incompatibility discourse to explain its political stance against the European integration. Erol Yarar, as the president of MUSIAD, said:

Everyone unites with his own brother. The EU united Christians and this is their natural right. Our highest goal is to unite with our brothers. Hundred and fifty yearlong effort of Turkey's westernization has not contributed to the economic development of our country. Instead it increased our cultural and economic dependency. The latest example of this is customs agreement with the European Union. This agreement was made in spite of warnings we have been giving for years (1997, 44-45).

In the aftermath of the February 28 intervention, MUSIAD's stance changed dramatically in terms of its allegiances and economic ideas, especially its stance on EU membership for Turkey. (Yankaya 2009, 4) In need of more liberal and market-oriented economic environments, MUSIAD was able to develop a survival strategy. MUSIAD disengaged itself from the traditional National Outlook stance and played an important role in the formation of the AKP. The Refah Party's confrontational stance with the secular establishment, especially the military, as Patton puts "eventually alienated the pro-globalization liberalizing Muslim bourgeoisie whose green capital had contributed considerable financial backing for the Islamist movement" (2009, 442).

After the declaration of Turkey's official candidacy for full membership in 1999 Helsinki Summit, similar to the AKP's stance, MUSIAD started to advocate Turkey's EU membership which promised MUSIAD and other Islamic groups to enhance their economic and political position vis-à-vis the military. MUSIAD openly supported Europeanization of the Turkish economy. In 2003, MUSIAD joined the European SMEs network of the European

Confederation of Associations of Small and Medium-Sized Enterprises (CEA-PME), and received EU funding for NGOs (Yankaya 2009, 4-8).

At this point, one cannot help but wonder, did MUSIAD's position change simply mean an opportunistic move to survive in a hostile environment? As I have already argued in my literature review section, these emerging tendencies within Islamic groups cannot be explained only through the lens of a strategic tactic thesis, "the call for change reflected yet another divide within the movement triggered by the pressure of state and civil actors but had been long waiting to come out" (Adas 2003, 172). Therefore it became troublesome to situate divergent Islamic interest groups under the banner of Islam anymore, as Tugal argues that signs of discord and a class struggle became significant in the latter half of the 1990s (2002,98).The increasing importance of Islamic business groups deepened this divergence. According to the second president of MUSIAD, Ali Bayramoglu;

The economic model of Refah was not a complete model, and we explained the deficiencies of this model to the leaders of the party. It was based on the idea of the implementation of an interest-free economic model, but in practice, it was simply the idea of statist policies for providing economic growth. However, we think that, while the state should play an advisory role in economic life, economic activities should be carried out by the private sector. In other words, the state should not be involved in the manufacturing sector. In this globalizing world, political parties must adapt themselves to changing social, political, and economic conditions caused by the globalization process. AKP realized the necessity of a change in the mentality of Islamist politics, so proposed a new economic model and notion of the social state, and democratic principles (cited in Baskan 2010, 406,407)

Islamic business groups reconsidered their political preferences towards economic liberalism and democracy, rather than the religious discourse. Baskan asserts that the Islamic business elite have become "contingent democrats" to protect their interests ( 2010, 409).One of my interviewees in the MUSIAD Gaziantep branch described this process as follows:

The Refah Party's ideological stance simply harmed our businesses, even though money has no ideology. Ideology is not good when you are making money. We came to believe

that we need to create more inclusionary approach in politics; we need a consolidated democracy in order to prevent military coups in Turkey. Let me say that the Turkish economy did not grow in the past because of the endless military interventions. It is so sad but it is true...<sup>61</sup>

MUSIAD played an important role in the articulation of pro-business ideas as well as in giving logistic support in the formation process of the new conservative democratic party, the AKP. One can see important similarities between MUSIAD's economic and political reports and the AKP party program, particularly on the issues of civil and democratic constitution, decentralization, export oriented economic growth, a limited state role in economy etc. It is relevant to note that the AKP party program has a special section on the SMEs which acknowledges measures for protecting the interests of SMEs. According to Erol Yarar, the founding president of MUSIAD, "MUSIAD gave Erdogan the alternative political model he sought to defeat the hardliners" (cited in Gumuscu 2010, 132).

In terms of logistic support, one of my interviewees in the MUSIAD Kayseri branch indicated that MUSIAD local branches took an active role in completing AKP's local organizational structure all over Turkey.<sup>62</sup> Also, Albayrak Group, an influential MUSIAD member, became one of the main financial supporters of the AKP during this process (Cakir and Calmuk 2001, 151; Gumuscu 2010, 137).<sup>63</sup>

The ten founding members of the AKP were MUSIAD members.<sup>64</sup> In 2002 elections, about 20 MUSIAD members entered into the parliament from the list of the AKP, and the businessmen constituted one third of all AKP deputies (31 per cent).<sup>65</sup> It is also possible to see the impact of the pro-business ideas in the fact that the prominent founding figures of the AKP

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<sup>61</sup> Fieldwork interview, in Gaziantep, January 20, 2012.

<sup>62</sup> Fieldwork interview, in Kayseri, January 15, 2012.

<sup>63</sup> Erdogan's daughter got married with Sadik Albayrak's son in July 2004.

<sup>64</sup> Ali Ihsan Arslan, Ali Babacan, Ibrahim Caglar, Muammar Kaki, Erdal Oner, Ibrahim Reyhan Ozal, M. Yasar Ozturk, Ziyattin Yagci, Murat Yalcintas.

<sup>65</sup> This ratio was only 5 per cent for the SP (the party of the National Outlook Movement) deputies.

such as Abdullah Gul (the current president), Kemal Unakitan (the former AKP finance minister) and Nazim Ekren (Istanbul deputy) came from an Islamic banking background (De Jang 2005,188).<sup>66</sup>

After 2002 elections, the mutually empowering relationship between the AKP and the MUSIAD increased. As promised in the party program, the AKP has created a favorable economic environment for the export-oriented SMEs in the Anatolia. The table below illustrates that the total exports increased substantially in certain Anatolian cities since 2002 under the AKP rule.

	GAZIANTEP	KAYSERI	KONYA	ISTANBUL	ANKARA	IZMIR
<b>2012</b>	5,579,875	1,582,410	1,275,626	76,624,010	7,137,756	8,658,628
<b>2011</b>	4,759,952	1,469,400	1,168,593	61,433,612	6,597,118	8,071,550
<b>2010</b>	3,517,993	1,163,811	978,630	53,134,594	5,621,013	6,679,619
<b>2009</b>	2,952,993	964,320	735,997	55,539,993	4,911,248	6,118,729
<b>2008</b>	3,237,061	1,122,165	871,223	73,503,523	5,361,209	7,823,319
<b>2007</b>	2,447,656	977,544	694,111	59,645,232	4,240,969	6,431,020
<b>2006</b>	1,857,722	751,660	493,532	47,012,604	3,596,924	5,448,577
<b>2005</b>	1,652,554	702,969	419,985	41,716,339	2,645,499	4,645,381
<b>2004</b>	1,295,292	639,617	275,556	36,834,410	2,227,510	4,110,487
<b>2003</b>	866,153	465,104	179,039	27,599,988	1,979,820	3,473,936
<b>2002</b>	619,536	351,569	129,959	20,970,063	1,515,106	2,777,767

**Table 1.11** Value of Total Exports (\$),Source: Turkish Statistical Institute

<sup>66</sup> Abdullah Gul was a specialist at the Islamic Development Bank from 1983 to 1991, Kemal Unakitan was one of the board directors in the Al Baraka Turkish Finance House and a founding member of the Faisal Finance House, Professor Nazim Ekren was the head of Islamic banking and insurance institute in Marmara University.

It is my overall contention that Turkish Islamic entrepreneurs were successful in transforming the secular state agenda toward political Islamic groups in a ‘slow motion revolution,’ in the last two decades of the twentieth century. Their reassessment of their position about how the market should function eventually transformed the relationship between the state and Islam, especially since the ascension of the AKP in the last decade. Their commitment, in turn, assisted in deepening the attachment of the Turkish Islamists with free market policies in Turkey.

***Conclusion:***

This chapter analyzed the implementation of Turkish economic liberalization and examined its impact on the formation of Islamic market coalition in Turkey. I argue that the way the Turkish state implemented economic opening played a significant role in integrating small and medium size Islamic business groups with the market in the peripheral quarters. The Turkish state process of economic liberalization reshaped pre-liberalization economic structure, empowering peripheral business groups.

The Islamic business groups (mainly small and medium sized enterprises) were among the winners of economic liberalization process. As these provincial Islamic business groups integrated with the global economy, they culminated enormous economic and political resources to affect the course of Islamic politics in Turkey. This chapter demonstrated that the economic liberalization program as implemented in Turkey provided important incentives for Islamic business groups to redefine their interests in Islamic politics and consequently reshuffled the existing socio-political structure in the Turkish politics. Due to their increasing interests from economic liberalization process, Islamic business groups chose the path based on a strategy of

co-existence and avoided direct confrontation with the state in Turkey. The exclusivist and anti-Western discourse of the radical Islamist parties started not to serve their new conditions and interests. Islamic business groups became the vanguard in moderate political position and eventually isolated the radicals in the movement. The focus on Islamic business activity in turn led to the transformation of the secular state agenda toward political Islamic groups, independently from the intentions of the actors.

## CHAPTER 2

### **TURKISH ISLAMIC EXCEPTIONALISM: THE INTEGRATION OF ISLAMIC MOVEMENTS INTO THE NEO-LIBERAL ECONOMY THROUGH RELIGIOUS ORDERS**

*Free market is not only acceptable but in complete conformity with the Quran. The invisible hand of market is indeed Allah's hand. Allah says, "I was a hidden treasure and I wished to be known."*<sup>67</sup>

As presented in the introduction, my second hypothesis is built on the different trajectories of Islam in Turkey and Egypt. My argument is that localized versions of Islam in Turkey and Egypt had a significant effect of building the particular model of capitalism and state-economy relations that were adopted. In this chapter I analyze the extent to which localized versions of Islam shaped by the existence of strong religious community structures –Islamic religious orders –can be important factor in explaining organizational skills and outstanding performance of Islamic business groups in Turkey. By “religious orders” I mean “a lineage of communities and organizations of people who live in some way set apart from society in accordance with their specific religious devotion, usually characterized by the principle of its founders religious practice.”<sup>68</sup> Throughout the dissertation, I use this term to refer Sufi niches (such as Naqshbandi and Kadiri) and webs of Islamic networks (the Gulen Movement).

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<sup>67</sup> A businessman from the Gulen movement. Fieldwork interview, in Gaziantep in January 2012.

<sup>68</sup>[http://law.academic.ru/53958/religious\\_order](http://law.academic.ru/53958/religious_order)

My argument in this chapter is based on the historical evolution of the religious orders that played a role in the development of Islam in specific conditions in my cases. As Yavuz asserts that “the story of Turkish Islam is an example of the localization of a universal teaching through the works of the Sufi orders” (2004, 218). My main aim is to analyze the religious orders which had an effect on the creation of a special setting for Islam in general and Islamic business groups in particular in Turkey. I argue that Islamic business groups have utilized religious community structures to accumulate wealth and eventually to challenge the power dynamics first within Islamic constituency, and then in the relationship between the state-Islam in Turkey. While I pay special attention to the religious Sufi orders in relation to the evolution of Turkish Islamism, I by no means suggest that Turkish Islam is unique or superior and developed in a vacuum. By comparing with the Egyptian counterparts I try to reveal the special position of the religious orders in Turkey which had an enormous impact on the development of modern Turkish Islamic politics including political parties, Islamic intellectuals and Islamic business groups. As my cases show religious orders were shaped and transformed by a multiplicity of local conditions that generate specific versions of Islam.

This chapter is divided into three parts: In the first section, I provide a brief historical background to examine how the Naqshbandi tradition developed in the specific context of Turkey and to analyze its transformation over time to deal with new political, social and economic challenges. The Naqshbandiya Khaliddiya order needs to receive special attention when analyzing the evolution of Turkish Islamism. As Yavuz argues “it operated as a repository

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of cultural and religious traditions that have existed in Turkey; they bridge the gap between the Ottoman period and the current Islamic sociopolitical revival” (2003,134).<sup>69</sup>

The second section concentrates on the Iskenderpasa Community of the Naqshbandi order and answers how the Iskenderpasa Community utilized material development as a means of revitalizing Islam for social, political and economic life since the introduction of the multiparty regime in Turkey. My main aim in this section is to analyze the Iskenderpasa Community’s mobilization strategies in its economic activities and in its attachment to the market forces and political liberalism especially during the market transformation in Turkey. The third section examines the networks and activities of the neo-Nurcu Gulen Movement. I particularly focus on what strategies the Gulen Movement use to take advantage of Turkey’s transformation in the process of economic liberalization, and what strategies are more likely to have an impact on non-confrontational forms of interaction and cooperation between the state and Islamic actors. I chose to focus on both the Iskenderpasa Community and the Fethullah Gulen Movement because of their strong impact of creating a powerful network based upon trust relations among Islamic economic actors.

### *The Development of Naqshbandiyya Khaliddiya Tradition in Turkish Islam*

Serif Mardin, in his article, “Turkish Islamic Exceptionalism Yesterday and Today: Continuity, Rupture and Construction in Operational Codes,” accounts for the *sui generis* aspect of Turkish Islam by referring Seymour Martin Lipset’s American exceptionalism. According to

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<sup>69</sup>The Naqshbandi order is one of the major Sufi orders in the Muslim world. It was established in Transoxania, what is today called Central Asia, in the fourteenth century and developed into a world-wide organization during the fifteenth and sixteenth centuries in Central Asia, Eastern Turkestan, India, China, Afghanistan, and then the Ottoman Empire. The history of the Naqshbandis in Arabia and the Ottoman lands goes back to the second half of the fifteenth century when many Naqshbandi sheikhs were forced to flee from Transoxania during the rise of the Safavids (Le Gall 2005, 13; Abu-Manneh 2001, 61). The prominence of the Naqshbandi order in the Ottoman lands increased in the last decades of the seventeenth century when the Naqshbandi- Mujaddidi order reached Istanbul. Even though many other Sufi orders, such as Qadiri, Khalwati, Mevlevi, S’adi and Rifa’i were actively present in Istanbul before the rise of the Naqshbandi- Mujaddidi order, Naqshbandi- Mujaddidi order and its various branches became the most dynamic Sufi order in the city.

Mardin, “the ubiquity of a peculiar mix of state and religious discourse in the Ottoman Empire promoted a modern Turkish Islamic exceptionalism with distant Ottoman roots.” Mardin’s explanation of a special setting for Islam in Turkey is based on the specifics of Turkish history which were shaped by “the discourse of the Ottoman and the Turkish state officials, the rise of the Mujaddidi-Khalidi Naqshbandi order, and the voice of Ottoman and Turkish intellectuals trying to extract a meaning from Islam in an attempt to synchronize it with the European intellectual construction known as civilization” (2005, 146-148). Mardin largely explains the distinctiveness of Turkish Islam through the influence the Mujaddidi-Khalidi Naqshbandi order and of positivism on the Ottoman administration.<sup>70</sup>

The Khalidiyya was the third wave of the Naqshbandi-Mujaddidi order which reached the Ottoman lands. The Khalidiyya differed from the other branches of the Mujaddidiye in both with its dynamism and adaptation to local conditions (Abu-Manneh 2001, 66). Sheikh Khalid introduced his movement as “a force for religious renewal” and called for political reintegration within the Ottoman Empire as the greatest bastion of Islam (Findley 2010, 70).<sup>71</sup> The Naqshbandiyya Khaliddiya was able to respond to the changing socio-political conditions in the Ottoman Empire by offering socio-political reform based on Orthodox Sunni principles following the traumatic events of the Greek Rebellion in spring 1821 in the Ottoman Empire.<sup>72</sup>

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<sup>70</sup> *Contrary to Mardin’s* assessments, in her article “The Hidden Arab: A Critical Reading of the Notion of Turkish Islam,” Elisabeth Ozdalga critically approaches the notion of Turkish Islam which she perceives as part of the Turkish nationalist discourse. According to her, Turkish Islam is typically analyzed in isolation, and Sufism, which has attributed to the tolerance and broad-mindedness of Turkish Islam, was treated as something alien to other nations (2006, 552).

<sup>71</sup> Khalid was able to reach disparate communities in different geographies by emphasizing different parts of his identity – Sunni Muslim, Kurd, tribesman, Shahrazuri, Sayyid, and Muslim scholar. He called the revival of the Sunna and the rectification of Sunni belief according to the principles of *Ahl al-Sunna*. Hamid Algar has labeled his teachings “politics of guidance” (1989).

<sup>72</sup> After the Greek uprisings, a number of proclamations aimed at increase Islamic consciousness were issued in the name of the Sultan. When the Ottoman propaganda against the rebels became anti-Christian, anti-Jewish, and anti-Shia, Naqshbandiyya's rigid version of Sunni Islam was particularly appealing to the Muslim population of Istanbul. However as Foley argues “by expanding our analysis to include the social and economic impact of the rebellion on elites and non-elite populations in Istanbul, we can see that the Naqshbandiyya-Khalidiyya's success rested as much

In terms of socio-economic change, Kemal Karpat explains the role of the Naqshbandiyya on the rise and cultural-ideological orientation of the Muslim middle class. He mainly analyzes the migration and settlement policies of the Ottoman government in the nineteenth century. He shows that most of the newcomers from the Balkans and Caucasus had practiced agriculture and trading occupations, and their leaders quickly became the part of the local notables (*esraf*) in their new towns. According to Karpat, “the Muslim agrarian middle class opposed state interference in agriculture and favored the expansion of private property ownership, intensive economic activity, and material progress, and it wanted the institutional reforms necessary to achieve these ends.” Under these conditions, the Muslim agrarian middle class turned to Naqshbandi sheiks to receive an Islamic justification for these worldly demands, as many Naqshbandi sheiks favored the privatization of state land and the regulation of private property by sharia rather than the state run *miri* system (2001, 97-98).

State-centric character of the Khalidi order strengthened the order’s life channels in the Ottoman Empire. Khalidis were not anti-statist and saw existence of the state as a prerequisite for the revitalization of Islamic law. Khalid himself asked his followers “to pray for the survival of the exalted Ottoman state upon which depends Islam and for its victory over the enemies of religion” (Yavuz 1999). Unlike lax sufi orders or Islamic radicals (such as the Yemeni Zaydis and the Arabian Wahhabis), they never questioned the Ottomans’ state’s religious legitimacy (Findley 2010,181).

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on personal qualities and Khalid's teachings as it did on the tariqa's status as a socio-political network which rivaled the power of the networks originating in the Ottoman capital.” According to him, the socio-economic networks which connected Istanbul to the Balkans and Anatolia by providing immigrant workers, raw materials and foodstuffs were disrupted by war in Iran, the Greek rebellion, the rise of Muhammad Ali in Egypt. In his opinion the Naqshbandiyya Khaliddiya offered an alternative network to the semi-official imperial patronage networks which were largely affected by political instability and socio-economic change (2005, 210-11).

The order's influence over a vast geographical area made the Khaliddiyya branch compatible with Sultan Abdulhamid's (1876–1909) pan-Islamic policies of the 1880s and 1890s.<sup>73</sup> After the traumatic loss of the Balkan lands following the Russo-Ottoman War of 1877–78, Abdulhamid pursued the ideology of pan-Islamism to call for Muslim unity within the Empire (Landau 1990). He reasserted his status as the Caliph and used the Sufi brotherhoods as communicative channels to reach the masses (Mardin 1983, 41).<sup>74</sup>

The 1878 Russo-Ottoman War greatly transformed the Khalidi strategies. The order utilized modern concepts such as *vatan* (nation), *din* (religion) and *devlet* (state) to respond the changing needs of the Muslim community in the Empire (Yavuz 1999, 133). In this period, Ziyaeddin Gumushanevi (1812–1893) was the most important nineteenth-century Khalidi figure in Turkey.<sup>75</sup> Gumushanevi's teaching differed from Khalid's doctrine with its emphasis on the study of *hadith* related to absolute obedience to the Sultan Caliph (Weismann 2005, 85).

Gumushanevi was also different from his predecessors the way that he asked for donations from his rich disciples to be used for loans to small businesses, for assistance the poor and needy and also for religious education. He also founded a printing plant and established libraries in Istanbul and several other provinces (Mardin 1991, 132; Gunduz 1984). Following the establishment of the Ottoman Bank, Gumushanevi was alarmed by the penetration of Western financial capitalism into Empire and he developed his own version of an interest-free financial system. It can be argued that Gumushanevi's endeavors and ideas were one of the

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<sup>73</sup> Following the promulgation of the first Constitution in December of 1876, the elections were held and a parliament convened in 1877 in the Ottoman Empire. However Abdulhamid dissolved the parliament after two sessions and established his absolute monarchy for three decades.

<sup>74</sup> In the early period of his reign, he renovated the Bukhari lodge in Sultan Ahmet and supported launching of the first North African Shadhiliyya tekke in Istanbul. He also appointed the last descendant of the head of the Kashgari lodge as the member of the Council of Sufi Masters (Weismann 2005,91).

<sup>75</sup> He belonged to a merchant family of the small town of Gumushane in north-eastern Anatolia. He eventually settled in Istanbul and established his lodge directly opposite the Porte. This building was demolished in 1956 (Karpaz 2001, 112)

earliest examples of interpreting present conditions according to Sufi morality based on the ideals of the Prophet's time. He created a model for his successors in Turkey that I will analyze later.<sup>76</sup>

Meanwhile, Abdulhamid's repressive policies created a strong opposition movement among the liberal intelligentsia. Known in France as *Jeunes Turcs* – The Young Turk movement started as an intellectual opposition movement to the regime of Abdulhamid as early as 1895, and culminated in the Young Turk Revolution of 1908 which restored the Constitution of 1876.<sup>77</sup>

The Young Turks relationship to the religion had always been complex. Even though the Young Turks recognized the potential of using Islam as a legitimizing force for their rule, as Mardin states “they were not ready to share power with groups which had a deeper commitment than their own to Islam, used it to shape their own model of an ideal society.” The Young Turks continued to see Islam as a reactionary force which aimed to seize power (1989, 84). It is needless to say that the Young Turks left important footprints for their successors to follow regarding state-Islam relations in modern Turkey.

Following the War of Independence, Naqshbandis were troubled by the rigid secular transformation of the newly established Turkish Republic. Legal Code 587 banned all Sufi orders' gatherings, practices and teachings in Turkey on March 1924, stating that “from this day forth, there are not tarikats or dervishes and murids belonging to them, within the boundaries of

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<sup>76</sup> Gumushanevi also fought in the Russo-Ottoman war and asked his followers to participate as well as in the Russo-Ottoman war to fight for the nation, religion and the state. Not surprisingly, Gumushanevi was quite favored by Abdulhamid who sent a special envoy to his funeral and ordered him buried at the entrance of the tombs of Sulaiman the Magnificent (Karpas 2001, 112).

<sup>77</sup> It can be argued that religious activism gained a political nature under the Committee of Union and Progress (CUP) in the Ottoman Empire. The reactionary outbreak of soldiers and *madrassa* students of March 31<sup>st</sup> 1909 was a notorious event in Turkish history that called for a restoration of shari'a. Naqshbandi Dervish Vahdeti, the editor of the newspaper *Volkan* became a spokesperson for the Muslim Association, *Ittihad-i Muhammedi* (The Muslim Union). The association opposed “the purported atheism of Young Turk officers,” and became a leading force in the rebellion (Mardin 1991,121; 1989, 83-84). The Young Turks harshly suppressed the rebellion. Dervish Vahdeti was hanged, and Abdulhamid was deposed due to accusations of having connections with the reactionary outbreak.

the Turkish Republic” (Algar 1994, 55). The outlawing of Sufi orders was one of the most important components of the Kemalist policy of the de-Islamization of society.

Despite the severe state repression, Naqshbandi groups played an important role in organizing two significant anti-Republic rebellions, namely the Kurdish Sheikh Said Rebellion in 1925 and the Menemen Rebellion in 1930.<sup>78</sup> These rebellions were ruthlessly suppressed by the Ankara government who “proscribed political use of religion as treason” (Findley2010, 250). The political leadership stressed the connections between the Naqshbandi order and reactionary attacks against the revolutionary state in order to further delegitimize the order's activities.

The new regime influenced by modernization and secularization theories simply assumed that Sufi orders could not resist the process of modernization and secularization, therefore they were doomed to death. For example, during this time, Trimingham, one of the most ardent supporters of secularization theory, argued “the orders in many parts of the Turkish empire had been attacked on religious and moral as well as political and partisan grounds, yet they were not thereby stimulated either to undertake real reform or to manifest new life. Thus, the abolition of the orders in Turkey proved decisive and they are not likely to play a major religious and social role again” (Trimingham 1998, 253-54).

Contrary to the expectations of the founders of the new republic, the Sufi orders in Turkey never truly disappeared. Ismail Kara explains the survival of Sufi orders in the transition from the Ottoman state to the Turkish Republic by focusing on their response to the process of modernization and secularization. Kara argues that Sufis were able to reconcile their mystical ideas with reason and logic (2005, 571; Kim 2008, 100). According to Yavuz, compared to other

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<sup>78</sup> According to sources of Resat Halli, the years between 1924 and 1938 witnessed eighteen rebellions against the state reforms and most of these rebels were led by Naqshbandi groups (cited in Yavuz 1999, 135, and Findley 2010,250). For a detailed discussion about these rebellions see Findley 2010.

sufi orders, Khalidi Naqshbandis were able to stay relatively immune from severe persecution by state because of their recourse to inner spirituality and the silent *dikhr*. Therefore Yavuz concludes that “the Naqshbandiyya-Khalidiyya was thus better suited than other *tariqas* to emerge as a matrix for the revival of organized Islamic movements in the more relaxed period of the 1950s” (1999, 135-36).

***The Iskenderpasa Community of the Naqshbandi Order: The Material Development as a Means of Revitalizing Islam for Political and Economic Life in Turkey***

After the death of Abdulaziz Bekkine in 1952, Mehmed Zaid Kotku became the spiritual leader of the Naqshbandi Khalidis in Turkey. After having been appointed as an official state *imam* to the Iskenderpasa Mosque in the Fatih district in 1958, Kotku reorganized his followers under the Iskenderpasa Community. When the newly introduced multiparty regime relaxed state restrictions on Islam, the Iskenderpasa Community emerged as an important Naqshbandi branch in Turkey. Kotku inherited state-centric character of the Khalidi order and refrained from using confrontational approaches in politics as he observed in the case of the Muslim Brotherhood in Egypt.

Kotku is regarded as the founder of political Islam in Turkey because of his role in the establishment of the first Islamic parties, the National Order Party (*Milli Nizam Partisi*) and the National Salvation Party (*Milli Selamet Partisi*) of Necmettin Erbakan.<sup>79</sup> Kotku strongly encouraged Erbakan to establish a political party. According to Kotku, the political party was another instrument to serve religious people and to organize social relations accordance with Islamic traditions. He preached that it was the duty of pious Muslims to take an active interest in national affairs (Smith 205, 316). Kotku and the Iskenderpasa Community provided an electoral

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<sup>79</sup> The National Salvation Party was established on January 26, 1970 and closed down by the military coup in 1971. Shortly after the National Salvation Party was founded and lasted until the 1980 coup.

base and the social networks of the Naqshbandi order in the formative stages of the National Order Party. In return, Erbakan expressed his *biat* (obeisance) to Kotku and he showed that his political activities were in line with the will of the Sheikh and the teaching of the Iskenderpasa Community.

Kotku's approach of combining elements of religious activism with a nationalist identity was in contradiction with the radical approach in politics. Being an official state Imam at the Iskenderpasa Mosque, he did not see the secular state as an absolute enemy. Kotku refrained from radical discourses and occasionally criticized Erbakan's confrontational approach in politics in pursuit of a gradualist and accommodationist attitude centered around civil society (Yavuz 1999, 138). He agreed with the main Naqshbandi tradition of restructuring society rather than the state. Two weeks before the establishment of the National Order Party, Kotku "warned against a premature attempt to establish an Islamic state in Turkey and stated a preference for the moral and cultural reorientation of Turkish society as a goal" (Algar 1990, 143).

The Community's involvement in politics was also closely related to the economic disparities created by the policy of import substitution in Turkey. Many Community members who owned small and medium-sized businesses in various Anatolian cities were in favour of the establishment of a political party that would defend their economic interests. Anatolian small merchants and businessmen elected Erbakan as the president of the Union of Chambers and Stock Exchange of Turkey (TOBB) in 1968.<sup>80</sup> However the Ministry of Commerce annulled the election under the pressure from big business groups. This development accelerated the formation process of the first Turkish Islamic party. Erbakan and key Islamist figures such as Hasan Aksay, Mustafa Yazgan Arslan Topcubasi, Osman Yuksel Serdengecti, and Ismail Hakki

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<sup>80</sup> The TOBB, the official union of small and medium-sized industry was launched in 1950. The incumbent governments controlled its activities and influenced the leadership.

Yilanoglu decided to form a new party with the blessing and permission of Kotku. They eventually launched the National Order Party in 1970 (Yesilada 2002).

In the electoral program of the new party, Erbakan vocalized the interests of Anatolian small merchants against the big industrialists who were protected under the import substitution policy. Erbakan successfully revealed the economic divide within the center right coalition to garner support for his political party (Sarfati 2009, 237-38). Erbakan summarized the problems of Anatolian industrialists and merchants as follows:

The economic mechanism in Turkey is in favour of big industrialists and merchants in the metropolis. Anatolian merchants and industrialists are being treated like a stepchild. Through the quote system the lions share is given to the metropolitan merchants in imports. Economic values created by Anatolian people are transferred to big industrialists through the banking system. The Union for Chambers of Industry and Commerce is controlled by a small group of comprador masonic minority (cited in Demirci 155).

Erbakan's political discourse was based on a new economic and social order. What brought Erbakan's electoral success among the center-right parties was his ability of combining the periphery's economic problems with a religious and moral vocabulary. The party program stated:

The party will take every measure to ensure that moral order prevails in the society, and justice and stability are reached without impeding economic conditions.<sup>81</sup>

In terms of state-business relations, the program indicated:

Instead of the currently applied limited class private entrepreneurship in the economy, the state should undertake a widespread private sector policy to extend development nationwide and to mobilize unused forces that can help in economic development.<sup>82</sup>

For achieving this aim, the program greatly addressed the problems of SMEs such as credit allocation and market access and it promoted SMEs through a program called "Widespread Private Sector." As Gulalp explains the Widespread Private Sector Program

<sup>81</sup> MNP Party Program, 1970 article 50; Yildirim 2010, 137

<sup>82</sup> MNP Party Program 1970, article 51.

“proposed to link its small-business base of support with the project of state-led heavy industrialization through the concept of the broad based private sector. This concept signified a corporation that had a minimum of one hundred partner, each owning no more than a five percent share” (1999, 27).

The National Salvation Party (NSP) took part in three coalition governments from 1974-1980 during the tumultuous years of the Turkish politics before the 1980 military coup.<sup>83</sup> In these coalition governments, the NSP articulated its socioeconomic vision in the coalition governments’ programs. The NSP insisted on the provision which required the implementation of regional industrialization program according to criteria of social justice and regional balances.<sup>84</sup>

The involvement of the NSP in the coalition governments started the process of the co-optation of Islamic actors in the state institutions and of less contentious relations between the state and Islam in which Sufi orders played an important mediation role in Turkey. As Safarti argues “occupying important ministries and government agencies gave the NSP the leverage to create patronage networks within the state” (2009, 155). As I explained in Chapter 1, Kotku’s disciples and the former political and bureaucratic staff of the NSP played important roles in the cadres of Ozal’s Motherland Party during the process of economic liberalization in Turkey. Many of them held office as ministers (Korkut Ozal, Lutfu Dogan, Fehim Adak).

In his memoirs, an influential disciple, Korkut Ozal, writes about his interaction with Kotku when he was offered a political post as follows:

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<sup>83</sup> In the first general election in which the National Salvation Party participated in 1973, the party received 11.8 per cent of the total vote, and secured 48 seats in the Parliament. In the 1977 election NSP’s national vote fell from 11.8 per cent to 8.7 percent, and the number of NSP members in the parliament decreased to 24.

<sup>84</sup><http://www.tbmm.gov.tr/hukumetler/KP37.htm>

- Kotku : What is the matter you want to consult me about?
- Ozal: I have just received an offer from NSP to run as a candidate for the lower house of parliament from Erzurum. I have consulted my friends.
- Kotku: What do they say?
- Ozal: They think that since I am not native of Erzurum, I may not be favored by the people in the elections.
- Kotku: Muslims will vote for you.
- Ozal: They think that Erzurum is a very large province with very rough terrain, so the time available for campaigning is too short to make myself understood and to create a positive impression on the people
- Kotku: It is not propaganda, but rather Allah the Almighty, that governs and turns hearts.
- Ozal: My friends say that I do not like playing dirty politics.
- Kotku: Play politics by telling and spreading the truth and realities of the country. Maintain a good and open dialogue with all the people. And be open to their dialogues; be a uniting and unifying factor in politics.

Kotku offered spiritual and ideological guidance to his members in order to make them active and successful members of Turkish society. Henkel notes that during Kotku's leadership the sense of a close relationship developed, and the Sufi brotherhood became a *cemaat* (2004, 7). Ersin Erdogan, in his book called "*Gorunmeyen Universite*" (invisible university) clearly explains how the Iskenderpasa Community functioned as an "university" for the young men that immigrated from small Anatolian towns in the 1960s (1987). For Gurdogan and his friends, Kotku not only offered Islamic teaching, but he also enlightened his disciples about the social and intellectual issues of the day. Kotku put great emphasis on the education of his disciples. According to Kotku:

A real *murshid* should be trained and educated by a perfect and perfecting teacher. He should approach Allah and achieve the attainment of Divine Gnosis by having full insight of the sharia by fully learning and complying with the manners of *tariqa* and by

discovering the secrets of *haqiqat*. He should be fully informed and aware of the dangerous passages of *tariqa*. He should be able to treat and educate his pupils in accordance with their abilities. He should be able to train and educate his pupils while absent and living in faraway places as if they were living in close proximity and getting their education and training face to face with him.

What is crucial to my argument in this chapter is that material development was an important component of Kotku's project of revitalizing Islam for social, political and economic life in Turkey. Kotku modified the old Sufi saying: "*bir lokma, bir hirka*" (one piece of bread, one woolen cloak) and added "one Mazda." Mazda, the Japanese car company, denoted the importance of the material development aspect of his teachings. According to one of my interviewees from the Gulen movement, Kotku used the name of the Japanese company as opposed to any Western one because he preferred the Asian type of economic development which also protects cultural and religious values.<sup>85</sup>

Kotku encouraged his disciples to involve themselves in economic activities by establishing "their own economic, educational and communicative networks" (Yavuz 1999, 137-140). An Islamic model of an industrial plant, *Gumus Motor* that would later produce the first local engines in Turkey was established by the Iskenderpasa Community itself in 1963 (Çakır 2002, 23.) Kotku is also considered to have had a role in founding the conservative daily, *Sabah* in 1968. Kotku openly urged his disciplines to engage in trade and industry. In his words:

The rich today possesses hundreds of properties from which they receive their rents. Although we do not, and we should not, envy them, this is not a right way to make a living. Investing in properties obscures the development of trade and industry and makes their owner lazy and dependent on easy life. Investing in properties may be profitable for

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<sup>85</sup>Dissertation fieldwork interview, in January 12, 2012 in Konya.

the individuals but the interests of individuals should be sacrificed to the interest of society.<sup>86</sup>

Kotku presented an Islamic justification for wealth generation as such:

Don't love this world! The world is arable land for the afterworld. Whatever you sow here you will reap it there. Be generous, charitable and benevolent. Don't waste your money on sinful things. Don't become lost in loose and dissolute ways of living. But you should love this world. Why? (Because) We will go to heaven from here. We will earn money here. We will look after the poor and needy with this money. We will live here in accordance with the knowledge (of the Koran), and educate others. Don't care much for amusement. Don't take delight in voluptuousness. Engage in practices that will lead you to heaven (quoted in Atasoy 2005, 125–6).

Kotku's gradualist approach in politics as opposed to militant Islamist strategies and his intellectual inclinations which aimed to create morally inspired Muslim economic players provided an initial impetus for the development of a distinct Islamic engagement for political and economic life in Turkey. It is my contention that Kotku's successor, Esad Cosan especially contributed to deepen Islamic engagement in free-market based-activities during the process of economic liberalization, which will be discussed in the following section.

### *Esad Cosan: The Iskenderpasa Community as a Venue for Political Associations and Economic Cooperations*

Zahid Kotku passed away in November 1980.<sup>87</sup> After Kotku, his son-in-law, Esad Cosan (1938-2001) became the leader of the Iskenderpasa Community.<sup>88</sup> Under the Cosan leadership, the Iskenderpasa Community developed strong political and economic ties during the process of

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<sup>86</sup> Kotku, *Tasavvufi ahlak-4*. Istanbul: seha nesriyat(d) 201).

<sup>87</sup> He was buried next to the Suleymaniye Mosque with a special order by the Turkish cabinet (Yavuz 1999,140).

<sup>88</sup> Esad Cosan studied Arabic and Persian Philology in Istanbul University and became a professor at the Faculty of Theology of Ankara University. He was the first Naqshbandi sheikh who was not trained in traditional religious education.

economic liberalization. The Community supported Ozal's Motherland Party in the 1983 elections when the military allowed Turkey to return to civilian power.<sup>89</sup> However Ozal's application for full membership to the European Economic Community in 1987 brought an end to the Community's support for the Motherland Party. In the 1987 elections, Esad Cosan made it clear that the Community would support the Welfare Party and the successor of the National Salvation Party of Erbakan. Cosan wanted his followers to support to those who subscribed to Islamic values.

However Cosan's relationship with Erbakan had been strained as well. While the tension between the party's leadership and the religious authority structures had always been present under the spiritual leadership of Kotku, it became more contentious under worldlier leader Cosan. In 1990, Cosan stated that the real representatives of Muslims are the *ulema* and the *sheikh*; not oppressive despotic leaders. Then, he openly ended support for the Welfare Party (Sarfati 2009, 237-38). As Yesilada argues "the importance of these developments is illustrated in how the members of the Naqshbandi order established ties to political parties and educate party activists for the purpose of undermining the strict secularism of the Turkish political order" (11). Cosan always believed that political participation is essential for Muslims to protect their interest within the legal framework. He wrote:

Secularism does not mean that Muslims must not be interested in politics and the administration of our country. In contrast, Muslims must be more interested in politics. Otherwise anti-Muslim forces take over the government through election tricks, manipulation of electorates and violate basic rights of Muslims. So we must be interested in politics. We cannot afford to leave the administration of Turkey to incompetent, immoral, liars, or stubborn, corrupted politicians. We must not be simple-minded party supporters or partisans, we must not be divided into fractions, we must stand for honest, clean political life (quoted in Demirci 2008, 160).

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<sup>89</sup> As stated earlier there were prominent Nakshbandis in Ozal's Motherland Party.

Apart from that, Cosan reorganized the Iskenderpasa Community as a venue for political associations and economic cooperation. Cosan clearly expressed that the members should be actively involved in social, economic and cultural life. He also encouraged his disciples to pursue professional careers in state sectors and private sectors. According to Cosan, education and salvation of Muslims in the corrupt modern environment is only possible through “qualified staff, cadres, financial power, efficient conduits, modern supplies and a broad timeframe.”<sup>90</sup>

The Community established a number of associations, foundations, radio stations and publications under the guidance of Cosan. *Islam*, the first publication of the Community, came out in 1983 and its monthly circulation reached 100,000 copies in the 1990s. *Islam* was followed a monthly *Kadin ve Aile* (Woman and Family) and a quarterly *Ilim ve Sanat* (Science and Art) (Demirci 2008, 104).<sup>91</sup> For Cosan, the publications were useful tools in spreading the Community’s views and reaching the masses. In the first volume of *Islam*, Cosan explained that their mission was the education of the masses (Cakir 2002,25). In his words:

The education of the Muslims is the most important issue for us. We have seen that lectures, sermons, talks, conferences and seminars regarding this field are not enough. They cannot meet the needs and the demand. We cannot reach everywhere we want, every community that invites us. We have decided to launch a journal to make these happen.

Cosan contributed to the journals regularly to discuss current political and economic problems rather than purely religious issues. He eventually began to write more about economic issue than politics. Yavuz notes, “some of Cosan’s speeches and articles are very similar to the speeches of presidents of corporations informing shareholders about the economic conditions of

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<sup>90</sup> Esad Cosan, ‘Gayemiz’, (September 1983), in *Islam Dergisi Basmakaleleri*, Server Yayınları: Istanbul, 2007, p. 16.

<sup>91</sup> Due to the increased pressure during the process of the 28<sup>th</sup> February, the Iskenderpasa Community lowered its public profile by withdrawing from its publishing venture. The most of its publication is now web based.( Henkel 2004,59).

the company” (1999, 144). His critics often charged that Cosan had come to act more like a merchant than a Sufi sheikh. The following is one of his editorial pieces which appeared in *Islam* in 1993.

Use your money and savings as enterprisingly as possible, do profit-generating business and trading. Our brothers who own profitable and stable businesses should make use of their friends’ savings in their own businesses in order to provide economic protection from inflation them. Today paper money and foreign currency are the hidden tools of the exploitation of the capitalist system. Instead of foreign currency, it is better if you invest in gold, silver or platinum which are comparatively stable and easy to liquidate. Needless to say the best way is to establish strong companies by combining savings and to manage money with the assistance of prudent managers. Have you ever seen any of the big companies or the banks of Koc and Sabanci in trouble? (If this occurs, it is due to misuse and treachery of the managers). Therefore I strongly recommend you to be in unity, to a strong solidarity and cooperation and to initiate economic activities at home and abroad.<sup>92</sup>

Cosan openly urged his followers to engage in trade and commerce. He also stated:

Trade is real and permanent in an individual’s life. Other activities are utopian, hypothetical, and imaginary; whereas trade is the most realistic. As far as I am concerned, those who do not have trade experience do not turn out to be good humans. The most pragmatic and realistic people are businessmen and merchants. If a businessman is also a Muslim, he is the most in tune with his religious station in life (quoted in Yavuz 2003,143).

The Community related businessmen established numerous foundations. Associations (*dernek*) and foundations (*vakif*) became widespread in Turkey after the 1980 coup. Islamic communities greatly benefited from these institutions. They especially used foundations for making tax exemptions and then use the money for their own purposes. In second half of the 1990s Islamist vakıfs’ number reached to 4500 while their associations’ number was 2541 (White 2002, 200; Bilgili 2006, 49). According to Demirci, it is difficult to know the exact number of the foundations established by the Community because of decentralized nature of the

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<sup>92</sup> “Turk ve Islam Dusmanlari Cephesine Karsi Siyasi ve Iktisadi Tedbirler,” (Political and Economic Measures Against the Front of the Enemies of the Turk and Islam), *Islam*, September 1993. Translation is mine.

Community. He states that there are tens, “if not hundreds” of voluntary organizations established by the Community’s sympathizers (2008, 148). It is not incorrect to say that foundations became conduits for deepening free-market relations among Islamic economic players during the process of economic liberalization in Turkey.

Hakyol Foundation launched by Kotku was followed by the Hizmet Foundation in 1986. The next foundation, ILKSAV (Foundation of Science, Culture and Art) was established in 1988. ILKSAV’s activities range from supporting studies for alternative economic models to opening calligraphy classes.<sup>93</sup> The Health Foundation, founded in 1987, runs four hospitals and publishes a monthly magazine, *Panzehir*. The Community also launched several companies, such as *Seha* Publishing, *Vefa* Publishing and Marketing, *DEHA* Printing Graphic and Reproduction Co., *Akra* Ak Radio and *Ispa-tur*. The Community restructured its business ventures under the name of *Server* Holding in 1996. *Server* Holding has a number of companies in the areas of communication, construction, tourism and transportation and foreign trade.<sup>94</sup>

As Ozcetin argues “what distinguished the modern-urban *tariqa* approach to economic relations in the 1980s and 1990s was *tariqas*’ emergence of an economic force itself. *Tariqa*’s involvement with economics was no more confined with establishing a safe economic web among the *murids*. The convent itself became an economic actor through ownership of companies and holdings” (2011, 64). As active participants in the economy, the community members started articulating a particular economic understanding of Islam during market

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<sup>93</sup> <http://www.ilksav.org/faaliyetler> see Ali Kemal Erdem, “Tarikatlar Vakıflasıyor”, in Haftalık Magazine 143, (30-December-2005), 19.

<sup>94</sup> <http://www.serverholding.com/>

transition in Turkey. I argue that this process eventually led to change in power dynamics within Turkish political Islam in favor of business interests in Turkey.

As stated in the previous chapter, religious orders had been strained by the military during the 28<sup>th</sup> February process when the ruling Islamist Refah Party was compelled to resign and eventually closed by the Constitutional Court in 1997. Cosan was forced into exile in the same year and settled in Australia where he was killed by a car accident on the highway between the Australian towns of Dubbo and Peak Hill in 2001. Cosan's death was met with great public attention and his entombment became a contentious issue in Turkey. His disciples wanted him to be buried in the yard of the Suleymaniye Mosque along with Zahit Kotku and other Muslim dignitaries. Although the government endorsed his burial at Suleymaniye, the secular president, Ahmet Necdet Sezer vetoed the decision.<sup>95</sup> Discontented by Sezer's veto, an estimated 10.000 people attended the funeral at Fatih mosque in Istanbul.<sup>96</sup>

After Esad Cosan, his son Nureddin Cosan took over the leadership of the Iskenderpasa Order. Nureddin Cosan was born in 1963 and received his undergraduate degree in management from the College of Saint Rose in Albany, New York. After returning to Turkey in 1993, he became the president of business ventures for the Iskenderpasa Order throughout the 1990s. Esad Cosan shared with his close associates and family members that his son Nureddin would take over the Order after his death.

Nureddin Cosan's background and youthful image were quite different from his predecessors.<sup>97</sup> Under the leadership of Nureddin Cosan, the Iskenderpasa's political influence

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<sup>95</sup> <http://dosyalar.hurriyet.com.tr/2001almanak/03pole.asp>

<sup>96</sup> <http://arsiv.ntvmsnbc.com/news/62893.asp>

<sup>97</sup> He attended his father's funeral in an Italian designer suit and wearing Ray-Ban sunglasses (Henkel 2004).

decreased due to the factionalization of the National Outlook Movement and the rise of Fethullah Gulen movement. Even though Nureddin Cosan had close connections with the AKP at the beginning,<sup>98</sup> he suspended his support from the AKP and established a new political party called Commonsense (*Sagduyu*). Right before the 2011 elections, Nureddin Cosan urged his followers to vote for the Nationalist Action Party (MHP) instead of the AKP in his speech called “Use Your Mind.”<sup>99</sup> However this request had little impact because the Iskenderpasa order was not as politically influential as it had been in the 1980s and 1990s.

To conclude this section, it should be said that the Iskenderpasa Community successfully articulated a particular economic understanding of Islam which was compatible with market forces. I argue that after the Iskenderpasa Community, the Gulen movement deepened this particular economic understanding of Islam in Turkey. In the following section, I will analyze how the Gulen movement constituted itself as the biggest and most influential religious network in Turkey. My main aim in this section is to examine how the Gulen movement was able to merge Islamic ideas with the practices of the market economy and became a significant actor in the current Turkish economy especially since the ascension of the AKP in the last decade

### ***Fethullah Gulen Movement: The Attachment of Islamic Movements into the Neo-liberal Economy***

Gulen movement is one of the branches of the Nur movement inspired by the early twentieth century Muslim reformer and activist Bediuzzaman (Wonder of the Age) Said Nursi (1876-1960). Said Nursi was born in the village of Nurs in Bitlis located in eastern Turkey. He

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<sup>98</sup> Many prominent founders of the AKP such as Hilmi Guler, Nazif Gurdogan, Rasid Kucuk, Ali Kucuk, Ali Coskun, Abdulkadir Aksu had close relations with the Iskenderpasa order.

<sup>99</sup> <http://www.iskenderpasa.com/secim/default.asp>

received his training within the Khalidi Naqshbandi circles in the Kurdish region and became the leader of an autonomous movement during the Republican Era. Unlike Naqshbandism, the Nur movement was not shaped by the authority of a sheikh. Nursi's work, *Risale-i Nur* (the Epistle of Life) provided a basis of Nursi's teaching for his followers and gave the movement a text-based character (Yavuz 2003,151). Although the Kemalist regime banned Nursi's writings, which were also written, illegally, in Arabic, they were copied by hand and distributed secretly all over Anatolia. This underground circulation of Said's writings created a sense of solidarity and loyalty among his followers (Azak 2010,117).

Nursi rejected the Kemalist understanding of modernity which excluded Islam from the public sphere. Nursi especially inspired a group of provincial intellectuals who set up a network. Mardin draws attention to the "peripheral" source of the movement which he believes "it replicated similar developments in the margins of the Islamic world at that time" (1989, 133). In the aftermath of the Kurdish Revolt of 1925, Nursi was exiled from Van to Burdur in Western Anatolia (Bruinessen 2003, 383).<sup>100</sup> To counteract the one party rule of the Republican People Party, Nursi supported the Democratic Party (DP) in its pro-Islamic policies in the 1950s.<sup>101</sup> One can see Nursi's support for the DP in the letter that he wrote to the new president Celal Bayar. Nursi wrote as follows:

In the face of those who have ill-treated us, making politics the tool of irreligion in fanatical manner, we work for this country and nation's well-being by making politics the tool and friend of religion" (quoted in Sukran 2005,307).

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<sup>100</sup> He spent rest of his life either in exile or under house arrest.

<sup>101</sup> Said Nursi built close contacts with the DP government to show his full support. For example, Nursi sent his disciple, Bayram Yuksel to the Korean War (Cakir 1990,81). Another of his disciples, Tahsin Tola, served as the Isparta deputy for the DP in 1950-57 (Mardin 1989, 98). Despite Nursi's obvious support for the DP government, the official control on the Nur movement was not removed under the DP. However the relatively free political environment of the 1950s did allow the publication of the *Risale-Nur* in book format in 1956.

The 1960 military coup ended the DP rule on the pretext that the Kemalist Revolution was threatened by the populist policies of the DP which were based on religious abuse. After the conclusion of the military rule, the Nur community supported Erbakan's National Salvation Party (NSP) in the 1973 elections. The Nur community played a role in establishing the NSP and some of its members entered parliament: A Tevfik Paksu, Husamettin Akmumcu, Sudi Resat Saruhan, and Gunduz Sevilgen. Yavuz notes that this group of Nurcus also became the major shareholders of the Saudi-based Faisal Finance in Turkey (2003, 174). However, as we have seen in the case of the Iskenderpasa Community, the Nurcus' relationship with Erbakan was also problematic because of Erbakan's ultimate goal of uniting religious communities under his authority. The Nurcu MPs left the NSP before the 1977 elections and the community switched support to Suleyman Demirel's Justice Party, the successor of the DP. Even though the military coup of 27 May 1960 brought an end to political atmosphere of the 1950s, the Nur movement continued to expand in the 1960s.<sup>102</sup>

Like Mohammed Abduh of Egypt (1849-1905), Nursi strove to show that Islam contains in itself the potentialities of a rational religion and moral codes which would accommodate science and modernity, and provide the basis for a stable and progressive society. Nursi proposed to institute change by and through religion, not in defiance of it. In the *Risale-i Nur*, he developed the teachings of the Quran on the truths of belief that incorporates the traditional

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<sup>102</sup> Throughout the 1960s, the Nur movement published several short-lived periodicals such as *Irsad* (published in Ankara in 1962 for ten weeks), *Ihlas* (published in Ankara in 1963), *Zulfikar* and *Uhuvvet* (published in Izmir in 1964), *Hareket* (published in Erzurum in 1964), *Vahdet* (published in 1964) and *Itihad* (published in Istanbul in 1967). These periodicals strictly opposed the military administration and the secular state policies. Not surprisingly, they were all quickly banded by the military rule. In 1971 the Nurcus started to publish the daily *Yeni Asya* in Istanbul. *Yeni Asya* was closed in 1980 by the military rule and superseded by *Yeni Nesil* and *Tasvir*. In 1990, *Yeni Asya* began to be published again and continued until 2001. For a detailed history of the publications of the Nur movement see <http://www.risaleinurenstitusu.org/index.asp?Section=Enstitu&SubSection=EnstituSayfasi&Date=20.02.2004&TextID=712>

Islamic sciences and modern scientific knowledge and that, while instilling those truths, effectively refutes the bases of materialist philosophy (Karasipahi 2009,189).

One of the most important legacies of Said Nursi to the Fethullah Gulen movement is Nursi's thoughts on economic development. In one of the volumes of *Risale-i Nur*, called *Iktisad Risalesi* (Risale on Economy), Said Nursi expressed his views on economic life and Islamic principles. Through a comprehensive interpretation of Quran and Sunnah, Nursi widely wrote about the issues of consumption, production and distribution. He urged Muslims to work hard, avoid excessive consumptions and invest more to increase supply. In his words:

Excess of wastefulness lead to lack of contentment. And lack of contentment destroys enthusiasm for work; it causes laziness, open the door to complaining about life, and makes the dissatisfied person complain continuously. Also, it destroys sincerity, and opens the door to hypocrisy. And it destroys self-respect, and points the way to begging. (Nursi 1995,197; cited in Al-Roubaie and Alvi 2000,6).

Nursi also encouraged Muslims to participate in the production process. He labeled trade, agriculture and industry as the most productive sectors. Nursi especially encouraged trade “as an economic activity that gives meaning to production, especially agricultural one” (Ozcetin 2011). According to him trade, agriculture and industry support each other and they mutually condition one another (Uslu 2009).

Sami Uslu explains Nursi's envisioned economic system as such:

The economic system that Bediuzzaman (Said Nursi) builds up neither capitalism nor socialism. It carries its own preferences which are based on rejecting the negative aspect of these two economic systems and takes their positive and productive sides. For instance, from capitalism, he takes the income aspect but rejects its sides that lead people towards high consumption which according to his ideas destroys moral values of the society. On the contrary he is pleased with side of socialism that does not harm moral values, however he does not accept the side of socialism that makes people to wait everything from the state which stagnates people. These are the main and brief ideas of Nur movement toward capitalism and its latest mainstream idea, neoliberalism.

Moreover, the other movement that arised from the ashes of Nurcu ideas, the Gulen movement have more tolerated and positive perspectives toward neo-liberalism.

All my interviewees from the Gulen movement agreed that Nursi teachings are essential to ease the negative effects of capitalism. A businessman said in Kayseri:

If you work hard and spend your money in ways that God instructs you don't need to worry about the devastating effects of capitalism. Nursi's teachings are enough to enlighten us in this way...<sup>103</sup>

After the death of Said Nursi in 1960, the Nur movement divided into several groups at different stages.<sup>104</sup> Despite their differences, each group shares the belief that Said Nursi is the major reference point with which to engage the modern world and follows Nursi's path of organizing collective reading circles, the *dershanes* to increase religion consciousness. It is difficult not to agree with Yavuz when he asserts that "the primary impact of these reading circles on social and political life is that religious participation has spilled over to other social spheres by offering people ties, networks, and opportunities to build civic associations" (Yavuz 2003, 17-18).

The major division within the Nur movement occurred over the politics following the 1980 military intervention. Fethullah Gulen of Izmir and Mehmet Kirkinci of Erzurum (a

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<sup>103</sup> Dissertation fieldwork interview, Kayseri, in January 10, 2012.

<sup>104</sup> The first split occurred between the *Yazicilar* (scribes) and the *Yeni Asya* (New Asia). The Yazicilar treated the *Risale-i Nur* as a work of art and focused on the integrity of the text. They did not seek to distribute Nursi writings widely as they wanted to reproduce the *Risale-i Nur* by hand in its original Ottoman script. They put special emphasis on the reproduction of Nursi's writing in handwritten form. Yavuz explains that the Yazicilar believed that handwriting makes the text more humane and facilitates its internalization (2003, 16). On the other hand the *Yeni Asya* group believed that Nursi's teaching should reach a broader audience (Hendrick 2009, 109-110). The daily *Yeni Asya* provided a common platform for those who wanted to express their views on various issues. In 1990, *Yeni Asya* also split, and a new group, *Yeni Nesil* (New Generation) emerged. *Yeni Nesil* sought for more a critical reading of the Nursi's writings. Another split within the Nur movement emerged along ethnic lines. This group, called Med-Zehra and led by Muhammed Siddik Seyhanzade, focused on Nursi's Kurdish origin and supported Kurdish political rights. They began to publish *Dava* magazine in 1989. In 1991 more nationalist Kurds established the Foundation of Zehra Education and Culture under the leadership of Izzettin Yildirim who founded the Kurdish magazine, *Yeni Zemin*.

personal friend of Gulen) supported the 1980 coup and reorganized the Nur movement as “Turkish Islam” and sought legitimacy from the state through nationalism.<sup>105</sup> Gulen ardently supported the 1980 coup because he believed that “Islamic aspect of Turkish culture has been highlighted more following the 1980 coup than at any prior time in republican history” (Yavuz). While supporting Turkish Islam, Gulen saw the state vital for the survival of Islam against communist expansion during the Cold War. Because of this Gulen adopted a state-centric understanding of Islam.

Eventually, the Fethullah Gulen community established itself as the most influential group among the Nur circles. Gulen never met Said Nursi in person but he was greatly influenced by the *Risale-i Nur*. Unlike Said Nursi, he endorsed the republican project of creating a Turkish Islam and sought to expand Turkish Muslim ways of life in Turkey and outside of Turkey. He states that:

The Hanafi understanding and Turkish interpretation dominates more than three-fourths of the Islamic world. This understanding is very dear to me. If you like you can call this Turkish Islam. Just as I see no serious canonical obstacle to this, I do not think it should upset anyone. The Turkish nation interpreted Islam in the areas open to interpretation – it attained a very broad spectrum and became the religion of great states. (Alam 2009,362).

What makes the Gulen Community important for my argument in this chapter is that it seeks to revitalize Turkish-Muslim ways of life through the use of the market, education and media. Gulen movement has made Islamic activism compatible with the liberalization process and practices with the market economy more successfully than any other religiously-inspired groups ever did in Turkey. In the words of Atasoy, “the formulation of Islam as part of national culture enriches as an “interpretive understanding’ that marries Islam with neoliberal capitalism”

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<sup>105</sup> Gulen, known as *Hocaefendi* (esteemed teacher) was born in the northeastern Anatolian city of Erzurum in 1938. He was appointed state preacher in Edirne and Izmir in 1958 and 1966 respectively.

(2009, 127). In order to revitalize Turkish-Muslim ways of life, Gulen developed three principles: *hizmet* (serving the community), *himmət* (giving donations and providing money) and *ihlas* (seeking God's appreciation in every action). Gulen thinks that the community's businesses, schools and media initiated by his 'army of light' represent a movement of social power that acts in the service (*hizmet*) of the Almighty for the sake of humanity (Hendrick 2009, 209).

The Gulen community was able to utilize these three principles to accumulate social capital in the post-1980 period in Turkey. I use social capital in Putnam's sense to denote "features of social organizations such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit" (Putnam 1995, 67). If social capital is measured by the benefits for individual actors in the network, the Gulen movement has been offering 'upward socioeconomic mobility and valued middle-class life styles and ethic' to its followers in the post-1980s Turkey (Turam 2007,68). As Hendrick argues "relying on maximum efficiency through the flexible production of these networks, the Gulen Movement cultivates a collective identity through extensive social ties, shared practice and communal loyalty on the one hand; and through market competition on the other"(2009,180).

Benefiting from its networks, the Gulen followers successfully established many firms, hospitals, media outlets, newspapers, super-market chains in different economic sectors that served to build a distinct Turkish Islamic economic model. "Although the movement has run many economic activities without any serious contradiction with the liberal economic system, the followers have strived to transform it by adding some components from Islamic teachings." (Kilinc 2007). All my interviewees among the Gulen followers agreed that Islam acts as a moral compass for their economic enterprises. One of my respondents in Konya stated that the

principles of Islamic ethics such as honesty, justice, trust and diligence make their businesses successful in the capitalist system without making them “capitalist.”<sup>106</sup> During my interviews, I heard many times that “Prophet Muhammad himself was a trader and Islam encourages earning money as long as it is *halal*. Many participants also mentioned the prophet’s saying “work for this world as if you never die and work for the other world as if you will die tomorrow” when they commented on Islam and business.

According to Gulen, Islam encourages ascetic-based economic activities which are used for the will of God. In his concept of “renunciation by heart, not physical severance” (*kalben terk, kesben degil*), he shows that “essentially, neither wealthy nor other-worldly possibilities are obstacles to asceticism (*zuhd*)... In fact, the essence of asceticism is ‘renunciation by heart, not physical severance,’ ‘no-sorrow from any loss’ and ‘no-happiness for any gain.’ From this perspective, it is always possible to be a very wealthy and ascetic (*zahid*) servant [of Allah]... A man, who can understand this aspect, can earn by working just like a citizen of this world and can be as rich as *Qarun*. It is possible because he/she, when required, gives whatever in his/her hands in the direction of the Pleasure of Lord.”<sup>107</sup>

What makes the Gulen movement’s business model distinct is that each pillar – finance, education, trade and media – supports and contributes to the others’ strength. For example, as explained in Chapter 1, Islamic banks had a significant impact on inducing capital accumulation for Islamic business groups. Today, the Gulen movement’s Bank Asya operates as the leader in Turkey’s participation banking sector. Asya Finans was established in 1996 and changed its name to the Bank Asya in 2006 which has been the fastest growing participation bank in Turkey,

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<sup>106</sup>Fieldwork interview, Konya, in December 23, 2011.

<sup>107</sup> Gulen. “Mumin Zengin de Olsa Mutevazi Olmalı,”quoted in Kim 2008, 311.

experiencing a 56 per cent rise in deposits to 9.1 billion liras in 2009 alone.<sup>108</sup> As June 2012 Bank Asya carries out its activities with 222 branches. Bank Asya states its foundation principle as “supporting production by complying with the requirements of interest-free banking and spreading interest-free finance system to larger masses by using the latest opportunities of technology in accordance with customer-oriented service mentality.”<sup>109</sup> Its work principles such as honesty, respect and trust are derived from Islamic ethics. As Kilinc notes “even describing ‘innovation’ as one of its work principles, Asya Finans quotes from Prophet Muhammad: ‘We feel that two days spent in the same way are in loss’ (2009).

One of my interviewees who works at the Bank Asya’s Kayseri branch explained the reasons for the success of the Bank Asya as such:

Bank Asya represents the cleanliness of the financial sector in Turkey. After the 2001 Turkish economic meltdown, the Bank Asya was the only bank that continued to strengthen and expand its activities. Our citizens trust us because they know that the Bank Asya is not involved in any corrupted financial activities. We provide the best service to the millions ordinary people. We have developed small business banking concept. Look at our Cobanyildizi (Lodestar) Program.<sup>110</sup> The small business owners all around Anatolia are not just our customers but they are our partners. We are building the Turkish economy together.<sup>111</sup>

Education has served as another important pillar to the Gulen movement network in economy which has facilitated cooperation between the movement’s business, trade and media. Gulen explains his faith-inspired education projects as the cultivation of morality, teaching of

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<sup>108</sup> Bank Asya 2009 Annual Report.

<sup>109</sup> [http://www.bankasya.com.tr/en/about\\_us/index.jsp](http://www.bankasya.com.tr/en/about_us/index.jsp)

<sup>110</sup> It is the name of the program that provides banking products and services to the SMEs and the artisans. On its website, Bank Asya introduces the Cobanyildizi in the following: “Bank Asya has a policy which aims to support production, and staying true to this idea our professional portfolio team, along with our advanced technology all the way through to our foreign investment products see that our customers have the most beneficial alternatives available to them at all times.” [http://www.bankasya.com.tr/en/sme\\_banking/index.jsp](http://www.bankasya.com.tr/en/sme_banking/index.jsp).

<sup>111</sup> Fieldwork interview, in Kayseri, in January 27, 2012.

science and the discipline of the self. His program of ‘Golden Generation’ is aimed at constructing a generation of ideal humans through education.

The Gulen movement took advantage of privatization of the education system in the 1980s. The movement’s education network successfully met a market demand for high quality yet inexpensive education for the lower and middle classes. The Gulen movement exported its education model first to Central Asia, Russia and the Balkans in the 1990s and then to Southeast Asia, Africa, Latin America, Western Europe, Australia, and the US in the early 2000s. Today the movement owns more than five hundred schools and seven universities in Turkey and around the world.

The first educational institution, *Yamanlar Koleji* was opened as a dormitory in Izmir in 1972. One of Gulen’s disciplines explains how the dormitory was turned into a school in 1982 as follows:

The first institution was a dormitory in Izmir ...during the coups (1980-1983), the military government took over the properties of all (religious) foundations (vakfi). *Hocaefendi* (Fethullah Gulen) felt that this might happen as he was inspired by a verse in the Qur'an... (He) stopped his ongoing constructions before the military took-over...he thought that the military would take them. This shows that *hocaefendi* acted in accordance with the primary sources of religion...In order to prevent its takeover, he changed the legal condition of the dorm and turned it into a school and registered it as private property. He gathered a board of directors consisting of businessmen. So that the school wasn't taken by the military government because it was the property of a corporation. This school became a model for future schools. *Anybody who wanted to open a (Gülen) school started a company and owned a school in the name of that company. It then spread abroad* (quoted in Hendrick 2009, 167, emphasis is mine).

This model was followed by the Gulen followers to establish other schools, universities and supplemental education companies (*dershanes* for preparation for the university entry

exams) in Turkey and in more than a hundred countries, from Papua New Guinea in the South Pacific to Liberia in West Africa.<sup>112</sup>

After the collapse of the Soviet Union, the Gulen movement greatly benefited from the Turkish state's official foreign policy discourse of filling the power vacuum in Central Asia in the early 1990s. Turkey sought to revitalize a lost "Turkish brotherhood" by cultivating diplomatic, economic and cultural ties with the Central Asian Republics. However, the initial euphoria did not last long as Turkey began to realize that these newly emergent republics didn't want another elder brother figure in the region. Turkey also realized its own potential while struggling with the severe economic crises in the 1990s and in the early 2000s. As Aras notes the small and medium-sized enterprises and civil society organizations launched in these years represented the only successful Turkish initiatives in the Central Asia.<sup>113</sup>

The Gulen movement started to open schools and launched SMEs and trade networks in Kyrgyzstan, Uzbekistan, Kazakhstan, Tajikistan, Azerbaijan, and Russia as well as in the Ukraine, Moldova, Bulgaria, Poland, Albania, and Bosnia- Herzegovina beginning in 1992.<sup>114</sup> Berna Turam's ethnographic work on the Gulen movement's schools in Kazakhstan demonstrates the umbilical relationship between the movement's schools and business networks. Turam argues that "the movement transfers economic power into human capital by connecting the capital accumulation of businesspeople and entrepreneurs with the knowledge accumulation of educators. Concretely, the adherents in the business community invest money in the schools

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<sup>112</sup> *Irish Times* Foreign Affairs Correspondent, Mary Fitzgerald's initial observations about the Gulen schools in Ethiopia is quite catchy: "MERHABA! MERHABA!" – the Turkish greeting echoes through the school corridor as neatly uniformed Ethiopian children welcome a visitor. That morning the children sang the Turkish national anthem along with their own. On the school walls, vocabulary charts to help pupils improve their command of Turkish hang alongside framed verses of Rumi's poetry. In the principal's office a portrait of Ataturk dominates."  
<http://gulenschools.org/component/content/article/117-ethiopian-schools-put-turkey-on-curriculum>

<sup>113</sup> 2008 <http://www.turkishweekly.net/news/55400/turkish-policy-toward-central-asia.html>

<sup>114</sup> The Gulen schools are regarded highly prestigious private institutions in the Central Asia and labeled as "elite schools."

and scholarships, which contribute to the accumulation of intellectual power, and that, in turn, produces more capital due to the academic success of the private schools” (2007,69).

My interviewees among the Gulen teachers whom I met in Cairo also confirmed Turam’s findings about how different spheres in the Gulen network nurture each other in the form of *himmət*. One of my interviewees made the following remark:

Let’s say the owner of the small enterprise in Yozgat was to donate a hundred Turkish Liras to the *cemaat* every month. When he watches the news about the Gulen schools on TV, he feels himself a global actor. This feeling is very important when you make business...He also knows that when you give charity in the service of Allah, Allah will give you more...*Hocaefendi* always admires the altruistic spirit of the Anatolian people...

<sup>115</sup>

Apart from Central Asia, the Gulen movement launched schools in South East Asia beginning in 1993. In South East Asia, the Gulen movement established the Pacific Countries Social and Economic Solidarity Association (PASIAD) in 1999. PASIAD not only coordinates the Gulen schools in the region, but it also develops close relations with the locals to cultivate trade links for the affiliated business groups in Turkey. PASIAD is active in Australia, Bangladesh, China, Indonesia, Philippines, South Korea, Hong-Kong, Japan, India, Cambodia, Laos, Maldives, Malaysia, Myanmar, Nepal and Pakistan. PASIAD’s chairman, Bahri Agaoglu, when he explaining the PASIAD role in the region states that Turkey’s trade with South East Asian countries increased six times within ten years, and it reached 36, 147 billion USD while it was only 6,6 billion USD in 1999. <sup>116</sup> In a similar way, the Turkish-African Cultural, Social and Economic Business Association (AKSIAD) was established for building trade and business

<sup>115</sup> Fieldwork interview, in Gaziantep, in January 22, 2012.

<sup>116</sup> This speech can be found at the organization’s webpage: [www.pasiad.org/index.php?option=com\\_content&view=article&id=99&Itemid=9](http://www.pasiad.org/index.php?option=com_content&view=article&id=99&Itemid=9)

networks between Turkey and the African continent.<sup>117</sup> Both PASIAD and AKSIAD have played important roles in introducing the new markets to the Gulen movement's business groups.

To organize the expanding business activity of the Gulen network in many parts of the world, The Confederation of Businessmen and Industrialists of Turkey (TUSKON) was established in 2005 under the leadership of Rizanur Meral.<sup>118</sup> The story of TUSKON's foundation is explained at the organization's webpage as follows:

TUSKON's story started in the early 1990s when businessmen with social responsibility awareness and who are sensitive to the country's problems, formed associations in several cities. These associations were founded in order that small and middle-sized enterprises which form the mainstay of the Turkish economy and also big and growing companies can develop themselves and expand to foreign markets in a variable and dynamic economy. These associations which have the mission of constituting an expansion of economic policies and making the business environment attain international and modern standards, shared their knowledge and experience with many entrepreneurs and enterprises both in Istanbul and in Anatolia. Civil society understanding which develops with the influence of the adaptation process to the European Union, required that these associations come together at top structures which can represent them stronger. This development drifted the associations toward the federation process. Thus, businessmen, who came together in the Marmara, Aegean, Black Sea, Mediterranean, Central Anatolia, Eastern Anatolia and Southeast Anatolia regions in accordance with Turkey's geographical distribution, formed federations by integrating. (MARİFED, ESİDEF, KASİF, ANSİFED, DASİDEF, GÜNSİAF, ANFED).<sup>119</sup>

In the post-1980 period, the province/city based and regional-based industrialist and business organizations known as SIADs brought together a large number of enterprises from different regions of Turkey, and articulated different strategies and discourses in their search for the congruity between free trade and local identity in Turkey. SIADs have sought to achieve local development by establishing networks among local business groups. In their account of the

<sup>117</sup> <http://www.aksiad.org/index.php?part=kurumsal&key=hakkimizda>

<sup>118</sup> Rizanur Meral, Gaziantep based SANKO Group executive was the head of the Gulen Movement's first businessman association, ISHAD (Business Life Cooperation Association).

<sup>119</sup> <http://www.tuskon.org/hakkimizda/?id=misyon>

changing nature of Turkish economic, political and cultural life, Keyman and Koyuncu argue that “SIADs have shown us that there are different ways in which the global is articulated with the local and creates different social forms and societal visions” (2005, 121).

What is remarkable is that seven different regional business federations composed of sixty local business associations (SIADs), operating in eighty different provinces in Turkey was united under TUSKON in 2005. TUSKON now represents 33,260 entrepreneurs all over Turkey, and it has already become the country’s biggest and most widespread business organization.<sup>120</sup>

One of my main assertions in this dissertation is that Turkey’s new (Islamic) capitalists and their political party – AKP strengthened one another’s position in many realms. What is relevant in the case of TUSKON is that TUSKON became an important pillar of the AKP’s new foreign policy of a “trading state” since 2005. The AKP’s foreign policy was conceptualized by the current minister of foreign affairs, Ahmet Davutoglu as “zero problems with neighbors” which sought deeper bilateral and multilateral relations with neighboring countries.<sup>121</sup> Zafer Caglayan, the State Minister Responsible for Foreign Trade also endorsed Davutoglu’s position and declared “zero problems, limitless trade.”<sup>122</sup> Davutoglu stated that Turkey’s foreign policy goal is to transform Turkey into a strong regional and global actor through the exercise of soft power. As Kirisci and Kaptanoglu note Davutoglu included “the activities civil society, business organizations and numerous other organizations” are part of this foreign policy vision (2011, 711). It is important to see that TUSKON greatly benefited from and contributed to the economic

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<sup>120</sup> According to the report of the Istanbul Chamber of Industry in 2009, while there are forty-five TUSKON firms on the list of “the biggest 500 Industrial Enterprises in Turkey,” the number of the MUSIAD firms on this list is thirty-one.

<sup>121</sup> It is now argued by many that after the *Mavi Marmara* incident and the worsening relations with Syria, Turkey’s zero problem policy has failed.

<sup>122</sup> <http://yenisafak.com.tr/Ekonomi/?t=16.01.2011&i=298151>

and trade dimension of AKP's foreign policy vision. Rizanur Meral explains the symbiotic relationship between TUSKON and the AKP's foreign policy in the following:

One of our board members told us right at the start that we needed to narrow our focus and develop a better strategy. So we concentrated on overseas opportunities and specialized in international relations. This luckily coincided with the AKP's proactive policy, and made us grow faster. We aren't that wise. And what you might call luck, I call the help of Allah.<sup>123</sup>

Due to the active foreign policy of the AKP government, the structure of Turkey's foreign trade has remarkably changed since 2002. Turkey's traditional single-market dependence on Europe is now being occupied by the African and Asian countries.<sup>124</sup> The EU's share in Turkish foreign trade declined from 53.63 per cent in 2003 to less than 42 per cent in 2011, where as Asia's share increased from 18.8 per cent to 30 percent (Onis 2011, 57).<sup>125</sup> The table below shows Turkey's total foreign trade volume according to countries since the AKP came to power in 2002.

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<sup>123</sup><http://www.middle-east-online.com/english/?id=46075>

<sup>124</sup>[http://www.tuskon.org/icerik/haber\\_detay.php?id=350](http://www.tuskon.org/icerik/haber_detay.php?id=350)

<sup>125</sup> Many argue that Turkey was able to avoid the negative effect of the global financial crisis of 2008 because of the new trade destinations.

	2002	2012	Change (%)
<b>Total Export</b> <b>(million \$)</b>	36 059 089	152 461 737	322
<b>E.U Countries (27)</b>	20 415 034	59 197 802	189
<b>Other European Countries</b>	2 606 971	14 367 493	451
<b>North African Countries</b>	1 266 596	9 443 604	645
<b>Other African Countries</b>	430 060	3 913 246	809
<b>North American Countries</b>	3 596 000	6 662 554	85
<b>Central America and Caribes</b>	196 883	769 630	290
<b>South America</b>	120 951	2 191 084	1711
<b>Near And Middle Eastern</b>	3 439 789	42 451 153	1134
<b>Other Asian Countries</b>	1 789 998	10 574 649	490
<b>Australia and New Zealand</b>	121 669	490 339	303

**Table 2.1** Turkey's total foreign trade volume by country, Source: Turkish Statistical Institute

As the table above indicates, Turkey's new trade destinations and relations have become significant. Due to this dramatic change, Turkey's increasing trade relations with Africa have attracted much attention as Turkey's trade volume with Africa (North African and the other African countries) reached \$ 13,356,850 in 2012 from \$ 1,696,656 since 2002. The table below illustrates the increase in export rates with the sub-Saharan African countries.

	2001	2012	Change (%)
<b>Angola</b>	8	235	2837
<b>Benin</b>	4	79	1875
<b>Equatorial Guinea</b>	0,5	76	15100
<b>Gabon</b>	2	53	2550
<b>Ghana</b>	18	224	1144
<b>Congo</b>	4	92	2200
<b>Liberia</b>	9	104	1055
<b>Madagascar</b>	3	57	1800
<b>Mauritania</b>	1	38	3700
<b>Mozambique</b>	1	36	3500
<b>Namibia</b>	1	4	300
<b>Rwanda</b>	1	20	1900
<b>Sierra Leone</b>	2	36	1700
<b>Tanzania</b>	3	131	4266
<b>TOTAL (million \$)</b>	<b>55</b>	<b>1185</b>	<b>2054</b>

**Table 2.2** The increase in export rates with the sub-Saharan African countries, Source: Ministry of Economy

The immense increase in trade volume with Africa should be analyzed within the context of AKP's multidimensional foreign policy approach of building strong diplomatic and economic relations with Africa.<sup>126</sup> Turkey announced 2005 as “the year of Africa” and opened fifteen new embassies in sub-Saharan Africa. President Abdullah Gul visited Kenya and Tanzania in February 2009, and Congo and Cameroon in March 2010 accompanied by a large group of the cabinet members, deputies and businessmen.<sup>127</sup> Ozkan and Akgun argue “Africa policy is also an arena in which, probably for the first time, the interests of civil society organizations, business sectors and the state have largely converged” (2010,526). TUSKON and the Foundation for Human Rights and Freedoms and Humanitarian Relief (IHH) have become influential actors in Africa.

TUSKON's program “Trade Bridges with Africa” is quite important in this respect. TUSKON has organized seven trade bridge programs so far. The first Turkey-Africa Foreign Trade Bridge Program was organized in May 2006 in Istanbul with the participation of 500 businessmen and 20 ministers from 35 different countries. Participation in the trade bridges increased each year and it rose to 54 African countries in the last meeting in December 2011 in Istanbul. One of my respondents from TUSKON's GUNSI AF (the Confederation of Businessmen and Industrialists of Southeast Anatolia) thinks that no other organization than TUSKON can bring the hundreds of businessmen and the tens of ministers to Turkey at the same time. He said:

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<sup>126</sup>Turkey's interest to Africa had begun in 1998 when the Turkish government adopted a document called “Turkish Opening up to Africa Policy ”initiated by Ismail Cem. However it was not until the AKP government that Turkey's interest to Africa became visible in the public eyes.

<sup>127</sup>*The Economist*, March 25,2010.

Our friends in Africa have the privilege of going and seeing the ministers in their own apartments. Why? Because their kids are being educated in the Gulen Schools...<sup>128</sup>

Pedro Bayeme Bayeme Ayingano Guine, the director of a state-led maritime union from Equatorial Guinea expressed his opinions about Turkey-Africa business relations at the last trade-bridge meeting in Istanbul as follows:

A Turkish construction company built the largest convention center in our country and there is a Turkish school which provides quality education. TUSKON also is a bridge between us and Turkey. I participate in this event because we are keen to engage in partnerships with Turkish firms.<sup>129</sup>

One of my interviewees from TUSKON Kayseri stated that the increasing presence of the Turkish companies in Africa created a win-win situation for the African countries for the first time in their histories. He said:

TUSKON companies didn't go to Africa to exploit the Continent as had European powers for centuries. We carry our vision to Africa by creating investment and employment opportunities. One of our member companies just attained the tender for changing the sewage system in Tanzania. Why? Because they trust us, they know we'll do our best to help them. We are not only seeking profit there, we are also investing on development projects...

My fieldwork in certain Anatolian towns has revealed the fact that the Gulen's movement's companies have been greatly benefiting from the AKP's market policies and they function as an important powerbase in the AKP coalition. However it is important not to see the Gulen movement's support for the AKP as unconditional. The AKP and the Gulen movement, according to Dani Rodrick, "are interlocking but independent."<sup>130</sup> Hendrick argues that the

<sup>128</sup>Fieldwork interview, in Gaziantep, in January 23, 2012.

<sup>129</sup>*Today's Zaman*, December 17, 2011.

<sup>130</sup><http://www.tabletmag.com/news-and-politics/47950/veiled-threat/>

Gulen movement and the AKP operate in a coalition with shared goals, “but one that might fracture if internal power struggles in either camp seeks to overstep the other in influence or prestige” (2009, 236).<sup>131</sup>

Some of my interviewees from the Gulen circle expressed their serious discontent on the AKP’s policy of boycotting Israel and France, after the *Mavi Marmara* incident and the genocide bill respectively.<sup>132</sup> One of my interviewees from the Gulen circle in Gaziantep asserted:

TUSKON doesn’t have a government. This is what separates TUSKON from the MUSIAD. MUSIAD is now acting as a government agent. However TUSKON is an independent actor in a global world. MUSIAD didn’t go beyond the discourse of “damn Israel!” There is no boycotting in Islam, and there are no exclusive categories in the Nur movement...<sup>133</sup>

As both are conservative businessmen organizations and have the certain ties with the AKP, the comparison between MUSIAD and TUSKON is an intriguing one. According to Rustu Bozkurt, an expert on the SMEs in Turkey, MUSIAD lost its flexibility in organization and started to act as the TUSIAD of the AKP. On the other hand, TUSKON was able to reach a broader segment of society through greater inclusiveness.<sup>134</sup> The point on the more inclusive approach of TUSKON was also made by the president GUNSI AF, a sub-federation of TUSKON. He said:

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<sup>131</sup> At the time of editing my dissertation, the internal power struggle between the AKP and the Gulen Movement has reached to its peak when the government announced its decision to close down *dershanes*. This move was followed by the anti-graft operations against the AKP in December 2013. For a good account of this fracture see Cihan Tugal’s article on *Jadalliya*: <http://www.jadaliyya.com/pages/index/15693/towards-the-end-of-a-dream-the-erdogan-gulen-fallo>

<sup>132</sup> “Mavi Marmara Incident” refers to the failed attempt of the Turkish Islamic charity organization – IHH (Foundation for Human Rights and Freedoms and Humanitarian Relief) –to deliver aid to the blockaded Palestinians of Gaza. Israeli commandos raided the Mavi Marmara ship international water and killed nine Turkish activists in May 2010. Fethullah Gulen’s criticism of the AKP over the Mavi Marmara incident can be read in his interview in the *Wall Street Journal*. Gulen said “organizers’ failure to seek accord with Israel before attempting to deliver aid “is a sign of defying authority, and will not lead to fruitful outcomes.”

<http://online.wsj.com/article/SB10001424052748704025304575284721280274694.html>

<sup>133</sup> Fieldwork interview, in Gaziantep, in January 23, 2012.

<sup>134</sup> Fieldwork interview, in Istanbul, in November 15, 2011.

When I established HURSIAD<sup>135</sup> in 1993 in Gaziantep, everybody asked me ‘why do you guys need another organization? There is MUSIAD here.’ But MUSIAD was associated with a certain political view. We wanted to function above political and ethnic identities. Our only bottom line is business ethic. No one can say that TUSKON belongs to certain political view.<sup>136</sup>

My respondents from both the MUSIAD and TUSKON’s official representatives agreed that there is no rivalry between the MUSIAD and TUSKON, and both work for the shared goals of Turkey. One of my respondents from MUSIAD Gaziantep’s branch said that MUSIAD is proud of TUSKON’s success, and they are walking hand in hand.<sup>137</sup>

### *Conclusion*

In this chapter I have suggested that the roots of less contentions relations (as compared to the Egyptian case) between the Turkish state and Islam lie in Islamic understanding of state-centrism and of wealth creation that were framed by religious orders in Turkey. I have argued that religious orders have been geared to accommodating political and economic liberalization processes in Turkey. When orders’ attachment to economic system deepened, they developed business-oriented and flexible interpretation of Islam.

The empirical puzzle posed by the experiences of Turkish and Egyptian Islamic groups shows that the boundaries between Islam and the state are not fixed. Instead, their relationship is subjected to a process of constant negotiation and renegotiation. My research presented in this chapter poses a strong challenge to the rigid categories of religion and the state. It also shows that how Islamic business groups’ engagement with the state can change the interests and preferences of Islamic movements and the nature of the state in restricted political environments.

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<sup>135</sup> HURSIAD, *Hur Sanayici ve Isadamlari Dernegi* (Independent Industrialist and Businessmen Association) was established by the Gulen supporters in 1993.

<sup>136</sup> Fieldwork interview, in Gaziantep in January 23, 2012.

<sup>137</sup> Fieldwork interview, in Gaziantep in January 23, 2012.

Turkey witnessed the rise of Islam politically and economically especially since the early 1990s. However, rather than being an ideology of alienated individuals and groups, religious orders utilized Islam to promote political and economic liberties of newly emerging groups. Islam began to function as a powerful networks based upon trust relations among small and medium economic enterprises, establishing a very powerful economic and political actor (Keyman, 2007). The Turkish case constitutes one of the strong examples for the ongoing (re)negotiations on the unsettled relationship between Islam and the state. In this chapter I have highlighted the role of religious orders in which they played in this process.

### CHAPTER 3

#### ECONOMIC LIBERALIZATION POLICIES AND (NON-ISLAMIC) MARKET COALITION IN EGYPT

*You must be kidding with me! There were no incentives or exemptions for the small businesses under the Mubarak rule. They all made available for his parasitic business allies. If you had a beard during that time, your business was in more difficult situation. Just two years ago, one of my friends was not even allowed to enter the conference on “How to Export More Efficiently” by the security guards of Suzanne Mubarak because of his beard. I guess the regime didn’t want us to learn how to export unless we got shaved...*<sup>138</sup>

As illuminated in the introduction, my first hypothesis explores the extent to which different market coalitions between state and various social forces have been vital for the fate of Islamic business groups in Turkey and Egypt. In this chapter I analyze the implementation of Egyptian economic liberalization and examine its impact on the formation of a non-Islamic market coalition in Egypt. I argue that the way the Egyptian state implemented economic opening—characterized by political corruption and lack of transparency—worked against the integration of small and medium size Islamic business groups with the market in the peripheral quarters. The Egyptian state process of economic liberalization simply reinforced the pre-liberalization economic structure, leaving peripheral groups at the margins of political and economic power.

The Islamic business groups (mainly small and medium sized enterprises) were one of the losers of the economic liberalization process. As these provincial Islamic business groups did not prosper and integrate with the global economy, they lacked the economic and political resources to affect the course of Islamic politics in Egypt. This chapter will demonstrate that the economic liberalization program as implemented in Egypt did not provide any incentives for Islamic business groups to redefine their interests in Islamic politics but instead perpetuated the existing socio-political structure in the Egyptian politics.

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<sup>138</sup> Quote from the small textile factory owner, dissertation fieldwork in Cairo, in June 2012.

This chapter is divided into three parts: In the first section, I analyze the Egyptian pre-liberalization economic structure until the open door policy (*Infitah*). This will provide a brief background on the establishment of vested interests in the pre-liberalization era in order to see their continuation in the period of economic liberalization. The second section examines Anwar Sadat's *Infitah* (economic opening) policies, focusing particularly on the emergence of Islamic banks and investment companies. My aim is to explain why Islamic banks did not have any impact on inducing capital accumulation for Islamic business groups during the process of *Infitah* and beyond in Egypt as their counterparts did in Turkey. Finally the third section scrutinizes Husnu Mubarak's structural adjustment reforms in the creation of the market coalitions of big business and state bureaucracy by excluding the small and medium sized enterprises in the peripheral quarters.

### ***Pre-Liberalization Economic Structure: 1952-1973***

Egypt experienced a liberal economic-political system under its 1922-1952 constitutional monarchy. Government economic intervention was limited and the business class — which had strong ties to the landed bourgeoisie— played a leading role in many commercial activities including industry, agriculture, finance and the service sector (Harik 1998). Rather than a state of conflict between local and foreign capitals, coalitions of local investors and allied interests – business groups –characterized the Egyptian economic environment during this liberal era (Vitalis 1995).

Big business also played a critical role in Egypt's political sphere. The Association of Industries was established in 1922 by local resident-foreigner investors, and it became one the most organized interest groups in the country. It acted as an effective lobby with both parliament

and the government during the period of the liberal age (Ibrahim 1994, 24). During the post-war period, the Association of Industries quickly transformed itself into a semi- public organization with a corporatist nature (Bianchi 1989, 68).<sup>139</sup>

The army officers' *coup d'état* of 23 July, 1952 led by Gamal Abd al-Nasser brought an end to the liberal era in Egypt. The revolution sought legitimacy through a sociopolitical coalition of three marginalized classes: the middle petite bourgeoisie, the urban working class, and the rural poor. Egypt's landed bourgeoisie was targeted as the enemy of this consortium and reforms which strived to curtail the political power of the landed bourgeoisie were undertaken as early as September, 1952 (Ibrahim 1994,27).<sup>140</sup> Rather than attacking private ownership, the most immediate objective of land reforms was "to break the power of the old ruling oligarchy" (Abdel-Faddil 1975, 7).

The ruling junta favored a continuation of private capitalist development in the initial years following the coup. The new government hoped that this might free capital for investment in industry rather than agriculture. For this reason, special incentives, such as tax holidays, and facilitating the transfer of profits abroad, encouraged domestic and foreign capital investments. Threatened by the demise of the landed bourgeoisie, the private sector did not respond to regime incentives (Zaki 1996, 56). Springborg notes "the charge leveled at the bourgeoisie – that they failed to respond to the overtures of new military governments and did not invest in industry or agriculture – begs the question of why investors should have trusted or have had confidence in a government that demonstrated profound hostility toward the bourgeoisie, or at least the most important fraction of it" (1993, 21).

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<sup>139</sup> The Association of Industries was renamed as the Federation of Egyptian Industries in 1930. Contrary to the standard analysis on the Association of Industries in the secondary literature, Vitalis argue "while collective representation to the state in the name of association's membership was one of its functions and doubtless took place, this function should not be exaggerated (1995, 46).

<sup>140</sup> It was supplemented by the second land reform of 1961.

The nationalization of the Suez Canal Company and sequestration of French and British assets in 1956 heralded the beginning of the complete turn in the regime's economic strategy (Zaki 1999, 56; Waterbury 1993, 61-2). The Constitution of 1956 further empowered the state role in the economy and "committed the state to a planned economy and cautioned that capital should be at the service of the national economy" (Zaki 1999, 58). In one of his speeches, Nasser made it clear that "private capital is free as long as it works for the general welfare of society" (1959, 357). Nasser's discourse on patriotic capitalists against greedy unpatriotic capitalists, as Zaki argues, was never understood by businessmen "except as threats directed toward the capitalist class as whole" (1999, 62).

Consequently, the private sector's dominant position in the economy changed drastically during the Nasser era. The private sector's share in gross capital formation was 72 per cent in 1953, its share had dropped to 26 per cent in 1959. By the early 1960s, the Egyptian state completed its control over the economy. In 1960, the government nationalized the two largest banks in the country – the National Bank of Egypt and the Bank Misr Group<sup>141</sup>. The following year, the largest two hundred enterprises in the country were brought under state control.

The nationalization policy of the regime was not restricted to large enterprises; the small and medium sized enterprises were also affected. For example in the cotton sector, the state Cotton Authority was given the exclusive right to purchase cotton and subsequently all companies dealing with the cotton trade were brought under state control. Half of the capital of medium-sized firms mainly in commerce and light manufacturing was expropriated. According

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<sup>141</sup> Bank Misr was established in 1920 by eight Egyptian land owners. Bank Misr was not only the largest commercial bank left in the private sector, but also a most important holding company, whose 29 affiliated companies accounted for an estimated 20 percent of Egypt's industrial output, including half of all textile production (Ikram 2006,6). The National Bank, although privately owned, performed all the normal functions of a central bank; for example, it had a monopoly of the note issue, it was the lender of last resort, and it had control of the bank rate

to Isawi, “the nominal capital of the companies affected by the nationalization laws of 1961 was put at LE 258 million (about two-thirds of the total share capital of companies then registered in Egypt), of which the state acquired LE 124 million” (Ikram 2006,7).

Government control of the production and wage system, and investment preference for heavy capital industry (iron, steel, aluminum, petroleum refining, petrochemicals, car and tires) over labor-intensive manufacturing (textiles, clothing, food products and footwear) further deteriorated the conditions of the small and medium sized industries, especially those owned by groups clinging to Islam in a period that the government was overtly secular (Podeh and Winckler 2004, 259). As explained in greater details in Chapter 4, due to the tense relations between the Nasser administration and the Muslim Brotherhood (MB), all economic activities of the MB were halted in the period between 1954-1970. Many MB-affiliated businessmen escaped to neighboring countries to continue their economic activities. During the time of the Nasser’s nationalization policies, a few Muslim entrepreneurs managed to survive in the country (Ayubi 1991,153).

The table above shows the breakdown of the small-scale manufacturing activities in 1967:

<b>Type of industrial activity</b>	<b>Number of establishments</b>	<b>Average number of employed people per establishment</b>
<b>Wearing apparel (footwear and other made-up textile goods)</b>	58,210	1.6
<b>Furniture and fixture</b>	15,447	1.8
<b>Textiles</b>	14,313	2.2

<b>Metallic products</b>	13,404	2.1
<b>Food</b>	11,050	3.5
<b>Wood and cork products</b>	10,015	1.6
<b>Transport equipment</b>	8,667	2.2
<b>Non-metallic products</b>	2,688	3.3
<b>Electric machinery</b>	2,063	1.8
<b>Leather</b>	1,219	2.8
<b>Non-electric machinery</b>	993	2.5
<b>Paper</b>	360	2.9
<b>Basic metals</b>	333	3.6
<b>Chemicals</b>	254	3.6
<b>Rubber</b>	90	3.2
<b>Beverages</b>	63	4.1
<b>Tobacco</b>	55	3.9
<b>Petroleum</b>	3	3.3

**Table 3.1** Number of establishments and volume of employment in the small-scale manufacturing activities, 1967, Source: Census of industrial production, 1967 in Abdel-Fadil 1980,22

It was not until 1961 that state-private sector relations had completely changed after the introduction of the so-called “Arab socialism” in 1961. Nasser presented the National Charter (*al-Mithaq al –Watany*) to the National Congress of the Popular Powers in May 1962. This was a period when the takeovers were justified as part of ‘Arab socialism’ (Ikram 2006, 7). The Charter aimed at industrialization-based economic growth and reduction of poverty and inequality in a central economy. Egalitarianism was sought in terms of free education and health services, a

policy of guaranteed employment, the provision of cheap housing to working classes, and the regulation on wages and consumer prices (El-Ghonemy 2003, 77). Nasser envisioned his ideal society as follows:

I want a society in which class distinctions are dissolved through the equality of opportunities to all citizens. I want a society in which the free individual can determine his own position by himself, on the basis of his efficiency, capacity and character. (quoted in Wickham 2002,25).

Nasser's regime failed to produce growth or equity. While the policies of the Nasserist regime produced positive results initially, there was a drastic decline between the years 1965-70 (Farah 2009, 145). The first five- year plan (1960/61- 1964/65) brought an annual growth rate of 6.4 per cent. However during the latter period, this rate did not exceed 3.3 per cent annually. Egypt's military involvement in the Yemen War (1963-67) and the Arab-Israeli War furthered the country's financial drain. The regime failed to finance its policy goals under the pressure of a shortage of foreign exchange and insufficient domestic resources (Ikram 2006, 11).

### ***The Policy of Infitah and the Entering of Islam into Economy***

By the end of the Nasser's period, Egypt's aims greatly exceeded its means. After the death of Nasser in September 1970, a new strategy became inevitable in Egypt. When Anwar Sadat came to power in 1971 the economic situation was in Egypt quite alarming. The growth of the GDP had slowed and inflation had reached nearly 24 per cent (Weinbaum 1986, 211). Due to the increasing import prices for food, the official consumer price index rose by 7 per cent, the food and beverages component increasing 11 per cent by 1973. The budget deficit was estimated at 17 per cent in 1974 and at 22 per cent of GNP at market prices in 1975. The deficit on the current account of the balance of payment was also rising: It was \$326 million in 1974 and it increased to \$1.4 billion in 1975 (Ikram 2006, 14-17).

Even before the October 1973 War with Israel, Sadat explained the gravity of the situation in the following:

I wanted to tell them [the National Security Council] that we had reached the “zero stage” economically (*marhalat alsifr*) in every sense of the term. . . . I could not have paid a penny toward our debt installments falling due on January 1, 1974, nor could I have bought a grain of wheat in 1974. There would not have been bread for the people (quoted in Scobie 1981, 31).

Anwar Sadat declared a new policy, *al- infitah al-iqtisadi* (the economic opening) in 1974 only four months after the 1973 October War. The primary objectives of *infitah* were to promote domestic investment, encourage exports, attract foreign capital and strengthen the public sector. Law 43 of 1974, the main law establishing the *infitah*, lifted restrictions on imports and domestic trade and provided incentives to foreign investors. The shift in Egypt’s economic direction reintegrated Egypt into the capitalist world market and brought foreign aid and cooperation from the West and the oil-rich Arab countries. *Infitah* was accompanied with a sharp rise in oil prices in 1973 and 1979, foreign aid, and increasing migrant workers’ remittances by nearly eighty times the average of 1961-70 (El-Ghonemy 2003, 78). According to Rivlin, “these funds created what might be called a parallel economy; they did not bring about changes in the domestic economy (industry and agriculture) to any great extent” (1985, 9).

The overall effects of Sadat’s *infitah* policies were positive in the second half of the 1970s. The large amount of foreign exchange restored the Egyptian economy. The GDP growth rate, which averaged around 4 per cent annually between 1967 and 1974, increased to a level of 13 per cent between 1975 and 1978 (MERI Report, 1985). However, the growth rate had slowed substantially by 1978. As Esfahani explains, “Egypt’s large import bill proved difficult to reduce, foreign exchange revenues which were largely dependent on the price of oil, started to decline and the burden of the external debt began to loom ominously in the horizon ”(1993,5). In 1981

IMF estimated that Egypt's debt was \$21.18 billion, with a debt service ratio of about 25 per cent (McDermott 1989, 79).

The foreign banks attracted by the Egyptian open door policies mostly financed imports, not new investments in industry or agriculture due to the higher returns in financing short-term foreign trade transactions in Egypt. According to Weinbaum, "A large share of US-supplied low-interest business loans found their way to Egyptian importers, many of whom were unnecessary middlemen, reselling the goods they purchased to the Egyptian government" (1986, 216). The immediate result of the government's interest rate policy was the rapid increase in imports of consumer goods. Between 1973-75, imports increased from 10 per cent of GDP to over 30 percent (Ikram 2006, 21).<sup>142</sup>

Although *infitah* was presented as a clear break from the state-dominated economy, it was little more than a limited measure of trade liberalization together with some incentives for foreign investment capital (Zaki 1999, 82-3). The new law provided generous incentives to foreign investors, such as cheap land allotment in the newly established Free Zones in Port Said and Nasr City, and exemption from a number of regulations on wage and salary payments. However foreign investment remained quite low and concentrated in banks, tourism, and investment companies. From 1974 to 1982, total investment did not exceed LE5 billion (Farah 1994, 150). According to Esfahani, 15 years after the initiation of *infitah*, "the amount of foreign equity actually invested in Egypt stood at about \$0.8 billion in the form of financial capital and just over \$1 billion in the form of fixed capital, which are not particularly large when compared to the stock of DFI (direct foreign investment) in many other developing countries with active foreign investment policies" (1993, 9).

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<sup>142</sup> In 1970-75, and imported cars increased thirty times (El-Ghonemy 2003, 78).

While the Egyptian economy experienced the return of the private sector at a moderate level, the liberalizing measures were far from bringing any significant change in the structure of the economy during the *infitah* years. Most of the private sector investments were in non-productive areas, such as luxury buildings, real estate and the import of luxury goods, and failed to generate employment opportunities (Farah 2009, 40). The public sector kept its dominant position and remained responsible for 70 per cent of investment, 80 per cent of foreign trade, 90 per cent of banking, 95 per cent of insurance and about 65 per cent of value added until 1990. The government still had a near monopoly on infrastructure projects (water, electricity, transport, telephones). The policy of guaranteed employment in the public sector also continued (Harik 1998, 20). Therefore Ayubi analyzed *infitah* as not a process of deregulation but rather a process of re-regulation where the state shifted to a production-oriented and profit seeking role in the economy (1990).

However, *infitah* had an effect in Islamizing economic activities in Egypt. As will be explained in a greater detail in Chapter 4, Sadat presented himself as the “believer president” (*al-raïs al-mumin*) and sought Islamic legitimacy for his economic policies. Sadat also changed the constitution to recognize *the* principles of sharia as the source of Egyptian law, rather than *a* principal source of legislation. In his semi-official press, Sadat publicized his opinions on so-called Islamic economy, suggesting that “Islam respected individual ownership and a person’s endeavor to earn” (Al-Awadi 2004, 37). The MB supported Sadat’s economic opening policies to eradicate the Nasser legacy of the state domination in the economy. Many members of the MB benefited from the financialization of the economy and invested in banking and financial services –one of the first sectors of the economy to exploit the open door policy (Beinin 2004). As Moore argues “after its return to the political scene in the 1970s and acting in accordance

with its bottom up strategy of Islamizing Egypt, the MB tended to become particularly active in the economic field.” Certain members and sympathizers of the MB such as Youssef Nada, Yusuf al-Qaradawi, Abdel Latif Al-Sherif, Abdel Adel Kamal and Abdel Hamid Al-Ghazali took active roles in the founding of Islamic banks and Islamic companies during the *infītah* period. However, as we shall discuss in the next section, when the honeymoon ended between the Sadat regime and Islamic movements, the regime strengthened its grip over Islamic banks and Islamic investment companies and the MB-related people were expelled from these financial institutions (2004, 273).

In the following section, I will analyze the development of the Islamic banks and Islamic investment companies during the process of *infītah* in Egypt. My main aim in this part is to explain the Egyptian state’s attitude toward Islamic activities in the economy during the early period of economic liberalization, and to assess the impact of Islamic banks and Islamic investment companies on the course of Islamic business groups in Egypt.

### ***The Development of Islamic Banking and Islamic Investment Companies in Egypt.***

The earliest attempt to develop Islamic banking in Egypt was initiated by Ahmad al Najjar in the small delta town of Mit Ghamr in 1963.<sup>143</sup> The Mit Ghamr Savings Bank (MGSB) attracted the savings of peasants, artisans and urban workers and offered loans to the same low-income group without interest. Within one year, the MGSB had 17,560 clients with a deposit of 40,944 EP (\$ 12,040). The number of its depositors had increased to 538.3 per cent annually by 1967 (Mohieldin 1997,13-14). Due to the impressive success of the MGSB, the Nasser administration abolished Islamic references in the charter of the MGSB and converted its

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<sup>143</sup> Al Najjar was influenced by the system of local savings banks of West Germany where he was a graduate student. He wanted to bring a similar system to Egypt (Mayer 1985,36).

operations to interest basis by stating that that the MGSB was not in conformity with the secularist character of the Arab Socialist Union and supported Islamic activities in the countryside (Wilson 2003, 141).

The second public Islamic bank, Nasser Social Bank (NSB) was established in 1971, “when President Sadat needed the support of the Islamists in the crackdown on the Nasserites and the purge of the Arab Socialist Union, the only party in the country that Sadat inherited from Nasser” (Henry and Wilson 2004,33). Law 66 of 1971 brought the NSB under the Ministry of Social Affairs. Although NSB had no Islamic charter, its activities were based on interest-free, profit-loss sharing (PLS) contracts and annual collection *zakat* (alms-giving) (Warde 2000). According to Mayer “the transformation of the original rural model of the MGSB into an urban institution was due to the Sadat regime’s concern about the political consequences urban unrest and its hope that the NSB could afford services that would convince the urban poor that had a stake in the continuation of the *infatih*” (1985,45).<sup>144</sup>

On the other hand, Faisal Islamic Bank of Egypt (FIBE) was the first private Islamic bank in Egypt. The FIBE’s charter clearly stated that the Faisal Islamic Bank should operate in accordance with Sharia. Sadat allowed for the establishment of the Faisal Islamic Bank to improve relations with Saudi Arabia as well as to mitigate Islamic opposition following the peace treaty with Israel. The FIBE was established in 1979 by a special statute which gave it many exemptions such as guarantees against nationalization and confiscation of assets; and fifteen years exemption from all taxes.<sup>145</sup>

Fifty-one percent of the Faisal Islamic Bank of Egypt’s capital belonged to Egyptian nationals and 49 per cent by Saudi Arabian and other foreign Muslim shareholders. According to

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<sup>144</sup> Along these lines, since the early 1990s, the NSB worked closely with the Ministries of Social Affairs and Awqaf and the Social Fund for Development to provide fund to the poor (Wilson 2003,143).

<sup>145</sup> 15-year tax exemption was later decreased to two years.

Warde, Prince Mohammed al-Faisal al-Saud attempted to incorporate a broad range of Egyptian political, economic and religious figures to the bank's founders and shareholders, including Prime Minister Abd al-Aziz Hijazi, the most prominent *infitah* businessman, Uthman Ahmad Uthman, as well as an important Islamist figure Tawfiq Mohammed al-Shawi (2000,211). In addition to private investors, the Egyptian Waqf Authority had a ten per cent stake in the bank. Prince Mohammed al-Faisal al-Saud was the biggest shareholder and chairman of the FIB's board of directors. Other directors were Abdel-Maggid, the Egyptian businessman and politician, and Shaikh Bin Laden of Saudi Arabia (Wilson 2003, 146).

On commencement, the FIBE had an authorized capital of \$500 million and the paid-up capital was 70 million by 1991 (Allawabi 2006). Due to the Islamic legitimacy of its operations and high returns on customers' deposits,<sup>146</sup> the FIBE experienced an impressive growth during the initial period. However, as I will explain below, by the second half of the 1980s this favorable atmosphere had changed and the FIBE started to suffer from negative growth rate values. The table above shows the FIBE's growth rates:

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<sup>146</sup> The FIBE's return on customers' deposits reached 25 per cent to 30 per cent of the principle while the conventional banks was only offering a modest return around 7 per cent to 8 per cent .

Year	Amounts (million \$)	Rate of growth
1979	7.20	—
1980	7.60	5.0
1981	32.80	332.0
1982	37.60	15.0
1983	99.70	165.0
1984	126.0	26.0
1985	111.69	-11.0
1986	104.27	-7.0
1987	105.39	1.0
1988	84.27	-20.0
1989	43.78	-48.0
1990	48.67	11.2
1991	50.87	4.5
1992	36.9	-27.5
1993	48.8	32.5
1994	40.26	-17.5
1995	62.04	54.1
1996	58.5	-6.0
1997	54.7	-6.5

**Table 3.2** Current Accounts, FIBE, Source: Annual Reports FIBE, Source: Galloux 2004, 485.

The second private Islamic Bank, the International Islamic Bank for Investment and Development (IBID) had no foreign investors. IBID was established in 1980 with a capital of \$100 million. Abd-al Hamid al Ghazali, an influential member of the MB, was the main founder and a member of the board of directors of the IBID. Said Umara and Khairat al-Shater were the other Brothers who were in the board of directors. Due to financial and management problems in 1985, the IBID was forced to accept the subscription of the four major public banks. These four main Egyptian public banks took 80 per cent of IBID's overall capital in 1989 (Albalawi 2006, 169).

The decrease in Islamic banks' deposits in the late 1980s was due to "fierce competition in terms of using religious legitimacy to attract savers" (Moore 2004, 276). During this period, the Egyptian government allowed the conventional banks to open Islamic branches to attract potential clients of private Islamic banks. It simply aimed to meet an increasing demand for

Islamic banks without losing control over them. For this purpose, *Al-Akbar Al-Yawm*, the government owned newspaper, began to constantly criticize Islamic banks' poor performance and religious hypocrisy. According to Wilson, this inhibited the expansion of the Faisal Islamic Bank in the 1990s (2003, 147).

In 1981, (state-owned) Bank Misr obtained a license from the Central Bank to launch the "al-Hussein Islamic branch." Although a number of conventional Egyptian banks also created Islamic branches of their own, Bank Misr remained the unchallenged leader in the field and it represented a safe alternative for the Islamic banks' clientele especially the event of any liquidation problems. Bank Misr was able to break the monopoly of private Islamic banks when the state strengthened its grip over private Islamic banks and Islamic investment companies in the late 1980s and 1990s.<sup>147</sup> The table below illustrates Islamic deposits in Bank Misr's Islamic branches compared with deposits in FIBE and IBID (million dollars).

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<sup>147</sup> By 2007 they have been more than 70 Islamic branches in Egypt 79.

Year	BM	FIBE	IIBID
1979		23.6	
1980		140.1	
1981	6.8	469.2	7.6
1982	14.3	792.5	72.6
1983	27.5	1216.7	306.4
1984	40.5	1531.1	501.4
1985	75.8	1595.5	504.2
1986	139.9	1489.5	440.7
1987	186.3	1505.5	342.1
1988	290.0	1404.5	281.6
1989	455.0	1353.8	270.4
1990	582.1	1500.3	271.7
1991	824.4	1584.8	277.8
1992	897.7	1486.5	141.9
1993	970.9	1292.6	191.6
1994	1049.1	1339.3	265.8
1995	1243.8	1463.9	354.1
1996	1384.4	1512.0	478.5
1997	1509.4	1495.9	—

**Table 3.3** Islamic deposits in Bank Misr’s Islamic branches compared with deposits in FIBE and IBID, Source: Galloux 2004, 485.

On the other hand the emergence of Islamic investment companies represented the expansion of the informal Islamic financial sector in Egypt. Islamic investment companies came to existence in the years 1985-88 and operated like venture capital firms, “paying depositors on the basis of the profitability of their portfolio, rather than with a fixed rate of interest.” According to Zubaida, they were like deposit-accepting investment banks without any of the controls and regulations (1990, 153). They operated in the black market of foreign exchange by buying foreign exchange from migrant workers and in holding domestic assets accumulated during the windfall (Shafik 1994, 18). Islamic investment companies offered exceptionally high rates of return, ranging from 20-40 percent. However the high rates of returns were paid from new

inflows deposits which made the whole system sort of a pyramid scheme. Al-Rayan and Al-Sherif Companies, the two biggest companies absorbed around half of labour remittances (Wilson 2003).

Islamic investment companies were registered either under the law of private investment and operation of companies of 1974 or remained unregistered. There were 190 registered and 90 non-registered companies by the end of 1986.<sup>148</sup> By the mid-1980s, Islamic investment companies were able receive 30 per cent of the total deposits in the Egyptian banking system, and the 33 largest of them obtained deposits worth \$1.47 billion (Wilson 2003, 148). They mostly invested in currency speculation, gold, real estate and a small number of industrial projects. They also had partnership with other trading companies.

Leftist and Nasserist intellectuals sharply criticized Islamic investment companies because of their unproductive and manipulative activities. As Zubaida notes “all these criticisms were directed towards the designation of the companies as parts of ‘parasitic’ as against ‘productive’ capitalism” (1990, 154). However, companies were keen to promote themselves as important segments of productive investment projects. For example the Al-Rayyan group described itself as “the citadel of industry and the cornerstone of construction in Egypt. The other big investment company called Al-Sharif advertised itself as “the largest Egyptian integrated group working with an open mind, along proper scientific lines” (Ayyubi 1991, 143). Islamic investment companies also adopted a Muslim moral economic discourse in order to appeal to Islamic sentiments. They propagated the use of the concepts of equity, mutual

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<sup>148</sup>The ambiguity of the legal situation of Islamic investment companies created an intense debate in Egyptian public opinion. Some pointed out that as long as the Egyptian legislative and administrative framework is based on the socialist period of the 1960s, the new developments would be uncertain and unregulated. Tariq al-Bishri defended the companies on the basis that, “they represented a development in Egyptian society whose origins could be traced to village and small-town entrepreneurs, who entered into various informal relations of loans, agencies and investments with the local people” (cited in Zubaida 1990,153-155).

obligation and responsibility (Beinin 2004, 14). They declared the returns as shares in profits, not as interest. For many Muslims, higher rates of returns offered by Islamic investment companies represented proof of the economic efficiency of an Islamic financial system (Atia 2008, 86).

The government did not attempt to control the expansion of Islamic investment companies and used them as lubrication for the wheels of trade and dollar inflows during the early period of their establishment (Warde 2000, 81). However following the dramatic fall of oil prices on world market, Islamic investment companies faced serious liquidity problems. As Wilson notes “The high rates of profits paid to Islamic investors were funded from new inflows of deposits, however, not from profitable deployment of capital, and consequently as it is inevitable with such pyramid schemes, a slowdown in flows after the oil price declines of the mid-1980s caused the system to collapse” (2003,148).

A report in *Middle East Money*, a British periodical, created the first panic environment regarding Islamic investment companies in November 1986 when it announced *al-Rayyan*'s major losses in the international market. It was only after this incident that the government enacted the first legislation regarding Islamic companies in June 1986; however, it did not have any significant impact on the operation of big companies. Then, the government enacted a special law of 1988. The new law restructured Islamic investment companies as joint-stock companies and obliged them to maintain excess funds as deposits in Central Bank of Egypt. Zaki Badr, Minister of the Interior, asked the Egyptians to withdraw their money from the investment companies and called some of the company owners “crooks” who were subverting the national economy and financing religious extremists (Ayubi 1991,146).

The opposition groups in the parliament – the Islamic Alliance and the New Wafd Party – strongly opposed the new law. According to Hasan al-Gamal, a MB member in the People's

Assembly, the law was a conspiracy against the Islamic solution and Islamic movement. (Said Aly 1992,54). On the other hand, Ahmad Abu Ismail, from the New Wafd, supported Islamic investment companies on the basis of the necessity of an independent private sector. He wrote as such:

Egypt has not accumulated such large amounts of capital . . . mainly from the people, since the times of Talaat Harb and Ahmad Abboud. This law has restricted these companies and will affect the private sector” (cited in Moore 1990, 253).

*Al Rayyan*, one of the biggest Islamic investment companies expressed its concerns about the new law in a full-page advertisement in *al-Wafd* as follows:

If the object of legislation is to protect investors, then it must be realized that the greatest danger facing them is *riba*, as God has declared war upon all those who deal in it. Even a man fornicating with his mother ... is committing a lesser sin than *riba* (in Zubaida 1990,159).

Despite these vigorous criticisms, the new law became active in 1988. This radical shift in government policy brought about the complete collapse of Islamic investment companies because the majority of Islamic investment companies failed to comply with the new regulation (Mouwad 2009, 79). The impact of the collapse of Islamic investment companies on the Egyptian economy was immense. It is estimated that 15 per cent of Egypt’s GNP had disappeared (Warde 2000, 83). Since Islamic investment companies operated in the private sector, their economic loss also had a negative impact on the pace of economic privatization.

What is quite important is that changing government position on Islamic investment companies in the late 1980s is closely related to the political implications of the growth in the Islamic economic sector in Egypt. Relations between the regime and Islamic investment companies deteriorated especially during the 1987 elections when the MB formed a strong political alliance with the *al-Amal* (Labor Party) and *Hizb al-Ahrar* (Liberal Party). The

government accused Islamic investment companies of giving financial and political support to political Islam. As Warde argues “not only did they have the resources to influence the electoral outcome, but the dynamic they had created and the symbolism they were using were considered dangerous’ (2000,226).

On this point it is important to note that majority of investment companies was not formally part of the Islamic political movement. Although the owners of some companies, like Abd al-Latif al-Sharif, were members of the Muslim Brotherhood and supported independent candidates of the Brotherhood in elections, others did not maintain such connections (Gumuscu 2010, 203-4). For example, Ahmad Tawfik Abd al-Fatah, the manager of Rayyan stated as such:

The business of working with money requires stability, not continuous change or surprises, and certainly not getting into dangerous political games. How could we be supporting independents or parties in the elections, or terrorist operations for that matter, when we are under a microscope? (quoted in Moore 1990, 252).

Regardless of the formal connections between the MB and Islamic investment companies, the MB faced the curtailment of Islamic investment companies as sign of the regime hostility toward Islamic movements (Said Aly 1992, 53-54).

My interviewee, affiliated to the Muslim Brotherhood, who worked al-Hicaz Investment Company<sup>149</sup> in the mid-1980s evaluated the collapse of Islamic investment companies as the regime’s strategy based on mainly economic calculations. According to him:

The regime’s attack on Islamic companies should be analyzed within the context of the preparations for the structural reforms that Mubarak employed in the early 1990s. The benefits of the further economic reforms were reserved for the particular groups who would be allies for the implementation of distorted economic reforms. Obviously, the MB or any other Islamic sections of the Egyptian society did belong to these corrupted groups. Sadat collaborated with the MB to defeat his enemies and inject money in the economy. Then, the same MB’s ventures became monster? Of course no! But they just reserved the cake for themselves....<sup>150</sup>

<sup>149</sup> Ahmad ‘Ubayd, an Ikhwan veteran established the *Al-Hijaz* company.

<sup>150</sup> Dissertation fieldwork interview, in Cairo, in February 14, 2012.

It is my contention that the case of investment companies well proved potential risks available for the business groups who operated outside of the state -business circle in Egypt. Islamic investment companies illustrate one of the early examples of the Egyptian state's manipulative attitude toward Islamic economic activities in which the state did not have exclusive control. I agree with Ayubi's argument that the Islamic banks and companies should be regarded more as part of a powerful parallel economy than as part of the Islamic revival (1991). As a way of restoring the state's control in the economy, the Egyptian government imposed a rigid law on the investment companies. It also attempted to undermine the religious credibility of the Islamic banks. After the collapse of the investment companies, the government forced Al-Azhar issue a *fatwa* stating that the interest paid by conventional banks on deposits should be regarded as profit, rather than usury or *riba*. As Mouwad argues, Al-Azhar's *fatwa* "shows the government's tendencies in shaping public perception in accordance to its line of policy, knowing the deep impact of religion on the people's attitudes" (2009, 80-1).

To conclude this section, it is necessary to evaluate the impact of Islamic banks and Islamic investment companies on the course of Islamic business groups in Egypt. As explained in Chapter 1, in Turkey, Islam was employed with free-market ideology and Islamic banks were an important part in the process of liberalization of finance. As Islamic banks geographically expanded across Turkey, they became critical partners for small and medium-sized Islamic enterprises. On the other hand, contrary to their Turkish counterparts, Islamic banks in Egypt failed to induce capital accumulation for Islamic business groups (mainly small and medium sized enterprises) during the process of *Infitah* and beyond. As the table below demonstrates the share of individual investment as a proportion of total investment made by Islamic banks is less than that made by conventional banks (Moore 1990). Islamic banks mainly engaged in short term

loans for intermediate activities such as trade in foreign currencies and services, not in any long-term contracts in manufacturing or agriculture in Egypt (Kazarian 1993).

Sector	Islamic Banks	Conventional Banks
Agriculture	4.2	3.0
Industry	11.9	32.0
Trade	23.5	21.9
Services	60.4	44.6

**Table 3.4** Share of financing by Islamic and conventional banks in Egypt in 1996 (%), Source: Faisal Islamic Bank and Central Bank of Egypt, Annual Reports, in Moore 1990, 280.

One of my respondents who worked at the Ministry of Industry and Foreign Trade in the 1980s claims that no (symbiotic) relationship between Islamic banks and novice small enterprises emerged during the period of *infitah* across Egypt. He continued as such:

Islamic banks concentrated only in the big cities in Egypt and financed the already well-established businesses as the conventional banks did. Let me tell you the reason of this attitude: Financing small businesses is always risky. So Islamic banks put a minimum deposit requirements to avoid such risks.

When I asked how *infitah* had an effect in economic activities of the MB, he answered:

It is true that some people from the MB took advantage of Sadat's economic liberalization policies. But these people belonged to the landed elite of the old times. They did not start anything from scratch.<sup>151</sup>

It is my main conclusion that the short-lived coalition between the state and Islamic (financial) groups during the early process of the economic liberalization in Egypt was not conducive in strengthening Islamic small and medium sized enterprises across the country. The benefits of Sadat's economic opening were limited to particular people within Islamic groups and did not reach to the peripheral Islamic businesses (SMEs) whose conditions deteriorated further under the structural adjustment program.

<sup>151</sup>Dissertation fieldwork interview, in Cairo, in March 2, 2012.

In the following section I will analyze Husnu Mubarak's structural adjustment reforms in the creation of the market of coalition of big business and state bureaucracy. I will assess the impact on the crisis of the Egyptian economy and the subsequent privatization on Islamic business groups.

***The Implementation of the Structural Adjustment Program (SAP): Rapid Transition to a Market Economy, 1991-2001***

Following the 1981 assassination of Anwar Sadat, the former air force officer Husni Mubarak, gained political power in Egypt. The Mubarak years gave rise to the private sector's growth, which was faster than the public sector. By 1985 the private sector had begun to contribute about 40 per cent of industrial production. In contrast with this the public sector faced grave problems such as liquidity, debt and low productivity (Harik 1998, 21). In May 1987, the government adopted a partial stabilization package with the IMF. As Zaki argues, the state's agreement with the IMF became a critical juncture for the economic orientation of the regime (1998, 100). However this package lapsed because of Egypt's failure to meet its target for reducing the fiscal deficit and unifying its exchange rates (Weiss and Wurzel 1998, 31). Budget and current account deficits and foreign debt made comprehensive economic reforms necessary in Egypt (El-Ghonemy 2003,219).

After the failure of the piecemeal and partial *infitah* attempts, the Egyptian government was forced to undertake a comprehensive adjustment program by the international institutions led by the IMF and the World Bank (WB). In 1991 Egypt signed the Economic Reform and Structural Adjustment Program (ERSAP) to reduce the budget deficit, liberalize foreign exchange, and reduce tariffs and subsidies. As Yildirim notes, the timing of the ERSAP was perfect to minimize the negative effects of the ERSAP on the masses (2010, 85-6). As a result of

Mubarak's support for the Coalition Forces when Kuwait invaded Iraq in 1991, the United States and the Gulf Arab States wrote off almost \$13 billion of Egypt's debt (Rivlin 2001, 110).

The Egyptian government and the World Bank signed a Letter of Intent which released the second tranche of \$150 million in 1993. The Letter of Intent of 1993 provided a timeline for the privatization of 314 public sector companies in three stages. The government's commitment to privatization, however, was far from being satisfactory until 1996. From 1991 to 1996, only 42 out of 314 companies were privatized. This number reached 189 companies, representing 60 percent of the total number of SOEs in 2002 (Adly 2009, 19).

Crucial to this argument is that the process of economic reforms since the 1990s created opportunities for only particular actors in Egypt. The main beneficiaries of the reforms can be categorized into four groups: 1) State officials who were in charge of the implementation of reform policies; 2) Former bureaucrats who newly entered into the private sector; 3) the established business elite; and 4) the military (Sfakianakis 2004,78; Abul-Magd 2012).<sup>152</sup>

Unlike Turkey, the economic reform process did not create a favorable environment for the emergence of 'new' or "independent" business groups in Egypt. Instead it established business groups which increased their powers in coalition with the Egyptian state during the course of market reforms due to rent seeking activities.<sup>153</sup> Particular actors utilized the process of privatization "to sustain, if not enlarge, their business interests against those of exporters who were unable to organize effective and powerful networks to support their cause" (Sfakianis 2004, 79).

The creation of private monopolies was a direct result of the distorted Egyptian privatization program. Businessmen such as Osman Ahmed Osman, Ahmad Ezz in the steel

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<sup>152</sup> This group of bureaucrats and businessmen was termed as the 'whales' or *hitan* of the country in the 1990s.

<sup>153</sup> It was estimated that only 32 businessmen constituted the established businessmen group in Egypt. The Osman family and the Sawiris family were among the most notorious ones.

industry, Mohammed Nousseir in telecommunication and beverage industry and the Sawiras family in multi-media sector enjoyed their monopolistic power in market due to their political connections (Yildirim 2010,92). Big businessmen who were close to the regime benefited from high entry and exit barriers especially in multi-media, iron and steel, alcoholic beverages and cement sectors. As Beinin notes, rather than seeking any independent political or social power, these businessmen attached to the ruling NDP (2009, 31). For example, Ahmad Ezz became the NDP's secretary for organizational affairs and headed the Parliamentary Committee for Budgetary Affairs. During this process, Ezz withdrew sizeable lump sum loans from Egyptian banks (a total sum of 447 million pounds over the year 2004).<sup>154</sup>

Businessmen became financially stronger by the mid-1990s, increasing their autonomy vis-à-vis the state and entrenched their interests within this structure. Therefore it is important to see the belatedness of economic reform and liberalization in Egypt since the 1990s as not only the failure of the autonomous state, “but also the work of business networks that were able to prevent change and limit competition by exogenous business elite interests that could encroach on their business empires” (Sfakianakis 2004, 82). Wulzer uses the delay of the ratification of the new Egyptian customs tariff in 1994 to prove this point. According to him, Egyptian businessmen who feared international competition made such delays possible (2004, 108). However as Adly reminds, the autonomy of the businessmen on the lawmaking process was not absolute due to the high concentration of power in the hands of the presidential office. He argues “Businessmen have been incorporated individually into the ruling party and lack organizational cohesion to hijack the process from the executive” (2010, 18).

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<sup>154</sup> After the January 25<sup>th</sup> Revolution, Ahmad Ezz was convicted of money laundering and fined nearly 20 bn Egyptian pounds. “Egyptian steel magnate Ahmed Ezz convicted,” <http://www.bbc.co.uk/news/world-middle-east-19830922>, October 4,2012.

Egyptian business elite held important positions as cabinet members in the first and the second Nazif cabinet. When Dr. Ahmed Nazif formed a new cabinet in July 2004, a business tycoon named Rashid Mohammed Rashid served as the minister for foreign trade and industry in this cabinet. This appointment of a businessman to the position of minister for foreign trade and industry broke a nearly fifty year long pattern. Previously the position of minister of foreign trade and industry was given to technocrats drawn mainly from the academia sphere. The second Nazif cabinet was also comprised of six businessmen close to Gamal Mubarak. They served as the ministers of trade and industry, housing, transportation, health, agriculture and social welfare. The overall effect of the Nazif cabinet was the subsidization of the business elite and the impoverishment of the majority of the population (Farah 2009, 49-52).<sup>155</sup>

Assets were mostly transferred to preferred (non-Islamic) businessmen through the clientelistic nature of credit provision. Due to the absence of developed financial markets, businessmen remained dependent on public banks' loans, however only a limited number of businessmen had access to public bank credit. As Adly demonstrates, 343 clients received 42 per cent of total credit and 28 of which (8 per cent of the 343) obtained 13 per cent of total credit by March 2000. Four publicly-owned banks held about 70 per cent of deposits and 50 per cent of loans by the end of 2000. (2010,11).<sup>156</sup>

One of my respondents, a businessman in electromechanical industry, with ties to the MB, evaluated state-business relations during this period as such:

If you didn't belong to Mubarak's businessmen's clique and at the same if you had a beard, things were not easy for you in business life. We (the SMEs) all faced unfavorable credit conditions, for example. I was lucky and I was relied on my own internal sources

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<sup>155</sup> The Nazif government witnessed the highest number of labor protests. According to Beinun, from 1998 to 2003, the annual average for collection actions was 118 but this number rose to 265 in 2004 in which over 70 per cent occurred after the Nazif government came to power in July (2012, 5).

<sup>156</sup> In some cases they received these loans just upon phone calls. See the case of Hossam Abul-Fotouh, a business tycoon who received public banks' loans (more than L.E 1.4 billion) without sufficient collateral (Adly 2009,11).

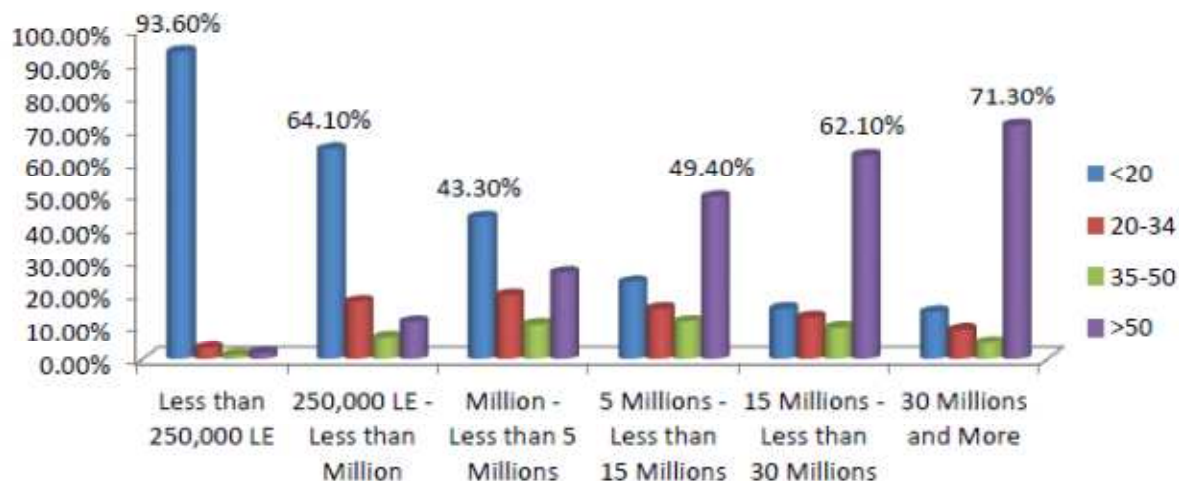
to finance start-up and operations. If I wouldn't have had money, how could I have survived? The marriage between power and money under the Mubarak regime inhibited the emergence of "independent" business groups in Egypt. It has been the biggest problem in the economy.

As explained previously economic liberalization policies have been geared to accommodating medium-sized businesses (which have been dominated by Islamic businessmen) in Turkey. However small and medium- sized enterprises were badly affected by the distorted nature of the economic liberalization program in Egypt. According to Central Agency for Public Mobilization and Statistic census of 1996, there were 1, 641,491 SMEs in trade, manufacturing, and construction sectors, generating jobs for 3.48 million workers, which contributes 75 per cent of private sector non-agricultural employment By 2006, the number of the SMEs increased to 2.4 million, and total employment in SMEs climbed from 3.48 million to 6.43 million in 2006 (El Kabbani and Kalhoefer 2011, 1-2). Economic activities of the Egyptian SMEs have been mainly concentrated in two sectors –manufacturing sector and the whole sale trade. This was due to the low entry barriers in terms of capital, skill and technology characteristics. The table below illustrates the distribution of SMEs by economic activities.

	1998	2008
<b>Trade</b>	55	35
<b>Manufacturing</b>	19	20.3
<b>Constructing and Building</b>	4	10
<b>Services (Hotels, real estate, health, Education etc)</b>	27	18

**Table 3.5** Distribution of SMEs by economic activities (%), Source: Mahdi and Rashed 2007,10

SMEs are dominated by the micro enterprises in the Egyptian context. The figure below shows the distribution of SMEs according to the number of employees and the capital:



**Figure 3.1** Distribution of SMEs according to the number of employees and the capital, Source: El-Said, El-Said and Zaki 2012,10.

Although the SMEs constituted the main component of private sector employment, the share of manufacturing SMEs in net private sector value added was only 7.5 per cent in 2001 (Central Agency for Public Mobilization and Statistics 2001). The reasons of this disproportionality are explained through the obstacles that the SMEs faced such as taxes, the limited access of external funding and dispute settlement (Fawzy 1998, 2002).

External funding was made available for the SMEs through the Social Fund for Development's Small Enterprise Development Organization (SEDO) and the National Bank of Egypt. SEDO, the biggest branch of the Social Fund of Development, was established in 1991 with the purpose of lightening the negative effects of economic restructuring program on the lower and middle classes. Law 14/2004 mandated the Social Fund of Development to develop SMEs by supporting them in access to finance, establishment and licensing. 62 per cent of its

budget was devoted to loans and technical support, 28 per cent to financing community infrastructure, and 9 per cent to microcredit (OECD report). Thus, As Elmahdi correctly asserts:

Economically, the Social Fund of Development provided enough flexibility to absorb the outcomes of contradictory economic policies by using rents money to buy off potential dissent while, simultaneously avoiding any accountability to the communities it purported to serve. On the contrary, in many cases, the Social Fund of Development further consolidated the patron-client relationship between the state and its citizens by disbursing projects in discretionary ways and failing to enforce any means of participation and accountability (2005,126).

One of my interviewees from the Muslim Brotherhood whose company has been exporting plastic pipes since the mid-1990s stated that he was rejected by the Social Development Fund on the basis of his Islamic affiliations (he said because of his beard). He continued as follows:

The Mubarak regime nourished all the whales in business life. They only sought for personal profit and power; no one cared about national development. Mubarak cut the financial channels for the businessmen who were committed to Islam by manipulating the state institutions at all level. Because Islam was his enemy and he had no tolerance to Islam in political or economic life.<sup>157</sup>

In terms of access to external funding, all my interviewees who have their own SMEs in various sectors (either Islamic group affiliated or not) agreed that there was a strong bias against them during the Mubarak era when all the exemptions and incentives were made available for the big enterprises. Another interviewee, who had no affiliation with any Islamic groups, was an owner of the textile factory in Al-Mahalla Al-Kubra. Even he evaluated the Egyptian credit market for the SMEs as quite immature. According to him the Egyptian state never developed a comprehensive strategy towards the SMEs. Although some small steps had been taken to increase the export capacities of the Egyptian SMEs, he believes that those steps remained

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<sup>157</sup> Fieldwork interview, in Cairo, in February 12, 2012.

unprofessional. He shared one his experiences with Ready Made Garments Export Council (RMGEC) in the following:<sup>158</sup>

Four years ago, I received a letter from RMGEC regarding the special incentives for exporting to Sudan. This letter made me quite excited about the textile market in Sudan. Therefore I immediately applied for it and my file was approved. Then, I shipped my goods over there. A month later I received another letter which informed me that my firm was not suitable to benefit from the incentives. If you want to understand why the SMEs did not develop in Egypt, I think this story explains a lot...<sup>159</sup>

A number of ministries, namely the Ministry of Trade and Industry, the Ministry of Investment, the Ministry of Finance and the Ministry of Higher Education and Research and specialized agencies like the Social Fund for Development were in charge of implementing SME policy in Egypt. Each body produced its own strategy documents regarding SMEs, however “these documents have not been harmonized or streamlined into one coherent policy document reflecting coordinated government approach” (OECD report). Therefore as one businessman defined it, the whole process was “a system of trial and error.” A businessman made the following statement to explain the immature nature of the economic liberalization progress in 2008:

You can even hear today our minister of investment coming out and saying ‘we made mistakes last May when we cancelled some of the tax benefits of free zone operations (cited in Yildirim 2010, 262).

My interviews revealed the fact that Islamic businesses were specifically targeted by the government (regardless their sizes and industries), but at the same time they also suffered by the policies protecting big businesses over SMEs. According to a survey conducted by NILEX (the

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<sup>158</sup> RMGEC is a Public Private Partnership between the Ministry of Trade and Industry and an assembly of ready-made garments exporters. It was established by the Ministerial Decree No.207 in 2005 “in order to position Egypt as an international hub for ready-made garments in terms of design, quality, cost-effectiveness and warehousing, vertical manufacturing, resources, cheap costs, geographical location and trade agreements.”

<http://rmg.xposeegypt.net/aboutus.aspx>

<sup>159</sup> Fieldwork interview, in Cairo, in March 2, 2012.

Egyptian stock exchange for growing medium and small companies), SMEs accounted for only 10 per cent of total capital accumulation in Egypt. 75 per cent of SMEs applied for banking loans, 92 per cent of applications were rejected. Therefore loans to SMEs were only 6 per cent of the total loan portfolio of Egyptian banks (MENA-OECD, 2010).

Unlike Turkey, there was no strong business association (either Islamic or not) which organized and protected the interests of the SMEs in Egypt. The 'SMEs often faced "arbitrary and frequently destructive interventions of the bureaucracy" (Springborg 1989). One of my respondents from the Egyptian Junior Businessman Association (EJB) claimed that collective representation of the SMEs is almost impossible to achieve when the number of SMEs that operate informally was high.<sup>160</sup> According to him, structural problems in the economy were the main obstacle against the existence of strong business associations that would capture the interests of the SMEs. He continued as such:

The economic liberalization process did not create any structural change that can combat the high level of informality in the SME sector in Egypt. Informality impeded the development of SME business associations which would act as strong economic units vis-a- vis the government and big businesses. The SMEs needed to compete with their informal counterparts at first.

Islamic SMEs additionally suffered from the regime's repression. One of my interviewees from the recently launched MB's businessmen association after Mubarak's ouster, the Egyptian Business Development Association – EBDA said that the MB businessmen did not want to become a target in the economy by organizing themselves into a business association during the Mubarak times. According to him, such a move would have caused more state repression. Therefore they preferred to operate underground.<sup>161</sup>

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<sup>160</sup> The informal economy is estimated to account for 82 per cent of business units in Egypt.. Informal SMEs are often sub-contractors competing with formal businesses (MENA-OECD 2010).

<sup>161</sup> Dissertation fieldwork interview, in Cairo, in June 2, 2012.

One of my other interviewees, a businessman from the same association stated that Mubarak used business associations in a divide and conquer tactic. He split the community and then offered most of the benefits to the biggest ones. According to him, business groups in Egypt had never been autonomous to act as influential pressure groups during the time of Mubarak therefore launching a MB businessmen association would have been meaningless back then.<sup>162</sup>

Egypt's business associations and chambers of commerce did not have any room for formulating and pursuing collective interests for the SMEs either. Therefore the interest of the majority of SMEs remained underrepresented during the process of economic liberalization in Egypt. Private business associations, such as the Egyptian Businessmen Association and the American Chamber of Commerce were composed of a small number of multi sectorial big businessmen, "which undermined their capacity to be an encompassing economy – or even sector- wide associations." These organizations kept their elitist nature with a limited number of memberships (Adly 2010, 21).

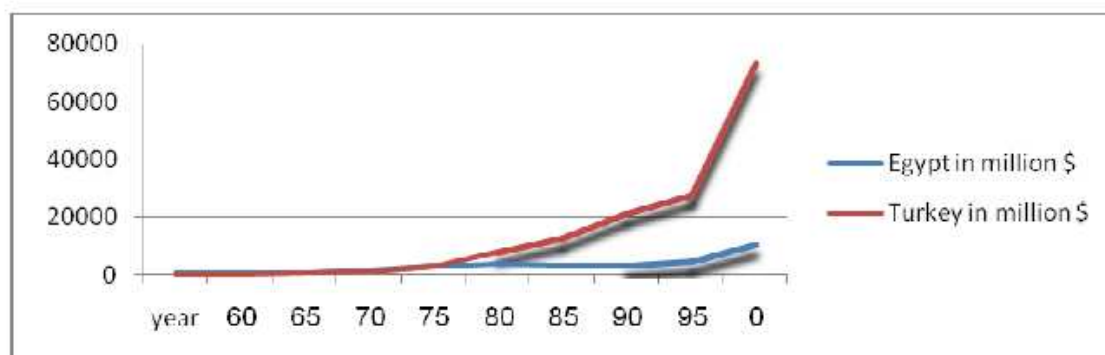
As I explained previously, export-oriented SMEs successfully utilized export subsidies, tax breaks, and devaluation of the currency and became the main beneficiaries of the liberalization period in Turkey. However due to the implementation of economic liberalization in Egypt, the SMEs were not able to increase their export capacities as they did in Turkey (World Bank 1994; Fawzy 1998, 2002; Yildirim 2010; Gumuscu 2010). The higher custom tariffs on final products, the over-valued exchange rate of the Egyptian pound against the dollar, and the complex customs procedures made export very costly for the exporters, and also decreased the Egyptian companies' international competitiveness. No direct export-support scheme was available until 2002 –12 years after the adoption of SAP (Adly 2010). Therefore investments increased in favor of the domestic market where the protection was high and the risks were

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<sup>162</sup> Fieldwork interview, in Cairo, in February 12, 2012.

lower, such as in furniture and real estate sectors. Complicated export procedures, and the absence of export credits and insurance services contributed to this trend (Yildirim 2010, 95; Fawzy 2002,19).

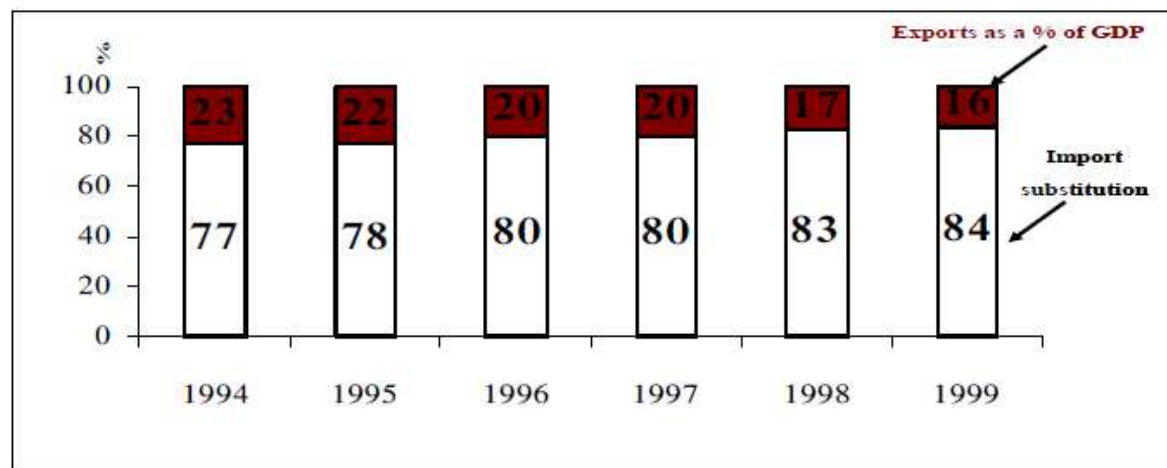
Unlike the Turkish case, the economic liberalization program in Egypt did not accelerate productive and labor-intensive sectors. The unprotected nature and higher input prices in various sectors greatly affected the Egyptian export economy. There was a growing tendency to use capital intensive production techniques because of the low customs tariffs on imported capital goods during the 1990s (Fawzy 2002). According to Adly, during periods of economic reforms, inwardly-oriented industrialization was oddly coupled with gradual trade liberalization resulting in industrial expansion unparalleled by manufactured export increase (2010). Unlike Turkey, the share in manufacturing in exports increased slightly in Egypt. The table below illustrates the export performance of Turkey and Egypt between 1960-2000.



**Figure 3.2** Export performance of Turkey and Egypt between 1960-2000, Source: Adly 2008, in Gumuscu 2010, 52

As it is frequently argued, the manufacturing sector is crucial for emerging countries in integrating to the global economy. According to Economic Research Forum, “manufacturing sector needs to be outward-oriented, make full use of investment in human resources, and of the

complementary development of local technological capacity “(Economic Research Forum 1999). However, export-oriented production in Egypt did not exceed 20 per cent of GDP in the 1990s (Fawzy 1998).



**Figure 3.3** Investment Distribution Pattern Between Exports and Production for the Domestic Market in Egypt, Source: World Bank, 2001 in Fawzy 2002, 14.

The Egyptian export economy was not diversified either. As the table below indicates textiles and chemicals constituted more than half of manufactured exports (Rivlin 2001, 112).

	1990	1996	1999	2002
<b>Agriculture</b>	16.3	8.8	10.9	10.1
<b>Mining and quarrying</b>	19.3	25.1	10.2	10.0
<b>Manufacturing</b>	64.4	66.1	78.9	79.9
<b>Textiles</b>	28.1	19.5	18.5	8.9
<b>Chemicals</b>	15.3	25.1	37.5	43.6

<b>Food, beverages, and tobacco</b>	2.9	6.0	5.9	5.4
<b>Other</b>	0.0	0.0	0.0	6.5
<b>Total exports (\$m)</b>	2,582	3,535	3,501	6,160.7

**Table 3.6** The structure of merchandise exports, 1990–2002 (%), Source UN International Trade Statistics Yearbook, 1999, Vol1, New York: UN, 2000; Yearbook 2002, Vol.1, New York: UN, 2004

Unlike Turkey's market reforms, the Egyptian economic liberalization program had a limited impact in the periphery where Islamic sentiments were strong. The geographical distribution of SMEs has continued to remain quite uneven in Egypt.<sup>163</sup> According Said, Said and Zaki, higher externalities coming from other firms which are located in large governorates, and easy access to road to transportation of goods are crucial factors to explain the geographical dispersion of the SMEs in Egypt (2012,8). Unlike Turkey, provincial SMEs did not find any opportunities for benefiting from economic liberalization policies in Egypt. The table above indicates distribution of SMEs in manufacturing sector by governorate.

<b>Governorate</b>	<b>Manufacturing Sector</b>
Cairo	20,58
Al Garbiya	6,09
Alexandria	6,98
Asyut	2,15
Aswan	0,81
Bahayrah	4,56
Bani Suif	1,81
Damiatta	10,31
Daqahliya	8,27
Fayum	2,16
Giza	7,51
Ismaliya	0,92
Kafr al Shayk	2,98
Matruh	0,18

<sup>163</sup> Egypt is divided into twenty-six governorates (*Muhâfazât*), and four of them are urban's governorates: Cairo, Alexandria, Port Said and Suez.

Minya	3,26
Minufiya	3,52
Nord Sinai	0,19
Port Said	0,54
Qualbiya	5,74
Qina	1,89
Red Sea	0,16
Sharqiya	6,25
Suhaf	2,29
Sud Sinai	0,04
Suz	0,67
Wadi al Gidid	0,14

**Table 3.7** Distribution of SMEs in manufacturing sector by governorate, Source: Establishment Census, Djoufelkit-Cottenet,1996,9

Large portions of SMEs clustered in the governorate of Cairo, followed by Damietta, Daqahliya, and Giza. Nine governorates – Aswan, Ismailiya, Matruh, North and Sud Sinai, Port Said, Red Sea, Suez and Wadi al-Gidid accounted for less than one per cent of the total SMEs (Djoufelkit-Cottenet 1999, 5). These governorates witnessed the rise of Islamic activism in the 1990s. Islamist groups such as the *Jihad* and *al-Jama'a al-Islamiya* were active in Upper Egypt. Economic reforms deepened poverty in the Upper Egypt severely where the upper poverty line reached 91 per cent in the urban areas of the governorate of Asyut (Farah 2009, 48; Ikram 2006, 255). Among other reasons, the socioeconomic structure created by economic liberalization also contributed to the rigid division between the secular center and the Islamic periphery in Egypt.

As a result of economic liberalization reforms, the budget deficit was reduced from 20 per cent of GDP in 1991 to 1.6 percent in 1995 in Egypt. Inflation was also controlled: From 1990 to 1993 it averaged 16.7 per cent a year; from 1997 to 2000 it averaged 5.4 per cent (Rivlin 2001, 111). The share of the private sector increased from 8 per cent in the 1980s to 67 per cent of total investment by early 2001. Despite the success of Egypt's economic stabilization program in terms of monetary and financial stability, the reforms did not bring the overall promised

benefits to the Egyptian economy. As Fawzy notes the increase of private investment did not have an impact on creating new employment opportunities or compensating for the decrease in public investment (2002, 15).

The state's retreat as the main provider of welfare services was not filled by the nascent private sector. The social contract created between Nasser and the middle classes officially ended with "the shifting of public service expenses to the private sector under ERSAP's privatization program." The state cut spending on health and education. For example, the health care expenditures as a share of GDP fell from 1.9 per cent in 1981 to 0.6 per cent in 1995. According to Adly, government expenditure as a percentage of GDP declined constantly from an average of 36.8 per cent in the period 1990-95 to 26.6 per cent in 1995-2004 (2011,301). The overall result of this was a decrease in wages and an increase in unemployment for the middle and lower classes (Clark 2003, 47-48). Educated unemployment remained an especially challenging problem in Egypt. A 1991 estimate states that 78 per cent of unemployed Egyptians held at least an intermediate educational degree (Wickham 2002, 43).

It was in this troublesome political and socio-economic context that state-Islam relations took another turn in Egypt. The Muslim Brotherhood (MB), the most Islamic group in Egypt, became the main critic of the regime's economic liberalization policies and constituted itself as the main opposition group in the country. The MB, by focusing on building institutions and social networks within the *Gami'ia Sharia Sunna Mohemedia*, offered a strong alternative as provider of social services for ordinary people in the absence of the Egyptian state during the time of economic liberalization.<sup>164</sup> The MB continued to utilize the *Gami'ia Sharia* as the main instrument for islamization of society from the bottom up. Islamic social organization

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<sup>164</sup> The *Gami'ia Sharia*, the biggest Egyptian philanthropic society, was founded in 1913. It is estimated that *Gami'ia Sharia* possesses 450 branches in twenty-six governorates and has two million members (Antar 2006, 16; Wickham 2002,100).

proliferated in the form of medical clinics, educational institutions, day care centers, orphanages, secondhand clothing shops etc. These social organizations were registered with the Ministry of Social Affairs under the category of Private Voluntary Organizations (PVOs). It is estimated that the percentage of Islamic PVOs at 43 per cent in 1991 and the majority of them (56.8 per cent) were located in the cities of Upper Egypt (cited in Clark 2004, 50).<sup>165</sup> One of my interviewees from the MB claimed that the MB utilized membership fees and donations from businesses and charitable organizations to afford these organizations.<sup>166</sup>

Private Voluntary Organizations helped to alleviate the devastating effects of economic liberalization for the masses. As Halabi puts it “change in the political and economic order can be promoted and also impeded by civil society whose institutions help social groups to organize collective actions against the existing order, but these institutions can also absorb shocks originated in the economic realm and mitigate their impact on the existing political order” (2001,217).

In Egypt, Islamists competed with the regime over those arms of the state that delivered services, education and local government (Wickham 2002, 111). When Muslim social organizations began providing a strong alternative to the incumbent regime, the MB strengthened its oppositional power in the country and chose to downgrade business interests in its opposition strategy. This contributed to the strengthening of the ideological dispositions within the Egyptian Islam. Unlike their Turkish counterparts, the main Egyptian Islamic movement constituted its legitimacy by isolating itself from and competing with the state during the process of economic liberalization. The MB’s political and economic responses to the economic liberalization policies

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<sup>165</sup> The number of religious organizations was 16,829 in 2010, compared to 12,832 in 1991 (Shehata 2012,8)

<sup>166</sup> According to Antar, each registered member pays 23 Egyptian Pounds per month, and the MB has an average monthly income of 11 million Egyptian from membership fees (2006,15).

led to the emergence of the parallel Islamic sector and prevented interaction between Islam and market policies further. The economic activities of the MB, which were focused in areas where the state failed to invest during the market transformation, contributed to the duality between Islam and market policies in Egypt.

### *Conclusion*

In this chapter I analyzed the extent to which non-Islamic market coalition hindered the emergence of strong provincial Islamic business groups in Egypt. Due to the implementation of economic liberalization policies which was based on a market of coalition of big business and state bureaucracy and exclusion of the small and medium sized enterprises in the peripheral quarters, these Islamic business groups did not find ways to attach to market forces in Egypt. As a result, provincial Islamic businesses were left with a lack of economic and political resources to affect the course of Islamic politics in Egypt. More importantly, they had no incentives with which to reconsider their relations with the state for pragmatic reasons which business interests required.

In the absence of the integration between Islam and the market reforms, economic liberalization policies sharpened class struggles which had empowered ideological rigidity within political Islam in Egypt. Unlike the case of the Turkish AKP, a market-orientated direction in the Egyptian political Islam failed to reinforce strong moderate tendencies within Islamic political groups.

In the next chapter I will explore how the Muslim Brotherhood constituted its central position within the course of Islamic politics through a critical discourse against the regime's economic liberalization policies in Egypt. My main aim in the next chapter is to analyze how

business interests were intentionally kept at a low profile within the MB as a result of MB's strategy of unequivocal criticism of the market policies as a convenient way of opposing the regime and satisfying its support base during Mubarak's rule in Egypt.

## CHAPTER 4

### THE SOCIAL COMPONENTS OF POLITICAL ISLAMIC CONSTITUENCIES AND THE INVISIBILITY OF ISLAMIC BUSINESS GROUPS DURING THE MARKET TRANSFORMATION IN EGYPT

*The Brotherhood is the people. We are struggling. We help the poor. We help the jobless. Where do we get our money? Out of our own pockets. We reach in our pockets to help one another.*

Essam El Eryan, Deputy Vice President of  
the Muslim Brotherhood's Freedom and Justice Party<sup>167</sup>

As explained in the introduction, my second hypothesis is built on the extent to which localized versions of Islam in Turkey and Egypt had effect to shaped the particular model of capitalism and state-economy relations that were adopted. I explore the extent to which the existence of strong religious community structures can be important factors in explaining the organizational skills and outstanding performance of Islamic business groups. I hypothesize that engagement between the state and Islamic business is more likely in cases where religious community structures are robust during the process of market transformation. The more an Islamic movement benefits from wealth accumulation by using religious community structures, the more it finds innovative ways of incorporating itself into politics. As Eickelman and Salvatore argue “due to their informal organizational character, Sufi orders, or religious brotherhoods offer an excellent locus for understanding historical shifts in the public sphere in Muslim majority societies” (2004,10). My dissertation research in various cities in Anatolia revealed the fact that Islamic business groups have utilized religious community structures to

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<sup>167</sup> in Davis and Robinson 2012,32

accumulate wealth and eventually to challenge the power dynamics first within an Islamic constituency, and then in the relationship between the state and Islam in Turkey.

This is contrasted with my case study on Egypt where religious community structures did not have any significant roles in wealth accumulation for Islamic business groups in Egypt during the process of market transformation due to their political and economic weaknesses.<sup>168</sup> Instead, the Muslim Brotherhood strengthened its central position within the course of Islamic politics and remained the main opposition force in the country. The MB greatly benefited from a profound stalemate in the political landscape between the MB and the regime at the price of being a regime-loyal opposition force. It can be argued that the MB's ambiguous relations with the *Kefaya* movement in 2005 and its late appearance in the popular uprisings of January-February 2011 demonstrate its regime-loyal opposition character.<sup>169</sup>

As Pioppi argues “the authoritarian environment has thus had the paradoxical effect of preserving both the ruling National Democratic Party (NDP) and the main opposition representative, the MB, as the organizations united by their lack of serious alternative venues and external competitors in their respective spheres” (2011). According to Brown, brotherhood-type movements are ideally suited to take advantage of opportunities presented by semiauthoritarian

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<sup>168</sup> Today seventy-three orders are officially recognized in Egypt. The most popular ones are Rifai, Burhami, Qadiri, Ahmadi, Shadhili and Khalwati. Masatoshi's research on the Burhami order shows that the Egyptian Sufi orders have a strong support base in the rural region and are mainly supported by the lower classes, namely farmers, factory workers, artisans, guardsmen and drivers in Egypt (2007, 73).

<sup>169</sup> *Kefaya* which started as a non-partisan movement was “a rupture in the epistemology of political opposition in Egypt. It set a precedent for crossing the red lines and long-sanctified political taboos” (El Sherif 2011, 230). The MB's reaction to the *Kefaya* movement was quite ambivalent. MB did not seek to directly threaten the regime in order not to endanger the network of social services and other institutions which form the social base of their political power (Beinin 2009, 23). Along the same lines, the MB waited three days before joining the January 25 protests with caution. As an analyst argues, the Brothers became “accidental revolutionaries” (Pioppi 2011, 54).

politics. He argues “the political process can continue as a cat-and-mouse game as long as the cat allows the mouse to live and the mouse remains a mouse” (2012, 240).

In this chapter I argue that not only state repression, but also the MB’s (tactical) reticence in clarifying its economic agenda had the effect of undermining its capacity to produce an interpretation of Islam which could be compatible with the entrepreneurial spirit and market forces during the Mubarak era. It is undeniable that the MB and its businessmen suffered from cyclical state repression, and the authoritarian environment severely limited the MB’s freedom of action. However the exclusive focus on state policies as an independent variable to explain the MB’s ideological stagnation ignores the complex nature of the relationship between the MB and state during the Mubarak era. As El Sherif argues “political repression might have contributed to ideological stagnation within the MB in the 1950s and 1960s when they were forced out of political existence by President’s Nasser eradicationist policies. This was not the case in the later period. Blaming repression for MB’s stagnation is a fallacious causality exposed by the MB’s own record following its political renaissance in the early 1970s” (2011, 218). It is worth acknowledging that the MB substantially revised its official position on many areas, including political participation, party politics and electoral democracy over the last two decades.

Motivated primarily by the sheer instinct of keeping its hegemonic role as opposition, the MB adopted a severely critical discourse against the regime’s structural adjustment policies and seemed to offer a programmatic alternative to the incumbent regime in its social programs and activities. The MB’s tactical strategy of speaking on behalf of the masses who were losing ground during the process of market transformation contributed to the duality between Islam and market policies in Egypt. The MB’s ideological incongruities, which called for a strong state

intervention in the economy that would reduce the negative impact of the market transformation for the MB's constituent, and a limited state power in politics, diminished its ability to formulate a clear socio-economic project regarding Islamic business interests in Egypt. It is my contention that the MB's sudden embrace of market principles and of an interpretation of Islam, which is entrepreneurial and compatible with the neo-liberal economy, in the post-revolutionary Egypt well proves the tactical nature of the MB's economic agenda during the Mubarak regime.

This chapter is divided into four parts: In the first section I briefly analyze the reasons for the political and economic weaknesses of Sufi religious orders and the strengthening of the MB's position in the course of the Egyptian political Islam. In the second section, I examine the Muslim Brotherhood's political and economic responses to the economic liberalization policies in order to understand the social components of political Islamic constituencies and the marginalization of business interests in the MB's public agenda. In this part I demonstrate how the MB's main political strategy, which was based on keeping its secure place in the bipolar political system through winning support of the losers of market transformation, became a freezing factor in the Egyptian Islamic politics during the Mubarak rule. In the third part, I analyze the moderate and more market-oriented Wasat Party as an internal challenge to the configuration of power between the regime and the MB in favor of business interests. My main argument is that unlike the case of the Turkish AKP, the Wasat Party failed to create a symbiotic relationship between the Islamic bourgeoisie and the grassroots organization in Egypt. Ultimately, the Wasat Party did not have a significant effect on the course of Islamic politics in Egypt. In the fourth part, I analyze the post-revolutionary MB's economic program to demonstrate the sudden deviations in the MB's socio-economic vision after the 25<sup>th</sup> revolution in Egypt.

*The Curtailment of the Power of Sufi Religious Orders and the Strengthening of the Muslim Brotherhood in Egypt*

According to Hamzeh and Dekmejian, the rivalry and controversies between Sufism and its legalist and conservative detractors go back to the early epochs of Muslim history.<sup>170</sup> Inspired by the legalist tradition of Ibn Taymiyya (the 13<sup>th</sup> century Islamic scholar), many Islamists such as Abu al-A'la Mawdudui and Sayyid Qutb opposed Sufi orders on the basis of their esoteric beliefs and ceremonial practices which were deemed as heretical innovations and superstitions. In the case of Egypt, that rivalry became prominent with the rise of religious-political activism of the MB, when Sufis accused the MB of extremism and textualism (1996, 216-17). As opposed to the passive and inward-looking retreatism of the Sufi orders, Hasan al-Banna, the founder and chief ideologue of the MB, defined the Brotherhood as “...a Salafite movement, an orthodox way, a Sufi reality, a political body, an athletic group, a scientific and cultural society, an economic company and social idea” (Gilsenan 1967, 17).

In the process of conflicting relations between Sufi orders and the MB, the politically quietist and tolerant nature of Sufi orders led the Egyptian state to use Sufi orders in its search for Islamic legitimacy while combating the political activism of the MB in Egypt. While Sufi orders remained illegal in Turkey, the Egyptian state had played a direct role in organizing them since the Ottoman times in Egypt. Muhammad Ali (1805-48) placed the Egyptian Sufi orders under the supervision of a unitary authority as part of his centralization policies in

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<sup>170</sup> Sufis follow the Koran and sunna as sources for Islamic inspiration, and they mainly try to develop asceticism and spiritual devotion in their relations with the God.

1812. Muhammad Ali authorized Sheikh Mustafa al-Bakri to supervise the activities of Sufi orders. Sheikh al-Bakri nominated agents all over Egypt to exercise his authority locally.<sup>171</sup>

In 1895, the state issued a new promulgation regarding regulations for the *turuq* (plural of *tariqa*) in Egypt. This decree established the Supreme Council of Sufi Orders with the aim of monitoring the activities of the Sufi orders in Egypt. The 1895 decree was amended in 1903 and 1910 in order to introduce further rules on the status of *sheiks* and *khalifas*, the relationship between them and the conditions for their appointments. These regulations had important implications over the political role of the Sufi orders in Egypt. The regulations not only caused Sufi orders in Egypt to remain passive to political involvement and activism, but they also “shielded the orders from the wider society and made them inaccessible to efforts to mobilize them (such as the Muslim Brotherhood) and protection from outside attacks on Sufism” (Jong 2000,135).

The establishment of the Nasser regime in 1952 deepened a cooperative relationship between the Sufi orders and the state in Egypt. The Sufi orders provided ideological backing for the regime’s revolutionary messages. In 1958, the Supreme Sufi Council published “the Guide to Sufism” which fully recognized the revolution and claimed that Sufism continued to flourish in Egypt due to “...God’s blessing and support and to the encouragement and help of the Revolution and its great leader” (Warburg 1982, 136). In return, Nasser responded by saying that

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<sup>171</sup> Official recognition was not given to all orders. To be recognized as a legal Sufi order, Sufi orders were required to have a clear internal structure, headed by the *sheikh al-sajjade* (sheikh of the prayer rug).

“the best example in the time of war is faith and perseverance. Sufism under socialism is the most pious form of socialism” (Ummar 1997, 99).

The state’s thorough intervention in Sufism continued as the Nasser government began to take an active interest in the affairs of the Sufi orders. Abd al-Hakim Amir, who would later become a member of the Revolutionary Command Council, was appointed to reform the Sufi orders in Egypt. Under Nasser’s nationalization scheme, most of the property belonging to the Sufi orders was sequestered and their financial independence via endowments was eradicated (Waugh 2008,50).<sup>172</sup>

As Frederick De Jong argues :

This manifestation of a sudden interest in the Sufi orders would seem to be linked with the final prohibition of the Society of the Muslim Brothers in 1954. The members of the Council must have become aware of the use that could be made of mystical Islam and of the administrative organization of the Sufi orders to combat the opposition inspired by the Brothers as well as to strengthen and widen its own base of support by stimulating and favoring the adherents of conceptions of Islam that were rooted in and partly identical with some of the central conceptions in popular Islam” (2000,174).

It should also be noted that this development heralded the end of power struggles between the MB and the Sufi orders in favor of the latter under Nasser. In May 1953 Hasan Ismail al-Hudaybi, the successor of al-Banna as Supreme Guide, openly declared that the Brotherhood made proposals to the Ministry of the Interior regarding a general prohibition of the Sufi orders. One year after this proposal, the MB was officially banned, and the Nasserist project aimed to employ Sufism in its attempt to eradicate the MB from Egyptian public life. In the process of the confrontation between the Nasser administration and the MB, the Sufi orders

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<sup>172</sup> *Waqf* (religious endowment) used to be an important financial source for the Sufi orders. After its prohibition by the government in the 1960s, the orders in Egypt do not possess any form of *waqf* (Masatoshi 2007,66).

stood by the state and declared support for “the war against terrorism for security and peace” (Masatoshi 2007,58).

Nasser also brought the *Awqaf Al-Azhar* and *Dar Al-Fatwa* under state authority, and used them in combatting the presence of the MB in Egypt. Nasser’s social and economic policies aimed to place Islam at the service of the state in his project of Arab socialism. In 1965, Nasser stated "The Muslim religion is a religion that is 100 per cent socialist." According to Monein and Wenner, Nasser was, in effect, nationalizing religion in the same way as he had land, industrial, and commercial enterprises (1982, 343).

After Nasser, the law (*qanun*) No. 118, was issued in 1976 regarding Sufi orders. The law of 1976 strengthened the political nature of the Supreme Council even more by changing its structure.<sup>173</sup> According to the new law, the Supreme Council was composed of the following people: The sheik of sheiks, appointed by the President of Republic; ten members who are elected from the seventy-three officially recognized Sufi orders, a representative of Al-Azhar; a representative of the ministry of *awqaf*; a representative of the ministry of interior; a representative of the ministry of culture, and a representative of the local government of the city (Atacan 2010, Waugh 2008,52-53).

After the prohibition of the MB under the Nasser regime, the increasing involvement of the Egyptian state in the organizational structure of Sufi orders indicates the Egyptian state’s aim to prevent any power outside the regime’s control. It is my argument that the subordination of the Sufi orders to the state did seriously obstruct the means by which Sufi orders could independently gain political and economic power. While political Islam represented by the MB

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<sup>173</sup> This law is still in effect today.

was in opposition to the state, the Sufi orders accepted a subordinate position. In the words of El Houdaiby “subordination to the state left them with no margins of influence and kept them out political formulate” (2012, 128). Due to the political nature of the Supreme Council of Sufi Orders, Sufi orders traditionally have been aligned with the regime and have had close ties with al-Azhar and other official religious institutions (Shehata 2012, 16). It is quite important to note that in post-revolutionary Egypt, Sufi parties and Sufi institutions’ political position is closer to “the surviving organs of the Egyptian political establishment” than to the MB or the Salafi parties (Brown 2011,2).

The incorporation of the Egyptian Sufi orders into the state apparatus provides a stark contrast to the Turkish Sufi orders’ involvement in political and economic life. As explained in Chapter 2, economic liberalization process opened the way to the patronage structures for Sufi orders who functioned as pressure groups to help materialize the political and economic aims of Islamic groups in Turkey. This period in Turkey can be considered the beginning of less contentious relations between the state and the political Islam in which business groups affiliated with religious orders played an important mediation role. On the other hand, the transformation of the Egyptian Sufi orders into a fully-fledged bureaucratic system seriously undermined their ability to alter the power dynamics between the state and Islam in Egypt.

According to Hussam Tammam, an important expert in the Egyptian Islamic movements:

The Egyptian Islamic movement (represented by the MB) started to build its legitimacy by isolating itself from the state but even more so by opposing the modern state’s systems and by adopting the legitimacy of the Islamic movement as an independent and legitimate competitor to the state’s legitimacy. In short, the Egyptian Muslim Brotherhood movement established its legitimacy away from the state and against its will in a way almost parallel to the central state heritage in Egypt itself (2010,62).

As we shall see in the later part of this chapter, the economic activities of the MB (as the most powerful Islamic group) which were focused in areas where the state failed to invest during the market transformation, contributed to the virtual division between the state and the MB. In this process, the MB strategically utilized its activities to present itself as totalistic alternative to the state. The MB constituted the social basis of its legitimacy on the Islamist social contract that paralleled that of the state by providing social services through private health clinics, schools and supermarkets (Al-Awadi 2004, 146).

### *The Muslim Brotherhood under the Nasser and Sadat Regimes*

The relationship between the Free Officers and the Muslim Brotherhood was positive in the early days of the revolution. The MB initially supported the 1952 revolution and it was allowed to continue its activities during the first two years of the Free Officers coup. However when Gamal Abdel Nasser gained control of the new regime in 1954, a period of tension in the relationship between the MB and the regime started. Nasser saw the movement as a strong political rival and banned the organization under the pretext that the MB had attempted to assassinate him.

In the period between 1954 and 1970, thousands of members of the MB were imprisoned and seven members received death sentences, including Hassan al-Hudeiby.<sup>174</sup> All economic activities of the organization were halted as well. Many MB members fled to neighboring conservative states, particularly Saudi Arabia, the Gulf and Libya and engaged in various economic activities in their new countries. According to Ayubi, “while condemning Nasser’s socialist policies as being atheist and ungodly, MB members received the protection of the rulers, and many of them managed to accumulate some respectable funds” (1991,153). Therefore this

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<sup>174</sup> Al-Hudeiby’s penalty was later changed to life imprisonment.

diasporic movement resulted in capital accumulation for the MB, which provides a sharp contrast to capital accumulation of the Turkish Islamic groups who created capital inside the country “before benefiting from that coming from abroad and from Germany and other European countries through the creation of the biggest holding companies today in Turkey” (Tammam 2010,63). One of my (non-Islamic) respondents, a businessmen who has a small sanitary factory, alleged that money acquired in the Gulf made the MB businessmen too lazy to join the production processes in the later periods in Egypt. According to him, unlike the Turkish Islamic entrepreneurs, the MB businessmen did not seek to be innovative in the manufacturing sector and found it more convenient to open stores for imported goods or groceries.<sup>175</sup>

During the time of the Nasser’s nationalization policies, a few Muslim entrepreneurs managed to survive in the country. Othman Ahmad Othman was one of the most important of these businessmen (Ayubi 153). His company, the Arab Contractors, founded in 1940 was nationalized in the early 1960s, but it was the only one that continued to carry the name of its founder. In return, Othman supported Nasser’s policies and played a major role in constructing the Aswan High Dam and surface-to-air missile bases in the 1968-1969 (Farag 1999).

What makes Othman even more significant is that he also had sympathies with the MB which went back to the pre-revolutionary era. In his memoirs called *My Experience*, Othman admitted having had subsequent membership in the Brotherhood in the late 1970s. Othman provided financial protection for the members of the MB and hired many MB members to work on projects abroad, especially in Libya and Saudi Arabia during the Nasser regime. In his memoirs, Othman said he was “so vulnerable when it came to granting any wish expressed by a member of the MB that on occasion he was duped into recruiting engineers who claimed falsely

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<sup>175</sup> Dissertation fieldwork interview, in Cairo, in January 5,2012.

to be members of the Society in order to gain access to his successful companies” (in Ayubi 1991,142).<sup>176</sup>

The repression on the MB ended in Egypt when Anwar El-Sadat came to power. Sadat chose to accommodate Islam in his fight with the Nasserist coalition of the secular leftist forces. He announced Egypt as a state of “Science and Faith” and began calling himself as the “Believer President” (*al-Ra’is al-Mu’min*) following the victory over Israel in the 1979, under the banner of “God is Great” (*Allah-u Akbar*).

Sadat also adopted a more liberal attitude toward Islamic groups, in particular the MB and Islamic university student organizations. He released the Brothers who had been imprisoned during Nasser’s rule and called back the émigré members of the MB.<sup>177</sup> In 1976, Sadat permitted the publication of MB journals such as *al-Dawa* (the Call) and *al-I’tisam*.<sup>178</sup> In one of his recent interviews, Abdel Moneim Aboul Fotouh, the president of the student unions at the College of Medicine at Qasr Aini in 1973 and of Cairo University in 1975, evaluated the political environment under the Sadat presidency as such:

The Sadat period is a unique one in that it was distinguished from the eras which preceded and followed it, whether Nasser or Mubarak, which maintained a much stronger level of repression. The political environment was more open under Sadat, which permitted for the rise of a vibrant student movement that had the freedom to grow and maneuver. It used that space to spread within the ranks of the students, establishing strong movements and organizations. Eventually this spirit moved from the university to the broader society, leading to the rise of many leaders, many of whom continue to be active in a leadership capacity despite the fact that these experiences date back many decades.

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<sup>176</sup> Othman’s influence continued in Egyptian public life during the period of the *Infitah* under Sadat as well. He became minister for reconstruction in 1973 and his son married Sadat’s daughter.

<sup>177</sup> According to Ayubi, Othman Ahmed Othman “used his influence to persuade the president to allow a political and economic rehabilitation of the MB, a process which included the return home of several by now wealthy *Ikhwan* from their hiding places in the Gulf, to participate in the *infitah* carnival” (1991,142).

<sup>178</sup> *Al-Da’wa* reached an estimated circulation of 100,000 before it was shut down in 1981 (Wichkam 2002, 96)

<sup>179</sup> <http://www.jadaliyya.com/pages/index/8698/the-strong-egypt-party-the-constitutional-decree-a>, 30 November 2012. Many important MB leaders such as Abu Al-‘Ila Madi, ‘Esam Al-‘Aryan and Abdul Al-Mun‘em Abu Al-Futuh who became important figures in parliament and professional syndicates during the 1980s emerged in this era.

The MB supported Sadat's economic opening policies which were seen as a way of dismantling Nasser's legacy of the state domination of the economy and social affairs, and the Islamization of the economy. It is quite important to note that the MB's stance on economic liberalization was quite pragmatic in this era. The MB abandoned its early idea of Islamic socialism, and its members have embraced liberal economy in their own economic activities since the 1970s. The MB publications began arguing that "private ownership is one of the bases of Islam, because private ownership is the origin of the *zakat* (almsgiving), *kaffara* (expiation) and inheritance, and it is the ideal system of economic activity." The MB publications also insisted on downsizing the public sector which was associated with the Nasserist policies (Moneim and Wenner 1982, 351).

As explained in Chapter 3, after having returned to the political scene during the Sadat era, many members of the MB took active part in the establishment of Islamic banks and Islamic investment companies through the capital they had accumulated in the Gulf countries when Nasser was in power in Egypt. The MB fully subscribed to Sadat's financial liberalization policies and many members of the MB became beneficiaries of these policies. The MB members who were working in the Gulf and looking for safe opportunities to invest back home, deposited their savings with Islamic banks and investment companies. Also, many of the recently-released MB members who were unable to travel to the Gulf started working in the new Islamic financial sector during the Sadat regime. As a result, "the financialization of the economy and the turn away from industrial investment was thus seen to be legitimized by Islam in 1970s and 1980s" (Tugal 2012, 34-35).

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By the end of the 1970s a new class of MB affiliated businessmen who had returned from the Gulf states emerged in real estate investment as well as the medical supply, school supply, automobile and food production sectors of the Egyptian economy. One of my interviewees who fled to Gulf after the persecution of the MB under Nasser told me that he established a plastics manufacturing firm with the money he earned in oil-rich Gulf countries in Egypt in the mid-1970s. According to him, Nasser's persecution of the MB had the "Frankenstein effect." During the Nasser rule, members of the MB accumulated wealth in neighboring countries and learnt important business skills. He also claimed that the MB returned to the political stage even more powerful once they started investing in welfare services in education, health and vocational training.<sup>180</sup>

One of my other MB related interviewees who founded his company in 1980 asserted that the companies which were established by the members of the MB during the *infitah* period financed the MB's social/welfare services later. According to him, in the later period, the MB deliberately emphasized its economic activities in welfare services, and this created a large political power base for the MB at the grassroots level during the Mubarak era. When I asked about the reasons for this shift, he answered it was a strategic choice by the MB in order to achieve political success at the grass-roots level to challenge the regime.<sup>181</sup>

As explained in Chapter 3, as a result of the retreat of the state from its social and economic roles during the period of structural reforms, the MB focused on filling in the gaps and constituted its public discourse to challenge structural adjustment policies under the Mubarak regime. For the MB, the shift to structural economic reforms featured two trends:

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<sup>180</sup> Dissertation fieldwork interview, in Cairo, in November 27, 2012.

<sup>181</sup> Dissertation fieldwork interview, in Beni Suef, in December 5, 2012.

MB economic activities filled up part of the gap left behind by the withdrawal of the state, making the transition to a market economy less painful for the public (Tammam 2010). At the same time, due to its ability to speak on behalf of the masses who were being impoverished during the process of structural reforms, the MB emerged as the most vocal critic of the regime's economic liberalization policies and strengthened its position as the main opposition group in the country. The deterioration of economic conditions, coupled with the state's decreasing role in providing social services, provided an important avenue for the MB to become a legitimate rival to the regime. Ironically, for the regime, the MB's social services were a palliative for the "otherwise potentially explosive socio-economic situation caused by the state's increasing difficulty in providing social services." The regime never allowed the MB to be legalized but clearly capitalized on its conservative social program (Pioppi 2004, 5).

In the following section, I will assess how the MB's main opposition strategy was transformed into political success in the professional syndicates and parliamentary elections in Egypt. This task is necessary to analyze the MB's orientation to market reforms and the social components of political Islam in Egypt.

### ***The Muslim Brotherhood As The Main Opposition Group during Mubarak's Structural Adjustment Program (SAP)***

The MB began to experience its first serious political success in the professional associations during the 1980s. Due to their role in mobilizing professional classes, professional associations have been significant in Egyptian political life since 1952. For this reason Nasser and Sadat kept the syndicates under tight control.<sup>182</sup> However Mubarak loosened the state's control over the syndicates as part of his policies of limited political liberalization during the

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<sup>182</sup> The state had the right to dissolve syndicate councils under Nasser and Sadat.

early years of his presidency. Professional associations and labor unions enjoyed a considerable level of autonomy in the period from 1982-1990 in Egypt. Mubarak wanted to employ these organizations to bolster his legal as well as his populist legitimacy (Al-Awadi 2004, 58).

However, as Abu Ella Madi, the head of the Wasat Party as well as the former vice-secretary of the Engineers Association claimed in one of his interviews, “it was quite clear that Mubarak in his quest for legitimacy did not foresee syndicates becoming a major sphere of MB activity and source of mobilization, which would contest state power and hegemony in Egypt” (cited in Zahid 2010, 108).

MB candidates ran for positions in the executive boards of professional associations employing the slogans “Islam is the solution” (*al-Islam Huwa al-Hal*), and “Yes, we want it to be Islamic” (*Na’m Nuriduha Islamiya*). They obtained control of the doctors and engineers syndicates in 1984 and 1987 respectively, and then they consistently won elections in the syndicates of journalists, lawyers, pharmacists, dentists, scientists as well as university student councils.<sup>183</sup> According to Wickham, the MB’s electoral victories in professional associations were due to “the culmination of nearly a decade of grassroots Islamic outreach, which created a popular base receptive to the Brotherhood’s platform of Islamic reform” (2002, 195).

One of my interviewees, a member of the lawyers’ syndicate in the mid-1980s, claimed that university student activism of the MB in the 1970s brought about the victory of the MB in the professional syndicates in the 1980s. According to him, the new graduates who were previously involved in student activism were hired in the professional fields and continued to

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<sup>183</sup> At the beginning of the 1990s, there were twenty-one professional associations with the membership of more than 2 million people in Egypt (Wickham 2002, 180-81).

perform their political skills in the professional syndicates.<sup>184</sup> The leftist union activist Ashraf Hilmi explains this connection as such:

You raise Ikhwani (Brotherhood) students in the university, then five years later you have an electoral base for the professional associations. It is like planting seeds on a farm (cited in Wickham 2002,193).

The MB's policies were mainly focused on providing services and fighting against corruption, which proved to be very appealing for the members of the professional associations.<sup>185</sup> For example, the MB used the slogan of "Vote for the Cleansed Hands" in the Doctors' Syndicate council elections (Fahmy 1998, 561). Wearing by the corrupt practices of the regime during the market transformation, many members voted for the MB based on its call for a return to morality and accountability in Egyptian public life. One of my interviewees, a former Wasat Party member, who has a small cement factory in Beni Suef region, asserted that the MB portrayed pro-market policies and morality as being opposite poles in their activities in the professional syndicates in this period.<sup>186</sup>

Ahmad Al-Nahas, treasurer of the Alexandria branch of the engineers' syndicate, explains the reasons for the MB's success in the professional syndicates as such:

In the first couple of years after we established our presence in the syndicates we did nothing but provide services. We knew that people would listen to us if we first addressed their needs and concerns in a practical way, instead of just speaking to them about politics right from the beginning. This was the best way to mobilize people in support of our policies. Politics could then come later.

Most of those who voted for us in the syndicate elections, whether they numbered three or four thousand, were essentially young professionals whom we had known since we were students. This made it easy for us to communicate with them in a language they could understand and relate to. The more senior constituencies who had not known us

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<sup>184</sup> Dissertation fieldwork interview, in Cairo, in December 5, 2012.

<sup>185</sup> Subsidized health insurance, secondary pensions and interest free loans or assistance were the main services of the MB's leadership in the professional syndicates.

<sup>186</sup> Dissertation fieldwork interview, in Beni Suef, in June 4, 2012.

before, preferred to vote for their familiar cronies in exchange for personal privileges (cited in Al-Awadi 2004,97).

The absorption of thousands of new graduates with limited earning and employment prospects transformed the associations from elite institutions into mass institutions marked by sharp generational and class cleavages (Wickham 2002, 183). In its electoral campaigns, the MB was able to address the social and economic grievances of these new graduates. The victory of the MB in the professional syndicates contributed to extending the group's message of social Islam within Egypt's "new middle classes." This victory also gave the MB an opportunity for culminating the power necessary to challenge the Egyptian state in the 1990s when economic liberalization policies aggravated the socio-economic problems in Egypt. The experience of the MB in the professional associations in the 1980s and early 1990s recalibrated the MB's oppositional strategy according to the needs of educated lower middle classes in urban areas, and professionals who were the main losers of the economic liberalization policies.

The MB demonstrated its political leadership and offered a programmatic alternative to the incumbent regime in the professional associations. The MB's contest with state power for delivering services became quite visible in Egyptian public life especially after the Dashour (located to the south of Cairo) Earthquake of October 1992 when Doctors' Association volunteers arrived first and started rescue efforts before any state officials showed up in the region. The Brothers mobilized their resources in rescuing victims with the help of their strong presence in the professional associations. When Interior Minister Muhammad Abd al-Halim arrived in Dashour, he could not help but say: "What's going on here? Do we have a state within the state?" (cited in Wickham 2002,203).The Dashour Earthquake well demonstrated the efficiency of the MB in providing services in contrast to the state's slow response. According to

Al-Awadi, “in case of the earthquake where the relief efforts of the Brothers surpassed those of the state, the regime’s image abroad was greatly impaired which made Mubarak even more sensitive to the attempts of the Islamists at polarization” (2004,141).

Toward the end of that process, the Mubarak government began to take notice and act as the MB increased its influence within the professional syndicates. In 1993, the government enacted the “Law to Guarantee Democracy in the Professional Syndicates.” The new law mandated electoral thresholds in the syndicate elections (a minimum voter turnout of 50 per cent in the first round, and 33 per cent in the second round).<sup>187</sup> It stated that when these electoral thresholds are not met, the government has the right to invalidate elections. The former Deputy Supreme Guide to the MB, Ahmad al-Malt evaluated the new law in the following:

The state works to stop [the Brothers] by any means from participating in any local legal elections, because we are sure that if given the chance to enter such elections without any *tala‘ub* (interference) that [the Brothers] would capture a sweeping victory (cited in Al-Daood 1998, 135)

By enacting this law, the regime obtained greater power to control the Islamists in the elections in the professional syndicates and to curtail the Brotherhood’s growing influence in Egyptian public life (Kienle 1998, 228). According to Elmahdi, the short lived political opening ended in the early 1990s with “the regime’s shift to political de-liberalization as part of its clampdown on militant Islamists and in order to push forward its economic reforms without any political upheaval that such reforms might lead to” (2005,73).

Despite periods of de-liberalization, Mubarak continued holding multiparty parliamentary elections. Blaydes sees a connection between electoral competition and the regime’s economic liberalization policies. She argues the diminished role of the Egyptian state in the economy has left the regime with fewer resources to buy the support, and elections have emerged as an

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<sup>187</sup> Voter turnout for syndicate elections regularly remained between eight and twelve percent before the law (Kassem 2004,114).

important way to distribute resources in the face of the state's withdrawal during the process of economic liberalization (2010, 27). As stated in Chapter 3, clientelistic relations became the main feature of the multiparty parliamentary elections under the Mubarak regime.

Although Mubarak allowed the opposition to enter the parliament, his regime did not permit the opposition enough seats to block legislation (Blaydes 2011, 40). Rather than democratic participation, Mubarak constantly repeated that achieving economic reform was the highest priority in Egypt. As stated in one of his speeches in 1989:

All democratic parties and groups to put aside, even momentarily, their differences over public work so that all patriotic efforts could be focused on positive cooperation to achieve the undisputable national goals, over which people should not differ... Brothers and sisters, political action is patriotic work. There is little room for controversy, campaigns, and exchanges of accusations; the toiling masses will not tolerate them (cited in Wickham 2002, 67).

The MB ran in the 1984 and 1987 parliamentary elections in alliance with other secular parties. In the 1984 elections, the MB formed an alliance with the *al-Wafd* Party and secured eight of *Wafd's* 58 seats in the People's Assembly. In the words of Omar al-Tilmissani, a former General Guide of the MB, participating in the political elections appeared to be a pragmatic move for the MB. Al-Tilmissani said:

We were completely serious when we joined in the elections. Our aim was to reach Parliament through a legal channel, the *Wafd* Party, because People's Assembly members enjoy parliamentary immunity. The brothers who will reach the Assembly will speak on behalf of the Brotherhood, will urge enforcement of the Islamic sharia laws, and will embarrass the government on this issue without fear of detention or torture... Now some of them are People's Assembly members, watching the government and entitled to make it account for its actions (cited in Campagna 1996, 283; Yildirim 2010, 218).

In the 1987 elections, the MB formed another political alliance with the *al-Amal* (Labor Party) and *Hizb al-Ahrar* (Liberal Party), and gained 36 seats. The slogans "Islam is the solution" and "Give your vote to Allah, give it to the Muslim Brotherhood" were used to garner

support for the MB in the 1987 elections (Wickham 2002, 92). In its electoral program of 1987, the MB explained its Islamic economic program in six parts: 1) shrinking the government bureaucracy, 2) official adherence to standards of high productivity, 3) the private sectors as the backbone of the economy, 4) a non-interest bearing banking system, 5) zakat, and 6) independence from foreign economic intervention and integration of the Egyptian economy with other Muslim economies as an alternative (Abed-Kotob 1995, 327).

The success of the MB in syndicates and the multiparty elections in the 1980s caused the “regime to shift its method of maintaining political control from an unfair legal framework to one that increasingly depended on physical coercion, intimidation, and electoral fraud” (Moustafa 2007, 103). This change in the regime’s attitude towards the MB was essentially related to the political changes that the MB experienced throughout the 1980s. By increasing its membership and shifting from the spiritual to the political, the MB began to pose a serious challenge to the regime during the time of socio-economic crisis (Zahid 2010, 102-103).<sup>188</sup>

Due to the increasing state repression, the MB— along with other parties (with the exception of *al-Tagammu* Party)— boycotted the 1990 elections.<sup>189</sup> Four years later, the MB participated in the 1995 elections which continue to be remembered as the most corrupt elections under Mubarak’s rule. Many incidents took place during the elections, including electoral fraud, ballot stuffing and use of force against opposition party members. As a result of the regime’s illegal tactics, the MB was only able to get one representative out of 170 MB candidates in the

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<sup>188</sup> Although the MB did not have a political party, it established itself as a political actor by participating in Egyptian electoral politics since in the mid-1980s. In its early years, the MB opposed the idea of establishing a political party which was regarded a western tool for dividing “the Islamic *umma*.” As its political importance grew, the MB initiated party proposals including a “Consultation Party” in 1986 and a “Reform Party” in the early 1990s (Said Aly 2007, 3). However a consensus was never achieved among the MB leaders as to whether the MB should have own its political party.

<sup>189</sup> The 1990 elections were supervised by the Minister of Interior.

1995 elections.<sup>190</sup> Before the 2000 elections, the Supreme Constitutional Court required “full judicial supervision of elections for the first time in Egyptian history” (Moustafa 2007, 191). The opposition benefited from the judicial supervision over the polls. Running on the slogan “Islam is the Solution,” the MB won 17 and 88 seats in the 2000 and 2005 elections respectively, exceeding the total seats of all other opposition parties. (Stiltz 2010,79).

The MB created a strong political opposition in the People’s Assembly. According to Zahid, the MB deputies “were young, educated, professional, politically aware and responsive to the needs of the constituents they represented, through addressing broad issues such as the government’s policies on health and education” (2010, 101). The Brotherhood block maintained a critical position on the Mubarak government’s structural adjustment policies. They particularly were opposed to Egypt’s negotiations with the IMF which called for the withdrawal of the state from the economic and social spheres. In 2004, the MB deputies severely criticized the government’s privatization and trade liberalization policies by pointing out the negative consequences of these policies, including sharp price increases in basic goods, decreases in wages and salaries and rising unemployment. In the 2005–2010 parliament, the Brotherhood block opposed the Plan and Budget Committee’s proposal on the subsidies on exports and called for the reallocation of public funds to education and public health (Hamzawy and Brown 2010, 23).

In one of his interviews in 2010, Essam Al-Arian, former member of the MB’s Guidance Bureau evaluates the MB’s performance in the parliament as such:

The Brotherhood are the only ones who stood up to the government’s general budget in order to expose the practices of the government in seizing insurance and pension funds, or in hiding private funds worth billions of Egyptian pounds, which the Egyptian people do not know about. The other political parties only talked about it in the press, but within

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<sup>190</sup> Essam El-Arian, the only MB representative was accused of being a member of an illegal organization and he lost his seat in the People Assembly (Zahid 2010, 102).

the People's Assembly nobody but the Brotherhood discussed this issue, and we were the first to do so. The Brotherhood opposed dangerous legislation that the regime tried to impose or did actually impose, such as giving the private sector the right to exploit public services and utilities, the antitrust law that was distorted by parliament, and other laws the Brotherhood opposed. Through very forceful and frequent parliamentary hearings, the Brotherhood opposed the sharp decline in utilities and services in the health, education, media, and religious endowments sectors.

The Egyptian regime, as a result of international pressure from the World Bank and the IMF, was forced to undertake very risky economic reforms. These led to social catastrophes, but the regime never gave in to any pressure for political reform. The People's Assembly has very circumscribed powers and its ability to hold the government accountable is very limited... We believe that the Brotherhood's ongoing participation will in the end push for real change.<sup>191</sup>

The electoral success of the MB in the parliamentary elections led the Mubarak regime to increase its repression toward the MB in various ways. The regime passed a constitutional reform program on the election laws, public freedoms laws and presidential elections to undercut future political activity by the MB. Periodic arrests and harassment of the MB leaders were other strategies used to counter the MB's activities. During the tumultuous years after the 2005 elections, 34 constitutional amendments were made, and thousands of MB members were arrested. According to Amnesty International the constitutional amendments represented "the greatest erosion of human rights in 26 years in Egypt" (2007).

Participating in the political elections and the MB's presence in the National Assembly demonstrated the movement's ability to serve its constituencies and increased its credibility. The MB established itself as the only credible opposition force in country with a strong social base and a mobilized membership. By the end of this process, the Egyptian political system had become bipolar. In this bipolar system, "there has been an uneasy, but mutually beneficial relationship between the regime and the MB in which the ruling party has maintained an on-and-

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<sup>191</sup> <http://carnegieendowment.org/2010/06/15/interview-with-essam-al-arian-member-of-egyptian-muslim-brotherhood-s-guidance-bureau/6czs>

off liberalization policy accompanied by phases of tolerance and repression towards the MB's activities" (Antar 2006, 8).

As stated earlier, the political success of the MB was mainly based on the group's activism in grassroots service provision organizations in the fields of health care, education and poverty alleviation (Hamzawy and Brown 2010). Investing in welfare services in order to create a large power base was the MB's strategic approach. It is my argument that the MB built its oppositional strategy holding onto a secure position in the bi-polar political system of Egypt. For this reason, the MB avoided undermining its credibility with either its religious followers or its political constituents. This contributed to the MB's ideological stalemate on various issues – ideological opposition to market policies and the idea of limited state interference in the economy were among them. The MB articulated its public discourse according to its main constituencies who were not benefiting from market transformation. Even though some members of the MB (especially in the leadership cadre) had strong business interests during the process of economic liberalization, the MB leadership chose not to articulate these interests and maintained an ambiguous position regarding market policies in the group's official electoral and party programs. As Beinin argues keeping the contradiction between the populist discourse and the business interests unresolved helped to project Egyptian political Islam as a social movement opposed to neoliberal ideas (2009, 41). In the next section, I will assess how business interests were intentionally kept at a low profile within the MB as a result of MB's strategy of unequivocal criticism of the market policies as a convenient way of opposing the regime and satisfying its support base.

*The Invisibility of the Business Community in the Muslim Brotherhood under the Mubarak Regime*

One of my primary arguments in this chapter is that business interests within Egyptian political Islam were not strong enough to create ideological moderation during the Mubarak era as they did in the Islamic polity in Turkey. According to Tammam, whether the low profile of Islamic-business class in the MB “had to do with the timidity of the Islamist business community or the nature of the political system, which frowns upon business associations of a religious type, the outcome was clear: the business community has little influence on MB decisions and not much say in the country's political scene” (2009).

As stated earlier, since its inception the MB’s economic activities were strictly scrutinized and the MB lost most of its assets due to the regime’s periodic clampdowns. The Mubarak regime’s repression peaked in January 2007 when sixteen MB leaders were arrested and the financial assets of twenty-nine MB associated businessmen, including Deputy Supreme Guide Khayrat al-Shater were seized. The MB businessmen were accused of money laundering and membership in an illegal organization. Two prominent businessmen, Khayrat al-Shater and Hasan Malek were sentenced to seven years in prison by the military court. Seventy-two companies owned by the Brotherhood were shut down (Blaydes 2011,163).

According to Abul-Magd, the military trial of MB members in 2006 to 2007 was entirely a result of underlying competition between two political factions: Gamal Mubarak and the Muslim Brotherhood. “All of those who stood trial were leading businessmen in the Brotherhood, the most important of whom was Khairat al-Shater” (2012). Al-Shater, the proprietor of a variety of businesses in furniture, textiles, car, manufacturing and banking, was regularly detained and imprisoned during Mubarak’s rule. His property was confiscated six times

by the Mubarak regime. Under the Supreme Guide Mahdi Akef, who took over following the death of Ma'moun al-Hodeibi in 2004, Al-Shater took greater responsibility in the organization of the MB and controlled the MB's finances. The Mubarak regime outlawed him as the MB's top financier and money launderer (Sabry 2012).

Al-Shater evaluates the Mubarak's regime intermittent crackdowns on the MB businessmen in one of his speeches as follows:

We all began to put our prison suitcases under our beds as we expected to be imprisoned at any time. Any door that was knocked at 12 or 1 o'clock at night, even if a Brother was coming to you about an issue or with a problem, the first thing to come to your mind was that State Security had arrived. Therefore the issue of incarceration of this type had as its intention to confuse and frighten the Ikhwan, and make them feel unsafe and insecure, and not only that. They prevented our children, Ikhwan and youth from being hired for faculty positions at universities; those who came out first were not appointed as lecturers, or representatives in the union, or in the judiciary, or in the press. Those who worked as teachers in education were moved to administrative positions; those who worked as mosque preachers were moved to administrative positions. He prevented people from traveling. Lately, he started to shut down our companies, and in the year 2000 even cracked down upon nine thousand firms and companies throughout the Republic in the eve of the elections.<sup>192</sup>

Another prominent MB businessman, Hasan Malek said:<sup>193</sup>

Every time I was successful, the government would hit me with a court case. We avoided opening big factories and companies because it was easy for the regime to net us...and we could not grow our business then.<sup>194</sup>

In the same way, Sondos Assem, the Muslim Brotherhood businesswomen, and the current Foreign Relations Committee Member of the Muslim Brotherhood's Freedom and Justice Party (FJP) said as such:

I had no hopes for better regime under Mubarak regime. We have lost our hopes for better future. Before the revolution I was working in business and was travelling a lot. That was

<sup>192</sup> <http://www.youtube.com/watch?v=JnSshs2qzrM> For its transcription see

[http://www.currenttrends.org/research/detail/khairat-al-shater-on-the-nahda-project-complete-translation#\\_edn4](http://www.currenttrends.org/research/detail/khairat-al-shater-on-the-nahda-project-complete-translation#_edn4)

<sup>193</sup> Malek owns the Egyptian branches of a Turkish furniture company, Istikbal, and a clothing brand called Sarar and currently chairman of the EBDA, MB's businessmen association.

<sup>194</sup> *Al-Masry Al-Youm*, 15 March 2012.

part of my job. My name was registered in the airport on the security check. For me that was a tremendous violation of my freedom of movement. Whenever I travel, I had been stopped arbitrarily by the security police at the airport. They interrogated me, they searched my bags, and they confiscated any papers that I had only because I was affiliated to an opposition movement. I found this tremendously unjust. I reached a point where I was really disappointed and that was about a month before the revolution. I told the state security police who used to interrogate me: “Well I am tired. Are you going to do this whenever I travel in my entire life?” He told me: “Yes, you will be interrogated all your life, as long as your name was registered on this list. I told him: “So I should have no hope for legal solution?” He told me: “There is no legal solution. The only solution is for the Mubarak regime to go and that will not happen soon.” It was in December 2010.

<sup>195</sup>

One of my interviewees, a member of the EBDA, claimed that the real strength of business interests within the MB was almost impossible to parse because many businessmen chose to stay away from the MB during Mubarak’s rule even though they supported the MB. According to him Mubarak froze more than \$2 billion in assets of businessmen who were suspected of supporting the MB. Therefore many businessmen concealed their ties with the Brotherhood out of fear. <sup>196</sup> Some MB related businessmen that I interviewed also confirmed that they preferred not to reveal their affiliations with the MB due to the risks associated with being involved in politics during the Mubarak era. <sup>197</sup> Gumuscu also makes a similar observation and argues that Islamic businessmen who wanted to be active in politics preferred to join the Wasat Party rather than the MB (2010, 221).

However it would be wrong to suggest that state repression was the *only* reason that business community failed to induce changes in the Islamic movement in Egypt. The MB deliberately chose not to draw attention to the existence of business groups in its own circle, and strongly impeded any alternative positions that could lead to changes in the Islamic groups’

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<sup>195</sup> This quote was taken from her speech given at the Georgetown University in March 2012 <http://www.c-spanvideo.org/program/MuslimBr> Transcription is mine.

<sup>196</sup> Dissertation fieldwork interviews in Cairo, in February 14, 2012.

<sup>197</sup> Dissertation fieldwork interviews in Cairo and Beni Suef, in June 12, 2012. These businessmen are the member s of the EBDA, the MB’s business association which was formed in March 2012.

position relating to market reforms. One of my interviewees (with no affiliation with any Islamic groups), who has a ceramic factory and had close relations with the Ahmad Nazif government in 2004, said:

The MB could have organized themselves into a businessmen association during the Mubarak regime as well. Of course the regime would not have welcomed the bearded businessmen in business life. The regime didn't welcome them in professional associations either but they found the way of fighting this. They simply didn't want to reveal their market connections. Otherwise how they were able to nourish their market ideas and establish their businessmen association (EBDA) right after Mubarak left... Their economic policies were based on hypocrisy back then ...<sup>198</sup>

An analysis of MB documents, namely the March 2004 Reform Initiative, the Electoral Program in 2005 and the draft party programs of 2007 demonstrate that the MB's economic agenda had been plagued by verbal ambiguities, eclecticism and internal contradictions. The MB basically built its economic program according to Islamic and Nasserist ideas such as prohibiting usury<sup>199</sup> and promising housing for new graduates, job security and wage increases for professionals.

The MB's Reform Initiative declared by the General Guide Mahdi Akef in March 2004, was one of the first documents which the MB clarified its position on various political, socio-economic and legal issues. With regards to economy, the reform initiative stated that "we believe in an economic system that is derived from Islam prohibiting usury." It also advocated distributing wealth and income according to *zakat* (almsgiving) within an integral Islamic system.<sup>200</sup> The MB Electoral Program in 2005 affirmed the group's opposition to economic liberalization policies. It said "the failed economic liberalization policies are responsible for that

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<sup>198</sup> Dissertation fieldwork interview in Beni Suef, in November 29, 2012.

<sup>199</sup> The MB's spiritual leader, Hasan Al-Banna considered usury "a means of the great expansion of capital which is not based on effort and does not arise from work" (in Hassan 2005,28).

<sup>200</sup> The Supreme Guide's Reform Initiative of 3 March 2004," Muslim Brotherhood website, <http://www.ikhwanonline.com/Article.asp?ID=5172&SectionID=0>.

(severe economic divisions) because they did not take into consideration the poor, and basically cared only for the upper class, i.e., the businessmen and corrupt bureaucracy” (cited in Yildirim 2010, 242).

This critical tone on economic liberalization was also embodied in the first draft of a party platform the MB issued in 2007.<sup>201</sup> This 180- page document gave a comprehensive framework for the MB’s political views and positions on social and economic issues. It touched on many contentious issues such women’s and minority rights, the application of Sharia law and relations with Israel. The draft program sought the establishment of a Supreme Council of Clerics and excluded women and non-Muslims from serving as president of Egypt. It also called for a re-examination of the 1979 Israel-Egypt Peace Treaty. Not surprisingly, the draft created intense public criticism in Egypt and elsewhere and sharpened internal divisions between modernist and conservative camps within the MB.<sup>202</sup>

Overall, the draft party program revealed a number of controversies between the MB’s vague ideological and religious slogans and specific policy prescriptions. In terms of the economy, the draft called for a strong interventionist state that would ease the effect of the economic liberalization for the MB’s constituencies. In terms of free market policies, the draft party program said:

Economic activity should be based on the system of the Islamic market which is based on the mechanism called “cooperative competition” where economic freedom is restricted through control on production and prices.<sup>203</sup>

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<sup>201</sup> The official platform was not released but a draft program was sent to fifty Egyptian intellectuals for review. The draft was first published in the Egyptian daily *Al Masry al Yawm* between 10-14 August, 2004. [www.islamonline.net](http://www.islamonline.net) published another version of the draft on August 25, 2007. To see the full draft party program in Arabic

<http://www.ikhwanonline.com/Data/2007/5/21/%D8%A7%D9%84%D8%A8%D8%B1%D9%86%D8%A7%D9%85%D8%AC%20%D8%A7%D9%84%D8%A7%D9%86%D8%AA%D8%AE%D8%A7%D8%A8%D9%8A%20%D9%84%D9%84%D8%B4%D9%88%D8%B1%D9%8A%202007.pdf>

<sup>202</sup> To see the public debate on the Political Program [http://www.memri.org/report/en/0/0/0/0/125/2632.htm#\\_edn1](http://www.memri.org/report/en/0/0/0/0/125/2632.htm#_edn1)

<sup>203</sup> 2007 Draft Party Program, Education, Development and Economic Policy, translation is mine.

Adopted from third world development literature, the draft program opposed privatizing public sector companies and suggested increasing state investment in the service sectors of health and education, and also in national projects, such as nuclear, space and aviation (Said Aly 2007, 6). As Brown and Hamzawy note:

By contrast the platform's provisions regarding political reform and democratic change focus on a more limited role for the state and a greater role for civil society and nongovernmental organizations. Calling for a state that systematically intervenes in social and economic spheres while at the same time advocating limiting its political role seems contradictory (2008, 5).

One of my interviewees from the Egyptian Junior Business Association (EJB) claimed that the MB engaged in doublespeak when it came to its economic agenda under the Mubarak regime. He argued as such:

Apparently, no one was brave enough to talk about the virtues of the free market publicly within the ranks of the MB when the Mubarak regime was in power. This would have just complicated their public image. Market policies were associated with the corruption of the regime on the minds of people who voted for the MB. Therefore the MB has made a strategic decision to keep its real economic vision in silence. Have you heard any words from the MB's multimillionaire tycoons, like Al-Shater or Malek about how they admired free market before the revolution? After the revolution, they all became a fan of neo-liberal market policies...<sup>204</sup>

The MB maintained its contradictory position in its economic agenda during the Mubarak regime and avoided clarifying its internal contradictions about its call for greater state intervention in the economy and a limited state power in politics. As Hassan argues the Brotherhood's economic vision encourages engagement in private initiatives while reserving the right of the government to intervene in all aspects of public life at the same time (2005, 29). According to one of my other respondents from the EJB, the MB formulated its economic

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<sup>204</sup> Dissertation fieldwork interview in Cairo, in June 1, 2012.

program for short-term political goals and concealed its real economic position regarding market policies during the Mubarak regime. He continued as such:

As a result of this hypocrisy, the MB failed formulating (*sic*) any original socio-economic project. The MB only reacted to what the state or other groups did. Otherwise how can you explain that the MB, the so-called biggest opposition force in the country, played a zero-role in initiating the January 25<sup>th</sup> Revolution in 2011? Once the revolution succeeded, the MB stole the revolution. They have always been free riders ...<sup>205</sup>

***The Wasat Party: An Internal Challenge to the Muslim Brotherhood at the Crossroad between Islam and Business Interests***

Beginning in the 1990s the aforementioned contradictions played a role in escalating tension and sharpened internal divisions between modernist and conservative camps within the MB. A younger generation of the MB leadership generally referred to as “the Middle Generation,” wanted to separate the *Da’wa* (missionary) activities from the party politics and sought to form an independent political party which would convey more secular messages (Stiltz 2010).<sup>206</sup> The Middle Generation aspired to increase their ability to contest parliamentary elections when they felt that the MB was trapped by the regime’s repressive tactics and its own stagnant ideology. The Wasat Party emerged as an important challenge to the configuration of power between the regime and the MB in favor of business interests and provided an alternative Islamic platform to fuse individual Islamic religiosity with business currents in Egypt.

The appointment of 74 -year-old Mustafa Mashur as the new Supreme Guide in 1996 increased the ideological alienation and generational conflict among the young members and

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<sup>205</sup> Dissertation fieldwork interview in Cairo, in April 12, 2013.

<sup>206</sup> The most prominent names belonged to this group were Abu al-Ela Madi, Salah Abdel Karim and Issam Sultan. This group also known 1970 generation ( *jil al-saba'inat* ) gained political experience in professional syndicates and they became more discontented about the exclusionary decision making structure of the MB (Stacher 2002, 419).

accelerated the formation of the new” Wasat” Party in the same year.<sup>207</sup> Abu al-Ela Madi, the head of the Wasat Party, explains the reasons for the foundation of the Wasat Party as follows:

We distinguish between missionary (*da’wa*) and political activities. Mixing the two is extremely dangerous. It threatens both the nation and religious groups themselves. We are calling for the separation of the two missions – which is what makes us a civil party.<sup>208</sup>

Our group does not want to remain outside of the state at the expense of ideology. We want to participate. We are politicians. The license is what counts; when we get the license people will follow and we will be able to participate in a legal manner for the service of the country (cited in Stacher 2002, 431)

The Wasat Party claimed that it was “a centrist civil political party with an Islamic frame of reference” and a group which could be inclusive to all Egyptians (Browers 2007, 78). Out of 74 founding members of the Wasat, 62 were former members of the MB. The remainder consisted of several women and a number of Christian Copts.<sup>209</sup> By providing a broader platform, the Wasat Party was able to attract supporters beyond the traditional Islamist base (Egyptian Islam 21). The Wasat Party sought to promote pluralism in religion as it views Islam as a civilization, as opposed to Islam as a religion, and included Christian elements as well as Islamic ones.<sup>210</sup> This approach was radically different from the MB’s exclusive notion of Muslim-ness. According to the Wasat leader:

Membership in the Muslim Brotherhood is dependent on your religion – everyone should be Muslim, not only Muslim but a special kind of Muslim. Not all Muslims can be members of the Brotherhood (cited in Stacher 2002).

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<sup>207</sup> The name of the new party was not coincidental. The Wasatiyya movement, Islamic centrism developed among some of the Islamic intellectuals in Egypt, such as Yusuf al-Qaradawi, Tariq al-Bishri, Muhammad Imara, and Muhammad Salim al-Awwa. The centrist approach sought “for cultural authenticity along with a need to adapt to changing realities, was more than an intellectual exercise and acquired political substance with the formation in 1996 of the Wasat Party” (Hatina 2007, 156). According to Baker, Egypt’s Wasatiyya movement is radically different from the typical paradigm of political Islam in Egypt (1997).

<sup>208</sup> Abu al-Ela Madi, “Egypt’s Islamist Caught in a Bind,” *Le Monde Diplomatique*, January 1998

<sup>209</sup> 2 per cent of the Wasat Party members are Copts and over 35 percent of members are women (El Houdaiby 2009,21).

<sup>210</sup> The Wasat Party Program is available at <http://www.alwasatparty.com>

According to the Wasat Party program, Egyptian democracy would ultimately be different from Western democracy because Egypt has to establish its own democracy based on Islamic tenets. They considered the Wasat Party to be the ideal candidate in establishing Islamic democracy in Egypt (Takayuki 2007, 156).

The Wasat Party applied for a license four times in 1996, 1998, 2004 and 2009. All of the applications, however, were denied by the Shura Council's Political Parties Affairs Committee.<sup>211</sup> For example, in 2009, the Committee reported that the Wasat Party's platform was no more than a set of unclear phrases and did not offer anything new to the political life of Egypt. Many of the principles included in the party's proposed platform were already enshrined in the constitution or had been previously adopted.<sup>212</sup> The committee's decision reflected the regime's security concerns. They regarded the Wasat Party a front for the illegal MB. In the words of Fahmi Howeidi, "the regime will not countenance a serious political party. Rather, the government wants farcical organizations in the mould of the twenty-four parties that currently exist."<sup>213</sup>

Furthermore, the Wasat Party initiative was not welcomed by the so-called old guard within the MB either. Deputy General Guide Hudaybi harshly criticized the new initiative, and ordered all Brotherhood members who had joined the new party to return to the MB or face expulsion.<sup>214</sup> According to Wickham, the official opposition of the MB leadership to the Wasat

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<sup>211</sup> Needless to say that the Committee was not neutral. Dina Rashwan, political analyst at Al-Ahram Centre for Political and Strategic Studies, notes "the chairman of the committee, Safwat El-Sherif, is secretary-general of the NDP, and its key two members, Moufid Shehab and Habib El-Adli, are both cabinet ministers affiliated to the ruling party. The rest of its members are chosen by the president who is himself the head of the NDP." *Al-Ahram Weekly*, 27 August - 2 September 2009, Issue No. 962

<sup>212</sup> *Al-Ahram Weekly*, 27 August - 2 September 2009, Issue No. 962

<sup>213</sup> *ibid.*

<sup>214</sup> As a result of this call, while many MB members left the Wasat Party, Maadi and 15 MB members officially resigned from the MB.

Party stemmed not only from a power struggle between two generations but also from a conflict between two visions of the MB's future. Wickham states, "one [generation was] emphasizing continuity with the past and the other seeking to push the Brotherhood toward a more modern interpretation of Islam on such sensitive issues as women's and minority rights, as well as toward greater pragmatism and flexibility in its relations with the outside world" (2002, 218). The MB leadership, having enjoyed almost a total monopoly over Islamic political society, feared the possibility that the new Wasat Party would cause a major change in the balance between the regime and the MB. What is certain is that the MB's fierce opposition to the Wasat Party contributed to the persistence of the current configuration of power in Egypt.

The political existence of the moderate Wasat Party and its limited role in comparison with the grassroots MB movement in Egyptian politics constitutes an important component for my puzzle in this dissertation. My question is why moderate Turkish Islamic actors were successful in transforming the secular state agenda toward political Islamic groups, while their Egyptian counterparts remained weak, marginalized, or even actively repressed until the 25<sup>th</sup> January revolution. Despite the Wasat Party adopting a more liberal position on various sensitive issues— including the role of Islam in political and economic life, principles of democracy, minority rights and liberal economy (in sharp contrast to the MB's public discourse)— it has remained weak in moderating political Islamic groups as well as in transforming the secular state agenda toward political Islam in Egypt.

The Wasat Party's economic policy is quite similar to the Turkish AKP which endorses a liberal economy, free market and greater integration to the world economy. In contrast to the MB, the Wasat Party did not take a critically radical position regarding the Egyptian economic

liberalization reforms. A Wasat Party official even said “we are not far away from the (economic) system in Egypt now with the exception of corruption” (in Yildirim 2010, 239).

Similar to the AKP’s views on the state in the economy, the Wasat Party Program of 2007 underscores that the state is responsible for the protection of private wealth and for providing the right incentives to the owners of capital to invest in development projects. The state is also equally responsible for achieving social justice. The party opposes the public financing of state-owned economic enterprises, and called for the privatization of most of them to cut state expenditures.

Like the AKP Party Program, the Wasat Party Program has a special section on the SMEs. The SMEs are defined as the backbone of the Egyptian economy. The party suggests that *zakat* (almsgiving) and *sadaqat* (voluntary donation) should be used for supporting and funding SMEs. It says “the role of *zakat* could be extended to support and fund SMEs which would contribute to overcoming unemployment and poverty” (2004, 12). The WP identified the main problems that the SMEs faced in the Egyptian economy as follows: 1) scarcity of funds, 2) difficulties in marketing, 3) complicated bureaucratic procedures, and 4) lack of administrative and technical support.<sup>215</sup>

One of my respondents from the Wasat Party supporters, whose company manufactures electrical cable in Alexandria, said that the Wasat Party’s emphasis on the SMEs and export orientated economy were highly important when the MB failed to formulate a clear economic policy. According to him, export oriented SMEs allowed the Turkish economy to achieve its growth potentials over the last two decades. For him, if the so- called Turkish model is relevant

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<sup>215</sup>Wasat Party Political Program 2004, 22, <http://www.alwasatparty.org>

for Egypt, it is only due to the success of the Turkish SMEs across Anatolia which made the marriage between market and Islam possible in Turkey under the AKP rule.<sup>216</sup>

While comparing the AKP and the Wasat Party, Yildirim argues:

Unlike the AKP where the party was able to build on the success of the liberalization program and compensate for the dislocations by way of increased social spending and unemployment benefits, the Wasat Party has been unable to find a healthy balance between a liberal economy and social protection, or a constituency to support its endorsement of the status quo. The outcome is minimal support among the peripheral business and masses” (2010, 249).

It would not be incorrect to argue that unlike the Wasat Party, the AKP was able to merge neoliberalism with communitarian ideas. This, according to Patton, is the AKP’s way of deepening the neoliberal project with important social justice implications. The AKP’s 2002 program convinced the electors on “the party’s intention to take on the nation’s serious problems of economic development, skewed income distribution, and poverty which are characterized as chronic problems rather than attributed to the consequences of the neoliberal restructuring” (2009, 438).

On the other hand, the Wasat Party failed to offer such a delicate balance between neoliberal policies and a social policy agenda to those who were frustrated by the distorted market policies of the Mubarak regime. A Wasat Party official I interviewed agreed with the aforementioned argument. He stated that in comparison with the MB discourse—which put a great emphasis on the critique of the implementation of economic liberalization and called for state intervention in economy—many might associate the Wasat Party’s emphasis on economic liberalism with the regime policies.<sup>217</sup>

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<sup>216</sup> Dissertation fieldwork interview in Cairo, in June 1, 2012.

<sup>217</sup> Dissertation fieldwork interview in Cairo, in January 25, 2012.

To conclude, unlike Turkey, the tense relations between the Egyptian state and political Islam was not able to be significantly changed without the revolutionary rupture of 2011. As explained in the previous chapters, moderate Turkish Islamic actors shaped by business interests, were successful in transforming the secular state agenda toward political Islamic groups in a “slow motion revolution,” while their Egyptian counterparts failed to do so. Together with the repressive state policies, the MB’s insistence of keeping its tactical ambiguities in its program also impeded the strengthening of alternative economic visions within the Egyptian Islam during the Mubarak regime as we have seen the case of the Wasat Party.

The revolutionary rupture on the other hand suddenly brought Islamic business groups within the MB into the public eye. The MB’s changing economic discourse after the 25<sup>th</sup> January uprisings seems to strengthen my argument that business interests were intentionally kept at a low profile within the MB as a result of MB’s strategy of unequivocal criticism of market policies as a way of challenging the regime and satisfying its support base for short-term political gains. It is my contention that this sharp critical stance of the MB towards structural adjustment policies further prevented engagement between Islam and the state during the market transformation in Egypt. In the next section, I will analyze the post-revolutionary MB’s economic stance to assess the possibility of the marriage between Islam and market policies (as in the case of Turkey) as well as the state-Islam relations in Egypt.

### *The Changing MB's Economic Discourse after the 25 January Revolution*

The MB has remained at the forefront of Egyptian politics to shape Egypt's future after the revolutionary events in 2011. It was the most organized opposition group at the right place and moment. In the first parliamentary elections after Mubarak's expulsion, the MB's Freedom and Justice Party (FJP) received the majority of votes in three separate rounds of voting in late 2011 and early 2012. In the presidential elections in June 2012, the MB backed candidate, Mohammed Morsi, won and became the first democratically elected Islamist head of state in Egypt.

What is quite striking is that after its impressive electoral victory, the MB softened its critique on liberal economy. Rather than taking an interventionist approach to the economy, the Freedom and Justice Party's 2011 electoral program calls for reconsidering the economic role of the state, giving a greater role for the private sector (p.28).<sup>218</sup> As Avi Asher rightly puts, the FJP's economic platform "praises the mechanisms of the free market and promises that the party will work for balanced, sustainable and comprehensive economic development. It is a program that any European conservative party could get behind" (2012). In this direction, the Morsi government accepted the outlook of the IMF which required further privatization and competition along with higher prices for consumer goods, new sales taxes and decreases in the number of state employees.<sup>219</sup>

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<sup>218</sup> For the FJP's program: <http://www.scribd.com/ikhwansocialmedia/d/73955131-FJP-Program-En>

<sup>219</sup> Many believed the proposed IMF loan would aggravate the current economic problems of Egypt. Here is part of the common declaration of the various parties, NGOs, syndicates and political movements who rejected the IMF loan during the Morsi rule: "There is no clarity on the part of the government about how the loan will contribute to a national economic plan of inclusive growth and social justice that addresses the structural problems of the Egyptian economy and meets the needs of the Egyptian people. We worry that this potential loan agreement and the policies connected to it will represent a continuation of the old regime's economic policies, particularly as they relate to the incursion of debt. The austerity measures associated with this potential loan agreement, including cutting subsidies as well as other deficit reduction policies, may aggravate the economic deprivation of a large section of the population, threatening their basic economic and social rights. With little transparency and no clear economic program, the potential loan agreement continues to lack the "critical mass" of support that the IMF requires as a

The economic policies proposed by the MB after the revolutions are quite congruent with the old socio-economic structure of the Mubarak regime. Even more ironic is that after the removal of Mubarak, Mubarak's economic policies were approved openly for the first time by the MB when Hasan Malek said to Reuters in November 2012:

The economic policies in force during Hosni Mubarak's rule were on the right track, but were overshadowed by blatant corruption and a culture of favouritism.

We can benefit from previous economic decisions. There have been correct ones in the past...Rachid Mohammed Rachid (Mubarak's minister of trade) understood very well how to attract foreign investment.

Hasan Malek was also tasked with establishing the MB's first business association; the Egyptian Business Development Association (EBDA) was in March 2012.<sup>220</sup> Malek explains how the EBDA came into being in an interview in the following manner:

Truthfully, before I came out of prison and during the period that Gamal Mubarak was being prepared to inherit the presidency, I decided not to take part in any business or trade in Egypt. Personally, I would not be able to operate in this environment, in which Gamal would be taking over, especially since this was the third time that I was brought before the courts and put in prison. I wasn't prepared to put up with this again.

After the 25 January uprising, I got involved with civil society work, especially as it related to businessmen, because in the previous period they did not play an appropriate role in society. Business should benefit the widest possible base of society, and not just a small tier, as was the case under Mubarak. I plan to accomplish this through EBDA.<sup>221</sup>

EBDA (which means start in Arabic) states on its website that its mission is to "enable businessmen to contribute effectively in boosting the Egyptian economy by attracting and encouraging investment, human development and developmental solutions along with the

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necessary condition for financial assistance. For that reason, we believe that negotiations for the proposed loan should be frozen." To see the entire letter <http://eipr.org/en/pressrelease/2012/11/12/1534>

<sup>220</sup> EBDA has 15-member board of directors composed of prominent MB businessmen, including Safwan Thabet of Juhayna group; Mohamed Moamen of Mo'men Group; Osama Farid of the Project Engineering Company; and Abdel Rahman Seoudi of Seoudi Holding.

<sup>221</sup> *Al Masry Al Youm*, 16 April 2012.

participation in decision making and economic legislation.”<sup>222</sup> By adopting the slogan of “It is never too late to start,” and putting a great emphasis on the SMEs, EBDA has launched one of its first projects to finance SMEs collaborating with the Social Fund for Development. According to Malek, “manufacturing, a trained labor force and enabling the private sector are the solution to the Egypt’s economic slump.”<sup>223</sup>

EBDA signed a cooperation agreement with the Turkish Islamic business association MUSIAD (Independent Industrialists and Businessmen’s Association).<sup>224</sup> All my interviewees from EBDA confirmed that the MUSIAD acts as a role model for the EBDA because of MUSIAD’s significant role in spreading wealth all over Turkey. One of my interviewees said that Mubarak’s economic liberalization policies were necessary to reform the Egyptian economy, but the fruits of these reforms were distributed only among his close circle because of his corrupt practices. EBDA, in his opinion, would be conducive to change these corrupt practices and to spread the benefits of business to all.<sup>225</sup>

As I argue in Chapter 1, MUSIAD provided a platform to voice the concerns and demands of the SMEs in manufacturing industry in the central Anatolian provinces in Turkey. When provincial Islamic business groups began to prosper and integrate with the global economy, they became committed to a more liberal and moderate stance in order to forward their own business interests. This process overlapped with the marginalization of economically disadvantaged radical sections of political Islamic groups in the growing liberal tide within the Turkish Islamic movement at the end of 1990s.

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<sup>222</sup> *Ahram Online*, 28 Feb 2012.

<sup>223</sup> Marwa Awad, *Reuters*, 20 October 2011.

<sup>224</sup> *Al Masry Al Youm*, 26 March 2012.

<sup>225</sup> Dissertation Fieldwork Interview in Cairo, in June 29, 2012.

However as opposed to the bottom-up approach of MUSIAD, EBDA came to existence through a top-down process in Egypt. It is not clear how EBDA would have been conducive to change in the Egyptian economy and to spreading the benefits of wealth to all in every part of Egypt if the MB had stayed in power. It is my observation that EBDA provided more rhetoric than substance. As Abul-Magd argues the MB businessmen lack any experience with manufacturing industry as their economic expertise is limited to retail business ventures and their economic capabilities are confined to managing big supermarkets and stores of imported luxury goods. She said “ Khairat al-Shater himself, deputy president of the Brotherhood –the supposed mastermind behind the so-called Renaissance Project –established nothing during Mursi’s first 100 days except for a new chain of supermarkets” (2012).

The increasing predominance of businessmen such as Khairat al-Shater<sup>226</sup> and Hasan Malek led to serious skepticism about the alliance between power and money within the MB in the post-revolutionary Egypt. An example of this is described by Abul-Magd. According to her, during the MB’s rule, Egypt has witnessed another illegitimate marriage between capital and power after the National Democratic Party’s cabinet of businessmen (2012). Rashad Abdo, a professor of economics at the Arab Academy for Banking and Financial Sciences also points out the same danger. He called Al-Shater “another version of Ahmed Ezz,” a steel tycoon under the Mubarak regime (Sabry 2012).

Al-Shater’s business empire and his personal wealth also revived discussions regarding the economic policies of the MB after the Mubarak regime. Al-Shater’s public endorsement of free markets, deregulation and other policies geared toward attracting foreign direct investment

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<sup>226</sup> In late March 2012, the MB nominated its biggest financier Khairat al-Shater as its candidate to become Egypt’s first president since Mubarak. High Election Commission disqualified Al-Shater from the presidential ballot in April 2011.

also contributed to these discussions (Hickel 2012). In one of his interviews, Al-Shater supported the pillars of neoliberal economics as follows:

It's very important within the current gap we are facing now, to depend on local, Arab and foreign investments in development program. Some people with ideological agendas might ask, "Engineer Khairat supports privatization and private sector?" I say there is no other choice for Egyptians except to focus on financing a great deal of development projects outside of the state budgets.<sup>227</sup>

During the one-year of MB rule, Egypt faced alarming economic problems and increasing social unrest.<sup>228</sup> According to the Egyptian Center for Economic and Social Right, there were over 3,400 protests over economic and social issues which is nearly five times greater than the number of protests in any year of the 2000s (Beinin 2013). Given the mutually contradictory economic and political orientations of the MB, the Morsi government had a serious economic challenge. Even though the 25<sup>th</sup> January Revolution shifted the MB discourse which openly favors further neoliberal economic reforms, the effects of this process continues to create challenges for merging neo-liberalism with Islam in post-revolutionary Egypt.

A businessman (no affiliation with any Islamic parties) whom I interviewed in Cairo right after Mohammed Morsi's victory in presidential elections in June 2012 said the more the MB expanded the scope of its neoliberal orientation laid out by Mubarak, the less it will be able maintain its traditional discourse; the discourse which first appealed to the poor and working class. Therefore according to him, a greater discontent within the MB's base of support would be inevitable after its engagement in political and economic life.<sup>229</sup> Ibrahim Saif also makes a similar argument. He argues as follows:

Proposals for streamlining public outlays do not take into consideration the potential loss of jobs and downsizing of certain public institutions. The public sector's share of the

<sup>227</sup> Omnia Al Desoukie, *Special to Daily News Egypt*, April 12, 2012.

<sup>228</sup> A budget deficit is around 11 per cent of GDP and inflation is around 10 per cent.

<sup>229</sup> Dissertation Fieldwork Interview in Cairo, in June 28, 2012.

workforce in Egypt is one of the highest in the world; restructuring it while the economy is fragile would be an exceedingly delicate affair, both politically and socially. Similarly, these types of policies will most likely harm professionals and middle- and low-income earners, the Brotherhood's traditional bases of support.<sup>230</sup>

### *Conclusion*

At the time of writing this chapter, Islamist President Mohammed Morsi, in office only a year as the first democratically elected leader of Egypt, was ousted from power by the military in July 2013, and the Egyptian court banned the Muslim Brotherhood and ordered its assets to be seized.<sup>231</sup> The recent developments of the post-revolutionary Egypt demonstrate that even though the revolutionary uprisings of 2011 brought sudden changes to the dynamics between state and political Islam, those changes are not profound ones.

As my research in the case of the Turkish state reveals, that the ability of Islam to operate within the framework of the state was the result of a longer process (Mardin 1989). Although various sects, Islamic orders and religious associations were closed down by the state, they never fully disbanded. They went underground and found less conspicuous ways to survive. After the introduction of the multiparty system in 1950, various Islamic groups started penetrating into the state structure. Along with an expanding free market, the 1980 coup embraced the idea of a “national Islam” through the policies of the Turkish-Islamic Synthesis. This process resulted in the development of provincial Islamic business groups. As these groups began to prosper, they created vast resources outside the control of the Turkish state and invested these resources in

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<sup>230</sup> “The Economic Agenda of the Islamist Parties,” <http://carnegieendowment.org/2012/05/29/economic-agenda-of-islamist-parties/b0fo>, May 2012.

<sup>231</sup> <https://www.middleeastmonitor.com/news/africa/8982-egypt-freezes-assets-of-93-large-companies-owned-by-muslim-brotherhood-affiliates>

their political party (the AKP) which became a guard for business interests. The AKP has evolved over its more than three decade life-span and become a moderate version of itself by eradicating most of its radical tendencies within Turkish political Islam. In the process of “slow motion revolution” in Turkey, the AKP inherited a considerable amount of political and economic experience on national and municipal levels across Turkey.

On the contrary, in the process of the transformation of the Sufi orders into the bureaucratic structures of the Egyptian state, the political Islam (represented mainly by the MB) constituted its legitimacy apart from the state. In its search for holding a secure place in the bipolar system in Egypt, the MB prioritized welfare activities and adopted strong criticism of market policies as a way of satisfying its support base during the Mubarak regime. The MB strongly supported interventionist state that would alleviate the effects of the structural adjustment policies while it constantly called for a limited state power in policies. As a way of keeping this contradiction unresolved, business interests were kept at a low profile in the MB’s engagement with the state. Not only the regime’s iron fist policy, but also the MB’s calculated tactical ambiguities in its public discourse plagued the business groups within the MB during the Mubarak era.

## CONCLUSION

This dissertation examines Islamic businessmen's opposite experiences in Turkey and Egypt. It particularly analyzes the roles of Islamic business groups in creating opportunities for influencing policy outcomes in their respective secular states. The comparative analysis of the experiences of Turkey and Egypt, with respect to state-Islamic business relations, illuminates more theoretical questions of why some states were able to transform their relations with political Islamic groups, while others failed to do so. By emphasizing the dynamic nature of state-Islam relations, my dissertation argues that Turkish Islamic entrepreneurs' commitment in favor of a liberal democracy and free market contributed to ease the tension between the secular state and Islam since the ascension of the AKP in the last decade. Egypt, in contrast, continues to experience severe crisis between political Islamic movements and the state, and the MB, the most influential Islamist organization in the country, keeps being excluded from the political system.

The major theoretical contribution of this dissertation concerns the study of transformation of the state-Islam relations. A comparison of the contrasting outcomes of the relations between the state and Islamic groups in Egypt and Turkey in recent years reveals some of the difficulties with the existing literature's neglect of the mutually transformative relationship between the state and Islamic movements. My approach takes a critical stand towards conventional explanations that focus on the changing nature of the state-Islam relations through the social movement literature and state-centered approach. As I explain in my introductory chapter, the last decade has brought far reaching changes in the strategies and goals of Islamic movements in the Middle East. The rise of "moderate Islamic parties" or "Muslim democratic parties" has been pivotal to scholarly and public debates about the prospects of democracy in the

Middle East. The social movement literature seeks to explain the moderation of Islamic political movements by focusing the changes experienced by Islamic groups through strategic calculation and political learning thesis. However, it fails to explain the differing scale of Islamic moderation and of the state accommodation of Islam in my cases. Even though the Wasat Party adopted a resolute pro-business stance, unlike the Turkish AKP, it did not prove to be a viable alternative for reconfiguring the course of Islamic politics in Egypt.

I criticize state-centered model for taking state policies as an independent variable and assigning to Islamic groups a reactionary or defensive role. The state-centered approach is inadequate for explaining various circumstances which pressure states to change antagonistic relationships with the social forces. This model ignores the extent to which state policies are formed as a result of the engagement between different Islamic groups and the state.

In contrast, I attach to importance how various Islamic forces and states shape each other and the political map of their countries. This dissertation starts with a claim that the state's accommodation of Islam can be explained by the extent to which Islamic groups were attached to market forces during the process of market transformation. Islamic groups' behavior over time and their differences from one another in undertaking a market-oriented direction can be explained through different levels of engagement of Islamic groups with elements of the state. I suggest that the levels of engagement of Islamist with the state are shaped by the nature of market coalitions during economic liberalization, and localized versions of Islam with a particular emphasis on the strength of religious community structures in both countries.

This dissertation attempts to demonstrate that economic liberalization processes are crucial for understanding Islamic group's difference from one another in formulating a market-friendly Islam in my cases. My empirical findings in the preceding chapters show that the

variation between Turkey and Egypt in terms of the state's incorporation of Islamic business groups had been a noticeable difference during the economic liberalization. Instead of analyzing economic liberalization policies in a vacuum, this study highlights that alignments between the state and various social forces determine the course of market reforms and, in turn, are determined by them. I explain how economic liberalization policies establish a "critical juncture" by creating new political and economic reorientation in society.

During the process of economic liberalization there was a mutually reinforcing interaction between provincial, medium-sized business (which have been dominated by Islamic businessmen) and the state in Turkey. As these provincial Islamic business groups gained more leverage and bargaining power based on their integration with the global economy, they supported substantial liberalization processes. Their commitment in favor of a democratic and liberal system, in turn, contributed in increasing the state's engagement with Islamic business groups, and eventually shifting the state's position favorably towards the political-business Islamic groups.

The state-small business market coalition in Turkey provides a stark contrast to Egypt where the implementation of economic liberalization policies was based on a market coalition between the state and big business, and the exclusion of small and medium sized enterprises in the peripheral quarters. The lack of alignment between different sections of the society and the market reforms refurbished class struggles which empowered ideological rigidity within political Islam in Egypt.

While analyzing the formation of market coalitions, I came to understand that actors' strategic decisions in the process of economic liberalization were also shaped by the different Islamic fields in my cases. By tracing the historical evolution of the Sufi Orders in Turkey and

Egypt, my study identified a striking relation between the existence of strong religious community structures and the success of Islamic business groups. Religious communities (specifically, the Iskenderpasa Community of the Naqshbandi Order and neo-Nurcu Gulen Movement) had significant roles in formulating “market friendly” Islam, and finding innovative ways to incorporate their members into politics in Turkey.

This is contrasted with the main conclusions drawn from my research on the Egyptian Islamic field where the Sufi Orders were subordinated into the bureaucratic state structure, and the MB reinforced its central position not only in the course of Islamic politics but also in the bipolar system in Egypt. As the economic liberalization proceeded and yielded negative outcomes, the MB’s ability to prioritize welfare activities and to adopt an anti-market position played a significant role in increasing the MB’s support base. Not only repressive state policies, but also the MB’s constant inertia in fixing its ideological inconsistencies, which was in favor of a strong state intervention in the economy, and a limited state power in politics, seriously damaged its own capacity of producing a clear socio-economic project that would also contain Islamic business groups. Despite having a lot of business interests involved in the organization, the MB was caught using anti-market arguments to attack the regime. The MB deliberately chose not to draw attention to the existence of business groups in its own circle, and prevented developing a moderating, Islam-business type movement that would seek greater accommodation within the regime for furthering its economic goals.

This dissertation by no means argues that Islamic business groups who constituted the driving force behind the Turkish Islamists’ support for liberalization processes are consistent agents of democratic consolidation. My preceding chapters agree with Nasr’s argument which claims that Muslim democratic platform has emerged in societies where the private sector

matters. “The less state-dependent and more integrated into the world economy a country’s private sectors is, the more likely is that country to see Muslim Democracy gain traction as a political force” (2005,18).

My study suggests that closer examinations of Islamic business groups’ increasing interests in the economic liberalization process are central to understanding their adherence to a secular framework of the state, democratization and liberalization in political life in that *particular* period of time. As Bellin suggests, capital and labor are contingent, not consistent, democrats. This contingency, moreover, is not random. Support for democratization turns on whether capital and labor see their economic interests served by the authoritarian state” (2000, 204). My dissertation argues that Islamic business groups reconsidered their political preferences towards economic liberalism and democracy and became “contingent democrats” to protect their material interests as well as their Muslim identities in the late 1990s and early 2000s. Due to their increasing interests from economic liberalization process, Islamic business groups chose the path based on a strategy of co-existence and avoided direct confrontation with the state in Turkey. Their liberal stance in favor of business interests was at odds with the exclusivist and anti-market discourse of radical Islamist parties. They played an important role in the articulation of pro-business ideas as well as the issues of civil and democratic constitution and a limited state role in economy in the formation process of the new conservative democratic party, the AKP. The focus on Islamic business activity in turn led to the transformation of a conflict-ridden relationship between the state and Islam in the Turkish politics.

During the period that I conducted research and wrote this dissertation, many important developments took place in the political scene of Turkey which demonstrated that Islamic business groups’ initial adherence to democracy is subject to change as their dependence on the

state increases. After its first striking electoral victory in 2002, the AKP sought to build alliances with various groups and movements in order to initiate a broader political and economic reform agenda, focused on demilitarization of the political system and economic growth yet with implementation of enhanced social services. In this process, the AKP successfully established networks of economic and political interdependence with the emergent Islamic capitalist class through lucrative contracts and business friendly reforms (Karaman 2013). Social assistance administered by local governments is one arena where we can see the AKP's networks of economic and political interdependence with provincial Islamic capitalists. Even though social policies of the AKP government were not my direct focus during my dissertation fieldwork research, my interviews with various Islamic businessmen revealed that they provide an important source for social aid through donations (in return for lucrative contracts) at the local level. Patterns of fund raising in social assistance keep reinforcing the clientelist relations between provincial Islamic business networks, municipalities and the central government in Turkey. Therefore, here I suggest that further research is warranted to explore how the AKP reshaped the state's engagement with Islamic business groups by reinforcing circular relations between the central government agencies, provincial Islamic businesses and local municipalities in Turkey. This understanding is also important to see that electoral victories of the so-called moderate Islamic parties do not automatically bring sustained democratization.<sup>232</sup>

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<sup>232</sup> The AKP enjoyed three successive electoral successes in 2002, 2007, and 2011 with ever-increasing margins. The AKP, which came to power by showing its commitment to a secular political regime and to the rules of a democratic political system, has failed to make democratization sustainable and to establish public accountability of power and public participation in the political process (Tezcur 2009). Contrary to certain expectations of many, who already celebrated the AKP's unique role in the consolidation of Turkish democracy, the AKP under Erdogan's undisputed authority, took bolder steps to institutionalize its control over almost all of the judicial, political, economic and social bodies by exacerbating the delusive war between democratic and tutelary forces in the country. At the time of writing this concluding chapter, Turkey continues to relapse into the authoritarian practices with its devastated legal and institutional structure under the AKP government. The increasing authoritarianism of the ruling AKP keeps creating severe discontent that has manifested itself in various occasions, most notably during the Gezi protests in the summer of 2013 in Turkey.

In the case of post-revolutionary Egypt, new sets of even more challenging questions were generated on the state- Islam relations as well as the future of Islamist political project. As Brown suggests, when Mohammed Morsi was ousted from the Egyptian presidency on July 3, 2013, political Islam entered a new era, “at least in Egypt, a country which had given birth to perhaps the most successful model of a formal movement, the Muslim Brotherhood. But it was not clear what direction that movement would take” (2014).

After the removal of Mubarak, Egypt’s brief interlude between the military regimes provides us with useful empirical material on triangular relationship among the state, Islam and business in the post-revolutionary Egypt. As Chapter 4 shows that short-lived experiment of the MB regime gave a glimpse at the MB’s ruling project after the 25<sup>th</sup> January Revolution. Contrary to its previous economic discourse, the MB did not by any means propose establishing an alternative economic system, but it accepted the same outlook of the Mubarak regime’s neoliberal policies which required further privatization and competition along with higher prices for consumer goods, new sales taxes and decreases in the number of state employees and the state subsidies.

This period also brought the MB-related Islamic businesses into the public eye more than ever. After having being released from prison, the MB businessmen regained their confiscated assets and expanded their economic activities. Inspired by the Turkish MUSIAD, the MB entrepreneurs organized themselves into the businessmen association, EBDA, in March 2012. Although the main objective of EBDA was to facilitate the MB businessmen’ economic activities, being a member of the MB was not a precondition to join the organization.<sup>233</sup> According to Roll, in founding EBDA, the Brotherhood leadership also sought the objective of

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<sup>233</sup> EBDA also had some Christian members.

expanding relations with the business elite. In this line, some businessmen who were considered having close relations with the Mubarak regime joined the EBDA. The most prominent names were the textile manufacturer Mohamed Farid Khamis (Oriental Weavers), the cable producer Ahmed el-Sewedy (El Sewedy Cables), and the banker Abdel Salam al-Anwar who was on the board of Gamal Mubarak's charity organization, the Future Generation Foundation (2013, 16-17).

However, unlike the Turkish AKP, the Morsi government failed to achieve adequate support from various social forces and movements. Non-Islamic established business elite was the crucial one. Members of the business elite played a significant role in the culmination of the opposition campaign for Morsi's resignation. Especially, the media and pharmaceuticals tycoon al-Sayyid al-Badawi and the Coptic businessman Naguib Sawiris became quite influential in opposition to the MB by funding the anti-MB parties/movements as well as the mass media.<sup>234</sup> Certain major companies even refused to invest in Egypt, and announced their intention to leave.<sup>235</sup> One of my interviewees from the Egyptian Businessmen Association vocalized the business elite's opposition to the Brotherhood in the following way:

I have been rejecting to join Morsi's foreign trips. There is no way for me to be part of the Morsi's business delegation. Morsi, and the MB do not represent Egypt. They don't know anything about how to rule a country. I cannot lie by saying "come and invest in Egypt."<sup>236</sup>

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<sup>234</sup> Sawiris is the owner of the daily *al-Masry al-Youm* and ONTV, and al-Amin is the owner of the Capital Broadcasting Center (CBC), *al-Nahar* and the daily newspaper *al-Watan*.

<sup>235</sup> Egypt's biggest construction company, Sawiris's Orascom Construction Industries was the prominent example. For more information see, <http://www.egyptindependent.com/news/sawiris-oci-looks-move-outside-egypt-and-its-stocks-may-follow>.

<sup>236</sup> Dissertation fieldwork interview, in Cairo, in April 2013.

During the one-year of MB rule, Egypt experienced severe economic problems and increasing social unrest. Grippled by difficulties arising from economic problems and increasing social unrest, the MB found it difficult to steer its base in neoliberal direction. While comparing the Turkish and Egyptian religious movements' responses to neoliberalization in the last decades, Tugal argues "making Islam compatible with neoliberalism would be more difficult in a country with a fragmented religious field, such as Egypt" (2012, 23). Following the January Revolution the fragmentation of the religious public sphere drastically increased in Egypt.<sup>237</sup> Due to increasing fragmentation of the religious public sphere, the spectrum of political Islam in Egypt is no longer limited to the MB and parties that derived from it (Brown 2011, 2). Different Islamic groups, such as the Salafis, the jihadists (Jamaa Islamic and Egyptian Islamic Jihad) and Sufis formed their own political parties in an attempt to shape Egypt's future and they all have divergent views on economic issues. Ultraconservative Salafi parties –Nur, Asala and Building and Development – in a coalition called Islamist Alliance obtained 25 per cent of the vote and secured 33 seats in the parliamentary elections in November 2011-January 2012, and constituted themselves as a strong Islamic political actor in the post-revolutionary Egypt. Salafi involvement in Egyptian politics since the January Revolution excused some Brotherhood members to adopt a socially and economically conservative agenda in order not to lose its votes to the Salafi parties during the short period of the MB's rule.

The July 2013 coup has further contributed to the schism within Islamic field in Egypt. The Salafi Al-Nour Party and the sheikh of Al-Azhar supported the military intervention against the Morsi government. Thus, further inquiry requires additional research on such fragmentation

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<sup>237</sup> The number of the political parties based on Islamic references is around fifteen.

and the dynamics of interest formation in the Egyptian Islamic field in the aftermath of Morsi's ouster.

The recent developments in both countries provide us some hints regarding the new conceptual and empirical challenges facing the study of Islam and the state relations. Overall, this dissertation hopes that the comparison of Turkey's and Egypt's contrasting experiences with respect to state-Islam interaction contribute to the broader discussions on the importance of interest formation within the Islamic constituency. Analyzing the conditions under which economic interests of Islamic business groups could create an impetus for a liberal and democratic political system in Islamic circles provides important insights into our understanding of the transformation of the state's engagement with political Islamic groups. This dissertation would directly engage with the debates on the current crisis between political Islamic movements and the state as well as the future of Islamist political project during the tumultuous times in the region.

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