

Conclusion

Informal Markets and the Politics of Identity

Transnational Linkages and Islamist and Ethnic Mobilization

One of the central arguments of this book is that economic globalization is not a homogenous process. The course of economic and political development, even within the constraints of the international economy, produces a variety of outcomes based on the *type* of transnational economic linkages, the balance between state elites and civil society groups, and locally specific cultural traditions. This comparative study of Egypt, Sudan, and Somalia provides some general conclusions with respect to the relationship between shifts in the international economy, the expansion of informal markets, and the emergence of new identity-based forms of collective action.

First, the increase in “internationalization” (i.e., the increase in capital and labor mobility) in the form of remittance inflows does indeed produce similar macro-institutional responses. In the cases of Egypt, Sudan, and Somalia, in the boom, these capital inflows circumvented official financial institutions and undercut the states’ fiscal and regulatory capacities while simultaneously fueling the expansion of the informal market in foreign currency. In each case, the integration of domestic financial sectors with international financial markets increased with the expansion of parallel, or black, market activities. The consequence of this capital mobility was to weaken the effectiveness of capital controls imposed by formal banking institutions. During the era of the boom in labor remittances, this forced state elites in all three countries to forego some control over the allocation of these capital inflows in the hope of capturing at least a fraction of these resources.

Second, absent bureaucratic regulation, these informal markets came to be “regulated” by indigenous religious and ethnic networks. However, while these informal markets expanded in the context of the ineffectiveness of legal and bureaucratic institutions, they did not represent the free interplay of market forces. Moreover, the expansion of informality over

the last three decades cannot be attributed merely to globally induced economic changes; it was caused primarily by deliberate state policy including excessive state regulation, cutbacks in social services as part of economic austerity measures, and extreme levels of state repression. In addition, the consequences of these developments have varied depending on the specific socioeconomic features of each country.

Finally, since capital accumulation generated by the monopolization of labor remittances generally accrued to private groups, state elites met this political challenge with brutal reprisals against newly mobilized groups in civil society operating within the informal economy. Ultimately, despite their initial similarities, the divergent outcomes in Egypt, Sudan, and Somalia attest to the crucial role of informal institutional arrangements in explaining political developments, namely identity-based forms of collective action. In this instance, the development of Islamic and ethnic politics in the three countries reflects prior political conflicts between state elites and actors in civil society over the monopolization of informal markets. Informal social networks, particularly religious and ethnic-based trust networks, played a key role in collective mobilization by regulating informal financial and labor markets and controlling entry into lucrative informal economic activities.

Informal Markets, Collective Action, and the State: Breaking Down the Conventional State-Society Dichotomy

Whereas most scholarship on the state and civil society in Africa and the Middle East has often assumed a falsely dichotomous and antagonistic relationship between state and society in developing countries, the politics of informal markets in Egypt, Sudan, and Somalia has confirmed speculation that they are closely intertwined. In these countries, the state and groups engaged in informal activity have operated both symbiotically and in conflict – the latter at moments when the state has perceived the parallel economy as depriving it of significant revenue; the former when key state agents, who are engaged in currency trading, sought to accumulate wealth and cooperate with informal entrepreneurs. In Egypt and Sudan, state elites not only participated in the burgeoning expansion of black marketeering but also eventually promoted Islamic financial institutions in an attempt to corner the market on these foreign exchanges. Ironically, this development allowed for the consolidation of an Islamist commercial class that facilitated the latter's subsequent capture of state power in Sudan and promoted the political profile of the Islamists in Egypt.

Similarly, over the same period the dictatorial regime of Siad Barre in Somalia encouraged the not-so-“hidden” economy by removing all restrictions on remittance inflows and instituting a system whereby merchants could import goods on a free market basis. Due to historical and institutional conjunctures and the social structure specific to Somalia, these policies aggravated clan cleavages, facilitating the societal collapse that ensued. While the state in all three countries enjoyed a systemic connection with, and even stimulated, informal economic activities as a way to promote political patronage, all three states eventually had to react violently against what Polanyi has termed “market society.”¹ As the informalization process continued, all three societies conformed to the dictates of a self-regulated market in the context of weak regulatory institutions. In Egypt and Sudan, the development of Islamic financial institutions offered protection for the few inspired by ideological linkages with political Islam by organizing their access to money supply under an institutionalized market system. In Somalia, no institutional protection was forthcoming and with the collapse of traditional structures a new and unprecedented level of social disintegration set in.²

To elaborate on these general propositions in more specific empirical terms, in the first section of the book I provided an analysis of the oil boom years and their effect on state-society relations in ways that resulted in the rise of a new politics of identity in Egypt, Sudan, and Somalia. The subsequent three chapters detailed the relationship between the inflow of labor remittances and its role in Islamic and ethnic politics in the three countries. Chapter 1 on Egypt detailed the ways in which workers’ remittances and the flow of petrodollars in the boom provided initially capitalization of Islamic banks and a host of Islamic investment companies that operated outside the system of state regulation. Along with labor migration this new “Islamic economy” resulted in raising the political profile of the middle-class Islamist movement in Egypt. I also argued that the boom in labor export and remittance inflows helped shape Egyptian national economic policy in important ways. In particular, out-migration and the expansion of the informal economy afforded the Egyptian state enough “relative autonomy” to expand the private sector and accelerate the decentralization of the country’s economy, which led to the internationalization of the Egyptian economy. However, these policies had two important unintended consequences. First, economic reform policies opened the door for Islamic financial institutions, which helped popularize the Islamic movement in Egypt. Second, it inadvertently facilitated a boom in informal housing and the informalization of the labor market in the poorer sections of Cairo. The latter, in particular, helped set the social

and economic conditions that were to provide a fertile ground for the recruitment of Islamist militants.

Chapter 2 chronicled the political economy of Sudan during the same period. As in Egypt, in Sudan the remittance boom produced a similar macro-institutional response as the flood of labor remittances similarly circumvented official financial institutions, undercutting the state's fiscal and regulatory capacity and fueling the expansion of informal foreign currency trade. I showed that these initial developments paralleled those of Sudan's northern neighbor in two interrelated ways. First, as in Egypt, the boom witnessed the rise of a distinct Islamist-commercial class. Second, Islamists activists were able to successfully monopolize both informal finance and the Islamic banking sector. However, in contrast to Egypt, by the summer of 1989 Sudanese Islamists were able to take over the levers of state power via a military coup. I attributed this divergent political development to Sudan's weaker state capacity, the extreme weakness of Sudan's formal banking system, and the uninterrupted overvaluation of the Sudanese pound in this period. Consequently, in contrast to Egypt, the financial power of the Muslim Brethren (*al-Ikhwan al-Muslimeen*) continued to increase in relationship to the state, and the latter continued to profit from the informal financial (i.e., "black") market.

Chapter 3 addressed the impact of remittances on clan politics in Somalia during the boom. In comparison to Egypt and Sudan, Somalia possesses the weakest state capacity with almost no formal financial institutions of any kind. While I showed that the boom in remittances also reduced the Somali state's ability to regulate the economy, I also highlighted the fact that the consequences of this development differed in important ways. Specifically, in contrast to both Egypt and Sudan during the boom, in Somalia informal financial networks facilitated a thriving commercial sector comprised of firms oriented around kinship networks (i.e., clans). It was not religious or class affiliations, but rather ethnic mobilization that became the most politically salient. The Somali case poses the important question: why would a country with an exclusively Muslim population not go the way of Egypt and Sudan? I attributed this difference to two factors: first, the very dearth of private, formally organized institutions necessitated the reliance on household economies; second, the manner in which the informal channels utilized to transfer remittances operated had the consequence of reinforcing the clan and subclan cleavages in economic and political terms.

In the second section of *Black Markets and Militants* I examined changes in state-society relations in the three countries in the context of recession, economic reform, and, in the case of Somalia, state collapse.

I maintained that this period of economic contractions was indeed positively correlated with new levels of political violence, albeit with different consequences for civil society in the three countries. More specifically, I argued that the post-1986 period, characterized by “shrinkage” in the size of informal foreign currency trade and economic reforms, resulted in the reconfiguration of informal economic and social organization with different consequences in each country. In all three countries, as the financial and political power of groups engaged in the informal economy rose, state elites struck back against the informal realm. Beginning with Egypt, in Chapter 4, I showed that only in Egypt was this successful. Specifically, in 1991 the Egyptian government liberalized the exchange rate in order to discourage foreign currency speculation and to re-direct labor remittances into formal institutions. As intended, financial liberalization did undercut the Islamist monopolization of informal finance. However, rather than eliminate informal economic activities altogether, these policies altered the social composition of the informal economy. In particular, as in other labor exporters, a key consequence of the internationalization of the Egyptian economy was the expansion of the informalization of domestic markets in housing and labor. In the third chapter on Egypt (Chapter 7) I showed how this development played an important role in the rise of Islamist militancy in the informal quarters of Imbaba, Cairo. Specifically, I illustrated in detail the ways in which radical Islamist groups were able to exploit new conditions of economic uncertainty to recruit from among the denizens of the some of the informal housing quarters of greater Cairo. An important reason behind the popularity of radical Islamists among the underemployed residents was due to the ways in which their leaders utilized highly coercive methods to settle disputes, enforce scarce labor contracts in the informal labor market, while simultaneously preach against the ills of conspicuous consumption in their sermons. In other words, both material and ideological factors played an important role in the popularity of the militants.

Chapter 5 chronicled the assumption to power of the Islamists in Sudan. In contrast to Egypt, in Sudan the recession and attendant economic reforms resulted in the consolidation of an Islamist-commercial class that forged an alliance with the military and captured the state. Whereas in Egypt the state “won the battle” over the informal economy, and its competition with the Muslim Brotherhood over rents accruing from labor remittances, Sudan witnessed the opposite outcome. In contrast to developments in Egypt, in Sudan the Islamists were successful in monopolizing informal finance and Islamic banking which they used to finance their movement and eventually realize their greatest political ambition by taking over the levers of state power. Moreover, having

gained control of the state, the Sudanese Islamists considered it vital to marginalize rival groups in civil society, enact economic reforms geared toward maintaining power, and recruit jihadist elements particularly among the poorer segments of the population. However, I also demonstrated that in the context of Sudan's changing political economy from a labor to an oil exporter, the jihadist experiment of the Islamists declined in political terms as opposition from subnational groups increasingly isolated the regime in Khartoum. Two consequences of this "fall" of Sudan's jihadist policies have been the impending separation of South Sudan, and the remarkable and historic pro-democracy popular uprising, which ultimately led to the fall of the Islamist-Authoritarian regime of Omer al-Bashir in April 2019.

The final chapter on Somalia (Chapter 6) chronicled the fateful and fatal consequences of the collapse of the Somali nation-state. I argued that in the wake of state disintegration Somali politics continues to be greatly influenced by its internationalized economy. Specifically, I showed how the informal economy's relative efficiency in facilitating the transfer of labor remittances, and the extent to which informal social networks in the form of both clan and religious networks control the wages of expatriate Somali labor continues to determine the political fortunes in many parts of the country. Moreover, in northern Somalia in particular, this has led to the emergence of regionally based political organizations and nascent state-building efforts, which have enjoyed varying levels of success. Thus, whereas Egypt and Sudan stand as examples of the shifting fortunes of Islamist activism within the context of economic and political change, Somalia calls into question the very principles and conventional understanding of national "sovereignty" where the modern internationally recognized state has simply ceased to exist.

Failed States, the Criminalization of Informal Networks, and the Global War on Terrorism

I conclude *Black Markets and Militants* with an analysis of some important lessons my comparative analysis of Somalia, Sudan, and Egypt provides with respect to some of the misconceptions and long-term repercussions associated with the global war against terrorism and Islamist extremism. The cases of Somalia and Sudan in particular help us to tackle two important questions: the first has to do with the linkage between informal hawwalat financial systems and Islamist extremism; the second is the question of whether failed states actually serve as an effective haven for militants and terrorists, as many have assumed. Building on my field

research, and contrary to conventional wisdom, I have demonstrated empirically that rather than facilitating the rise of Islamist extremist groups (or financing terrorist organizations), the financial flows sent via these informal banks by Somali migrants have actually reinforced kinship networks as the most important political and social institution in Somalia. This is because these transfers are regulated by norms of reciprocity and trust embedded in clan and familial relations. Moreover, it is for this reason that militant Islamist groups in Somalia have not been able to monopolize these hawwalat transfers to fund their organizations. This is clearly evident by the fact that since the collapse of the Somalia state, Islamist militants have attempted to generate financing, not through the hawwalat, but by attempting to control the port economies of the country. Based on interviews with hawwalat operators, I have also argued that the latter do indeed harbor an Islamist form of political identification. However, I have also shown that this is a form of moderate Islamism that is similar to other Islamist capitalists, which represents a moderate rather than a militant form of Islamist activism. Indeed, rather than focusing on informal banks as an arena of terrorist finance and risking a more militant version of anti-Western sentiment, policy makers should engage more moderate Islamists in Somalia to undermine the efforts of extremists to exploit an increasingly poor, uneducated, and young population in the country.

In addition, the absence of state institutions in much of Somalia does not necessarily provide a safe haven for terrorists. This is because the popularity of militants among local populations is dependent on their own capacity to provide public goods and contract enforcement more effectively than state authorities. In this regard, it is important to note that what made Afghanistan so useful to Al-Qaeda in the mid-1990s was not the failure of the state, but rather the fact that they relied on the state to protect its members from attack and to provide its leadership with important benefits.

Similarly, the “failed states” of the Horn of Africa do not afford global terrorists networks such benefits. This is due to four challenges that confront militant organizations. The first challenge is the lack of government-enforced order that is needed to provide security against local authorities. Second is the unreliability of local allies. As I have shown, clan ties are still the most important source of identification for Somalis, and terrorists cannot depend on the commitment of Somalis for Islamist extremist causes over their strong adherence and loyalty to their clan or subclan. The third challenge is that the better an area is for training militants, the more remote and sparsely populated it is and the harder it is to meet basic sustenance needs. Finally, on the question of

terrorism financing, it is important to note that terrorists face the challenge of getting fiscal resources in place. In Somalia financial services continue to be weak. Most importantly, Islamist militants have not been able to effectively use the *hawalaat* to provide key financial services to terrorists in weakly governed areas. This is the reason why Somalia, with its collapsed state, has not served as a fertile breeding ground for global terrorism (i.e., al-Qaeda), despite popular arguments to the contrary. The al-Shabaab organization is indeed a militant organization, but the roots of its extremism are rooted in local and regional factors³ and not due to the expansion of hawalat agencies in the country.

By contrast, as I demonstrated in the case study of Sudan, jihadists function more successfully under regimes that are able to provide both, security from external attack, as well as the necessary financing and labor recruitment to organize jihadists. In fact, existing security vacuums have not proven to be a viable base for exporting attacks abroad. From this perspective, policy makers should be concerned with “ungoverned” spaces only so far as they allow terrorists to operate openly. Instead, a greater focus should be paid to states that have promoted militant forms of Islamism and where terrorists have at various times found it useful to operate from. Indeed, what seems to be of the utmost importance to jihadist leaders is not the existence of a security vacuum and “fragile states” as such, but the potential of establishing new functioning state institutions under jihadi control as was the case of the Sudan.

If the cases of Somalia and Sudan demonstrate the pitfalls of locating the roots of terrorism in the absence of state institutions and informal financial markets, the case of Egypt highlights the misconceptions associated with the criminalization of Islamic Welfare Associations. The most important misconception here has been the persistent conflation of Islamic Welfare Associations with Islamist militancy, with little analysis as to the socioeconomic roots of extremism. What is crucial is for policy makers to distinguish clearly between the causes underpinning the rise of the moderate Islamist movement and extremism. On the one hand, I have shown that the rise in popularity of Egypt’s Islamist social movement was due to two linked developments. The first is associated with the retreat of the state from its provision of welfare services, and the related “absence” of viable formal state institutions in both the middle class as well as the poor neighborhoods of urban Cairo. The second related trend is the expansion of a host of Islamic Welfare Associations that have essentially filled the gap of welfare and social protection in the context of the diminished economic role of the state.

However, whereas a major assumption in the scholarship of terrorism assumes financial incentives to be primarily responsible for militant or

terrorist recruitment, I have shown that Islamist extremism is contingent on locally specific economic, social, and political transformations that are exploited by a minority of militant activists. In other words, to say that the moderate Islamist trend in Egypt has been largely invigorated by the spread of Islamic Welfare Associations does not necessarily implicate them in the support and financing of extremist groups. Based on my research, far more significant has been the role of the density of small private mosques in the neighborhood. It is here that militant preachers deliver persuasive sermons to the community and where young children and youth are recruited via both material and social incentives and the promise of both upward mobility and an elevated social and political status. To be sure, over the last four decades, socioeconomic changes have altered the demography and job prospects of local residents in urban Cairo in important ways. But I have argued that Islamists militants were able to capitalize on these developments in very specific ways that had little to do with the role of Islamic charitable giving financing these groups. Specifically, the militant Islamic Group found it possible to diffuse a particular form of family-based Islamic norms through the establishment of a dense network of unregulated private mosques that provided a wide range of social services. Presently, many of the social services in the poorest sections of Cairo are underwritten by Islamist activists, rather than by state institutions such as the local councils (*Majalis Mahliyya*) and governmental Developmental Associations (*Munazamat Tanmiyya*). As a consequence, Islamists have largely supplemented both the state and the more traditional Regional Community Associations (*Rawbit Iqlimiyya*). This is not a state of affairs that is likely to change with the closure or regulation of these Islamic Welfare Associations. However, policy makers and local authorities can easily focus on the unregulated nature of the store-front Mosques rather than the Islamic Welfare Associations, which by offering social protection to the poor can actually curb any potential of another rise in militant or terrorist recruitment.

Furthermore, Islamist militants used their newfound institutions to legitimize their stringent codes of social control. They routinely imposed a strictly enforced code of behavior and discipline legitimized via the espousal of norms of social justice (*al-'adl al-ijtima'iyy*) and presented local residents an “alternative lifestyle” in the context of very poor and squalid conditions.⁴ In my observations, I found that, far more than financial incentives, these norms resonated strongly in the local community since they stood in marked contrast to the neglect of the state; that is, they approximated the normative outlook and “lived experience” of a large segment of Cairo’s urban poor.

In this respect, the absence of significant state-funded social programs particularly in poor areas is a contributing (albeit not the only) factor in breeding extremism. Following the 1992 siege, the Egyptian state did intervene to underwrite some basic services in terms of basic infrastructural development. Yet over four decades later the rehabilitation of Cairo's poorest areas is only partial and has so far failed to bolster the legitimacy of the state in the view of local residents. The minimal social services that were provided following the state's self-proclaimed "anti-terrorist campaign" were largely financed by foreign aid, rather than domestic sources. This continues to be the case. The bulk of these funds were allocated toward extending electricity and paving roads out of security considerations, rather than out of a sincere effort to improve the social and economic conditions of the local community. Even members of the Local Council (*Majlis al-Mahli*), the local branch of the former ruling National Party remained apprehensive about the potential of extremism in their neighborhood. They expressed great frustration with the government's less-than-sufficient assistance and were well aware that residents held them in low regard in comparison to the Islamists. Clearly, government policy that promotes domestic sources of economic development and social protection would play an important role in addressing some of the root causes of extremism among some of the most socially vulnerable. This is a category that has, in the past, represented an important source of rank and file recruitment.

The case of Egypt illustrates clearly the dangers of criminalizing informal networks without taking seriously the impact of economic changes in altering local social realities. Moreover, in an ironic development, blaming any facet of terrorism on Islamic Welfare Associations obscures the role (and responsibility) of domestic governments, which have in many ways abdicated their role in social protection and welfare vis-à-vis local communities. Taken together with the failure to liberalize the political system, extremism finds a more fruitful breeding ground. In the case of Egypt, the government-appointed "leadership" of the local councils continues to clearly represent the interests of the state. Moreover, these leaders cater almost exclusively to the more affluent members of the local community rather than the most vulnerable constituency. As a consequence, in the eyes of most poor residents, local government stands as a poor substitute to the weakened role of the traditional authority. This is exemplified by the shallow reach of informal councils (*Majalis 'Urfiyya*) and reconciliation committees (*Lejan Sulh*). These kinship-based institutions, which had traditionally arbitrated disputes, now reflect the erosion of formerly legitimate institutions of social cohesion and control.

What the erosion of traditional authority has meant among the poor is that Islamic Welfare Associations, private Mosques, and zakat Committees will continue to be more popular and relevant to the lives of impoverished communities. This is most certainly the case in many parts of the Muslim world. It is to these social and economic developments that we must look if we are to understand both the social roots of militancy and the attraction of terrorism to a small minority. It is a grave mistake to transform these complicated social and economic conditions into psychological traits and “criminalize” the most vulnerable, as so much analysis having to do with the war on terror has been prone to do.

The larger policy implications of *Black Markets and Militants* are clear. In the short term, the best cost-effective strategy is to monitor ungoverned spaces in failing states more closely but not to assume that they are automatically breeding grounds for militant and terrorist organization. However, in the long term, the international community must devise a more comprehensive solution in order to undercut the popularity of militant Islam, which remains a minority movement in the Muslim world. Rather than waging a war against the “soul of Islam” as some analysts have suggested, it is far more effective to devise effecting measures that examines the “secular” challenges that militant organizations face themselves. In multiethnic societies in the Horn of Africa and Egypt, militants and Islamists have faced a host of overlapping ethnic and sectarian affiliations, insecurity, and a complex array of local political rivals and motivations. Until recently, it was only in the Sudan where militants were able to benefit from a safe haven, robust financial resources, and a regime that utilized functioning, albeit fragile, formal institutions and militias operating in parallel to the state to support and promote a transnational jihadist network.

Finally, *Black Markets and Militants* makes a strong case that social and economic crises do indeed play an important role in the success of Islamist movements. My findings suggest that rather than advising policy makers to be wary of pursuing policies of economic development in poorer states in the hopes of curtailing militant activism as most analysts have advised, it is vital to understand that particular forms of economic insecurity and externally induced recessionary downturns do indeed play a role in expanding the “pool” of militant recruits.