

BARAK BARFI

# EGYPT'S NEW REALISM



*Challenges Under Sisi*







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## EXECUTIVE SUMMARY

**O**N MARCH 26–28, 2018, Egyptians went to the polls to choose their president, but the outcome was never in doubt. The electorate could barely identify President Abdul Fattah al-Sisi’s opponent. Indeed, prior to announcing his candidacy, Sisi’s challenger had a Facebook page that served as a virtual Sisi campaign website. Sisi faced voters not as a candidate running for office, but rather as the leader who had returned security and stability to Egypt. These attributes had been precipitously eroded in the years following the 2011 revolution. To many Egyptians, his greatest accomplishment was removing the Muslim Brotherhood from power.

Though Sisi’s popularity has fallen from its peak in 2013, when his face adorned chocolate bars, he still enjoys high approval ratings, indicating that the honeymoon phase of his rule has not ended.<sup>1</sup> But as he moves from the formative to normative years of his presidency, he will no longer be able to rest on prior achievements and mere promises of financial improvement to placate Egyptians. Sisi will need popular support as he implements an austerity plan approved by the International Monetary Fund (IMF) in November 2016 while grappling with a moribund economy, domestic unrest, jihadist threats, and foreign policy challenges. Egyptians may be willing to patiently swallow the harsh medicine Sisi is prescribing, but eventually they will expect a cure for the country’s ills.

As a result, over the coming years Sisi will have to deliver a slew of tangible results in a country where change is preferred in incremental doses. Previous presidents who sought to impose shock policies found Egyptians unwilling

to accept their radical results, while those who liberalized the economy too quickly found the population irate with the small class that enriched itself. Worse, leaders have never proved able to fulfill Egyptians' aspirations, which government propaganda magnifies to mythic proportions.

As Sisi begins his second term, he faces unprecedented challenges. This study will detail the economic, social, political, and security dimensions of these challenges.

\* \* \*

Because Egypt has been blessed with a stability lacking in other republican regional states such as Iraq, Syria, and Yemen, change has been more gradual there, understood in relation to preceding policies rather than ideological revolution. For this reason, this study will seek to situate Sisi in the context of his three military predecessors, Gamal Abdul Nasser, Anwar Sadat, and Hosni Mubarak.<sup>2</sup> Doing so will allow officials and analysts to better appreciate the choices Sisi faces and the obstacles confronting him.

At the same time, this paper will focus primarily on Egypt from a domestic rather than foreign perspective. Western analysis and media coverage of Egypt today largely emphasize the rollback of civil liberties and the country's human rights deficits, which, while important, are not primary concerns for average Egyptians, who are far more preoccupied with issues such as personal security and economic welfare.

Egypt is a key to regional stability and U.S. interests in the Middle East. Though no longer the leader of the Arab world, Cairo is a crucial member of the Arab Sunni front led by Saudi Arabia and the United Arab Emirates against Iran and its growing stable of Arab Shia allies and proxies. For this reason, an understanding of Egypt's challenges, and the approaches Washington might take to alleviate them, is critical for U.S. policymakers.

## NOTES

1. Hend El-Behary, "Sisi Fever' Makes Its Mark on Random Egyptian Products," *Egypt Independent*, Nov. 6, 2013, <http://bit.ly/2mbGVME>.
2. Mohamed Naguib was the first republican president from the officer class. But his reign was too short (June 1953–November 1954) and inhibited by Nasser to leave any lasting impact on the state. For these reasons, he is not discussed in these pages.

ONE

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## SISI AND HIS PREDECESSORS

WITH THE EXCEPTION of Muslim Brotherhood leader Mohamed Morsi, President Abdul Fattah al-Sisi's republican predecessors all hailed from the officer corps. But the policies they adopted varied greatly. Nasser led the 1952 revolution, which overthrew the monarchy. He espoused radical leftist policies ranging from agrarian reform and socialism to anti-imperialism. After a brief dalliance with the Soviet Union, Sadat veered right, allying with the United States while liberalizing the economy. Mubarak struck a more cautious, centrist note, eschewing ideology to implement nondescript policies. As a result, though continuing many of Sadat's policies, he nevertheless rehabilitated Nasserism, incorporating elements of its dogma.<sup>1</sup>

Nasser was charismatic, Sadat flamboyant, and Mubarak a bland military technocrat in civilian garb. Although Sisi has drawn on all three of his predecessors' policies, his personal comportment is nonetheless unique. Those who have met him say he listens to his interlocutors and takes notes. He does not make decisions before hearing several points of view. Unlike Mubarak, who in his later years was said to be arrogant and impatient, Sisi is polite and humble. Many if not most Egyptians seem to perceive him to be sincere, decisive, and willing to make difficult decisions. Like Sadat, he is patriarchal and tends to view Egyptians as his helpless children whom he must shepherd.

Nevertheless, Egyptians occasionally perceive Sisi as gaffe prone and his behavior as somewhat eccentric, if not erratic. He has boasted that he told the neighborhood thugs who roughed him up in his youth that when he grew up he would be strong enough to exact revenge.<sup>2</sup> On social media, he faced ridi-

cule for asking Egyptians to donate their spare change toward reducing the national debt.<sup>3</sup> In a choreographed sixty-minute pre-election interview titled “People and President,” he said, “I wanted to have a competitor in the elections. But you are blaming me for something I have nothing to do with... I swear I would have wanted there to be ten candidates...but we are not ready.”<sup>4</sup> Egyptians were incredulous, well aware that he had mobilized the state security apparatus to prevent a formidable competitor from running.

Sisi frequently does not speak from a prepared text, a practice that can get him in trouble. In particular, some Egyptians complain that Sisi does not act presidential, making grammatical and linguistic mistakes when he must abandon colloquial dialect for the literary Arabic typically used on formal occasions.

## POLITICAL LEGITIMACY

In democratic countries, rulers obtain legitimacy at the ballot box, renewing their mandates every four to six years. In authoritarian states, by contrast, leaders exploit revolutions, wars, and interstate spats to achieve legitimacy. Egypt embodies this tendency. Elections were of little importance to Nasser, leader of the 1952 revolution, which modernized Egypt. Sadat restored Egypt’s pride by crossing the Suez Canal in the 1973 war with Israel, but then asked voters to rubber-stamp his unpopular peace initiatives in referendums. Save for illusory macroeconomic growth and the defeat of a jihadist insurgency in the 1990s, Mubarak had few national achievements, forcing him to rely on elections to provide legitimacy. For this reason, his underlings used intimidation, force, and widespread ballot stuffing to ensure large margins of victory in presidential and parliamentary elections.<sup>5</sup> Like Nasser and Sadat, Sisi’s legitimacy stems from personal triumphs, namely terminating the tumultuous Brotherhood era and returning security to the country. Along the way, notwithstanding democratic deficits, Sisi has established strong ties with the Egyptian people.

## A MEDIA BLITZ

Sisi’s legitimacy is inculcated every day within the Egyptian psyche. Pro-government private media outlets have mobilized to back him while demonizing his adversaries.<sup>6</sup> Some of these channels are owned by supporters,<sup>7</sup> while others are allegedly owned by the intelligence services.<sup>8</sup> State-run media is doing much the same. In the days before the election, the flagship state daily, *al-Ahram*, published a paean titled “Why I Thought to Elect Him?”<sup>9</sup>

In the current environment, gleaning the true state of Egyptian public opinion poses difficulties for Westerners. A potent combination of xenophobia, jingoism, and fear frequently blends together to prevent Egyptians from expressing their true feelings. Pro-government media only reinforces this bias. During the final days of the presidential campaign, the author spoke with numerous citizens throughout Lower Egypt. Thus, peasants in Faiyum, a city located about sixty miles southwest of Cairo, struggled to articulate their views, content to spew slogans about security and stability as their reasons for supporting Sisi. More-educated Egyptians spoke of the drive to eradicate hepatitis C and the building of fish farms. They highlighted these issues, not coincidentally, because pro-government media emphasizes the military's role in these campaigns.<sup>10</sup>

## PRESIDENTIAL ELECTIONS

Egypt's 2014 elections were a mere formality; Sisi beat Hamdin Sabahi, garnering 96.9% to his opponent's 3.1%.<sup>11</sup> Nevertheless, the government went to great lengths to promote the 2018 campaign as a reflection of the country's vibrant democracy in order to enhance Sisi's legitimacy. Cairo, though, was keen to prevent any real competition from emerging. Several nonmilitary opposition candidates sought to test the proposition by entering the presidential campaign. All had similarly frustrating experiences.

Mohamed Anwar Sadat, the nephew of the late president, threw his hat into the ring, but was hampered by the speaker of parliament, who refused to allow him to officially contact members of parliament.<sup>12</sup> To launch a bid, presidential candidates need either 25,000 supporters' signatures—with a minimum of 1,000 each from fifteen of Egypt's twenty-seven governorates—or backing from twenty members of parliament (MPs).<sup>13</sup> Deprived of the parliamentary avenue, Sadat was forced to try to garner the requisite signatures, but he eventually dropped out after three hotels declined to allow him to rent a hall, saying they had been pressured by the security agencies to do so.<sup>14</sup>

Human rights lawyer Khaled Ali was the next candidate to withdraw. Ali claimed his supporters faced difficulties when trying to submit signatures at the offices designated to process them.<sup>15</sup> He also claimed some signatures were stolen from these offices.<sup>16</sup> The final high-profile candidate to withdraw was Wafd Party chief El Sayed El Badawy.<sup>17</sup> The day after entering the race, his party's supreme committee voted down his candidacy, and he was later removed from his post.<sup>18</sup>

Prevented by the government from fielding candidates, a group of par-

ties under the Civil Democratic Movement umbrella decided to boycott the election.<sup>19</sup> These small parties, liberal and leftist factions, are led by well-known personalities such as the former International Atomic Energy Agency chief Mohamed ElBaradei and the Nasserist Sabahi, who finished third in the 2011 presidential election and was, as noted, the chief candidate to oppose Sisi in 2014.

Possibly embarrassed that there was no challenger, Sisi's operatives scrambled to find one. An hour before the deadline to register, al-Ghad Party chief Moussa Mostafa submitted his application to the National Elections Commission (NEC) with 47,000 signatures and twenty-six MP supporters, a stunning development considering how the parliament speaker had prevented Sadat from even caucusing MPs for support.<sup>20</sup> Mostafa's candidacy came as a further surprise because until then he had expressed support for Sisi on social media. Indeed, his Facebook page at the time featured a photo of Sisi next to an Egyptian flag affixed with the word "supporting," while he had posted comments such as "Long live Egypt... President Abdul Fattah al-Sisi for President of the Republic" and others backing the incumbent.<sup>21</sup> Mostafa had previously organized a campaign to support a second term for the president.<sup>22</sup>

As one might suspect, Mostafa is not a government opponent but rather an insider whose family has deep ties to the establishment. His brother was close to Mubarak's son and heir apparent, Gamal, in addition to serving as a member of the Policies Secretariat for Mubarak's ruling bloc, the National Democratic Party (NDP). His sister married an NDP parliament member.<sup>23</sup> Mostafa himself has a relationship with the security services stretching back to the Mubarak era.<sup>24</sup> In those years, he was pressured to abandon a party comrade when their al-Ghad faction crossed a redline by calling for a new constitution while criticizing Gamal's potential succession. In return, Mostafa was rewarded with government perks.

To establish a party in Egypt, fifty founders must authorize a member through signing a power of attorney. In the case of al-Ghad, both its founder, Ayman Nour, and Mostafa received this authorization in 2004.<sup>25</sup> In retribution for overzealous attacks on sacrosanct government policies, Nour was arrested for forging the power of attorney signatures in 2005, but Mostafa was not. Instead, he was possibly told by the authorities to travel abroad and urged to feign ignorance in the matter.<sup>26</sup> After Nour's release from prison, he dismissed Mostafa from the party, but Mostafa refused to accept this outcome and organized a putsch, taking control of al-Ghad with the government's help.<sup>27</sup> Under his direction, party criticism of the government was

muted and the party apparatus even supported Gamal's succession. Mostafa was rewarded with a seat in the upper house of parliament, defeating an NDP candidate with seventeen times as many votes as were cast in the election.<sup>28</sup>

Under Sisi, the security services again turned to Mostafa to serve as the loyal opposition. He was eager to do so, telling *al-Abram* that he had been mulling an entry to the campaign for eighteen months. He spoke vaguely of his economic platform, explaining:

I prepared a program that relies on the national capitalist economy of a developmental nature so that it would be possible for Egyptians to benefit from it, and especially the youth. It focuses on closing the gap of inflation that the citizen experiences.<sup>29</sup>

Mostafa neither campaigned nor spent much money. He only held one rally and said he would not spend more than 5 million Egyptian pounds (LE) even though the election authority allowed for 20 million LE.<sup>30</sup> He ruled out debating Sisi and vowed not to put up any campaign posters on roads and bridges, instead focusing on major thoroughfares in the capital. Moreover, Mostafa refused to speak with foreign journalists, telling an interviewer that "their goals are full of evil" and that he and Sisi were "partners."<sup>31</sup> Not surprisingly, many Egyptians ridiculed his bid as a sham.

The election did not revolve around the types of issues that decide Western contests. Instead, voters framed their choice in Manichaean terms of stability versus chaos, the security state that had offered national solace for sixty-six years versus the unknowns unleashed after the 2011 revolution. Many viewed the election as a chance to express their gratitude to Sisi. As one former senior Egyptian diplomat put it, "The choice is not about candidates. It is about stability, economic progress, and attaining a region with less violence."<sup>32</sup>

In persuading Egyptians to vote, the government used a combination of coercion, threats, patronage, and calls to rally around the flag. Leaders of the street vendors union were told to mobilize their members to cast ballots in order to avoid stepped-up raids.<sup>33</sup> Managers of government-owned companies ensured workers voted.<sup>34</sup> The NEC warned of a 500 LE (\$28) fine for failure to vote, a penalty past government authorities had threatened but never enforced.<sup>35</sup> The government also dangled carrots. The provincial governor of Aswan pledged monetary gifts to the district with the highest voter turnout.<sup>36</sup> Some voters were paid between \$3 and \$9, while others were promised foodstuffs.<sup>37</sup> The government also sought to draw on nationalist sentiment. NEC chief Lashin Ibrahim urged Egyptians to "declare to

the world that Egypt always makes history, for you are the Pharaohs, the makers of the civilization that amazed the world.”<sup>38</sup> The governor of Beheira province said voting was a national duty in completing the path of development and building the state.<sup>39</sup> Press reports also noted that Egyptians were either coerced into purchasing campaign posters or found that security service officials had hung them in their name around their establishments.<sup>40</sup>

Not surprisingly, Egypt’s elections fell well short of the democratic aspirations promoted by Western organizations. Fourteen human rights groups, including Human Rights Watch, issued a statement denouncing the “farfical elections.”<sup>41</sup> Notwithstanding the lack of competition, the balloting itself was largely fair. According to the preliminary statement issued by the African Union (AU), which sent a delegation to observe the election, “The voting process was conducted in a peaceful, orderly and transparent manner.”<sup>42</sup> The report illustrates that Sisi did not resort to Mubarak-style tactics to bolster his results.

The AU account accords with similar findings from the European Union during the 2014 presidential elections, with the final EU report noting that Sisi’s major advantages were third-party contributions and private media support, giving him twice the coverage Sabahi received.<sup>43</sup> This trend reflects the larger phenomenon of the earlier-discussed media blitz campaign supporting Sisi.

## NOTES

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2. See “Sisi When He Will Grow Up...Tomorrow When I Grow Up, I Will Beat You” (in Arabic), YouTube video, 0:37, posted by “Opal,” Sept. 27, 2014, <http://bit.ly/2JdPaBd>. For a video that mocks this and other Sisi statements, see “Sisi Tomorrow When I Grow Up, I Will Beat You” (in Arabic), YouTube video, 1:46, posted by “Rasd TV,” Apr. 16, 2016, <http://bit.ly/2NK2QaG>.
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26. El Tarouty, pp. 146–47, <http://bit.ly/2L5LeUH>.
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## TWO

## GROWING MILITARY ROLE

MUCH HAS BEEN MADE of the Egyptian military's expanding role in the economy,<sup>1</sup> with involvement in everything from distributing baby formula to building the new Egyptian museum.<sup>2</sup> Analysts estimate the military controls between 5% and 60% of the economy.<sup>3</sup> In his pre-election interview, Sisi disputed this figure, saying, "The armed forces economy is not large or equivalent to 50% of the [gross] domestic product according to what is said. Rather, it fluctuates between 2% and 3% of this."<sup>4</sup> In 2012, Maj. Gen. Mahmoud Nasr claimed that the military's economic activities the previous year amounted to 6.3 billion LE, or \$1 billion, and that under Mubarak the annual figure was 7.7 billion LE. For its part, the IMF has noted that "it is difficult to estimate the share of military ownership."<sup>5</sup>

Many of the military's economic endeavors would fall within the purview of the private sector. But in Egypt, banks have been reluctant to offer long-term credit to private businesses in part because of difficulties with contract enforcement and lack of collateral.<sup>6</sup> With Egypt facing an acute economic crisis, private entities are often unable to provide capital and investment.<sup>7</sup> Astronomically high local borrowing rates, which the Economist Intelligence Unit estimated to average 18.2% in 2017, prevent the business community from taking out loans to finance projects.<sup>8</sup> The IMF noted that from 2005 to 2015 credit to the private sector as a percentage of GDP was on the decline,<sup>9</sup> concluding that the private sector "had little access to finance."<sup>10</sup> Indeed, only 12% of Egyptian firms have a bank loan or a line of credit.<sup>11</sup> Though small- and medium-size enterprises account for almost 66% of private-sector

jobs, their share of loans is equivalent to just 5% of outstanding credit.<sup>12</sup> Minimal exposure to a private sector atrophied by the political and security tumult largely explains why banks have been immune to the maladies suffered by other economic sectors.<sup>13</sup>

Lending institutions generally limited credit to state-owned enterprises (SOEs) or businessmen close to Mubarak.<sup>14</sup> Thus, in 2000, 13% of all loans went to twenty-eight clients.<sup>15</sup> The Global Competitiveness Index, produced by the World Economic Forum, noted that access to financing is one of the most problematic factors for doing business in Egypt.<sup>16</sup> Analysts have highlighted the lack of liquidity to finance projects.<sup>17</sup> In contrast, in December 2011, a military flush with cash loaned the Central Bank of Egypt \$1 billion.<sup>18</sup>

Moreover, the crony capitalism of the Mubarak era and its role in fueling the 2011 revolution have made the government wary of drawing too close to the former president's business associates. In relying on the military, Sisi is following a Nasserist etatism development model. Nasser distrusted the elites who were linked to the monarchy he overthrew. For its part, the business community was unwilling to invest in the industrial projects Nasser deemed important, preferring to maintain its capital in the lower-risk real estate sector.<sup>19</sup> The president responded by nationalizing these businesses' assets and using the proceeds to embark on his plans.<sup>20</sup>

Today, Sisi is using the military and its abundant capital in a similar manner. The military's lack of civilian oversight allows it to circumvent the red tape that hinders other investors.<sup>21</sup> Its exemption from taxes and custom fees, coupled with quasi-corr vee labor provided by conscripts, yields the tools to rebuild Egypt at low costs in a way the business community could never do. Because Sisi is suspicious of the business community and has no relations with the elite, he has allocated projects to the only institution he seemingly trusts—the military. Also like Nasser, Sisi is focusing on infrastructure rather than industry projects.<sup>22</sup> But these provide neither direct nor immediate revenues.

Although some complain of the prerogatives enjoyed by officers, for now the public does not seem overly concerned with the military's encroachment into the private sector. The strongest institution in the country, the military engenders almost mythical faith from Egyptians as a solver of almost any problem, from deposing unwanted governments to distributing precious bread.<sup>23</sup> When the nation experienced disasters such as earthquakes, housing collapses, and train wrecks during the Mubarak era, Egyptians would gripe that were the military responsible for these sectors,

such catastrophes could be averted. Egyptians are also impressed with the military's efficiency in managing and implementing projects, viewing it as an unblemished institution in a country where Mubarak-era moguls are tainted by corruption.<sup>24</sup>

Western nations, however, are less content with the Egyptian military's outsized role. The European Parliament assessed that "the military's control over the Egyptian economy and polity will remain a fundamental problem that fosters corruption and cronyism."<sup>25</sup> Nor will the military be able to crowd out the business community forever.<sup>26</sup> Before Egypt devalued its currency in November 2016, it had access to preferential foreign exchange rates, giving it a competitive advantage vis-à-vis the private sector. Since the military lost this privilege, it has reached out to some private-sector competitors urging public-private cooperation.

## A RIVAL ON THE SCENE

The military's consolidation of power, or, perhaps, concerns about Sisi's performance, has generated a backlash among some of its retired sons. In January 2018, former chief of staff Sami Anan announced his candidacy for president via YouTube. He was highly critical of the current state of affairs and the president's monopolization of power, saying:

After the difficult years the country has witnessed, today it is traversing a critical stage in its history, full of challenges...this only happened as a result of a mistaken policy. Our armed forces assumed responsibility for confronting [the country's problems] alone, without a rightly guided policy, one which the civil sector in the country, in partnership with the armed forces, is able to carry out.<sup>27</sup>

Anan further stated that Egypt could not achieve its aspirations "without a pluralistic political and economic system which respects the constitution and law while believing in rights and believing in freedoms." He called on government institutions to "remain neutral between those who announced their intention to run for the presidency and to not incline toward unconstitutional practices for a president who will possibly leave his post in the next few months." Anan announced that he would appoint two civilian vice presidents: former Central Auditing Organization chief Hisham Geneina as vice president for human rights and transparency, and Cairo University political science professor Hazem Hosny as vice president for a "revolution in knowledge."<sup>28</sup>

Anan's message was clear. He was not only challenging Sisi, but calling for a radical change in government whereby the military would return to the barracks, allowing civilian leadership to steer the country through its crises. Sisi was not pleased with his former colleague's announcement. That same month, he cryptically alluded to Anan and rumors of his dubious financial enrichment, declaring, "The corrupt people who will come close to this [presidential] chair should beware of me. I will not impose myself on you. But there are people I will not allow to come close to this chair."<sup>29</sup> Several days after his announcement, Anan was arrested for violating a law that prohibits military officials, even retired ones, from running for office.<sup>30</sup> As illustrated earlier with the al-Ghad Party forged signatures case, such laws are used to selectively muzzle opponents.

Prior to Anan's arrest, some Egyptian analysts believed he could possibly build a wide-ranging coalition drawing on significant military and civilian support.<sup>31</sup> Among these analysts, a belief prevailed that officers concerned about the military's deepening involvement in the political arena were backing Anan. Others sensed Anan's choice of Geneina could lead the technocratic elite to support him.<sup>32</sup> Following Anan's announcement, the Muslim Brotherhood's former chief of foreign relations Yusuf Nada wrote an open letter to Anan saying that the Brotherhood would "agree to elect you after considering several matters," which he then proceeded to list.<sup>33</sup> In 2011, the *New York Times* dubbed him "a favorite of the American military," with Pentagon officials noting he was "considered more of a traditional military man focused on Army operations and modernization."<sup>34</sup> Though many would take such praise as a compliment, in Egypt being overly close to Washington is viewed with suspicion—and was sufficient reason for Cairo to harass and constrain Anan.

This tack has succeeded in eroding Anan's standing in Egypt. In recent years, pro-government media outlets have so disparaged him that many Egyptians today have a negative view of the former chief of staff. Rumors of corruption also led military courts to examine his dealings. Indicative of his lack of popular appeal, the Arabism Egypt Party, which he founded, failed to win any seats in the 2015 parliamentary elections.

To be sure, Anan is unabashedly ambitious, a trait that rubs more quiescent generals the wrong way. And Anan was the major scapegoat for the missteps committed by the military from the time Mubarak resigned until the Brotherhood took power. Former general and minister of war production Mohamed al-Assar said Anan's candidacy threatened to reveal cracks in

the façade of military unity.<sup>35</sup> Allowing him to run, according to Assar, could have also weakened morale within the ranks.

Truth be told, Anan was not well liked among the rank and file during his term as chief of staff. One of his more unpopular decisions was to prohibit troops from walking in uniform in public, a policy he directed the military police to enforce with fines. While serving as defense minister from August 2012 until March 2014, Sisi publicly criticized this policy, providing insight into the current ill will between the two. At the same time, Anan's apparent break with the security establishment may have fueled concerns in Cairo that he would go public with information embarrassing to the military, possibly leading to his detention. Indeed, after Anan's arrest, Geneina said the former chief of staff had documents that could implicate the military in the killing of protestors.<sup>36</sup>

Nevertheless, given his lack of popularity and the government's tight control of the media, his arrest seemed gratuitous. When, in 2014, he had announced his candidacy for president, similar measures were not taken. His arrest, coupled with the pressure applied to candidate Gen. Ahmed Shafiq—who had previously run in 2012—to similarly bow out of the 2018 race have led some observers to speculate about the possibility of splits within the security establishment in general and the military in particular.<sup>37</sup>

The recent purges in the intelligence services and military bolster this view. Following an ambush of security officials in October 2017, Sisi removed twelve senior police officials and the military chief of staff, Mahmoud Hegazy. The dismissal of Hegazy would have been unimaginable previously; Hegazy's daughter is married to Sisi's son.<sup>38</sup> Then, in January, Sisi ousted Khaled Fawzy, the head of Egypt's General Intelligence Directorate (GID). Both deposed men were placed under temporary house arrest. In all, about two hundred GID officials have been relieved of duty since Sisi became president in 2014.<sup>39</sup> In turn, the GID's influence has been eclipsed by the ascent of Military Intelligence (MI).

Sisi's chief of staff and former MI colleague Abbas Kamel replaced the GID chief. Kamel's assistant Maj. Ahmad Shaban is said to be a senior Sisi confidant.<sup>40</sup> Indeed, many believe that Sisi's inner circle is composed of MI figures who previously worked under him.<sup>41</sup> Fearful of the elites who dominated the country under Mubarak and aware of the masses' newfound ability to overthrow governments, Sisi appears to be consolidating authority under an ever-smaller group of trusted security officials.

And for good reason. Repeated embarrassing leaks from Sisi's office, including taped conversations discussing Israel and disparaging Gulf Cooperation Council countries, reveal likely tensions between the GID and MI.<sup>42</sup> Many issues divide the current political elite, including how to deal with the Islamic State threat, what course of action to adopt with respect to the Brotherhood, the military's expanding role in the economy, and security cooperation with Israel.

## NOTES

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11. Ibid., p. 14.
  12. EBRD, “Egypt’s Private Sector Diagnostic,” pp. 3–4, <http://bit.ly/2PcYOrU> (pdf download).
  13. International Monetary Fund, “Article IV Consultation,” Jan. 2018, p. 21. For the banking sector’s solid standing, see “Request for Extended Arrangement under the Extended Fund Facility,” IMF Country Report 17/17, Jan. 2017, pp. 7, 15, 59, <http://bit.ly/2LTLpWM>.
  14. For example, in 2004, steel magnate and Gamal confidant Ahmed Ezz reportedly secured 447 million Egyptian pounds in loans. Mohamed Menza, “Gamal Mubarak & Egypt’s Neo-Business Community,” *The Chronicles* (Oct. 2005): p. 35, <http://bit.ly/2LMxgLd>. See also El Tarouty, pp. 82–84, <http://bit.ly/2L5LeUH>.
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  20. “The regime was wary of independent centres of economic power, often suspected of disguised political opposition and capable of delaying or frustrating its development plans.” See Robert Mabro, *The Egyptian Economy, 1952–72* (Oxford: Clarendon Press, 1974), p. 129. For a list of the various businesses he nationalized, see pp. 124–30. See also Moheb Zaki, *Egyptian Business Elites: Their Visions & Investment Behavior* (Konrad Adenauer Stiftung, 1999), pp. 60–61.
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## THREE

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## AUTHORITARIANISM WITH LIMITS

**W**ESTERN ANALYSIS of the Sisi government focuses largely on its coercive elements.<sup>1</sup> Yet while Egyptians do not enjoy the same freedoms as denizens of the West do, they nevertheless have in recent decades been allocated some civil and political space. Indeed, since Sadat, Egypt's leaders have largely avoided the kind of authoritarianism associated with the regimes of Saddam Hussein and the Assad family in Iraq and Syria, respectively. Today, however, under Sisi, Western governments and NGOs are lamenting the rollback of these freedoms, in particular highlighting the arrest of journalists and political activists. In 2018, the Economist Intelligence Unit ranked Egypt 130 out of 167 countries on its Democracy Index,<sup>2</sup> while Freedom House concluded:

Serious political opposition is virtually nonexistent...The government systematically persecutes opposition parties and political movements, disrupting their operations and constraining their ability to organize... Freedoms of assembly and association are tightly restricted.<sup>3</sup>

For their part, these organizations have focused their ire on a highly restrictive NGO law passed in May 2017. The law requires NGOs to receive approval from a state body that includes the security services before receiving foreign funding or conducting field research, stating that NGO activities should not “harm national security, public order, public morality, or public health.”<sup>4</sup> Washington has joined criticism of the law. In August 2017, State Department spokeswoman Heather Nauert referenced democracy as “a major concern of ours. We’ve talked about their new NGO law in Egypt, and [how] that has been a concern of ours all along.”<sup>5</sup>

The condemnation abroad sparked by the law created only ripples at home. Egyptians have come to view foreign-backed NGOs as a fifth column working to undermine the state. Echoing the government and judiciary, many Egyptians blame NGOs for the instability following the 2011 revolution, indicative of a larger disconnect between the worries of Western governments and those of average Egyptians. Some Western reports, for example, have highlighted the lack of rights for gay Egyptians.<sup>6</sup> Notwithstanding Western pressures, it is highly unlikely Egypt or any other Arab country will grant this community rights because doing so would betray conservative Islamic values, fomenting a societal backlash.

Anecdotally, Egyptians appear far more concerned about security and economic issues than they are about their diminished civil liberties. They are more comfortable with a government run by the security establishment in which change is marginal, if not nonexistent, than with outsider political neophytes whose policies stripped them of their beloved security. They are a people who put more faith in the country's strong institutions than in electoral legitimacy. Indeed, polls indicate that Egyptians view democratization as a tertiary concern after economic and political stability, if a concern at all.<sup>7</sup> In light of such findings, a return to democracy is not a priority for the vast majority of Egyptians. Rebuilding a neglected state by undertaking massive infrastructure projects is. Even respected Egyptian mandarins such as former foreign minister Amr Mousa support such views.<sup>8</sup>

## UNREST AND OPPOSITION

For these reasons, among others, quelling civil unrest is a central pillar of Sisi's strategy. In the years following the 2011 revolution, Egyptians mobilized to protest issues ranging from the arrest of Egyptian human rights lawyers in Saudi Arabia to the death of soccer fans. In 2016 alone, an estimated 1,736 protests occurred,<sup>9</sup> the majority of which were socioeconomic, focusing on wages, labor conditions, and the effects of the austerity program. In 2017, however, the demonstrations largely abated. Though peasants have borne the brunt of Sisi's austerity policies, the magnitude of their protests never reached that of their urban middle-class compatriots.

The judiciary, which pestered both Mubarak and the Brotherhood government by voiding parliamentary election results, will continue to vex Sisi as well, as evidenced by its annulment of his 2016 decision to transfer two Red Sea islands—Tiran and Sanafir—to Saudi Arabia.<sup>10</sup> The professional syndi-

cates, long dominated by the Muslim Brotherhood, have yet to find an independent voice.<sup>11</sup>

The quieting of the street has been coupled with a neutering of the political opposition. The ranks of political Islamists, who offer the most feasible alternative to the military, have been decimated, and the leftists who fervently supported the Brotherhood crackdown themselves face persecution. At the same time, longtime opposition parties such as the Wafd and Tagammu supported Sisi's reelection campaign.<sup>12</sup> Sayyed Abdul Aal, the leader of the Tagammu, noted:

What binds our party with Sisi is his focus on protecting the Egyptian state, the unity of Egypt, and the fear of the U.S. plan to partition or weaken Egypt on the basis of religious or racial [reasons]... The Egyptians have great faith in Sisi. They are sure that because the choice is between the Brotherhood government and the current economic situation, they will choose the latter.<sup>13</sup>

This thinking again illustrates how Egyptians view the current situation in binary rather than Western pluralistic terms.

### SISI'S CHALLENGES

Though Sisi does not face organized opposition, he must nevertheless contend with numerous challenges that could threaten his popular support. Separately, each of these matters is unlikely to topple him, but failure to deal effectively with them on the collective level could force Sisi to increasingly rely on coercive elements of power. Heretofore, these kinds of tactics have largely been reserved for civil society activists, journalists, and the political opposition. Given that the 2011 revolution lifted the civilian curtain of fear while shattering the myth of the security services' invincibility, this dynamic should give the government cause for concern.

Worse but even more remote is the possibility that an officer would launch another coup. The military establishment is arranged to prevent this through institutional balance between a fragmented corps and ammunition control.<sup>14</sup> Syria once endured ten successful coups over twenty-one years, six of which were headed by officers removing their own.<sup>15</sup> But Egypt's officers have largely eschewed intervening against their comrades. In the 1980s, Defense Minister Abdul-Halim Abu Ghazala was the second most powerful man in Egypt, with his own center of power, but he never used it to contest Mubarak's rule. The military only acted against Mubarak because the people gave the generals no choice—one more reason Anan's arrest was out of character.

Sisi faces challenges rivaling those Nasser wrestled with following Egypt's 1967 defeat by Israel. From the economy to water, and from the lack of social services to jihadists, the state is confronting quandaries across every possible governmental and societal sphere. In his pre-election interview, Sisi discussed diverse and tertiary challenges such as education and health because previous governments diverted precious resources from investment to subsidies and public wages. Given the scope and seriousness of Egypt's problems, Sisi is unlikely to make major progress toward solving most of them. The sections that follow detail his challenges, lurking pitfalls, and which of his predecessors' policies Sisi may adopt.

### BUILDING A SOCIAL BASE

Sisi's political strength derives from his dominion over state institutions. He controls what Middle East scholar Raymond Hinnebusch has described as "the coercive, political and information apparatus."<sup>16</sup> In contrast, the Egyptian president's social base of support derives from his removal of the Brotherhood from power and consequent restoration of security and stability. This same formula helped Sadat following his successes in the 1973 war against Israel. According to Hinnebusch, "When the leader's legitimacy is high by virtue of success against the foreigner, or an improvement in conditions of life, Egyptians are prepared to grant him respect, obedience and exceedingly broad discretion to decide for the country as he thinks best."<sup>17</sup>

Sadat possessed this fealty in the years after his triumph in the 1973 war, but in 1977 IMF-mandated subsidy cuts led to bread riots and the army's deployment into the streets to put down the violence. Political opposition emerged shortly afterward. Similarly, Nasser had virtually unlimited societal support until the 1967 defeat. This crushed his mystique, leading Egyptians to criticize the establishment. In February 1968, worker protests spiraled into student demonstrations, with unrest again erupting in November.<sup>18</sup>

Today, Sisi has a deep fount of political capital he can tap. Saturated by pro-government media, Egyptians have shown great patience as they endure the effects of the austerity program while awaiting promised economic growth. In his pre-election interview, he addressed the Egyptian people: "I say to the Egyptians, let us be patient a little with the situation in our country to take the [necessary] decisions." Notwithstanding his popular support and Egyptians' evident patience, Sisi will need to build a social base if he is to prevent the type of coalition that felled Mubarak from coalescing against his rule.

Though Sisi has supporters with common interests, he lacks a social base. In building one, he faces disadvantages, unknown to his predecessors, among peasants and the urban poor. Nasser's three agrarian reforms, in 1952, 1961, and 1969, aided peasants, and his etatist policies pared social inequalities. Sadat emphasized his rural origins,<sup>19</sup> while many Egyptians viewed Mubarak as a peasant favoring that class.<sup>20</sup> In contrast, Sisi is Egypt's first urban president, meaning he cannot draw on common roots to assuage these constituents' concerns. Worse, the austerity program is exacerbating social inequality, widening the distance between Sisi and the peasant and urban poor classes.

The future augurs much the same for Sisi's relationship with the salaried middle class. Nasser established firm ties with this group when he expanded the bureaucracy and nationalized assets.<sup>21</sup> Sadat's liberalization policies, known as the *infithah*, threatened its dominance over the economy. As in most matters, Mubarak found a balance between these two policies. But under Sisi, the 22% of the labor force employed by the state has seen its wages eroded by the devaluation of the Egyptian pound.<sup>22</sup> This group has particularly vexed the government and its drive to reduce the budget deficit. Sisi sought to rein in spending on bonuses and wage increases through a presidential decree. But in a rare rebuke, the parliament rejected it while augmenting benefits.<sup>23</sup> The 2018/19 budget will increase wages and benefits by 11%,<sup>24</sup> the largest year-to-year increase since 2013/14–2014/15.<sup>25</sup> The parliament speaker noted that each state employee would receive a 40 LE (\$2.23) bonus.<sup>26</sup> The salaried middle class also bolsters its wages by moonlighting in other jobs. A 1988 study of bureaucrats found that 89% of respondents had a second job.<sup>27</sup> But with the economy in the doldrums, fewer opportunities are available to do so. It remains to be seen whether Sisi can establish a long-term relationship with this bloc.

Nasser's reforms did not have as much impact on the petty bourgeoisie as the other classes because certain elements were able to resist them. Thus, doctors successfully prevented the imposition of socialized medicine and a ban on owning more than one clinic.<sup>28</sup> Sadat's de-Nasserization policies gave them more space, which was expanded under Mubarak. Under Sisi, the petty bourgeoisie have felt the pinch, but their savings and education afford them a cushion the lower classes lack. Yet because their fortunes are tied to the poor they serve, they are keenly watching economic indicators. Pharmacists who sell locally produced generic drugs using foreign ingredients have seen prices skyrocket.<sup>29</sup> Doctors and lawyers who provide care for the destitute have cut fees even as these charges are diminished by a weaker Egyptian pound.

The relationship between Sisi's predecessors and the technocratic class has

consistently improved since the 1952 revolution. In a country where the leader is suspicious of anyone accumulating any power, vesting unknown technocrats with authority insulates him from such threats. Though Nasser largely relied on officers to staff senior bureaucratic positions, his nationalization policies and economic expansion created a large pool of technical experts to modernize Egypt.<sup>30</sup> From 1952 to 1968, some 43% of ministers had doctorates.<sup>31</sup> Later, Sadat leaned on this group to marginalize the military. Though Mubarak restored some of the military's lost privileges, he nevertheless forged a strong bond with the technocrats, often deferring to their counsel; he also stocked his cabinets with such individuals. Personifying such a tack was Osama El-Baz, a Harvard-educated lawyer who entered the foreign service in 1958, later acting as a confidant to Sadat and Mubarak.<sup>32</sup> Sisi's relationship with this sector, meanwhile, is mixed. Technocrats largely applaud the overthrow of the Brotherhood-led government and the purging of its ranks. But Sisi has merely transferred the prerogatives the Islamists sought to appropriate to his own supporters in the military, another example of how it has crowded out key Mubarak-era players. For this reason, as discussed before, some conjectured that Sami Anan's presidential bid could generate support from this group.

Having supported the toppled Egyptian monarchy, the landed aristocracy, small industrialist class, and mercantilists of foreign pedigree viewed Nasser with hostility. He responded by implementing the three agrarian reforms noted earlier and nationalizing assets, thus poisoning the relationship. When Sadat entered office, he won over the landed aristocracy by restoring their lands, while his economic liberalization created lucrative opportunities for the bourgeoisie. Though Mubarak initially reined in the commercial and industrial parvenus who ran amok under Sadat, he allowed the landed aristocracy more leeway. But during the 1990s, he began favoring industrialists such as Ahmed Ezz and Mohamed Abou El Enein. In Mubarak's last decade in office, his son Gamal opened the floodgates for all types of business figures, leading to charges of crony capitalism.<sup>33</sup> Indicative of Mubarak's strengthened ties with the business community was the increase in businessmen in his cabinets. In 2004, only two ministers belonged to this group; by the next year, there were eight and the year after that, fifteen.<sup>34</sup>

This cohort is grateful to Sisi for deposing a Brotherhood that would have eventually ushered in a new, more religious elite. But like most Egyptians, its members, too, are suffering under the austerity program, which has included a boost in luxury taxes, among other tariffs. Like the technocrats, they are feeling the military's tentacles in all sectors of society, and losing economic and politi-

cal clout in a zero-sum game. The interests that bind them to Sisi—namely, a common desire to prevent the resurrection of the Brotherhood—are likely to dwindle over time. And while these Egyptians avoid the platforms of the leftist opposition, they could find common cause with the liberal parties, if necessary.

In authoritarian countries, patronage networks are key to distributing resources to win support.<sup>35</sup> In Syria, for example, parliamentarians help constituents with tax problems, military service postponement, and government scholarships.<sup>36</sup> Under Mubarak, NDP apparatchiks and businessmen performed this role, especially in Upper Egypt, where the writ of the bureaucrat seldom reaches.<sup>37</sup> In the Cairene neighborhood of Misr al-Qadima, one scholar found that 45% of voters selected a candidate who paid more for their vote.<sup>38</sup> Political parties sought votes by offering education and health services to various locales.<sup>39</sup> Others have detailed how candidates had fast food delivered to homes in exchange for votes.<sup>40</sup>

Currently, Sisi is placating the officer corps. But they only provide him the coercive elements of rule. When the luster of his novelty wears off and Egyptians forget the interregnum of instability that preceded him, Sisi will have to cobble together a coalition composed of classes and geographical regions backed by robust patronage networks to sustain a popular presidency.

## NOTES

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## FOUR

## SHAPING AN ELITE

CLOSELY ASSOCIATED with building a social base through grassroots work and painstakingly slow policymaking is the cultivation of an elite from above. One of the reasons Sisi has been forced to rely heavily on the military in general and MI in particular involves his lack of elite backing. As the Arab world's only nation-state, Egypt does not have a natural elite to groom, like sects in Syria<sup>1</sup> or tribes in Iraq,<sup>2</sup> Libya,<sup>3</sup> and Yemen.<sup>4</sup> Whereas in these countries officers are chosen on the basis of primordial loyalties, in Egypt competency is a key primary criterion.

Nasser drew his elites from the military, particularly the approximately forty-five Free Officers who helped him take power.<sup>5</sup> They staffed all key positions in his governments, from ministerial posts to bureaucratic sinecures.<sup>6</sup> This led the Greek-American political theorist P. J. Vatikiotis to dub Egypt a "stratiocracy" (*sic*) in which "the total military institution [is] a new political elite."<sup>7</sup> Seeking to purge this group, Sadat drew only about 37% of his core elite from the military or police, while none of his prime ministers came from the military.<sup>8</sup>

## CABINET AND PROVINCIAL GOVERNORS

Reflective of Nasser's military bent, 75%–80% of his governors were former military officers.<sup>9</sup> Because Sadat sought to sideline this class, he reduced their numbers significantly. Thus, in 1978, only 35% of these posts were filled by former officers.<sup>10</sup> As already noted, Mubarak sought a balance between the disparate policies of his two predecessors. Of the 156 governors he appointed, 63 (40%) were former generals and another 34 (22%) were retired police

officers.<sup>11</sup> When he stepped down, he left 14 former generals as governors in Egypt's 27 provinces (52%).<sup>12</sup> Shortly after taking power, Sisi appointed 17 generals (63%) and 2 former police officers as provincial governors (7%).<sup>13</sup> Today still, 19 governors (70%) have a security background.<sup>14,15</sup> In appointing security officials, Sisi is following the Nasserist model. But in the 1950s, Egypt had a small pool of civilian talent to draw from to implement its modernization strategies. Today, the military cannot monopolize such civilian posts without fomenting discontent.

All four of Nasser's prime ministers were officers.<sup>16</sup> While about 34% of ministers had military or police backgrounds,<sup>17</sup> under Sadat this figure decreased to 21%.<sup>18</sup> Mubarak's last cabinet, meanwhile, included just 4 generals out of 30 ministers (13%), with 15 businessmen.<sup>19</sup> The only 2 generals in Sisi's current cabinet head the national security ministries of defense and military production.<sup>20</sup> Nine members have doctorates, 7 are career civil servants, and 3 are businessmen. The 6 women ministers give it the highest female representation of any Egyptian cabinet in history. Women also hold 87 seats (15%) in the parliament, likewise the highest number ever.<sup>21</sup> Given Sisi's penchant for the military brass, the relative absence of security figures in his cabinet is notable. Another interesting feature is the cabinet's inclusion of 3 members who worked in the private sector, but not as mercantilists. One was an engineer with Chevron, another specialized in information technology for Cisco, while a third worked for Procter & Gamble.

## PARTY LEADERSHIP

The top echelons of the various ruling parties have also been populated by elites. Under Nasser, officers held leadership positions. For example, between 1962 and 1964, 67% of the ruling party's Supreme Executive consisted of officers, with that proportion rising to a full 100% by 1966. The military occupied 72% of the party's Provisional Secretariat, established in December 1964.<sup>22</sup> Sadat, here again, preferred civilian leadership. Of the eighteen men selected to the NDP's politburo and secretary-general positions at its first (and last) congress under Sadat, only three (17%) were from the military.<sup>23</sup> Mubarak's party elite was composed almost exclusively of civilians, initially drawn from academia, the technocratic class, and the landed aristocracy. Over time, he embraced urban business magnates.<sup>24</sup>

Though Sisi has not yet established a ruling party, some speculate that existing political parties in the parliament will provide him one.<sup>25</sup> Sev-

eral factors argue against such a choice. Establishing a ruling party would allow new centers of power to emerge in a country where the leadership has worked hard to prevent anyone from drawing authority away from the president. Under Mubarak, men such as Safwat Sharif, Kamal al-Shazli, and Yousef Wali dominated the NDP, giving them wide-ranging influence. A ruling party and the perks it provides would permit the recreation of clientelist networks and their concomitant corruption, while attracting NDP businessmen. The latter two factors played a key role in bringing down Mubarak. This phenomenon is not limited to Mubarak and the crony capitalism era. Nasser too was forced to grapple with unsavory businessmen who penetrated the Liberation Rally he established as the country's vanguard party in 1953. Their infiltration persuaded him to abandon his first attempt at mass mobilization politics in 1956.<sup>26</sup> Nevertheless, Sisi has given the security establishment opportunities denied it by his predecessor, who feared potential rivals could establish a power center. Thus, senior intelligence official Sameh Seif al-Yazal established the "For the Love of Egypt" coalition in the 2015 parliamentary elections.

## NONPOLITICAL ELITES

In part because Nasser drew on charismatic leadership, many Egyptians occupying lofty cultural, intellectual, and society positions supported him. The president, in turn, leaned particularly on the influential newspaper editor Mohamed Hassanein Heikal. But Sadat's peace initiatives alienated the Nasserists who dominated these groups. In 1980, he imprisoned Heikal for criticizing his rule and muzzled other prominent journalists such as Mohamed Sid Ahmed. Nevertheless, Sadat maintained some links with the intellectual elite. His relationship with American University in Cairo presidents was legendary. Thereafter, Mubarak brought some journalists into his fold. He was particularly close to former *al-Musawwar* editor Makram Mohamed Ahmed. Farouk Hosny, a painter and favorite of Mubarak's wife, served as minister of culture for twenty-four years. Both Sadat and Mubarak sought the counsel of academics such as sociologist Saad Eddin Ibrahim, who educated Mubarak's wife and two sons, though the president later turned on the professor.<sup>27</sup> Mubarak also relied on policy analysts such as Abdel Moneim Said Aly, while placing academics such as Ali Hillal Dessouki and Zeinab Radwan in key NDP positions.<sup>28</sup>

During its brief rule, the Muslim Brotherhood sought to purge the secular cultural elite from positions of influence. The Brotherhood-appointed cul-

ture minister dismissed the heads of the Cairo Opera House, General Egyptian Book Authority, and Fine Arts Sector within four weeks of assuming his post. After taking power, Sisi worked to win over this group. The former Cairo Opera House director, Inas Abdel Dayem, best illustrates this class. Having been removed by the Brotherhood government, she was not only reinstated by Sisi but named culture minister in January 2018. The former *al-Musawwar* editor Ahmed supports Sisi as well.<sup>29</sup>

Sisi's overall choice of advisors is, however, problematic. His inner circle, to the extent he has one, is composed of officers with little understanding of economic and social policy. This intellectual deficit will force Sisi to lean on the expertise of academics and technocrats.

## BUSINESS COMMUNITY

Over time, the relationship between Egyptian presidents and the business community has generally improved. As already noted, Nasser expected that urban magnates would invest in his preferred industrial projects, believing as well that the landed aristocracy would use funds received from the government in exchange for confiscated land to do so.<sup>30</sup> But when they and others refused to take this course, instead investing in lower-risk land speculation, he nationalized their assets, beginning in 1956 and reaching a peak in 1961.<sup>31</sup> Concurrently, he imposed a litany of constraints on their activities.<sup>32</sup> Traders, however, were given more leeway to import the goods necessary to fuel development, while contractors thrived on public tenders.<sup>33</sup>

Nasser's socialist policies, indeed, left little space for industrialists, even as this class was given more room after 1965.<sup>34</sup> Sadat's *infitah* enriched its members, whose profiteering stirred a backlash at the end of the 1970s, with particular ire directed at Rashid Uthman, a hashish smuggler turned trade baron, and construction magnate Osman Ahmad Osman.<sup>35</sup> Mubarak moved against the *infitah* men who made most of their profits by serving as agents of foreign firms, expelling them from the NDP. But, as noted earlier, he warmed to this group over time as his son Gamal brought them into his inner circle.

Some exploited their ties with Mubarak to obtain bank loans, preferred access to public contracts, and the erection of barriers-to-entry with the goal of creating quasi monopolies.<sup>36</sup> Between 1997 and 2010, 558 state enterprises were sold or turned into joint ventures, raising \$11.22 billion.<sup>37</sup> Some of these companies were sold at fire-sale prices to Mubarak's associates, who engaged in "hit and run operations with quick profits."<sup>38</sup> For instance, one

businessman purchased a beverage company in 1997 for 231 million LE only to sell it in 2002 for 1.3 billion LE.<sup>39</sup> A 2007 law removing restrictions on foreign ownership of land, coupled with the government's selective sale of parcels outside public auction, enriched a small group who had preferential access to the first family.<sup>40</sup> After Mubarak's government fell, several such benefactors, including Hisham Talaat Mustafa, Hussein Salem, and Yasseen Mansour, were charged with crimes or had their assets frozen.

The role crony capitalism played in bringing down Mubarak has left Sisi wary of business figures in general and his predecessors' allies in particular. This is just one more likely reason Sisi has allowed the military to expand its economic scope—it lets him avoid relying on the capital of men with dubious public reputations. But in a nation as large as Egypt, where the business class has grown into an economic powerhouse, the government cannot keep this sector at bay forever. It must periodically rely on those who own major media assets; needs rural business actors to operate patronage networks and mobilize voters; and wants wealthy entrepreneurs to donate to Sisi's chosen causes.

One prominent businessman whom Sisi has embraced, Ahmed Abou Hashima, mobilized media assets such as the *al-Youm al-Sabaa* newspaper and *ONTV* to support the president before selling them. When Sisi called on Egyptians to donate to the Long Live Egypt Fund to resuscitate the country, Abou Hashima gave 114 million LE (about \$16 million).<sup>41</sup>

Sisi's enthusiasm for Abou Hashima, however, masks a hidden agenda. He competes in the steel business with Gamal's former confidant Ahmed Ezz, the poster boy for the excesses that fueled the 2011 revolution.<sup>42</sup> A 2004 report by the Central Auditing Organization noted he controlled 55.3% of the domestic steel market.<sup>43</sup> Ezz had been able to influence laws to shield his steel monopoly, control markets, and weaken public-sector firms, rendering them so brittle he could purchase them at cut-rate prices. His power had reached such heights that he could buck presidential edicts, leading one analyst to conclude that while other business leaders were mere clients of the government, Ezz had developed a mutual-dependency relationship, allowing him to use the state's resources at will for his own ends.<sup>44</sup> In 2011, protestors scrawled his name on walls around Tahrir Square. Because Ezz remains such a reviled figure, Sisi is keen on undercutting him at every opportunity. Backing Abou Hashima does just that.

Despite Sisi's wariness of Mubarak-era businessmen, some, such as Mohamed Abou El Enein, have been rehabilitated. Under Mubarak, gov-

ernment connections allowed Abou El Enein's ceramics company to benefit from tariffs aimed at keeping out foreign competition.<sup>45</sup> Like Ezz, Abou El Enein was a prominent MP in Gamal's inner circle. Also like Ezz, his name surfaced in dubious land deals,<sup>46</sup> and even before Mubarak's fall, parliamentarians accused him of corruption.<sup>47</sup> In 2015, in the leaked documents known as the Panama Papers, Mubarak's other son, Alaa, was revealed to have invested in a trust called the Egypt Fund Ltd. with several Egyptian magnates, including Abou El Enein and Ezz.<sup>48</sup> Similar to Abou Hashima, Abou El Enein owns media assets such as the *Country's Echo* satellite channel, and he donated 250 million LE (\$35.26 million) to the Long Live Egypt Fund.<sup>49</sup> During the presidential campaign, he was a vocal Sisi supporter.<sup>50</sup>

Other businessmen, such as Ahmed Bahgat, refuse to play by the new rules. Like Ezz and Abou El Enein, Bahgat's wealth was fueled by preferential government ties. In the 1980s, he secured a license to manufacture televisions when government regulations otherwise prohibited the private sector from doing so.<sup>51</sup> His connections with the military also produced lucrative deals.<sup>52</sup> And in the 1990s, the housing minister arranged a land sale for him at a price far below market value. Public banks, which are typically frugal lenders, as noted above, loaned him hundreds of millions of dollars.<sup>53</sup> He, too, invested in the Egypt Fund Ltd. In exchange, he put his satellite channel, Dream TV, at Mubarak's disposal. During the 2011 revolution, the station staunchly supported the president.<sup>54</sup>

Yet today, Bahgat has not developed a strong relationship with Sisi. Despite offers by the government to rehabilitate disgraced business figures like him, in exchange for financial indulgences under a 2012 law designed to help fill the government's nearly empty coffers, Bahgat has balked at such opportunities.

Some magnates who benefited from their ties to Mubarak have even taken an adversarial position toward Sisi. One is Naguib Sawiris, whose father started in construction but soon expanded into other sectors. In the late 1990s, the Sawiris and Othman families, the latter known for its prominence during the Sadat era, bypassed mandated public auctions to receive licenses in the cinema industry.<sup>55</sup> Later, a tax law was passed to benefit this sector. In running the industry's sole private company, the Sawirises were the only true beneficiaries.<sup>56</sup>

Similarly, Sawiris was awarded the first cellular concession contract in 1998 even though a competitor submitted a higher bid. After this opponent won the second concession, the two created a duopoly, successfully preventing the auction of a third competitor. Later, when Sawiris needed

capital to fund foreign mobile concessions, he defrauded banks in a complex scheme involving stock sales.<sup>57</sup> Until 2016, when he sold them to Abou Hashima, he owned significant shares in key media assets such the *al-Masry al-Youm* newspaper and *ONTV*, which he used to support the government. During the 2011 revolution, he made several media appearances in support of Mubarak. But he also hedged his bets, acting as one of the “wise men” who offered to mediate between the protestors and Mubarak. After the president’s resignation, Sawiris became active in politics, first founding the Free Egyptian Party and then funding the Tamarod movement, which fueled the protests that led to the overthrow of the Brotherhood government.

Though initially supporting Sisi and donating to the Long Live Egypt Fund, while asserting that Egyptians considered the new leader “a saviour who rescued them from [Muslim Brotherhood] tyranny,” he later turned on the president, lamenting that “parliament was stillborn and the state is pleased with the distortion campaign the media is waging against the parliament.”<sup>58</sup> He also accused Central Bank of Egypt (CBE) governor Tarek Amer of corruption.<sup>59</sup> Months later, members of his Free Egyptian Party dissolved its board of trustees, of which Sawiris was a member, leaving him with no position or influence.<sup>60</sup> The GID is believed to have spearheaded the move because Sawiris had refused to toe the government line in parliament.<sup>61</sup>

But unlike Abou Hashima and Abou El Enein, whose businesses need government protection to thrive, Sawiris can operate autonomously. In 2011, he sold his mobile network holdings for \$6.5 billion, and most of his other businesses are located outside Egypt.<sup>62</sup> A darling of the West who frequents World Economic Forum meetings, he ultimately is untouchable. And his indispensability in some sectors such as construction has compelled the Egyptian government to continue working with him.<sup>63</sup> As a result, the government has few sticks to keep him in line.

In distancing Mubarak-era business actors from power, Sisi has recruited his own new corporate elites. Dalia Khorshid, for example, worked for Citibank before moving to OCI N.V., a chemical company, where she was responsible for several financial portfolios. Also, for more than a decade, she worked in senior positions for the Sawiris-owned Orascom companies.<sup>64</sup> Appointed minister of investment in March 2016, she now runs a private equity fund said to be owned by the GID.<sup>65</sup> Khorshid is married to Amer, the CBE governor, illustrating a convergence along the business-government-security continuum.

But even in recruiting new elites, Sisi faces potential pitfalls. For instance, Amer worked with Gamal at Bank of America's Cairo office. Together, they formed a company that profited from purchasing Egypt's distressed debt abroad and selling it to Bank of America at higher prices. Using Mubarak's influence, the bank then flipped the debt to the government for more money.<sup>66</sup> And Amer's wife worked for the Sawiris family, which had benefited from the prevalent cronyism in the Mubarak era. This illustrates the difficulty Sisi faces in trying to recruit new civilian faces. In Egypt's tight-knit elite, therefore, almost all are tainted by association with the Mubarak era. This only reinforces Sisi's inclination to rely on his trusty military lieutenants, who carry no such political baggage.

Other risks loom for the Egyptian president with respect to the business community. When the national economy entered the doldrums in the late 1980s, the state could no longer generate the necessary funds to provide social services and operate a political machine. Mubarak was thereby compelled to turn to business figures to provide handouts while financing election campaigns, with their requisite thugs and demonstration organizers.<sup>67</sup> Ezz, for instance, funded and managed most elements of Mubarak's 2005 presidential run.<sup>68</sup>

Grappling with similar problems today, the president obviously needs business leaders, aided by their media outlets, to fund political campaigns and capitalize select projects. As a result, he has been unable to shake loose from the moguls reviled for treating the economy as a personal fiefdom during the Mubarak era. In addressing this challenge, Sisi is encountering the same difficulties Sadat did in removing Nasser's military elite from power. Even during eleven years of rule, Sadat could not purge them all. Only a true revolution, not corrective coups, can replace longstanding elites. The history of Syria is instructive here. Despite eight coups and three foreign rulers, the urban elite, which emerged around 1860, effectively controlled the country for a century until the Baath Party took power in 1963.<sup>69</sup> Only at that point were the provincial lower-middle classes empowered, facilitated by the strong ideological bent of the emergent pan-Arab party.<sup>70</sup> In Egypt, Sisi, like Mubarak, has demonstrated that he is not an ideologue. Change, if it comes, will come incrementally. Until that happens, the crony capitalists who benefited under Mubarak will keep prospering, a continuation of the corruption, patronage networks, and clientelism that underpin Egyptian governments.

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## FIVE

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## ECONOMIC CHALLENGES AND ANOTHER IMF PLAN

THE IMF HAS A LONG HISTORY with Egypt. Only three years after the 1952 revolution, the country experienced its first balance of payments deficit of the republican era.<sup>1</sup> In 1962, a bad cotton harvest coupled with increased consumption led to a drop in foreign currency reserves, triggering a balance of payments crisis. The country reached a deal with the IMF to devalue the pound in addition to decreasing consumption and expenditures. Although Nasser agreed to the first condition by instituting a minor currency devaluation from 35.2 piasters to 43.5 piasters to the dollar, he balked at the latter two conditions.<sup>2</sup> In 1966, Cairo again faced a balance of payments crisis after Washington reduced wheat exports, forcing it to expend foreign reserves. This time, the prime minister, Zakaria Mohieddin, agreed to a 40% currency devaluation and a reduction in investment, in addition to price and tax increases.<sup>3</sup> But rather than institute reforms, Nasser sacked Mohieddin.<sup>4</sup>

Sadat went further than Nasser but still did not fulfill promises to the IMF. In 1976, high grain prices resulted in difficulty servicing the debt.<sup>5</sup> In need of foreign currency to stabilize the situation, Sadat turned to the IMF, which called for reducing the budget deficit and cutting subsidies.<sup>6</sup> Though a draft letter was drawn up on May 13 of that year stipulating these reductions, in addition to floating the pound, it was never signed.<sup>7</sup> Nevertheless, on January 17, 1977, the government released a budget that reduced subsidies on several commodities.<sup>8</sup> Riots ensued, compelling Sadat to deploy the military to quell dissent.<sup>9</sup> Sadat finally reached an agreement with the IMF in June 1978 for a three-tranche grant amounting to \$720 million. The first payment was made, but the second was frozen when Egypt's budget deficit

and foreign borrowing increased rather than decreased. The third was consequently abandoned.<sup>10</sup>

Mubarak's affair with the IMF lasted a decade, complete with all the animosity harbored by unrequited lovers.<sup>11</sup> In 1986, a fall in oil prices prompted a corresponding decrease in oil exports; remittances from GCC countries dependent on hydrocarbons thus fell. Iraq, worn down by its war against Iran, imposed restrictions on foreign currency outflows, which further reduced remittances from Egyptians working there. Eventually, many of them were forced to return home. Riots by Central Security Forces, which led Mubarak to call the military from the barracks, alongside terrorist attacks, reduced tourism revenues by 23%.<sup>12</sup> Egypt could no longer service its exploding foreign debt, the largest in the world as a percentage of GDP.<sup>13</sup> Together, these events spurred decreases in foreign currency reserves, creating yet another balance of payments crisis. Servicing the debt further eroded reserves. The prospect of a macroeconomic crisis compelled Egypt to again seek out IMF assistance.<sup>14</sup>

An agreement was ultimately signed on May 15, 1987, under which Egypt pledged to reduce the budget deficit, cut subsidies, remove interest rate bands, increase tax receipts, and unify its various exchange rates in return for a \$325 million loan over eighteen months.<sup>15</sup> This time, Egypt was less focused on receiving aid than on securing a rescheduling of its debt from the Paris Club. An association of seventeen nations that held 80% of Egypt's debt (\$32 billion),<sup>16</sup> this entity was established by the World Bank in 1977 to coordinate aid while ensuring Egypt did not earmark it to pay down Soviet debt.<sup>17</sup>

Pleased with the IMF accord, the Paris Club agreed to reschedule approximately \$11.3 billion of Egypt's \$32 billion debt on the condition that the proposed program be carried out.<sup>18</sup> But Mubarak was unwilling to go beyond implementing some subsidy cuts. Several months later, the deal unraveled over the timeline for implementation of reforms, which ranged from the suggested eighteen months all the way up to ten years, and the extent of budget deficit and subsidy reductions.<sup>19</sup> Angered by the IMF demands, Mubarak called the organization a "quack doctor," warning that a wholesale acceptance of its recommendations would cause Egypt to "sink."<sup>20</sup>

From 1987 to 1990, the two sides continued to seek a deal. During this same period, however, Egypt implemented subsidy reforms, driving up some commodity prices by more than 100%. Progress was made to unify the exchange rate by devaluing the central bank rate.<sup>21</sup> On April 1, 1991, Egypt signed a new letter of intent, leading it to initiate a number of reforms, including tightening bank credit, introducing a sales tax, floating the pound,

and continuing subsidy cuts. In exchange, it was promised \$8 billion in aid.<sup>22</sup> Two months later, a law was passed to privatize almost four hundred SOEs.<sup>23</sup>

Implementing these steps led to a current account surplus in 1992, the first in twenty years, followed by a positive balance of payments in 1993, when a second letter of intent was signed.<sup>24</sup> Though Egypt made great strides in reducing the budget deficit and inflation, stabilizing foreign debt, and increasing foreign reserves, it refrained from agreeing to sell off SOEs and a further currency devaluation. This refusal prompted an impasse over the terms of phase three of the IMF plan and an end to the reform process.<sup>25</sup> Eventually, the IMF backed down; the program ended amicably in 1998. But it was largely debt forgiveness, rather than economic restructuring, that saved Egypt.

The IMF noted that “the Egyptian stabilization experience has been one of unambiguous success.”<sup>26</sup> The program indeed introduced necessary fiscal and monetary reforms but not structural reforms such as shrinking the public sector. In contrast to the IMF’s accolades, in 1998 the World Bank struck a more cautious note, advocating an increase in export-led growth as opposed to an expansion of internal consumption. It also recommended a buildup in domestic savings rather than reliance on external rents from oil exports, remittances, Suez Canal earnings, and tourism.<sup>27</sup>

The ensuing growth following the IMF reforms was illusory, spurred by domestic consumption rather than exports. Nontradable sectors such as construction and financial services accounted for much of it.<sup>28</sup> Further, external rents rather than domestic savings fueled capital accumulation. And the funds earned by the government were invested in capital-intensive projects that did not create employment.<sup>29</sup> Writing in 2006, Khalid Ikram demonstrated an understanding that Egypt’s structural problems could cause future dilemmas, noting: “There are indications that fiscal reforms have not gone far enough. The vulnerability of the budget owes more to structural than to cyclical factors, and the authorities will have to deal with the problem of steadily rising public debt.”<sup>30</sup>

Following the January 2011 revolution, Egypt could no longer shirk these structural deficits. Instability led to a decrease in foreign direct investment (FDI) and tourism revenues. This eroded foreign currency reserves used to purchase foreign commodities. Simultaneously, the political instability sparked a run on the pound, pressuring the Central Bank of Egypt to bolster it, thereby expending even more reserves. These moves forced the country to seek out new debt. But Egypt could not gain access to foreign debt mar-

kets, as credit agencies such as Moody's downgraded Egyptian debt to Caal, a speculative rating with a significant credit risk.<sup>31</sup> As a result, the government was compelled to turn to domestic bank borrowing at high rates. In addition, the problems that had plagued Egypt since Nasser emerged once more—balance of payments and current account deficits combined with an overvalued currency that impeded exports. These ailments were the result of unwise fiscal and monetary policies geared to prop up an unsustainable welfare state, pumping money into failed SOEs and applying tariffs that made it more profitable for companies to serve the domestic market rather than export their products. The shocks caused by political and security instability exposed the vulnerabilities Ikram highlighted. Egypt was once again compelled to call on the IMF to bring it back from the precipice of financial ruin.

On November 7, 2016, Egypt sent the IMF a letter of intent laying out the steps it would take to assimilate the country into a family of nations that sustain themselves without perpetual external support.<sup>32</sup> The austerity program, introduced earlier in this study, recommends a number of fiscal and monetary reforms, such as cutting subsidies and unifying the exchange rate, in addition to improving the business climate, increasing investment, decreasing unemployment among women and youth, and establishing a better-targeted social safety net that plugs holes created by subsidy leakage. To do so, it aims at creating “fiscal space for increased social spending and investment,”<sup>33</sup> while envisaging growth through increased FDI and tourism.<sup>34</sup> The IMF and the Egyptian government believe higher Suez Canal revenues and remittances will augment this strategy.<sup>35</sup>

## THE ECONOMIC CONUNDRUM

Egypt's current financial predicament, as implied already, stems largely from decades of misguided policies that contributed to a bloated bureaucracy, unmitigated subsidies, misappropriation of resources, and burdensome regulation.<sup>36</sup> Excluding the defense sector, 22% of the workforce was employed by the state in 2016.<sup>37</sup> Egypt, moreover, subsidizes everything from cooking oil to bread to placate its impoverished population. From fiscal year 1953/54 to 1960/61, subsidies accounted for just 1.7% of gross national product.<sup>38</sup> But by FY 2010/11, public wages represented 24% of the budget, while subsidies and social benefits had risen to 31%. To finance these expenditures, the country turned to foreign debt markets whose interest payments consumed another 21% of the budget. Combined, these policies crowded out much-

needed investment and capital infrastructure projects, which constituted only 10% of the budget.<sup>39</sup>

The austerity plan has focused on reducing these outlays. In 2017/18, the government earmarked 28% of the budget for subsidies and social benefits and 20% for wages. But the savings on these expenditures have not been allocated to investment, which increased only slightly to 11%. Instead, the differential will go to pay down Egypt's swelling debt, which is scheduled to consume an astronomical 32% of the budget.<sup>40</sup> In 2010, foreign debt was a relatively reasonable \$36.8 billion.<sup>41</sup> But by the end of third quarter 2017/18, it had reached \$88.2 billion.<sup>42</sup>

### SEEKING REVENUES, FINDING CRUMBS

This debt is funding the budget deficit. For fiscal year 2017/18, the government projected a budget deficit of 9%, whereas it expected the budget deficit in FY 2016/17 to be 10.5%–10.8%.<sup>43</sup> However in March 2018, the finance minister noted the deficit for FY 2017/18 would, in fact, be 9.6%–9.8%,<sup>44</sup> while in June parliament approved the final accounting for the FY 2016/17 budget at 10.9%.<sup>45</sup> The same month, the legislature also ratified the FY 2018/19 budget with a projected deficit of 8.4%.<sup>46</sup> This is down from the 2015/16 figure of 12.2%.<sup>47</sup>

The government has been, in part, forced to accumulate debt because revenue streams that historically provided foreign currency, such as FDI and tourism, have dried up. Having peaked at \$10.9 billion in 2007 before the financial crash,<sup>48</sup> FDI had fallen by 2010 to \$5.2 billion before rebounding to \$8.1 billion in 2016, according to the UN Conference on Trade and Development.<sup>49</sup> The Egyptian government provided a provisional figure of \$7.9 billion in FY 2016/17.<sup>50</sup> However, about \$7 billion of this sum was invested in the hydrocarbon and real estate sectors.<sup>51</sup> In FY 2014/15, preliminary statistics reveal that these sectors accounted for about 64.6% of FDI, followed by 56.8% in FY 2015/16, meaning that not much made its way to vital economic sectors in need of investment.<sup>52</sup> Further exacerbating the investment dilemma is that FDI is not widely disbursed on a geographical level, with 61.5% of nonhydrocarbon FDI from 1972 to 2009 directed to two provinces, Cairo and Giza.<sup>53</sup> Although net FDI inflows surged to \$18.5 billion between the November 2016 currency float and November 2017, most of this rise stems from foreign investors locking in preferable exchange rates after the pound's flotation.<sup>54</sup> This temporary bump has since receded somewhat, with

FDI decreasing from 0.8% of GDP in first quarter FY 2016/17 to 0.7% in first quarter 2017/18.<sup>55</sup>

Taking a longer historical view on tourism, the sector has consistently yielded substantial revenues since President Sadat opened Egypt to the outside world, while employing largely unskilled labor, which abounds in Egypt. According to the UN World Tourism Organization, 14.73 million tourists visited Egypt in 2010.<sup>56</sup> By 2016, that figure had fallen to 5.4 million, a drop-off attributable in part to the chaos of Brotherhood rule, its overthrow, and a persistent uptick in terrorist activity.<sup>57</sup> In 2009/10, tourists spent \$11.59 billion in Egypt,<sup>58</sup> with the figure sinking to a preliminary figure of \$4.4 billion in 2016/17.<sup>59</sup>

From 2011 to 2013 in particular, political unrest and security threats kept tourists away. After a brief upswing, tourism figures again fell after the Islamic State downed a passenger jet from the Sinai-based resort of Sharm al-Sheikh in October 2015, with Egypt's tourism cycle reaching another nadir. Numbers are nevertheless up in FY 2017/18. In the first half of FY 2017/18, approximately 4.7 million tourists visited Egypt, against the shade over 3 million to come during the same period in FY 2016/17, a 54% increase.<sup>60</sup>

In 2009/10, tourism represented 5.3% of GDP,<sup>61</sup> with the figure falling to a provisional 1.6% in 2016/17.<sup>62</sup> The *African Statistical Yearbook*, for its part, puts tourism's contribution to Egyptian GDP at well over 10% but does not cite its sources.<sup>63</sup> Scholars, however, have concluded government accounting undervalues the contribution made by tourism to output.<sup>64</sup> Using different analytics, they have found that it is at least 4% and often reaches 10% of GDP.<sup>65</sup> Others believe tourism revenues are undervalued by a factor of five or more, due to currency manipulations.<sup>66</sup>

Reduced revenues from FDI and tourism affect the current account and balance of payments, which continue to show large shortfalls. To address these negative trends, the government has had to expend its foreign currency reserves. In December 2010, gross official reserves were at \$36 billion, but between 2012 and 2015 they periodically hovered around \$15 billion.<sup>67</sup> Indeed, for most of 2011–15, they were insufficient to cover three months of imports, the minimum amount the IMF recommends maintaining.<sup>68</sup> The reserve levels have recovered since then, reaching \$44.31 billion in July 2018.<sup>69</sup> But this figure is deceiving, given that the increase has not been bolstered by exports, FDI remains dismal, and tourism receipts have yet to reach their pre-2011 levels. Instead, debt and foreign aid are largely fueling the recovery.

## THE PERPETUAL MENDICANT

Egypt has historically been dependent on foreign assistance. Until the 1967 Arab-Israeli war, Egypt was the largest recipient of U.S. foreign aid, and since then GCC countries have safeguarded Egypt against financial collapse.<sup>70</sup> Specifically, between 1973 and 1978, they provided nearly \$9 billion, after which the Gulf states ceased their largesse in protest over Egypt's peace treaty with Israel.<sup>71</sup>

Through a combination of aid, grants, loans, and debt forgiveness, GCC states kept Egypt solvent in the late 1960s and 1970, and then again after the rift over the peace deal with Israel had subsided. In 1986, the editor of the state-owned *al-Ahram* newspaper provided a careful accounting of every Arab state's contributions to Egypt from 1973 to 1979. He claimed that during this period, Kuwait had provided no less than \$1.5 billion while loaning the central bank \$962 million.<sup>72</sup>

In addition, since 1974 the Kuwait Fund for Arab Economic Development has given Egypt \$3.1 billion—more than half as grants—making Egypt by far its largest aid recipient.<sup>73</sup> Much the same situation holds for the Saudi Fund for Development (SDF). From 1975 to 2013, it provided 2.4 billion Saudi riyals, or nearly \$650 million, for projects, accounting for 5.7% of all the funds the SDF disbursed. Only Tunisia and Sudan received more aid from the SDF during this period.<sup>74</sup>

Debt relief has been another arrow in Egypt's quiver to periodically alleviate its economic dilemmas. In April 1976, four Gulf states provided almost \$2 billion to pay off Egypt's short-term debt.<sup>75</sup> Fifteen years later, in gratitude for the Egyptian role in dislodging Iraqi forces from Kuwait, Washington wrote off almost all of Cairo's \$7.1 billion in military debt, the GCC forgave another \$6.6 billion, and the Paris Club annulled approximately \$10.1 billion.<sup>76</sup> Other nations followed suit.<sup>77</sup>

This aid, however, has not gone to fund growth, investment, or the other initiatives the IMF recommends to shore up moribund economies. Rather, it subsidizes consumption and balance of payment deficits. Until 1977, Arab states financed two-thirds of Egypt's foreign purchases, which increased to 35%–40% in 1978.<sup>78</sup> From U.S. FY 1974 to 1983, Washington provided \$4.9 billion in balance of payment support through subsidized food imports and aid to purchase raw materials—assistance that allowed Egypt to preserve foreign currency reserves.<sup>79</sup> Egypt's foreign currency is earmarked for commodities such as wheat. Egyptian government statistics note that Egypt produced 47.7% of its wheat needs in 2016.<sup>80</sup> The rest—estimated by the UN Food and Agriculture Organization to be 12 million tons in FY 2017/18—make

it the world's largest importer of the commodity.<sup>81</sup> The state then sells the wheat back to its population at subsidized prices. Such food subsidies cost the government a preliminary \$5.1 billion in FY 2015/16.<sup>82</sup>

## WHAT'S NEXT ?

Over a period spanning November 11, 2016, to March 15, 2019, the IMF agreed to distribute \$12 billion of aid in six tranches. Of this total, \$8 billion has been released so far. The final two tranches, \$2 billion each, will be released November 11, 2018, and then March 15, 2019.<sup>83</sup> Yet the IMF assesses that due to reform fatigue, the opposition of vested interests, or societal backlash, Egypt faces a medium risk of failing to honor its commitment.<sup>84</sup> The government, in particular, could feel pressure to freeze further fuel subsidy cuts. Indeed, it failed to submit an automatic fuel-price-index mechanism, missing a structural benchmark in the second IMF review.<sup>85</sup> Increased government spending to alleviate the hardships created by the austerity program could likewise set it back. Here, too, the country missed a structural benchmark to detail fiscal year 2018/19 budgetary outlays.<sup>86</sup>

The IMF, however, has historically taken a soft line with Egypt, proving itself willing to coddle the country even after it reneges on deals. In the past, it has buckled under intense U.S. pressure to be lenient with Egypt.<sup>87</sup> This slack approach has frustrated midlevel bureaucrats who implement the accords. One IMF official resigned in protest over the generous terms of the 1987 agreement.<sup>88</sup>

In his full-fledged embrace of IMF reforms, Sisi is charting an independent course. Nasser refused to subjugate his country to the diktats of a Western-controlled organization,<sup>89</sup> Sadat gave up after one round of reforms, and Mubarak dragged out negotiations for years, confessing: "We can't do it. We know our people and there is a limit."<sup>90</sup> In contrast, Sisi has implemented a rigorous and wide-ranging package that has restructured the economy by cutting energy and fuel subsidies, floating the pound, instituting hiring and bonus strictures in the public sector, and increasing taxes.

Sisi's two predecessors opted out of further reforms once their short-term balance of payment and current account deficit dilemmas were resolved. Viewed against them, Sisi is continuing a familiar pattern in Egypt whereby a president fulfills more IMF requests than did his predecessor. It therefore remains to be seen if Sisi will become the first Egyptian president to complete all phases of an IMF program and receive every tranche of aid initially agreed on.

The IMF insists on further energy subsidy and SOE reforms, which may

be quite painful. And it is likely not lost on some in the president's inner circle that the privatization measures the IMF urged in the 1990s enriched the businessmen whose avarice brought down Mubarak. Moreover, if budget deficit reduction does not reach benchmarks, the government will have to seek out further expenditure cuts, which may include targeting civil servants. With foreign currency reserves at a healthy level and the worst of the economic storm in the rearview mirror, Egypt may again opt out of an IMF program, choosing to rely on occasional GCC aid instead.

## SCORECARD

Egypt's reform program is based on risky assumptions and likely unachievable goals, with the government putting its faith in tourism and FDI to spur growth. But tourism is a fickle industry. Unlike factory owners, who make large capital investments that are painstakingly difficult and time consuming to unwind, tourists can cease coming on a whim. Egypt often experiences increases and decreases in tourist arrivals, fluctuating by 20%–50% from year to year, according to local and regional security threats.<sup>91</sup> Indeed, after the 2015 Islamic State attack, the number of tourists fell from approximately 909,000 in October to 559,000 the next month, with only 440,000 visiting during the holiday month of December.<sup>92</sup> Almost three years later, the monthly tally has yet to reach 900,000 again.<sup>93</sup> Moreover, Egypt is not a small Caribbean island, but a country possessing one of the most educated labor forces in the Third World. In a nation of 95.2 million, tourism should not be the primary driver of economic growth, but rather a supplement.<sup>94</sup> Nonhydrocarbon FDI will be difficult to procure given the abysmal Egyptian business environment. As of June 2017, Egypt ranked 128 out of 190 countries in the World Bank's "Doing Business" survey.<sup>95</sup> Burdensome regulations, bureaucratic hurdles, the predominance of unskilled labor with poor productivity, and decrepit infrastructure have kept investors at bay. Also according to the World Bank, acquiring land, starting a business, registering property, rectifying insolvency, and enforcing contracts have been particularly vexing.<sup>96</sup> The private sector must finally compete with SOEs, which receive preferential government resources.

In March 2015, Sisi signed a new investment law that decreased the sales tax and custom duties, while cutting red tape and improving transparency.<sup>97</sup> But since 2016, Egypt's business reforms have been a mixed bag, according to the World Bank. Protection for minority investors has increased and starting a business has become easier; but the country has simultaneously encum-

bered the process of registering property and moving capital out of the country by increasing paperwork and imposing a ceiling on foreign exchange deposits and withdrawals.<sup>98</sup>

At the same time, the World Bank ranked Egypt in the eighteenth percentile of countries for regulatory quality and in the thirty-sixth percentile for rule of law, significant downgrades from the previous decade.<sup>99</sup> Corruption is another problem foreigners face in doing business in Egypt. In 2017, Egypt ranked 117 of 180 countries in Transparency International's Corruption Perceptions Index, a measure focusing on malfeasance in the public sector.<sup>100</sup> For its part, the World Bank ranked Egypt in the thirty-second percentile for control of corruption.<sup>101</sup>

FDI is just one more sector the GCC countries have shored up. In FY 2016/17, Kuwait, Saudi Arabia, and the UAE accounted for 9.9% of Egypt's FDI.<sup>102</sup> Non-GCC firms outside the hydrocarbon sector are likely to pass on investing in Egypt, where the rates of return are lower than in other countries, even before taking into account the country's various troubles. The IMF noted, "Eliminating the free zone (FZ) regime to new entrants and developing options to phase out FZ regimes for existing companies is desirable in the future."<sup>103</sup> Eliminating the FZ regime could lead firms to think even harder before entering the Egyptian market.

The government's chief pledges on reform—reducing state expenditures while increasing tourism and FDI—have been cornerstones of Egyptian economic policy since the 1970s.<sup>104</sup> But they have not yet alleviated the country's chronic economic problems. And while the IMF and the government express hope that investment will fuel growth and productivity, several studies have concluded that austerity programs do not increase investment.<sup>105</sup> By looking to FDI, tourism, and Suez Canal earnings to return it to prosperity, Egypt is exposing itself to the same vulnerabilities that remained after its last IMF economic reforms in the 1990s. It was overly reliant on such external rents rather than domestic savings to fuel investment. Once these sectors suffer shocks, the economy cannot recover. As a result, boosting savings should be a primary concern. Moreover, if government revenues fall, they will no longer be able to cover investment. But the IMF reports do not emphasize these concerns.

## THE CASE FOR EXPORTS

Some internal measures could quickly set Egypt on the path to growth. An end to government intervention through price controls is a chief example. Purchase of commodities from farmers below international market costs and their subsequent sale to SOEs effectively levies a tax on farmers, working

as a disincentive to increase production. Egypt, furthermore, needs to shift government workers into the private sector to boost efficiency and reduce budgetary outlays.

Other steps will take more forethought and depend on external factors. Instead of pursuing a strategy rooted in attracting FDI and tourism revenues to an unstable country, Egypt should seek to push exports to secure nations. Currently, the construction and energy sectors are fueling growth, but they will not create long-term jobs for the legions of low-skilled workers who populate Egypt. Indeed, while the economy grew at an annual average of 2.7% from fiscal year 2012 to 2015,<sup>106</sup> construction grew 6% during the same period.<sup>107</sup> As noted, Egypt instead relies on remittances, tourism, oil exports, and Suez Canal fees to finance the economy.<sup>108</sup> From 1975 to 2000, these sectors constituted 64% of foreign currency earnings.<sup>109</sup> But most of these jobs are either held by foreigners, are capital rather than labor intensive, or, in the case of remittances, do not even entail working in the country.

Egypt has its largest international competitive advantages in the food and textile sectors—but these are not growth industries.<sup>110</sup> Manufacturing, however, is, providing an opportunity to boost exports and thereby create real growth.<sup>111</sup> Yet in the past, Egypt's industrial sector has never been competitive. The government has subsidized failing SOEs to promote Nasserist import substitution policies, which create jobs and a measure of autarky.<sup>112</sup> In the 1980s, the World Bank examined an aluminum factory in Nag Hammadi, which was only profitable because its electricity was subsidized. The bank concluded that if the plant was shuttered with its electricity sold locally at market rates, it would cover the plant's labor force costs *and still* provide significant returns.<sup>113</sup> Worse, SOEs crowd out the private sector in a credit market where banks hoard their capital and consume precious state resources better spent elsewhere.<sup>114</sup>

The IMF recognizes that the favorable treatment Egypt provides SOEs could endanger the austerity program.<sup>115</sup> Unlike subsidy cuts, which merely increase the cost of living, SOE reform entails layoffs, a move likely to make the government, seeking to reduce rather than inflame societal anger, flinch. For this reason, Egypt failed to publish an outline of state guarantees to SOEs, the last of the three structural benchmarks missed.<sup>116</sup>

A key obstacle to increasing exports is that Egyptian products are not earmarked for foreign markets. Artificially high exchange rates and tariffs have made it more profitable to produce for the domestic market, reducing incentives to remain competitive with foreign producers.

Productivity is another problem. Wars in the 1960s and 1970s against Israel and Yemeni monarchists were funded by a decrease in investment.<sup>117</sup> Moreover, subsidies and debt servicing have crowded investment out of the budget, and low domestic savings have failed to sustain it.<sup>118</sup> Foreign borrowing, in turn, has been diverted from investment to debt servicing. The IMF program of the 1980s and 1990s led to a reduction of investment equivalent to 10% of GDP between 1990 and 2000.<sup>119</sup> And as public-sector investment contracted, the private sector did not pick up the slack, a dilemma already encountered during the early Nasser years.<sup>120</sup> These shortfalls are reflected in the Global Competitiveness Index, measuring productivity, in which Egypt ranks 100 of 137 countries.<sup>121</sup> One scholar found that from 1965 to 2000, productivity provided a negative contribution to GDP growth. Another compared Egypt to a basket of other Third World countries, concluding its labor productivity in industry was only 16% of theirs.<sup>122</sup>

The IMF's focus on pension reform could adversely affect investment.<sup>123</sup> The country's two social security programs are required to place their funds with the National Investment Bank (NIB), which then uses them to pay for national projects. Any pension reform is likely to decrease funds available to the NIB and hence reduce investment.<sup>124</sup>

Equally problematic is the impact of population growth on job creation. The country must produce 700,000 jobs a year for those entering the labor force.<sup>125</sup> This requires a 2.6% increase in employment and a 4.5% annual GDP growth rate.<sup>126</sup> But during the calendar years Mubarak was in office, from 1982 to 2010, GDP fell short of this standard, rising by an average of 4.3%.<sup>127</sup> The IMF cites the same figure as the country's "historical average" real growth rate.<sup>128</sup> Other scholars have estimated a historical growth rate of 4.3%–4.4%.<sup>129</sup>

In 2017, the unemployment rate was 12.5%, but even this steep figure is deceiving, because the Egyptian government counts anyone who works one hour a week as employed.<sup>130</sup> This figure also does not specify employment in the informal sector, where laborers perform largely meaningless tasks, for example as self-nominated parking attendants and bag porters, work often referred to as disguised unemployment. For these reasons, Ikram noted, "The study of unemployment in Egypt is freighted with problems arising from inconsistencies of definition, coverage, measurement and interpretation."<sup>131</sup>

More worrisome is the 31.4% unemployment rate in 2016 for those with advanced education.<sup>132</sup> Some of these graduates are merely biding their time for cushy government jobs with long wait lists. But much of this figure covers structural unemployment. These graduates lack the skills necessary to fill job

openings.<sup>133</sup> Back in 2008, half of companies in a survey noted that incongruous employee skill sets were among the top-five constraints to business development.<sup>134</sup> Data further demonstrates that the more educated an Egyptian is, the less likely he will be employed.<sup>135</sup> Indeed, the Global Competitiveness Index lists an inadequate educated workforce and a poor work ethic in the labor force among the leading impediments to doing business in Egypt, with the country achieving weak scores in labor market efficiency and higher education and training.<sup>136</sup> Skill mismatch is only one reason for high unemployment. Labor demand is suppressed because growth stems from capital- rather than labor-intensive industries. Indeed, in the 1990s and 2000s, approximately 80% of total real per capita growth was attributed to capital deepening.<sup>137</sup>

Though Egypt admitted in a memorandum to the IMF that “high unemployment is a high priority,” the only step it highlighted to decrease it was earmarking 250 million LE to construct public nurseries so that women could enter the workforce.<sup>138</sup> Increasing female participation in the workforce, a key IMF recommendation, will not increase productivity. And female unemployment is not due to a lack of skills or childcare facilities. Rather, women tend to prefer hard-to-get public-sector jobs.<sup>139</sup> Employers are reluctant to hire them because of the generous maternity and childcare benefits they receive as well as the belief they are less attached to their positions. Researchers have concluded the opposite of what the IMF argues, namely that childcare provisions are too rigorous.<sup>140</sup>

Until Egypt solves the elusive growth-exports-employment equation that has historically beguiled it, the country will remain mired in twenty-year economic cycles where governments are forced to accept the costly sacrifices the IMF demands in exchange for aid. For this reason, Egypt is one of only three countries to have continuously depended on the fund’s assistance for more than forty years.<sup>141</sup>

Just as the World Bank’s prescient analysis following the 1990s IMF reform program identified Egypt’s Achilles’ heel, so too has it today raised the flag of caution. In 2015, before the austerity program was implemented, it warned that the “budget deficit and debt aggregates will remain high and *unsustainable* [emphasis added].”<sup>142</sup> In contrast, in 2017 the IMF concluded, “Egypt’s public debt is *sustainable*, but not with high probability [emphasis added].”<sup>143</sup>

The World Bank based its comments on a projected FY 2017/18 budget deficit of 9.4%. But as noted earlier, this figure will fall between 9.6% and 9.8%. It has highlighted that Egypt’s stabilization plan relies on stimulating domestic consumption, the country’s key driver of growth, which as also

noted is a principal cause of Egypt's economic woes.<sup>144</sup> Indeed, as indicated before, between FY 2012 and 2015, consumption grew at an annual average of 4.2% against a 2.7% increase in GDP during the same time.<sup>145</sup> And the World Bank warned of the “risks of policy slippage” while cautioning “implementation capacity remains a concern.”<sup>146</sup> Meanwhile, the IMF predicts astronomical annual increases of exports as a percentage of GDP, exceeding 10%, even though Egypt's historical average is 5.5%.<sup>147</sup> Given the World Bank's previous prescient analysis, its current warning should raise red flags.

Furthermore, the IMF has recirculated the same fiscal and monetary measures from the 1980s and 1990s programs. Revenues increased from currency liberalization and tax reform, while expenditures decreased when subsidies were cut. But these gains turned out to be transitory as Egypt proved a recidivist recipient of IMF counsel. Even if it does complete this program, there is no guarantee it will not backslide in the future. Moreover, the IMF offers orthodox macroeconomic recommendations, not microeconomic ones. As the World Bank's “Doing Business” survey and the World Economic Forum's Global Competitiveness Index illustrate, Egypt's economic challenges are just as much micro as they are macro.

Beyond Egypt's economic maladies, the country suffers from structural societal ailments. Specifically, it is plagued by what Hisham Sharabi has termed “neopatriarchy,” the inability to modernize.<sup>148</sup> Leading economist and former prime minister Hazem al-Beblawi has explained this deficiency in economic terms, noting that a market-oriented economy requires good governance components such as rule of law and transparency, which are nonexistent in Egypt.<sup>149</sup> Accountability is lacking as well since officials are not reprimanded for their missteps. There is no learning curve; instead, mistakes are repeated.<sup>150</sup> In Egypt's centralized system, only the leader—whether president, minister, or company director—can make any decision. Education is rote rather than analytical, stifling creativity and innovation.<sup>151</sup> Many of these shortcomings are attributed to authoritarianism. Until societal reforms are implemented and brought up to international norms, Egypt is unlikely to compete successfully in constantly evolving foreign markets. And no IMF reform package or expert counsel will be able to rectify the underlying flaws before then.

## THE FOREIGN POLICY ANGLE

Though Nasser portrayed himself as leader of the Non-Aligned Movement, a group of states formed in 1961 seeking to ally with neither the United States nor the Soviet Union, he nevertheless cast his lot with the Soviet bloc, relying

on it for aid, technical support, and weapons. Until his 1967 defeat forced him to reconcile with the conservative Arab monarchies to receive much-needed aid, he vilified them. Sadat, thereafter, expelled the Soviets, embraced the Americans, and, until the 1979 peace treaty with Israel, maintained cordial relations with the Gulf monarchies. Mubarak, after assuming office, maintained Sadat's pro-Western orientation, patched up relations with the GCC, and resumed ties with the Soviets, though only in part to counterbalance Washington's perceived tilt toward Israel in Arab-Israeli peace negotiations.

It is in foreign policy that Sisi draws from each of his three predecessors equally. Like Nasser, he seeks out Russian aid and weapons. He is also willing to participate in regional cold wars, as the dispute with Qatar illustrates. As was the case for Sadat, strong ties with Israel are a central plank of Sisi's foreign policy. And he is focused on maintaining good relations with the United States, the only superpower. Finally, like Mubarak, he understands the importance of keeping the GCC countries close, to ensure access to precious aid.

But beyond these areas, Sisi is charting an independent course. For instance, whereas Nasser entangled himself in the Yemen quagmire from 1962 to 1969, Sisi has refused to send troops abroad, rebuffing repeated Saudi requests to deploy forces to assist in the fight against the Iran-backed Houthi rebels. Sisi believes that Egypt's economic woes began when Nasser intervened in Yemen, a commonly held view in Egypt, if one that is largely misleading.<sup>152</sup> He is likewise reluctant to forcefully intervene in neighboring Libya's conflict, content to merely aid favored actors. Overall, he firmly supports the regional order, backing the Syrian regime to the consternation of his GCC patrons.

Sisi's view of Egypt's role in the region is even more telling. In his speeches, he consistently emphasizes the need for the international community to act to solve regional problems. Egyptian analysts thus believe he prefers a multilateral approach, eschewing unilateral decisions. His rhetoric likewise reveals an understanding of the limits of Egyptian power, and a recognition that Egypt can no longer dominate the region. This perhaps explains why Sisi uses colloquial Arabic in his speeches. His audience is not the entire Arab world, which Nasser addressed, but rather only his own nationals.

Sisi is positioning Egypt as one among many Arab states that can assist the international community in solving regional issues. The days when Nasser could spur foreign Arabs to revolution, or Sadat could restore Arab pride through war, or even Mubarak could marshal coalitions to protect the regional status quo, have passed. Egypt is a mere nation struggling to find its way in the international order.

## NOTES

1. Bent Hansen and Girgis Marzouk, *Development and Economic Policies in the UAR (Egypt)* (Amsterdam: North-Holland, 1965), pp. 188–89.
2. One hundred piasters equal one pound.
3. John Waterbury, *The Egypt of Nasser and Sadat* (Princeton, NJ: Princeton University Press, 1983), pp. 94–95.
4. Anthony Nutting, *Nasser* (New York: E. P. Dutton, 1972), p. 381.
5. Waterbury, p. 409.
6. Ikram, *The Egyptian Economy*, p. 28.
7. *Ibid.*, p. 33, and Waterbury, pp. 409–10.
8. Ikram, *The Egyptian Economy*, p. 31.
9. Mourad Wahba believes it was neither Sadat's popularity nor the subsidy cuts themselves that led people into the streets, but rather the way the government depicted the measures as coming from the IMF rather than being an indigenous initiative. Mourad Wahba, "On the Implementation of Economic Policy in Egypt," *Journal of the American Chamber of Commerce in Egypt*, July 1989, p. 5.
10. Waterbury, pp. 410–11.
11. For an overview of Egypt's relationship with the IMF in the 1980s and early 1990s, see Hans Lofgren, "Economic Policy in Egypt: A Breakdown in Reform Resistance?" *International Journal for Middle East Studies* (August 1993): pp. 407–21. For the most important points of the May 1991 agreement, see pp. 408–9. For why Egypt is able to buck IMF requirements but still receive aid, see Alan Richards, "The Political Economy of Dilatory Reforms: Egypt in the 1980s," *World Development* 19, no. 12 (1991): pp. 1721–30. For the international pressures that convinced Egypt to accept the second IMF package, see David Seddon, "The Politics of Adjustment: Egypt and the IMF, 1987–1990," *Review of African Political Economy* (Spring 1990): pp. 95–104. For a view of how Egypt's relationship with the IMF fits the organization's larger relationship with other nations, see Alison Elizabeth Chase, "The Politics of Lending and Reform: The International Monetary Fund and the Nation of Egypt," *Stanford Journal of International Law* (Summer 2006): pp. 193–236.
12. Ikram, *The Egyptian Economy*, p. 152.
13. *Ibid.*, pp. 56, 151.
14. "Egypt," *Middle East Contemporary Survey*, vol. x (1986), pp. 263–64.
15. "Egypt," *Middle East Contemporary Survey*, vol. xi (1987), p. 333.
16. *Ibid.*
17. For the Paris Club, see Ikram, *The Egyptian Economy*, pp. 33 and 67.
18. *Ibid.*, pp. 57–58. Others cited different debt figures; Ikram and Robert Springborg provide different debt figures and agreement dates. See Robert Springborg, *Mubarak's Egypt: Fragmentation of the Political Order* (Boulder, CO: Westview, 1989), p. 58, and "Egypt," *Middle East Contemporary Survey*, vol. xi (1987), p. 333.

19. "Egypt," *Middle East Contemporary Survey*, vol. xii (1988), p. 296.
20. Yahya Sadowski, *Political Vegetables? Businessman and Bureaucrat in the Development of Egyptian Agriculture* (Washington DC: Brookings Institution, 1991), p. 253.
21. "Egypt," *Middle East Contemporary Survey*, vol. xiii (1989), p. 296, and "Egypt," *Middle East Contemporary Survey*, vol. xiv (1990), p. 317.
22. "Egypt," *Middle East Contemporary Survey*, vol. xv (1991), pp. 346–49.
23. Lofgren, p. 409.
24. "Egypt," *Middle East Contemporary Survey*, vol. xvi (1992), p. 378.
25. "Egypt," *Middle East Contemporary Survey*, vol. xviii (1994), pp. 273–75.
26. Cited in Jane Harrigan and Hamed El-Said, *Aid and Power in the Arab World: World Bank and IMF Policy-Based Lending in the Middle East and North Africa* (Basingstoke, UK: Palgrave Macmillan, 2009), pp. 36–74, esp. p. 40. This section draws largely on this work, while the section closing chapter 5 is inspired by it.
27. *Ibid.*, p. 48.
28. *Ibid.*, p. 50, and Ikram, *The Egyptian Economy*, p. 214.
29. Ikram, *The Egyptian Economy*, p. 215.
30. *Ibid.*, p. 179.
31. "Egypt Downgraded Again Despite IMF Talks," *Middle East Economic Survey* 56, no. 12 (Mar. 2013), <https://washin.st/2MRZyAV>.
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33. IMF Article IV Consultation, Feb. 2015, p. 17, <https://washin.st/2u8rlFs>.
34. *Ibid.*, p. 1.
35. *Ibid.*, p. 20.
36. For GDP figures, see Ministry of Finance, *Financial Monthly*, Jan. 2018, p. 12, <https://washin.st/2zfono9>.
37. Central Bank of Egypt, *Monthly Statistical Bulletin*, Jan. 2018, p. 118, <http://bit.ly/2MUL1Ee>.
38. Wahba, *The Role of the State*, p. 152.
39. Egyptian Ministry of Finance, *The Financial State Concerning the General State Budget for 2017/2018* (in Arabic), p. 66, <http://bit.ly/2u04NHG>.
40. *Ibid.*
41. "External Debt Stocks, Total (DOD, Current US\$)," World Bank, <http://bit.ly/2L7NfmK>.
42. Central Bank of Egypt, *Monthly Statistical Bulletin*, June 2018, p. 93, <http://bit.ly/2Bm8UUo>.
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47. *Financial State*, p. 33, <http://bit.ly/2u04NHG>.
48. See the entry for “Developing Economies: Northern Africa” in “Foreign Direct Investment: Inward and Outward Flows and Stocks, Annual, 1970–2016,” UN Conference on Trade and Development (UNCTAD), <http://bit.ly/2ubhNjz>. The Egyptian computation of FDI figures poses a dilemma, given that some Egyptian government institutions count reinvested earnings and investment-in-kind in these figures; see “Egypt–9.5–Foreign Direct Investment,” <http://bit.ly/2uaiVNT> (subscriber accessible). Thus, *Middle East Economic Digest* reported a 2009 figure of \$13.2 billion, while UNCTAD put the number at \$3.4 billion. “Special Report Egypt,” *Middle East Economic Digest*, Apr. 9, 2010.
49. See UNCTAD FDI figures, <http://bit.ly/2ubhNjz>. The statistics are for the calendar year as opposed to the fiscal year, used by Egypt.
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57. Egyptian Central Agency for Public Mobilization and Statistics, *Egypt in Figures 2018* (in Arabic, with English pdf), March 2018, p. 186, <https://washin.st/2KQUJqQ>. See also World Bank, "International Tourism, Number of Arrivals," <https://washin.st/2NunYl6>; and UN World Tourism Organization, "Egypt: Country-Specific: Basic Indicators (Compendium) 2012–2016," <http://bit.ly/2nFILpY>.
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64. For the challenges associated with using Egypt's economic data to ascertain accurate statistics, see Ikram, *The Egyptian Economy*, pp. 108–11, 127.
65. *Ibid.*, pp. 88–89.
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  74. The riyal has been exceedingly stable during this period, leading the author to estimate a 3.73 exchange rate with the dollar. Activities of the Saudi Fund for Development in Africa, 2014 (in Arabic), are available on p. 8, <https://washin.st/2KBjXxr>.
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  76. Amin, p. 19.
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  82. IMF, “Request for Extended Arrangement,” p. 27, <http://bit.ly/2LTLpWM>. Food subsidies include aid to farmers. The exchange rate for FY 2015/16 was calculated using monthly data provided by the Economist Intelligence Unit averaging 8.16 LE to the dollar. See “Egypt,” Economist Intelligence Unit, Mar. 2018, p. 14. The CBE provides a chart of the monthly exchange rate. See Central Bank of Egypt, *Annual Report 2015/16*, p. 25, <https://washin.st/2u963Ye>.
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  84. *Ibid.*, p. 47.
  85. *Ibid.*, p. 78
  86. *Ibid.*, p. 77.
  87. Richards, p. 1727.
  88. Springborg, *Mubarak’s Egypt*, p. 288, fn. 36.
  89. Nutting, p. 381, and Waterbury, p. 98.
  90. Quoted in Richards, p. 1730, fn. 12.
  91. See the table Amin created to highlight these vacillations, p. 59. Ikram, in *The Egyptian Economy*, charts the gyrations from 1975 to 2000; see p. 125.
  92. Central Bank of Egypt, *Monthly Statistical Bulletin*, Mar. 2016, p. 20, <https://washin.st/2MRbfYs>.

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103. “Selected Issues,” Jan. 2018, p. 32, <https://washin.st/2tYtog3>.
104. See Wahba, *The Role of the State*, p. 205, where he quotes from Mubarak’s first five-year economic plan, covering 1982–86.
105. Ikram, *The Egyptian Economy*, p. 38.
106. IMF, “Request for Extended Arrangement,” p. 32, <http://bit.ly/2LTLpWM>.
107. Ibid. For construction as a percentage of GDP, see p. 33.
108. “Egypt,” Economist Intelligence Unit, Apr. 2018, p. 8.
109. Ikram, *The Egyptian Economy*, p. 126.
110. Ibid., p. 128.
111. Scholars have emphasized that inadequate exports set off a cycle of falling foreign reserves and increased debt levels, in addition to poor growth. See Ikram, *The Egyptian Economy*, p. 125, for a list of these economists.
112. See official government language on this topic in 1960: “The expansion of various sectors should contribute to improving our position with the outside world, in order to be more of an exporting than of an importing country.” Like most matters in the Nasser era, the reality fell far short of the rhetoric. Presidency of the Republic, *General Frame of the Five Year Plan for Economic and Social Development, July 1960–June 1965*, p. 1, cited in Mabro, p. 241.
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114. IMF Article IV Consultation, Second Review, Jan. 2018, p. 10, <https://washin.st/2ufUFtN>.

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117. Farah, p. 37.
118. For savings rates as a percentage of GDP from 1966 to 2000, see Ikram, *The Egyptian Economy*, p. 101.
119. Ibid., p. 282.
120. Ibid., pp. 75–76, 82, 91–92, and the table on p. 101.
121. *Global Competitiveness Report*, p. 110, <https://washin.st/2MPpBZo>.
122. Ikram, *The Egyptian Economy*, pp. 105, 108.
123. IMF, “Request for Extended Arrangement,” p. 13, <http://bit.ly/2LTLpWM>.
124. Ikram, *The Egyptian Economy*, pp. 204–6.
125. Article IV Consultation, Second Review, Jan. 2018, p. 11, <https://washin.st/2u8rIFs>.
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138. Egypt’s Memorandum (attachment to IMF Article IV Consultation), p. 74, <http://bit.ly/2w9B3Zf>. The FY 2017/18 budget increased this figure to LE 500 million. See “IMF and Egypt Frequently Asked Questions,” International Monetary Fund, Dec. 20, 2017, <http://bit.ly/2udLV7U>.
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140. Ikram, *The Egyptian Economy*, p. 241.
141. Chase, p. 207.

142. World Bank, *Egypt Economic Monitor*, p 11, <http://bit.ly/2wdHdaw> (pdf download).
143. IMF, “Request for Extended Arrangement,” p. 39, <http://bit.ly/2LTLpWM>.
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145. IMF, “Request for Extended Arrangement,” p. 32, <http://bit.ly/2LTLpWM>. For consumption’s contribution to GDP, see *ibid.*, p. 20, and “Selected Issues,” Jan. 2018, p. 6, <https://washin.st/2tYtog3>.
146. World Bank, *Egypt Economic Monitor*, p 11, <http://bit.ly/2wdHdaw> (pdf download).
147. IMF, “Request for Extended Arrangement,” p. 47, <http://bit.ly/2LTLpWM>. It attributes most of this to an increase in hydrocarbon exports. See *Ibid.*, p. 25.
148. Hisham Sharabi, *Neopatriarchy: A Theory of Distorted Change in Arab Society* (New York: Oxford University Press, 1988).
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SIX

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## EGYPT AND THE RENAISSANCE DAM

ONE REGION WHERE SISI is seeking a reinvented role is Africa. Mubarak abandoned the continent after being targeted for assassination in 1995 while in Addis Ababa to attend the AU summit. He thereafter avoided these summits, an affront to all the other countries that sent heads of state.<sup>1</sup> Sisi's attempts to repair relations with Africa, however, are not driven by altruism, but rather by the imperative to resolve the dilemma posed by the Grand Ethiopian Renaissance Dam (GERD).\*

On February 3, 2011, Ethiopia's then prime minister Meles Zenawi announced that the country would begin building the Renaissance Dam, laying the cornerstone in April 2011. When eventually completed, with timelines for such an end point varying, the dam will have a capacity of 74 billion cubic meters (bcm), employing sixteen turbines.<sup>2</sup> Alarmed from the outset at the potential threat to its water supply, Egypt sought negotiations with Ethiopia over the dam. In September 2011, the two countries' prime ministers agreed to form an international panel of experts (IPoE) to examine the dam's technical specifications and how it would affect water flows.<sup>3</sup>

Though this panel issued a report in May 2013, it was unable to make any definitive conclusions; the information the Ethiopians provided was either too general, not quantified, or failed to address key issues.<sup>4</sup> For example, the report noted that "the estimation of evaporation losses at the GERD does not reflect the typical analyses performed," recommending, "further assess-

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\* The author would like to thank Salman M. A. Salman for his valuable insights in explaining the nuances of the Renaissance Dam and water policy.

ments with respect to evaporation at the GERD need to be performed.”<sup>5</sup> It did, however, note that an Ethiopian submission to the group found the dam would decrease water flow to Sudan by 3% and cause a 6% fall in power generation at Egypt’s Aswan Dam.<sup>6</sup>

Because of its inability to make accurate assessments, the IPoE made no concrete conclusions about the dam’s impact on Egypt’s water flow. To better understand the dam’s effect on Egypt and Sudan, the IPoE recommended the preparation of one study using a sophisticated water resources/hydro-power system simulation model and a second on the dam’s transboundary environmental and social impact.<sup>7</sup> The next month, Egypt, Ethiopia, and Sudan agreed to hold talks about the experts’ report,<sup>8</sup> with this meeting, led by the countries’ water ministers, commencing November 4, 2013.<sup>9</sup>

The negotiations soon deadlocked over Egypt’s request that the countries commission the two studies recommended in the May 2013 report. Shortly after Sisi met with then Ethiopian prime minister Hailemariam Desalegn in June 2014, they agreed to produce these reports.<sup>10</sup> That September, Egyptian officials visited the dam for the first time.<sup>11</sup> The next month, a decision was made to contract consulting firms.<sup>12</sup> Later, it was determined that one study would cover the dam’s technical specifications in addition to its hydraulic and hydroelectric impacts, while the second would examine its environmental, economic, and social impacts.<sup>13</sup> Initially, both were to be completed within six months, but complications would emerge.<sup>14</sup> In March 2015, the three states signed a declaration of principles, with Egypt for the first time recognizing Ethiopia’s Nile water rights. The nations also agreed to resolve all issues through negotiations. Yet the agreement quantified neither Egypt’s water needs nor what Ethiopia was willing to provide.<sup>15</sup>

In April 2015, the three countries chose the French firm BRL and the Dutch company Deltares to author the studies.<sup>16</sup> But that September, Deltares withdrew, explaining somewhat elusively, “How the studies should be carried out did not provide sufficient guarantee for Deltares that an independent high-quality study could be carried out.”<sup>17</sup> What this meant was that the company was unwilling to accept a division of labor whereby BRL would receive 70% of the work, leaving it with only 30%.<sup>18</sup> This was a blow to Egypt, since it had specifically chosen the firm while Ethiopia and Sudan had selected BRL.<sup>19</sup>

In December 2015, the French firm Artelia was chosen to replace Deltares.<sup>20</sup> That same month, the trilateral summits were expanded to include foreign ministers. Around April 2017, the consulting firms submitted a pre-

liminary report about the methodology used to conduct technical studies. This was soon rejected by Ethiopia and Sudan, leading to another deadlock in November. In December, the Egyptian foreign minister suggested the sides ask the World Bank to mediate.<sup>21</sup> Negotiations only resumed in April 2018, at which time they were expanded to include intelligence chiefs.<sup>22</sup>

In May, an agreement was reached: the countries would share their comments on the consulting firms' preliminary report with its authors and establish a scientific study group.<sup>23</sup> The deal had five clauses, including meetings among the leaders of the three states every six months, further expansion of participants to include senior officials, and a mechanism for Ethiopia and Sudan to convey their views to the consulting companies about their preliminary report.<sup>24</sup> The final clause noted that the scientific study group would develop "various scenarios related to the filling and operation rules in accordance with the principle of equitable and reasonable utilization of shared water resources while taking all appropriate measures to prevent the causing of significant harm." Though Sisi dubbed the accord a "breakthrough,"<sup>25</sup> other Egyptian officials had used the same language to describe previous progress.<sup>26</sup> After meeting the leaders of Ethiopia and Sudan in January, Sisi himself had declared, "Congratulations, we solved our problems... We will be working as one."<sup>27</sup> Indeed, reflecting Sisi's misplaced optimism, tripartite meetings scheduled for June 18 were postponed, a recurring theme in the nearly seven-year saga.<sup>28</sup>

Shelved meetings and missed deadlines for consulting reports are only one reason for the protracted negotiations.<sup>29</sup> Some rounds did not even cover the dam, but were focused instead on bridging the differences between the consulting firms.<sup>30</sup> Thus, such minute points as the legal wording in their contracts created delays in signing.<sup>31</sup> All the while, Ethiopia has continued with construction of the dam, with more than 66% of it completed as of June 2018.<sup>32</sup>

Of chief concern to Egypt is that during the period when Ethiopia fills the dam's reservoir, Egypt's flow of the Nile will be significantly reduced. Ethiopia would like to complete the process as quickly as possible so that it can begin spinning the turbines to generate hydropower. Egypt, however, would like to prolong it. In a 2014 *Sky News Arabia* interview, Sisi said, "There is a threat [regarding] the timeframe to fill the reservoir... the bigger it is, the smaller its influence on Egypt."<sup>33</sup> In 2016, the Egyptian prime minister said: "This time period could be six years or twelve years. We are working to make the time span be like what the president prefers—nine

to twelve years.”<sup>34</sup> By 2018, the Egyptian media was citing a reduced figure of seven to ten years.<sup>35</sup> Before his death in July under mysterious circumstances, the dam’s engineer said the reservoir would be filled in five to six years.<sup>36</sup> Egypt’s minister of water resources and irrigation, in 2016, voiced a belief that the consulting firms will initially recommend filling the reservoir to only 30–40 bcm, rather than its 74 bcm capacity, making the size of the reservoir another important issue.<sup>37</sup>

In negotiations, Egypt largely focuses on ecological matters to improve its international standing. For this reason, it has emphasized the technical studies being produced by the consulting firms. Egypt hopes that their conclusions will recommend a longer time span to fill the reservoir as well as a slowdown in dam construction to ensure safety concerns are met. Egypt fears deficient technical specifications could lead to cracks and water seepage. Cairo University professor of agricultural resources Nader Nouredin believes this could reach 25% of the reservoir’s stored water, or 18.75 bcm.<sup>38</sup> Ethiopia has countered that currently more water is lost from the Nile’s unregulated water flow and ensuing flooding that makes its way into groundwater. Another worry involves water evaporation when stored in reservoirs, with Nouredin claiming this will reach 10 bcm per year.<sup>39</sup> Other scholars, however, put the figure at 3 bcm,<sup>40</sup> while simultaneously arguing that it will be negated by the reduction in water evaporation at the Aswan High Dam, facilitated by its storage of less water.<sup>41</sup> For its part, the IPoE questioned the methodology the Ethiopians used to arrive at their water-evaporation figures.<sup>42</sup> This reflects the most significant differences between the sides—their inability to agree on data.

In 2014, a report resulting from a Massachusetts Institute of Technology workshop concluded that the dam’s construction would create several potential problems, with particular concern centering on the safety of a secondary dam used to regulate the main dam’s water flow. The report noted the secondary dam could indeed incur water seepage.<sup>43</sup> As for the dam’s adverse effects on Egypt, the report noted that its agricultural areas could experience higher levels of salinization, impacting millions of hectares.<sup>44</sup> Of equal concern is the number of release outlets the dam would have to discharge the water downstream. In 2016, Egypt asked Ethiopia to raise the number of gates from two to four to increase water flow, but the request was rejected.<sup>45</sup> The MIT report noted that its experts could not ascertain from the dam’s current design whether the release outlets could provide for Egypt’s water demands.<sup>46</sup> Environmental issues have included riverbed erosion, replenishment of groundwa-

ter, and water quality. Other sticking points were the height of the dam and its capacity, originally slated to be 14 bcm, but now at 74 bcm. But with the project almost complete, these matters are largely moot.<sup>47</sup>

## HISTORY OF EGYPTIAN CLAIMS TO THE NILE

Egypt's principal dilemma is its precarious bargaining position. Cairo bases its right to Nile water on several historical documents. In an 1891 protocol between Britain and Ethiopia's colonial master, Italy, Rome pledged not to build irrigation complexes on the Atbara River, which could modify its flow into the Nile.<sup>48</sup> In a 1902 treaty between Britain and Ethiopia, the latter agreed not to construct any waterworks on the Blue Nile without the agreement of the British and Sudanese governments.<sup>49</sup> Thereafter, a 1906 agreement signed by Britain, France, and Italy safeguarded British and Egyptian interests in the Nile basin.<sup>50</sup>

Egypt's share of the Nile waters was fixed in a 1929 colonial exchange of letters between Egypt and Britain, in which the British High Commissioner to Egypt noted that London "recognized the natural and historical right of Egypt to the waters of the Nile."<sup>51</sup> The crown set Egypt's Nile share at 48 bcm of water per year. In 1959, the now independent states of Egypt and Sudan determined that the Nile's flow was 84 bcm per year, of which 10 bcm was lost to water evaporation. The two signed an agreement allocating the remaining 74 bcm between them, with Egypt receiving 55.5 bcm per year and Sudan 18.5 bcm per year.<sup>52</sup> This agreement did not take into account the rights of the other seven riparian states, leaving them none of the Nile's water.<sup>53</sup> Much more recently, between 2010 and 2011, six of the Nile's ten riparian states, excluding the Democratic Republic of the Congo, Egypt, Sudan, and South Sudan, signed the Nile Basin Cooperative Framework Agreement (better known as the Entebbe agreement), which stated that "each Nile Basin State has the right to use, within its territory, the waters of the Nile River System."<sup>54</sup> This deal struck a further blow to Egypt's claims on the Nile. For its part, Ethiopia had signed an accord with Egypt in July 1993, with Egypt stipulating that "each party shall refrain from engaging in any activity related to the Nile waters that may cause appreciable harm to the interests of the other party."<sup>55</sup>

Some Egyptian analysts have argued that the 1902 treaty gives Egypt veto power over upstream projects. But this treaty is problematic because the Amharic and English versions are not uniform on the article in question.<sup>56</sup> Moreover, previous projects such as the Fincha Dam (completed in

1973) and the Tekeze Dam (in 2009) did not lead Egypt to seek to enforce its perceived rights through international arbitration. Instead, Cairo applied pressure on the European governments whose companies built the dams and regional actors such as the African Development Bank, which under Egyptian duress decided in 1990 not to fund another project.<sup>57</sup> This project, though, known as Tana Beles, which focused on diverting water and building five dams, was ultimately completed in 2010.<sup>58</sup>

As for the 1929 exchange of letters and the 1959 treaty with Sudan, they are not binding on Ethiopia since the country was never a party to them. Still, the Egyptian media has cited the 55 bcm allotted in the 1959 treaty as the country's birthright, even though it has no explicit legal right to receive this volume of water.

For decades, one of Egypt's strongest claims to the lion's share of the Nile involved acquired or historic rights. This concept maintains that because Egypt has been drawing water from the Nile at least since history began five thousand years ago, it has acquired the right to do so. This right was formally established in the 1966 Helsinki accords.<sup>59</sup> Yet this claim was superseded by the 1997 UN Convention on the Law of the Non-Navigational Uses of International Watercourses, which states:

Watercourse States shall participate in the use, development and protection of an international watercourse in an *equitable and reasonable manner*. Such participation includes both the right to utilize the watercourse and the duty to cooperate in the protection and development thereof...Watercourse States shall, in utilizing an international watercourse in their territories, take all appropriate measures *to prevent the causing of significant harm* to other watercourse States [*emphasis added*].<sup>60</sup>

In a case between Hungary and Slovakia, the International Court of Justice (ICJ) quoted from the convention, deeming it customary international law.<sup>61</sup> Because Egypt's best legal defense is the harm clause, it has argued any harm is significant harm. But this clause is so subjective that only an outsider arbitrator could decide on how to define it in this case.

The statistics look equally bad for Egypt. According to the Nile Basin Initiative (NBI), a partnership of Nile basin countries, 82.197 bcm is withdrawn from the Nile each year for irrigation. Egypt uses 66.054 bcm (not 55 bcm, as it claims in its statistical reports), or 80.36% of the river's water, while Sudan uses 16.93%. The other eight riparian states consume a total of 2.7%.<sup>62</sup> According to the World Bank, the Nile basin states' population in 2016 was

nearly 500 million, of which 19.3% was Egyptian.<sup>63</sup> Its geographic area in the Nile basin as a proportion of the whole is only 9.52%, whereas Sudan's is 43.95% and Ethiopia's is 11.5%.<sup>64</sup> The NBI notes that despite accounting for just 19% of the population, Egypt has 79% of the cropped area along the Nile.<sup>65</sup> Egypt is also the largest generator of hydropower among the riparian states, producing 2,281 megawatts (mw) of hydroelectricity per year, accounting for 34.63% of the total.<sup>66</sup> Ethiopia generates only 1,070 mw, while in 2016 just 7.5% of its rural population had electricity.<sup>67</sup> The principal reason Addis Ababa is building the dam is, therefore, hydroelectric generation.

Egypt's average rainfall is, however, the lowest among the Nile basin states, at 51 mm per year. This is the primary reason the Nile's waters are so vital to Egypt—it has no other water sources. In contrast, Ethiopia receives a much higher amount, at 848 mm per year.<sup>68</sup> All the statistics presented here illustrate Egypt's status as the chief beneficiary of Nile waters and help explain why the other riparian states refuse to support it. Indeed, of the nine other Nilotic nations, only Congo backs the country on the matter. Their stance is partly due to the benefits that will accrue to them from the Renaissance Dam, which will produce 6,000 mw of power.<sup>69</sup> Since Ethiopia consumes a small fraction of this amount, it plans on selling the remainder to its neighbors at beneficial prices. As a result, the dam will be a boon to these nations requiring no investment outlays.

## EGYPT AND AFRICA

Egypt's inability to gain traction among the riparian states follows on twenty years of neglect of the continent. In the 1950s and 1960s, the country's influence in Africa reached its zenith when Nasser backed colonies seeking independence against their European overlords.<sup>70</sup> A vocal critic of South African apartheid, Nasser also provided Nigeria with pilots when rebels attacked the central government.<sup>71</sup> When African states were too poor to send students to Europe, Egypt welcomed them.<sup>72</sup> Nasser also sent technical experts all over the continent.<sup>73</sup>

These Egyptian links with Africa were crucial for Sadat as he sought to break the regional isolation he endured after Arab nations severed ties following the Camp David Accords. To this end, in 1980 he established the Egyptian Fund for Technical Cooperation with Africa.<sup>74</sup> Prior to the peace with Israel, in 1977, he had sent fifty pilots to Congo to help put down an insurgency, and that same year he hosted an Arab-African summit.<sup>75</sup>

During his early years in power, when Egypt was still isolated, Mubarak continued the country's active engagement in African affairs in places such as Chad and Western Sahara. But following Egypt's reintegration into the Arab world during the May 1989 Arab summit in Morocco, and especially after the 1995 assassination attempt, Mubarak largely forsook the continent. Today, even Arab Sudan has abandoned Egypt.

Sudan stands to benefit greatly from the Renaissance Dam. Because approximately 75% of the Blue Nile's flows occur between mid-June and mid-September, Khartoum has only one crop season. Regulating the Nile's entry into Sudan will allow it to develop a consistent and moderate water supply throughout the year, facilitating a second crop season. Sudan will likewise benefit from the electricity the dam will provide at below-market prices. Regulating the Nile's flow, moreover, will reduce flooding, and the dam will catch sediment that would otherwise flow downstream. As a result, Sudan will no longer have to clean sediment from its dams and irrigation projects.<sup>76</sup> Some analysts, however, have noted that the dam will have several negative impacts. It will reduce floodwaters that aquifers rely on to replenish their stocks. A decrease in gravel sediment will deepen riverbeds.<sup>77</sup>

The dam is only one problem among many burdening Egypt-Sudan relations. Since the overthrow of Sudanese president Gaafar al-Nimeiry in 1985, ties between the two neighbors have been heading south. Mubarak was particularly irate with Sudan after the 1995 assassination attempt, noting that Khartoum hosted jihadist dissidents such as al-Qaeda leader Ayman al-Zawahiri, whose group plotted the attack. He responded by sending troops into the 8,000-square-mile Halaib Triangle, a disputed territory claimed by both countries. Since then, Sudan has periodically lodged protests with the UN Security Council, most recently in April 2018, when it complained about Egyptian election voting in the triangle.<sup>78</sup> In February 2017, Sudanese president Omar al-Bashir told *Al-Arabiya* that Egyptian intelligence was supporting the Sudanese opposition.<sup>79</sup> In January 2018, Sudan recalled its ambassador to Cairo for two months.

Beyond bilateral issues, Bashir is generally more interested in currying favor with his African neighbors, believing their support could help him blunt the effects of the International Criminal Court's warrant for his arrest.<sup>80</sup> Ethiopia and Sudan also have a border dispute over the al-Fashqa area, but they have pledged to resolve it. In July 2013, signaling Sudan's split with Egypt, the Sudanese agriculture and irrigation minister said the dam was a "model for development" for the region.<sup>81</sup> And on December 5, 2013, Bashir said, "Our

support for the Renaissance Dam is firm. There are benefits for the entire region, including Egypt.”<sup>82</sup> During a May 2018 visit to Khartoum by Abiy Ahmed, the new Ethiopian prime minister, Bashir elaborated:

The Renaissance Dam is an idea we studied deeply, and we established its negative impacts and its positive ones to Sudan. We concluded that its positive impact is twice its negative one. For this reason, nothing stands in the way of participating. And I sincerely say, we arrived at the stage that it is possible even to participate in [building] this dam if our Ethiopian brothers accepted our participation...We have no objection to building the Renaissance Dam, which serves the Ethiopian people. Any need in the interest of the Ethiopian people, we consider it, I swear, an interest for a friendly people. We are interested in their concerns, development, and comfort.<sup>83</sup>

As for Egypt’s relations with the larger continent, they were made even more tenuous when the AU suspended the country’s membership following the June 2013 coup against President Mohamed Morsi. This status was only reinstated in June 2014.

Desperate for continental allies, Sisi has sought to improve ties by increasing technical support and investment. In the past, Cairo has helped riparian states through the aforementioned Egyptian Fund for Technical Cooperation with Africa. But since Sisi took power, he has stepped up aid. In Uganda, Egypt has provided \$1.5 million in development assistance while funding 90% of a project to prevent flooding.<sup>84</sup> In May 2018, Egypt agreed to build a 4 mw solar power plant in the country.<sup>85</sup> In South Sudan, it has helped develop sewage and irrigation systems while providing a \$26.6 million grant for development projects.<sup>86</sup> In January 2015, Egypt pledged to train fifty Kenyan child cancer specialists and treat a hundred children in Cairo hospitals. Two years later, Egypt gave \$5.5 million to develop Kenyan water resources such as digging twenty wells and building six dams.<sup>87</sup> And in February 2015, Cairo signed an agreement to plant a 6,000-hectare farm for olives and cereals in Congo.<sup>88</sup>

In the past, Egypt contributed 15% of the AU budget and sent a token number of peacekeepers, usually from ten to thirty, to many of Africa’s conflict zones.<sup>89</sup> Sisi has equally promoted regional organizations such as the East African Community, the Common Market for Eastern and Southern Africa, and the Southern African Development Community. In seeking to repair relations, Egypt resumed attending NBI meetings in July 2016 after boycotting them in the aftermath of the Entebbe agreement.<sup>90</sup> In addition to visiting Ethiopia and Sudan, Sisi has traveled to Kenya, Rwanda, Tanzania,

and Uganda. And under Sisi, Egypt has been quite active in sending delegations to African events as well as hosting them.<sup>91</sup>

## BACK TO THE WATER

On water, Egypt has tried to win over African states by highlighting its predicament, citing the following data: According to figures from the Egyptian Central Agency for Public Mobilization and Statistics, in FY 2015/16 Egypt consumed 76.3 bcm, of which 55.5 bcm came directly from the Nile as noted above. Other water sources included aquifers (6.9 bcm), reuse of drainage water (11.9 bcm), recycled sewage (1.2 bcm), rainfall (650 million cm), and desalinization (100 million cm).<sup>92</sup> Agriculture, meanwhile, consumed 81.2% of Egypt's water resources.<sup>93</sup> In 2013, annual per capita usage was 663 cubic meters,<sup>94</sup> and the United Nations notes a population with less than 1,000 cm suffers water scarcity.<sup>95</sup> Egypt projects that by 2050, its figure will fall to 294,<sup>96</sup> a level the UN defines as absolute scarcity.<sup>97</sup>

As already established, Egypt likely receives much more than 55.5 bcm of Nile water, with the NBI figure, 66.054 bcm, being one higher alternative estimate. As noted above, in 1959, Egypt and Sudan measured the Nile's annual flow at 84 bcm. Some scholars, however, have assessed that the average water flow from 1871 to 1999 was 91 bcm, with Egypt using 60–65 bcm.<sup>98</sup> According to the UN Development Programme, the Nile's average discharge between 1960 and 2010 was 109.5 bcm, and not the 82.197 bcm cited by the NBI.<sup>99</sup> The NBI notes that Sudan uses only 13.92 bcm per year.<sup>100</sup> In August 2011, the Sudanese irrigation and water resources minister revealed that the country uses even less, approximately 12 bcm of its 18.5 allotment, giving Egypt an additional 6.5 bcm.<sup>101</sup> These realities may be the reason Egypt's water resources and irrigation minister recently said the country's needs are 114 bcm, rather than the 76.3 bcm government reports claim.<sup>102</sup>

According to Egypt's Ministry of Water Resources and Irrigation, in 2015, sustained alfalfa was the country's most water-intensive crop in winter, requiring field water at amounts of 2,356 cm per feddan (cmwfp) in Lower Egypt and 3,932 cmwfp in Upper Egypt.<sup>103</sup> In summer, sugar holds this title. Henna comes next, with water use ranging from 4,398 cmwfp in Lower Egypt to 6,298 cmwfp in Upper Egypt.<sup>104</sup> These numbers are slightly higher for crops using canal spouts or at the Aswan Dam.<sup>105</sup> When adding up all three categories across both growing seasons, sustained alfalfa tops the list. Essential individual foodstuffs such as wheat, sugar, rice, and maize rank in the top ten. But garlic, a nonessential commodity, comes in at twelve, using

54.896 million cm of water in Aswan, 50.462 million cm at canal spouts, and 44.022 million cm of field water.<sup>106</sup>

To make up for the water shortfall during the period when the Renaissance Dam's reservoir is being filled, Egypt will have to intensify recycling and desalination activities. From FY 2002/03 to FY 2014/15, it increased the former by 44%, from 900 million cm to 1.3 bcm.<sup>107</sup> Desalination, however, has been marginal in Egypt. From FY 2002/03 to 2012/13, it only yielded 60 million cm.<sup>108</sup> From 2013/14 to 2015/16, this level increased to 100 million cm.<sup>109</sup> But since then, new plants have come online and others are in the works. Egypt's Desalination Research Center of Excellence predicts that within three years, desalination will increase fivefold, producing around 256 million cm of water annually.<sup>110</sup> In 2016, the prime minister said Egypt would increase sewage-water recycling by 10 mcm per day, or 3.65 bcm per year. Another 1–1.5 bcm per year could be conserved by lining canals. He further noted that Egypt needed to move from traditional irrigation systems to modern ones.<sup>111</sup> Egypt will also have to reduce the planting of crops such as garlic and henna. Adopting these measures could save between 5 and 6 bcm per year.

The remaining shortfall will need to come from future conservation policies. Egypt has recently begun enforcing laws mandating planting restrictions on water-intensive commodities such as rice.<sup>112</sup> Production is projected to fall by more than 50 percent in 2018. To replace the basic staple, the government is promoting quinoa, a less water-intensive grain.<sup>113</sup> When a drought hit in 1988, the government prohibited washing cars and fined cafés for watering their lawns.<sup>114</sup> And a World Bank study concluded that under certain circumstances, the July 2014 energy subsidy cuts would lead to a 10% decrease in water and sanitation usage, because energy represents 30% of the sector's production costs.<sup>115</sup> Instituting progressive tariffs targeting the country's profligate use of water could also help reduce consumption.<sup>116</sup> For their part, scholars who have modeled potential filling scenarios concluded that if Ethiopia adopted an unconstrained filling policy, Egypt could lose up to 1 bcm per year and irrigation water delivery (IWD) would fall 2.1% in the first three years. If Ethiopia were to fill the reservoir in three years, IWD would fall 1.1% during the same timeframe; a ten-year filling would cause a 0.6% IWD drop.<sup>117</sup> Since the reservoir is likely to be filled between five and seven years, Egypt will incur monetary costs its fragile economy cannot afford.

Excessive water use partially explains why Egypt has trod lightly regarding the issue. Sisi has adopted a moderate stance, seeking to find a negotiated

solution. While serving as defense minister in May 2013, he noted, “We have to find a peaceful solution for this file.”<sup>118</sup> Weeks before he was elected president in May 2014, he told *Sky News Arabia*, “Relations with Ethiopia, must come in a context of good relations...[but] we were not moving in this fashion in the last few years...[The Ethiopians] want to achieve growth for their country. We understand this and are not against it.”<sup>119</sup> In December 2015, he commented, “We said to [the Ethiopians] that we understand that you want to live and we will participate in this matter.”<sup>120</sup> In October 2016, he said, “There are two paths—either cooperation or confrontation. We chose cooperation.”<sup>121</sup> In January 2018, Sisi declared, “Egypt does not enter wars with its brethren...I say this to the brethren in Sudan and Ethiopia, Egypt neither conspires nor interferes in anyone’s affairs.”<sup>122</sup>

The conciliatory path taken by Sisi, however, follows decades of far greater bellicosity by his predecessors. When asked about Ethiopia building dams on Lake Tana in 1978, Sadat warned:

As you know, we depend upon the Nile 100 percent in our life, so if anyone, at any moment, thinks to deprive us of our life we shall never hesitate because it is a matter of life or death...If you do not go to war for a matter of life or death, and water is the life for your people, then for what reason do you go to war.<sup>123</sup>

After Ethiopia lodged a complaint with the Organization of African Unity over an Egyptian plan to divert Nile water to Sinai in 1980, Sadat declared, “We do not depend upon any other water except the Nile water...Whoever tries to do anything in this respect, we shall go to war at once.”<sup>124</sup> Two days later, in response to a soldier’s question about these comments, he said:

The subject of water is among the subjects that no person or country in the world ever disagreed about. Encroachment of a people’s right to water is akin to encroaching on his life. For this reason, there is no dispute and no discussion about the decision to go to war concerning this matter, even in the international societies...if Ethiopia undertakes any action to hinder the obtainment of our full rights to the Nile’s waters, then there is no alternative, as I told you and as the international community has acknowledged, other than using force.<sup>125</sup>

A month later, he again threatened Ethiopia, noting, “If I am faced with something from the south—from Ethiopia—which is being instigated by the Soviet Union now on the question of the Nile waters...I will immediately start a war.”<sup>126</sup>

Mubarak was equally truculent. After the 1995 assassination attempt, a war of words erupted between Egypt and Sudan. The Sudanese interior minister threatened to terminate the 1959 bilateral treaty, while senior official Hassan al-Turabi cautioned, “We do not want to aggravate nationalist tensions...but the water supplies come from this country. They have no underground supply...and if Sudan is provoked to interfere with water agreements, this is going to be deadly.”<sup>127</sup> Egypt was swift to comment in the Cairo daily *al-Akhbar*:

The president warned in a decisive manner against any encroachment on the Nile’s waters, the artery of life for all of Egypt’s people, and that any step in this direction will push us to confrontation and protecting our rights and lives. The president emphasized that he warns those playing with fire in Khartoum from undertaking any course of action of this type because the response will be beyond anything they can imagine.<sup>128</sup>

His foreign minister similarly cautioned Khartoum “not to play with fire, at the same time, not to play with water.”<sup>129</sup>

In 2012, hacked emails from the intelligence firm Stratfor, released by WikiLeaks, alleged that in 2010 the Egyptian ambassador to Lebanon had informed his hosts that Sudan had agreed to allow Cairo to build an air base “to accommodate Egyptian commandoes [*sic*] who might be sent to Ethiopia [*sic*] to destroy water facilities on the Blue Nile.”<sup>130</sup> Another message reveals an Egyptian source to have claimed, “If it comes to a crisis, we will send a jet to bomb the dam and come back in one day, simple as that. Or we can send our special forces in to block/sabotage the dam.”<sup>131</sup> Nevertheless, the veracity of these communications cannot be ascertained, and other internal Stratfor communications made dubious allegations that turned out to be false.

When Morsi took power, he likewise hewed to a martial line, threatening that if Egypt’s Nile flow “diminishes by one drop, then our blood is the alternative” and that “all options are open.”<sup>132</sup> Days earlier, cameras had filmed a meeting with opposition figures in which leading politicians such as Ayman Nour, Mohamed Anwar Sadat, and the head of the Salafi party al-Nour discussed fomenting internal unrest in Ethiopia and using disinformation to cajole the country to soften its position.<sup>133</sup> Others, such as Sisi’s 2014 opponent Hamdin Sabahi, broached closing the Suez Canal to ships from countries helping to construct the dam.<sup>134</sup> Though Sisi has never used hostile language or advocated the use of force, in November 2017 he declared, “Egypt’s water is a subject there is nothing to talk about...no one can touch Egypt’s water...water is [a matter of] life or death for people.”<sup>135</sup>

In the Renaissance Dam case, Egypt has played a weak hand poorly, miscalculating that Ethiopia would never raise the dam's 3.377 billion euro cost without seeking international donors.<sup>136</sup> Egypt could have utilized such contributors to pressure Ethiopia to accept some of its conditions for building the dam. Yet in its 2015 deal with Ethiopia and Sudan, Egypt relinquished this card by agreeing to resolve related matters internally rather than seeking out third parties. Nevertheless, as noted before, in December 2017, Egypt's foreign minister, Sameh Shoukry, suggested the sides ask the World Bank to mediate the dispute. Predictably, Ethiopia demurred.

Even if Egypt could persuade Ethiopia to seek the World Bank's advice, the step would not yield any immediate benefits. Because Ethiopia is self-financing the dam, the World Bank has no leverage over it. Unlike in 1990, when the African Development Bank refused to loan Addis Ababa funds for the Tana Beles project, the World Bank cannot apply any pressure because it is not financing the dam. And petitioning the ICJ would require both parties to agree to the submission, a step Ethiopia is likely to rule out.

Egypt's obsession with technical studies has likewise proven misplaced. Agreed upon in August 2014 and originally set to be completed in six months, they remain unfinished. And while Egypt has been exceedingly patient, constructive, and ostensibly determined to find an amicable solution, it has nothing to show for its benevolence. Ethiopia, which has rejected virtually every suggestion Egypt has floated, is simply running out the clock as the dam nears completion.

Whereas most Egyptian analysts and the media have fallen into line behind Sisi on this issue, some such as former water resources and irrigation minister Mohamed Allam have slammed the government. He criticized the 2015 deal, claiming it incorporates clauses from the 2010 Entebbe agreement.<sup>137</sup> Indeed, the 2015 accord neither mentions previous treaties nor recognizes Egypt's water security and current use—the principal reasons Egypt refused to sign the Entebbe deal.<sup>138</sup> Noureddin, the Cairo University professor, criticized Egypt for failing to secure any Ethiopian concessions on the dam's height in the agreement.<sup>139</sup> Others, such as Hani Raslan, head of the Nile Basin Countries Studies Program at the al-Ahram Center for Political and Strategic Studies, note that emphasis on the mechanisms in the technical studies “is a big waste of time from which Ethiopia is benefiting.”<sup>140</sup>

Moreover, while Egypt emphasizes that water is a source of life, the country's real concern is the threat the dam poses to the financial livelihood of its poor farmers. A reduction in water supply will constrain crop production,

resulting in economic hardship. Agriculture, hunting, and forestry constitute Egypt's largest employment sector, with 25.6% of the labor force engaged in these lines of work in 2016.<sup>141</sup> Most of these Egyptians are among the country's poorest, and the government has highlighted that a 1 bcm reduction in the national water supply will lead 200,000 to lose their jobs.<sup>142</sup> Scholars have estimated that an aggressive filling of the reservoir would lead to decreases of 0.13% in overall GDP and 0.37% in agricultural GDP. The poorest 20% of urban and rural residents would see a drop in wages of 0.13–35%.<sup>143</sup> Ensuring their financial well-being is of utmost importance for a government whose policies have undermined this class.

The dilemma over the dam, finally, illustrates the depths to which Egypt has fallen. As a poor country, it cannot offer its African neighbors the same levels of aid as wealthier nations such as Saudi Arabia can. As a country with marginal international influence, it cannot protect these neighbors. With no pressing regional concerns such as an Arab-Israeli peace process or immediate aggression, the international community has little interest in backing Egypt. And a United States focused inward has the desire neither to actively mediate the conflict nor to offer the aid necessary to ensure Egypt's success.

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## SEVEN

SIZING UP SISI, AND  
U.S.-EGYPT RELATIONS

AT TIMES QUITE PRAGMATIC, Abdul Fattah al-Sisi is at his core a Nasserist. Sadat sought to escape the Arab world and Egypt by fancying himself an urbane Westerner. Mubarak was content with trying to steer Egypt on a middle course between Nasserism and Sadat's predisposition toward the West. From economic development models to his reliance on the military, Sisi takes Nasserism as his lodestar. He has only deviated from Nasserism in two cases. His decision to accept the painful IMF austerity program is in line with Sadat and Mubarak's policy. And his diplomatic approach to the dam issue mirrors Mubarak's style of nonconfrontation. Ultimately, Sisi's Nasserism should come as no surprise. Sadat had to escape Nasserism to chart his own path, while Mubarak had to rein in both their excesses. But the forty-eight years since Nasser's death have led Egyptians to completely rehabilitate him, only seeing the benefits of his policies.<sup>1</sup> Moreover, national myth stresses the importance of Egypt's destiny. In Sisi's speeches, he emphasizes Egypt's calling, power, and prominence. One Egyptian scholar opined, "He also shares with many Nasserists a firm belief in the religion of the state—the worship and quasi-fetishistic mythification of the modern Egyptian state."<sup>2</sup>

Indeed, his megaprojects, such as enlarging the Suez Canal, and his focus on infrastructure at the expense of investment echo Nasser's affinities. Nasser's most prominent project was the Aswan Dam. Though Western nations ultimately refused to fund it for political reasons, Nasser nevertheless insisted on its construction. Also like Nasser, Sisi jumped straight from the military into politics—whereas both Sadat and Mubarak had a cooling-off period in civilian life before assuming the presidency. And unlike his

two predecessors, whose leadership was close enough to Nasser to both witness and experience his failures, Sisi was only a boy when the 1967 disaster struck Egypt.

## CAIRO-DC WARMING

U.S.-Egypt relations have been in decline since the George W. Bush administration, when Mubarak chafed at the president's "freedom agenda"—which in part targeted Egypt—and vehemently opposed the invasion of Iraq. Under President Barack Obama, the tumult in Egypt—as well as the emergence of the Brotherhood—prevented a rapprochement. Making matters worse, the 2013 conviction of sixteen U.S. NGO workers soured relations.<sup>3</sup> The 2013 removal of the Brotherhood government further strained ties, as did the widespread view in Egypt that Washington backed the Islamist organization. As a result, Obama kept Sisi at arm's length, refusing to invite him to the White House.

President Donald Trump's lack of concern for human rights, however, matched perfectly with Sisi's credentials. At their first meeting, during the 2016 presidential campaign, Trump called him a "fantastic guy."<sup>4</sup> At the Oval Office, during Sisi's first state visit to the United States, Trump told him, "You have a great friend and ally in the United States and in me."<sup>5</sup> A White House readout from a September 2017 phone call between the two relayed that "the president emphasized that Egypt is a lynchpin of stability in the region and pushed for greater bilateral coordination to ensure peace and security."<sup>6</sup> Since 2017, Trump has had at least seven phone calls with Sisi.<sup>7</sup> More significant, joint annual U.S.-Egypt military exercises, known as Bright Star, resumed in September 2017, having been suspended since 2009. On a January 2018 visit to Cairo, Vice President Mike Pence said he "marvel[ed] at the strength of the relationship that President Trump and President Al Sisi have forged, after years where our two countries were drifting apart."<sup>8</sup>

Despite these signs of a positive trajectory, all is not rosy. While praising the bilateral relationship, Pence urged Sisi to reform legislation hindering the work of NGOs and release two Americans held since 2013.<sup>9</sup> When then secretary of state Rex Tillerson visited the next month, he and Sisi discussed "the importance of the protection and promotion of human rights and the vital role of civil society in Egypt."<sup>10</sup> Approximately twenty Americans remain incarcerated in Egypt notwithstanding pleas to release them.<sup>11</sup>

Yet another bone of contention is Egypt's military ties with North Korea and violations of international sanctions that seek to isolate the East Asian country.

In August 2016, Egypt interdicted a North Korean ship carrying 30,000 PG-7 rocket-propelled grenades, the largest cache of weapons captured since international sanctions were imposed on the hermit kingdom.<sup>12</sup> In March 2018, the UN revealed that the weapons crates were stamped “al-Sakr Cairo” with the consignee al-Sakr Factory for Developed Industries, a subsidiary of the state-owned Arab Organization for Industrialization. The UN noted that Egypt refused to identify the intended recipient of the shipment.<sup>13</sup>

In August 2017, Washington ostensibly expressed its displeasure with the sanctions violations and detentions by withholding \$260.7 million in aid.<sup>14</sup> But Tillerson was moved to take the decision because of a perceived slight by Sisi, who promised he would not sign the NGO law discussed above and later reneged on the commitment.<sup>15</sup> The day after the decision was announced, State Department spokeswoman Heather Nauert explained, “We were unable to certify that Egypt is advancing democracy and human rights...Egypt has been put essentially on notice with this.”<sup>16</sup> Egypt responded the next day by canceling the foreign minister’s meeting with Trump’s son-in-law and Middle East envoy, Jared Kushner. Sisi, however, kept his own appointment with Kushner.<sup>17</sup> And in June 2018, the United States issued a rare rebuke to Cairo when it withdrew from the UN Human Rights Council. Ambassador Nikki Haley revealed that Egypt, along with China, Cuba, and Russia, had “attempted to undermine our reform efforts this past year.”<sup>18</sup>

Nevertheless, following Michael Pompeo’s appointment as secretary of state, relations have warmed. In July, he released \$195 million in frozen aid. When the State Department spokeswoman was asked about the move days later, she had no official comment.<sup>19</sup>

In August, Egyptian foreign minister Sameh Shoukry visited Washington, where he met with Pompeo, National Security Advisor John Bolton, and Middle East peace envoy Jason Greenblatt.<sup>20</sup> Shoukry held no press conferences with these officials. Given the strong bonds between the two nations, this is an oddity that likely reflects the strains in the relationship and Washington’s reluctance to expose them in a public setting where journalists could draw attention to the differences. Instead, a State Department readout noted that Pompeo and Shoukry “discussed the strong U.S.-Egypt partnership, U.S. military assistance to Egypt, and close cooperation on bilateral and regional security issues.”<sup>21</sup> The Egyptian State Information Service released its own statement indicating that Pompeo dubbed Egypt “a strategic partner,”<sup>22</sup> while Bolton remarked that Washington is eager to preserve the nations’ strategic relations with Cairo and believes it is playing a key role in preserving regional stability and balance.<sup>23</sup>

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EIGHT

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## POLICY RECOMMENDATIONS

**E**GYPT FACES MYRIAD CHALLENGES as the Sisi era enters its fifth year, seeking to restore security and to reform the economy through a painful austerity program. Though the country has lost its stature as leader of the Arab world, its stability is crucial as several regional republics crumble under the weight of revolts, jihadist threats, and Iranian intervention. For these reasons, Washington needs to support its long-term ally, focusing on opportunities for bilateral cooperation rather than harping on disagreements with Cairo about governance.

To this end, Washington should increase aid to Egypt from the Economic Support and Development Fund. In the 2018 budget, the administration only allocated \$75 million to Egypt from this fund,<sup>1</sup> the lowest figure since 1975.<sup>2</sup> As Egypt weathers a tumultuous fiscal climate, economic aid is critical, and warranted if Sisi stays the course on reform. Washington's past aid to Egypt gave the U.S. leadership a measure of leverage it never utilized. Today, USAID should increase coordination with the IMF and World Bank to ensure that structural reforms are fully implemented. Specifically, USAID should press to ensure that SOEs are all sold to avoid the 1990s scenario wherein their privatization was piecemeal and incomplete. The IMF has already highlighted the missed SOE benchmarks. For this reason, USAID should judiciously use the leverage its aid affords it.

On the Grand Ethiopian Renaissance Dam project, the timeframe for filling the reservoir is the most crucial factor in negotiations with Egypt. Here, Washington should urge Addis Ababa to accept a seven-year timeframe, thereby likely limiting Egypt's annual water shortfall to approximately

10.57 bcm, an amount that could be largely alleviated through increased water conservation. Washington should also mobilize the international community to blunt the dam's negative effects by organizing an aid package consisting of sustained alfalfa, henna, garlic, and other nonsubsidized commodities during these years. This would allow Egypt to conserve water used to grow these crops. Washington should not, however, offer aid for wheat purchases, a commodity still heavily subsidized by the government. A more symbolic gesture would entail exempting Egypt from the up to 53% tariff on steel Trump announced in March 2018.<sup>3</sup> In 2017, Egypt exported \$178 million worth of steel to the United States.<sup>4</sup>

Washington should also quietly press Cairo to curtail its spending on high-tech weapons such as aircraft and submarines that do not match Egypt's threat set. In the last eighteen months, Cairo has inked agreements to purchase weapons for a little over \$3 billion.<sup>5</sup> But Egypt faces no conventional threat from its neighbors. Egypt-Israel defense ties have never been stronger, Libya is in tatters, and Sudan has not antagonized its northern neighbor since the 1990s. Washington should make the case that instead of focusing scarce resources on legacy systems, Cairo should seek to strengthen its intelligence and counterterrorism infrastructure for the battle against the Islamic State and other domestic terrorist groups.

At the same time, Washington should not give up on a democratic opening. It should quietly impress upon President Sisi the need to respect the Egyptian Constitution, which went into effect in early 2014, and step down after his term ends. But it should be wary of pressing too hard to restore democracy. To be sure, the United States failed to make the most of Egypt's evanescent democratic opening. Instead of working with liberal leaders to ensure a long-term smooth transition from the Mubarak era, the administration acquiesced to immediate elections, for which only organized Islamists were ready. If the United States coerces Egypt to restore democracy, the country's leaders will turn to other nations unconcerned with its form of government. Gulf nations have made Egyptian stability a cornerstone of their national security policy, showering the country with aid. Europe, for its part, has historically been overly timid in pushing authoritarian nations to embrace democracy, instead choosing to view them as lucrative markets. And Russia is eager to make further inroads in the Middle East at America's expense.

Moreover, Washington simply does not have much leverage to force Egypt to adopt its preferred policies. Even during the early Mubarak era, when the new Egyptian president was susceptible to foreign influence, he never

actually gave in to American diktats. When National Security Advisor Robert McFarlane asked Mubarak to launch a joint U.S.-Egypt attack against Libya in 1985, the Egyptian president scolded his visitor, reportedly telling him, “Look, Admiral, when we decide to attack Libya it will be our decision and on our timetable.”<sup>6</sup> After Palestinian terrorists hijacked the *Achille Lauro* cruise ship the same year and executed a wheelchair-bound U.S. citizen, Mubarak refused to render the kidnappers when they reached Egypt, telling his foreign minister that the U.S. secretary of state was “crazy” to think he would extradite them. Instead, Mubarak told his U.S. interlocutors that the kidnappers had departed even though they were still in Egypt.<sup>7</sup>

Similarly, when the United States sought to isolate Libya in the 1990s for its involvement in the downing of Pan Am Flight 103 over Lockerbie, Scotland, Mubarak again refused to accede to U.S. plans. Instead of ostracizing Libyan leader Muammar Qadhafi, Mubarak welcomed him in Cairo. After the United Nations imposed an international flight ban against Libya in 1992, land crossings with Egypt proved crucial to Qadhafi’s economy. The Libyan leader was able to withstand the effects of sanctions by importing food and machinery for his oil infrastructure via Egypt and exporting petroleum products and steel with Mubarak’s help.

Even when relations reached their high point under President Bill Clinton, Mubarak struck an independent line. For example, Cairo spearheaded a drive to force Israel to sign the extension of the Nuclear Nonproliferation Treaty when it came up for renewal in 1994. When Clinton invited Israeli, Jordanian, and Palestinian leaders to Washington to end a bout of Palestinian violence in 1996, Mubarak chose to skip the event.<sup>8</sup> And when both Arafat and Clinton asked Mubarak to release an Israeli held on trumped-up espionage charges to break a deadlock in peace negotiations, he demurred.<sup>9</sup> Finally, when Clinton asked Mubarak to pressure Palestinian leader Yasser Arafat to facilitate an Israeli-Palestinian peace deal, he pledged to do so, but never acted on this promise.<sup>10</sup>

Today, Egypt’s leaders are even less apt to embrace U.S. policies than in the past. Egyptian economic growth and inflation have eroded the value of U.S. aid, which has fallen from a peak of \$2.6 billion in 1979<sup>11</sup> to a requested \$1.4 billion in fiscal year 2018.<sup>12</sup>

For these reasons, Washington’s leverage with Egypt is limited. The xenophobia pervading Egypt only reduces its leaders’ incentives to accept U.S. counsel. As Washington seeks to find its way in the Sisi era, it must therefore recognize what it cannot, as well as can, achieve. Like Turkey, Egypt is just

one more Middle East nation that is charting its own course with minimal navigational help from the U.S. administration. Appreciating these constraints will facilitate better ties with a nation constrained on all sides.

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