

Ahead of Egypt Investment Conference, Cautious Optimism for Economic Reforms

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At a time when Sisi's subsidy reforms are gaining traction, Washington's withdrawal of support does nothing to advance a human rights agenda and hurts U.S. security interests.

On March 13-15, Egypt will hold an economic investment conference at Sharm el-Sheikh, with a major focus on the energy sector. Egypt's President Abdel Fattah al-Sisi's government sees the conference as an important component of a strategy to improve the economy through attracting private investment.

Sisi is no democrat. The U.S. State Department and rights organizations such as Freedom House and Human Rights Watch have criticized his government for excessive use of force against political opposition and civil society since the military ouster of Sisi's predecessor Mohamed Morsi in July 2013. The Egyptian military also took an unusually active role in Egyptian politics during the coup.

Yet unlike, for example, Russia's president Vladimir Putin, an authoritarian ruler who for years coasted on high oil and gas prices, Sisi appears truly committed to improving Egypt's battered economy. "Sisi gets some genuine credit," said Egypt expert Robert Rook, director of interdisciplinary studies and a professor of history at Towson University when we spoke on the phone this month. "Egypt may be a better bet for investment than under Morsi or even under [his predecessor Hosni] Mubarak in his last decade in power."

Massive corruption, cronyism, and weak legislation have drained the Egyptian economy for generations and brought little happiness to the Egyptian people. One component of this system has been heavy food and energy subsidies. To give one example, the government provided bakeries with cheap flour to feed the public. This system was corrupt and encouraged massive inefficiencies. According to Reuters, this system required Cairo to spend \$3 billion a year on wheat imports, not only making it the world's largest wheat importer but also draining the country's foreign

currency reserves. When Sisi took office in June 2014, over a quarter of Egyptians lived below the poverty line according to the International Monetary Fund (IMF).

Sisi has gone after corruption and put in place reforms to gradually ease out subsidies on food and energy. One successful example of this is a new smart card system which reduced corruption and encouraged accountability and efficiency. "Under the new system, families are issued plastic cards allowing them to buy five loaves per family member per day," writes Reuters, "Buyers no longer have to queue. Bakeries are paid for the subsidized loaves they sell, rather than being given a fixed allotment of cheap flour, making it harder to siphon off subsidies." Firsthand accounts from Egyptians and experts who travel to the region confirm this assessment.

In 2014, Transparency International ranked Egypt 94th out of 175 countries. This is an improvement from the previous year, when Egypt ranked 114th out of 175 countries, even though the latest score still shows that Egypt has a long way to go. Similarly, in 2015, the World Bank 2015 Doing Business report ranked Egypt 112th out of 189 countries -- a one point improvement from 2014, yet still a score that reflects considerable challenges.

The IMF is positive about the Egyptian government's economic reforms. "The authorities' policies to achieve inclusive growth and job creation focus on pursuing structural reforms, promoting investment, and protecting the poor...Measures implemented so far, along with some recovery in confidence, are starting to produce a turnaround," according to a recent report. Nonetheless, the IMF adds, "But the authorities' success in meeting their goals will depend on their steady efforts, willingness to take additional actions as needed, and continued external support."

By many accounts, Egyptians are currently optimistic about Sisi. Their priorities right now are economic improvements over anything else. They see Sisi working towards genuine economic reform, and are even willing to put up with short-term hardships such as temporary energy shortages, if this means gaining long-term improvements.

With the current low energy prices and aid to Egypt from the Persian Gulf, the market favors Egypt. The question is, how long will the Egyptians' patience last, and how successful will Sisi's reforms be? "The strategy is only as good as the resource base to support it...let's see where we are in two-three years," said Rook. "There has to be some significant evidence that the al-Sisi regime is delivering on the economic promises."

Beyond reforming the subsidies, the Egyptian economy needs to accomplish something far more challenging -- generate real and well-paying jobs, especially for its youth. This is a formidable challenge for a country where two thirds of the Egyptian population is under the age of 35 according to Deutsch Welle. In addition to high poverty and unemployment, Egypt is also struggling with violent domestic opposition and terrorism threats.

There are reasons to be cautiously optimistic. Sisi's government appears committed to genuine economic reform. However, as the IMF noted, his success in part depends on the degree of external support. It is essential for the U.S. government to provide this support for Sisi. Unfortunately, the U.S. has pushed Cairo away as an ally since Morsi's ouster.

While Sisi's democratic backslide deserves criticism, the Muslim Brotherhood is worse than Sisi. Indeed, Morsi's ouster had popular backing. In private conversations, it is not uncommon for Egyptians to say that the Muslim Brotherhood had "hijacked" the Arab Spring uprising in Egypt on Tahrir Square in January-February 2011.

Egypt's regional influence is too important when it comes to stability in the Middle East. The withdrawal of U.S. support for Egypt does nothing to advance a human rights agenda and hurts U.S. security interests by pushing Egypt further towards anti-Western players.

Anna Borshchevskaya is an adjunct fellow with The Washington Institute. ❖

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