

A View from Cairo: Egypt Is Too Big to Save

by [Mahmoud Salem \(/experts/mahmoud-salem\)](/experts/mahmoud-salem)

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ABOUT THE AUTHORS

[Mahmoud Salem \(/experts/mahmoud-salem\)](/experts/mahmoud-salem)



Brief Analysis

Prematurely granting an IMF loan without pressuring the Muslim Brotherhood government to reform and compromise would only accelerate Egypt's descent into failure.

Two years after the popular revolt that toppled Hosni Mubarak, Egypt appears headed toward a "failed state" scenario. While Cairo has not yet defaulted on its debts -- an economic hallmark of nearly all erstwhile states -- it already meets many of the other political conditions associated with comprehensive failure. In Washington, the discussion is narrowly focused on the implications of the rapidly deteriorating economic situation, with little appreciation that the financial morass is inextricably linked to the government's increasingly authoritarian politics. If the ruling Islamist party does not change its approach, the economy will not improve, and the state will move closer to collapse.

THE POLITICAL CRISIS

Since the Muslim Brotherhood (MB) came to power, governance in Egypt has exhibited several classic characteristics of failed states:

- *Inconsistent and selective application of law.* On March 27, an Egyptian court overturned President Muhammad Morsi's November 2012 decision to replace the sitting prosecutor-general with Talaat Abdullah, a crony who has since focused investigations solely on the MB's political opponents. The ruling renders all of Abdullah's investigations illegal. By ignoring the verdict and going after activists even more aggressively, the state -- personified in the president, his government, and the prosecutor-general -- has shown its willingness to undermine rule of law.
- *Deterioration of services.* Basic public services such as electricity and gas are falling apart, with most Egyptians experiencing daily power cuts.
- *Unaccountable security apparatus.* The interior minister, a Brotherhood loyalist, deploys the police to clash with opposition protesters while protecting the MB thugs who beat and torture demonstrators.
- *Delegitimization of the state.* Due to a legally faulty election law issued by the Morsi-appointed upper house of parliament, the legislative elections originally slated for this month have been delayed until November. Meanwhile, the

opposition is now refusing to participate in elections because Egyptian institutions cannot guarantee the fairness of the process. When Secretary of State John Kerry tried to mediate last month, the MB undercut his efforts by publicly calling for elections without any of the promised changes to the electoral law, which were the basis of his mediation. The situation is pushing Egypt toward failure, and the MB government shows no sign of seeking a solution.

POLITICS LINKED TO ECONOMIC PROBLEMS

The political crisis has contributed to the country's rapid economic deterioration. Unemployment has risen sharply, and tourism -- which traditionally comprised around 20 percent of gross domestic product -- is virtually nonexistent, with hotels experiencing occupancy rates of 10 percent on average. The dearth of dollars from tourism and foreign investment has left foreign reserves at a record low. Foreign currency is scarce, forcing many to turn to the black market at exorbitant exchange rates. Devaluation of the Egyptian pound has exacerbated the rising price of goods, and inflation is expected to worsen once the government implements the austerity measures mandated by the International Monetary Fund.

To be sure, an IMF deal could help jumpstart the moribund economy. Politics have stymied any such agreement since 2011, however. Last December, the government declared that it would move forward with austerity measures, but when backlash from the announcement threatened passage of the constitutional referendum a few days later -- a vote essential to the MB's power-consolidation agenda -- Cairo hedged on its commitment. In response, the IMF made its loan contingent on approval by the future parliament, a condition the government agreed to because it believed a new legislature would be in place by June.

To reach that target date, the MB attempted to force through an electoral law, but the Supreme Constitutional Court deemed it legally inconsistent and noncompliant with the new constitution in a February 18 ruling. The government ignored that finding and continued with plans to call for elections, only to have the law struck down by the Supreme Administrative Court two days later.

Given the time required to redraft and pass the law, as well as the intervening month of Ramadan, parliamentary elections seemingly cannot be held before October. As a result, Egypt will be unable to secure the IMF loan until year's end at the earliest -- six full months after the promised austerity measures are slated to kick in, the effects of which the loan money was supposed to alleviate.

With the loan that far off, the economy will face grave challenges this summer. The government will struggle to cover pensions, salaries, and remaining subsidies, and any number of nightmares could materialize: prices of consumer goods succumbing to hyperinflation; the U.S. dollar vanishing from banks and exchange offices; bank runs leading to bankruptcy; unprecedented losses on the stock exchange; lack of liquidity for new or existing projects; a lower credit rating that further drives away foreign investors; a drastic increase in petty crime; increasing layoffs; and the ever-looming prospect of a hunger revolution. Indeed, at the rate Egypt's economy is deteriorating, the much-debated IMF loan would likely keep the country afloat for only a few more months at most -- it is by no means clear that the money would catalyze much greater foreign assistance as Cairo expects.

This heightened potential for failure has not led the Brotherhood to the logical solution of finding political compromise or implementing much-needed economic and security reforms. In fact, the Morsi government shows no sign of changing the very methods that fueled the crisis, and its negotiating pitch has effectively been reduced to a threat: "Egypt is too big and too important for the United States to allow it to fail. Enough talk of reforms -- give us the money now without preconditions or risk the country failing on your watch." In short, the MB is holding Egypt for ransom, leaving Washington with a handful of dangerous options.

IMPLICATIONS

urrent U.S. support for Cairo is tied to America's three main interests in Egypt: the Suez Canal, military

Cooperation, and the peace treaty with Israel. Given that each of those interests is secured by the independent Egyptian military, backing the Morsi government holds little advantage for Washington. If anything, it opens the Obama administration to unnecessary criticism on the domestic and foreign fronts.

If Washington pushes the IMF to expedite the loan under the current economic and political conditions, it will not succeed in stabilizing the country or restoring investor confidence. Rule of law is key -- a loan without necessary reforms would be money wasted on propping up a failing government for a few more months, further entangling Washington with the Morsi administration at a time when the latter's long-term survival is increasingly costly and doubtful.

A more effective option is to support the IMF's demands and make clear that Egypt's welfare depends on Morsi's ability to compromise with the opposition. Without such measures, Egypt is simply too big for outside actors to save. The funds required to jumpstart the economy as is would be similar to those needed for the reconstruction of Iraq, which neither the United States nor the EU can afford at the moment. If Morsi's government survives the summer, and if the eventual elected parliament approves the IMF austerity measures, Cairo could then receive its all-important loan. In the meantime, Washington can rest assured that its strategic interests are being secured by the Egyptian military.

Mahmoud Salem, a.k.a. @Sandmonkey, is a blogger and columnist for Daily News Egypt. In 2011, he was a candidate for parliament with the Free Egyptians Party. ❖

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