Egypt and the Arab Fall

by David Schenker **(/experts/david-schenker)**

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Egypt's stock market has plummeted, and the United States should do more to help.

The chairman of Egypt's stock exchange undertook an urgent mission last month to the Persian Gulf, where he implored rich Arabs to invest in Egypt's bourse. Low share prices and limited political risk, Mohamed Abdel Salam claimed, had made the Egyptian market "more attractive than ever."

Abdel Salam was right, at least about the low share prices. In the aftermath of the Papyrus Revolution, the drop in Egypt's EXG30 stock index was comparable to that of the Dow following 9/11. The Dow recovered by January 2002, but in the four months since the revolution, the EGX30 has plunged an astounding 22%.

No doubt, there are a lot of bargains to be had in Egypt these days. The question is whether investors will be able to stomach the risk.

The Obama administration has taken steps in the right direction to help Egypt economically, but for a variety of reasons, it must do more.

Today in Egypt, there is an environment of complete uncertainty. Unprecedented political competition threatens to redound to the benefit of Egypt's Islamists, a development with potentially grim local and regional implications. Meanwhile, Egypt is facing a post-revolution economic crisis that could destabilize the nation. It's not news that revolutions hurt economies, but the impact on Egypt has proved especially deleterious. The first casualty was tourism, which in March had fallen 60% from the year before, resulting in a drop in revenue to $352 million from $1 billion and a loss of jobs.

The downturn and the arrival of about 300,000 workers fleeing Libya will add to the nearly 12% unemployment rate. Even before the revolution, Egypt needed a 6% annual increase in GDP to create the 650,000 jobs required to keep the unemployment rate constant. This year, the minister of finance is optimistically predicting 1.5% growth.

Unemployment and underemployment contributed to the dissatisfaction that fueled the Jan. 25 revolution. Yet it will be difficult to create jobs. The economy is contracting and foreign capital is fleeing. At the same time, ongoing inquiries and purges of Egypt's leading entrepreneurs and industrialists are spooking would-be investors. Nearly 300 Egyptian businessmen are on an Egyptian government watch list, awaiting scrutiny and possible legal exposure. Many of them are outside the country. During a recent visit to Egypt, a Western financial affairs specialist said that if I were interested in meeting with prominent Cairene businessmen, I should "go to London."

The stark reality of Egypt's economic predicament is not a secret. Maj. Gen. Mahmoud Nasr, a member of the governing Supreme Military Council, held a Cairo news conference last month in which he openly said the poverty rate could reach 70%, and voiced his concern about a "revolution of the hungry." Worse, with foreign investment currently at "zero" and foreign reserves down from $36 billion on the eve of the revolution to $28 billion, Nasr warned that barring a dramatic development, the state's reserves would be depleted within six months.

Although a bankrupt Egypt is not imminent, continued deterioration of the economy could push the trajectory of the revolution in problematic directions. At a minimum, it is likely to encourage politicians to tack to more populist economic policies like rolling back economic reforms. Increased poverty could heighten the appeal of those who advocate that "Islam is the solution."

Recognizing the risks posed by the deteriorating economy, President Obama announced during his speech on the Middle East on May 19 that Washington would relieve $1 billion of Egypt's debt and provide $1 billion in loan guarantees to Egypt. While one might quibble with the structure of the package -- a budget-neutral response to the crisis may have garnered more political support in Congress -- the administration nonetheless deserves credit for appreciating the urgency of the situation. Given the severity of the crisis, however, $2 billion will not be enough.

Since Obama's speech, the World Bank and the International Monetary Fund have announced initiatives for Egypt. During its summit last week, the G-8 also laid out an ambitious assistance program. Saudi Arabia too has offered $4 billion. With a reported $550 billion in foreign reserves, however, Riyadh can do more to help Cairo weather the storm. At the same time, the Obama administration should provide a democratic Egypt a road map toward a free-trade agreement. Not only would such a pact provide economic benefit to Egypt, it would help to ensure a continued Western orientation of the state.

Despite political and economic uncertainty, Egypt today is still a pillar of the U.S. strategic architecture in the Middle East. Although diminished by the revolution and currently pursuing problematic and populist policies vis-a-vis Gaza and Iran, Egypt remains a peace partner with Israel and a Sunni bulwark against a predatory Shiite Muslim regime in Tehran. Economic and political risks loom large, but with 83 million people, for Washington, Egypt is too big -- and too important -- to fail.

David Schenker is director of The Washington Institute's ***Program on Arab Politics (/templateI02.php?SID=1&newActiveSubNav=Program%20on%20Arab%20Politics&activeSubNavLink=templateI02.php%3FSID%3D1&newActiveNav=researchPrograms)*** *and author of* Egypt's Enduring Challenges: Shaping the Post-Mubarak Environment **(/templateC04.php?CID=341)** . ❖

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