

# Assessing the \$959 Million in Accelerated Economic Aid to Egypt

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## Brief Analysis

In a brief January 3 statement, the White House announced that Egypt is receiving \$959 million in accelerated economic aid, the bulk of which was evidently disbursed in the closing days of 2001. While an important sign of continued U.S. support for the Hosni Mubarak government, this sudden and massive windfall has the potential for weakening U.S. leverage in convincing Egypt to pursue additional (and much needed) economic reforms. Additionally, it is certain to be viewed in Cairo as a signal that the United States is fully satisfied with Egypt's post-September 11 contribution to the war against terrorism.

### The Accelerated Aid

Egypt's Akhbar Al-Yom newspaper reports that \$579 million of the accelerated aid was already disbursed at the end of December 2001, and that the other \$380 million is to be handed over soon. No congressional approval is required for the funding; indeed, it does not appear that the administration consulted much (if at all) with Congress about the matter.

The \$959 million is part of the continuing economic aid program to Egypt. Although it is generally held that aid to Egypt was pegged at \$2.1 billion per year -- \$800 million in economic assistance and \$1.3 billion in military aid -- in the wake of the 1978 Camp David Accords, the actual story is more complicated. In practice, aid to Egypt is linked with aid to Israel, and since economic aid to Israel is being phased out over ten years, economic aid to Egypt is being cut as well, but only to half its former size, on the grounds that a poor country like Egypt would receive aid even in the absence of its peace with Israel. For fiscal year 2002 (FY02), which began last October 1, Egypt's economic aid allocation is \$655 million.

Most important, the amount allocated is different than the amount actually disbursed. Since the mid-1980s, economic aid to Egypt consisted of \$400 million for projects and technical assistance (everything from power plants to family planning), plus \$400 million in cash -- \$200 million in direct cash grants provided when Egypt met conditions of economic reform, and \$200 million in indirect cash provided via the "commodity import program"

(U.S. aid paid for imports that went to private Egyptian firms, and those firms in turn paid the Egyptian government for the goods). Each year, the actual amount disbursed depended on the progress made on the projects and on economic reform. Because of many delays on both fronts, a substantial backlog of committed but undisbursed funds developed.

The \$579 million reportedly disbursed on December 31 was from that backlog of undisbursed funds, which are being released even though reform conditions have not necessarily been met, as discussed below. The \$380 million to be disbursed in early 2002 includes \$230 million from the backlog and \$150 million from the FY02 aid, which is to be disbursed more quickly than via the usual process.

### The Egyptian Economy

The White House statement said that the \$959 million was "to help our important ally weather current global economic difficulties and the post-September 11 shock to the Egyptian economy" by "support[ing] Egypt's implementation of its economic reform program."

Indeed, Egypt is facing problems from the global slowdown. The drop in tourism since September 11 this year may cut \$1 billion from a business that brought in \$4.3 billion in 2000-01. Lower oil prices may reduce revenue a further \$600 million, to \$2 billion compared to last year's \$2.6 billion. And the slower world economy will hurt Suez Canal income (\$1.8 billion last year) and remittances from Egyptian workers abroad (\$3 billion last year).

But Egypt's economic problems go far beyond the post-September 11 slowdown. As the Economist magazine put it this week, "The Arab world's most populous nation is sliding haplessly into economic gloom. Touted in the mid-1990s as a Tiger on the Nile, Egypt now looks like a toothless crocodile." Cairo has been revising its economic data downwards to admit that performance the last few years has not been as good as claimed, though most observers think that the truth is still gloomier than the latest revisions show (the government's figure for GDP growth in 2000/01 is still a solid 4.9 percent, whereas the International Monetary Fund is showing 3.3 percent, and most private estimates are less than 3 percent). The problems include dangerous quantities of bad debts to state enterprises held by state-owned banks, underreported government budget deficits, excessive regulations, and an overvalued exchange rate that discourages exports (non-oil exports were only \$4.4 billion last year).

Egypt's failure to pursue the economic reforms it had begun in the early 1990s (after long delays) explains why most of the \$959 million in accelerated aid had not been released earlier. The obvious question is, did Egypt suddenly undertake a series of economic reforms which explain the aid release? In fact, Egypt did make some recent economic reforms, but two examples show the limited character of the steps taken. First, Egypt lifted its ban on clothing imports as required by its World Trade Organization (WTO) obligations. However, it simultaneously imposed custom duties on clothing and adopted strict regulations about what clothing could be brought in duty-free by Egyptians returning from abroad -- regulations that led to demonstrations in Port Said continuing since last week. Second, Egypt devalued its currency by 6 percent to LE4.15 to the dollar. But that was insufficient to restore balance to the market; access to dollars often requires going to the "informal" market where the rate this week has reached LE5.0 per dollar. In short, if the aim of the aid program is to promote economic reform, there is little justification for the accelerated release of \$959 million -- indeed, there is a danger the money will encourage Egyptian officials to think their problems have been solved and there is no urgent need for additional reforms.

As a condition for the \$380 million of accelerated aid yet to be disbursed, Egypt has promised to enact a number of laws about money laundering, intellectual property rights, labor rights, telecommunications, and information technology -- mostly to fulfill the commitments made to the WTO.

### A Wasted Opportunity?

The speedy disbursement of aid may have political as well as economic repercussions. Indeed, by rushing to help the

Mubarak government economically, Washington may be squandering its first real opportunity to take the U.S.-Egyptian relationship in new directions, appropriate for addressing the political-cultural implications of the September 11 attacks.

While Egypt clearly needs economic help, it is equally clear that the basic impetus of this disbursement is political reward, not economic rescue. According to one U.S. official, the purpose of this sudden influx of aid is to recognize "the special relationship between the two countries and the support Egypt is extending on the peace process and in the campaign against terrorism." In that case, the disbursement sends a premature thumbs-up to Cairo that Egypt's performance since September 11 has been exemplary.

In fact, while Egypt provides important private assistance to U.S. anti-terror efforts, its role in the public realm has been wanting. On the military campaign, Mubarak has offered tepid support but continually refers to the need for an "international conference" on terrorism as well as to the importance of addressing the Palestinian issues as a key step in combating Al Qaeda. On the critical question of "what constitutes terrorism," Mubarak himself on a number of occasions has explained away suicide attacks against Israel, even going so far as to say that the suicide bombings in Tel Aviv -- inside pre-1967 Israel -- do not constitute terrorism. Importantly, some in Egypt -- such as Shaykh al-Azhar Muhammad Sayed al-Tantawi -- have taken a less benign view of suicide bombings, but Mubarak's views carry the most weight, politically if not religiously. In the wider political sphere, there is little for the United States to applaud concerning Egypt's record, circa 2001. The year was characterized by repression of leading democracy activists and the resumption of military court trials for Muslim Brotherhood political leaders.

While few in Washington were concerned with the U.S. national security implications of Egyptian domestic affairs pre-September 11, that should no longer be the case. Regrettably, the disbursement of economic aid weakened a peg on which to hang the beginning of a high-level dialogue on issues that heretofore have been marginal items on the bilateral agenda. As the administration considers future economic and military ties, it is not too late to consider moving on to an agenda that includes: the role of the Egyptian government in setting a positive tone for public debate; the importance of freeing up civil society organizations from stifling bureaucratic procedures; and the centrality of educational reform to Egypt's economic and political future.

Like economic reform, political and social reforms may face bumps in the road, but they too can be implemented gradually and cautiously. Without a friendly but forceful prod from the United States -- which the disbursement issue would have provided -- they may never get started. In that case, both Egyptian stability and U.S. security will suffer.

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