

PolicyWatch #1399

## The Future of U.S. Assistance to Egypt

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On August 2, renowned Egyptian activist Saad Eddin Ibrahim was convicted in absentia for "harming Egypt's reputation," and sentenced to two years in prison. His "crime" was asserting in the *Washington Post* that U.S. aid to Egypt be tightly linked to specific political and economic outcomes. During President Bush's first term, Ibrahim served two years for "tarnishing Egypt's image" and receiving foreign funds "without permission." Ironically, he was finally set free after the White House conditioned future aid on his release.

Ibrahim's two encounters with Hosni Mubarak's regime provide iconic bookends to the Bush administration's policy toward Egypt since September 11, and highlight the countries' difficult relationship. Regardless of who wins the U.S. presidential election, relations with Egypt will be tense, and less influenced by economic aid than ever before. Consequently, Congress and the next administration may be tempted to put conditions on Egypt's military assistance as leverage to produce more earnest cooperation.

### Background

Following Egypt's 1979 peace deal with Israel, the United States agreed to provide both countries with significant economic and military assistance. Over the years, assistance to Egypt has totaled more than \$50 billion, with an annual average of \$815 million going toward economic development and \$1.3 billion for military hardware.

After September 11, the Bush administration conducted an in-depth review of the assistance program, seeking new ways to induce economic reform, but did not have credible Egyptian partners. In 2004, however, after considerable U.S. pressure and the toppling of Saddam Hussein, Mubarak appointed a reformist cabinet under the leadership of Prime Minister Ahmed Nazif. The new cabinet's economic team and the United States negotiated a heavily conditioned memorandum of understanding (MOU) for reforming Egypt's financial sector.

The MOU was a first for both countries and a hopeful prototype for future assistance agreements. Rather than simply allocating funds directly to the corrupt and moribund Ministry of International Cooperation, which had only a tangential connection to the new cabinet's reform agenda, the money was tied to specific benchmarks and allocated directly to the finance ministry. The new agreement successfully modernized a critical element of Egypt's economy and proved a win-win situation for both the United States and Egypt. Still, as the tense back and forth over future conditionality raged on, the amount of money was shrinking.

### U.S. Economic Assistance to Egypt

In 1998, Egypt and the United States agreed to a ten-year reduction in economic assistance, lowering aid from \$815 million per year to \$415 million in 2008. A new deal for the next ten-year period was planned by both parties, but protracted negotiations lasted almost two years and produced no comprehensive agreement. As it stands today, Egypt is slated to receive a heavily earmarked \$200 million in 2009, with no funding guarantees beyond next year.

Egypt, of course, is not happy about this, despite U.S. assistance representing only a miniscule part of its economy. In 1979, when the program started, U.S. funds represented nearly 5 percent of Egypt's GDP. Today, it represents less than a quarter of one percent, with Egypt making much more money through privatization. When Egypt privatized the Bank of Alexandria, one of the MOU's benchmarks, it added a reported \$1.6 billion to the Egyptian treasury. Also, a mobile-telephone license auctioned off to Etisalat brought in an additional \$2.9 billion.

For Egyptians, U.S. aid is mainly symbolic, forever linked to the Camp David peace agreements. But as assistance shrinks and conditionality rises, the attractiveness of the aid has dropped significantly. Some have argued, in fact, that it would be advisable to scrap the economic assistance altogether in the interest of smoother relations. Negotiations on such a "small" pot of money have been endless and contribute to bitter feelings on both sides. Moreover, the assistance provides Congress with numerous opportunities to condition what remains, putting additional stress on the relationship. So why does Egypt fight every year for the assistance? Why does the U.S. Department of State not argue that bilateral relations would be better without it? The answer: both are interested in maintaining a shield for Egypt's military assistance.

Over the past few years, U.S. representatives David Obey and the late Tom Lantos fought an uphill battle to condition Egypt's military assistance, but had to accept conditions on economic assistance instead. Last year, however, they succeeded in inserting a provision making military assistance conditional both on political reforms and on progress in stopping Hamas's weapon smuggling into Gaza. The provision also provided Secretary of State Condoleezza Rice a fallback measure in the form of a "national security waiver"; if conditions are not met, but the military assistance is judged in the interest of national security, the funds could still be released. In March, at a joint press conference with Egyptian foreign minister Aboul Gheit, she announced -- in Cairo no less -- the use of the waiver. Afterward, Freedom House and other human rights groups excoriated her for the move.

Many in Cairo and the Department of State worry that if the economic assistance shield is lost altogether, Congress, with the Obey-Lantos amendment precedent now set, will push more aggressively for conditionality on military assistance. For this reason, many are fighting to maintain it. This state of affairs, however, is unlikely to last into the next U.S. administration. No matter who wins the presidency, Egypt's critics in Congress will increase, and with it, Congressional ire, especially as Mubarak's regime has moved beyond Ibrahim to target the next generation of would-be activists. Blogger Abdel Karim Soliman, for instance, has been jailed for nearly two years for insulting the president and Islam. In July, fourteen young Facebook activists were arrested for "incitement against the regime," a day after flying Egyptian flags and singing patriotic songs to commemorate the 1952 revolution.

## **Conclusion**

The Mubarak regime's resolute failure to live up to its human rights obligations will give ammunition to members of the next Congress eager to send a strong message to Cairo. As a result, future U.S. administrations will find it difficult, if not impossible, to justify economic assistance to Egypt, let alone to increase it. The White House, instead, will have to fight off multiple efforts to condition Egypt's military assistance. Waivers similar to those Rice announced this spring will increase, embarrassing both Egypt and a White House forced, however reluctantly, to stand with its "strategic partner."

Egypt could change all this. If a new leadership were to present a clear vision for the country's future -- one that Americans could understand and support -- Egypt would find willing supporters in both branches of the U.S. government. Unfortunately for Egyptians and bilateral relations, such leadership is not on the horizon. Conditioning military aid may, therefore, be the only avenue open to vent U.S. displeasure.

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