



# Egypt in Transition

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## Summary

On February 11, 2011, President Hosni Mubarak resigned from the presidency after 29 years in power. For 18 days, a popular peaceful uprising spread across Egypt and ultimately forced Mubarak to cede power to the military. How Egypt transitions to a more democratic system in the months ahead will have major implications for U.S. foreign policy in the Middle East and for other countries in the region ruled by monarchs and dictators.

This report provides a brief overview of the transition underway and information on U.S. foreign aid to Egypt. U.S. policy toward Egypt has long been framed as an investment in regional stability, built primarily on long-running military cooperation and sustaining the March 1979 Egyptian-Israeli peace treaty. Successive U.S. Administrations have viewed Egypt's government as a moderating influence in the Middle East. U.S. policy makers are now grappling with complex questions about the future of U.S.-Egypt relations, and these debates are likely to influence consideration of appropriations and authorization legislation in the 112<sup>th</sup> Congress. The United States has provided Egypt with an annual average of \$2 billion in economic and military foreign assistance since 1979. For FY2012, the Obama Administration has requested \$1.551 billion in total aid to Egypt.

On July 27, 2011, the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs marked up its FY2012 State-Foreign Operations appropriation, proposing that Egypt receive the full FY2012 request (\$1.551 billion), including \$1.3 billion in military aid, and that military aid should also be used for "border security programs and activities in the Sinai, with the expectation that the Egyptian military will continue to adhere to and implement its international obligations, particularly the Egypt-Israel Peace Treaty." Section 7042 of the draft bill also provides up to \$250 million in economic assistance to Egypt though it specifies these funds are not available until the Secretary of State certifies and reports to the Committees on Appropriations that the Government of Egypt is not controlled by a foreign terrorist organization or its affiliates or supporters, is implementing the Egypt-Israel Peace Treaty, and is taking steps to detect and destroy the smuggling network and tunnels between Egypt and the Gaza strip. The bill further states that no U.S. economic assistance in the bill may be used to "reduce, reschedule, or forgive the debt of the Government of Egypt to the United States Government unless authorized for such purposes."

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## Egypt in Transition

Egypt's political transition is moving forward, and elections are scheduled for November to choose a parliament that will nominate figures to rewrite the Constitution and lay the groundwork for future presidential elections. However, many of the original demonstrators who led the revolution have yet to form parties to compete in the military-overseen political process and have instead left the field mostly to Islamists and established politicians. Without a defined role in the process steering the country's political future, and with its inability of late to draw crowds larger than a hundred thousand back into Tahrir Square, the protest movement appears to be losing momentum. If elections are perceived by the general public as credible and revolutionaries remain largely absent from the playing field, this may deal an additional blow to secular youth groups. Moreover, the Supreme Council of the Egyptian Armed Forces (SCAF), in order to maintain patronage networks outside of Cairo, is considering/has adopted amendments to existing electoral laws that may benefit individual candidates from rural or poorer districts, potentially enabling former members of the now-disbanded, former ruling party (the National Democratic Party or NDP) to reenter political life. Revolutionaries have sought to purge Egypt's institutions of remnants of the former regime,<sup>1</sup> and the return of NDP members even under the guise of an independent candidacy would be an affront to many Egyptians.

While many Americans and media outlets have embraced the youth revolutionaries' cause, experts note that Egyptian politics is more diverse and demanding than the street politics on display in downtown Cairo. The SCAF maintains strong relationships with socially conservative local political forces across the country. These local actors in turn facilitate organized political activity and communication beyond the holding of urban street demonstrations. Furthermore, youth activists consistently have made contradictory demands: they have sought an immediate end to military rule while seeking more time before elections to organize politically. Earlier in the year, many activists joined a "Constitution first" campaign that called for a new Constitution to be written first instead of holding a national referendum on amendments to the existing Constitution. The referendum took place in March, and the constitutional amendments were approved by 77% of votes cast. Opposing the referendum and losing revealed young secular liberals' political weakness. Many protestors have declined to engage in institutional politics, and organization by pro-revolution forces remains weak outside of major urban areas. According to one analyst, "Many of the Tahrir activists view themselves as the soul of the revolution, standing above politics. Maybe they feel that joining in the elections could implicate them in a system which remains counter-revolutionary at its core and take away their ability to mobilize the streets. They have seen, over the course of a decade and especially from January 25 through this summer, that street politics works."<sup>2</sup>

In order to preserve order and maintain its position as arbiter of Egyptian politics and the guiding hand throughout the transition, the SCAF has continued to balance the competing forces of youth revolutionaries and Islamists against each other while vying for the goodwill of large segments of the unaffiliated Egyptian population. Part of the SCAF's balancing act has been to provide demonstrators with symbolic actions to meet their needs for justice and accountability while the SCAF has provided Islamists with substantive changes to the political system. To appease

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<sup>1</sup> In Egyptian Arabic, this term is called *fulul al nizham*, translated as "the remnants of the regime."

<sup>2</sup> "Will Egypt's Activists Boycott the Election," *ForeignPolicy.com*, September 6, 2011.

demonstrators and the public at large, the SCAF has arrested many former regime officials and corrupt businessmen. The ongoing Mubarak trial, though no longer televised, continues to captivate the public. For Islamists and established politicians, the SCAF liberalized laws governing the formation of political parties, leading to the formation of new groups, including the Freedom and Justice Party (FJP), the party of the Muslim Brotherhood. To appease general public sentiment, the SCAF has attempted to pursue a more independent foreign policy, and it has remained conspicuously silent amidst growing anti-U.S. and anti-Israeli sentiment in the Egyptian media and street protests. Only recently, after crowds attacked the Israeli Embassy in Cairo, did the SCAF take measures to prevent further public inflammation, though it did so by threatening to maintain indefinitely the widely hated, decades-old emergency law that would allow the military to increase its use of prolonged detentions. Youth activists had already decried the use of detentions and quick military trials against them. According to one analyst, “There is a power game going on—and the liberals and the entire secular movement are the weaker element, while the Islamists and the army are strong.”<sup>3</sup>

From a U.S. policy standpoint, the Obama Administration and Congress would appear to have limited levers of influence at this time. The Administration has signaled its preference for delaying major decisions about the future of U.S.-Egyptian relations until the makeup and orientation of an elected Egyptian government becomes clear. At the same time and in many ways, U.S. policy toward Egypt remains constant in its support for U.S.-Egyptian military cooperation, particularly as the Administration scrambles to maintain regional calm amidst various security incidents embroiling Israel, Egypt, and Palestinian terrorist groups operating in the Sinai Peninsula.

If Egypt’s transition continues on schedule and a democratically elected government takes power with minimal SCAF interference, many experts believe that U.S.-Egyptian relations will still need time to recalibrate. Egypt, while still a vital regional partner, may no longer be as reliable a partner—U.S. policymakers may need to adjust to a more independent, publicly accountable Egyptian foreign policy. Moreover, if the Israeli-Palestinian conflict remains unresolved in the years ahead, any democratically elected Egyptian government may be expected to oppose strong U.S.-Egyptian-Israeli ties, complicating efforts to promote peace or even maintain the 1979 peace treaty.

If Egypt’s transition were to veer off course due to undemocratic, unilateral action by SCAF, sectarian clashes between Muslims and Copts, regional Arab-Israeli violence, or civil war, U.S. foreign policy in the Middle East would be even more challenged than it currently is by ongoing unrest elsewhere in the Arab world. During the revolution of 2011, many U.S. observers were concerned over access to the Suez Canal and its continued use for oil shipments and U.S. naval access. An erosion of the 1979 Israel-Egypt peace treaty also is of primary concern to policymakers, as is Egypt’s ability to influence developments in other Arab countries. Though the current period of Arab unrest began in Tunisia in December 2010, its manifestation in Egypt arguably carried the wave of discontent elsewhere in the region. A setback in Egypt could have ripple effects throughout the Middle East, possibly jeopardizing not only material U.S. interests but also U.S. decades-old diplomatic efforts to build strategic alliances with Arab countries as well as Israel.

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<sup>3</sup> “Egyptians Turn on Liberal Protesters,” *Wall Street Journal*, August 2, 2011.

## The Electoral Law

After initially declaring that elections would take place in June and then revising that to September, the SCAF again postponed parliamentary elections until November 2011 in order to give new political parties more time to organize and campaign. The start of parliamentary elections is tentatively set to being on November 21 and last through January 2012. The Higher Electoral Commission, comprised of Egyptian judges, will oversee the elections process. Elections will take place in three rounds separated by a period of 15 days. According to the law approved in the previously mentioned March 2011 referendum, within six months of their election, the lower and upper houses of parliament are to elect a 100-member Constitutional Assembly that will be responsible for drafting a new Constitution. The Constitutional Assembly must produce its draft within six months, and a referendum must then be held within 15 days to approve or reject the new Constitution.

On July 3, the SCAF also promulgated a new electoral law governing the elections. The law introduces a mixed electoral system in which half of all seats will be determined by individual winner-take-all races while the other half will be determined by a party list, with each party receiving a number of seats proportional to its share of the total vote. The electoral law also ends the 64-seat women's quota, but requires that each party list contain at least one female candidate. It reduces the minimum age of candidates from 30 to 25 and maintains a provision dating back to 1964 which reserves half of all seats for "workers and farmers." In addition, the defense minister, as acting interim president, may appoint 10 of the 514 members of the lower house. Two thirds of the seats in the upper house<sup>4</sup> will be elected; the other third will remain vacant until after a presidential election, after which the president will appoint them. Citizens will vote using their ID cards, with no voter registration process. International election monitors will not be allowed to observe the election; the SCAF claims that the Egyptian judiciary has decided the presence of outsiders would infringe upon Egypt's sovereignty, but some critics argue that outside observers are necessary to ensure transparency.

The SCAF is in the process of revising the electoral districts. In order to preserve rural Egypt's access to political power in the capital, initial media reports indicate that the SCAF is drawing districts that may underrepresent Cairo and overrepresent rural areas, perhaps benefitting former NDP-supporters and socially conservative or Islamist forces at the expense of secular liberal or young revolutionary groups. In addition, critics charge that those same established parties would be better able to compete in the large electoral districts assigned to the party lists, which are much larger than those assigned to individual candidates. According to one report, the draft electoral law "makes the size of districts covered by the party list system very large, thus making it difficult for candidates from a particular party to compete, since they will be forced to extend their campaigns to cover very large areas in different places with no geographical relationship between them.... In North Cairo, for example, the four candidates of each competing party will be forced to campaign in an area including no fewer than five million citizens."<sup>5</sup> In September, in order to allay public fears, representatives from 32 political parties met with General Sami Anan, to present feedback on possible revisions to the division of electoral constituencies.

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<sup>4</sup> The number of seats in the upper house will increase from 264 to 390. Of these, two thirds will be elected while one third will be appointed by the president. For the Shura Council elections, Egypt will be divided into 93 voting districts—65 will use the individual candidacy system and 28 will vote on a party-list basis.

<sup>5</sup> "Opposition Slams Key Political Laws," *Al Ahram Weekly Online*, September 8-14, 2011.

## **Constitutional Principles**

In the summer of 2011, amidst a new round of street protests by revolutionary activists, the SCAF granted some concessions to secular liberal groups. It reshuffled the cabinet and asked experts to draft a set of constitutional principles to serve as guidelines before a constitution is actually drafted, angering some Islamists who charge that any set of principles devoid of overt references to Islamic law would make the country too secular. The SCAF asked Osama al Ghazali Harb, chairman of the Democratic Front, to draft supra-constitutional principles. Others, including Mohammed El Baradei, Al Azhar, and the Democratic Alliance, have drafted versions of these principles. The principles would affirm that all Egyptians are free and equal before the law and cannot be discriminated against based on religion, race, color, or social class. Other possible principles include Islam as Egypt's official religion; Arabic as the main language; sharia as the main source of law (this was in Article 2 of the old constitution); giving the state a multi-party system and an independent judiciary; limiting the role of the military in the state; and giving citizens a right to freedom of expression, peaceful protests, and freedom of religious worship.

In August 2011, media reports indicated that constitutional principles drafted by the leading cleric at Al Azhar have been widely endorsed by Egypt's liberal and secular politicians because the document proposes that Egypt has an Islamic identity but is committed to a "civil and democratic state governed by law and the Constitution." The document also calls for respect of freedom of opinion, faith, and human rights to be guaranteed. However, talks between Islamists and liberals aimed at reaching an agreement on a set of principles based on the Al Azhar draft failed later in August. Islamist groups insist that the Constitution be drafted by parliament while liberals want an agreed-upon set of principles before elections are held in order to guarantee that Islamists won't turn Egypt into a theocracy.

## **Political Party Proliferation and the Fracturing of the Muslim Brotherhood**

In March 2011, the SCAF issued a decree easing conditions for the formation of political parties. Under the decree, new parties must have at least 5,000 members across 10 provinces, with at least 300 members in each province, in order to gain recognition. Since then, groups representing the entire ideological spectrum, including youth movements, socialists, liberals, secularists, leftists, former NDP members<sup>6</sup>, Islamists, and Salafists, have formed throughout the country. To date, the Political Parties Committee has officially approved several Islamist-Salafist oriented parties, including the FJP, Al Wasat (a more moderate off-shoot of the Muslim Brotherhood), Al Asala (Salafist), and Al Nour, (Salafist). In mid September, the committee rejected the application for legal approval of Al Gamaa al Islamiyya. The former terrorist group jointly responsible for the assassination of former President Anwar Sadat claims to have renounced violence and had been attempting to reenter the formal political system. The Political Parties Committee rejected it because it claimed that Al Gamaa's party platform is based on "religious grounds in violation of the law."

Other Islamist groups have broken off from the Muslim Brotherhood. The Egyptian Current (Al-Tiyyar Al-Masri) is a new group (not yet licensed) comprised of younger Brotherhood activists

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<sup>6</sup> In mid September, the Political Parties Committee approved the formation of the Union Party, led by former NDP official Hossam Badrawy. Badrawy is a physician, former NDP liberal and former member of parliament.



who participated in the revolution and who advocate for a civil rather than a religious state. Three other Islamist parties also are petitioning for legalization and have split off from the Muslim Brotherhood, including the Al Nahda party, Al Riyada, and the Peace and Development Party (PDP).

Since the electoral law stipulates that roughly half of all seats in parliament will be decided by a party list system, many new Egyptian political parties are forming voting blocs in order to increase their chances for representation. In order to counter the perceived popularity of Islamist and Salafist parties, liberal parties have formed a new coalition called “The Egyptian Bloc.” This bloc is comprised of 15 smaller parties; most prominent among them is Al Masreyeen Al Ahrar (Free Egyptians), a liberal party led by the wealthiest Egyptian, Naguib Sawiris. Smaller members of this bloc are the Democratic Front Party, the leftist Tagammu Party, the Farmers Syndicate, the Sufi Liberation Party, and the National Association for Change. The FJP has its own voting bloc, called the National Democratic Alliance for Egypt. This bloc also includes the liberal Al Ghad Party, the nationalist Wafd and Karama Parties, and the Salafist Nour Party. The FJP is by far the largest party in this bloc, and smaller member parties are capitalizing on the popularity and organizational capacity of the FJP in order to boost their representation in parliament. A third centrist-oriented voting bloc is called the Third Way List (also referred to as the “Third Road Coalition”), though its party membership is not well known with the exception of one party known as Justice (Adl).

**Table I. Egyptian Party “Bloc”**

<b>National Democratic Alliance (34 parties, mostly Islamist, Salafist, and Nasserist)</b>	<b>The Egyptian Bloc (14 parties, mostly leftist, secular, and liberal)</b>
Freedom and Justice Party (Muslim Brotherhood)	The Free Egyptians Party (formed by telecom billionaire Naguib Sawiris, a Copt)
Wafd (oldest political party in Egypt, dates back to independence)	Egyptian Social Democratic Party
Karama (Nasserist)	The Democratic Front Party (led by Osama Al-Ghazaly Harb)
Al Ghad (Nasserist)	Masr Al-Horreya Party (founded by Amr Hamzawy, formerly a scholar at the Carnegie Endowment for International Peace)
Labor (Nasserist)	Al Tagammu (leftist)
Al Gheel (Nasserist)	Al Wa'y
Al Ahrar (Nasserist)	National Council
Egyptian Arab Socialist Party (Nasserist)	National Association for Change
Al Asala (Salafist)	Farmers Syndicate
Nour Party (Salafist)	Sufi Liberation Party (Tahrir)
Al Fadila (Salafist)	Egyptian Communist Party
Al Tawheed Al Araby (Salafist)	Popular Worker's Union

**Notes:** Due to the rapidly evolving political landscape in Egypt, voting bloc membership is changing weekly. Some reports indicate that the Salafist Nour Party has left the National Democratic Alliance, while other reports indicate that the Wafd may switch allegiances over to the Egyptian Bloc. Al Tagammu switched sides in August.

Figure 1. Map of Egypt



Figure Source: Map Resources. Adapted by CRS

## A More Independent Egyptian Foreign Policy

In order to align the country's foreign policy more closely to public opinion during this delicate transition, the SCAF and Egyptian Foreign Ministry have charted a somewhat more confrontational regional policy toward Israel. The SCAF and some Egyptian officials underscore that Egypt has no intention of revisiting or rescinding the peace treaty with Israel. Nevertheless, in recent months, Egyptian officials have abandoned the Mubarak regime's aggressive stance toward Hamas, a move that enabled the Egyptian mediators to reengage Palestinian factions in unity talks and broker a settlement. This breakthrough also led Egypt and Hamas to reach a new border agreement at the Rafah crossing. Though various media reports indicated that the Rafah border crossing would be completely open to Gazans, subsequent reports suggest that while the terms of the opening have been liberalized, some Egyptian restrictions remain, such as requiring Gazan men between ages 18 and 40 who wish to cross to obtain security clearances beforehand and limiting the daily passenger traffic to between 500 and 550 people. Although commercial goods still cannot enter Gaza from Egypt, Israeli officials have expressed consternation over the change in Egyptian policy after having benefitted from several years of Egyptian cooperation in

isolating and containing Hamas by tacitly enforcing Israel's blockade of Gaza. Israelis remain concerned that smuggled weapons will continue to flow into Gaza from the Sinai Peninsula and beyond.

In addition to smuggling weapons, Bedouin Arabs in the Sinai Peninsula also are believed to be behind several acts of sabotage to a gas pipeline running from Egypt to Israel and Jordan. Since the revolution, it has been bombed at least three times. The supply of Egyptian gas to Israel was a sensitive issue even before the revolution, though since then Egyptian businessmen with close ties to Mubarak, including the former energy minister, have been accused of selling Egyptian gas to Israel at steep discounts, costing the treasury approximately \$714 million in lost revenue had the gas been sold at market prices. Egyptian authorities continue to investigate the deal, which may become a campaign issue in Egypt's future presidential election, as some candidates such as Amr Moussa have expressed their opposition to selling Israel natural gas.

## **Recent Israeli-Egyptian Tensions**

On August 18, a Gazan terrorist cell of the Popular Resistance Committees (an umbrella group comprised of various Palestinian terrorist organizations) traversed the Sinai into Israel and attacked Israeli vehicles and soldiers. The attackers killed eight Israelis, including two soldiers, and wounded 31 others. Israeli forces killed five terrorists, and Egyptian soldiers reportedly killed two more. However, Egyptian security officials said that five Egyptian police officers were killed when an Israeli aircraft fired at people suspected of being militants who fled into a crowd of security personnel on the Egyptian side of the border on August 18. The incident heightened Israeli-Egyptian tensions, as revolution in Egypt and the resentment toward Israel it unleashed had already strained diplomatic relations between both sides throughout 2011.

In response to the accidental killing of five Egyptian policemen, Egypt demanded an apology and compensation from Israel, as thousands of protesters demonstrated outside the Israeli Embassy in Cairo, burning an Israeli flag and demanding the ambassador be expelled and the embassy closed. Media reported that the Supreme Council of the Armed Forces (SCAF) briefly called for the ouster of the Israeli ambassador in Cairo and then recanted. Media also reported that in Cairo, a young man ripped down the Israeli flag from the Embassy building. Several days after the attack on August 18, an Israeli military delegation traveled to Egypt for talks with Egyptian officials, and Israel also issued two public statements of regret for the deaths of Egyptian soldiers/policemen. U.S. officials also have been conducting talks with Israelis and Egyptians in order to cool tensions.

In the days leading up to the August 18 attacks, reports indicated that Egypt and Israel had agreed (per terms of the 1979 peace treaty) to an Egyptian deployment of an additional 1,000 soldiers/policemen to the Sinai. That deployment was in response to recent militant attacks in the northern Sinai town of El Arish against police stationed there. On July 30, 2011, gunmen used rocket-propelled grenades to attack the cooling system on the pipeline that supplies natural gas to Israel. It was the fifth attack this year on the infrastructure Egypt uses to provide Israel with natural gas.

As a result of the August 18 attack, some lawmakers may insist that Egypt use its existing manpower resources in the Sinai more efficiently in order to prevent terrorist groups from staging future attacks inside Israel (the 1979 peace treaty limits the number of soldiers that Egypt can deploy in the Sinai). In July 2011, the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs marked up its FY2012 State-Foreign Operations appropriation,

proposing that Egypt receive the full FY2012 request (\$1.551 billion), including \$1.3 billion in military aid, and that military aid should also be used for “border security programs and activities in the Sinai, with the expectation that the Egyptian military will continue to adhere to and implement its international obligations, particularly the Egypt-Israel Peace Treaty.” Some Israeli media reports have indicated that some Israeli officials believe that Israel should consider amending its peace treaty with Egypt to allow the Egyptian Army to significantly increase its presence in Sinai in light of the deteriorating security situation there.<sup>7</sup>

On Friday night September 9 and early Saturday morning September 10, tensions over the August 18 killing of five Egyptian soldiers by Israeli forces ignited new protests outside the Israeli Embassy in greater Cairo. During the night, demonstrators, many of whom were hard-core soccer fans (known in Egypt as “Ultras”) directed their anger at the Egyptian police and at the Israeli Embassy building itself, breaching a recently erected outer wall before penetrating the inner offices of the Embassy and trapping six Israeli guards holed up inside. Israeli officials reportedly sought U.S. assistance in securing immediate Egyptian intervention to rescue the Israeli guards. At about 5am on September 10, Egyptian commandos extricated the guards and escorted them to the airport where they flew back to Israel on an Israeli air force plane. By then, the Israeli Ambassador to Egypt along with Embassy staff had already departed on another Israeli plane. According to Israeli Prime Minister Benjamin Netanyahu, “The fact that Egyptian authorities ultimately acted with determination is laudable.... That said, Egypt cannot conduct business as usual after this harsh blow to the fabric of relations with Israel and gross violation of international norms.” Ten days later, Israeli diplomats were back at work, and many additional Egyptian police and soldiers surrounded the building for protection.

For Israel, its foreign policy toward Egypt is in a difficult phase. Now, more than ever, Israel depends on a positive relationship with the Egyptian military to ensure the preservation of 1979 peace treaty. Though it expressed its concern over the storming of its embassy, Israeli officials were careful not to overly criticize the SCAF. However, if personal freedoms contract in Egypt as a result of the SCAF’s amending and extension of the emergency law as a result of the Israeli Embassy incident, public anger both toward Israel, the SCAF, and the peace treaty could grow even stronger in the months ahead.

## **The Economy**

Experts believe that post-revolutionary Egypt will reflect the population’s long-standing rejection of unfettered capitalism, as neoliberal economic policies had become synonymous with corruption and the crony capitalism that flourished during the Mubarak era. Revolutionary activists echoed popular criticism of the fact that politically well-connected persons often received generous bank financing and reaped the rewards of privatization deals, foreign franchise distribution rights, government contracts, and land deals. Nonetheless, few observers believe that Egypt can afford to return to its socialist days, and leaders face the challenge of disentangling liberalizing reforms from Mubarak-era corruption.

Forecasters predict that the Egyptian economy will grow by just 1% in 2011. The SCAF has refrained from restructuring the economy in order to limit short-term pain for the majority of Egyptians, who have suffered since the revolution. The military also has deliberately postponed

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<sup>7</sup> Open Source Center, State PAO: Israel Morning Media Review, Tel Aviv US Embassy Public Affairs Office in English, Aug 21-22, 2011, GMP20110822741001.

major economic reforms in order to wait for a newly elected civilian government to take on that responsibility. In the short term, the government has increased the fiscal deficit<sup>8</sup> by raising public subsidies and wages in order to adjust to rising prices. During the summer of 2011, the military turned down loans from international financial institutions such as the International Monetary Fund (IMF) and the World Bank, citing discomfort over borrowing from the West. Instead, the government accepted aid packages from the Gulf states, including \$3 billion from the UAE, \$4 billion from Saudi Arabia, and \$10 billion in investments from Qatar. Qatar is also offering a \$500 million grant. On July 25, the Ministry of Finance began selling two-year debt, reaching its goal of \$503 million worth in bonds.

## **U.S. Policy and Aid since the Revolution**

U.S. policy toward Egypt, including the provision of aid, is a crucial issue following that country's revolution and ongoing transition from military to civilian rule. From 1948 to 2011, the United States has provided Egypt with \$71.6 billion in foreign aid, including \$1.3 billion a year in military aid from 1987 to the present. The Administration has requested \$1.3 billion in FMF for Egypt in FY2012—the same amount it received in FY2011. FMF aid to Egypt is divided into three general components: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts.

Though many Egyptians were highly critical of U.S. support for the Mubarak regime both before and during the revolution, some experts believe that years of continued U.S. aid to the Egyptian military both succeeded in strengthening the one institution that has been capable of stabilizing Egypt during its delicate transition period and in building U.S.-Egyptian military-to-military relationships. Others assert that in retrospect the United States should have invested more resources over the years in strengthening liberal democratic forces inside Egypt in order to better position itself for precisely the kind of post-revolutionary situation now underway in Egypt.

Past circumstances aside, U.S. policy toward Egypt, particularly its aid policy, now faces the competing challenges of supporting a nascent government with both economic and democratic assistance while maintaining its traditional relationships with the military. Many policymakers believe that economic support is critical due to the staggering losses Egypt has incurred as a result of the unrest throughout 2011. However, at the same time, the U.S. ability to provide large scale economic support has been constrained by growing concern over the deficit and lack of public enthusiasm for large scale foreign aid projects following years of U.S. reconstruction aid to Iraq and Afghanistan. U.S. democracy assistance also faces competing pressures. On the one hand, there is a need for the United States to provide technical assistance to new political forces eager to compete in Egypt's open political landscape. However, Egypt's military leaders have vocally condemned long-standing U.S. democracy assistance programs and grants to Egyptian civil society organizations as unwanted meddling in Egyptian affairs. Some observers believe that the military has been deliberately attempting to discredit secular/liberal activists by portraying them as American agents for accepting U.S. technical assistance. Finally, now more than ever U.S. policymakers believe that U.S. military aid is needed to support continued Israeli-Egyptian peace given recent terrorist attacks inside Israel emanating from groups operating in the Sinai Peninsula. On August 18, a Gazan terrorist cell traversed the Sinai into Israel and attacked Israeli vehicles and soldiers. The attackers killed 8 Israelis, including 2 soldiers, and wounded 31 others.

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<sup>8</sup> Egypt's domestic and international debt stands at \$190 billion or about 90% of GDP.

As the United States grapples with how to respond to these contradictory pressures inside Egypt, it also is facing the prospect of dealing with an Egyptian government far more responsive to popular political sentiment that at times runs contrary to U.S. interests. To many experts, the 2011 revolution may have completely changed the power dynamic between the United States and Egypt. Foreign aid may no longer be a lever of significant influence there, and U.S. policymakers may find themselves in greater competition with other foreign powers vying for influence inside Egypt. During the summer of 2011, the military turned down loans from international financial institutions such as the International Monetary Fund (IMF) and the World Bank, citing discomfort over borrowing from the West. Instead, the government accepted aid packages from the Gulf states, including \$3 billion from the UAE, \$4 billion from Saudi Arabia, and \$10 billion in investments from Qatar. Qatar is also offering a \$500 million grant.

In light of all these competing pressures, the Administration has made several aid proposals for Egypt. In the weeks following the resignation of former President Mubarak, the Obama Administration reprogrammed \$165 million in already appropriated economic aid for support to Egypt's economy (\$100 million) and political transition (\$65 million). In a speech delivered at the State Department on May 19, 2011, President Obama outlined a new plan for U.S. engagement with Arab countries such as Egypt. Major components of the plan announced by Obama would include the following.

- Launch a \$2 billion facility in the Overseas Private Investment Corporation (OPIC)<sup>9</sup> to support private investment across the region.
- Provide up to \$1 billion in bilateral debt relief to Egypt, working with the Egyptian government to invest these resources to foster growth and entrepreneurship.
- Help Egypt regain capital market access by providing \$1 billion in U.S.-backed loan guarantees needed to finance infrastructure and job creation.
- Work with Congress to create enterprise funds to invest in Tunisia and Egypt, modeled after funds that supported the transitions in Eastern Europe after the fall of the Berlin Wall. Enterprise funds focus on making loans to, or investments in, small- and medium-sized (SME) businesses in the fund's host country that other financial institutions are reluctant to invest in.
- Refocus the European Bank for Reconstruction and Development (EBRD) so that it provides the same support for democratic transitions and economic modernization in the Middle East and North Africa as it does in Europe.
- Launch a comprehensive Trade and Investment Partnership Initiative in the Middle East, working with the European Union (EU), to facilitate more trade within the region; build on existing agreements to promote integration with U.S. and European markets; and open the door for countries who adopt high standards of reform and trade liberalization to construct a regional trade arrangement.

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<sup>9</sup> Increased OPIC funding for the MENA region is underway. In July 2011, OPIC committed \$500 million for small business lending in Egypt and Jordan as part of this initiative (\$250 million each). However, this project does not directly involve U.S. businesses. Instead, it provides guarantees for loans extended by local banks to local small- and medium-sized (SME) businesses, microfinance institutions, and similar institutions. USAID will provide grant funding and technical assistance to the initiative.

Recent Congressional action on aid to Egypt includes the following.

- On July 27, 2011, the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs marked up its FY2012 State-Foreign Operations appropriation, proposing that Egypt receive the full FY2012 request (\$1.551 billion), including \$1.3 billion in military aid, and that military aid should also be used for "border security programs and activities in the Sinai, with the expectation that the Egyptian military will continue to adhere to and implement its international obligations, particularly the Egypt-Israel Peace Treaty." Section 7042 of the draft bill also provides up to \$250 million in economic assistance to Egypt though it specifies these funds are not available until the Secretary of State certifies and reports to the Committees on Appropriations that the Government of Egypt is not controlled by a foreign terrorist organization or its affiliates or supporters, is implementing the Egypt-Israel Peace Treaty, and is taking steps to detect and destroy the smuggling network and tunnels between Egypt and the Gaza strip. The bill further states that no U.S. economic assistance in the bill may be used to "reduce, reschedule, or forgive the debt of the Government of Egypt to the United States Government unless authorized for such purposes."
- On July 21, the House Foreign Affairs Committee marked up H.R. 2583, the Foreign Relations Authorization Act, Fiscal Year 2012. Section 951 of the bill would prohibit U.S. security aid to Egypt unless the President certifies that "the Government of Egypt is not directly or indirectly controlled by a foreign terrorist organization, its affiliates or supporters, the Government of Egypt is fully implementing the Israel-Egypt Peace Treaty, and the Government of Egypt is detecting and destroying the smuggling network and tunnels between Egypt and the Gaza strip."
- On July 19, Senators Kerry, McCain, and Lieberman introduced S. 1388, the Middle East and North Africa Transition and Development Act. The bill finds, among other things, that the functions of the European Bank for Reconstruction and Development (EBRD) are consistent with the critical and rising economic needs of Egypt and the Middle East and North Africa. Overall, the bill would facilitate the EBRD's lending to the region should candidate countries meet certain criteria.
- Congress has introduced legislation in the House and the Senate to create enterprise funds in Egypt and Tunisia (H.R. 2237, S. 618). The House and Senate legislation have been referred to the relevant committees (House Committee on Foreign Affairs and Senate Committee on Foreign Relations). On March 17, 2011, the Senate Committee on Foreign Relations had a mark-up of S. 618, and on June 22, 2011, the bill was placed on the Senate calendar and became available for floor action.
- Section 2123 of P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, stipulates that no later than 45 days after the passage of the bill (the deadline was May 30), the Secretary of State shall submit a report to the Committees on Appropriations detailing whether a transparent, political transition is occurring in Egypt; whether laws restricting human rights have been abrogated; and whether legal and constitutional impediments to free and fair elections are being removed.

- H.R. 1514 would limit aid to Egypt unless it is honoring its commitments under the 1979 peace treaty.

**Table 2. U.S. Assistance to Egypt, FY2010-FY2012 Request**

(Regular and Supplemental Appropriations; Current Year \$ in millions)

Account	FY2010	FY2011	FY2012 Request
ESF	250.0	249.5	250.0
FMF	1,300.0 <sup>a</sup>	1,297.4	1,300.0
IMET	1.900	1.400	1.400
INCLE	1.000	1.000	.250
NADR	2.800	4.600	5.600
<b>Total</b>	<b>1,555.7</b>	<b>1,553.9</b>	<b>1,557.25</b>

Source: U.S. State Department

- a. Congress provided \$260 million of Egypt's total FY2010 FMF appropriation in P.L. 111-32, the FY2009 Supplemental Appropriations Act. The remaining \$1.04 billion was appropriated in P.L. 111-117, the FY2010 Consolidated Appropriations Act.

**Table 3. U.S. Foreign Assistance to Egypt**

(\$ in millions)

Fiscal Year	Economic	Military	IMET	Total
1948-1997	23,288.6	22,353.5	27.3	45,669.4
1998	815.0	1,300.0	1.0	2,116.0
1999	775.0	1,300.0	1.0	2,076.0
2000	727.3	1,300.0	1.0	2,028.3
2001	695.0	1,300.0	1.0	1,996.0
2002	655.0	1,300.0	1.0	1,956.0
2003	911.0	1,300.0	1.2	2,212.2
2004	571.6	1,292.3	1.4	1,865.3
2005	530.7	1,289.6	1.2	1,821.5
2006	490.0	1,287.0	1.2	1,778.2
2007	450.0	1,300.0	1.3	1,751.3
2008	411.6	1,289.4	1.2	1,702.2
2009	250.0	1,300.0	1.3	1,551.3
2010	250.0	1,300.0	1.9	1,551.9
2011	249.5	1,297.4	1.4	1,548.3
<b>Total</b>	<b>31,070.3</b>	<b>40,509.2</b>	<b>43.14</b>	<b>71,623.9</b>



Table 4. U.S. Foreign Assistance to Egypt, 1946-1997

(millions of dollars)

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWRA	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8
1972	1.5	—	—	—	—	1.5	—	—	—	—	—
1973	0.8	—	—	—	—	—	—	—	—	—	0.8
1974	21.3	—	—	—	—	—	—	—	8.5	9.5	3.3
1975	370.1	—	—	—	—	—	—	194.3	58.5	104.5	12.8
1976	464.3	—	—	—	—	—	5.4	150.0	102.8	201.7	4.4
TQ	552.5	—	—	—	—	—	—	429.0	107.8	14.6	1.1
1977	907.8	—	—	—	—	—	—	600.0	99.2	196.8	11.7
1978	943.2	—	—	0.2	0.1 Narc.	—	—	617.4	133.3	179.7	12.5
1979	2,588.5	1,500	—	0.4	—	—	—	250.0	585.0	230.7	22.4
1980	1,167.3	—	—	0.8	—	—	—	280.0	585.0	285.3	16.1
1981	1,681.2	550	—	0.8	—	—	—	70.0	759.0	272.5	28.9
1982	1,967.3	700	200.0	2.4	—	—	—	—	771.0	262.0	31.9
1983	2332.0	900	425.0	1.9	—	—	—	—	750.0	238.3	16.8

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1984	2,470.8	900	465.0	1.7	—	—	—	—	852.9	237.5	13.7
1985	2,468.7	—	1,175.0	1.7	—	—	—	—	1,065.1	213.8	13.2
1986	2,539.1	—	1,244.1	1.7	—	—	—	—	1,069.2	217.5	6.6
1987	2,317.0	—	1,300.0	1.8	—	—	—	—	819.7	191.7	3.9
1988	2,174.9	—	1,300.0	1.5	—	—	—	—	717.8	153.0	2.6
1989	2,269.6	—	1,300.0	1.5	—	—	1.5	—	815.0	150.5	1.2
1990	2,397.4	—	1,294.4	1.6	—	—	—	—	898.4	203.0	—
1991	2,300.2	—	1,300.0	1.9	—	—	—	—	780.8	165.0	52.5
1992	2,235.1	—	1,300.0	1.8	—	—	—	—	892.9	40.4	—
1993	2,052.9	—	1,300.0	1.8	—	—	—	—	747.0	—	4.1
1994	1,868.6	—	1,300.0	0.8	—	—	—	—	561.6	35.0	6.2
1995	2,414.5	—	1,300.0	1.0	—	—	0.2	—	1,113.3	—	—
1996	2,116.6	—	1,300.0	1.0	—	—	—	—	815.0	—	0.6
1997	2,116.0	—	1,300.0	1.0	—	—	—	—	815.0	—	—
<b>Total</b>	<b>45,669.4</b>	<b>4,550</b>	<b>17,803.5</b>	<b>27.3.0</b>	<b>11.2</b>	<b>80.7</b>	<b>82.8</b>	<b>2,620.7</b>	<b>15,923.8</b>	<b>4,114.3</b>	<b>455.1</b>

**Notes:** Totals may not add due to rounding. No U.S. aid programs for years 1947, 1949, 1950, 1968, 1969, 1970, and 1971. P.L. 480 II Grant for 1993 includes \$2.1 million in Sec. 416 food donations.

TQ = Transition Quarter; change from June to September fiscal year

\* = less than \$100,000

I.M.E.T. = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

D. A. = Development Assistance

ESF = Economic Support Funds

P.L. 480 I = Public Law 480 (Food for Peace), Title I Loan

P.L. 480 II = Public Law 480 (Food for Peace), Title II Grant

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