

Viewpoints
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The Uncertain Fate of U.S.-Egyptian Relations

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Ottaway, who has just visited Cairo, writes about the future U.S.-Egyptian relationship in light of the current political drift between the two countries and Egypt's ongoing economic crisis. Egypt's current attempt to secure a \$4.8 billion IMF loan requiring potential subsidy cuts to gasoline and cooking oil serve to complicate matters as ensuing price rises could trigger riots and provoke Egyptians to blame the United States.

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Cairo – The American Embassy here has taken on the likeness of a besieged fortress; its fate dangerously dependent now on unpredictable events here and elsewhere in the unsettled Middle East. Worse yet, both the Obama administration and the new Islamist-led Egyptian government have allowed a drift to set into this cornerstone relationship for both nations.

A foreboding air hangs over the embassy. Surrounding streets are closed off by 20-foot high walls of enormous cement blocks, and the road behind the compound is lined with armored personnel carriers filled with paramilitary police standing at the ready for trouble. Tahrir Square, ground zero of the 18-day uprising unseating President Hosni Mubarak in February 2011, lies but a few hundred yards away for anti-American protesters.

Egypt's Islamic militants have already invaded the embassy compound once, and supporters of one of their idols, Omar Abdel-Rahman, hold periodic protests just down the street where a portrait of the blind sheik hangs on permanent display. He is serving a life sentence in a North Carolina prison for his role in the 1993 World Trade Center bombing.

Egyptian security officials have warned U.S. authorities they are uncertain they can protect the embassy from possible massive street protests if Israel, or the United States, attacks Iran's nuclear facilities. Of far more immediate concern, however, are pending cuts in gasoline and cooking fuel subsidies to obtain a \$4.8 billion loan from the Washington-based International Monetary Fund (IMF).

Attempts by previous governments over the past three decades to reduce energy and foods subsidies have provoked bloody riots and been abandoned. Cuts now in the midst of gasoline and cooking gas shortages risk bringing anti-American Islamists and secular leftists alike back to Tahrir Square and on to the nearby U.S. Embassy.

An IMF delegation arrived in Cairo on October 30 as the privately-owned Cairo newspaper al-Masry al-Youm reported a potential \$1 billion in combined financial support from the Obama administration and European Union would not be forthcoming unless Egypt reaches an IMF agreement.

Cairo is hardly Tehran of November 1979 when student zealots of Iran's Islamic revolution took 52 American diplomats hostage for 444 days, making bitter enemies of the two countries ever since. Still, there are disturbing signs the same downward spiral could set in, with a U.S. Embassy again at the center of the drama.

Unease and frustration are mounting in both Cairo and Washington at the actions, or inactions, of the other. Yet, both now know how vulnerable the relationship can be to unexpected events

after the attack by militant Islamists on the U.S. Embassy on September 11. They were protesting an amateurish film being produced in California mocking the Prophet Mohammed.

Egyptian security forces at first did nothing to stop even a handful of protesters from climbing the wall of the embassy and replacing the U.S. flag with their own black banner. Fortunately, no shots were fired and no Egyptians were injured on embassy grounds, thanks to the cool handling of the intruders by U.S. Ambassador Anne Patterson.

But after President Mohamed Morsi took 27 hours even to condemn the attack, President Obama declared he was no longer sure Egypt qualified as an “ally,” notwithstanding its official standing as a “major non-NATO ally” since 1989.

These events, combined with the crackdown on U.S. democracy-promotion groups earlier this year, have put to the test like nothing before the U.S.-Egyptian partnership upon which the 1979 Egyptian-Israeli Peace Treaty was built. Since 1948, Washington has sunk \$72 billion in bilateral foreign aid into Egypt, which has ranked as the second largest recipient after Israel since 1979, according to the Congressional Research Service. Military aid alone has stood at \$1.3 billion annually, and the two countries are co-producing 1,200 Abrams battle tanks in Egyptian factories.

On the Egyptian side, the failure so far of the Obama administration to deliver on any of its much-touted promises of up to \$2 billion in financial and economic aid to show support for Egypt’s difficult transition to democracy has civilian and military officials alike deeply worried. They sense a distinct drift in the decades-old relationship made worse by the distraction of the U.S. presidential election.

Adding to this malaise are Morsi’s own efforts in his first few months in office to reach out to China and other potential partners in search of what one of his foreign policy advisers, Amr Darrag, describes as a new “balanced relationship” with Washington “without going through Israel.” Morsi may finally make his first visit to Washington in December, provided Obama is re-elected.

Noha Bakr, the Egyptian in charge of U.S. economic aid at the Ministry for International Cooperation, expressed her exasperation after receiving multiple U.S. delegations over the past year. Each had come, she said, with ever-changing proposals for debt swaps, loan guarantees, enterprise funds, training programs, and, most recently, a \$450 million cash transfer for budgetary support.

None of them has gotten off the ground 21 months after Mubarak’s departure.

Bakr said there had been “an atmosphere of disengagement” by the Obama administration ever since Egypt’s crackdown last December on unregistered U.S. non-governmental organizations (NGOs), including the Democratic Party-affiliated National Democratic Institute and the Republicans’ International Republican Institute. The crackdown led to months of tensions and

calls from Congress for a suspension of part, or all, of the \$1.5 billion in the annual U.S. military and economic aid program.

Subsequently, 43 foreigners and Egyptians were charged with illegal activities, 16 of them Americans. Several of the latter, including the son of U.S. Secretary of Transportation Ray LaHood, took refuge in the embassy until the U.S. government paid \$330,000 for each of the seven American still in the country for bail and arranged for six of them to leave Egypt. The fate of the others, mostly Egyptian employees, remains in suspense as their trial is repeatedly postponed.

Meanwhile, the Obama administration's latest offer to provide \$450 million was blocked in late September by a single congresswoman, Texas Republican Kay Granger, head of the State and Foreign Operations Subcommittee within the House Appropriations Committee. She declared herself "not convinced of the urgent need for this assistance" even as President Morsi was touring world capitals begging for \$10 billion to re-launch Egypt's protest-battered economy and help plug a budget deficit nearing \$28 billion.

So far, Egypt has obtained \$2 billion in loans and aid from Qatar; \$1.5 billion in bank deposits out of a promised \$3.75 billion from Saudi Arabia; half of a \$2 billion soft loan pledge from Turkey; and \$3 billion in undisbursed project assistance from the United Arab Emirates.

But the key to obtaining other loans, plus attracting foreign investment, remains the IMF loan. The European Union has promised \$640 million in financial budgetary support if and when Egypt reaches agreement with the IMF, the same condition the Obama administration has placed on its \$450 million cash transfer.

The IMF has been waiting to hear from Morsi's government its plan for reducing expenditures, which must include substantial cuts in food and energy subsidies now consuming 30 percent of this year's budget.

In the past, cutting subsidies has proven so politically dangerous that both former presidents Anwar Sadat and Hosni Mubarak backed down. The 1977 nationwide "bread riots" that resulted in 800 deaths traumatized Egypt and have never been forgotten. Instigated under pressure from the IMF, the cuts included the pita-shaped *baladi* bread that costs less than a U.S. penny and remains the staple of the poor to this day. Within 48 hours, Sadat canceled the cuts. Mubarak repeatedly toyed with trimming subsidies, but never found the courage to do it.

Morsi's government, led by Prime Minister Hisham Qandil, has already floated a plan targeting as a first step energy and electricity subsidies, while carefully leaving untouched the sacrosanct *baladi* bread. His goal is to save the government about \$6 billion by increasing prices for car fuels and cooking gas while still keeping some subsidies on both.

In the case of cars, this would be done by issuing coupons to the country's 10 million owners allowing them to purchase 1,800 liters of low-octane gasoline a year at the current subsidized

rate. But they would then pay far higher prices for higher octane gasoline. Similarly, all Egyptians would still be able to purchase two canisters of cooking gas a month at a highly subsidized rate, but have to pay more for additional ones.

Still, the prospects for trouble in the streets remain high. There are already shortages of both gasoline and cooking gas canisters causing long lines at stations and a thriving black market for higher-cost cooking gas canisters. The government has already backed down in the face of merchant opposition in its announced plan to close down shops by 10 p.m. and restaurants by midnight to save on electricity costs.

Either leftist secular groups, which are strong supporters of Egypt's social welfare state, or Islamic militants demanding social justice for the poor could seek to stir up trouble for Morsi and his government. Egyptian society is already highly polarized between Islamists and secularists over the writing of a new constitution and elections for a new Parliament early next year. The only question is whether they will decide to blame the United States as well as Morsi for cutting subsidies and march on the U.S. Embassy.



The opinions expressed herein are those of the author and do not reflect those of the Woodrow Wilson Center.

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