An Economic Explanation for Egypt's Alignment in the GCC Crisis

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August 9, 2017

Arab Center Washington DC
المركز العربي واشنطن دي سي

It was expected that Egypt would join Saudi Arabia, the United Arab Emirates, and Bahrain in castigating Qatar for purportedly supporting extremist and terrorist organizations, and then to cut off diplomatic relations with Doha. The Egyptian leadership missed no opportunity, since Abdel Fattah el-Sisi's coup of 2013, to agitate against Qatar, which had been the chief supporter of Sisi's predecessor, the Muslim Brotherhood's Mohamed Morsi. To President Sisi and his cohorts, the Al Jazeera television network was an agent of sedition and conspiracy whose mission was to destabilize Egypt and spread doom and gloom about his rule. The thaw that ended Qatar's crisis with its current antagonists in the Gulf Cooperation Council in 2014 did not help warm Egyptian-Qatari relations; and the interregnum since then only added elements of discord that justified, for Cairo, a rather hostile approach to Doha's leaders.

This year, and during the American-Islamic Summit in Riyadh, Saudi Arabia, President Sisi upbraided "some countries which are involved in supporting and financing terrorist organizations and providing safe havens for them"—which was understood to include Qatar. An anonymous Egyptian foreign ministry official told *al-Monitor* that "Egyptian diplomacy sees the strict Gulf stance against Qatar this time in its favor," and that it has been working "over the past four years to obtain a strong Gulf position against Qatar's policies." Whether Sisi's claims about Qatar's or his government's unsubstantiated boasts are true, Egypt seems to have chosen what is likely to be a long-term and fateful alignment with the Gulf countries. The choice, however, leaves it vulnerable more than ever before to uncontrollable factors that may one day prove detrimental to its regional and international standing.

Specifically, Egypt's extended reliance on Saudi Arabia and the UAE for its economic stability may make it endlessly beholden to them and thus unable to chart a different foreign policy course. It is doubtful that Egypt's position regarding the current GCC crisis would be any different given developments since July 2013, when Egyptian military officers ousted Morsi, the former president. But Egypt's ability to maneuver independently during and after the current crisis may have become too circumscribed given the level of financial assistance of Saudi Arabia and the UAE to the Sisi regime. Foreign policy has long been a tool to assure the survival of regimes, so President Sisi's survival may hinge on his adaptability to circumstances governed by intra-GCC conditions that are beyond his control.

Egypt's Uncertain Economics

With a population of over 95 million, Egypt has progressively become hostage to outside assistance to nurse its weak and dependent economy. According to Trading Economics, Egypt's GDP annual growth rate was 3.4 percent in September 2016, down from 4.5 percent the previous July. It had an unemployment rate of 12 percent in March 2017 and inflation soared to almost 30 percent this past June. Egypt's current account deficit hit

$3.5 billion in March, while its external debt topped $67 billion last December. Its foreign exchange reserve witnessed a dangerous dive in July 2016 when it dipped to a mere $15.5 billion, though it currently shows improvement at around $31 billion.

Hardest hit of Egypt's economic sectors has been tourism, the major producer of hard currency for the country. The victim of slow economic growth since the failed revolution of 2011, tourism has also suffered from the rise and resilience of extremist activity in the Sinai Peninsula and the Egyptian mainland. Seminal events over the last two years were the downing of a Russian airliner over Sinai in November 2015, in which 224 persons died, and other attacks on Coptic Christians in Cairo, Alexandria, Asyut, and other places. Today, Egypt is facing an active insurgency involving myriad groups, especially the so-called Islamic State, which has occupied the resources of security forces. While experts point to a possible good year in 2017, statistics for 2016 showed a serious decline in the number of tourists visiting the country, from 14.7 million to 5.4 million visitors. This directly impacts tourism revenues and employment as the country reels from slow economic activities in other sectors.

To arrest its economic slide, in November 2016 Egypt negotiated a $12 billion loan from the International Monetary Fund and received a first tranche of $2.75 billion, but only after it instituted a drastic austerity program to boost investor confidence. (It also secured some $6 billion in outside financing.) The same month, the Egyptian government also floated the currency to halt the slide in foreign exchange reserves (the exchange rate now stands at 18 pounds to the dollar) and severely slashed fuel subsidies. In June 2017, the government further reduced these subsidies and in fact increased fuel and gas prices by an average 55 percent, affecting the agricultural and industrial sectors. With 71 million Egyptians dependent on ration cards to obtain basic necessities, President Sisi declared an increase in rations—but that was followed two days later by a large increase in the prices of sugar and cooking oil, main staples for average Egyptians.

While meant to boost business and international confidence in the government's ability to control the economy, the austerity program generated an unwelcome public response. The Egyptian government clearly lacks the means necessary to right the country's economic ship. As former presidential candidate and moderate Islamist Abdelmoneim Aboul Fotouh poignantly observed, the "current stability is stability on the tip of a volcano that is on the verge of an explosion." This will likely lead to chaos in Egypt, the region, and the west. Indeed, the 3.9 percent annual growth expected in 2017 is not enough to "jumpstart an economy and reduce unemployment," a negative prospect that does not augur well for the future stability of the country.

Saudi Arabian Assistance

The infusion of IMF financing is insufficient although welcome. It is no cynical coincidence that Egypt is very much indebted to Saudi

Arabia and the UAE, its main benefactors since the ouster of Morsi in 2013. Estimates put Saudi grants, loans, and investments in the Egyptian economy at $25 billion since 2014. The Saudi-Egyptian Business Council is actually planning an increase to $51 billion in Saudi investments in agriculture, industry, tourism, energy, real estate, and the Suez Canal Development Project. Saudi investments are also distributed in various areas of Egypt and will include agricultural, industrial, electricity production, and real estate projects, even a bridge connecting the two countries over the Red Sea. There also are investments by private entrepreneurs, such as that recently announced by Saudi billionaire Alwaleed bin Talal, who intends to spend $800 million to build hotels around the country. Furthermore, over 2 million Egyptians work and live in the Kingdom; in 2015, one million expatriate Egyptians there remitted $7.57 billion to their home country.

In addition to making Cairo beholden to Riyadh, Saudi largesse may also come with a hefty price. In April 2016, President Sisi announced that he signed an agreement with visiting Saudi King Salman bin Abdulaziz to transfer two strategically located islands at the mouth of the Gulf of Aqaba––Tiran and Sanafir––to the Kingdom. Saudi Arabia is said to have given Egypt temporary sovereignty over the islands in the early 1950s. Sisi's announcement resulted in a public backlash and protests, and a court in January 2017 ordered a delay in the transfer, until a higher court this past June overturned the lower court and allowed for the issue to be debated in parliament. But a pliant parliament finally issued a law allowing for the transfer. President Sisi immediately signed the legislation.

The back-and-forth about Tiran and Sanafir threatened to seriously derail warm Saudi Arabian-Egyptian relations in addition to, reportedly, 24 different economic agreements signed during King Salman's visit. Together with an Egyptian vote to support a Russian resolution about Aleppo at the UN Security Council in October 2016––a vote that resulted in cutting discounted Saudi oil shipments to Egypt—and other moves by Cairo anathema to Riyadh's anti-Iranian stance, the dispute could have meant a dangerous divorce, especially that it was accompanied by a vitriolic media campaign and protests in Egypt.

Assistance from the UAE

The United Arab Emirates has also provided desperately needed funds to Egypt. Immediately following the July 2013 coup, the UAE gave Egypt $3 billion, $1 billion of which was a grant and the rest was in "the form of an interest-free deposit with Egypt's central bank." In April 2016, it again provided Egypt with $4 billion, half in investment and half to support the central bank's cash reserves. At an Egyptian investment conference in Sharm al-Sheikh in March 2015, the UAE pledged one third of a $12 billion package, with Saudi Arabia and Kuwait also pledging $4 billion each (Oman pledged $500 million over five years) to help steady Egypt's economy. Additionally, the UAE is the largest foreign investor in Egypt with a $6.2 billion portfolio, especially in real estate development. A sizable Egyptian community of 935,000 thrives in the UAE, forming the second largest group of foreign guest workers and their families in the country. In 2015, they remitted $1.83 billion to Egypt.

More UAE investment opportunities are being discussed between Emirati and Egyptian officials. There are future UAE investments in the new Egyptian administrative capital project, the venture to build a new El Alamein city on the Mediterranean coast, and other schemes in Cairo and south Sinai. The UAE is even partnering with the state-owned Russian Direct Investment Fund to co-invest in joint projects in developing countries, including Egyptian "agriculture, nuclear power, hydro electricity and other energy projects" with a potential of $110 billion of investments. The UAE and Egypt are also looking for alternatives to Qatari liquified natural gas supplies which might be affected by sanctions they themselves have imposed on Doha. The latter has not indicated that it will change its previous contractual agreements on its gas exports.

Beside economic relations, Egypt and the UAE have coordinated their efforts regarding prosecuting a campaign against the Muslim Brotherhood and influencing developments in Libya. Both countries (as well as Saudi Arabia) consider the brotherhood a terrorist group, on par with the so-called Islamic State and al-Qaeda. In fact, the Muslim Brotherhood is arguably the most serious issue at the heart of the current anti-Qatar campaign. As for Libya, both countries have become involved in supporting General Khalifa Haftar, commander of the Libyan National Army in eastern Libya, who has pledged to eradicate Islamist parties and affiliated militias from the country. But what may negatively affect their economic relationship are disputes arising from ongoing business dealings such as that last February when the UAE's Dana Gas company threatened to halt all investment in Egypt because of debt non-payments.

Qatar's Forgotten Aid

The treatment of Qatari assistance to Egypt in the post-2011 revolution has arguably dovetailed with Egyptian political developments following the collapse of the Hosni Mubarak regime. During the initial period of uncertainty, when the Egyptian Supreme Council of the Armed Forces (SCAF) was in actual control of the country, Egypt's economy experienced wrenching chaos as the country's reserves dropped precipitously from $36 billion $13 billion. But after the election of the Muslim Brotherhood's leader, Mohamed Morsi, as president in June 2012, Qatar pledged to invest $18 billion over five years in Egypt's tourism (to build a $10 billion "giant tourist resort on the Mediterranean coast") and industrial projects ($8 billion in "gas, power and iron and steel plants"). Despite the apparent chaos that dominated Morsi's rule and the Islamists' haphazard handling of the Egyptian economy, Qatar pledged an additional $3 billion in April 2013 as Cairo was seeking a loan for $4.8 billion from the International Monetary Fund. All in all, Qatar is reported to have invested a total of $7.5 billion during Morsi's one year of rule.

But relations between Egypt and Qatar began to sour after the coup against Morsi in July 2013. Egypt returned to Qatar a $2 billion tranche of a $3 billion loan Doha invested to buy three-year bonds in Cairo. Whatever remains of Qatari investments in Egypt––since the days of the Mubarak presidency––remains safely invested in different economic activities. Egypt's Minister of Investment Sahar Nasr intimated as much when she announced recently that Qatari investments are protected by Egyptian law. What, however, is unfortunate are the impediments to more investments as Egypt continues to participate in blockading Qatar and severing diplomatic, economic, and social ties with Doha. Importantly, estimates put the number of Egyptians in Qatar at about 300,000. In 2015, they remitted $1.05 billion to Egypt.

Whither Egypt's Foreign Policy?

It is true that foreign policy is domestic policy by other means, since it tries to manage external relations in a manner conducive to regime survival. But it is equally true that domestic legitimacy is aided by conducting a foreign policy that is as independent as possible; otherwise, the regime loses its freedom of action and becomes a vehicle for the realization of other states' objectives. The corollary, thus, becomes imperative: the impact of a country's foreign policy may be contained, at least partially, by changing the domestic conditions under which the country's government operates.

In Egypt's case, the country's economic malaise and possible collapse have indeed made it susceptible to being swayed by more powerful economic actors in the Arabian Gulf, specifically Saudi Arabia and the UAE. But this reliance on external economic assistance has come at a high price to its foreign policy and its standing in the Middle East. This is not to say that Cairo's loathing of the Muslim Brotherhood and its supporters in Doha, and fear of Al Jazeera's exposure of the Egyptian regime's iniquities following the anti-brotherhood coup of 2013, were only incidental. Indeed, these factors may have helped drive the formation of Egypt's alliance in the current GCC crisis. But what is to be answered by Cairo as it faces the myriad challenges of the future––be they economic or political––is a series of questions about the degree of independence its foreign policy enjoys.