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Challenges in 2023: Strategic
realignments amidst debt and
human rights concerns

Analysis Paper, No.2
April 2023



INSTITUTE of STUDIES
for POLITICS and DEMOCRACY


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Cover picture : Al-Sisi and the IMF Managing Director discuss bilateral partnership following loan agreement,
Source: Daily News Egypt

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Egypt's Economic and Political Challenges in 2023: Strategic realignments amidst debt and human rights concerns

Executive summary

In 2022, Egypt suffered from the need for hot money to inject into the economy, water shortages and the inability to supply basic foodstuffs to its growing population, and the deterioration of international economic conditions caused by the war in Ukraine. A major thorn in the side of the Abdel Fattah al-Sisi government is the terms of the IMF loan agreement, which foresees a free float of the Egyptian pound and a reduction of state property and state participation in enterprises. The former brings a rise in inflation in an already very poor society, while the latter brings a reaction from the army to the privatisation of the companies it controls. Thus, Egypt seeks economic support, from Saudi Arabia and the Emirates on the one hand, and China on the other. But despite the latter's significant investments in Egypt, the economic situation after COVID-19 and the looming economic war between Beijing and Washington raises some reservations about strengthening these investments. At the same time Egypt seems to be distancing itself from the East Mediterranean (EastMed) Pipeline Project – despite its participation with Israel, Greece, Cyprus in the East Mediterranean Gas Forum – preferring instead a pipeline that would connect Israeli with Egyptian fields and Egyptian liquefied gas stations.

The situation of human rights and democratic freedoms in the country is far from satisfactory. There is virtually no opposition, and according to numerous human rights groups approximately 60,000 political prisoners are in prisons and camps. The government is trying to derive legitimacy from controlling Islamic institutions and by promoting a national dialogue without however significant results. The political regime does not face serious risks of instability. The main force of social opposition, the Muslim Brotherhood, has been dealt a crushing blow by the constant state repression and has also lost political influence among the broader population because of the way it has governed in the Morsi period. On the other hand, there is no movement or personality in the non-Islamist opposition that is threatening the regime, mainly because of the harsh authoritarian grip. The only threat to the regime would be a popular uprising due to the rapid rise in the price of bread.

" In 2022, Egypt suffered from the need for hot money to inject into the economy, water shortages and the inability to supply basic foodstuffs to its growing population, and the deterioration of international economic conditions caused by the war in Ukraine"

Since the early 2010s, Egypt has lost its leading role in the Middle East despite the fact that it remains the most populous country in the region with a very strong military power, a strong diplomatic tradition and a key geopolitical position. The three main focus areas of the Egyptian foreign policy are: its relationship with the US and alternative partnerships with Russia and China; its place in the new Israel-Saudi Arabia-Emirates axis; and thirdly, the dangers deriving from Libya, the Gaza Strip, and Ethiopia.

Very important for the formation of strategic alternative alliances is the strong feeling in Cairo and in other Middle Eastern capitals that the Americans are in the process of "withdrawing" from the region or at least rapidly reducing their military footprint. What is missing in the current Egyptian position in the regional balance, however, is a grand strategy for the major problems in the region.

Economy

Egypt's foreign debt has jumped from \$37 billion in 2010 to \$158 billion in March 2022 and analysts estimate it has reached \$190 billion by the end of 2022. [1] To address its hot money needs and to service older loans, the country has signed a series of 11 loans with the IMF as early as 2016. The situation has been exacerbated by the withdrawal of 20 billion USD in foreign funds due to the international insecurity created by the conflict in Ukraine. With the conclusion of the new IMF loan of 3 billion October 2022, Egypt became the second country with the highest IMF lending after Argentina.

The conclusion of these loans requires the implementation of several structural changes as dictated by the IMF. First, it requires the free floating of the Egyptian currency on the market. This has led to the biggest fall in the pound's exchange rate against the dollar in recent decades and a sharp rise in the prices of essential goods. The increase in inflation to 19.2% from 6% in 2021 has a very serious impact on society when 60% of the population is poor and vulnerable.

The situation is exacerbated by water scarcity, poor management of water resources and agricultural land, and the war in Ukraine. Furthermore, the rising sea levels and warming due to climate change are also affecting agricultural production. Indeed, in 2020, high temperatures had reduced Egyptian agricultural production by half and olive oil production by 80%. [2] The agricultural situation is worsened by desertification and the destruction of agricultural land for the construction of massive housing projects. The country's water resources cannot meet the needs of the ever-increasing population which nears 110 million. The al-Sisi government attributes many of the social problems to overpopulation and has promoted the slogan "two [children] is enough" in order to reduce the birth rate without, however, much effect.

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Their economic conditions and the associated social impact was significant even before the war in Ukraine. Indicatively, bread prices were the highest in the last decade. It must be noted that Egypt imports 40% of the food it consumes, making it one of the most food import-dependent countries in the world. It is the world's largest importer of wheat with Ukraine and Russia accounting for 80% of these imports as well as 73% of sunflower oil. With the start of the war the price of bread in the Cairo market rose by 50%.[3] It should also be noted that bread consumption in Egypt is twice the world's average, amounting to 150 kilos against 70 kilos which is the global average. This makes subsidising the price of bread an inviolable condition for maintaining social and political stability and the survival of the regime itself.[4] As more than 80% of the population is entitled to subsidised bread, the cost to the Egyptian budget amounts to USD 3,3 billion, the same as the last IMF loan. The same applies to the various cooking oils (mainly sunflower oil) which are included in the subsidised foodstuffs. For these reasons, and despite US pressure, al-Sisi refused to allow Egypt to join the embargo against Russia, since the shortage of grain and its rising price could create an extremely dangerous for the regime social explosion.

The other major thorn in the side of the Sisi government is the condition of the IMF loan agreement that foresees the reduction of state assets and state participation in enterprises. The Egyptian state must completely withdraw from 79 sectors of the economy, reduce its participation in another 45 sectors, and redirect state investment to others. The initial impression was that the term "state property" did not include enterprises owned by the army or army funds. It became immediately clear, however, that the Loan Treaty included all entities and sectors directly linked to the state. [5]

This means that several privileged and tax exemptions enjoyed by military-owned businesses will have to be abolished. The military directly or indirectly controls more than 60 companies operating in 19 out of 24 productive sectors of the economy. The National Service Projects Organisation alone, which is controlled by the Ministry of Defense, controls more than 30 companies in the construction, mining, raw materials, food, and petrochemicals sectors. [6]

The government's attempt to privatise these companies by listing them in the stock exchange has been repeatedly postponed due to resistance from both the military and the intelligence services, despite the interest shown by Emirati investors. The military's opposition to the privatisation of its businesses and land holdings could be an important factor in causing fissures within the regime at a time volatility in the international system.

[1] Gbadanosi, N. (2022). "Egypt's Economy Is Spiraling," Foreign Policy, November 2,

<https://foreignpolicy.com/2022/11/02/egypt-economy-sisi-imf-cop-27-united-nations-climate/> (assessed 28/1/2023).

[2] Smith, A. (2022). "Rising bread prices, waterscarcity and a climate crisis, Egypt is on the brink", Middle East Monitor, March 30, <https://www.middleeastmonitor.com/20220330-rising-bread-prices-water-scarcity-and-a-climate-crisis-egypt-is-on-the-brink/> (assessed 28/1/2023).

[3] Stevenson, T. (2022). "Not War Alone", London Review of Books, 44(9), May 12, [https://www.lrb.co.uk/the-paper/v44/n09/tom-stevenson/not-war-alone?](https://www.lrb.co.uk/the-paper/v44/n09/tom-stevenson/not-war-alone?utm_medium=email&utm_campaign=20220514icymi&utm_content=20220514icymi+CID_17ee3c32dc57cdb34a80adceec8d9ab0&utm_source=%E2%80%A6)

[utm_medium=email&utm_campaign=20220514icymi&utm_content=20220514icymi+CID_17ee3c32dc57cdb34a80adceec8d9ab0&utm_source=%E2%80%A6](https://www.lrb.co.uk/the-paper/v44/n09/tom-stevenson/not-war-alone?utm_medium=email&utm_campaign=20220514icymi&utm_content=20220514icymi+CID_17ee3c32dc57cdb34a80adceec8d9ab0&utm_source=%E2%80%A6) (assessed 28/1/2023).

Saudi Arabia and the Emirates have been the main economic supporters of the Sisi regime, especially after the Muslim Brotherhood was overthrown. The influx of petrodollars from these two powers was then almost exclusively geopolitically and ideologically motivated. They wanted the defeat of the Muslim Brotherhood in the region and the containment of Turkey, which sought and continues to seek a hegemonic role in the Middle East and the Eastern Mediterranean. In 2022 things seem to be changing as the Emirates and especially Saudi Arabia want foremost profitable investments in Egypt and their main purpose is the control of large enterprises owned by the Egyptian military.

China is another very important source of investment for Egypt – and so is Turkey – as they are key targets for Chinese investment in the Eastern Mediterranean. Indeed, Egypt is considered a very important hub for the Belt and Road Initiative and the expansion of Chinese economic influence in Africa. In the period 2006-2020 Egypt was the most important regional destination for Chinese investment in the Eastern Mediterranean with \$23 billion compared to \$15.3 billion for Turkey and \$12.7 billion for Israel (Crown Center, 2022). Chinese investments cover a wide range of sectors with energy and real estate being key. The Egyptian government is trying in every way to attract more Chinese capital, hence President Sisi's held six meetings with the Chinese leadership since 2014. China is also Egypt's fourth largest lender with about \$8 billion. After 2020 and developments in the post-COVID-19 economy, there is skepticism on the Chinese side about the continued increase in BRI-related spending as well as questions about Egypt's ability to repay its loans. However, it is not expected to drastically reduce its footprint in Egypt since it believes that an economic collapse in that country would also destabilize the Gulf countries and the impact to Chinese interests would be much greater.[7]



*Al-Sisi and the IMF
Managing Director
discuss bilateral
partnership following
loan agreement,
Source: Daily News
Egypt*

In the energy sector, Egypt is capitalising on the EU's need to replace Russia with other gas suppliers. The EU has reached an agreement with Egypt and Israel to buy liquefied gas, but this cannot in any case be a serious alternative source as it covers only 3% of the amount imported by the EU from Russia and 1% of its total consumption. In general, Egypt despite participating with Israel, Greece, Cyprus in the East Mediterranean Gas Forum has distanced itself from the East Mediterranean (EastMed) Pipeline Project, preferring a pipeline that will connect Israeli with Egyptian fields and Egyptian liquefied gas stations.[8]



Politics and Society

The al-Sisi government controls the Parliament as no real opposition force, Islamist or secular, has managed to elect candidates in the 2021 elections. The electoral system with its division into lists and constituencies made it impossible to elect candidates who did not belong to one of the pro-government parties. The security services, both the police and the huge network of the secret services strongly interfered in society shaping the outcome of the elections. [9]

The regime is particularly authoritarian in its treatment of criticism or the formation of a real opposition. According to the New York Times, there are 60,000 political prisoners, about half of all prisoners in Egyptian prisons. In fact, 4,000 of them are being held without trial. During Sisi's rule, 60 detention centres for dissidents have been set up with deplorable conditions and constant allegations of torture.[10] The government is trying to project a positive image by promoting the National Human Rights Strategy but, according to Amnesty International, Egyptian authorities have created this Strategy "as a shiny cover-up to their unrelenting violations of human rights, thinking they would fool the world ahead of COP27".[11]

[4] Abdou, M. (2022), "A Foreign Famine? Egypt's Food Crisis in the Wake of the Ukraine War", Egyptian Streets September 30, <https://egyptianstreets.com/2022/09/30/a-foreign-famine-egypts-food-crisis-in-the-wake-of-the-ukraine-war/> (assessed 28/1/2023).

[5] Sayigh, Y. (2023). "To Receive an IMF Loan, Egypt Pledges to End the Unique Status of Its Military Companies," Diwan, Carnegie Middle East Center, January 12, https://carnegie-mec.org/diwan/88785?utm_source=rssemail&utm_medium=email&mkt_tok=ODEzLVhZVS00MjIAAAGJX4Dv7WvXGeUtjE-2qNb%E2%80%A6 (assessed 28/1/2023).

[6] "Egypt to list army-owned companies on stock exchange," Middle East Monitor, May 4, 2022, <https://www.al-monitor.com/originals/2022/05/egypt-list-army-owned-companies-stock-exchange> (assessed 28/1/2023).

[7] McGregor, G. (2022). "China emerges as lead funder for Egypt's new administrative city", Middle East Monitor, December 20, <https://www.al-monitor.com/originals/2022/12/china-emerges-lead-funder-egypts-new-administrative-city> (assessed 28/1/2023).

[8] Badarin, E. & Schumacher T. (2022). "The Eastern Mediterranean Energy Bonanza: A Piece in the Regional and Global Geopolitical Puzzle, and the Role of the European Union", Comparative South Eastern European Studies, 70(3), <https://doi.org/10.1515/soeu-2022-0036> (assessed 28/1/2023).

[9] Tarek, I. (2021). "How Egypt Managed the 2020 Legislative Elections," Egyptian Institute of Studies, October 21, <https://eipss-eg.org/> (assessed 28/1/2023).

"The al-Sisi government controls the Parliament as no real opposition force, Islamist or secular, has managed to elect candidates in the 2021 elections."

To strengthen its legitimacy, the government and President Sisi personally is trying to project the image of a reformer of the interpretation of the Islamic sacred tradition in order to combat extremism and religious violence. Based on this policy, the government has sought to bring under its control the two main religious institutions, the Islamic Al-Azhar University and Dar el-Ifta' an organization responsible for the official interpretation of religious rules and the issuance of fetwa concerning and regulating many aspects of daily life. Despite this effort, the government's religious and political legitimacy does not seem to be increasing. Instead, increasingly more Egyptians are turning to other sources for interpretation of sacred rules and related guidance. Indicatively, in 2020, about 66% of Egyptians searched Google for religious encyclicals and interpretations.[12] The regime has also proceeded to build or reconstruct over 9,800 mosques creating a backlash especially among young people as at the same time there are very serious infrastructure shortages in health and education. [13]

Despite these problems, the political regime does not face serious risks of political instability. The main force of social opposition, the Muslim Brotherhood, has been dealt a crushing blow by the constant state repression and has also lost political influence among the broader population because of the way it has governed in the Morsi period. On the other hand, there is no movement or personality in the non-Islamist opposition that is threatening to the regime mainly because of the harsh authoritarian grip. The only threat to the regime would be a popular uprising due to the rapid rise in the price of bread. A poll in late 2022 showed that over 65% of the population believed that they will face difficulties in accessing basic food items in the next six months. [14]

Foreign policy - Regional balance of power

The war in Ukraine plays a catalytic role in the way Middle Eastern leaders perceive global and regional balances. They have come to understand that the region needs a different security architecture based less on the superpower and more on regional powers. More importantly, alternative and competing frameworks for shaping international society are being established.



*The European Union signs a memorandum of understanding with Egypt and Israel to increase gas supplies to the 27-member bloc in view of Russia's invasion of Ukraine
Source: AL-Monitor/Khaled Desouki*

Until the first decade of the twenty-first century, the undisputed model for the formation of international society was the Western model. The international community was identified with the USA, Canada, the European Union, Britain, Australia and New Zealand. Recently the Indian Foreign Minister has questioned the West's right and ability to identify the important issues in international politics, and China has for the past decade or so openly challenged the Western (implicit and explicit) normative framework. Countries in the region such as Turkey, Saudi Arabia and Egypt feel comfortable joining this wave of revision of the international normative framework.

Since the early 2010s, Egypt has lost its leading role in the Middle East even though it remains the most populous country in the Middle East with a very strong military power, a strong diplomatic tradition and a key geopolitical position. The three main issues of Egyptian foreign policy are: its relationship with the US and alternative partnerships with Russia and China; its place in the new Israel-Saudi Arabia-Emirates axis; and thirdly, the dangers of Libya, the Gaza Strip and Ethiopia.

The relationship between the military and political elite currently ruling the country and the US has been dealt a major blow by Washington's attitude during the Arab Spring and the indirect pressure it exerted for the collapse of the Mubarak regime. The suspicion created by that period is reinforced by congressional criticism of the regime's human rights abuses and its conditions for aid to Egypt. In early 2022, the Biden administration decided to suspend some aid to Egypt but eventually moved forward with a \$2.5 billion arms deal. US financial and military aid to Egypt remains second only to that to Israel.

Both Washington and the major European capitals are resolving the dilemma between stability and democracy by choosing the former. They believe that a collapse of the al-Sisi regime would create chaos in the region and turn Egypt into a safe haven for jihadist organisations. European countries such as Germany have significant economic interests in Egypt and, more importantly, see this country as a crucial and hitherto effective "buffer" for migration from Africa and the Middle East.[15] Very important for the formation of strategic alternative alliances is the strong feeling in Cairo and in other Middle Eastern capitals that the Americans are in the process of "withdrawing" from the region or at least rapidly reducing their military footprint. The image of Russia as a solvent stabilizer is strong in Egypt. The Russian presence in Libya has prevented Islamists from dominating that country. A series of military cooperation agreements including joint exercises and an agreement for Russian assistance in the construction of an Egyptian nuclear reactor have forged close bilateral relations.

[10] Yee, V. (2022), 'A 'Slow Death': Egypt's Political Prisoners Recount Horrifi c Conditions', New York Times, August 8, <https://www.nytimes.com/2022/08/08/world/middleeast/egypts-prisons-conditions.html> (assessed 28/1/2023).

[11] Amnesty International (2022). "Egypt: human rights crisis deepens one year after national human rights strategy launched", September 25, <https://www.amnesty.org/en/latest/news/2022/09/egypt-human-rights-crisis-deepens-one-year-after-national-human-rights-strategy-launched/> (assessed 28/1/2023).

[12] Al-Anani, Kh. (2022). "Sisi's Appropriation of Islam Undermines Egypt's Religious Soft Power," Berkley Forum, April 5, <https://berkeleycenter.georgetown.edu/posts/sisi-s-appropriation-of-islam-undermines-egypt-s-religious-soft-power> (assessed 28/1/2023).

[13] "Cairo: Al-Sisi supports building mosques, butforgets schools and hospitals," AsiaNews, January 18, 2023, <https://www.asianews.it/index.php?l=en&idn=1&art=57548&mag=visualizzaperlastampa> (assessed 1/28/2023).

[14] "Al-Monitor/Premise poll: Majority in Egypt, Turkey and Tunisia on edge over food access," Al-Monitor, January 18, 2023, https://www.al-monitor.com/originals/2023/01/al-monitorpremise-poll-majority-egypt-turkey-and-tunisia-edge-over-food-access?utm_medium=em (assessed 1/28/2023).

Egypt is extremely sensitive to the situation in Libya as it rightly considers it a major national security issue. An Islamist political domination of this country or its transformation into a base for jihadist organisations brings back to the memory of the Egyptian leadership the nightmare of the jihadists in Sinai after 2014 or even the low-density civil war in Upper Egypt in the 1990s. The Sisi regime chose at first to openly support Khalifa Haftar and the Libyan National Army (LNA) over the Government of National Accord (GNA) controlled by Islamists and Turkey. In the course of the events, Egypt is trying to play the role of honest broker in order to ensure relative calm in Libya on the one hand, and on the other hand to secure a commitment from all parties to deter jihadist organisations. In this context, Egypt believes that Libya's Presidential Council and its head Mohammad Younes Menfi can play a key role in effectively bridging the differences between the two main warring sides and between local groupings. [16]

Of great concern in Egypt is the GERD project, a set of dams, hydroelectric and irrigation projects that Ethiopia has started to build, in agreement with neighbouring countries such as Kenya, Tanzania, Uganda and Rwanda, in order to exploit the waters of the Nile. This creates the risk of prolonged drought and economic disaster for Egypt and Sudan. Attempts to find a solution through negotiations under the auspices of the US in the first phase and the African Union in the second, have not been successful and tensions between Egypt and Ethiopia remain high.[17]

The Grand Ethiopian Renaissance Dam (GERD) on the Blue Nile River in Guba, northwest Ethiopia, Source: Arab News



[15] Ghafar A. A. (2022). "The Return of Egypt? Assessing Egyptian Foreign Policy Under Sissi", Middle East Council on Global Affairs, November, p. 5.

[16] Al-Kady, B. (2022). "Egypt steps up efforts to calm Libya", Al-Monitor, April 12, <https://www.al-monitor.com/originals/2022/04/egypt-steps-efforts-calm-libya> (assessed 28/1/2023).

[17] Ghafar A. A. (2022). "The Return of Egypt? Assessing Egyptian Foreign Policy Under Sissi".

[18] "A Foreign Policy Adrift?" An interview of Mohannad Sabry to Michael Young, Diwan, Carnegie Middle East Center, September 26, 2022, <https://carnegie-mec.org/diwan/88000> (assessed 1/28/2023).

Finally, Egypt's position in the new alliances in the Middle East is due more to the need for economic support from the Gulf countries and to the rivalry with Turkey because of its support for the Muslim Brotherhood, and less due to concerns about Iranian influence. It should be noted here that the rivalry with Turkey is not geo-strategic in nature, but stems from Erdogan's ideological and political support for Islamists in the Middle East and North Africa. If this changes, this rivalry will probably disappear. Egypt's position as a minor partner in the Saudi-Emirati alliance is illustrated by the fact that Cairo had not initially consented to the lifting of the Qatar blockade but was eventually forced to join the agreement to lift it despite the fact that it considers Qatar to continue to play a subversive role for the Sisi regime either through al-Jazeera satellite network or through indirect support for Islamist organisations and their ideology. What is missing in the current Egyptian position in regional correlations is a grand strategy for the major problems in the region.[18] For example, on the Palestinian issue, the focus is limited to reaching a truce between Hamas and Israel in the Gaza Strip, but does not undertake a major initiative on the Palestinian issue at a time when a new major uprising in Palestine is very likely due to the policies of the ultra-nationalist Netanyahu government. The same could be said in the case of the conflict in Yemen and Libya.

[18] "A Foreign Policy Adrift?" An interview of Mohannad Sabry to Michael Young, Diwan, Carnegie Middle East Center, September 26, 2022, <https://carnegie-mec.org/diwan/88000> (assessed 1/28/2023).



"Finally, Egypt's position in the new alliances in the Middle East is due more to the need for economic support from the Gulf countries and to the rivalry with Turkey because of its support for the Muslim Brotherhood, and less due to concerns about Iranian influence."