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Egypt-U.S. Relations in a New Era: Challenges and Possibilities

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Egypt-U.S. Relations in a New Era: Challenges and Possibilities

Edited by
Magda Shahin

Prince Alwaleed Center for American Studies and Research
American University in Cairo

A workshop organized jointly by Prince Alwaleed Center for
American Studies and Research, American University in Cairo
and Faculty of Economics and Political Science, Cairo
University

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ABOUT CASAR

Message from the Director

It is my pleasure to introduce you to Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud Center for American Studies and Research (CASAR) at the American University in Cairo (AUC). At the center, we aspire to deepen the AUC community's understanding of the United States and its relationship with the Middle East and North Africa (MENA). We aim to present a nuanced view of American involvement in the region. To do so, the center supports high quality academic research. We engage in a wide variety of outreach and educational programs, including hosting colloquia and public lectures, thus making available a broad range of opportunities for the AUC community, and to highlight the usefulness of American studies to students of diverse interests and career intentions. The Arab Spring and the January 25 Revolution represent a new beginning for relations between Egypt and the world. These new circumstances offer an unprecedented opportunity for CASAR, with its mission of bridging cultures and fostering understanding, to play an active role in the debates and discussions that will inevitably arise in this critical moment.

Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud chose AUC to host an American studies center as part of an effort to encourage dialogue and reconciliation between the MENA region and the United States. It is my belief that American studies in the Arab world can be a fruitful site for bridging the gap between the East and the West through study and constructive engagement. I invite you to join me in this endeavor.

Dr. Magda Shahin, PhD
Director, Prince Alwaleed Center for American Studies
and Research

FOREWORD¹

Since the January 2011 revolution, Egyptian-American relations have experienced new tensions and confrontations, which have led to a re-examination of the relationship as well as the desire on the part of the Egyptians for a more equal partnership. It is with this in mind that the Prince Alwaleed Center for American Studies and Research (CASAR) at the American University in Cairo, in cooperation with the Faculty of Economics and Political Science at Cairo University, and a senior group of experts have embarked on a study of the foundations, challenges, and future prospects for Egyptian-American relations. The goal of the working group, which includes university professors, renowned former diplomats, prominent writers, independent experts, and former senior government officials, is to find new ways to advance and institutionalize a relationship based on mutual respect and common interests.

This book entitled: "Egypt-U.S. Relations in a New Era: Challenges and Possibilities," represents the culmination of work completed this past summer 2013 after the group held two closed seminars dealing with shared Egyptian-American interests, namely strategic cooperation, economic and military relations, domestic developments in Egypt, and regional politics in the aftermath of the Arab uprisings. The group also discussed future prospects for Egypt-U.S. relations, and ways of overcoming present tensions on the basis of the six policy papers included in the book.

¹ The papers in this book were all written couple of weeks prior to the June 30, 2013 revolution.

Foreword

Significantly, these papers reflect gaps in understanding between Egyptian and American thinking and perceptions. CASAR and its partners believe it is especially critical during this delicate phase in the relationship for Egyptian experts to engage in a dialogue with American experts as the next step. It has become clear throughout our discussions that each party must determine what it wants from the other party, while at the same time, work together towards finding shared political and economic goals. CASAR and its partners are keen to explore ideas with U.S. think tank experts in a joint effort to provide policy-makers with recommendations that benefit both countries.

Dr. Laila El-Baradei, PhD
Acting Dean, School of Global Affairs and Public Policy

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POLICY PAPER EGYPT-U.S. RELATIONS

By Counselor Ashraf Swelam*

Set against the background of the Cold War and the strategic competition between the United States and the West on one hand, and the Soviet Union and the Eastern bloc on the other, Egypt-U.S. relations are the product of a world that no longer exists. More than forty years after their resumption, the relations are in dire need of fresh thinking, free of the assumptions and the conclusions of the last forty years, one that catches up with the reality of the international and regional orders (or disorders) of today, and the challenges and opportunities of tomorrow.

Egyptian-American Relations

Ever since President Anwar Sadat made his historic decision to pivot away from the Soviet Union and towards the United States, defying in the process Arab consensus against peace, Egyptian and American interests converged around a set of concrete strategic objectives. In addition to Cold War calculus, these included peace between Israel and its largest and most influential Arab neighbor and security of strategic air and naval routes necessary for the uninterrupted flow of oil and international trade.

The spectacular fall of the Soviet Union and the end of the Cold War meant, among many things, depriving Egyptian-American relations of one of its strongest rationales. Nevertheless, relations continued to muddle through. Iraq's invasion of Kuwait (1991), followed by attempts

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at reaching a comprehensive and lasting resolution to the Arab-Israeli conflict, and the “war on terrorism” gave the relationship one lifeline after the other. By focusing on what both parties narrowly defined as their key interests from the relationship, and not allowing it to be unduly disrupted by a wider set of less desirable outcomes, the relationship survived.

But even before Hosni Mubarak’s fall, it was abundantly clear that the narrow focus of the relationship has also come at a cost; repeated crises over the larger set of desirable outcomes, misconceptions and unfounded expectations coupled with a sense of frustration and under appreciation, and finally a lack of public support and buy-in by political forces on both sides. In addition, as the world and the region have continued to evolve, it became clear that the relationship is becoming increasingly outmoded, with many lost opportunities.

A New World

The international order has been in a perpetual state of transition, with a high degree of fluidity since the end of the Cold War and the collapse of the Soviet Union. On one hand, the mounting commitments of global governance and the provision of global public goods became much more costly and complicated than what any single country, including the world’s lone military superpower yet debt ridden United States, can unilaterally shoulder. On the other hand, the continuous rise of a free-riding rest, including China, Russia, India and others, means that as these countries gain power - to go with their willingness - to assume a larger role and exercise greater influence in their backyards, and

sometimes even beyond, with long-lasting repercussions for the global order. As a result, the United States is pivoting to Asia. And while the United States remains the most powerful country in the emerging global landscape, its hegemon position is increasingly contested.

On the economic front, the liberal, free market ideology, while still dominant, is under considerable stress. A global financial crisis and widening disparities between rich and poor in Western societies have brought the entire model into serious questioning. China, India and a host of developing countries are quickly closing the gap with the United States, with China expected to overtake the United States as the world's largest economy before the turn of the first quarter of the 21st century. The "rise of the rest" is forcing a reassessment of America's national security interests and global posture, with the pivot to Asia - where its security and economic interests are more clearly aligned - and away from the Middle East where its oil dependence has been on the wane, thanks in no small part to the Shale Revolution.

In short, America's brief moment of global hegemony - mostly militarily - has come to a swift end, forcing a retreat from a decade of overextension, especially in the greater Middle East.

Change in the Middle East

America's waning interest (and influence) in the Middle East is happening at a moment of great turbulence in the region. The initial euphoria about the Arab Spring (and the invasion of Iraq before it) has given way to disillusionment. Rather than delivering on its many promises of freedom, democracy, economic prosperity and social justice, which in and by itself is a cause for instability, Arab

uprisings have instead flared religious, ethnic and tribal rivalries that are violently shaking the very notion of the state, with Syria entangled in a civil war with no end in sight and Libya teetering dangerously on the edge of state failure and partition. Moreover, the sudden rise and fall of political Islam and the mounting influence of non-state actors is likely to continue to threaten the stability of many Arab countries.

America's waning interest in the region is creating a vacuum that other global powers, most notably China, Russia and major European powers, are likely to use. Moreover, and even before the Arab uprisings, the Middle East's center of gravity has been shifting away from its Arab core to its non-Arab periphery (Israel, Turkey and Iran), forcing regional actors to become more assertive in the pursuit of their national security interests, with the potential for startling political realignments.

Combined, these developments – especially the Arab countries, most notably Egypt, fail to step in to fill the vacuum of Arab leadership – will continue to violently shake the foundations of the regional order of the last few decades, opening in the process the door for the real possibility of redrawing the regional map, defined by colonial powers a century ago (a Post Sykes-Picot Middle East).

From Muddling Through to a Breakthrough

The Egyptian revolution presented Egypt with a once-in-a-generation opportunity not only to break away from its past of dictatorship and poverty and to follow a path to democracy and economic prosperity, but also to usher in a new foreign policy, anchored around the country's national security

interests and the principles of its revolution: freedom and human dignity. It offered the United States a rare chance to reset the relationship and to build a more robust and reliable strategic partnership than was ever possible before, based on mutual interests with a government that enjoys the consent of the Egyptian people and accountable to them.

Unfortunately, three years after the revolution, Egypt finds itself in a perpetual state of transition. And as a result, Egyptian-American relations are entering uncharted territories, shrouded in thick clouds of uncertainty.

The biggest uncertainty of all is Egypt's future direction. If it continues to stumble on the way to democracy, limiting in the process its ability to exercise influence in its regions, Egyptian-American relations will suffer tremendously, as the space for strategic cooperation between the two countries shrink, or at best stay limited to its historical narrow focus. Alternatively, if Egypt finds its way out of this transition on to democracy and to addressing its many challenges at home, the space for strategic cooperation with Washington, as well as emerging powers, will widen significantly as a natural result of a more active and assertive foreign policy.

Egypt's biggest challenge is, and will for the foreseeable future continue to be, meeting the legitimate demands and aspirations of the Egyptian people for democracy, economic prosperity and security in a troubled region. Egyptian foreign policy, including with the United States, must have the attainment of those goals and other Egyptian national security interests as its guide.

For its part, and despite all the talk about its imminent fall, the United States continues to be the world's lone military superpower, as well as a major player - albeit with varying degrees - economically, diplomatically, technologically and culturally. Its arms manufacturers continue to dominate the global market and it exercises great influence in various international organizations. As a result, Egypt has a strong interest, not only in maintaining a constructive relationship with Washington, but to further expand it and deepen it. At the same time, however, and in recognition of the rapidly changing international and regional landscape, Egypt must recalibrate its overreliance on the United States and rebalance its relationship with the rest of the world, especially emerging powers.

At first sight, the above two objectives seem contradictory. A closer look, however, suggests that they are not so long as the purpose of Egyptian foreign policy's rebalancing is not to immaturely replace the United States with another country or group of countries, rather to increase its alternatives and its decision makers' flexibility in the pursuit of the country's national security interests. Decision makers in both countries need to think anew about the future of the relationship and to develop a new rationale for it built around the many areas of existing and potential shared interests in Africa and the Middle East, while mindful of the tectonic changes taking place globally and regionally. This is necessary to ensure that the new relationship is not a fall back on the past.

Egypt-U.S. military cooperation is likely to continue as the cornerstone of the relationship for

the foreseeable future. Developments in the Middle East offer the two countries with a plethora of opportunities and challenges to deal with. In this regard, an open and frank discussion about what can and can't be achieved by means of Egyptian-American military cooperation is desperately needed. Egyptian policymakers should bring to the table concerns such as America's guarantees of Israeli military superiority and conditioning aid on Egypt's domestic politics. At the same time, they should be open to widening the scope of military-to-military cooperation. If successful, such a dialogue - placed in the larger context of the relationship - should help bridge the expectations-reality gap that has been persistently widening.

In the same vein, the aid relationship at large is in a desperate need of reexamining. This is not limited to the American side. Egypt too has an interest. Not only driven by the objective of rightsizing relations with Washington, but also by the inescapable necessity of turning Egypt's economic model from one based rentierism (aid included) to one based on the competitiveness of the Egyptian economy and the productivity of the Egyptian people, Egypt should come to the table with the view of ending its reliance on aid and moving to strengthen and widen trade and investment ties. Progress at home in unleashing the country's enormous economic potential and activating the huge untapped Egyptian market, will be a major boost in this regard.

Other challenges for Egyptian decision makers and officials are those stemming from an engaged public opinion, especially on the Egyptian side. The ongoing political transition and the populist politics and rhetoric are feeding into an already existing narrative of an American conspiracy on Egypt,

demanding a reassessment of Egyptian-American relations in the direction of distancing Cairo from Washington. This is made all the more complicated by that any discussion about foreign policy in general, and Egyptian-American relations in particular, immediately spills over to as discussion of Mubarak's legacy, perceived by many Egyptians as caving in to the United States at the expense of Egyptian independence and interests. As a result, Egyptian decision makers will be hard-pressed, contrary to times-past, to present the Egyptian public with a clear narrative that explains the underpinnings of Egyptian-American relations moving forward.

CONFERENCE PROCEEDINGS

Prince Alwaleed Bin Talal Center for American Studies and Research (CASAR) of the School of Global Affairs and Public Policy at the American University in Cairo, in cooperation with the Faculty of Economics and Political Science at Cairo University, held a workshop on June 23, 2013 on the challenges, future prospects, and foundations for Egyptian-American relations after the January 25, 2011 revolution. A group of diplomats and researchers from universities and research centers, and others interested in the topic participated in this symposium. The symposium addressed three main topics. The papers presented are the result of a brainstorm on major factors in Egypt-U.S. relations, in preparation for a dialogue with the Americans, and in order to identify what would be mutually beneficial to our relations. The following three topics were discussed:

1. The strategic framework of Egyptian-American relations
2. Egypt-U.S. political and military relations
3. Economic relations and U.S. aid

Introduction

Egyptian-American bilateral relations have never been smooth and direct; there has always been a third party involved –this was the Soviet Union in the 1950s and 60s, and Israel after the 1973 war. Egyptian-American relations witnessed an unprecedented era of prosperity under the late President Anwar Sadat, who wanted to make Egypt-U.S. relations more strategic, stable, and effective. This relationship continued, although tested by tension from time to time, until the revolution of January 25, 2011. Since then, the relationship has

been described as contradictory and schizophrenic, with Egypt receiving U.S. aid and at the same time viewing the United States with great suspicion.

Historically, Egypt has served as the source of stability in the Middle East region, serving the security interests of the United States. The post-January 25th revolution era represents a new stage in Egyptian-American relations, starting with the remarkable hesitation on the part of the United States to support the revolution. However, the U.S. administration soon recognized its mistake and showed a clear willingness to cooperate and to begin a new phase; the U.S. administration persuaded Congress to maintain its commitment to providing Egypt with \$1.3 billion in military aid and \$250 million in economic aid annually. When the Muslim Brotherhood (MB) took the presidency, Washington dealt with them positively, leading many people to believe that the United States had adopted a policy of tolerating political Islam movements in the Arab region. Nevertheless, this support came out of its belief that the Muslim Brotherhood would shape Egypt's future and be capable of understanding and protecting American interests

At that time no one noticed the severe imbalance that the January 25th revolution caused in Egyptian-American relations. The Egyptian people, the hereto unconsidered factor, have become an integral part in the equation when evaluating the relationship between the two countries; the Egyptian people will no longer accept limiting the relationship in exchange for receiving aid and its accompanying conditions. If the United States wants to regain its credibility in Egypt, it is necessary to seek a genuine partnership with Egypt

and to work together on the development of political and economic relations, and to increase cooperation in various fields, especially in the areas of science and technology.

First: The strategic framework of Egyptian-American relations

Two papers were presented on the strategic framework of Egyptian-American relations. Each addressed the strategic relations between the two countries from a different perspective. While one of the papers discussed the form of those relations by defining what each country wants from the other, the other addressed the relations from international and regional perspectives. They each concluded that there is no substitute for Egypt maintaining its relations with the United States, a superpower, especially in light of the fact that the international economy is evolving into a multi-polar system. Therefore, it is Egypt's responsibility to be aware of how to establish a balance and to strengthen its relations with other powers in order to position itself at the regional and international levels to achieve its interests.

The first paper posited that the foreign policy of any country is affected by a number of determinants, such as economic and military factors, geographical location, and political ideology, in addition to the form of international system in which we live. International relations were different under the Cold War bipolar system than they are under a unipolar system characterized by the dominance of an individual superpower, or the multi-polar system in which we live today. Under the bipolar system, international relations were clear and defined, based on long-term foundations known at that time as permanent

alliances, and founded on the principle that “He who is not with me is against me.” Under the bipolar system, states had to choose either to establish a close relationship with one of the two superpowers, or bear the burden of non-alignment with both of them. The unipolar system began with the dissolution of the Soviet Union in 1991 and the dominance of one superpower, the United States, which, because of its overwhelming military superiority, inevitably worked to restrict other decision-makers. This system did not last long; signs that it was coming to an end appeared at the end of George W. Bush’s presidency. The unipolar system generally cannot continue for a long time for two main reasons: first, the unipolar power tends to take on big commitments that exceed its capabilities. Second, the unipolar power tends to act individually, prompting the large and medium-sized powers to rally against the unipolar system. This was evident when the financial crisis emerged in the United States in 2006-2007. The failure of the United States to deal with that crisis allowed it to spread internationally to other developed and industrialized countries, becoming an economic crisis that threatened the global economy as a whole. It was clear that the countries with emerging economies were the ones who addressed this crisis, prompting President George W. Bush later to approve the expansion of the Group of Eight industrialized countries to Twenty, to include emerging countries in the global economy. The nature of the new international system is still in question; it is unclear whether it is a system in which the basic units are countries, or a more inclusive global system in which the constituent units are not only countries, but also other competitors, such as transnational companies, global civil society, and terrorist organizations. To

be sure, this question is difficult to answer at the present time.

With regard to the international system, it has several dimensions, namely: the military, economic, scientific and technological, diplomatic, media, and cultural. We also need to take into account the role of the Internet, which has also become an international player that influences the conduct and development of international relations. Although there are vast differences among the major countries when talking about the military dimension, these differences are becoming narrower with respect to economics. Accordingly, we can say that the current international system is a unipolar system from the military perspective, but is approaching multipolarity in other areas. Moreover, although there is a conflict of interests between the poles, no one seeks to exclude the others due to interlocking and overlapping economic interests. The international system is currently experiencing the rise of new international powers and a relative decline in U.S. power.

In light of the above-mentioned factors, it is in Egypt's interest to maintain economic relations with the United States, as it is the foremost economic power. However, it is wrong to rely solely on these relations; Egypt must have closer ties with emerging economies to strengthen her position in her relationship with the United States.

The second paper sought to identify the problems in the strategic relations between Egypt and the United States. It points out that these relations are not built on a sound institutional basis, as a regular strategic dialogue, coherent with such a relationship and functioning as an incentive for its development,

was lacking. Relations between Egypt and the United States were originally established, and were more stable, during the rule of the late President Anwar Sadat. Then Secretary of State Henry Kissinger made several visits to Egypt. In the historic meeting between the Kissinger and Sadat on November 7, 1973, Sadat expressed his desire to develop strong and ongoing strategic relations with the U.S. Despite this, why didn't the strategic dialogue between the two countries start until fifteen years later? And, why were relations inactive until 2006? How can there be strategic relations without a dialogue? The absence of a dialogue mechanism between Egypt and the United States for more than fifteen years contributed to reduced stability in relations and decreased maintenance of mutual goals and interests, leading to the "personalization" of the relationship. The problem that we face in developing a strategic dialogue with the United States is in the differences in perceptions of different bodies in Egypt about Egyptian-American relations. Therefore there must first be an agreement on the theoretical framework of these relations by entering into a comprehensive dialogue with representatives from all Egyptian institutions, and by studying available documents from sources such as WikiLeaks, U.S. and Israeli documents, and politicians' notes, etc. What would also help is the existence of a clear understanding of the thinking and attitudes of one another, and the expansion of our relations by being well acquainted with civil society and think tank trends, especially in the presence of many actors such as Turkey, Saudi Arabia, and Qatar. We also need to take into consideration the relative decline we are seeing in the regional role of Egypt and its impact on our relations with the United States and its interests in the region.

Maintaining these strategic relations requires an agreement on mutual interests, which can be defined as follows:

U.S. interests

- Maintaining Egyptian – Israeli peace
- Access to the Suez Canal
- Cooperation of the Egyptian army in the fight against terrorism

Egyptian interests

- Modernization and development of Egyptian military capabilities
- Maintaining a strategic balance in the Middle East
- Supporting Egypt's role in regional and international communities

Egypt has been receiving a fixed amount of military aid for many years, while due to inflation the prices of arms are continually increasing. The United States was able to separate its relations with Israel from its relations with Egypt. An agreement, which now seems out of date, was made that military aid would be provided to Egypt and Israel at a ratio of 2 to 3. Although the tripartite relationship between Egypt, the United States, and Israel imposes mutual-respect for a range of interests vital to each party, the United States has applied, in many cases, policies that are contrary to the foundations of this relationship, particularly with regard to the military balance in the region. At the same time, Egypt has blocked what the United States had hoped to achieve with regard to military bases and developing the capacity of the Egyptian army to fight against terrorism, among other things.

In general, we can say that, apart from the set of goals and desires that have not been met by either party, Cairo and Washington have dealt realistically and practically on areas of disagreement. In spite of that, there is still a great deal of frustration and uncertainty in the relationship. There is no doubt that more attention needs to be paid to establishing a regular and transparent dialogue in order to maintain stable relations between the two countries.

As for the future development of relations between the two parties, it is tainted by a lot of uncertainty and a lack of transparency. There are a number of possible scenarios. The first scenario is to continue to deal with the relationship as it is, without a clear framework – i.e. to continue relations on an ad hoc basis and according to the need, accepting the associated lack of clarity and frustration on both sides. The U.S. policy, according to this scenario, may be satisfied to only focus on military relations with Egypt (i.e. the Pakistani model). Alternatively, the second scenario would lead to some sort of stability in relations, and to the development of a long-term strategy based on a sound institutional framework. The third scenario may be less predictable, as it is associated with the outbreak of a crisis in the context of the bilateral relations or in the region, which may lead to a convergence or divergence.

The following is a summary of the opinions expressed in the discussions that took place among the participants:

1. There is a need to reconsider the foundation upon which the relations between Egypt and the United States were established and to properly manage the tension in these relations. In other

words, we should achieve what is known as “controlled tension.” This should be done at a more convenient time, as it is not in the interest of Egypt at this time to open the door for discussions and a re-evaluation of its relations with the U.S., given the political fluidity that those relations experience, and since a minimum level of internal political stability is required before starting any dialogue. In this framework, we compare the current stage in the Middle East to what Europe experienced in the period between the two World Wars – fragile democracies, corrupt governments, and dictatorships that came through elections.

2. In dealing with Egyptian-American relations it is necessary to know what type of relationship it is. Is it a relationship of allies, partnership, or opposition? As the agreement between Egypt and the United States is primarily based on the security of Israel, restoring regional stability will help Egypt regain its weight in the region, which it badly needs. However, the extent of the independence of action in either country will play a major role in determining and shaping the relationship. Moreover, there is a need for a national consensus on foreign policy since the points of contention in Egypt-U.S. relations might not be clear.
3. The emergence of multi-polarity, interdependence, and overlapping interests requires that all parties coexist without any one trying to exclude another. Accordingly, countries that orbit in the space of multipolarity, including Egypt, should establish balanced and attractive relations with different parties to achieve their interests.

4. If there is a trend towards transforming the center of gravity in American foreign policy from the Middle East to the Far East, the question that arises will be whether this is considered a subtraction or addition to Egyptian-American relations. Additionally, what is the geo-strategic importance of the U.S. moving its attention to the Pacific and Atlantic states? Although it is true that developments in the field of global energy will change the strategic balance, this would not diminish the importance of the Middle East region, as this territory is important for historical and regional reasons as well as for its energy resources.
5. Management of the strategic dialogue with the United States is not given the necessary attention it merits, and it should give way to the participation of representatives of all state institutions. Hence we need to rethink the form and nature of those relations in the light of local, regional and international variables. Foreign relations in general, and relations with the United States in particular, are too serious to be monopolized by the regime or by research centers and studies that do not include the perspectives of political parties.

Second: Egypt-U.S. political and military relations

Regarding the political and military relations between the two countries, two papers were presented; the first discussed the reality and the future of military relations between Cairo and

Washington, and the second discussed the political dimension after the January 25, 2011 revolution.

In the context of military relations many questions were asked, namely:

- What are the determinants of military relations between Egypt and the United States?
- What are the forms of military cooperation between the two countries?
- What are the benefits achieved by both countries from such military relations?
- What are the problems addressed by military relations between the two countries?
- What is the future of military relations between the two countries in the light of the reality of these relations?

1. The most important determinants of military relations between Egypt and the United States

The main determinant upon which the American defense policy in the region is established is security cooperation. The United States' strong security relations with its Arab allies in the region, including Egypt, Jordan, and partners in the Gulf, are not only included in Washington strategic interests, but also within the security interests of Israel, as one of the basic principles of security cooperation between the United States and Israel is the U.S. commitment to maintaining Israel's qualitative military superiority and its ability to repel any threat or combination of threats.

In order to try to understand the reality of this relationship and to explore its future, we must recognize that Washington's defense strategy in the Middle East is represented by its support of Israeli security and American allies, the fight against

terrorism, and preventing Iran from acquiring nuclear weapons. In addition, it monitors the peace process in the Middle East, promotes stability in relations with regional U.S. partners, and supports democratic transitions in Yemen, North Africa, and Syria. Washington seeks to protect U.S. interests through its military presence in the region, defense cooperation, and by increasing the military capabilities of its allies.

The military relations between Egypt and the United States are linked to the geo-strategic Egyptian position, which rests on the central status of Cairo in the Arab region and Egypt's presence in multi-regional security systems in the Middle East, the southern Mediterranean, and North Africa. Egyptian-American relations are also of vital importance to U.S. interests, especially those related to securing energy and oil wells in the Gulf region, the fight against terrorism in the Middle East and North Africa, the maintenance of Israeli security, and the fight against piracy in the southern Red Sea and the Strait of Aden. This explains the interest of successive American administrations in developing relations of military cooperation with Cairo, especially after Egypt signed a peace treaty with Israel in 1979.

The U.S. focus on the military institution in the framework of its relations with Egypt is essentially because of the role of the military in the decision-making process, and not, as some would like to believe to spread democracy, in general, or within the military institution, in particular. Also discussing the military institution cannot take place in isolation from other dimensions, such as political or security dimensions in the Egyptian-American relationship. The political crisis that Egypt is

experiencing now has prompted the United States to re-think its relations with Egypt, especially after the election of President Barack Obama for a second term, and in the light of recent developments in Egypt, namely, the continuation of violence and the complex political crisis between the regime and the opposition. It is evident that Washington is interested in maintaining strong ties with Egypt as long as it does not cross certain red lines, such as threatening Israeli security and/or disrespecting rights and freedoms, especially those of minorities.

2. Forms of Egyptian-U.S. military cooperation

The military cooperation between Egypt and the United States takes several forms: arms sales, transfer of military technology, and maneuvers and joint military exercises.

A. Military aid:

During the period between 1984 and 2011, the United States supplied Egypt with \$71.6 billion in multi-faceted aid, including \$1.3 billion in military aid annually since 1987. Egypt receives most of the U.S. military aid from three accounts: Foreign Military Financing, (FMF), the Economic Support Fund (ESF), and International Military Education and Training (IMET). Egypt also receives small allocations of irregular aid within the framework of the so-called American preventive policy, from the Anti-Terrorism Assistance Fund (NADR).

During the fiscal year 2011, the year of the Egyptian revolution, Egypt received about a quarter of all financing provisions of FMF while Israel received nearly 60 percent of its annual allocation from this fund. Although we do not know the overall military spending of the Egyptian army, it is likely that the U.S. military aid to Egypt covers 80

percent of the reinforcement costs spent by the Egyptian Ministry of Defense, while other sources estimate that U.S. military aid covers about one third of the total Egyptian defense budget annually.

Until 2012 Egypt received the second highest amount of military aid allocated to foreign countries by the United States, but in 2012 and 2013 it fell to the fifth highest, reflecting the diminishing importance of Egypt in the American strategy over the last two years. In 2012 Israel was the largest recipient of U.S. aid, at \$3.075 billion, then Afghanistan (\$2.327 billion), Pakistan (\$2.152 billion), Iraq (\$1.683 billion), and then Egypt (\$1.557 billion). The same pattern was repeated in 2013, with Israel ranking first (\$3.100 billion), followed by Afghanistan (\$2.505 billion), Pakistan (\$2.228 billion), Iraq (\$2.045 billion), and then Egypt (\$1.563 billion).

The United States is trying to persuade the Egyptian military to build their anti-terrorism military capabilities and to move fast and flexibly rather than committing to traditional forms of defense. A particular source of American concerns is security in the Sinai Peninsula. This clearly shows that the United States is granting Egypt military aid to turn the Egyptian army away from addressing its own strategic challenges, and instead to focus on policing while avoiding traditional combat missions. This is also evident in the U.S. Secretary of Defense, Chuck Hagel's visit to Egypt in April, 2013, during which two topics were an integral part of the discussions with the Egyptian Minister of Defense General Abdel Fattah Al-Sisi: the fight against terrorism and trafficking in the Sinai.

The aid itself has three components: the weapons and military equipment; the upkeep of this equipment, and providing maintenance through contracts. Egyptian-American cooperation in the production of Abrams M1A1 tanks is considered the cornerstone of the assistance provided. The tanks are manufactured in Egypt and the rest of the components are shipped from the United States to be assembled in Egypt. An F16 aircraft deal has also been concluded. Egypt has also participated for a long time in joint military exercises with the United States.

The administration of President Barack Obama is addressing contradictory pressures from Congress and American arms manufacturers regarding the provision of military aid to Egypt. The American arming process for the Egyptian army has political dimensions, including the fact that policy makers are pressured by American companies that are awarded contracts to manufacture the weapons. Recently, Senator Bill Tommy, one of the leading members of the U.S. Senate, presented a bill to the Congress calling for tying military cooperation between Egypt and the United States to Egypt's commitment to Camp David Accords with Israel, and for the reduction of funds allocated for U.S. participation in the Bright Star exercises conducted primarily with Egyptian armed forces. Tommy stated that Israel is the most important ally and friend for the United States in the Middle East and Egypt's commitment to the peace treaty is vital to Washington. If Egypt decided not to fulfill its obligations under the treaty, the U.S. should respond to Cairo by reconsidering their military relations with Egypt overall. The American arms manufacturers reject the idea of stopping the supply of arms to the Egyptian army, as this would cancel

existing contracts and stop production lines operating to supply Egypt with weapons, resulting in heavy losses including thousands of jobs. In this context, the American *New York Times* recently quoted U.S. officials saying that any delay or cut off in U.S. aid to Egypt could lead to a breach of contracts with American arms manufacturers and the halting of production lines.

Magda Shahin

B. Joint military exercises:

Joint exercises are one of the most important elements of the defense relations between Egypt and the United States. The Egyptian army has been collaborating with the American Army since 1994 in "Bright Star," joint military exercises held every two years with the participation of a number of countries, including Germany, Jordan, Kuwait, and Britain. These exercises were postponed in 2003, at the insistence of the former U.S. President George W. Bush administration during the invasion of Iraq, and resumed more extensively in 2005 and 2007. The United States criticized the stance of the Egyptian military leaders when they rejected the Israeli participation in the Bright Star exercises. In 2008, both countries conducted joint naval exercises under the name of "Eagle Salute," which included training on reconnaissance, search and rescue ships, destruction of land- and air-targets, and combating hostile anti-submarines, as both sought to address marine piracy and to secure geo-strategic fjords.

C. Benefit of the joint military relations for both countries:

Egypt has collaborated with the United States to achieve Washington's strategic goals in the Middle East, including coordinating efforts in the fight against terrorism and cooperating in the management of military maneuvers in the Middle

East. The United States benefited from this relationship, since it allowed U.S. military aircraft to fly in the Egyptian military airspace, and permitted hundreds of U.S. warships to easily cross the Suez Canal without lengthy procedures. In summary, Egypt has provided the United States a suitable environment to move freely in the region by air and sea. As a result of this relationship, Egypt was able to focus on their economic development and maintain the peace agreement with Israel.

D. Problems facing Egyptian-U.S. military relations:

The United States demands that Egypt change some domestic policies and address the emerging international threats in the region, such as the fight against terrorism. The United States often accuses Egypt of not offering enough support in the relationship compared to the financial and military assistance that it provides to Egypt. The U.S. Congress usually raises many concerns when discussing military aid to Egypt, making demands including that Egypt have more open relations with Israel, take further action to secure the border with Israel and Gaza, prevent weapons smuggling, protect religious freedom for minorities in Egypt, especially Copts, work on achieving political and security reform, and assure independence of the judiciary.

E. Future of Egyptian-U.S. military relations:

Although predicting the future of the military relations between Cairo and Washington seems a difficult task, we can say that relations between the two countries during the coming period will not continue as they are. For example, there is the possibility of Egypt's requesting that Israel amend the security annex of the Camp David accords.

International assistance is one of the most effective methods of pressure used in international relations, and it is not easy for the Egyptian army to give up U.S. military aid. On the other hand, it is also unlikely for Washington to cut military aid to Egypt because it helps promote U.S. strategic objectives in the region.

The threat to cut off U.S. aid, however, persists. The United States is always using this threat to put pressure on Egypt to achieve its political interests. Congressional criticism of U.S. military aid to Egypt is repeated frequently due to the many congressmen who are loyal to Israel and oppose the assistance. This criticism ends each year by asserting that the assistance is a necessity for U.S. national security. It is worth noting here that the arms market is controlled by the seller, not the buyer; the seller is giving and providing weapons according to his own interests.

In the coming period the United States will focus on intensifying regular security dialogue with Egypt, including both military and civilian officials, in order to formulate defense strategy during the transitional phase, focusing on threats, capabilities, defense agreements, and the role of the army in society. Statements made by senior officials, the U.S. administration, and Congress indicate a desire to restructure military aid by reducing the amount allocated for the purchase of weapons and equipment and increasing allocations specifically for International Military Education and Training programs (IMET), and by directing foreign military assistance towards enabling the Egyptian army to counter external threats related to border security and terrorism, especially in the Sinai.

The second paper showed that the most important characteristic of Egyptian-American relations before the January 25th revolution is that each party was able to predict how willing the other was to offer something. The paper also showed that the main determinant for the development of relations after the revolution would be connected to the internal situation in Egypt and to regional events. From the American perspective, the Arab Spring did not impose a reevaluation of national security; what has changed is the framework within which these objectives are sought to be achieved. What Egypt really wanted from the United States in the previous era, in spite of the clear points of agreement or disagreement, is to support the continuation of the regime. After the revolution the United States was convinced that two parties would be able to guarantee the continuity of the situation, namely: the military and the Muslim Brotherhood, who persuaded the United States that they were the most moderate Islamic factions. The United States was considering the region with an aim to curtail the role of Iran as a regional power. Due to the political fluidity in Egypt, John Kerry explained before the Congress that the U.S. administration has opened two separate channels to work with the military institution and the Muslim Brotherhood.

- One focuses on the importance of the military institution for the United States in securing the stability of Sinai and the borders with Israel, and supporting military facilities for the United States.
- The second focuses on the importance of the Muslim Brotherhood, which, has expressed a desire to play a constructive role in the regional system in curtailing the role of the

Salafists, Jihadists, and other Islamic groups
after the fall of the Assad regime.

Washington had hoped that these two institutions would cooperate with each other, and initially it seemed they would; military and intelligence relations remained powerful, and the Muslim Brotherhood was committed to peace with Israel. More importantly, they were able to control Hamas. Washington had no other option but to accept the Muslim Brotherhood, since the Egyptian opposition was divided. However, after the Brotherhood's months of failure and incompetence in governance resulting in a loss of popularity and a more united opposition, Washington found itself playing a new role: mediating between the different political forces. An additional dimension to this relationship was the enactment of a more stringent draft law governing the work of nongovernmental organizations, a matter that hinders the transition to democracy and prevents the United States from influencing the course of events in Egypt. Last but not least, as foreign relations are inseparable from domestic politics, there would be no return to the authoritarian regime. The poor performance of the government of the Muslim Brotherhood, their attempt to marginalize other powers, and their hostility to state institutions exposed them to attack. *The transitional phase is far from reaching an end.* If there is to be any hope for Egypt's future internally and externally, it is time Egypt had a clear vision to end its reliance on military and economic aid, and to include human rights, women and children in Egypt's domestic policy, according to its international obligations. Relations between governments should be established by encouraging links between businessmen, religious scholars, parliamentarians, human rights activists and student

exchanges—particularly because Egyptian public opinion, regardless of who is in power, has become a key factor in the domestic political equation, and this opinion will also impact its external relations.

In this context, it is clear that the United States was wrong in thinking that the Muslim Brotherhood would lead Egypt to stability. This did not happen for two reasons: first, the Muslim Brotherhood was inefficient, and second, the Egyptian people have changed, and it will no longer be easy for any government to ignore the Egyptian people's desires to achieve democracy and development. This is apart from the consideration that American foreign policy, like the U.S. economic policy—a market, profit and loss and a balance sheet oriented policy—is characterized by being pragmatic. It tends to choose easy solutions and to deal with powerful governments whenever possible, since its only aim is to achieve its interests.

The discussion of these two papers was based on the following points:

1. The importance of transparency, access to information pertaining to the military spending budget, restructuring of aid, follow-up and assessment of the aid benefits (an imperative matter that entails knowing the exact amount of aid). In this context, there is a need to promote dialogue on the Egyptian strategy based on fast-changing regional and international circumstances. It is also important to use the assistance, whether military or economic, to achieve progress in those fields and to make the economy productive rather than only profit-based.

2. If the importance of the security dimension can be assumed, then military security is at the heart of the Egyptian-American relations. In spite of this, there is a huge technical imbalance in the arms distribution to Israel and Egypt. If Egypt is an important country to the United States, regardless of who the president is, it is a matter that requires study to learn whether military aid has had a cumulative impact or not. Is the Egyptian army of first- or second-degree in importance? And, what are its true armament abilities, both offensive and defensive?
3. We can imagine an escalation in the crisis in Egypt-U.S. relations with the coming to power of liberal civil forces in Egypt. Those forces are viewed as more ambitious in their management of political relations and more responsive to public opinion—a matter that will be important in the formation of a framework for these relations in the future.
4. As a result of shifting attention to the Southeast Asia region, there were drastic changes in Israel during the last decade owing to their expectations that the American strategy would marginalize the status of Israel especially, and the Middle East generally. Israel attempted, successfully, to find alternatives to the aid, based on expected increases in revenue from Israeli gas discoveries in the Mediterranean. With regard to Egypt, all that matters to Israel is to preserve the peace treaty. Will the security of Sinai be internationalized, or will the Egyptian army be given an opportunity to tighten its control?

Third: Economic Relations and U.S. Aid

On the topic of Egypt-U.S. economic relations and U.S. aid, two papers were presented. The first discussed the need to move the relationship from a focus on aid to a trade-relationship that would benefit both countries. The second paper focused on the reality of bilateral aid and asked a number of questions about the sustainability of aid and the best framework under which it should continue.

We can argue that it would be in the interests of both countries to shift from aid to a partnership in the promotion of trade and investment. Such a shift would help restore Egypt to the right path of economic growth and support its efforts towards democratization and political stability, which would in turn support peace and stability in the Middle East and North Africa region. This would meet the strategic interests of the United States, and create new economic opportunities for Egyptian and American companies.

With regard to the transition from aid to trade, economic aid to Egypt, which amounted to \$800 million in 1980, has now decreased to only \$250 million. The United States is recognized as the largest individual trading partner with Egypt and the second largest investor, however, the share of U.S. imports and exports in Egypt decreased from 31% to 13% (exports) and from 22 % to 12% (imports) between 2006-2007 and 2010-2011. Egypt is now number 53 on the list of U.S. trading partners, which is considered a very small share of the total exports moving to the United States where the Egyptian exports do not exceed 0.5 %. Wheat and grain amounts to 24% of total Egyptian imports, while the major exports are textiles and garments, which account for 43% of total exports. During the

last decade, Egypt suffered a chronic and growing trade deficit in commercial transactions. There was an increase in U.S. investments as Egypt was, before the revolution, the largest recipient of such investments in the Middle East and North Africa, with two-thirds of them in the oil and gas sector. This demonstrates that trade and investment relations did not reach their optimal level, and that Egypt needs reform initiatives to diversify its exports, strengthen its competitiveness, open ports for Egyptian exports, and attract other investments, especially in sectors that would increase opportunities for productive work opportunities.

Speaking of the obstacles to strengthening trade and investment ties between the two countries, the continuous political instability and the global economic situation have resulted in worsening economic imbalances in general. Additionally, the challenges to the carrying out of corporate activities has led to a decline in the rate of GDP growth, an increase in the rate of unemployment, and an increase in the state budget deficit, which tends to rely increasingly on domestic borrowing. The decline in foreign exchange reserves and the poor protection of intellectual property rights are indicators that do not encourage investment. But there are alternatives to overcome these obstacles. The U.S. economy is the largest in the world, therefore U.S. trade and investment policies can create opportunities or impose restrictions that may largely affect Egypt. In the short term, existing agreements can be expanded, and in the longer term, a free trade agreement between the two countries can be concluded to remove barriers to goods and services and to improve some internal policies, such as intellectual property rights. Although Egypt has benefited economically from

the "QIZ" program, its principle goal is political rather than economic. The priority now should be for internal reforms.

The second paper suggested that support policies are primarily geared to serve the donor state economy. For example, the Marshall Plan after World War II was created ostensibly to rebuild Europe, but it actually served the U.S. economy as well as contained communism. This does not mean that the recipient country does not benefit, but the extent to which it benefits depends on the policies that the recipient makes. The paper concluded that when the U.S. administration decided to grant Egypt a large amount of aid, America was aware that the economic policies of Egypt would not absorb this level of assistance. However, the economic and military aid to Egypt was justified to the Congress in the wake of the Camp David accords on political grounds, and was considered a reward to the former president Anwar Al-Sadat for his vision and courage in peacemaking.

The paper also suggested that aid is a reflection of Egyptian-American relations, which presents some general questions. First, is the economic aid deal, which has fallen to its lowest levels, a sufficient reason to keep the peace treaty with Israel? Second, what attraction does Egypt hold for U.S. foreign policies that justify America's continued economic support at a time when Israel's economic and military powers in the region are increasing? Third, is it in Egypt's interest at this time to reopen negotiations on aid and to attempt to disassociate the aid from the peace treaty? Fourth, can negotiations be made on economic aid alone, or only in tandem with military aid?

What is important here is that aid is a critical issue and no one is likely to take individual action. Aid is not an end in itself and cannot be fruitful unless it is a product of constructive cooperation between the two countries to achieve mutual interests. Only then can it be regarded as an effective mechanism that supports foreign policy and gives a positive impetus for each side to carry out its obligations. The paper also indicated that the Egyptian government prefers to belittle the importance of such aid and its consideration as an integral part of the overall relations between the two countries. This subject is also very sensitive, as demanding a disassociation between the economic aid and the Camp David Accords would have a negative impact on military aid. A compounding factor is that the economic aid used to achieve U.S. policy objectives is not meant to benefit the Egyptian economy. Much of U.S. aid in recent times has been to support democracy and good governance rather than help Egypt in growth and development.

It could be argued that even if the Egyptian side reopens negotiations on U.S. economic aid, it would not be an easy task to change U.S. priorities. The difficulty remains in convincing Congress, which practices push-pull policies with the U.S. administration. The U.S. administration needs to consider the feasibility of dealing with the Muslim Brotherhood and their government. Some members of the Congress view the new Egyptian government as untrustworthy and its policies unpredictable; this is the reason behind the increasing confusion and difficulty understanding American politics and the government's position towards the current situation in Egypt. The paper also discusses the contradictory messages that Egypt in turn sends to the United States, especially with regard to the status of

women, minorities, and non-governmental organization – add to that the recent judgment against non-governmental organizations in Egypt, particularly U.S.-based ones, which was clearly a violation of the principles of democracy and freedom that the United States defends. Any new law working to curb these organizations and to reduce their role in political life and institutional reform will have a deep impact on the Congress and its attitudes toward Egypt and its government. Finally, on the case of separating aid from the peace treaty with Israel, this must be carried out within a more comprehensive framework, and there should be dialogue on political, economic, and military relations between the two countries. However, the U.S. should expect to face a resistance from the Egyptian population, demanding not to prejudice military assistance.

The paper concludes that it is important to establish independent bilateral relations between Egypt and the United States, but not necessarily to have Israel as a third party. This requires Egyptian politics to develop a clear vision for Egyptian relations with the United States and to formulate strong arguments to convince the U.S. administration and Congress of Egypt's eligibility for establishing such relations. Such relations should deal with political, economic, and military relations, as well as aid policy. However, a more comprehensive vision for bilateral relations will be met by many objections internally and externally, especially if the military aid is prejudiced. It is also expected to face great opposition by many exporters to the United States, especially those benefiting from the QIZ agreement in which Israel has entered as a third party.

In addition to the above, it is necessary to reopen the debate on more balanced economic support to Egypt. This support can be achieved by paying equal attention to infrastructure, including to electricity, water, and roads projects, rather than only institutional reform and democratic governance. In order to renegotiate a new framework of support, it is the Egyptian government's responsibility to propose a vision for its new role in the region and to prove that it can perform that role. In addition, it must address the humanitarian concerns of the U.S. Congress. The Egyptian government must gain confidence through success in two areas: (a) internal stability and security, and (b) an integrated reform program.

Discussions were held on the following themes:

1. We should not hope to conclude a free trade agreement between Egypt and the United States at the present time, as it would not lead to substantially better results compared to those of the ongoing QIZ agreement. Establishing a free trade zone between any developed and developing country and lifting restrictions does not mean that the developing country is elevated to the ranks of an industrialized nation overnight. The effect of establishing a free trade zone between Europe and the United States is more favorable economically and strategically than establishing one with the Middle East, as the agreements concluded with the European Union and the countries of Asia are of greater importance to the United States at the present time.
2. Economic aid began at \$800 million, however Egypt was not capable of establishing projects

to absorb more than 35% of this amount due to monopolies and poor policies.. In spite of this, congressional approval of aid was granted as a reward for the peace treaty. The aid, which now amounts to \$250 million, does not represent anything significant economically, but imposes a political constraint.

3. There are no written documents linking aid to the peace treaty. With regard to the decision taken unilaterally on economic aid, in the first ten years the U.S. strategy focused on infrastructure, but in 2004, the U.S. Congress decided to allocate part of the aid to civil society. However, the status of the economic aid is completely different than the military aid, as there is a special U.S. lobby that defends the military aid more than Egypt itself does. Military aid serves many long term U.S. goals with regard to its regional policy.
4. Any progress made in Egypt-U.S. relations or Egypt's relations with any other party is subject to internal reforms. Concluding a free trade agreement with the United States will not result in direct economic benefits to the Egyptian economy, since it has the same impact as the conclusion of an agreement with the International Monetary Fund (IMF) – namely the development of an integrated program through which deep reforms can be introduced to the national economy and to Egyptian institutions. The problem in Egypt with the establishment of free trade agreements in general, and with agreements with the United States in particular, lies in the lack of production diversity and certain competitive goods, and in the inability to continue an adequate supply of

commodities. The deficit in the balance of trade applies to all countries that Egypt deals with, not only with the United States, which means it is essentially a problem of the competitiveness of Egyptian products.

5. The United States has a strategic interest in restructuring aid. We can compare Egypt and South Korea, however, unlike Egypt, South Korea was able to take advantage of the aid to create an economic boom. We also think that the exchange rate devaluation stimulates exports, but in a country like Egypt, which has a great deal of intermediate imports, this procedure raises the cost of production as well as devalues exchange rates, increasing the price of food imports.
6. One of the main challenges in Egyptian-American relations is the lack of clear policies or positions on both sides, and the need to recognize common ground despite conflicts of interests in other areas –a matter that must be dealt with and managed well. While acknowledging that the Egyptian perspective on the relationship is different than the American one, each party must determine what it wants from the other party, while working towards finding a political middle ground in the Middle East. The discussions also showed that economic aid has not stimulated the Egyptian economy, and therefore the aid, or at least its form, must be reconsidered. Finally, if the recipient state is good at using the cards it has, a satisfactory outcome can be reached by moving away from traditional patterns in relations and thinking of new ways to interact.

EXECUTIVE SUMMARY

The January 25th revolution ushered a new stage in Egyptian-American relations. In the aftermath, the United States demonstrated a clear willingness to maintain good relations with Egypt by dealing amicably with the Muslim Brotherhood notably after they won the 2012 presidential elections. Despite the outward appearance of friendliness, Egyptian-American relations are not as smooth and transparent as one would have expected since the January 25th revolution. The Egyptian people, who have become an integral part of the political equation are unwilling to accept the status quo in Egyptian-American relations. They yearn for a more genuine partnership built on respect and trust with a view to developing mutually beneficial economic and political relations.

It is with this in mind that on June 23, 2011, the Prince Alwaleed Center for American Studies and Research at the American University in Cairo, in cooperation with the Faculty of Economics and Political Science at Cairo University, and a senior group of experts has embarked on a study of the foundations, challenges, and future prospects for Egyptian-American relations.

Addressing Egypt-U.S. relations from the Egyptian perspective, it has been recognized that it is incumbent on Egypt and its people to work on promoting a more balanced relationship between the United States and other important world powers. Privileging a relationship with the United States to the exclusion of other potential international partners makes Egypt vulnerable to the United States whims and policies. It would simply not reflect a mature relationship for either party.

A more comprehensive relationship with the U.S. requires the urgent development of a regular political dialogue between the two countries. This is normal international practice between nations and helps identify each partner's interests and a way to deal with them. However, such a dialogue, may need to await a more stable Egypt where objectives have been set including the type of relationship it desires with the U.S.

It seems that U.S. objectives in the Middle East remain the same post the Egyptian revolution and the larger Arab Uprisings. Before the revolution, the Mubarak regime provided the United States with the stability that the latter required to continue to achieve its goals in the region. After the revolution the United States cultivated relationships with the only two organizations in Egypt that could guarantee the continuation of this arrangement: the military and the Muslim Brotherhood. The United States hoped that these two organizations would cooperate with each other. On the contrary, the United States was eventually drawn into mediating between the Muslim Brotherhood and other political forces in Egypt. The Muslim Brotherhood's failure to embrace democratic ideals, develop an inclusive governance involving all segments of Egyptian society, and effectively manage the economy led to widespread loss of confidence in their ability to lead Egypt into a new era.

While the Obama administration has dealt amicably with the Muslim Brotherhood, the U.S. Congress has viewed their government with skepticism. This dichotomy made it difficult to understand the U.S. government's position toward Egypt under the circumstances.

The determinants of Egyptian-American relations are clear in the military and security fields, however, they are less so in the economic field. In return for maintaining peace in the region, fighting terrorism and the free and expedited passage of the American vessels through the Suez Canal, Egypt benefits from a more than a billion dollars in military aid annually, including weapons sales and joint military training operations. While in the economic field, it is earnestly believed that the U.S. could potentially create mutually beneficial economic opportunities with more adapted trade and investment policies. In the short term both partners could agree on expanding existing agreements, and in the long term – as many continue to be convinced of – they could conclude a free-trade agreement. The support of the U.S. in the multilateral financial institutions is also vital for Egypt. Such a belief, however, remains very much conditioned on the extent of Egypt's readiness to pursue internal reforms as a priority. Nevertheless, the support of the U.S. in strengthening trade and investment relations, in lieu of the aid money, will better serve the interests of both countries. Such a shift would strengthen the Egyptian economy, promote democratization, and attract foreign investors.

The prevailing thinking among officials and the majority of the private sector is not to haste in seeking a free trade agreement. The results of such an agreement may not be immediately beneficial to Egypt because of limited economic diversification and competitiveness. These conditions hold back Egypt's ability to supply goods that are competitive in the American market. There is also a clear expectation of the need for transparency in Egyptian military budgeting and spending, as well as to

address the huge imbalance in Egyptian and Israeli military capabilities, though the Egyptian military plays a crucial role in the security of the region.

Last but not least, if more liberal political forces come to power in Egypt we can expect tougher friendly relations anchored in mutual interest and responsiveness to public opinion. New Egypt-U.S. relations need to overcome the dragging skepticism of the Egyptian public on the genuine objectives of U.S. policies towards the region.

EGYPT'S FOREIGN RELATIONS STRATEGIC FRAMEWORK

By Mustafa Kamel Elsayed*

Introduction

A foregone conclusion suggests that any state's foreign policy is the outcome of several determinants including: economic capabilities, military force, political ideology of the ruling group, geographical location, and others as outlined in academic references relating to international relations and foreign policy. However, the nature of the international system is one of the most important determinants. It constitutes the options available for the state in terms of the nature of the alliances it makes. Therefore, determining the type of relationship between a state that used to be a regional power and seeks to continue playing that role on the one hand, and a superpower on the other, requires an understanding of the nature of the international system where the state's foreign policy is being drawn up. The bipolar system which concluded with the Cold War allowed only two options for the world: a state either leans towards the alliance, or at least establishes a solid relationship with one of the two superpowers, or it bears the burden of not taking either side, and accepts the repercussions of "non-alliance," whether negative or positive. However, Samuel H. Huntington suggested that the system combined the features of the multi-polar and uni-polar systems. Despite those differences, there is no doubt that the international system that emerged after the Cold

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War is now in a state of transition, but to what extent? What are the features of the new position, if it's predictable? And what are the ideal trends for a regional power's foreign policy? That is the subject of this paper.

There is no doubt that the international system that dominated in the wake of World War II deteriorated with the conclusion of the Cold War and the disintegration of the other superpower into fifteen separate states, and the military alliance led by that power came to an end. That superpower has also abandoned its communist ideology, which used to be a competitive element in relation to the other super power. Rather, a number, if not most, of the states that were attached to that power, have turned to join the other power's economic and military alliances.

Since the early 1990s until the end of the first decade of the 21st century, it's been obvious that the system that emerged after the Cold War is a uni-polar system. The United States led an international military alliance to expel the Iraqi forces from Kuwait. This constituted an adequate reason to prove to Saddam Hussein that his reliance on the Soviet Union at that time to face the United States in its war against Iraq was a mistake. The Soviet Union supported that war, although it didn't participate in it, as it was approaching disintegration since the summer of 1991. The United States' wars against Afghanistan in 2001, and against Iraq in 2003, was more proof that no other power in the world would stop the American armed forces. Both the Russian Federation and France objected to the war launched by the United States against Iraq, and rejected the evidences of the U.S. justifying that war, which did not have the support of the UN

Security Council. Nevertheless, George Bush, president of the United States of America, was still convinced that the whole world ought to follow the steps of his country. This rests on the assumption that he and his administration's senior officials from the neoconservatives believed that the new American Century has started with the unstoppable military force of the United States of America.

However, over time it became obvious that the neoconservatives' convictions were not based on solid ground. As Kenneth Waltz predicted, the lifespan of a uni-polar system is short for two main reasons: first, the unipolar power tends to commit itself to obligations beyond its capabilities, and quickly appears unable to meet all those obligations. It then returns to reconsider its capabilities with less involvement in unnecessary external adventures, as per some groups' political views, to maintain his strategic interests. Second, a unilateral power's tendency to take individual actions would lead larger and medium powers to lobby against it. This was clearly perceived by both Barak Obama and predecessor George Bush who agreed to replace the G8 comprising advanced industrial states by the G20 as an acknowledgement of the fact that the G8 with the United States cannot solely manage the world's economy. It rather needs another prominent power, not only to jointly bear the responsibility of managing the world's economy, but also to assist in facing its economic crises.

While the 2008 economic crisis severely hit Western economies, Asian economies, such as Chinese and Indian economies, were growing at unprecedented rates. The new American President got the lesson. He started to talk about joint leadership of the world; he promised to withdraw

American forces from both Iraq and Afghanistan; and was hesitant to interfere in Libya with military force. He started to find justifications to avoid even sending weapons to the Syrian opposition. Although President Obama stresses the likelihood of resorting to a military option to stop Iran's nuclear program, it appears that the United States no longer sees the use of military force as a good option to achieve that goal. This new trend of President Obama reflects an understanding of the fact that the United States faces a historical unprecedented crisis of domestic and external debts. Hence, he realizes that adopting tight measure with regard to expenditures is a must rather than an interim response to an emergency. This in turns required a cut-off in military budget and avoidance of involvement once again in costly military campaigns.

There are many signs of the decline of the uni-polar system, and not just limited to the Middle East. These are obvious in the United States' relations with other states, where many governments began to distance themselves from the "big brother" in Washington; not only Cuba, but also Venezuela, Bolivia, Ecuador, and Nicaragua. Even in the best times under the neoconservatives, in 2002 both Chile and Mexico wouldn't agree to grant the United States an authorization through the Security Council to use the armed force against Iraq because it had failed to meet its commitments to previous Security Council resolutions. North Korea also continues its defiance to the United States by possessing nuclear weapons and intercontinental missiles, while the United States is only giving advice to North Korea with regard to maintaining self-control. This is not a reflection of the United States' inability to use its enormous military arsenal in the face of North Korea, but rather that war is not

the solution to all problems, and it has potentially dire consequences on both the victor and the vanquished. A defeated party wouldn't spare any counter-attack against the victorious party as well. Those calculations are obvious in the confrontation with Iran as well.

So, what is the nature of the new international system, which is certainly not uni-polar? Answering that question requires an analysis of the power distribution within the existing system in order to identify which international system it is. In fact, the first question is about giving a title to the category under which that system falls. Is it an international system where states constitute its basic units, similar to its predecessors (the preceding systems)? Or is it a global system that is formulated not only by states, but rather by other units competing with states and limiting their actions. In such case, states have to deal with those units as if they are independent. Such units do not necessarily belong to specific states, but rather they turn out to form para-nations, or even parallel to national or state units. There is no question that there are several effective players who perform beyond national states' power, and are not necessarily subject to their laws, or find ways to supersede those laws. Take first trans-border corporations whose capitals are distributed around the globe and exceed the GDP of tens of states. Those giant corporations, along with private financial institutions, have become capable of threatening the financial and monetary stability of big states. Although such institutions are not the sole players acting beyond state control, they form, along with the global civil society and terrorist organizations, significant alliances in the global arena, where the world political order may not be confined to states only. Notwithstanding, it should

be acknowledged that the values driving both international corporations and global civil society, especially those related to freedom of private economic activities and allowing citizens to exercise the civic and political rights affirmed by several international agreements, are those values that are advocated by western governments. Has the political system of which all players are part become a global one? Or is it still an international system whose basic units are the states that have power over trans-border corporations and global civil society, if not even controlling terrorist organizations of international nature? That is an unresolved question until now, and it is a point of controversy among veterans of international politics.²

²See Waltz, Kenneth N. "Structural Realism After the Cold War," *International Security*, Vol. 25: 1 (Summer 2000), Pp.5-41; Nossal, Kim Richard "Lonely Superpower or Unapologetic Hyperpower? Analyzing American Power in the Post-Cold War Era," paper presented at the biennial meeting of the South African Political Studies Association, Saldanha, Western Cape. June 29-July 2, 1999

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Dimensions of Power in the International and Global systems today:

As for the international system itself, or the state-based system, it is a multi-dimensional system, namely the: military, economic, scientific and technological, diplomatic, media, and cultural dimensions. Each of these dimensions has its own institutions and distribution of power. Statistics in the present paper indicate that if differences are huge among key states in the state-based system in the military dimension, those differences have become narrower in the economic and diplomatic dimensions. Hence, it may be true to say that the international system is uni-polar in the military dimension, yet, it virtually leans more and more towards a multilateral polar system in other areas, especially in the economic, diplomatic and cultural domains, and even in the military dimension. If reaching the center of the greatest pole in that system requires the possession of nuclear weapons, ballistic missiles, and sending a spaceship with human beings into space, the United States, the Russian Federation, and the People's Republic of China are the three states that have achieved this goal.

In so far as military power is concerned, the United States is at the top of the list due to several factors, the most important of which is its military budget estimated to be more than two-fifths of the whole world's military expenditures (41%), then comes China with nearly one-fifth of that amount (8.2%), then the Russian Federation, Britain, and France with (4.1%, 3.6%,), as per the data of the Swedish Institute for Peace Research. However, what makes that military power less effective is the fact that it can't be translated into real action due to political limitations put on the use of nuclear

weapons or other weapons of mass destruction, or even traditional weapons, as a result of the potential losses an opponent might incur. This will not be accepted by the American public opinion. That was extremely obvious when the United States was unable to use its huge military arsenal against other states such as Iran or North Korea; or even launch an attack using traditional weapons against the Bashar al-Assad regime in Syria.

Even if the gap in the military field is extremely wide between the United States and the nearest emerging power, this gap is being bridged in the economic field. It's true that the United States is the biggest economy in the world, China, which follows it in rank, produces half of what the U.S. produced in 2012, which, according to the World Bank, surpassed Japan, Germany, France, Brazil and UK respectively. The change in the power balance is reflected in the growth of China, which is expected to surpass the U.S. in few years. Brazil, which ranks sixth comes before the UK; India ranks ninth and comes after Italy which is immediately followed by the Russian Federation. Israel ranks the fortieth, whereas Egypt occupies the forty-third position. It's also noticeable that the global system clearly mirrors such change with regard to states' economic stance. According to *Forbes* magazine, the largest number of giant corporations worldwide as of 2013 is U.S. owned (543 companies). Japan follows with (251 companies), then China with (136 companies).

Even at the diplomatic level, the United States does not control international organizations as it did in the past. It failed to pass a Security Council resolution legitimizing the use of force against Iraq in 2002; it has also been unable to do the same

against Syria, or even to impose a ‘flight ban’ over Syrian land. In 2002, the U.S. faced objections from Russia, China, France, Chile, and Mexico. It also faces objections today from Russia and China with regard to the Syrian matter. Therefore, this concise paper outlines that the current international system practically tends to lean more towards a multi-polar system, and it shows that the distribution of power in the global system is characterized by significant fluidity.

A regional power’s optimal choices

In light of the above, what are the optimal choices for a state that represents a power in its region? It would neither be wise for such a state to have hostile or tense relations with the world’s most powerful state in the military field; nor for foreign relations to shadow that state’s policies. However, it should avoid conflicts of interest that would lead to disagreement, especially if the power has a distinguished position at the diplomatic, economic, and media levels, with many supporters worldwide both in the form of corporations and civil society organizations.

It would also be unwise for that state not to develop relations with emerging powers in the international system. If the system is turning out to be multi-polar, alliances within this framework are considered flexible in such a manner that reflects permanent interests and short-term friendships. Each state’s diverse interests and disparity of power distribution within different fields of the international system make it difficult for any unilateral alliance to enable any state achieve all its interests.

Considerations emanating from a careful understanding of the power distribution in both the international and global systems today should guide any plan for Egypt's relations with the United States of America.

EGYPT-U.S.: A “STRATEGIC RELATIONSHIP” IN NEED OF REPAIR?

By Mohamed Anis Salem *

This paper is concerned with identifying the parameters of the Egyptian-American strategic relationship, the added value each side attributes to it, and the divergent views held by Cairo and Washington, that tend to be insufficiently discussed. The paper concludes with an exploration of the future possibilities of this relationship.

I. The essence of the relationship

“The two sides declare their readiness to play their part in bringing about a peaceful settlement in the Middle East. In the view of the U.S. and the USSR, the achievement of such a settlement would open prospects for the normalization of the Middle East situation and would permit, in particular, consideration of further steps to bring about *a military relaxation in that area*”(my emphasis). This last sentence of the May 1972 communique that followed the Nixon-Brezhnev summit in Moscow triggered alarm bells in Cairo. Most relevant was a roundtable discussion hosted by Al-Ahram (which actually took place before the summit) where three senior Foreign Ministry officials highlighted the implications for Egypt’s efforts to redress the military balance with Israel and regain occupied Arab territories. With out of the box thinking for those days, they warned of an emerging “no peace-no war” situation where the USSR would not risk its own global interests to help Egypt liberate its land. The implications were

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far reaching: Egypt would need to recalibrate its distance from both superpowers, reassess its dependence on the USSR, increase its freedom of movement and resolve the impasse in the search for an Arab-Israeli settlement; a new relationship with Washington was needed and possible. On 18 July that year, Sadat expelled some 20,000 Soviet military advisers working in Egypt. During the 1973 war, a significant set of messages were exchanged between Sadat's National Security Adviser and Kissinger;³ also, one of the three participants in that roundtable, Ismail Fahmy, was appointed as Egypt's Foreign Minister, and sent to Washington to meet with Nixon. His cable back to Cairo was a turning point in Egypt's strategic orientation,⁴ although Heikal attributes this to a closed meeting between Sadat and Kissinger on 7 November 1973, where Sadat offered a "new strategic relationship with the U.S., including full Egyptian-American coordination in the Middle East and Africa".⁵

The consequences of this Egyptian repositioning were huge on the roles of the USA and USSR in the Middle East and beyond, with eventual implications for the very existence of the USSR and the Eastern Bloc. Later, this shift was further elaborated and expanded, indeed its key assumptions were transformed, with Sadat's strategy of seeking a U.S.-brokered settlement with Israel, expanding U.S. economic and military support to Egypt and

³Most of these exchanges were later published by Mohamed H. Heikal.

⁴This cable was published in Mohamed H. Heikal, *October 73: Weapons and Politics* (in Arabic), Al-Ahram, Cairo, 1993, pp.642-4. Indeed the whole series of Fahmy's cables from Washington, published by Heikal, are relevant. What is not documented is the impact these cables had in Cairo.

⁵*Ibid*, p.680.

aligning Egypt's security strategies more closely with the USA (e.g. Afghanistan, confronting terrorism, Gulf War I). This cluster of Egyptian policies went far beyond the original thinking of that 1972 roundtable, indeed, it could be argued that these were two different strategies and that presidents Sadat, and subsequently Mubarak, departed from the main objective of giving Egypt more space to pursue its own national interests and minimize the constraints generated by the international system. This departure may be analyzed in the context of a broader historical analysis which sees a recurring flaw in the pattern of Egypt's international alliances since the 19th century, with Cairo choosing to align with a less successful international power and paying the price of its miscalculations (with France not Great Britain, national sympathies with Germany not the Allies, with the USSR not the USA).⁶

Each party in the relationship holds a core set of concrete interests and another set of wider desiderata. While there is convergence on the first set of interests, the secondary circle is subject to often intense differences. This dynamic is discussed later in the paper.

In November 1997, Amre Moussa, Egypt's Minister of Foreign Affairs presented U.S. Secretary Albright with a proposal for an Egyptian-

⁶This point was emphasized by a former Egyptian Minister of Foreign Affairs: Ahmed AbulGheit, *My Testimony, (Arabic)*, NahdetMasr, Cairo, 2013. Interestingly, in the first days of the 1952 revolution, Egyptian officers sought to align with the USA while Dulles promised to support Egypt's leadership role in the region. See Dr. Mohamed Abdel WahabSeyed Ahmed, *Egyptian – Americans Relations: from proximity to aloofness 1952-1958*, (Arabic), Al-Shorouk, Cairo, 2007

American Strategic Dialogue. The dialogue was inaugurated on 10 July 1998.

II. The U.S. strategic outlook

Over the last decade or so, U.S. references,⁷ including official documents recently published by Wikileaks, agree on the elements that comprise U.S. strategic interests in Egypt:

- Maintaining Egyptian-Israeli peace.
- Transit through the Suez Canal and over-flight access⁸.
- Co-operation with the Egyptian military.⁹
- Strengthening U.S. ability to project and protect strategic interests (e.g. in the Gulf).
- Combating terrorism and exchange of intelligence.

The U.S. would probably prefer to focus on these issues (i.e. not expand the agenda) and seek practical solutions to advance them rather than expanding the list. The cost effectiveness of these strategies is related to a declining level of assistance to Egypt, i.e. the same objectives are realized at

⁷See for example: Jeremy M. Sharp, *Egypt: Background and U.S. Relations*, Congressional Research Service, 7-5700, 26 February 2013.

⁸Between 2001 and 2005, U.S. military aircraft were given 36,553 over-flight permits and 861 naval ships were given expedited transit through the Suez Canal.

⁹In 2000, it was argued in a U.S. discussion that "the military to military relationship lies at the heart of American-Egyptian relations". "The United States and Egypt- How allied? A debate", *The Middle East Quarterly*, December 2000, pp.51-60. A 2002 paper describes the Egyptian army as the "most powerful institution in Egypt" and as a "reliable U.S. partner". It argued that "U.S. military aid to Egypt has created a solidly pro-American military establishment". Council for Foreign Affairs, *Strengthening the U.S.-Egyptian Relationship*, May 2002.

lower costs.¹⁰ At the same time, the U.S. succeeded to large extent in pursuing parallel policies that are difficult to reconcile with these objectives (e.g. military support to Israel irrespective of its occupation and annexation of Arab territories, intervention in Iraq despite Cairo's objections, declining U.S. economic assistance to Egypt, the Greater Middle East Initiative, etc.).

Turning to the broader set of desiderata, there is ample evidence of managing the relationship with much realism. Over the years, the U.S. made proposals to further mobilize Egyptian action in support of its role in other theatres (e.g. Iraq and Afghanistan), which Cairo did not respond to. These proposals ranged from Egyptian direct military participation, to providing military bases for U.S. forces, or Egyptian military participation in training missions (e.g. in Iraq) or in joint international military operations (e.g. against Somali pirates). The U.S. also proposed, unsuccessfully, a reshaping of the Egyptian army into a more "nimble" force more suitable to the nature of terrorist threats and the need for rapid deployment internally and externally in a variety of theatres. Significantly, the U.S. has toned down its proposals for wider "Middle East" security frameworks that encompass Arab and non-Arab countries, albeit the Bush II administration (with G8 nominal support) made strong efforts to develop a

¹⁰ Aftandilian argues that freezing U.S. military assistance to Egypt at US\$ 1.3 billion means it is actually declining. Gregory Aftandilian, *Egypt's New Regime and the Future of the Egyptian Strategic Relationship*, Strategic Studies Institute, April 2013. In addition, during the Bush II administration there was a delinking of the level of U.S. aid to Egypt from that provided to Israel (ending the 2 to 3 formula).

broad, reform oriented, Middle East and North Africa framework (BMENA), starting in Rabat in 2004.¹¹

III. Egypt's strategic outlook

Egypt's interests in the strategic relationship with the U.S. can be summarized in:¹²

- Modernizing Egypt's military capabilities.
- Ending Israeli occupation of Palestinian territories.
- Supporting Egypt's regional and international role.
- Establishing a nuclear-free zone in the Middle East.
- Egypt's role in Gulf security.
- A political solution to the situation in Syria.

Egypt also had its own desiderata. Maintaining proportionality between military support to Israel and Egypt (the 2:3 formula);¹³ a more energetic

¹¹ Initially, in 2003, the term used was "Greater Middle East Initiative (GMEI)". Also see the U.S. State Department archive: <http://bmena.state.gov/>

¹²References for this segment include the chapter on Egyptian-US relations on the AbulGheit memoires, AbulGheit, *op cit*. Interestingly, AbulGheit mentions the "re-launch" of Egypt-U.S. strategic dialogue in July 2006 with the participation of Egypt's Ministers of Foreign Affairs, International Cooperation, Trade and the Head of General Intelligence (p. 170-1). Also the papers (in Arabic) presented at a round table held in Cairo 2012, See *Middle East Papers*, National Center for Middle East Studies, Cairo, Issue 58, January 2013.

¹³Interesting that this linkage recognizes the "triangulation" of Egypt-U.S. -Israel relations, while in other contexts Egyptian diplomacy tried to delink the relations with Washington from the Israeli factor (often referred to as the "bilateral dimension" (see AbulGeit, *op. cit.* p.182).

U.S. role in reaching an Arab-Israeli settlement; objecting to the idea of a military solution to Iran's nuclear program and addressing it via an alternative set of policies (e.g. developing a comprehensive initiative that also addresses Israeli nuclear capabilities, a role for Arab countries in negotiating Iran's nuclear programme); avoiding policies that may accelerate state failure and fragmentation in the region (particularly Sudan and Iraq).

IV. Convergence, divergence and future possibilities:

Both sides in this relationship have shown a remarkable ability to keep it alive and useful. By focusing on the core concerns of each party and not allowing the relationship to be unduly disrupted by their wider set of desirables or their differences they have ensured the realization of concrete gains.

Nevertheless, the thesis presented here is that there is a need for revisiting and clarifying the strategic interests of each party and identifying commonalities and divergences. Continued obscurity comes at a cost: repeated crisis, lost opportunities and a sense of frustration, coupled with lack of public support and buy-in by political forces on both sides.

So far, there have been only modest elaborations of the strategic vision or outlook of each of the two parties in this asymmetric relationship. The result has been that several misconceptions and false expectations exist on both sides. Politicians in Washington and Cairo are challenged to explain the underpinnings of the Egyptian-American relationship (e.g. Obama's formula describing Egypt famously as "neither an ally nor an

enemy").¹⁴ Public opinion in Egypt, increasingly important in a phase of transition and populist politics, remains polarized and confused in its assessment of the costs and benefits of their country's quasi-alliance with the U.S.¹⁵ Naturally, the internal Egyptian discussion on foreign policy reflects and spills over into the debate on the Mubarak legacy, perceived by many Egyptians, especially those who joined or supported the 2011 revolution, as an era of caving in to American demands at the cost of Egypt's principles and interests. The logic of this perception is to demand a reassessment in the direction of distancing Cairo from Washington.

Both parties agree on the need to maintain the Egyptian Israeli peace agreement; the desirability of an Israeli-Palestinian settlement; maintaining the security of the Arab countries of the Gulf; strengthening Egypt's military capacity; strengthening military co-operation between a group of Western, Arab and Islamic countries.

Differences have existed over several issues, including: denial of military bases in Egypt, U.S. military support/supplies to Israel, strategic requirements shaping Egypt's military orientation and need for equipment / training, Egypt's military involvement overseas (e.g. Iraq, Somalia, Afghanistan).

¹⁴In an interview with the Spanish-language network Telemundo, President Obama says the U.S. would no longer consider the Egyptian government an ally, "but we don't consider them an enemy." September 13, 2012.

¹⁵See for example an article by Ambassador Ehab Wahba, previously Egypt's Assistant Minister of Foreign Affairs for American Affairs, "A confused strategic partnership" (In Arabic), Al Shorouk, 22 December 2012. P.13.

Significantly, following the 2011 revolution, U.S. officials have framed military support to Egypt in the context of its internal situation (e.g. statement by current U.S. Secretary of Defense that the U.S. considers its military supplies to be the most important part of the relationship with Egypt as it shaped the role of the Egyptian military in internal politics).

At the moment, looking at the possibilities for continuity and change in Egypt-U.S. relationship, it would seem unrealistic to conceive of an explicit alliance between Cairo and Washington. At the other end of the spectrum, a total disruption of the relationship only please the extreme right in Congress and the extremists on the right and left of Egyptian politics, with little practical returns. More important, it is unlikely in view of the real gains accruing to both parties. What are the alternatives?

1. That the relationship continues with a high degree of ambiguity and little relevance to the changing landscape of the Arab/Middle East region and beyond (e.g. the implications of the U.S. pivot to Asia, the repercussions of the “Arab Spring”, the influence of political Islam, the fragmentation of states, etc.). The core elements of the relationship survive, particularly U.S. military assistance, but the wider strategic dimensions diminish slowly. The model of the U.S. relationship with Pakistan is often cited in the context of this scenario. This seems to be where the relationship is at the moment.
2. Egypt clarifies its strategic objectives and conducts a cost/benefit analysis as to the methods it is willing to deploy in securing them. In this context, Egypt seeks a realistic

relationship with the U.S. that builds on common ground, minimizes divergences and, most importantly, has a horizon for growth in line with Egypt's aspirations to lead the region towards more integration and development. Key to this scenario would be Egypt's ability to build a model of successful transition to stability, democracy and growth. This option is far from clear at the time of writing.

3. That the U.S. cuts its losses, winds down its military assistance, while Egypt attempts to diversify its sources of military supplies and expends its international relationships. A degree of co-operation is maintained, particularly on non-controversial issues, but without longer term or broader issues.
4. Black Swan/wild card scenario: in response to a crisis in the region (e.g. U.S. military strike against Iran; a coup or uprising in an Arab Gulf country; internal crisis in Egypt; an Israeli intervention in Sinai), both parties pull closer together or, as differences accelerate, go their separate ways resulting in a lengthy cooling down of relations.

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Annex: additional notes

I. Introduction: what is strategic?

The term “strategic” is used extensively in the context of explaining the importance of Egypt-U.S. relations. The objective of this paper is to unpack this concept and clarify the different perspectives of both parties to this relationship.

This endeavor is not helped by the political overtones and symbolism attached to the usage of the term “strategic” in contemporary internal Egyptian politics. Initially, following the January 2011 uprising, the Mubarak regime was attacked for its close relations with the USA, the “strategic relationship”. This framing of the issue remained in use until late 2012 and early 2013 when spokespersons for the Moslem Brotherhood government used the term to explain the importance of relations with the U.S. and fend criticism of their apparent continuation of a key part of Mubarak’s foreign policy.

Another problem relates to a more general issue of recent U.S. diplomatic lexicon. In practice, there seems to be loose usage of the concepts of “strategic”, together with words like “partnership”, “dialogue”, “relations” and “interests”, when describing interaction of the U.S. with a host of countries. For example, a review of the U.S. practice of strategic dialogues with Egypt, China, India, Pakistan, Morocco, and Algeria indicates that there is a tendency towards including a very broad spectrum of issues, ranging from political to economic and cultural. Many topics on the agenda of these meetings would normally be covered in the context of any “classic” foreign policy discussion between two states. Sometimes the scope covered

seems to veer off into issues that could hardly be described as "strategic" (e.g. Hillary Clinton referring to child marriage in her introductory remarks in the strategic dialogue with Morocco).

This paper will use "strategic" in a much more limited manner that deals with the questions of broader, longer term significance that relate to the national security interests and perceptions of states. In the context of the present analysis, this paper will cover the key highlights in Egypt-U.S. strategic relationship, particularly military supplies and training, anti-terrorism, naval and aerial access, in addition to eight issues of relevance: (i) the Egyptian - Israeli balance of forces/military assistance; (ii) the Palestinian question/Gaza/Sinai; (iii) Sudan/Nile waters; (iv) Iran nuclear capabilities/Gulf security; (v) the Syrian situation; (vi) The Horn of Africa/Somalia; (vii) Egypt's regional and global role.

II. Background: Key milestones in the relationship

Several key milestones deepened the strategic relationship but also contributed to obscuring its parameters:

1. The early years of exploration to disappointment and confrontation (1952-mid-1970s).
2. Birth of the relationship 1973-1979.
3. Military capacity building: intelligence, supplies, coproduction, training, maneuvers,
4. Afghanistan
5. The liberation of Kuwait.
6. The war on terrorism.
7. The year since January 2011 revolution until June 2013 revolution.

III. Egypt's strategic outlook on key issues.

Most Egyptian officials hold a vision of their country as a leading regional power with an active role in the Arab world and Africa if not beyond. In this context, the key components of Egypt's strategic outlook are:

1. Maintaining the military balance with Israel (including the nuclear dimension).
2. Securing Egypt's share of the Nile waters.
3. The security of the Suez Canal.
4. The security of Egypt's Eastern borders (Sinai, Gaza).
5. Gulf security
6. Other items?

IV. U.S. interests in the Middle East

Traditionally, U.S. interests in the region revolve around oil, Israel's security and access. Some would add democratization or stability as objectives. Others would say that these interests are changing dramatically with the U.S. evolving towards being an energy exporter, the pivot to Asia, and the increased military differential between the Arab states and Israel.

V. Structural constraints:

1. Lack of Egyptian clarity on national security interests.¹⁶ There are old fashioned concepts that have not been updated to capture the challenges and opportunities of the 21st century. Institutional cultures, rivalries and gaps.
2. Power asymmetry between both sides.

¹⁶ See Wikileaks cables where Egyptian officials explain their strategic outlook.

3. Values and styles of two different political systems.
4. The Israeli factor (the triangulation of the bilateral relationship).

**EGYPTIAN-AMERICAN RELATIONS: FROM
MUDDLING THROUGH TO A BREAKTHROUGH**
Ashraf Swelam*

Two years after the Egyptian revolution, relations with the United States have entered uncharted territories shrouded in thick clouds of uncertainty about Egypt's (as well as the region's) future course, as well as the enduring validity of the transactional bargain that represented the core of the relationship for some forty years.

After a brief background about Egyptian-American relations, this paper will analyze the profound changes that Egypt has witnessed since the revolution, with a focus on the drivers that are likely to determine the outcome of the country's transition, and in the process affect Egyptian American relations. The paper puts Washington's response to the unfolding events in the context of American national security interests, so as to question its validity and sustainability. It ends with a call for fresh thinking about the future of Egyptian American relations, free of the assumptions and the conclusions of the last forty years.

Egyptian – American Relations: A Background

The seeds of Egyptian-American relations as we know them today were sowed some forty years ago. Egypt and the U.S. had minimal dealings during the period of the Ottoman Empire and British rule. Relations under Gamal Abdel Nasser (1952 – 1970), were tense and sometimes openly hostile. Nasser's bent on charting an independent course for Egyptian Foreign policy, his pro-soviet positions, and the 1967 War culminated in cutting relations. The relations swung in the opposite direction under Anwar Sadat (1970 – 81).

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The latter's decision to pivot from the Soviet Union and to defy Arab consensus against peace with Israel did not only present the United States with an opportunity to take Egypt out of the Middle East's military equation, and to remove the biggest threat to Israel's security, but also with a game-changer in its Cold War rivalry with the Soviet Union. Egypt gave Washington a strong foothold in the region which the latter used to project power and secured its access to strategic air and naval routes essential for the uninterrupted flow of oil (and international trade). From America's point of view at the time, Egypt was a strategic prize worth every penny of investment.

The spectacular fall of the Soviet Union and the end of the Cold War meant, among many things, depriving Egyptian-American relations of one of its strongest rationales. However, the endurance of Egyptian-Israeli peace and the benefits that came with the "strategic relationship" between Cairo and Washington more than made up for that, and Egyptian-American relations – weakened as it might be muddled through.¹ Moreover, Iraq's invasion of Kuwait (1991), attempts at reaching a comprehensive and lasting resolution to the Arab-Israeli conflict, and the "war on terrorism" gave the relations one lifeline after the other.

For forty years, Egyptian-American relations solidified around on a transactional bargain, where in return for cooperating with American national security interests in the region, Egypt enjoyed the enviable (or unenviable depending on one's persuasions) position of being the largest recipient of American military and economic assistance (\$71.6bn in total)² second only to Israel. In addition, Washington turned a blind eye to the authoritarian nature of the Egyptian regime and its systematic violations of human rights.

¹ Steven Cook, "What is Egypt?", *Foreign Policy*, March 1, 2013.

² Jeremy Sharp, "Egypt: Background and U.S. Relations", Congressional Research Service, February 26, 2013

Mubarakism without Mubarak³

The Egyptian Revolution took Washington by surprise. For a brief second, the Obama administration appeared to be siding with Hosni Mubarak, its long-time ally, before the unfolding events in Egypt forced it to reverse course. What the Egyptian revolution and the so-called Arab Spring (or Awakening) didn't force was to a comprehensive reevaluation of America's national security interests on the region. Those remain largely unchanged, namely defending against a conventional or unconventional attack on American soil, the security of the state of Israel, and the uninterrupted flow of oil. In Washington's point of view, it is merely the context in which those interests are pursued that has changed. For Egyptian-American relations, that has meant maintaining the relations' narrow focus: the Egyptian-Israeli peace treaty and the outmoded military/intelligence cooperation that existed during Mubarak's era, the Egyptian revolution notwithstanding. Said differently, the most that Washington sought of its relations with Cairo was a reconfigured transactional bargain that delivers what Mubarak delivered without Mubarak. To that end, and faced with a divided and incoherent bunch of youth groups and non-islamists parties, two players stood out: the Egyptian military and the Muslim Brotherhood.

Both enjoyed considerable influence over the unfolding events: the first by virtue of its centrality to the Egyptian regime and the powers transferred to it by Mubarak on his way out, and the second by virtue of being the country's only organized and most coherent political player. Both had something to offer Washington: restoring calm to Egyptian streets and maintaining it on the Egyptian/Israeli border.

³ Ellis Goldberg, "Mubarakism without Mubarak: Why Egypt's Military Will Not Embrace Democracy", *Foreign Affairs*, February 11, 2011

The Egyptian Revolution took Washington by surprise. For a brief second, the Obama administration appeared to be siding with Hosni Mubarak, its long-time ally, before the unfolding events in Egypt forced it to reverse course. What the Egyptian revolution and the so-called Arab Spring (or Awakening) didn't force was to a comprehensive reevaluation of America's national security interests in the region. Those remain largely unchanged,⁴ namely defending against a conventional or unconventional attack on American soil,⁵ the security of the state of Israel, and the uninterrupted flow of oil.⁶ In Washington's point of view, it is merely the context in which those interests are pursued that has changed. For Egyptian-American relations, that has meant maintaining the relations' narrow focus: the Egyptian-Israeli peace treaty and the outmoded military/intelligence cooperation that existed during Mubarak's era, the Egyptian revolution notwithstanding. Said differently, the most that Washington sought of its relations with Cairo was a reconfigured transactional bargain that delivers what Mubarak delivered without Mubarak.

To that end, and faced with a divided and incoherent bunch of youth groups and non-Islamists parties, two players stood out:⁷

⁴ Aaron David Miller, "The Politically Incorrect Guide to U.S. Interests in the Middle East", *Foreign Policy*, August 15, 2010

⁵ Depending on one's views, counterterrorism and preventing a belligerent Iran from acquiring a military nuclear capability can be added, either as distinct American national security interests in the region, or merely a subset of the aforementioned ones.

⁶

Under which comes access to strategic land, air and naval routes.

⁷ That formula was clearly spelled out by Secretary John Kerry in testimony for the Senate Foreign Relations Committee on March 18, 2013

the Egyptian military and the Muslim Brotherhood. Both enjoyed considerable influence over the unfolding events: the first by virtue of its centrality to the Egyptian regime and the powers transferred to it by Mubarak on his way out, and the second by virtue of being the country's only organized and most coherent political player.

Both had something to offer Washington: restoring calm to Egyptian streets and maintaining it on the Egyptian/Israeli border. Both also badly needed Washington: military assistance (for the first) and recognition, good will, and later on economic support (for the second). Even before Mubarak stepped down, the Egyptian train of transition was put on these two parallel but inseparable tracks, working together to that end, and checking one another when the need arise. The new formula worked, or so it seemed. For two years, military-to-military relations and intelligence cooperation could not have been stronger. Mohamed Morsi – the Muslim Brotherhood leader and the first democratically elected President of Egypt – seemed to be delivering what his predecessor used to deliver, but with the legitimacy that the latter so terribly lacked.

But few months into the Muslim Brotherhood's reign, it is becoming abundantly clear that nudging the transition of Post-revolution Egypt back to the transactional bargain of the past is much harder than anyone have thought, not for lack of interest or effort, but as a result of two related factors: the Brotherhood's dismal performance in office and the many ways in which Egypt has changed,⁸ largely ignored by all parties of the transaction.

⁸ Michael Wahid Hanna, "Clouded U.S. Policy on Egypt", *Foreign Policy*, February 26, 2013.

The Many Games in Town

The outsized attention to cultivating ties with the Muslim Brotherhood came under the false pretext that the 80-year organization is the only game in town. True, the Muslim Brotherhood enjoyed a considerable edge at the ballot box as a result of its superior machine and grassroots network that guaranteed electoral success, but for the last year performance at the ballot box was hardly matched by that in office. On the contrary, a year into Morsi's presidency has proven beyond any reasonable doubt, and to the surprise of many, the Brotherhood's incompetence. Rather than trying to unite an evidently divided society (this shouldn't take a genius to realize, especially with Morsi's hair thin victory), the Brotherhood's power grabs, marginalization of other political forces, and harassment of institutions, most dangerously the military, but also the judiciary, Al-Azhar, and the media, to name just a few, have been nothing but a cause for further polarization.

As a result, the country is bitterly divided like never before in its history. The economy is on a dangerous downward spiral with grave repercussions for the livelihood of some 60% of the population that can't make ends meet. Violence is becoming the country's new normal. Even the Brotherhood's biggest asset – their ability to win elections – is now in jeopardy, as the results of the public referenda and elections of the last two years unmistakably show,⁹ eating away at the very notion of invulnerability.

⁹ Jeffrey Martini & Stephen M. Worman, *Voting Patterns in Post-Mubarak Egypt*, Rand Corporation, 2013

Flip the coin and one finds a protest movement that is alive and well, Salafis that are proving to be a formidable force, and a non-Islamist opposition moving up the learning curve (albeit slowly). And then of course there is the public opinion, which – irrespective of the name of the Egyptian President or his ideological background or affiliation – has, and will continue to, force the executive to back down on policies it wants to adopt and force it to adopt others it won't otherwise. Egyptian foreign policy in general, and Egypt's relations with the United States in particular, will be no exception. More than any time before, public opinion will matter to varying degrees, depending on the issue at hand.¹⁰

The other side of the Muslim Brotherhood's failure to govern is its failure to lead the change necessary to address the failures of his predecessors, the ones that drove Egypt to the brink. At first instance, the Egyptian revolution seemed like the impulsive pouring of youth yearning for freedom and dignity washing away a dictator who overstayed his welcome. That was. But it was also the climax of lengthy and deep transformations in the Egyptian economy and society. Significant among these were the rapid population growth and the swelling of the youth bulge making it impossible for the resources of Egypt's rentier¹¹ state (already on the decline) to keep pace with the skyrocketing demands of its clientelist state

¹⁰ Gregory Aftanlidian, *Egypt's New Regime and the Future of U.S.-Egyptian Strategic Relations*, U.S. Army War College, Strategic Studies Institute, April 2013

¹¹ Revenues of the Suez Canal, oil and gas exports, foreign aid, and remittances of Egyptians living abroad, all rents that have very little to do with the competitiveness of the economy or the productivity of the people, yet constitute the country's biggest earners of foreign currency

(subsidies and public sector salaries which combined constitute more than half of the Egyptian budget), let alone investment in public services for the mushrooming population. Sixty years after Egyptian independence, the scorecard of the country's rentier/clientelist model is nothing short of miserable. Forty percent of the population lives on less than two dollars a day. One-third is illiterate. One-quarter of its youth is unemployed. Moreover, forty years since economic liberalization, Egypt ranks 109th out of 185 countries in the World Economic Forum. No assistance package, no matter how generous it is, can bring back to life Egypt's rentier/clientelist state. In other words, the demand for swift and far reaching change is real, is not going away, and is not being heeded.

As a result, Egypt's transition is far from over. The uncertainty enveloping it is already forcing significant changes to relations with the United States. Washington is finding itself caught in a tough balancing act between heeding the economic collapse of the most populous country of the Arab world (a nightmare scenario for Washington) and nudging its civilian leadership to offer the compromises needed for the Egyptian ship to keep muddling through. In the process, Washington finds itself forced to take on the very unfamiliar role of meditating between the Brotherhood and non-Islamist political forces. This comes with the considerable risk of complicating an already complicated scene, with unfolding rivalries : between the latter and other Islamists, between Islamists and non-Islamists, and between all the above and the forces of the counter-revolution.

Irrespective of the ascendancy of the Muslim Brotherhood, the newly found role of the political Islam in Egypt's public space is a third and a powerful driver that will have a significant impact on the future

direction of Egypt, as well as on Egyptian-American relations. Many Salafists and Jihadists now operating under the banner of political parties, and often wrapped in Islam as a straightjacket rather than the ethical and cultural wealth that it is, are certain to bring to the fore serious questions about issues such as human rights, women rights, and religious freedoms. And while these issues are nowhere on the list of Washington's vital national security interests, they are ones with influential constituencies in the United States with the capacity to cause considerable damage. By contrast, violence that erupted as a result of a movie depicting Prophet Mohammed that many have considered blasphemous, claiming in the process the lives of American diplomats, will not be a one-off event, rather a reoccurrence as the new Egypt experiences and test the limits of Western free speech.

From Muddling Through to Breakthrough: Conclusions and Recommendations

The Egyptian revolution presented Egypt with a once-in-a-generation opportunity not only to break away from its past of dictatorship and poverty and to follow a path to democracy and economic prosperity, but also to usher in a new foreign policy, anchored around the country's national security interests and the principles of its revolution: freedom and human dignity. It offered the United States with a rare chance to reset the relationship and to build a more robust and reliable strategic partnership than was ever possible before, based on mutual interests with a government that should enjoy the consent of the Egyptian people and accountable to them.¹²

¹² Tamara Coffman Wittes, "What the U.S. Can Do For Egypt?", The Middle East Channel, Foreign Policy, March 1, 2013

Below are a few conclusions and recommendations:

- **Foreign relations and domestic policies are inseparable.** This couldn't be truer than the case of Post-revolution Egypt, and particularly so in the context of Egyptian-American relations. As a matter of fact, Egyptian domestic politics and how they unfold will for the first time in the history of the relations drive it for the foreseeable future.

- **Taking a Long View on Egyptian developments:** One that emphasizes building a wide coalition of political forces supportive of Egyptian-American relations.¹³

- **A New Rationale:** Egyptian-American relations are in a desperate need for a new rationale built around the many areas of shared interests between the two countries, and mindful of the tectonic changes taking place globally and regionally, including the Pivot to Asia, which contrary to what many think – or – hope will pull the United States more into, not way from, the Middle East (this topic is out of the research focus of this paper).

- **Broaden and deepen Egyptian –American Relations:** One major downside of the transactional bargain at the core of Egyptian-American relations is that it limited the latter to government-to-government contacts. The major forces at play referred to above point in the direction of encouraging and expanding ties between business and religious leaders, parliamentarians, jurists, scholars, as well as broadening and intensifying youth and students' exchanges.

¹³ Wittes, *ibid.* 14 Jon Alterman, "The Asia Pivot", Middle East Notes & Comment, CSIS, January 10, 2013

- **Reevaluate the aid relationship:** The aid relationship is in a desperate need of revision. This is not limited to the American side. Even on the Egyptian side, there is a need – for reasons related not only to putting future Egyptian-American relations on the right track, but also for reasons related to the country's future economic growth and prosperity – to question, with the aim of ending, the country's overreliance on aid (and other forms of rent).

THE REALITY AND FUTURE OF CAIRO-WASHINGTON MILITARY RELATIONS

By Mohamad Megahed El-Zayat*

Introduction

Military relations between Cairo and Washington stand as the main component of the two countries' relations due to both countries' mutual interests. Yet, to understand the reality behind these relations and to foresee their future, we need to be aware of Washington's defense strategy in the Middle East, which is: supporting both the security of Israel and Washington's allies, preventing Iran from acquiring nuclear weapons, pursuing the Middle East peace process, playing a role in achieving stability for America's regional partners, and supporting democratic changes in Yemen, North Africa, and Syria. Moreover, the same U.S. defense strategy protects the United States interests through the Pentagon's military presence and defense co-operation in the region in addition to enhancing its allies' military capabilities. Hence, one of the basic principles of the United States-Israel security cooperation is the United States commitment to maintain the qualitative military edge of Israel and support its ability to repel any threat or group of threats by any state. It sees Israel as a sovereign country that enjoys the right to self-defense and Israel's Security is greatly enhanced by U.S. defense cooperation with other regional allies. Consequently, the United States' strong security relations with the Arab States, including Egypt, Jordan, and partners in the Gulf, are not only incorporated into Washington's strategic interests,

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but also constitutes part of Israeli security interests. Relations with Egypt stand as one of the most important defense relations. On the 9th of May 2013, the United States' Defense Secretary, Chuck Hagel, confirmed all of this in his speech before the Washington Institute for Near East Policy (WINEP). Within this framework, this paper seeks answers for a number of questions, which are as follows:

1. What are the main determinants of Egypt-U.S. military relations?
2. What are the main fields of military co-operation between both countries?
3. What are the mutual benefits to both countries?
4. What are the problems facing these military relations?
5. What is the future of mutual military relations between the two countries in light of the ongoing reality?

Egypt-U.S. military relations

1. Determinants of the Egypt-U.S. military relations:

Generally, the main determinate of Washington's defense strategy in the Middle East lies in one fact: the basic principle of the United States-Israel security cooperation is the American commitment to maintaining the qualitative military edge of Israel and its ability to confront any threat or group of threats by any elements, whether States or others. Moreover, Israel is a sovereign country that enjoys the right to self-defense.

So, the United States defense cooperation with other regional allies enhances Israel security. Strong the United States-Arab relations, including with Egypt, Jordan, and Gulf partners, are not only

incorporated in Washington's strategic interests, but also Israel's security interests.

In fact, Egypt-U.S. relations are unique due to Egypt's geostrategic location: Egypt's pivotal position in the Arab region and its affiliation with multi-system regional security mechanisms in the Middle East, South Mediterranean, and North Africa. American interests are related to energy security, securing oil resources in the Arab Gulf, fighting terrorism in the Middle East and North Africa (MENA), protecting Israel's security, and countering piracy in the South Red Sea and the Gulf of Aden. This explains successive U.S. administrations' interests in promoting military cooperation and ties with Cairo, especially after the late Egyptian President Mohammed Anwar Al Sadat signed the Peace Accords with Israel in 1979.

Talking about the military dimension apart from other dimensions, such as politics or security, is out of question. Egypt's current political crisis has led the United States to reassess its relations with Egypt, especially after President Obama won a second term in office, and in light of the latest developments in Egypt: the spread of violence and a complex political crisis between the regime and the opposition. However, Washington is still keen to maintain strong relations with Egypt, as long as the latter has not exceeded the red lines such as harming the security of Israel or violating human rights and freedoms, especially of minorities.

II. Forms of Egypt-U.S. military cooperation

Egypt-U.S. military cooperation has different forms: arms sales, military technology, joint military maneuvers, and training, as outlined below:

1. Military Aid

From 1984 to 2011, the United States provided Egypt with \$71.6 billion in the form of multi-faceted aid, including \$1.3 billion in military aid annually since 1987 until now. Egypt receives most of the United States' military aid through 3 accounts: Foreign Military Financing (FMF), Economic Support Fund (ESF) and International Military Education and Training (IMET). Moreover, Egypt receives irregular limited allocations from the anti-terrorism account (NADR).

During the 2011 fiscal year, the year of the Revolution, Egypt received around a quarter of the FMF financing allocations while Israel got around 60% of such funds. In spite of the fact that there is no verified figure on the military spending of the Egyptian army, the United States' military assistance to Egypt likely covers 80% of the armament costs of the Egyptian Ministry of Defense while other sources have estimated annual U.S. military aid to Egypt as covering one third of Egypt's Ministry of Defense budget. Yet, Egypt is no longer the second largest recipient of the United States' aid; it took the place of the fifth major U.S. aid recipient in the United States' foreign aid budget of 2012. Israel occupied first place on the list with \$3.07 billion, then Afghanistan with \$ 2.327 billion, Pakistan with \$2.152 billion, Iraq with \$1.683 billion, and Egypt with \$1.557 billion. This was repeated again in 2013, when Israel has occupied first place with \$3.100 billion, Afghanistan with \$2.505, Pakistan with \$2.228, Iraq with \$2.045 billion, then Egypt with \$1.563 billion.

For years now, the United States' Department of Defense has been gradually trying to persuade the

Egyptian military to focus and train on anti-terrorism equipment more than traditional combat equipment, due to the fact that one of the main concerns of the United States' legislators is the security in Sinai Peninsula. This in itself is a great recognition that the aim behind granting Egypt such military assistance is to divert the Egyptian army from facing strategic challenges to police work and abandoning traditional combat missions. In fact, this was reflected Secretary of Defense Chuck Hegel's latest visit to Egypt, during which, anti-terrorism and smuggling in the Sinai Peninsula were part and parcel of his talks with the Minister of Defense, General Abdel Fattah el-Sissi.

Military aid to Egypt comes in three main forms: Equipment supply, modernization of military equipment, and maintenance and ongoing support through defense contractors. Egypt-U.S. coproduction of M1A1 Abrams tanks is the cornerstone of the United States' aid to Egypt. In fact, Egypt plans to own 1200 tanks of that type. According to the terms of this program, parts of this tank are manufactured in a facility in a Cairo suburb, while the rest of the tank is produced in the United States and shipped to Egypt to be assembled. General Dynamics Land Systems is the main contractor in this program. Furthermore, the United States congress has been notified in June 2011 of a M1A1 tank potential agreement and the Congress has not rejected the deal under which General Dynamics was awarded \$395 million to provide Egypt with 125 M1A1 Abrams tank kits. This latest deal will increase the number of Egyptian coproduction-built tanks to 1,130. General Dynamics deliveries will begin in July 2013 and last until January 2016.

In January 2013, the United States delivered four F16 fighter jets to Cairo in accordance with the 20-jet deal approved by the Congress in 2009, with 16 jets to be delivered later by the end of this year.

Barack Obama's administration faces conflicting pressures from the Congress and American Military Contractors on the issue of military aid to Egypt. Lately, Bill Tommy, a prominent American Senator, has introduced a bill to the congress to make Egypt-U.S. military cooperation dependent on the commitment of Egypt to the Camp David Accords with Israel. Moreover, he called for reduction of the United States' funds allocated to Operation Bright Star, a joint Egyptian-American military maneuver. Tommy said that Israel is the main ally and friend in the Middle East and the commitment of Egypt to the Accords is of vital importance to Washington. When Egypt does not abide by these Accords, the United States will respond by reconsidering the military relations between the two countries.

On the other side, American Military contractors who represent a significant lobby in American elections, reject a halt of arms to Egypt. They argue that such action will lead to the cancellation of existing contracts, in addition to suspension of production lines working to supply Egypt with such weapons, which would lead to serious losses as well as the loss of thousands of jobs. In this regard, an American newspaper, the New York Times, quoted some American officials as saying that the United States' suspension or delay in aid to Egypt may lead to the termination of contracts with the U.S. defense contractors and production lines.

2. Joint Military Exercises

Combat experience and joint military training represent, as a whole, one of the main fundamentals of the defense relations between Egypt and the United States. Since 1994, the Egyptian army has joined the American army in Operation Bright Star, a biannual military operation held in participation with a number of countries including Germany, Jordan, Kuwait, and Britain. The main aim behind these exercises is to perform field exercises to enhance military cooperation between United States and Egypt, as well as with the rest of the allied countries. In fact, these exercises have provided the American army with necessary training for the desert combat conditions in the Middle East. In 2003, these joint arrangements were suspended because of the persistence of the George W. Bush's Administration to invade Iraq; however, the exercises were resumed on a larger scale in 2005 and 2007. It is also worth-mentioning that the United States of America has been critical of the Egyptian military commanders' stance against Israeli participation in Operation Bright Star.

In 2008, the two countries held the joint "Exercise Eagle Salute." The exercises included: search, rescue, and reconnaissance, destruction of surface and air targets, and anti-submarine. These exercises were held as part of the continuous pursuit of the two countries to fight maritime piracy operations and secure geostrategic marine straits.

3. Mutual benefits of joint military relations

Through bilateral military relations, Egypt helped the United States in achieving Washington's strategic goals in the Middle East. Additionally, they have had good coordination in the field of anti-terrorism and cooperation in administrating military maneuvers taking place in the Middle East.

Accordingly, the United States has benefitted enormously from the military relations. The United States military aircrafts are granted access to Egyptian Military airspace, U.S. Navy battleships are given expedited passage through Suez Canal; additionally, relations create a suitable climate for the United States to move freely in the region, on both air and maritime levels. On the other side, Egypt has managed to avoid any wars with neighboring country, Israel. As a result, the Egyptian economy has focused on other requirements, where Egypt became dependent on Western rather than Russian armaments.

4. Problems undergone in the military relation between the two countries

The United States has called upon Egypt many times to change some of the latter's internal policies and to be consistent with international changes and threats to the region, such as anti-terrorism. The United States blames Egypt in many occasions for not exerting adequate efforts equivalent to the funds and military aid offered by the United States to Egypt. The United States' Congress often raises a number of issues when discussing military aid to Egypt. They have called upon Egypt to: hold more open relations with Israel; adopt measures to secure common borders with both Israel and Gaza; counter arms trafficking; protect the religious freedom of Egyptian minorities, especially Copts; work on adoption of political reforms; and achieve judiciary independence, among other issues.

III. The future of Egypt-U.S. military relations

In spite of the fact that it is difficult to predict the future of Egypt-U.S. military relations, some could say that the relations between the two countries will

not remain the same. In spite of Chuck Hagel's talk about the critical role Egypt plays with regard to the commitment to the Camp David Accords and Israel's security, the points of tension may yet have an impact on Egypt-U.S. relations in the coming period. For example, Egypt may call upon Israel to amend the Camp David Accords' security annex. Moreover, there is a group in Washington calling upon President Obama, in his second term, to put pressure on president Morsi to change his policies so that they serve U.S. interests in the region.

As a matter of fact, international aid is a key and effective playing card. It is not an easy for the Egyptian military to reject U.S. military aid due to the aggravated economic situation in the country, especially when U.S. military aid is \$1.3 billion annually, and such an amount of money cannot be dismissed. Further, it is not likely that Washington will cut off military aid to Egypt because the aid helps to enhance U.S. strategic goals in the region. Moreover, the United States has benefited a lot from of this aid. U.S. aircrafts have enjoyed a free access to the Egyptian military air space, U.S. battleships enjoy expedited processing when crossing Suez Canal, and additionally, Egypt is committed to purchasing U.S. military equipment.

Recent threats to cut off aid are not the first, and will not be the last. This card is always used by the United States to achieve its political interests. As a result, we can say that recent criticism in the U.S. Congress against military aid to Egypt is nothing but a repetition of the same situation over years. The reason behind that criticism comes from a group of pro-Israel members of Congress. This criticism takes place on an annual basis, and is always concluded with the confirmation that the

military aid is necessary for U.S. national security. It is also worth mentioning that the weapons market is controlled by the seller, not the buyer, and the seller also provides others with weapons in accordance with its own interests. This exactly how United States handles Egypt.

The United States will seek to focus in the future on intensifying a regular security dialogue with Egypt to include all military and civilian officials. The reason is to formulate military requirements during the transitional phase with a view to threats, capabilities, defense agreements, and the roles that could be played by the army in the society.

Statements made by prominent officials in the U.S. administration and Congress indicate a tendency to attempt to restructure Egypt's military aid by decreasing funds allocated to weapons and equipment sales, increasing IMET funds, and channeling aid to support Egypt's military capacity to confront external threats such as border security and terrorism, especially in Sinai. Yet, to achieve this goal, there is a need to change a whole generation within the army. And to make such a change, continuous rapprochement between Egyptian forces, the U.S. military, and other regional armies, is needed. This perhaps constitutes a key American goal to keep the impact on military elites.

EGYPT-U.S.: TOWARDS A SMOOTH TRANSITION FROM AID TO TRADE

By Omneia Helmy*

Introduction

More than two years on since the outbreak of the January 25th 2011 revolution, Egypt's political situation remains unsettled and social stability is far from restored. The country has been experiencing a longer and a less than a smooth transition, with adverse effects on the macroeconomic environment, the quality of institutions and the business environment.

Getting Egypt back on a path of sustainable economic growth will greatly enhance the chances of success for Egypt's transition to democracy. A democratic Egypt, buoyed by inclusive economic growth and a strong private sector, can be an anchor of peace and stability in the Middle East and North Africa (MENA) region. This policy brief argues that strengthening trade and investment ties between Egypt and the U.S. could help promote Egypt's economic development and support its efforts towards democratic transition and political stability, while advancing U.S. strategic interests in the MENA region and creating new economic opportunities for American businesses.

The purpose of this note is to explore alternative options for expanding Egypt-U.S. trade and

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investment flows, considering the differences in their levels of development. The analysis concludes that negotiating a free trade area (FTA) between Egypt and the U.S. is better to start sooner rather than later. This FTA should involve eliminating tariff and non-tariff barriers on trade in goods and services among them, mutual agreement on investment and the harmonization of *some* domestic policies such as intellectual property rights. A well-designed and implemented FTA could advance and “lock in” domestic economic reforms in Egypt and associate the U.S. with positive change that could reduce the rising anti-American sentiment in a volatile political climate in Egypt. While this longer-term policy option is in process, the existing trade and investment frameworks and agreements between the two countries should be expanded in terms of product and geographical coverage at the earliest possible.

The note is organized as follows: Section 2 is a brief assessment of current trade and investment flows between Egypt and the U.S., highlighting the need for reform initiatives to further strengthen trade and investment ties between Egypt and the U.S. Section 3 brings to the forefront the main obstacles to closer trade and investment ties between the two countries and emphasizes the need for twinning stabilization and structural policies in Egypt to relax these constraints. Section 4 explores alternative options for expanding Egypt-U.S. trade and investment flows in the short and longer terms. It identifies the nature of a desirable agreement and the steps that should follow to broaden and deepen the Egyptian-American trade and investment relations. Section 5 offers some concluding remarks.

1. Assessing Current Egypt-U.S. Trade and Investment Flows

At a time of tight U.S. budget constraint and a steep fall in U.S. economic assistance to Egypt over time (from \$800 million annually in the 1980s to \$250 million in 2011), gradually shifting the current emphasis away from aid toward strengthening bilateral trade and investment relations is an attractive policy option.

The U.S. is Egypt's largest trading partner and second largest investor. However, the share of the U.S. in Egypt's exports and imports has dropped significantly from 31 percent to 13 percent and from 22 percent to 12 percent, respectively over the period 2006/07-2010/11 (Central Bank of Egypt, 2012).

In 2011, Egypt's merchandize imports from the U.S. totaled \$6.2 billion, while its exports to the U.S. totaled \$2.1 billion, bringing Egypt's trade deficit with the U.S. to \$4.1 billion (Table 1). Egypt's imports and exports to the U.S. are highly concentrated. Egypt's largest import commodities are wheat and corn (24 percent of total imports from the U.S.). Textiles and apparel are Egypt's top export commodities (43 percent of total exports to the U.S.).

Egypt is currently the 53rd largest goods trading partner for the U.S., with a very modest share in U.S. total merchandize exports (0.5 percent only) over the period 2008-2011, on average (UNSD, Comtrade database).

Table 1. Egypt's merchandize trade with the U.S. (\$millions, 2011)
Source: Congressional Research Service, March 4, 2013.

Egypt's total imports from the U.S. (\$ millions, 2011)	6,222	Egypt's exports to the U.S. (\$ millions, 2011)	2,059
Share of Egypt's total imports from the U.S. (%)		Share of Egypt's total exports to the U.S. (%)	
Cereals (wheat and corn)	24	tiles and apparel	43
Oil	10	Oil	17
Machinery	9	Fertilizers	13
Aircraft parts	8		

In 2011, Egypt was the main recipient of U.S. direct investment in the Middle East and North Africa (MENA) Region, attracting \$14,581 million. However, nearly two thirds of total U.S. investments are concentrated in the oil and gas sector (U.S. Department of Commerce, Bureau of Economic Analysis, 2012).

The above analysis suggests that trade and investment relations between Egypt and the U.S. have not been developed to their full potential. Egypt's reform initiatives are needed to diversify exports, enhance the country's competitiveness, increase market access for Egyptian exporters in the U.S. and attract more investments, particularly to sectors which could help create productive and decent jobs. Stimulating trade and investment flows between Egypt and the U.S. could create new economic opportunities for American businesses which may contribute to U.S. exports and employment.

2. Towards Closer Trade and Investment Ties between Egypt and the U.S.

The lingering unstable political and security situation since the outbreak of the January 25th 2011

revolution, coupled with a slowing world economy, has further accentuated Egypt's macroeconomic imbalances, weakened the quality of institutions and increased the difficulty of doing business, with negative implications for Egypt's trade and investment ties with its main trading partners, including the U.S.

Accentuated macroeconomic imbalances

Egypt's real GDP growth rate slowed down from 5.1 percent in 2009/10 to 2.2 percent in 2011/12. This slowdown in economic activity led to a higher unemployment rate (13 percent in December 2012 compared to 9 percent in December 2010), with the youth accounting for more than 74 percent of total unemployment. The budget deficit increased to 11 percent in 2011/12 compared to 8.1 percent in 2009/10, with the government increasingly relying on domestic borrowing to finance this deficit, which raised the domestic public debt as a percent of GDP from 73.6 percent in 2009/10 to 80.3 percent in 2011/12. Foreign currency revenues from net foreign direct investment (FDI), merchandize exports, tourism and Suez Canal declined, eroding net international reserves from \$35.6 billion in December 2010 to \$13.6 billion in February 2013 and causing the Egyptian pound to depreciate versus the U.S. dollar by 17 percent over the same period.

Weakening quality of institutions

Several pressing institutional weaknesses in Egypt are major hurdles to domestic and foreign investment in Egypt. Concerns regarding the transparency, accountability and governance of political and economic institutions are serious impediments to enhancing productivity, improving

aggregate supply and raising growth and employment.

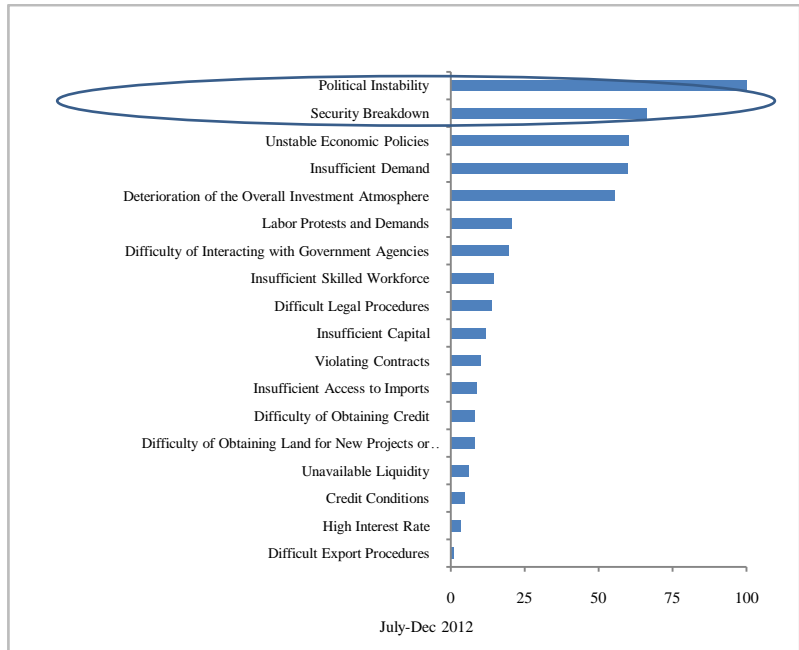
Weak protection of intellectual property rights (IPR) remains on the U.S. Trade Representative's Special 301 Watch List for IPR violations. Labor market inefficiencies are mainly manifested in the mismatch between the demand and supply of skills in the labor market, the low female participation in the labor force, weak cooperation in labor-employer relations, rigid hiring and firing practices and low correlation between pay and productivity. Relatively weak banking intermediation in Egypt, with a loan-to-deposit ratio of 49 percent in 2011/12 and heavy shouldering of the government's budget deficit crowds out credit to the private sector and curtails the access of small and medium enterprises to credit and hence employment creation.

Increased difficulty of doing business

Post the revolution, the business climate has become less supportive of private activity, amidst growing concerns about political instability, security failure, corruption charges and lack of clarity regarding the direction of economic policies.

Political instability and security breakdown during the present period of transition take center stage among the most problematic factors to doing business in Egypt as indicated by the July-December 2012 edition of *Business Barometer*, published by the Egyptian Center for Economic Studies (ECES), (Figure 1). People's lack of trust in an equitable rule of law has increased crime and violence. The heightened cost of crime and violence hampers the usual flow of business activity.

Figure 1. Major Barriers to Doing Business in Egypt



Source: ECES Business Barometer, July-December 2012.

Despite several governments' attempts to reduce red tape, the administrative requirements such as permits, regulations and reporting still impose high transaction costs on businesses. Investors continue to face difficulty in obtaining information about changes in government policies and regulations, especially those with a bearing on their own activities.

To sum up, stabilization policies are needed to lay the foundation for economic growth, mainly by reducing government budget deficit without discouraging economic activity, while availing fiscal space to provide well-targeted social safety

nets. Structural policies including good governance, protection of property rights and sound regulatory framework for contract enforcement, would help address specific impediments to enhancing productivity, improving aggregate supply and raising growth and employment.

3. Policy Options for Expanding Egypt-U.S.

Trade and Investment Flows

The U.S. economy is the largest in the world and its trade and investment policies could create opportunities or impose restrictions that could have a major impact on Egypt.

Notwithstanding the existing frameworks and agreements on trade and investment between Egypt and the U.S., economic relations between the two countries have not been developed to their full potential. In what follows, the note will briefly touch on the existing frameworks and agreements then suggests the need to reinforce such cooperation to pave the way to signing an FTA between Egypt and the U.S.

The Generalized System of Preferences (GSP):

Expanding product coverage

The U.S. grants non-reciprocal preferential treatment to imports from Egypt under the GSP. Egypt is the second largest Arab MENA beneficiary of the U.S. GSP program, after Tunisia, exporting around \$37 million worth of goods to the U.S. in 2011, representing about 20 percent of the total U.S. GSP imports from the Arab MENA.

Table. Egypt's Exports to the U.S. Under the GSP Program, (\$ million, 2011)

Item	Value (\$ million)
Aluminum sheets	15.3
Fruit and vegetable preserves	14.8
Cut stone and stone products	5.4
Plastic products	1.5
Total Egyptian exports under the U.S. GSP	37.0
Total Arab MENA Countries	186.1

Source: CRS, analysis of data from U.S. International Trade Commission (USITC) Interactive Tariff and Trade Data Web.

However, Egypt's utilization of the GSP program remains very low. No more than 0.79 percent of total U.S. imports from Egypt enter the U.S. duty-free under the GSP program. The main reason for this is that some of Egypt's major exports, including textile and apparel are goods that are excluded from preferential treatment under the GSP program. Hence, expanding product coverage could help increase the use of the existing GSP program by Egyptian exporters.

The Qualifying Industrial Zones (QIZs)

Program: Adding zones and diversifying sectors

The QIZs program permits the qualifying zones in Egypt to export certain products to the U.S. duty-free if the value includes 10.5 percent Israeli content. The purpose of the QIZs program is to support the Middle East peace process and to build

closer economic ties between the region's peace partners.¹⁸

Exports from Egypt to the U.S. under the QIZs program have grown from about \$266 million in 2005 to about \$1 billion in 2011. The QIZs share of Egypt's total exports to the U.S. also has grown during this time period from about 13 percent in 2005 to about 52 percent in 2011 (http://www.qizegypt.gov.eg/About_IZ.asp).

However, ready-made garments and home textiles dominate Egypt's QIZs exports to the U.S., accounting for over 90 percent of all exports under the QIZs program.

Expanding existing QIZs in Egypt by approving additional zones in the country and diversifying the participating sectors could provide opportunities for more textile and apparel firms and encourage other sectors where Egypt has a revealed comparative advantage, such as prepared fruits and vegetables (Helmy, 2010).

An Egypt-U.S. Free Trade Area

Egypt was the first country to sign a Bilateral Investment Treaty (BIT) with the U.S. in 1986, which entered into force much later in June 1992. This BIT aims at facilitating U.S. investment flows to Egypt by protecting American investors' rights

¹⁸ The industrial areas currently included in the QIZs program are Alexandria, areas in Greater Cairo such as Sixth of October, Tenth of Ramadan, Fifteenth of May, South of Giza, Shobra El-Khema, Nasr City and Obour, areas in the Delta governorates such as Dakahleya, Damietta, Monofeya and Gharbeya and areas in the Suez Canal such as Suez, Ismailia and Port Said. Certain companies in the Upper Egyptian governorates of Minya and BeniSuef were designated as QIZs in January 2009, but the program only started to be implemented in the two governorates in late 2012.

and encouraging the adoption of market-oriented domestic policies that treat private investment in an open, transparent and non-discriminatory way. In 1999, Egypt and the U.S. signed the Trade and Investment Framework Agreement (TIFA) that enables the two countries to consult on issues of mutual interest in order to facilitate trade and investment. Both Egypt-U.S. BIT and TIFA could reinvigorate potential FTA negotiations.

Free trade agreements (FTAs) are a centerpiece of U.S. trade policy. The U.S. has entered into 14 FTAs with 20 countries, including 4 Arab countries. The FTAs between the U.S. and Arab countries go beyond WTO commitments, by including additional obligations (in areas such as public procurement and customs administration), and obligations outside the current mandate of the WTO (for example, anti-corruption, competition policy and human rights), as illustrated in Table 2.

Table 2. Content of U.S.-Arab Countries FTAs

FTAs	Date of entry into force	Number of Provisions	
		WTO + (WTO commitments and additional obligations)*	WTO –X (Obligations outside the current mandate of the WTO)**
U.S.-Jordan	17-Dec-01	6	5
U.S.-Morocco	01-Jan-06	14	6
U.S.-Bahrain	01-Aug-06	12	4
U.S.-Oman	01-Feb-09	13	6

Source: World Trade Organization, 2011.

Notes: * For example, public procurement, customs administration and TRIPS.

** For instance, anti-corruption, competition policy and human rights

Egypt is a member of the WTO and a partner in 7 regional trade agreements on goods. Discussions on a potential FTA between Egypt and the U.S. were put on hold in 2005 due to U.S. concerns over election results and human rights.

In view of differences in their levels of development, Egypt and the U.S. could negotiate an FTA that involves eliminating tariff and non-tariff barriers on trade in goods and services among them, mutual agreement on investment and the mutual recognition/harmonization of *some* domestic policies such as intellectual property rights and product standards.¹⁹ A well-designed and implemented FTA could enhance and “lock in” domestic economic reforms in Egypt and generate benefits to both countries.

Although an FTA between Egypt and the U.S. is a longer-term policy option, given the timeframe most FTAs take to finalize and the readiness of trading partners to negotiate specific commitments, negotiations are better to start sooner rather than later.

An Egypt-U.S. FTA could be a gradual path toward a comprehensive U.S.-MENA FTA that would help increase intraregional trade among the MENA countries and cumulate their rules of origin.

¹⁹ U.S. exporters regularly encounter non-tariff barriers in Egypt in the form of product standards, technical regulations and testing and certification requirements. Multiple sectors are affected by the divergence of Egyptian standards from American standards. Here, there is a need to encourage Egyptian authorities to recognize U.S. standards.

4. Conclusion and Policy Implications

- Egypt will continue to be a cornerstone of U.S. relations with the MENA region.
- Although domestic reforms must be internally-driven, the U.S. can play an important role in supporting Egypt's reform initiatives. This would enable Egypt to play a constructive role in the MENA region.
- Egypt's economic recovery requires the twinning of short-term stabilization and long-term structural policies. Short-term stabilization policies should focus on reforming public finances, reviving private activity, enhancing the level of international reserves and stemming the risk of depreciation. Long-term structural policies should remove the hurdles that have prevented inclusive growth. Reforms should address inefficiencies in the labor and financial markets, create accountable institutions and develop a more transparent, open and accessible business climate.
- Labor market policies and regulations should increase access to quality education and training, balance the flexibility of hiring and firing with the maintenance of adequate worker protection and tune the education and training systems to the needs of private employers.
- Institutional and financial support should be provided to formal small and medium enterprises to maximize their potential and to establish a level playing field for their operation. This would enhance their contribution to gross domestic product, employment and exports.
- Business regulations should target facilitating doing business, as well as exiting the market and introducing modern bankruptcy codes that decriminalize business failures.
- Strengthening the rule of law is a prerequisite for stability at both the political and security levels,

but good governance is also needed to attract U.S. investment.

- Greater accountability would require an independent judiciary and a parliament that is both representative of the people and accountable to them. A strong parliament will also help mitigate corruption which not only eats up productivity, but also jeopardizes the existence of an equitable and efficient rule of law.

- Strengthening trade and investment ties between Egypt and the U.S. could help promote high and sustained economic growth and create productive and decent jobs for a growing young population.

- In the short run, boosting Egyptian exports to the U.S. requires enhancing Egypt's utilization of GSP and QIZs programs through expanding product and geographic coverage.

- Negotiating a free trade area (FTA) between Egypt and the U.S. is better to start sooner rather than later. This FTA should involve eliminating tariff and non-tariff barriers on trade in goods and services among them, mutual agreement on investment and the harmonization of some domestic policies such as intellectual property rights. This would help advance and "lockin" domestic economic reforms in Egypt and associate the U.S. with positive change that could reduce the rising anti-American sentiment in a volatile political climate in Egypt.

POLICY PAPER ON U.S. AID

By Magda Shahin*

U.S. aid, which mirrors the status of the Egyptian-American relationship, has brought to the fore the differences in perceptions in the usage of aid and the misalignment of mutual interests that was lately the reason for straining the relations and creating tensions between the two countries.

- What are Egypt's interests in its relationship with the USA?
- What are the benefits Egypt gets from U.S. economic and military aid and does it warrant that Egypt aligns its interests with those of the U.S.?
- Is it in Egypt's interest to deal with aid as an integral part of an overall newly negotiated relationship with the U.S., or to keep it in its present format as an offspring of the Camp David Accords?
- Is the aid package within Camp David a sufficient condition for Egypt to maintain the Egyptian-Israeli peace treaty? And, what is the alternative to not maintaining the peace treaty and what would be the consequences in terms of regional stability and Egypt's attractiveness for investors?
- With Israel becoming clearly the uncontested power in the region, what purpose does Egypt serve to the U.S.?

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- With the continued unrest in Egypt and growing opposition how credible are the Moslem Brotherhood in maintaining fundamental alignment with U.S. interests and how far will the U.S. go to help the MB deliver?

Since the fall of President Mubarak in February 2011, Egypt-United States relations seem to have been put on hold, as each was contemplating the other side to venture the first step, with the U.S. congress clearly standing firm against any potential move by the administration. For the U.S. congress, Egypt's new government is unknown and unpredictable. This will unnecessarily complicate the situation, as relations will be shaped in the absence of mutual understanding and joint efforts to the detriment of the two countries. U.S. aid is one of these critical topics that cannot be put on the backburner or be exposed to unilateral action from either side. However, aid is not an end in itself, it can only work if the two countries define jointly a basis for their future relations and common interests. It is only then that aid as an instrument of foreign policy could give a clear boost to the entire relationship.

Recommendation:

1. Although objectively speaking, Egypt is not in a critical need of the USD 250 million economic aid, politically it remains a sensitive issue. Hence, it is advisable to refrain from propagating wrongly Egypt's readiness to do away altogether with economic aid or find other alternatives to the U.S.
2. Understanding properly the underlying reasoning of the U.S. economic and military

aid to Egypt within the framework of Camp David Accords and putting overtly and in all transparency on the table each country's interests and whether they can be aligned to justify that each party commits itself to agreed actions: Aid on one side, security co-operation, stability and potentially market access, on the other side.

3. U.S. aid should be taken up within a more comprehensive framework to make the point that aid assumes only a lesser role in the relationship and does not override other more pertinent issues, notably trade and investment as well as mutual security.
4. Camp David was first a peace framework in which aid was a useful instrument. The framework today needs to be revisited and recast more broadly to put Egypt-U.S. relations on a steady path.
5. While today's government and the Freedom and Justice Party (FJP) may not give priority to U.S. aid in the framework of the Egyptian-American relationship, Egypt should be the one to kick off the debate on aid after serious study and with renewed objectivity and strong arguments for its justification, based on clear understanding of mutual interests.
6. Egyptian policymakers need to rethink Egypt's new leverage and value that can impress upon the U.S. in these unfavorable changing circumstances in the region.
7. Egypt needs to create first the prerequisite conditions that can enable it to engage the

U.S. and International community at large with credibility. At their core, these conditions include Egypt's pluralistic society's success in putting in place a governance framework that can produce predictable and sustainable decisions and ensure their effective implementation.

Background:

It is of utmost necessity for Egyptian policymakers before undertaking any action towards U.S. assistance to put to rest all kind of criticism addressed to it whether justified or not. Obviously, by nature and mere definition, aid given within the category of the 'Economic Support Fund' is for the advancement of U.S. political and security goals.²⁰ It is neither to help the recipient country in its developmental plans nor to respond to its economic needs.

It had been clear in the mind of the administration and congress at the time of the Camp David Accords that Egypt's economy was not capable of absorbing large sums of funds. Nevertheless, at that time, the U.S. felt obliged to compensate President Sadat for his vision and courage, whose action constituted a milestone in the region's history. The ambitious and generous aid package within the framework of Camp David Accords, well beyond Egypt's capacity to absorb, -hence, the inflated problem of the pipelines- was justified to congress purely on the basis of political considerations.

²⁰ U.S. General Accounting Office, Report of the Administrator Agency for International Development, GAO/NSIAD-85-109 July 31, 1985, p2

Much controversy was raised around the large gap between Egypt and Israel in the amounts, format and conditionalities of the aid packages. Egyptian policymakers need yet to remain aware that, although nowhere documented in writing, it was agreed during the Camp David negotiations in 1978 that the U.S. would provide aid at a ratio of 2 to 3 to Egypt and Israel, respectively.²¹ This can be all the more reason for Egyptian policymakers to insist on delinking aid to Egypt from the Camp David Agreements. But then this entails a new cooperation framework between the two countries. Post-revolutionary Egypt can offer more than maintaining peace with Israel. Egypt can offer security cooperation to face international terrorism; a friendly capable military that can play a role on the global chessboard for stability; an anchor for democracy in the region that promotes mature relations between the countries of the region and the international community; markets and investment prospects that contribute to the U.S. and world's prosperity. Egypt can reduce or increase the U.S. headaches and provide or dash hopes of regional partnership with the U.S. and EU in world developments.

The military aid remained always out of public debate and criticizing it was a taboo issue. While military aid has no less imperfections and shortcomings than economic aid, it was never subject to scrutiny. Even fervent critics of ESF, such as the Moslem Brotherhood, are supportive of military aid and do not venture into

²¹ Sharp, Jeremy M. U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2011 Congressional Research Service, June 15, 2010, page 24

understanding its components, let alone question them. Though the question of connectivity between the two types of aid -economic and military- was rarely raised, it should certainly not be to Egypt's advantage to delink them. Discontinuing ESF, under the pretext that it reached such a low level as to make it inconsequential or to absorb anti-Americanism and restore Egyptian pride, while maintaining the military aid will give, on one hand, wrong signals at the domestic level of the total reliance of the military on American aid, thus undermining the integrity and independence of the Egyptian army. On the other hand, even if such threats are only meant for intimidation purposes, it could deeply harm the relations and push the congress to take extreme actions.

There is tendency for historic reasons and the abhorrence of the Moslem Brotherhood for President Sadat and the Camp David Accords to relegate U.S. aid to an inferior position in the Egyptian-American relationship. It is conceivable that the Freedom and Justice Party (FJP) would like to detach such a relationship from Camp David, which imposes Israel as an integral part of the equation. Whereas such a position may be warranted from the perspective of FJP, it is not clear yet what would be the alternative; and, if such an alternative will not be even more burdensome on Egypt and the Egyptian people. Nevertheless it is vital for Egypt to require that its relationship with the U.S. be redefined amidst all these drastic changes. Mutual interests should be revisited and identified in broader terms and not simply go with the historically determined flow.

It is obvious from the constant switching of USAID objectives and policies since the 80s that developmental objectives and promoting Egypt's growth were hardly considered as potential goals for the U.S. It is well-known that the 80s and 90s experienced a more general shift in emphasis of development aid from infrastructure to support institutional reforms. At that time donors felt that in order to increase aid effectiveness, it is necessary to establish *a priori* a more conducive institutional environment. However, as said, ESF to Egypt was not considered within the framework of development aid. In this context, one would have thought that such a shift from USAID would have warranted prior consultation and agreement with the GOE. Egypt had to succumb to the unilateral shifts conducted by USAID. From the restoration and reopening of the Suez Canal and some limited infrastructure projects, such as expanding electric power generation, telephones, drinking water and sewage to financing 'the open door policy' and the swift shift to market economy and privatization; at a time when Egypt was still grappling with modernizing its industrial sector. Then U.S. aid concentrated on the establishment and functioning of Egyptian civil society particularly non-governmental organizations, hardly a priority for the Egyptian economy. With the turn of the millennium, instead of heeding the millennium goals and helping Egypt fight poverty and create employment, priority was given to democratization and good governance, as the two viable objectives for Egypt's economy. Instead of continuing to help Egypt in infrastructure projects building roads and modernizing its ports, etc. to promote Egypt's development and raise it to the stage of the emerging economies, it was obvious

that every time the U.S. changed gear, the funding for infrastructure projects suffered most and was dropped ultimately. In other words, development and growth objectives of the two countries deviated immensely with the exercise of power lying in the hands of the U.S.

Throughout these various phases, the USAID was the one to set the tone and make up the choices, which was rarely effectively challenged. Convinced of their incomparable edge, USAID went on financing directly and without supervision the democratic process in Egypt. It was only after the revolution when tension occurred between the Government of Egypt and the USAID, which led to the discontinuation of their financing approval to the NGOs among which the non-registered ones and the need to get prior government became compulsory.

The government will not be able to contain and suppress the NGOs, as they have become an integral part of the social fabric. USAID in its recent aid policies has given NGOs a priority. The Egyptian policymakers will have to take the issue of funding NGOs more seriously and reach a *modus vivendi* on their funding with USAID. It is true that American financing to non-registered NGOs has been a violation of Egyptian sovereignty, but the Egyptian government has not acted fair or transparent in its NGO registering policies. It is also known that NGOs in general and non-registered in particular are supportive of the American funding as it keeps civil society from disappearing or being controlled by the state. If the government does not expedite the process of registering the NGOs, it will create an

unnecessary tension at the level of the congress that will impact negatively on the administration.

Egypt also knew since the Glide Path Agreement (1999) that economic aid will be halved in 10 years after which it will gradually decline. Today, ESF is only at \$250 million. This should not come as a surprise. Egyptian experts need to go through the different U.S. categories of aid (Commodity Import Program, Cash Transfer Program, etc.) and see what fits Egypt best at present and be ready to negotiate a new development assistance program. What used to be once Egypt's strength and leverage, is now on the wane, mostly because of changing circumstances internationally and in the region. Playing the East against the West, the Camp David Accords and the first Gulf war, where Egypt had a pivotal role, do no longer constitute guidelines or accredit Egypt with any edge in the negotiations. In this context, it is important for Egyptian policymakers to rethink Egypt's new value that can impress upon the U.S. in these unfavorable changing circumstances.

Egypt's stability was one of the main goals of the U.S. aid, this -without any doubt- should continue to be, as the U.S. cannot afford a collapse of Egypt that would give a free hand, space and means to extremists. Will the U.S. continue to trust the new government in Egypt with the military aid as a token for maintaining peace with Israel? How much is the new government ready to assist Hamas, which is the natural embryo of the Moslem Brotherhood, in providing it with armaments and equipments.

Aid remains a symbol of the popularity of the U.S. among the Egyptian people, more so than trade or investment. It is incumbent upon the U.S. with the help of the Egyptian policymakers and the civil society to help U.S. aid reach out to the people. American aid should be made more visible to the average Egyptian citizen. This is important for the U.S. as well. As the U.S. remains interested in a model for peace with Israel – no matter how successful this model is – its interest in Egypt should not diminish. However, in return for such a role model, Egypt should become more exigent in setting the terms of reference for the new aid format commensurate with its developmental objectives to achieve growth, activate trade, create employment and raise productivity.

U.S. legislators are busily trying to condition future economic aid to Egypt and restructure military assistance altogether – a move that is in neither countries' interests. In addition, the \$190 million that was released during Secretary Kerry's March, 2013, visit is more of a goodwill gesture rather than a salute to the present government. In fact, it is part of the regular \$250 million given to Egypt for development projects and technical assistance through the U.S. Agency for International Development, and is not new funding.

Conclusion:

If the paper sounds critical, this is by no means a denial of the remarkable achievements of U.S. aid for Egypt's economy, it is more of an eye-opener to ready the Egyptian policymakers for hard and protracted negotiations in this very sensitive area.

The most probable scenario is that the U.S. will apply the same kind of treatment to today's Egypt as it did in the past. U.S. aid will be negotiated separately on two levels, which diminishes any GOE leverage to push for a more balanced package. The U.S. administration, however, has interest to deepen its engagement with the Morsi government and to lure the Moslem Brotherhood into a tighter bilateral relationship, which the latter will eagerly welcome. A tighter bilateral relationship will work to the advantage of both ends. For the Moslem Brotherhood, it will bolster their position in Egypt and in the region; for the U.S. it will ascertain the continuation of the status quo and avoid any possible confrontation between Egypt and Israel.

By continuing to deal with the military separately, the U.S. administration will ensure the leaning of the Egyptian army and the rationale of shunning any all out war with a far superior Israel. The military's vested interest is the maintenance of military aid and cooperation. Aid and military training help convince the military of the total ineffectiveness of war to achieve political and territorial gains.

The momentum of maintaining regional peace lies still in the hand of Egypt – if even with a weakened position – this could constitute reason enough for the U.S. to show willingness to negotiate a new aid deal as an integral part of an overhauled relationship between Egypt and the U.S.