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EGYPT ON THE EDGE: HOW EUROPE CAN AVOID ANOTHER CRISIS IN EGYPT

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SUMMARY

- Europe's current policy towards Egypt is dominated by immediate migration concerns and commercial opportunities. But this short-sighted approach offers few benefits and overlooks the dangers of Egypt's current direction.
- The security situation in Egypt is worsening, with terrorist groups extending their reach and launching a wave of attacks against Coptic Christians. At the same time, the political crackdown has intensified, driving some young Islamists towards violence as peaceful avenues for political expression are shut down.
- While President Sisi has engaged in long overdue economic reforms, deeper and more structural change is needed to offer Egyptians opportunity and raise their standard of living.
- The EU should do away with its narrow approach of working with Egypt only on areas of mutual interest. It should also promote the rule of law, economic opportunities, more effective security, and political rights in Egypt. To do so, the EU should prioritise Egypt's socio-economic development, refocusing the counter-terrorism debate, and limiting the worst excesses of the political crackdown.

Terrorism and migration now dominate Europe's policy towards Egypt. Fears of an influx of migrants from Egypt and the further growth of the Islamic State group (ISIS) branch based in Sinai encourage the European Union to cooperate with the Arab world's most populous country. Yet Egypt has also been in the news for other reasons. A wave of terrorist attacks against Coptic Christians threatens to weaken the country's sectarian divide, Egyptians are struggling with the impact of large price increases in basic goods, and a potential presidential candidate faces criminal charges.

The tension between these two sets of considerations defines the problem that Europe faces in formulating a constructive approach to Egypt. The instinct for engagement with Egypt on subjects of urgent European concern has increasingly come to take precedence over any reservations about the direction in which President Abdel Fattah al-Sisi is leading his country.

But Europe's pragmatic approach is problematic. In the short term, the possibilities for cooperation with Egypt are limited because of the ineffectiveness of large parts of the Egyptian state. Egypt's leadership has done little to tackle the country's weaknesses and European attempts to engage on specific issues, such as counter-terrorism, end in stalemate. What's more, there are good reasons to worry that Egypt's government is making domestic problems worse, not better.

In the longer term, the picture may be even gloomier. There are very few signs that Egypt's current leadership will take the steps necessary to deal with the country's many underlying problems. European hopes that recent economic reforms have set Egypt on a path to greater stability may be

dashed. In fact, public hardship is likely to worsen and much broader action will be needed to achieve the sort of inclusive development that will benefit Egyptians across the social spectrum. The underlying conditions for another uprising remain in place, although at the moment discontent is only simmering, not boiling over.

Not only is Egypt suffering on the domestic front, it has also shown a tendency to alienate some of its closest neighbours. In late 2016, it fell out with Saudi Arabia, the Egyptian government's main benefactor, over its support for Bashar al-Assad's regime in Damascus and its unwillingness to take on a greater fighting role in Yemen. In its own region Egypt also has troubled relations with Palestine, Libya, Sudan, Qatar, and Turkey. On the European side, relations with Italy soured in January 2016 over the brutal torture and murder in Cairo of a young Italian academic, Giulio Regeni, and initial attempts by the government to cover up any trace of its alleged involvement.

The EU's options for influencing Egypt are limited, and European policymakers have struggled since 2011 to find a way of encouraging the country to undertake real political reform. Nevertheless, to protect its own interests, the EU needs to avoid lapsing into disengagement, wishful thinking, or passivity. The best approach to this difficult partnership is for the EU to work with Egyptian authorities on areas of mutual interest, such as migration, security, and economic reform, while being guided by a clear and consistent vision of the conditions under which such joint ventures can proceed. Alongside pragmatic engagement, the EU should also set clear priorities for longer-term cooperation so that in future it can seize opportunities to contribute to inclusive development in Egypt's economy, society, and (to the degree possible) politics.

As much as Europe needs Egypt's cooperation, the opposite is also true. The EU does have some degree of leverage over Egypt, both economically – through foreign direct investment, financing, tourism, and as a market for Egyptian exports – and politically, because Egypt is very sensitive to being named and shamed over its human rights record. As always, the EU can maximise its leverage if it is able to coordinate the approaches of its different member states, and align its efforts with other international actors.

The economic, social, and security situation in Egypt is frail at best. This policy brief aims to outline some of the main problems facing Egypt today and, in doing so, provide recommendations for a productive European approach over the short and longer term.

A crisis in the offing

“Come closer to your country [...] this is the semblance of a state, and not a real state.”¹

Egyptian President Abdel Fattah al-Sisi

Egypt is often perceived to be an island of stability in a region that is otherwise in freefall. But Egypt is far from stable. The return of authoritarian politics could hardly be expected to steady a country of nearly 90 million people that is facing grave economic challenges. The question to ask is not how stable Egypt is, but how much more damage the country can endure before its myriad socio-political problems blow up into a full-scale crisis. The potential triggers are many: economic malaise, social polarisation, suppression of revolt, and armed insurgencies. While none of these issues alone are likely to trigger widespread instability, one or two taken together could tip the balance. It is unlikely that the current government will lose its grip on power in the near future, but diplomatic observers broadly agree that it is also unlikely to bring the situation under control.²

A troubled economy

The Egyptian economy is the most pressing cause for concern in the country today. Since the 2011 revolution, political instability and security fears have deterred investors and tourists, causing revenues to plummet. The political repression instituted by Sisi has only exacerbated the situation. What Egypt needs is a stable climate to promote investment, but companies have largely continued to shun the country. Analysts at a Rome-based bank noted that the deteriorating political and security situation in the country caused them to scrap plans to establish a regional headquarters in Cairo, in the belief that doing so could damage their reputation.³ Tourists have also been put off by the terror threat. Revenues from tourism dropped by 50 percent in 2016 compared to the previous year, following the downing of a Russian passenger jet departing from Sharm El-Sheikh in October 2015. The decline in investment has had a knock-on effect, causing the official poverty rate to increase to 27.8 percent, from 21 percent a decade ago,⁴ and leaving nearly 40 percent of young people unemployed.⁵

Since taking office, Sisi has sought to jump-start the economy through a series of prestigious ‘mega-projects’ that were also intended to add legitimacy to his rule. Yet, instead of providing a boost to the economy, his two landmark projects – expansion of the Suez Canal and construction of a new administrative capital on the outskirts of Cairo – have drained resources. Cairo's reckless spending has actually made it a world leader in the wasteful use of government funds,

¹ “Al-Sisi: We do not live in a real state. This is the semblance of a state”, *You Tube*, 20 May 2016, available at <https://www.youtube.com/watch?v=4ECWOL3VosA>.

² Personal interview, French official, Paris, 5 December 2016.

³ Personal interview, analysts at a major Italian bank, Rome, 6 December 2017.

⁴ “What Matters in the 2016 Human Development Report that has been Erased from the Ministry of Finance's Website”, *Mada Masr*, 28 November 2016, available at <http://bit.ly/2rGFp7i>.

⁵ Steven A Cook, “Egypt's Nightmare: Sisi's Dangerous War on Terror”, *Foreign Affairs*, 1 October 2016, available at <https://www.foreignaffairs.com/articles/middle-east/egypt-s-nightmare>.

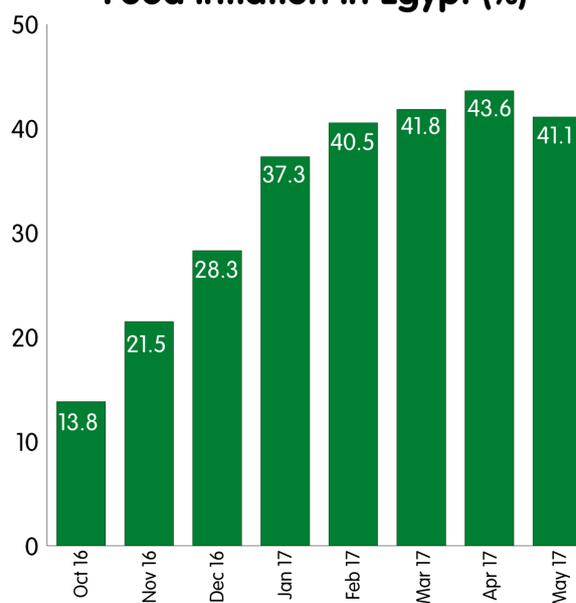
according to a World Economic Forum report.⁶ In order to showcase these two projects, Egypt paid a premium in foreign currency to accommodate the president's desire for their quick completion. This spending only exacerbated a growing foreign currency crisis rather than boosting economic growth.⁷ At the same time, Egypt spent billions of dollars importing military hardware such as helicopter carriers and over two dozen fighter jets, despite its most urgent security problem being the threat of domestic extremism and terrorism.

The result of all this spending with no real return has been a massive rise in debt and a major foreign currency crisis, which has hampered business activity and led to shortfalls in essential imports. Egypt's current debt stands at approximately 100 percent of GDP, and is poised to increase in years to come.⁸ Since 2013, Cairo has burned through a minimum of \$20 billion worth of aid and grants from neighbouring Gulf countries. Cairo has shored up its foreign currency reserves, but at the expense of entering into extensive loan agreements that will mature in the coming few years. Analysts at one major European bank deemed the pace of Egypt's debt accumulation to be so risky that they decided to close a longstanding credit line to the government.⁹

Facing a bleak economic future, Cairo ultimately felt compelled to strike a \$12 billion deal with the International Monetary Fund (IMF) in late 2016. The deal was essentially a bailout in all but name.¹⁰ An EU official noted: "The fact that Cairo agreed to it [the deal] shows the level of desperation and catastrophe in the Egyptian economy. They had no other choice."¹¹ To secure the loan, Egypt agreed to implement a series of economic reforms that it had resisted for years, including the imposition of value-added tax (VAT), a cut in fuel subsidies, and floating the Egyptian currency. Other reforms that the government has committed to under the agreement, such as reducing the public sector wage bill and transforming the diminishing welfare state into some form of market economy, will entail an array of socio-political risks that could further destabilise the country.¹²

Since the currency was floated in November 2016, the Egyptian pound has more than halved in value to nearly 18 pounds per the US dollar at the beginning of 2017. This led to a spike in the cost of imports, which has been felt most severely in food items. Inflation is also on the rise, having increased by 5 percent between December 2016 and January 2017 alone.¹³

Food inflation in Egypt (%)



Source: Tradingeconomics.com

Despite the short-term pain of IMF-imposed reforms, many economists believe the deal will ultimately benefit Egypt's economy – a sentiment shared in a number of European capitals.¹⁴ A senior adviser to President François Hollande remarked that some European officials have become "very optimistic about economic reform and cooperation on small- and medium-sized enterprises."¹⁵ Investors have welcomed Cairo's commitment to the IMF's programme with cautious optimism. Indeed, the floating of the Egyptian pound has made investment in Egypt more attractive to some energy companies, including European energy giants Royal Dutch Shell, BP, and Eni, because of the low relative cost and potential for greater long-term profitability.¹⁶ What is more, the combination of currency flotation and the imposition of tariffs on most imports has led many Egyptian businesses to source their products locally.¹⁷ The gradual decline in imports is helping to reduce the trade deficit and encourage home-grown business.¹⁸ A good weathervane for the state of the economy is foreign purchasers of Egyptian treasury bills, who have begun buying again, albeit cautiously, following a long pause since 2011.¹⁹

Not all government spending has gone towards vanity projects with little in the way of short-term returns. Sisi has directed investment into Egypt's energy infrastructure with multi-billion dollar projects in the fields of power generation, extraction of natural resources, and transport, focusing on a combination of resources such as natural

6 Klaus Schwab, "Global Competitiveness Report 2016-2017", World Economic Forum, 2016, p. 169, available at http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf.

7 Roul Khalaf, "Sisi's Egypt: The March of the Security State", the *Financial Times*, 19 December 2016, available at <https://www.ft.com/content/8127ef6e-c38e-11e6-9bca-2b93a6856354>. (hereafter, "Sisi's Egypt").

8 "Egypt Year in Review 2016", Oxford Business Group, 27 December 2016, available at <http://www.oxfordbusinessgroup.com/news/egypt-year-review-2016> (hereafter, "Egypt Year in Review 2016").

9 Personal interview, analysts at a major Italian bank, Rome, 6 December 2017.

10 "Egypt Year in Review 2016".

11 Personal interview, senior MENA official at the European Union External Action Service (EEAS), Brussels, 8 December 2017.

12 Robert Springborg, "Sisi's Back to the Wall", Harvard Belfer Center for Science and International Affairs, 8 November 2016, available at <http://www.belfercenter.org/publication/sisis-back-wall>.

13 Mahmoud Negm, "Rate of Price Increases Reaches the Highest in 30 Years", *Aswat Masriya*, 11 February 2017, available at <http://www.aswatmasriya.com/news/details/73025>.

14 Personal interview, policy planning staff official at the US State Department, Washington, DC, 5 January 2017.

15 Personal interview, senior adviser to President François Hollande, Paris, 5 December 2016.

16 "Egypt Year in Review 2016".

17 "Consumers are Hugely Attracted to Egyptian Products... Manufacturers Struggle to Meet Demand", *Shorouk News*, 13 February 2017, available at <http://www.shorouknews.com/news/view.aspx?cddate=13022017&id=8b8be3e6-cf89-4a4d-9a5a-0c7f7912e0ba> (hereafter "Consumers are Hugely Attracted to Egyptian Products").

18 "Consumers are Hugely Attracted to Egyptian Products".

19 "Egypt Year in Review 2016".

gas, coal, renewables, and even nuclear power.²⁰ It has also started paying off some of its mounting debts to energy companies to encourage them to invest in exploration and production activities. The discovery in 2015 of the *Zohr* giant gas field in the Mediterranean will soon pump billions of dollars' worth of natural gas into the Egyptian economy for domestic use or export.²¹ Egypt aims to capitalise on this project by building an energy hub for liquefied natural gas and other energy-related activities.

Additionally, Cairo has extended its underground metro services to relieve traffic congestion in some parts of the capital, and the army has led the effort to build a network of highways connecting previously under-served communities in the eastern desert region, the western Mediterranean coast, and the Nile delta.

The IMF deal forced the Egyptian government to commit to using some of the money saved by tax increases, subsidy cuts, and the capping of public sector wage increases, to strengthen social protection programmes, including through cash transfers to the poor and elderly, an increase in free school meals, and additional food subsidies for the needy. The government has also put funds into cultivating desert lands for agriculture as a means of reducing the food gap.²²

In the business sector, the government has also promised to carry out structural reforms to improve the business climate. This would contribute greatly to ensuring that reforms benefit the broadest possible number of Egyptian people and help to reduce unemployment.

But there are many reasons to remain sceptical about whether the government will be able to build on these positive indicators and take decisive action to tackle Egypt's underlying economic problems. One likely obstacle is the country's military, which, thanks to Sisi, has become the primary actor in the economy, displacing a number of private businesses, and, at times, the civilian public sector. Since 2013, the military's economic activities have expanded significantly to encompass the telecommunications,²³ road construction, hotel building, medicine, and powder milk manufacturing sectors.²⁴ And a recent law has permitted the army to collaborate with local and foreign companies.²⁵ A senior official at the European Union External Action Service (EEAS) doubted if Egypt could manage a sound economic recovery without deeper structural reforms aimed at reducing the outsized role of the military in the economy

²⁰ "Egypt Year in Review 2016".

²¹ For more, see: Tareq Baconi, "Pipelines and pipedreams: How the EU can support a regional gas hub in the eastern Mediterranean", the European Council on Foreign Relations, 21 April 2017, available at <http://www.ecfr.eu/publications/summary/pipelines-and-pipedreams-how-the-eu-can-support-a-regional-gas-hub-in-7276>.

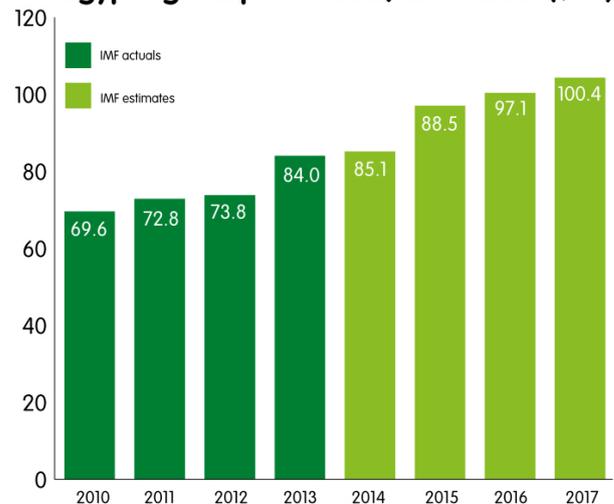
²² "Egypt's Sisi to Launch 1.5 million Feddan Project in Late December", *Ahram Online*, 14 December 2015, available at <http://english.ahram.org.eg/NewsContent/1/64/173472/Egypt/Politics-/Egypst-Sisi-to-launch-million-feddan-project-in-1.aspx>.

²³ Ibrahim Alshahry, "Newspaper: Army will control 60% of Egypt's national entity for telecommunications", *Egypt Independent*, 11 May 2015, available at <http://www.egyptindependent.com/news/newspaper-army-will-control-60-egypt-s-national-entity-telecommunications>.

²⁴ For more information, see: Shana Marshall, "The Egyptian Armed Forces and the Remaking of an Economic Empire", Carnegie Middle East Center, 15 April 2015, available at http://carnegieendowment.org/files/egyptian_armed_forces.pdf.

²⁵ "Sisi's Egypt".

Egypt's gross public debt, 2010-2017 (\$bn)



and encouraging private enterprises.²⁶ Many Egyptian businessmen believe the economic role of the army is a symptom of the narrow economic vision of Sisi and his closest advisers. Indeed, big businesses have been excluded from influencing economic policymaking, and economists complain that decisions are taken with little consultation beyond the president's narrow inner circle.²⁷

Egypt's private sector is struggling to flourish under these policies because the low cost base of the military makes it difficult for private sector initiatives to be competitive, and in any case contracts are often awarded without open competition. As the Central Bank of Egypt imposes high interest rates to curtail inflation, domestic borrowing and business activities have contracted. One economist predicts that Egypt's GDP will grow by a paltry 1 percent in 2017,²⁸ while the Emirates National Bank of Dubai Purchasing Managers Index reveals that non-oil business activity has shrunk in Egypt for 19 consecutive months.²⁹

Given security concerns and a faltering economy, attracting foreign sources of revenue is also proving to be more difficult than originally thought. Many economists remain sceptical about Cairo's ability to follow through on its reform programme and to create an attractive political structure for foreign investment. Indeed, a senior economic analyst at a major business consultancy firm based in the United Kingdom warned:

²⁶ Personal interview, senior MENA official at the European Union External Action (EEAS), Brussels, 8 December 2016.

²⁷ Amr Adly, "Too Big to Fail?: Egypt's Large Enterprises After the 2011 Uprising", Carnegie Middle East Center, 2 March 2017, available at <http://carnegie-mec.org/2017/03/02/too-big-to-fail-egypt-s-large-enterprises-after-2011-uprising-pub-68154>.

²⁸ Ahmed Feteiha and Ahmed Nematallah, "Inflows, Inflation and IMF: Egypt's Economic Overhaul in Charts", *Bloomberg*, 8 February 2017, available at <https://www.bloomberg.com/news/articles/2017-02-08/inflows-inflation-and-imf-egypt-s-economic-overhaul-in-charts>. (hereafter "Inflows, Inflation and IMF"); and Wa'd Ahmed, "Bulaton: Inflation will Rise to its Highest Rates in June and the Effect is Positive for Investments", *Mada Masr*, 31 January 2017, available at <http://bit.ly/2syLO4C>.

²⁹ "Egypt Non-Oil Private Sector PMI", Trading Economics, 2017, available at <https://www.tradingeconomics.com/egypt/manufacturing-pmi>.

“It has become exceedingly hard to make a case for a country that lacks transparency, pursues reforms in haphazard and reluctant fashion and where the politics are so arbitrary. If Egypt is serious about becoming the next big emerging market, it needs to expand on recent reforms, get rid of red tape, crack down on corruption and improve its political reputation. Short of that, I do not see how a turnaround is likely.”³⁰

Politics and governance

Since coming to power in June 2014, Sisi has shut down most peaceful avenues for political expression. The constitution is effectively suspended through lack of enforcement and elections have been rendered meaningless as a form of democratic political representation. Significant investment is going into the construction of several prisons to accommodate the large number of political prisoners in the country and there is credible evidence of the widespread use of torture by security services. State agents have also proven they are not shy about using lethal force against protesters in public. The authorities justify their crackdown by citing the need to prevent an assault against state institutions by the Muslim Brotherhood and ‘foreign-funded’ political activists. But it is difficult to see how Egypt can achieve long-term prosperity, as well as prevent a brain drain through youth emigration, when the conditions for free speech and fair employment are so poor.

The goal of Sisi’s uncompromising policy is clear: to prevent another revolution. The Egyptian regime learned a lesson in survival from the 2011 revolt – the less free the society, the less likely it is to rise up. What is good for the regime, however, may not be good for Egypt as a whole. The degradation of political rights and freedoms is likely to block off any credible path towards long-term development and stability. Yet the more the government finds itself unable to meet the population’s aspirations, the more it resorts to oppressive methods. Cairo’s exclusionary and confrontational politics started with the relentless campaign against supporters and members of the Muslim Brotherhood in 2013, and later morphed into a far-reaching crackdown against secular activists, political parties, media figures, and civil society groups.

The near-routine violence against government opponents, and the adoption of violent sabotage, and indeed terrorist tactics, by some members of the Muslim Brotherhood have made violence a principal means of political expression in Egypt. The Egyptian police has launched intermittent raids to ‘liquidate’ Muslim Brotherhood members and the imprisonment of both Islamist and non-Islamist activists goes on.³¹ There is little accountability for security forces that abuse their power. Yezid Sayigh, an expert at the Carnegie Middle East Center, correctly notes that “violence

30 Personal interview, senior economic analyst at a British consultancy group, 18 November 2016, Washington, DC.

31 Abdul Rahman Abol Gheit, “Varied Reactions to the Liquidation of Brotherhood Leaders in Egypt”, *Al Jazeera*, 2 July 2015, available at <http://www.aljazeera.net/home/print/f6451603-4dff-4ca1-9c10-122741d17432/8ea19e3e-7aaa-46dd-8724-29b36aa34e8b>.

has become a primary mode for the conduct of politics, replacing co-optation as the preferred means of control, but at far higher cost, both financially and socially.”³²

Even non-Islamists who endorsed and supported Sisi’s purge of the Muslim Brotherhood as part of the so-called ‘June 30th coalition’ have been punished under new laws introduced to stifle protest and dissent. The government has curtailed freedoms of expression and assembly, putting even prominent journalists and writers on notice that they are not immune from retribution, should they step out of line. Recently, three members of Egypt’s journalists’ syndicate were each sentenced to two years in prison, while researchers such as Ismail Alexandrani and Hesham Gaafar have been detained indefinitely. Television icons Ibrahim Eissa, Yousri Fouda, and Bassem Youssef have also been informally banned, and activists and civil society leaders like Hossam Bahgat and Gamal Eid have had their assets frozen. In May 2017, the crackdown appeared to accelerate once more, as authorities closed a number of news websites and arrested several political opponents of the regime, including the former presidential candidate Khaled Ali, who had suggested he might run again.³³

Government policies have also attacked other aspects of open society, including universities where the right to elect presidents and deans was scrapped in 2013 so pro-regime figures could be appointed. Even the Egyptian parliament has been a victim of Sisi’s policy of authoritarian retrenchment, as the adopted electoral system favoured individual candidates over party lists (on the grounds that this would be more likely to fill the parliament with regime supporters) while Egypt’s security agencies worked systematically to control the organisation of lists for the seats that were allocated on a party basis.³⁴ Finally, in late 2016, the parliament passed a strict NGO law that effectively subjects civil society to government control, and threatens violators of the law with lengthy prison sentences. In May 2017, after six months’ delay, Sisi signed it into law.³⁵ Furthermore, the government has invested heavily in online-monitoring software that tracks the web activities of political dissidents as well as ordinary citizens.³⁶ These and other measures have amounted to a systematic pursuit of all government critics from across the political spectrum.

32 Yezid Sayigh, “Who Made the Arab Spring into an Arab Crisis?”, *Al Jazeera English*, 20 November 2016, available at <http://www.aljazeera.com/indepth/opinion/2016/11/11/arab-spring-arab-crisis-161119120842618.html>.

33 “Egypt detains ex-presidential candidate, latest in arrest series”, *Reuters*, 23 May 2017, available at <http://www.reuters.com/article/us-egypt-politics-idUSKBN18J2E8>.

34 Hossam Bahgat, “Anatomy of an Election”, *Mada Masr*, 14 March 2016, available at <http://www.madamasr.com/en/2016/03/14/feature/politics/anatomy-of-an-election/>.

35 Ziad Bahaa-Eldin, “The NGO Law Setback”, *Shorouk News*, 21 November 2016, available at <https://www.shorouknews.com/columns/view.aspx?cdate=21112016&id=8ce9594e-4b64-4ffb-8f6f-d4bb5a32b725>.

36 “Egypt’s plan for mass surveillance of social media an attack on internet privacy and freedom of expression”, Amnesty International, 4 June 2014, available at <https://www.amnesty.org/en/latest/news/2014/06/egypt-s-attack-internet-privacy-tightens-noose-freedom-expression/>.

The terrorist threat

Despite Egypt's investment of a significant amount of money in advanced military hardware, the main security threat it faces is from improvised terror attacks carried out by militant groups within the country. The ISIS-affiliated group *Wilayat Sinai* (formerly known as *Ansar Beit al-Maqdis*) has wreaked havoc on North Sinai, launching near-daily attacks on security personnel and government targets. The group also took responsibility for the downing of a Russian Metrojet flight bound for St Petersburg in October 2015. At the same time, it has extended the range of its operations into North Sinai's biggest city, al-Arish, and into the peninsula's heartland, near al-Toor.³⁷ Terrorist groups are also becoming more active in the Nile Delta, striking both security and civilian targets with bombings and high-profile assassinations.³⁸ In the first months of 2017, hundreds of Coptic residents fled al-Arish after ISIS killed several members of their community.³⁹ In April, ISIS also killed dozens of people in twin attacks against Coptic churches on Palm Sunday, leading Sisi to declare a state of emergency. In May, ISIS attacked a bus carrying Coptic Christians in Minya in Upper Egypt, killing 30 people.

Young Islamists who once believed in democratic government are now starting to join ISIS out of disillusionment. The alleged perpetrator behind the bombing of the Coptic Cathedral in Cairo in December 2016 is a young former supporter of President Mohamed Morsi who was subjected to torture while in detention in 2013.⁴⁰ While anecdotal evidence suggests recruitment for ISIS is taking place in Egyptian prisons, other former Brotherhood members are founding their own politically motivated militias.⁴¹ A recent statement by the so-called Young Brothers Front endorsed the use of violence as a legitimate means to resist the regime.⁴² This uptick in radicalisation across the country has seen more violent militant organisations to spring up over the past two years. About a dozen new groups and networks have been born since 2014, including *Ajnad Misr*, the *Molotov Movement*, and *Liwa' al-Thawra* and the *Hassm* movement.⁴³ *Hassm*, which appears to be a radical offshoot of the Muslim Brotherhood, has taken credit for several deadly operations in Cairo and the Delta that have taken the security services by surprise, including failed assassination

37 For more, see: "Egypt's Rising Security Threat", The Tahrir Institute for Middle East Policy, November 2015, available at https://timep.org/wp-content/uploads/2015/11/Tahrir_Report_FINAL_WEB.pdf.

38 "Since the Bombing of the Italian Consulate... ISIS Reaches Cairo and Giza and Carries Out 12 Operations", *Aswat Masriya*, 16 December 2016, available at <http://www.aswatmasriya.com/news/details/71039>.

39 Mostafa Singar, "Three Waves of Relocation to the Residents of North Sinai", *Shorouk News*, 16 March 2017, available at <http://www.shorouknews.com/news/view.aspx?cdate=16032017&id=be08b996-ca98-4bad-b680-adaab510d9ef>.

40 Gamal Soltan, "The Dangerous Implications of ISIS's Statement and the Interior Ministry's Narrative." *Al-Mesryoon*, 14 December 2016.

41 Laila Fadel, "As Egypt's Jails Fill, Growing Fears of a Rise in Radicalization", *NPR*, 24 August 2016, available at <http://www.npr.org/sections/parallels/2016/08/24/491170122/as-egypts-jails-fill-growing-fears-of-a-rise-in-radicalization>; and, Mohamed Khayyal, "Here is Tora: A Government Centre for the Recruitment of ISIS Fighters", *Shorouk News*, 21 April 2016, available at <http://cms.shorouknews.com/news/view.aspx?cdate=21042016&id=2b8f13ca-e5d8-4bof-8868-d24288fa4161>.

42 Mohamed Hamama, "A New Statement from the Young Brothers Front Endorses the Use of Weapons and Abandoning Peacefulness", *Mada Masr*, 1 October 2016, available at <http://bit.ly/2roQWN2>.

43 Khalil Al-Anani, "Extremism Under Sisi: His Repressive Policies Have Worsened the Problem", *Foreign Affairs*, 8 January 2017, available at <https://www.foreignaffairs.com/articles/middle-east/2017-01-08/extremism-under-sisi>.

attempts against Egypt's new prosecutor general, Zakaria Abdul Aziz, and the Grand Mufti of Egypt, Ali Gom'a.⁴⁴ Meanwhile Liwa' al-Thawra claimed responsibility for the killing of a high-ranking military officer, Brigadier General Adel Rajael, outside his home in Cairo in October 2016.

Recent terrorist incidents have included the use of improvised explosive devices against police positions in Giza, attacks on security checkpoints in Sinai and the Western Desert with assault rifles, rocket-propelled grenade attacks, suicide bombings, and several targeted assassinations.⁴⁵ The marked deterioration of the security situation throughout Egypt is partly a result of a misguided security and counter-insurgency policy that treats all Islamists as terrorists, and alienates entire populations in Sinai through its response to the actions of ISIS's local affiliate. With no possibility of participating peacefully in politics many Islamists have come to feel that pursuing a democratic and non-violent path is futile. Meanwhile, the number of checkpoints, the demolition of entire neighbourhoods as a way of rooting out extremists, the arbitrary arrests, and the forced transfer of populations in North Sinai are creating a hostile environment for counter-insurgency operations.⁴⁶ A French foreign ministry official commented that "Egypt may be doing the right things tactically, but not strategically."⁴⁷

Egyptian society under strain

Egypt's social contract is in tatters, as the Nasser-era welfare state is no longer able to cope with the demands of a growing population at a time of declining public revenue and widening budget and trade deficits.⁴⁸ For decades, Egyptians were bound to their government through a bargain in which they traded away their political freedoms for an expansive welfare state that offered guaranteed public sector employment, free education and healthcare, and generous subsidies. But this bargain has unravelled. The choice facing the Egyptian state is whether to include the citizenry in the decision-making process through liberalisation of politics, or to force through painful austerity measures while putting society in a stranglehold. Cairo has opted for the latter.

Egypt is not merely stagnating, as some people believe; it is enduring disturbingly high levels of social stress. Worryingly, citizens who only a few years ago dared to dream of bridging the gap between the rich and the poor and demanded social justice are becoming desperate as their real incomes fall well short of ballooning prices. For many, expectations of a better future have been dashed. While demonstrations and strikes are nowhere near as

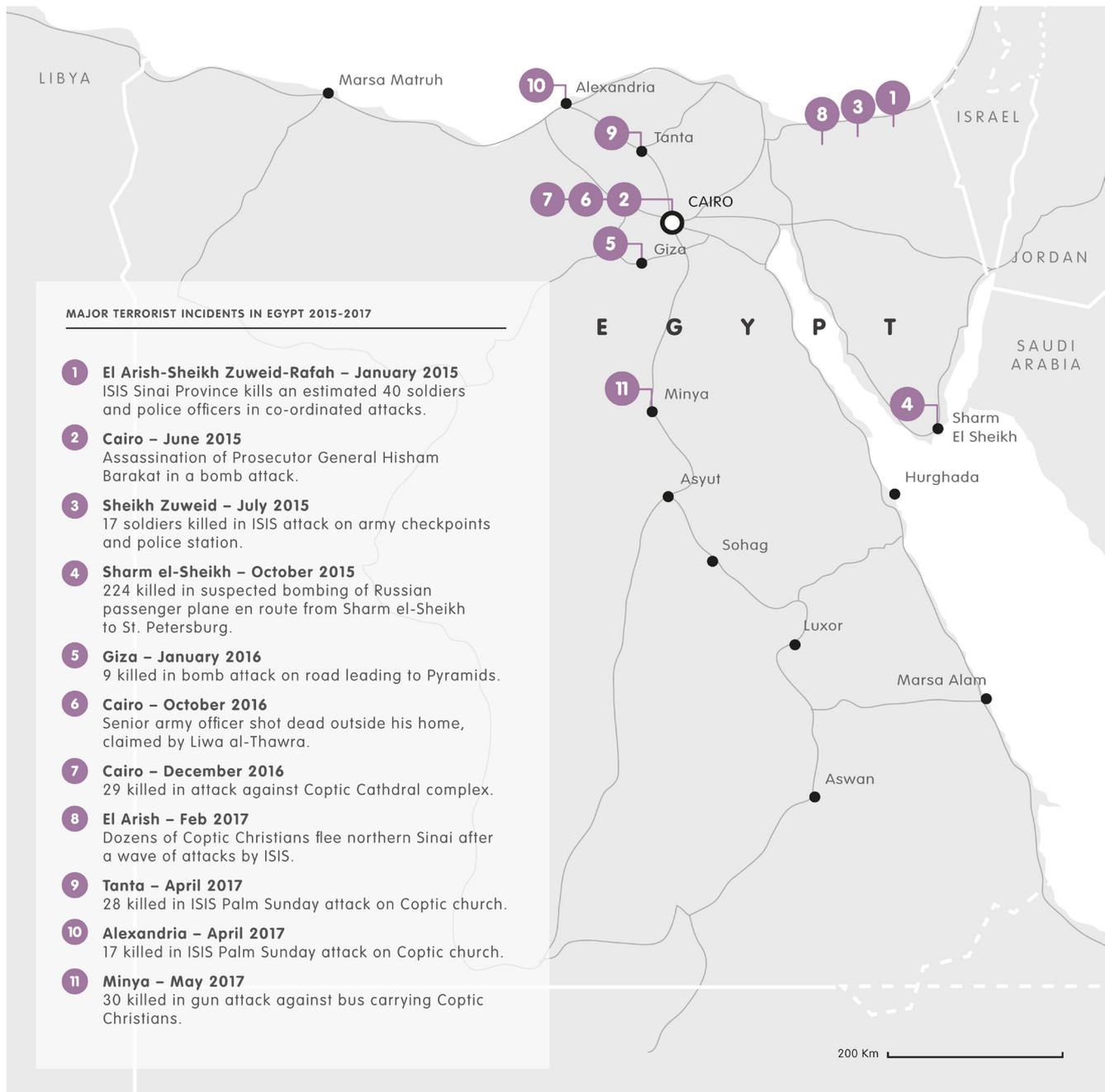
44 Scott Stewart, "The Hassm Movement: A New Militant Movement with High Ambitions", *Noon Post*, 6 October 2016, available at <https://www.noonpost.net/content/14361>.

45 "Egypt Security Forces Kill 2 Men over Assassination of Senior Military Officer", *Aswat Masriya*, 25 December 2016, available at <http://en.aswatmasriya.com/news/details/18208>.

46 Personal interview, Egypt expert at the Brookings Institution, Washington, DC, January 2017. For more, see Elliot Abrams, "Is Egypt's President Creating More Terrorists Than He's Stopping?", *the Atlantic*, 19 April 2015, available at <https://www.theatlantic.com/international/archive/2015/08/egypt-sisi-terrorism-muslim-brotherhood/401792/>.

47 Personal interview, diplomat focusing on the MENA region at the French foreign ministry, Paris, 5 December 2016.

48 "Sisi's Egypt".



commonplace as in the aftermath of the 25 January revolt, they are on an unmistakable upward trend, despite the harsh penalties people can face for engaging in protest. The absence of any large-scale mobilisation to date can be attributed, at least in part, to the regime’s “willingness to use brute force,” and to the exhaustion of the population following several years of unrest and insecurity.⁴⁹ Sporadic protests that fail to gain critical mass and fizzle out quickly are the new norm in Egyptian society.

Small protests have been launched for a wide variety of reasons, including lack of security, police torture and killings, labour demands, sectarian concerns, and land allocation. These shows of defiance take place in the face of high-profile crackdowns on labour organisers, human

rights organisations, and activists.⁵⁰ Three recent events in particular have laid bare the extent of public exasperation:

First, the bombing of the Coptic Cathedral in Cairo prompted thousands of Coptic mourners to protest against the Sisi government, reviving the slogans of the 25 January revolt calling for the fall of the regime. Egyptian Copts should be one of the groups most loyal to the president since he ousted an Islamist government. Yet Copts have felt abandoned due to a perceived lack of security for their community, rising sectarian violence, and the failure to move forward with a law permitting them to build houses of worship in the country.⁵¹

50 “Egypt Forcibly Closes Anti-Torture Human Rights Group”, *Middle East Eye*, 9 February 2017, available at <http://www.middleeasteye.net/news/egypt-forcibly-closes-down-anti-torture-human-rights-group-1158473740>.

51 Johannes Makar, “How Egypt’s Copts Fell Out of Love with President Sisi”, *Foreign Policy*, 9 December 2016, available at https://foreignpolicy.com/2016/12/09/how-egypts-copts-fell-out-of-love-with-president-sisi/?utm_source=Mailthru&utm_medium=email&utm_campaign=New%20Campaign&utm_term=*Editors%20Picks.

49 Personal interview. Dr Shadi Hamid, senior fellow at the Brookings Institution. Washington, DC, January 2017.

Second, thousands of residents of al-Arish marched against what they claimed to be the extrajudicial killing of alleged extremists following a major attack on a security checkpoint in January 2017. A few days after the attack, the police announced that they had killed the ten militants responsible for the operation during the course of a raid, but protestors claimed that at least five of those killed had already been in police custody. An online video apparently showing the extrajudicial execution of suspected militants has lent credibility to the residents' claims.

Third, when the Egyptian government announced that it was transferring sovereignty over the islands of Tiran and Sanafir to Saudi Arabia, thousands of protesters took to the streets denouncing what they saw as the sale of Egyptian lands to the highest bidder. These incidents reveal the unpredictable nature of street mobilisation and protests in Egypt under Sisi. According to the Egyptian Centre for Economic and Social Rights, there were 1,736 acts of protest during 2016.⁵² Most of the protests took place in Cairo, and were driven by economic grievances related to measures such as the imposition of VAT and the partial withdrawal of fuel subsidies, or to the shortage of other necessities.⁵³ While ordinary citizens led the majority of these protests, workplace protests have also been rising.⁵⁴ In January 2017, thousands of workers at the Americana food group went on strike to protest against the company laying off 500 workers,⁵⁵ and in February 3,000 workers at the Mahalla Textile and Weaving Company announced they were going on strike until their late wages were paid.⁵⁶

All signs point to the continuation, and indeed escalation, of social and economic protests motivated by local, sectarian, or even nationalistic considerations. Not all protests are politically inspired, but it is unwise to overlook the discontent that is simmering in Egyptian society.⁵⁷ The 2011 revolution was preceded by thousands of protests, sit-ins, and strikes organised by the labour movement; they could be playing the same role today. Sisi would ignore the discontent of Egyptians at his government's peril.

European interests in Egypt

European policymakers increasingly emphasise the necessity of cooperation with Egypt. A sense that "we cannot do without them, and they know it" dominates conversations about Egypt, partly because its strategic value is high in a region that is otherwise imploding. In the short term, the EU's aims in Egypt are to reinforce the country's ability to control terrorism and illegal migration, to prevent unrest by helping to solve the economic crisis, and to

52 "Press Statement: 1,736 Protests in Egypt during 2016", The Egyptian Council for Economic and Social Rights, 25 December 2016, available at <http://bit.ly/2sc3FAR>.

53 "Egypt Year in Review 2016".

54 "1,736 Protests in Egypt in 2016".

55 Iman Ouf, "Despite having Reached an Agreement with the Workers, the Company's Representative Flees the Factory by the Back Door", *Al-Mal*, 7 February 2017, available at <http://www.almalnews.com/Pages/StoryDetails.aspx?ID=321706>.

56 Hadeer El-Madawy, "3,000 Workers go on a Strike in Mahalla", *Ahram Online*, 7 February 2017, available at <http://english.ahram.org.eg/NewsContent/3/12/257768/Business/Economy/-workers-go-on-strike-in-Egypt-Mahalla.aspx>.

57 Personal interview, senior French diplomat at the French foreign ministry, Paris, 5 December 2016.

promote commercial opportunities for European firms. At the same time, the EU also has a strong interest in the future development of Egypt to promote stability, inclusive growth, and effective and accountable governance.

A first line of defence

It is not uncommon to hear officials from EU member states refer to Egypt as the 'first line of defence' for Europe against migration and terrorism. Migration, in particular, has become a priority issue for Germany and other EU member states following the waves of refugees arriving in Europe in 2015 and 2016. While Egypt remains the source of only a small fraction of migration to Europe, the crisis in Syria has shown the far-reaching repercussions of a disintegrating Arab state.

Migration from Egypt is increasing, and statistics show that it is both a source and transit country. The number of Egyptians who fled their country to Italy increased from 344 in 2015 to 2,634 in the first half of 2016.⁵⁸ Egyptians are now one of the top ten national groups arriving on Europe's shores.⁵⁹ Indeed, as political and economic conditions deteriorate, more Egyptians are willing to take the risk of migrating to Europe via the Mediterranean route. Additionally, Egypt has emerged as an alternative disembarking point for Horn of Africa migrants worried about the violence in Libya.⁶⁰ A leaked discussion paper from the EEAS and the European Commission noted that "it is important not to exaggerate the risk of a growing flow of migrants direct from Egypt", but that migration from Egypt and the situation of migrant and refugee populations in the country "remain issues of concern".⁶¹

Cairo knows it has leverage over Europe when it comes to migration, and likes to remind it of that. A senior French diplomat recounted how Egyptian officials repeatedly warn their European counterparts that a "crisis could happen, but we are protecting you from it."⁶² Egypt has recently taken a number of high-profile steps to emphasise its commitment to tackling illegal migration. It launched a ten-year National Strategy on Combating Illegal Migration in October 2016, while also passing a revised law against people-trafficking. It claims to have prevented over 12,000 illegal migrants from entering or leaving Egypt in 2016.⁶³

EU institutions and member states are working with Egypt to limit the flow of migrants. The British and Egyptian governments launched a £2 million joint project called

58 Mohamed Al-Kashef, and Tom Rollins, "Is Egypt the New Gateway to Europe?", *Mada Masr*, 11 August 2016, available at <http://www.madamasr.com/en/2016/08/11/feature/politics/is-egypt-the-new-gateway-to-europe/> (hereafter, "Is Egypt the New Gateway to Europe?").

59 "Is Egypt the New Gateway to Europe?".

60 "Is Egypt the New Gateway to Europe?".

61 "Options on developing cooperation with Egypt in migration matters", European Commission/European External Action Service, 2016, p. 2, available at <http://www.statewatch.org/news/2016/dec/eu-com-eeas-non-paper-egypt-migration-cooperation.pdf> (hereafter, "Options on developing cooperation").

62 Personal interview, senior French diplomat at the French foreign ministry, Paris, 5 December 2016.

63 "Egypt says it prevented 12,000 people from illegally migrating in 2016", *Reuters*, 11 January 2017, available at <http://www.reuters.com/article/us-europe-migrants-egypt-idUSKBN14V27L>.

Preventing and Responding to Illegal Migration in Egypt (PRIME) through which the UK commits to investing in towns and villages that have seen large numbers of residents leave for Europe.⁶⁴ On a larger scale, the EU proposed a programme worth €11.5 million on Enhancing the Response to Migration Challenges in Egypt last year, focusing on migration management and measures to address socio-economic causes of migration. However, the EU's migration discussion paper notes that Egyptian authorities have held up the process.⁶⁵

Many European officials appear inclined to agree that “the Egyptians are doing their part.”⁶⁶ Nevertheless the EU is unlikely to persuade Egypt to go beyond the border security measures it has taken so far. There is little indication that Egypt is prepared to consider the sort of measures the EU would like to explore, such as return agreements with EU member states for third country nationals, or the development of migrant processing camps within Egypt.⁶⁷ While Egypt remains interested in European efforts to improve the socio-economic situation in the areas from which most people migrate, such cooperation has faced problems in practice.

Counter-terrorism is another area where prospects of deeper cooperation between Egypt and the EU remain limited. European countries have assisted Egypt in areas like airport security or handling improvised explosive devices. However, European partners say that Egypt remains attached to a conventional military model of counter-terrorism that Europeans regard as counter-productive. So far Egypt has resisted European offers to provide counter-insurgency training. Most EU officials do not see Egyptian requests for additional military equipment as a priority in combating the kinds of threats Egypt faces. European cooperation on these matters is also limited by human rights concerns over some of Egypt's methods.

Coordination with Egypt on regional issues

Libya

The EU wants to retain a clear channel of communication to Egypt with respect to the conflict in Libya, which is a direct foreign policy concern for the EU, and for Italy in particular. Egypt has made intermittent attempts to sponsor negotiations over the Libyan crisis, as with the talks it engineered in Cairo in February 2017.⁶⁸ More generally, Egypt has tried to position itself (particularly towards the new US administration) as the kingmaker of any new political agreement in Libya. In coordination with the

64 “Egypt Launches a Project to Combat the Challenges of Illegal Migration”, *Shorouk News*, 9 February 2017, available at <https://www.shorouknews.com/news/view.aspx?cdate=09022017&id=6e8bcadb-92b4-4d9f-913d-9e4d7b463054>.

65 “Options on developing cooperation”, p.4.

66 Personal interview, senior adviser to President François Hollande, Paris, 5 December 2016.

67 Hans-Peter Siebenharr, “Merkel Wants Refugee Deal with Egypt”, *Handelsblatt Global*, 26 September 2016, available at <https://global.handelsblatt.com/politics/merkel-wants-refugee-deal-with-egypt-613250>.

68 Asmahan Soliman and Hossam Bahgat, “Haftar and Sarraj in Cairo: The details of Egypt's partially successful Libyan summit”, *Mada Masr*, 25 February 2017, available at: <http://www.madamasr.com/en/2017/02/25/feature/politics/haftar-and-sarraj-in-cairo-the-details-of-egypts-partially-successful-libyan-summit/>.

United Arab Emirates and, for some aspects, with the UK, Egypt has focused its efforts on ensuring that its protégé, General Khalifa Haftar, the strongman of eastern Libya, is integrated into the UN-backed Libyan Political Agreement.

However, Egypt has unhelpfully bolstered Haftar and his anti-Islamist agenda, seeing the negotiations more as a way to consolidate his position than as a way to work on an inclusive solution capable of stabilising the country. Following a terrorist attack in May, Egypt bombed positions of Haftar's Islamist rivals in Derna, and expressed its intention to carry out further operations in the future. There is little evidence that Egypt's engagement with Libya is delivering a change in foreign policy or lending greater support to European objectives. Egypt's goal of eliminating Islamist influence in Libya is at odds with the inclusive solution Europe wants, which promotes stabilisation as an end goal above all else. The EU has nothing to lose from continuing its dialogue with Egypt on Libya, but it should have modest expectations about the progress it is likely to achieve.

Hamas

A second area where the EU might seek Egypt's support on a foreign policy goal is on Israeli-Palestinian relations, and particularly the situation in Gaza. Egypt's shared border with Gaza gives it a significant role in the territory. Since the Egyptian military seized power in Egypt in 2013, it has pursued a hardline policy towards Hamas, moving aggressively to close tunnels between Gaza and Sinai and keeping a tight rein on the Rafah border crossing. Recently there have been indicators of a partial thaw in relations between Egypt and Hamas, though progress is likely to depend on whether Hamas is willing to meet Cairo's demands on handing over fighters in Gaza that are linked to ISIS's Sinai branch and to the Egyptian Muslim Brotherhood. Nevertheless, Egypt could play a role as an intermediary between the EU and Hamas, particularly if tensions between Hamas and Israel increase. However, Egypt's own security needs will take precedence in its Gaza policy.

A lucrative market

Another hallmark of European-Egyptian relations is the latter's attractiveness as a big market for European arms and products, and as a location for direct investment based on low labour costs. The UK, for instance, is the single largest non-Arab investor in Egypt.⁶⁹ Companies such as BP, Eni, Dassault, and Siemens have lobbied London, Paris, and Berlin to avoid alienating Egypt through public criticism. In 2015, Siemens signed a multi-billion-euro deal – the biggest in the company's history – to build power stations and wind turbines in Egypt. This deal is said to have saved the jobs of hundreds of workers in Siemens' German facilities.⁷⁰ A senior German diplomat admitted that the large deals the Egyptian government had

69 Peter Hessler, “Egypt's Failed Revolution”, the *New Yorker*, 2 January 2017, available at <http://www.newyorker.com/magazine/2017/01/02/egypts-failed-revolution>.

70 Personal interview, senior diplomat at the German Federal Foreign Office, Berlin, 9 December 2016.

made with German companies were “an important factor in the development of the country’s policy towards Egypt”.⁷¹

It has been a similar story for other European countries. In 2014, France concluded a €1 billion deal with Egypt to sell four warships, and in February 2015 it clinched another deal to sell 24 Rafale fighter jets as part of a military weapons contract worth over €5.2 billion.⁷² Later that year Egypt purchased two Mistral helicopter-carrier warships from France for a little over €1 billion.⁷³ The British have also made some large investments, with BP signing a lucrative £7.8 billion investment deal in the Nile Delta in March 2015.⁷⁴ After Italian energy giant Eni discovered a huge gas field off the coast of Egypt, Rome sought better ties with Cairo as well, though the Regeni case has served as a temporary setback.

Despite these deals, however, European policymakers should remember that economic opportunity remains only one of the EU’s interests in Egypt – and there is a danger that it could obscure wider objectives. Selling military equipment that is useless for tackling the security challenges Egypt faces is a poor substitute for a more comprehensive strategy designed to address the factors that underlie Egypt’s fragile security situation. The majority of European companies continue to shy away from committing valuable resources to a country so shaken by socio-political turmoil. Much of the recent investment from European firms has come from the energy and commodity sectors, which do not require much Egyptian labour, and therefore contribute little to Egypt’s overall stability. The EU should be mindful that the pursuit of short-term cooperation on economic opportunities could come at the cost of sacrificing Europe’s capacity to press for deeper change, which will be necessary for the country’s successful development in the longer term.

An agenda for change in the longer term

The EU’s policy towards Egypt forms part of a broader regional approach that has shifted from support for democratic transition towards a more hard-headed emphasis on stability and security. Although the EU adopted some critical language towards Egypt after the killing of protesters at Rab’a al-Adaweya in 2013, Europe’s policy towards Egypt has more recently tilted in favour of damage limitation, engagement, and cooperation. EU high representative Federica Mogherini went on a two-day official visit to Cairo in November 2015, during which she aimed to “revitalise bilateral relations with Egypt and work with this key partner on a number of regional crises.”⁷⁵ The EU’s Association Agreement with Egypt, which had been suspended since 2011, was reactivated in 2015. Over the past two years, Sisi

71 Personal interview, senior diplomat at the German Federal Foreign Office, Berlin, 9 December 2016.

72 “Egypt to receive German submarines soon, a new French multipurpose frigate”, *Ahram Online*, 22 July 2015, available at <http://english.ahram.org.eg/NewsContent/1/0/135948/Egypt/0/Egypt-to-receive-German-Submarines-soon.-a-new-Fre.aspx>.

73 Matthew Dalton, “France to Sell Two Mistral Warships to Egypt”, the *Wall Street Journal*, 23 September 2015, available at <https://www.wsj.com/articles/france-to-sell-mistral-warships-to-egypt-1443009701>.

74 “BP finalises deal to develop Egypt’s West Nile Delta gas fields”, BP press release, 6 March 2015, available at <http://www.bp.com/en/global/corporate/media/press-releases/bp-finalises-deal-develop-egypt-nile-delta.html>.

75 “Federica Mogherini on official visit to Egypt”, European External Action Service, 3 November 2015, available at http://eeas.europa.eu/top_stories/2015/151103_en.htm.

has visited Athens, Berlin, Lisbon, London, Rome, and Paris, where he concluded a number of economic, arms, and geostrategic agreements. A number of European presidents and prime ministers reciprocated with visits to Egypt.

The logic behind Europe’s strategic shift is a mixture of supposed realism and resignation. Some EU member states now appear to take the view that “if you want a strong, stable Egypt, you cannot have a democratic Egypt,”⁷⁶ while others continue to believe that the EU can do little to influence the country’s trajectory. These perspectives are reflected in the Europe’s divided position on Egypt. A number of southern EU member states, led by Greece, have been pushing for full normalisation of relations with Egypt, while the Nordic countries, the Netherlands, Germany, and the UK, continue to support tough statements in forums like the Human Rights Council. Nevertheless, in the key area of bilateral relations between individual European countries and Egypt, pragmatism and engagement are the rule.

The divisions among European policymakers on Egypt more or less confirm the most pessimistic views on the limits of European influence. However, there is a basis for a more united EU position, if policymakers recognise that Europe’s direct interests in Egypt will best be served by a modification of current policies, and understand that there is room to work with the Egyptian authorities on a shared vision of Egypt’s future development. Policymakers often frame their choices in binary terms, portraying engagement and criticism as mutually exclusive alternatives; in this way, one official argued that “the train of European engagement with Egypt has already left the station, and it is impossible to stop it any more”.⁷⁷ But engagement can exist alongside a focused European effort to influence Egypt’s overall direction.

The EU derives its influence over Egypt from its willingness to provide resources to foster socio-economic development – something the Egyptian regime wants to encourage, since it will give the country greater stability. Connected to this is the important role of European companies as a source of inward investment in Egypt. In the six years from 2007 to 2013, Egypt received aid packages and soft loans from European institutions to the tune of €1 billion under the European Neighbourhood Policy.⁷⁸ While these investments may be meagre compared to Gulf-based financing, Europe also brings valuable reputational support that could encourage multi-national corporations to set up shop in Egypt.

Egypt appears to believe that it has many other options for international support, but these are likely to be more limited than Cairo hopes, boosting the EU’s comparative importance as a partner. While Donald Trump has given strong rhetorical backing to his Egyptian counterpart – welcoming him at the White House in early April and downplaying any mention of human rights concerns –

76 Personal interview, policy planning staff diplomat focusing on the MENA region at the French foreign ministry, Paris, 5 December 2016.

77 Personal interview with senior German official, Berlin, 9 December 2016.

78 “European Neighbourhood Policy and Enlargement Negotiations: Egypt”, European Commission, available at https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/egypt_en.

this bonhomie may be accompanied by a decrease in aid. Russia is also unlikely to provide much economic assistance, beyond resuming commercial flights to Egypt. The Gulf and international financial institutions (IFIs) remain the central backers of Egypt. But support from IFIs is linked to conditions of economic reform, and even the Gulf has indicated it no longer wants to give Egypt blank cheques. Against this background, the EU has a number of options to encourage progressive reform in Egypt while continuing to engage with the country.

Prioritise socio-economic development

The EU's potential for influence is strongest in the socio-economic sphere, where it seeks similar goals to other international partners, and where its objectives are broadly aligned with Cairo's. The priority should be to build the basis for long-term economic growth that will benefit the greatest number of Egyptian people. This would involve a more inclusive approach to economic policymaking, and a sustained investment in social welfare, education, and healthcare. The EU should push Cairo to undertake genuine reform to improve the climate for investment. Building on the investment law passed in May 2017 to cut regulation for the incorporation of businesses, Egypt could begin by buttressing the role of the private sector in the economy and promoting open competition and the rule of law. The EU should encourage Egypt to expand opportunities, knowledge, and access to capital for small- and medium-sized enterprises, especially in the manufacturing and service sector, where investment is most likely to create jobs.

Reframe the debate on counter-insurgency

In the security field, the EU should resist Egyptian demands for unrestricted cooperation and provision of equipment, and push for a joint programme that focuses on measures that will genuinely help to combat terrorism, such as counter-insurgency training. Rather than offering human rights training that is unlikely to be absorbed or enforced, it may be better to concentrate on increasing the professionalism of Egypt's army in the hope that the awareness of more effective and focused techniques will lead to a decrease in destructive and counter-productive approaches. On migration, Europe should avoid the temptation to fall into the position of a *demandeur* for policies that offer limited benefits (and may violate human rights), and for which Egypt can extract a high price.

Try to limit the worst excesses of the crackdown

Political reform is likely to remain the most problematic area for EU action – because Trump's victory has removed the United States as a partner in calling for reform, and because the Egyptian regime sees far-reaching reform as an existential question. As one US official said, "The regime thinks of political parties and human rights organisations as national security threats. If it thinks they will bring it down, there is no amount of incentives or disincentives

you could offer them to liberalise their politics."⁷⁹ In the short term, the most the EU can do may be to limit the worst excesses of the crackdown and at least make sure the issue remains on the agenda. Small-scale victories are possible, as shown by Germany's success in winning the right for its political party foundations to return to Egypt, and Cairo's occasional releases of political prisoners when trying to win international respectability (such as before Sisi addressed the United Nations General Assembly, or before the currency flotation).

Conclusion

Europe should not fall into the deceptive comfort of the 'stabilisation versus democratisation' argument. Indeed, it is astounding to see how the fundamental lessons of the Arab uprisings are casually overlooked. The regime of Hosni Mubarak, like that of Muammar Gaddafi and Bashar al-Assad, were stable for decades until suddenly they were not. This is because all three regimes failed to invest in building state institutions that enjoyed enduring popular and legal legitimacy. European governments should indeed be interested in stability and institutional resilience, but those go hand in hand with respect for the rule of law, social justice, economic opportunities, and political rights. As it is, the Egyptian situation contains inherent risks of instability. The high level of political repression is not accompanied by economic discipline, and monetary and fiscal reforms are not accompanied by any genuine structural reforms to limit corruption, and promote transparency and good governance. Without such reforms, aid alone is unlikely to lead to sustainable economic growth.⁸⁰

Egypt has a wide range of economic and socio-political problems, each of which represent a crisis in the making. European officials would be well advised to start paying attention to what ails their southern neighbour, and develop a more far-sighted policy to help. Throwing money at the problem is not going to allay its underlying causes, unless such assistance forms part of an overall policy aimed at improving Egypt's stability and prosperity and easing some of the restrictions on society. The latter point may be a small win, but even those are hard to come by these days. While it is commendable that Sisi has embarked on long overdue economic reforms, he must now follow them up with reforms geared towards improving the state's relationship with society. Ultimately, stability and development will require political openness and reconciliation. For the sake of Egypt's stability, Sisi (or a leader who succeeds him) needs to do more and faster. If Europe does not consistently affirm that message, it risks seeing Egypt descend further into instability. Once the country reaches crisis point, no amount of aid will make a difference.

⁷⁹ Personal interview, policy planning staff official at the US State Department, Washington, DC, 6 January 2017.

⁸⁰ Nabamita Dutta, Peter T Leeson, and Claudia R Williamson, "The Amplification Effect: Foreign Aid's Impact on Political Institutions", *Kyklos International Review for Social Science*, Vol. 26 (2), May 2013, available at <http://onlinelibrary.wiley.com/doi/10.1111/kykl.12018/full>.

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