

Private Memo on ECFR's stocktaking trip to Cairo

July 2014

This memo is the result of a stocktaking trip to Cairo from 6th to 9th July 2014 in which an ECFR delegation met with a range of Egyptian stakeholders including former and current regime officials, members of the security establishment, diplomats, politicians, analysts, journalists, economists and businesspeople, members of the human rights community, and EU/member state ambassadors on the ground. The purpose of the trip was to gain insight into the direction Egypt is headed under President Sisi, the main socio-economic challenges the regime faces in charting a way forwards, and how the EU and its member states can best engage with Egypt in a coherent, strategic and sustainable way. We heard a broad spectrum of opinions; what follows is an attempt to distill them into five main baskets with subsequent policy takeaways for the EU:

The political situation: semi-coordinated repression

There is a paradoxical quality to the present situation: everyone is waiting to find out Sisi's intentions, but it is not clear that he has any long-term plans. While Egypt's direction depends strongly on Sisi's decisions, many people believe he does not yet have firm control over the institutions of the state. He has shown the capacity for bold decisions, but given no indication of a systematic vision of how Egypt will develop. Instead he seems to have a set of instincts: paternalistic, statist, security-minded, nationalist and intolerant of dissent or opposition.

Under his leadership, political space continues to narrow. While some people argue the forthcoming parliamentary elections could offer at least a partial political opening, more believe that the political scene is inimical to any meaningful competition. One analyst described the political system as "disempowering" for the parties struggling to take part in it. Liberal politicians describe the law that will govern the elections as a disaster: the bulk of the seats are selected on an individual basis, favouring old regime holdovers. The list section is organised on a winner-take-all basis, meaning that parties must construct broad coalitions and "spend time bickering internally on alliances and too little campaigning", as one politician told us. For the moment, public sentiment is also anti-democratic, distrusting political parties; both public and private broadcasting channels function as cheerleaders for the regime.

Repression of dissent has reached a level that human rights activists describe as worse than under Mubarak. An estimated 20,000 people have been arrested, including for affiliation to the Muslim Brotherhood, violations of the anti-protest law and opposition political campaigning. Torture is said to be again a routine occurrence in police custody, and the judiciary continues to pass extreme sentences against members of the Muslim Brotherhood, other protesters and journalists. While the general framework of the crackdown is endorsed from the top, many analysts believe that state institutions are pursuing their own agenda in at best a semi-coordinated fashion. The latest draft of a proposed new NGO law is regarded as the worst yet, and threatens to make all civil society subordinate to security control.

The economic situation: ad hoc reforms without a broader plan

Sisi's recent decision to reduce fuel subsidies and impose some tax increases is proof of decisiveness and willingness to "touch the untouchable", an area of economic reform that the World Bank and IMF have been pushing Egypt on for decades. Credit where credit is due: "over the last three days Sisi has implemented the equivalent of three years' worth of IMF programme." Yet according to economic analysts these measures do not yet seem to be part of a longer-term economic plan. The predicted savings of \$50bn from subsidy cuts will most likely go entirely towards reducing the budget deficit. Several economic analysts criticised the lack of attempt to address the bloated public sector and its wage-bill. Inflation is also a worry (core inflation currently sits at just below 10% and is invariably a "tax on the poor"). Nor, despite a pilot programme of cash transfers for the poor, has Sisi put in place a social safety net to catch those hardest hit by the price hikes.

Members of the business community are enthusiastic about the credentials of the government's economic ministers. But they are also wary of Sisi's statist, army-driven inclinations; his suggested remedy for market failure leading to overcharging of consumers is for military transportation and state-run stores to undercut competitors. Another characteristic initiative is the setting up of a "Long Live Egypt" fund to which the wealthy are pressured to give donations. Public sector salaries have been capped across the board (including for police, army and judiciary) and there is talk of capping corporate profitability. Business owners also expressed exasperation at the ongoing government rhetoric of "being at war on terror" as counterproductive to attracting foreign investment. In these ways Sisi's policies could cause some tension with the business community and other elite sectors, as well as those hit by price increases.

Less evident are any plans to reform the state and the sclerotic, unresponsive public administration, which analysts see as essential for genuine economic development and to meet broader popular demands. Representatives of Member State embassies claimed that large energy companies were holding off signing new contracts with Egypt for fear of massive unpaid arrears. Other factors discouraging investors remain excessive red-tape, bureaucracy, barriers to market entry for small firms, and general lack of clarity surrounding Egypt's legal system – reforming the environment for business investment is a key challenge on which Sisi has not given any sign of working.

The security situation: "war on terror"

The strong message from President Sisi and his administration is that Egypt is engaged in a "war on terror": it is fighting a "bloody" conflict to defend the state against its enemies, composed of jihadist groups and "Muslim Brotherhood elements". The security challenge is used to justify the crackdown - those we met described the regime as "security obsessed". Officials at the MFA spoke of "blood running in the streets" and "terror cells across Egypt"; more than financial assistance, they say they want Europe's understanding for the reality of situation, instead of current "misperceptions" and attempts to impose "European concepts" that do not fit the Egyptian context. The regional spillover from Syria, ISIS and Libya merely feeds into the regime narrative. Indeed, the intelligence services and the security establishment claim that "you should be grateful that Egypt is doing your dirty work in the region".

The regime's messages are carefully calibrated: although the state is at war with terror, it is anathema to talk of a "civil war" (this was one of the charges against the Al Jazeera journalists) because that implies the Egyptian people are divided. Similarly, although the terror threat remains grave enough to justify the crackdown, a senior Ministry of Interior official also was at pains to claim that violence is

diminishing. A more dispassionate local analyst distinguished between political security, where the regime exaggerates the danger the country faces, and ordinary security, where the police have not taken adequate steps to deal with low-level criminality that affects ordinary citizens.

The social situation: tacit consent in the short term

Most people we spoke to believe that Sisi enjoys the tacit consent of a majority of Egyptians, but not unconditional support. The muted reaction to the subsidy cuts may reflect the fact that many people are willing to give some time to address the country's problems; his electoral mandate ensures a degree of popular patience. At the same time, the draconian enforcement of anti-protest laws is believed to be dampening any potential demonstrations. Even some liberals continue to support Sisi: the divisions within the country's liberal sector were vividly on display during a dinner we attended, where people who stood together against Mubarak argued fiercely about the legitimacy and direction of Sisi's leadership.

Nevertheless most analysts believe that changes within Egyptian society mean it is unlikely to submit to authoritarian leadership over the longer term. Two thirds of the population is under 30 years of age, and nearly one million young people enter the job market each year. Some presented the youth as the only source of optimism in an otherwise stale environment: "they are the only ones who haven't given up" (although it remains to be seen whether the youth will join the fray or become apathetic). Others anticipated that pressure for more meaningful democracy could reassert itself "sooner than people think, and certainly within five years". Conversely, a foreign ministry official anticipated that a new generation of political Islamists may at some point be prepared to rejoin the political system on the regime's terms. In the short term, large-scale popular unrest is only likely if economic problems worsen.

Economic analysts emphasized the importance both of helping the condition of the poorest in society and fostering the growth of the middle class, disagreeing about which should be prioritized. Many we spoke to argued that both the government and the international community should focus efforts on education, vocational training, creating employment opportunities and scholarships for European states. According to one prominent consultant, "to be able to cope with the numbers of new graduates over the coming years Egypt will need Chinese-style growth." We were told that the government should treat the huge youth bracket as an opportunity for capital investment and talent generator rather than as a burden on the state.

Egypt in a turbulent region: suspended leadership

So far, Sisi's strand of Egyptian nationalism has been focused on rebuilding the country at home. Its foreign initiatives thus far have concentrated overwhelmingly on strategic security questions. Sisi's first foreign visit was to Algeria to discuss the situation in Libya, which remains a major concern. Relations with Israel are closer than for many years, while the regime's antipathy to Hamas has led to detachment from the Palestinians. The Ministry of Foreign Affairs claims to support the Palestinian unity government, but foreign diplomats believe that Egypt is in fact very unhappy with this development. The absence of Egyptian diplomacy in the developing Gaza crisis has been striking.

Officials recognise the major role played by Saudi Arabia, the United Arab Emirates and other Gulf states in keeping Egypt afloat financially. The question of who has the upper hand in this relationship

received different answers: some believe that the Gulf needs Sisi to keep the Muslim Brotherhood down as much as he needs the Gulf to keep his economy solvent.

We detected little appetite for regional cooperation over technical issues such as water and energy. The fact that Egypt imports 78% of its water makes supplies a vital national concern, and efforts to resolve the dispute with Ethiopia over the latter's projected dam on the Nile are another foreign policy priority.

The way forward for Europe

European diplomats see little prospect of any short-term shift away from the current repressive approach. However EU member states are divided over how to deal with this problematic relationship. Some argue that the EU must continue to take a clear stand against the continuing violations of human rights and anti-democratic moves, not least to preserve its credibility for a time when the younger generation has greater influence and the pendulum swings back towards accountable government. Others are more inclined to think that the EU needs to meet the Egyptians half-way, recognising that their agenda is different from ours. Diplomats identified a problem in finding credible interlocutors: business elites may not be interested in free trade, the youth remain politically disengaged and “in 15 years there may not be any civil society left to engage with”. Nevertheless all Europeans agree that further instability is in no one's interest and that the EU should do what it can to support Egypt's economic development.

Clearly Europe needs to find a tone in dealing with Egypt that is alert to the country's hypersensitive nationalist mood but our delegation felt strongly that the EU should not appear to accept the narrative of “normalisation” presented by Egyptian authorities. European officials must continue to make clear that Egypt is violating fundamental human rights obligations and is not building the foundations of meaningful democracy, and that we cannot simply overlook this, not least because of our populations' own views. One area where the EU could work is encouraging economic reform to extend into areas like public administration, decentralization and enhancing the rule of law – though wider reform in areas like the security sector is clearly off the table for the moment. We also found broad agreement that the ENP framework with its instrument-led, technocratic and one-size-fits-all approach is irrelevant to the Egyptian context and needs fundamental reform. In our view, the EU's existing approach to the Mediterranean has become obsolete and a major reset is required. The EU should re-examine its structures as the new EU administration takes shape: for instance through nominating a Commissioner for the Mediterranean and axing the idea of a Commissioner for Migration.