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Egypt: Background and U.S. Relations

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Summary

This report provides an overview of the key issues for Congress related to Egypt and information on U.S. foreign aid to Egypt.

The United States has provided significant military and economic assistance to Egypt since the late 1970s. U.S. policy makers have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running cooperation with the Egyptian military and on sustaining the March 1979 Egyptian-Israeli peace treaty. Successive U.S. Administrations have publicly characterized Egypt's government as generally influencing developments in the Middle East in line with U.S. interests.

U.S. policy makers are now debating complex questions about the future of U.S.-Egypt relations, and these debates and events in Egypt are shaping consideration of appropriations and authorization legislation in the 113th Congress.

Between 1948 and 2014, the United States provided Egypt with \$74.65 billion in bilateral foreign aid (calculated in historical dollars—not adjusted for inflation), including \$1.3 billion a year in military aid from 1987 to the present. The FY2014 Consolidated Appropriations Act (P.L. 113-76) provides up to \$1.3 billion in military aid to Egypt and up to \$250 million in economic aid. This report discusses the conditions governing the release of these funds. All U.S. foreign aid to Egypt (or any foreign recipient) is subject to the approval of Congress. All U.S. military aid to Egypt finances the procurement of weapons systems and services from U.S. defense contractors.

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Overview

Since July 2013, Egypt's military-backed government, now led by the winner of the 2014 presidential election Abdel Fatah al Sisi,¹ has been attempting to establish a political order that some describe as a partial revival of authoritarian rule. Egyptian authorities appear to have calculated that their attempts to impose order have enough public support, and that resistance from Islamists and secular activists can be contained through a combination of coercion, propaganda, and economic stimulus. Despite some predictions that the military's campaign against the Muslim Brotherhood would lead to civil war akin to Algeria during the 1990s, the interim government has restored a modicum of order, though violence and disorder persist in the Sinai Peninsula and some areas of mainland Egypt.

Whether Egypt will become more authoritarian under Sisi's presidency is an open question. Many observers assert that since the 2011 uprising against former President Hosni Mubarak, Egypt's citizens have been less intimidated by the state's coercive power. According to one author, Egyptian society is "more connected to the world, more opinionated, daring, and commercially and socially entrepreneurial. No central power can control such a society for any significant period of time."² Others argue that the security forces will or have already reemerged as decisive actors in regulating civil society, particularly given Egypt's difficult economic circumstances. Those circumstances also raise the pressure on those in control of the government to deliver on promises of improvement or face criticism and the withdrawal of popular support.

Recent U.S. Policy toward Egypt

The military's crackdown against dissent since ousting the country's elected president, Muslim Brotherhood figure Muhammad Morsi, in July 2013, has strained relations with the Obama Administration and renewed U.S. public debate over the costs and benefits of maintaining strong bilateral security ties with what some describe as an increasingly undemocratic Egyptian partner. In Egypt, some elements of the military and political establishment seem to harbor deep-seated bitterness toward the United States for what they perceive is a lack of American support for what the military did to "stabilize" the country. The military's narrative holds that it alone saved Egypt from civil war, economic ruin, and Islamist totalitarianism.

Overall, there is a marked lack of consensus over the trajectory of U.S. policy toward Egypt. The United States military, in particular U.S. Central Command (CENTCOM), which considers Egypt an "anchor state,"³ still views Egyptian cooperation as vital to U.S. national security interests in the Middle East. However, a number of observers, including many U.S. democracy and human rights advocates, argue that U.S. military support for Egypt runs counter to U.S. security interests and/or democratic values.⁴ Some of these observers charge that the military's campaign against Islamists may ultimately further radicalize their opponents and lead to terrorist blowback against U.S.

¹ For a brief profile of newly elected President Sisi, see: <http://www.bbc.com/news/world-middle-east-19256730>.

² "The Forces of Centralisation cannot Recapture Egypt," *Financial Times*, February 9, 2014.

³ See Testimony of General Lloyd J. Austin, III., Commander, U.S. Central Command, Committee on House Appropriations Subcommittee on Defense, March 14, 2014.

⁴ "Working Group on Egypt Releases Letter to President Obama," *Project on Middle East Democracy*, February 3, 2014.

interests.⁵ They also argue that marginalizing secular and Islamist pro-democracy activists alienates young, educated individuals who could contribute productively to Egypt's future.

Key U.S. regional allies such as Israel and Gulf Arab monarchies have sought greater U.S. support for the Egyptian government. The Israelis have voiced appreciation for recent Egyptian military efforts to combat weapons smuggling into Gaza and terrorism in the Sinai Peninsula,⁶ and the Gulf Arabs have backed Egypt's crackdown against the Muslim Brotherhood.

The Obama Administration has attempted to craft a policy toward Egypt that seeks a middle ground, continuing strong military-to-military ties without condoning Egypt's crackdown against dissent. President Obama remarked in a May 28 speech at West Point that:

In Egypt, we acknowledge that our relationship is anchored in security interests – from the peace treaty with Israel, to shared efforts against violent extremism. So we have not cut off cooperation with the new government. But we can and will persistently press for the reforms that the Egyptian people have demanded.⁷

According to Michele Dunne of the Carnegie Endowment for International Peace, “The U.S. administration keeps trying to split the difference, sending the message that they want to keep up security cooperation with the Egyptian government but at the same time that they don't approve of the coup and the massive human rights abuses that have followed.”⁸ Secretary of State John Kerry has told Congress that for U.S.-Egyptian cooperation to improve, the Egyptian government needs to be less heavy-handed against dissent. According to Secretary Kerry:

Egypt is a very vital relationship. It's a quarter of the Arab world. It has always been sort of the hub of the region, if you will. It faces some enormous challenges right now. And we're well aware of that. We want this interim transitional government to succeed. We are committed to try to help make that happen. But they need to help us to help them at the same time, by implementing some of the reforms that we've been talking with them about, with respect to inclusivity, journalists, some of the arrests and so forth.⁹

Some experts believe that in order to advance U.S.-Egyptian relations, each government needs to better understand the other's perspective. According to Hussein Ibish, a senior fellow at the American Task Force on Palestine, “Americans need to register that Islamists are simply not proving popular in post-dictatorship Arab societies, and that Egypt faces a genuine threat from violent extremists. And Egyptians need to understand that the United States government is not cheering for the Muslim Brotherhood, but has legitimate concerns about democracy and human rights.”¹⁰

With the election of former Field Marshal and Defense Minister Sisi, U.S. and Egyptian officials may attempt to “normalize” bilateral relations. Egypt, which is relying heavily on the financial largesse of the Arab Gulf states and pledges of support from Russia (see additional discussion

⁵ “Don't Create a New Al Qaeda,” *New York Times*, January 6, 2014.

⁶ “Congress threatens Showdown over Military Aid to Egypt,” *Al Monitor*, March 17, 2014.

⁷ Remarks of President Obama, Commencement Address, West Point, New York, May 28, 2014.

⁸ “Defense: U.S. Apache Delivery Highlights Mixed Messaging On Egypt,” *IPS*, April 24, 2014.

⁹ House Committee on Appropriations, Subcommittee on State, Foreign Operations, and Related Programs, Hearing on Proposed Fiscal 2015 Budget Request for the State Department and Foreign Operations, March 12, 2014.

¹⁰ “The US and Egypt begin to Recalculate their Relationship,” *The National* (UAE), April 29, 2014.

below), still seeks an American partner, and is hoping that its managed political transition will be enough to quiet its American critics in and out of government.

Figure I. Egypt at a Glance



Ultimately, Egypt and the Arab Gulf monarchies want the Administration and Congress not only to continue foreign assistance to Egypt without additional conditions, but also to do more financially for a country that has structural economic deficiencies, such as high annual budget deficits, energy shortages, and high youth unemployment. Other Arab countries, such as Tunisia and Jordan (with Yemen possibly soon to follow), have received International Monetary Fund (IMF) lending packages in recent years, and Egypt may seek one as well. The Arab Gulf monarchies want Egypt to return to the good graces of Western governments so that the larger international community can support Egypt's struggling economy.¹¹ To date, Saudi Arabia, Kuwait, and the United Arab Emirates have pledged over \$18 billion in direct loans, fuel subsidies, and grants to the Egyptian government, with billions more being invested from the private sector in residential housing and commercial real estate.¹² Some reports suggest that these same countries may be preparing to assist Egypt with an

¹¹ "Saudi King Sees Egypt Too Big to Fail Under Friendly General," *Bloomberg*, January 16, 2014.

¹² See, *Economist Intelligence Unit*, Country Report Egypt, May 8, 2014.

additional \$20 billion in aid.¹³ The IMF and Egypt could begin discussions for a lending program once presidential and parliamentary elections have been completed. According to Jon Alterman of the Center for Strategic and International Studies, “While many in the United States seem content to let Egypt drift into the arms of deep-pocketed Gulf monarchies, the smarter strategy is for the United States to prioritize finding common ground with those monarchies to steer Egypt in a more promising direction.”¹⁴

Domestic Politics: The Transition Continues

Egypt’s purported transition since the military’s ouster of former President Morsi in July 2013 is ongoing. With the passing of an amended constitution¹⁵ in January 2014 and the election of Sisi as president, Egypt’s next step in the transitional process will be to hold parliamentary elections.¹⁶ The lower house of Parliament has been disbanded since June 2012. The interim government is currently drafting a new electoral law to govern parliamentary elections. A draft electoral law would establish a 600- to 630-seat parliament with three quarters (480) of the seats elected from individual geographical districts, 120 seats elected through electoral lists, and 30 seats set aside for presidential appointees.

Egypt’s 2014 Presidential Election

According to unofficial estimates, Abdel Fatah al Sisi easily won the 2014 presidential election with 96.9% of the vote amidst a voter turnout estimated at about 47.4%, a percentage that was lower than Egyptian authorities’ expectations despite the government’s last-minute and controversial call to extend voting an extra day. The runner-up, Hamdeen Sabahi, won 3% of the ballot. In order to increase turnout, authorities granted public workers a holiday, threatened to fine non-voters, and shut down some public shopping centers. Voter turnout in the 2012 election was 52%. Many observers attribute the lower than expected turnout to a combination of factors, including voter apathy and a boycott by some Islamist supporters of the Muslim Brotherhood. The European Union Election Observation Mission, which observed the election, stated that “The Presidential Election was administered in line with the law, in an environment falling short of constitutional principles.”¹⁷ The White House issued a statement on the election, saying “We note that domestic and international observers concluded in their preliminary statements that Egypt’s Presidential Electoral Commission (PEC) administered the election professionally and in line with Egyptian laws....We also share concerns raised by observation groups about the restrictive political environment in which this election took place.”¹⁸

Sisi is likely to attempt to consolidate state power around his rule. In late March, when he resigned as both minister of defense and field marshal, he appointed General Sedki Sobhi as the new defense

¹³ “Saudi Arabia and UAE readying big aid package for Egypt,” *Economist Intelligence Unit*, June 2, 2014.

¹⁴ “A Partnership for Egypt,” *Middle East Notes and Comment - CSIS*, May 21, 2014.

¹⁵ In January 2014, 98% voters (turnout was around 38%) approved an amended constitution in a public referendum that was widely criticized by various non-governmental organizations for being held in a “constrained campaign environment.” See Democracy International’s Findings in its Referendum Observation Mission, available online at: <http://democracyinternational.com/news/press-release-findings-di-egyptian-referendum-observation-mission>.

¹⁶ The new Egyptian constitution (Article 230) specifies that either presidential or parliamentary elections should follow the adoption of the constitution and that “procedures” to begin these elections should begin no later than 90 days after the constitution comes into effect. In March 2014, the Interim Government passed a Presidential Elections Law, which among other things, establishes a Presidential Elections Commission (PEC) to run elections. For a description of the electoral law, see: <http://www.atlanticcouncil.org/blogs/egyptsource/egypt-s-presidential-elections-law-a-breakdown>.

¹⁷ European Union Election Observation Mission, Arab Republic of Egypt - Presidential Election - 26/27 May 2014, Press Release, May 29, 2014.

¹⁸ The White House, Office of the Press Secretary, Statement by the Press Secretary on the Presidential Election in Egypt, June 04, 2014.

minister. Lieutenant General Mahmoud Hegazy replaced Sobhi as army chief of staff. According to Michael Collins Dunn of the Middle East Institute, “the new Defense Minister and Chief of Staff are men close to Sisi and somewhat in his image (the new Chief of Staff’s daughter is married to Sisi’s son).”¹⁹ With his relations with the military leadership seemingly secure, the incoming president may focus on broadening his support in the non-military segments of society (e.g., business community, rural landowners, secular political parties, Salafists) without loosening his grip on power. One major challenge he may face in pursuing this goal—based on the experience of former President Mubarak’s last weeks in power—will be in deploying state security services (Interior Ministry and intelligence personnel) effectively without decisively alienating key constituencies (Interior Ministry, intelligence services).

The Crackdown against the Muslim Brotherhood and non-Islamist Groups

For nearly a year, Egypt’s security apparatus (often referred to as the “Deep State²⁰”), a broad term meant to encompass the conventional military, internal security and police, and intelligence agencies, has reversed personal and political freedoms gained in the wake of the 2011 “revolution.” According to many observers, this campaign has been conducted with a degree of popular support from Egyptians apparently frustrated with the disorder of the post-Mubarak period. According to Egypt expert H.A. Hellyer, “When given the choice between a democratic system that may or may not deliver stability in the short or medium term and a system that is backed by an extremely strong military institution, I think the majority of Egyptians have unfortunately decided that the latter is what they want.”²¹

Egypt’s Islamists: Where do they go from here?

Since the July 2013 “coup,” the Egyptian state has thoroughly weakened the Muslim Brotherhood as a functioning organization, and many observers have questioned what Islamists will do in response over time. According to one report, an estimated twenty percent of youth Brotherhood members say they believe anti-state violence may be their only option.²² One expert suggests that some Brotherhood members are using social media to organize campaigns of “lower-profile” violence against authorities using flaming aerosol cans and Molotov cocktails (See, “Egypt’s Invisible Insurgency,” *New Republic*, March 19, 2014). Still, those Brotherhood leaders who remain free or outside Egypt continue to claim that the organization itself is committed to peaceful popular protests against a government they have deemed to be “illegitimate.” As Egypt’s political process proceeds, it is difficult to ascertain whether the Brotherhood’s campaign is gaining any popular support, though Egyptian Islamists claim that if they show patience and persistence, the public will become more supportive of their cause. According to one Brotherhood member referring to a long history of Egyptian government repression, “As the Brotherhood, we’ve been psychologically prepared for the long run.”²³ Egypt’s Islamist political scene, however, has other actors. Salafist political parties, such as the Nour Party, have quietly supported the interim government, claiming that “Our policy is that we govern, we do not rule.”²⁴ The performance of Salafists will be closely watched in upcoming parliamentary elections.

The interim government’s crackdown has to date primarily targeted the Muslim Brotherhood and its supporters. The government has formally disbanded the organization, designating it as an illegal

¹⁹ “Band of Brothers: A Look at Egypt’s New High Command,” *Middle East Institute Editor’s Blog*, March 28, 2014

²⁰ <http://www.pbs.org/wgbh/pages/frontline/foreign-affairs-defense/egypt-in-crisis/the-deep-state-how-egypts-shadow-state-won-out/>

²¹ “In Egypt, many Shrug as Freedoms Disappear,” *Washington Post*, January 8, 2014.

²² “Egyptian Brotherhood Split on using Force as Sisi poised to Rule,” *Reuters*, May 19, 2014.

²³ “Egypt’s Brotherhood Entrenched for War of Attrition,” *Agence France Presse*, May 21, 2014.

²⁴ “Salafist Nour Party leader: The Brotherhood committed political suicide,” *Al Sharq al Awsat*, January 29, 2014.

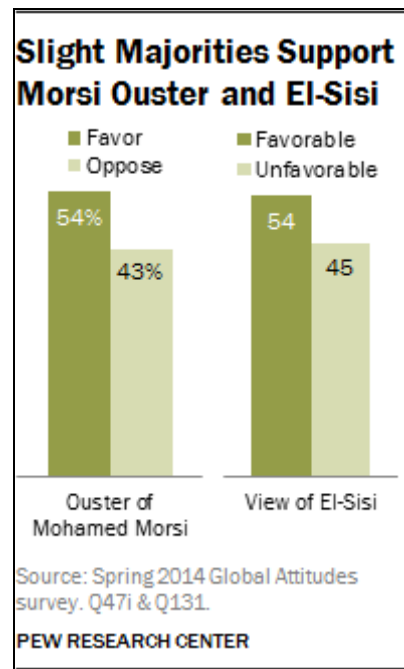
terrorist organization in December 2013. Most Brotherhood leaders are imprisoned and the trial of former President Morsi and other top Brotherhood leaders is ongoing. There are no verifiable figures on the death toll since July 2013, though the Carnegie Endowment for International Peace claims that more than 2,500 Egyptians (protestors and police) have been killed and more than 17,000 have been wounded.²⁵ Human Rights Watch claims that more than 1,000 protesters have been killed since July 3, 2013. Various press estimates suggest that since July 2013, 16,000 to 19,000 people, many of whom are Brotherhood members or supporters, have been arrested. Numerous countries and international organizations denounced a March 2014 court ruling that sentenced 529 Egyptians to death in the killing of a policeman. A month later, the same judge sentenced an additional 683 Egyptians to death for assaulting a police station and killing a police officer in 2013.²⁶ Some foreign governments also have denounced the ongoing trial of journalists for Al Jazeera who are accused of spreading false news in support of the Brotherhood and former President Morsi.

Egyptian authorities also have sought to suppress expressions of dissent from non-Islamist protestors. In November 2013, the government replaced the state of emergency then in effect with what is informally referred to as the “protest law.” This law bans public gatherings of more than ten people without approval from the police, which must receive prior notification of any planned gathering. Most importantly, the law authorizes police to ban any protest deemed a threat to “public order.” Some of the leaders of the 2011 popular movement against the Mubarak regime have publicly opposed this law. In December 2013, Ahmed Maher, Ahmed Douma, and Mohammed Adel were convicted of violating the protest law and they have remained imprisoned despite appeals.

Internal Violence and Conflict in the Sinai

Since the military’s July 2013 ouster of former President Morsi, Egypt’s tumultuous post-Mubarak period has become even more violence-plagued, though instability has not reached levels seen elsewhere in the region, such as in Syria, Libya, Lebanon, or Iraq. Nevertheless, Egypt’s suppression of Brotherhood sympathizers appears to have triggered counterattacks by Islamist groups (some of which appear to be more accepting of violence as a means of political action than the Brotherhood) against state security.

Figure 2. Recent Pew Public Opinion Survey in Egypt
April 2014



Source: <http://www.pewglobal.org/2014/05/22/one-year-after-morsis-ouster-divides-persist-on-el-sisi-muslim-brotherhood/>

²⁵ See, <http://carnegieendowment.org/2014/03/24/egypt-s-unprecedented-instability-by-numbers/h5j3>

²⁶ Most of those sentenced were tried in absentia and, upon recommendation from Egypt’s Grand Mufti, the judge has commuted most of his earlier sentences to life in prison. Nevertheless, many Western observers believe that the sentences have significantly damaged the Egyptian judiciary’s reputation for independence and impartiality.

Throughout the 1990s, Egypt faced an Islamist insurgency that targeted security forces, high-level officials, and foreign tourists; in recent months, it would seem that elements of that insurgent campaign have resurfaced not only in the Sinai Peninsula (see below) but in the Egyptian mainland. In late April, a car bomb killed an Egyptian police brigadier general in the Western Cairo suburb of October 6 City.

One of the biggest concerns for Egyptian and regional stability over the past several years has been the Sinai Peninsula, where a mix of radicalized indigenous Bedouin Arabs, foreign fighters, and Palestinian militants from neighboring Gaza have formed terrorist cells and targeted both Egypt and Israel. Combating terrorism in the Peninsula is complicated by limitations Egypt faces in fully enforcing its rule over the area.²⁷ The 1979 Israeli-Egyptian peace treaty caps the number of soldiers that Egypt can deploy in the Sinai, subject to the parties' ability to negotiate changes to Egyptian deployments as circumstances necessitate.²⁸

Since the violent police crackdown against former President Morsi's mostly Islamist supporters in mid-August as they protested his ouster, Islamist radical groups in the Sinai have waged an insurgency against the security services. Militants from an array of loosely organized groups, some of which use tactics and claim ideologies reminiscent of Al Qaeda,²⁹ have attacked police and army checkpoints and facilities, employing terrorist and guerilla warfare tactics.

²⁷ Since Israel returned control over the Sinai to Egypt in 1982, the area has been partially demilitarized per the terms of the 1979 Israeli-Egyptian Peace Treaty, and the Sinai has served as an effective buffer zone between the two countries. The Multinational Force and Observers, or MFO, are deployed in the Sinai to monitor the terms of the Israeli-Egyptian peace treaty.

²⁸ Article IV (4) states, "The security arrangements provided for in paragraphs 1 and 2 of this Article may at the request of either party be reviewed and amended by mutual agreement of the Parties."

²⁹ There is no known precise number of Islamist fighters operating in the Sinai, and estimates vary widely from 500 to perhaps as many as 5,000. Press reports describing Sinai-based militant groups name the following organizations: Al-Tawhid Wal Jihad, Mujahedeen Shura Council, Al Furqan Brigade, Ansar Bayt al Maqdis, Ansar al Jihad, Afnad Misr (Soldiers of Egypt) and Jund al Islam (Soldiers of Islam).

U.S. –Designated Sinai-based Terrorist Group: Ansar Bayt al Maqdis



Source: Image of Banner from Open Source Center

The most active terrorist group in the Sinai Peninsula is called Ansar Bayt al Maqdis or ABM (Companions or Supporters of Jerusalem). On March 28, the U.S. State Department designated ABM as a Foreign Terrorist Organization (FTO) and as a Specially Designated Global Terrorist entity.³⁰ According to the State Department press release:

ABM is responsible for attacks on Israel and security services and tourists in Egypt. ABM -- who shares some aspects of AQ ideology, but is not a formal AQ affiliate and generally maintains a local focus -- was responsible for a July 2012 attack against a Sinai pipeline exporting gas to Israel. In August 2012, ABM claimed responsibility for a rocket attack on the southern Israeli city of Eilat, and in September 2012, ABM militants attacked an Israeli border patrol, killing one soldier and injuring another. In October 2013, ABM claimed responsibility for a suicide bombing targeting the South Sinai Security Directorate in el Tor, which killed three people and injured more than 45. In January 2014, ABM successfully downed a military helicopter in a missile attack, killing five soldiers on board, and claimed responsibility for four attacks involving car bombs and hand grenades in Cairo, which left six people dead and over 70 wounded, many of them civilian bystanders. ABM has also targeted government officials, including the September 2013 attempted assassination of the Egyptian Interior Minister, and the January 2014 assassination of the head of the Interior Minister's technical office. In February 2014, ABM expanded its targets to include foreign tourists, and claimed responsibility for the bombing of a tour bus in the Sinai Peninsula, killing the Egyptian driver and three South Korean tourists.³¹

As of late May, it would appear that while violence in the Sinai Peninsula continues, the pace and scale of terrorist attacks has somewhat diminished. Many U.S. observers are concerned that Egypt's security operations in northern Sinai may be too heavy-handed and are not addressing the long term needs of the local population. According to one unnamed U.S. counter-terrorism official, "We fear that the Egyptian government's heavy-handed tactics may be fueling recruitment for ABM or other extremist groups in the region.... These groups are going to only get stronger if the response from the Egyptian government isn't more calculated and more discriminating. This is a point that we have made at multiple levels to the Egyptian government."³²

³⁰ In the Matter of the Designation of Ansar Bayt al Maqdis, as a Specially Designated Global Terrorist Pursuant to Section 1(b) of Executive Order 13224, as Amended, State Department Press Releases And Documents, April 10, 2014.

³¹ U.S. Department of State, "Terrorist Designation of Ansar Bayt al Maqdis," Office of the Spokesperson, April 9, 2014.

The Egyptian military has responded by launching a counter-offensive, particularly in northern Sinai, in order to root out militants who have taken refuge in villages and in the rugged Sinai terrain. The army has deployed Apache helicopters, tanks, and armored personnel carriers into de-militarized areas³³ with Israeli permission and in coordination with the Multinational Force of Observers (MFO), which monitors force deployments. In addition, Egyptian forces have displayed a greater commitment since the ouster of Morsi to destroying smuggling tunnels that traverse the Egyptian-Gaza border and establishing a buffer zone that would reduce smugglers' abilities to reestablish operations and evade official countermeasures. Reports from inside the Gaza Strip suggest that consumer prices have risen dramatically there due to the curtailment of smuggling. How enduring these operations will be, and how they might be coupled with related economic and political measures, remains uncertain, and is one area of interest for U.S. policy makers.

The Economy

Egypt's economy is barely growing; economists project perhaps 2% growth for the current Egyptian fiscal year, an amount that just exceeds the country's annual population growth rate.³⁴ For Egypt, the good news is that the economy is no longer contracting, as some foreign direct investment has returned, and foreign currency reserves are no longer dwindling, stabilizing at \$17.4 billion as of April 2014. They had been at \$36 billion before unrest began in 2011.

Figure 3. Egypt's Real GDP Growth



Source: Economist Intelligence Unit

However, the government remains saddled by a growing public and external debt. Total public debt as a percentage of GDP is hovering between 89% and 93%, and the country's external debt has

(...continued)

³² "U.S. worries its Aid to Egypt may be Misdirected," *Los Angeles Times*, April 30, 2014.

³³ The areas are de-militarized pursuant to Egypt's 1979 peace treaty with Israel.

³⁴ <http://data.worldbank.org/indicator/SP.POP.GROW>

grown to somewhere between \$49 billion and \$56 billion. According to one financial analyst, “Egypt is spending more than it can borrow given the low gross domestic product growth rates...It’s about having faith that you can repay... Egypt would have to grow around 5 or 6 percent in the next three years and that’s highly unlikely. It hasn’t yet reached a dangerous point, but it’s on a very dangerous trajectory.”³⁵ Almost a quarter of the Egyptian budget is dedicated to paying the interest on Egypt’s debt.

Some analysts fear that Egypt, even with Gulf aid, could be approaching the point of insolvency since the government continues policies that have created ever-widening annual deficits.³⁶ Government subsidies of food and fuel,³⁷ all of which Egypt is a net importer of, account for somewhere between 20 and 29 percent of state spending. The interim government has launched several stimulus packages and has actually increased state salaries for an already large public payroll. When asked in a May 2014 television interview what kinds of economic reforms he would champion as president, Abdel Fatah al Sisi remarked that, “The subsidies can’t be removed suddenly. People will not tolerate that.” With low growth projected and a tax system that does not generate adequate revenue, Egypt may seek additional support from Gulf states in the form of outright grants rather than loans.

In May 2014, the *Financial Times* reported that Israeli natural gas companies may be preparing to export liquefied natural gas to Egypt.³⁸ Egypt currently owes nearly six billion dollars to foreign gas companies.

Foreign Relations

The Palestinians - Since the July 2013 military takeover, Egyptian authorities have reversed the Morsi government’s policy of backing Palestinian Islamist group Hamas (a Muslim Brotherhood offshoot). The current Egyptian rulers see Hamas as a security threat that has aided the Muslim Brotherhood and terrorist groups in the Sinai. Over the past year, the Egyptian military has more forcefully sought to close the underground smuggling trade beneath the Gaza-Egyptian border that Hamas authorities rely upon for supplies and tax revenue. The interim government also has banned Hamas from operating inside Egypt, and the courts have authorized seizures of Hamas’ assets inside Egypt. Although Egyptian military officials have always sought to balance the need to appear loyal to the Palestinian cause without empowering Hamas, this more aggressive containment policy against Hamas has been viewed as effective in contributing to Hamas’ political isolation (other factors such as Hamas’ falling out with the Assad regime in Syria also have contributed to the group’s waning power). For months, observers speculated whether Egyptian pressure against Hamas would force it to reconsider reunification of the West Bank and Gaza; indeed, some observers see it as a partial explanation for the reunification agreement that was announced last month.

³⁵ “Debt casts Deepening Shadow over Egypt’s Economic Recovery,” *Reuters*, March 20, 2014.

³⁶ Steven Cook, “Egypt’s Solvency Crisis,” Contingency Planning Memorandum No. 20, *Council on Foreign Relations*, April 2014.

³⁷ The government currently owes \$5.7 billion to foreign oil companies, and fuel shortages over the past few years have depressed economic growth and led to periodic blackouts, though fuel shipments from the Gulf have somewhat improved supply.

³⁸ “Israel gas Supply Deals to Egypt and Jordan draw Closer,” *Financial Times*, May 21, 2014.

The April 23 “unity” deal between rival Palestinian factions Fatah and Hamas³⁹ may be viewed from Egypt’s perspective as a positive diplomatic development. According to one unnamed Egyptian military official, “Our main goal is to secure our borders and to eliminate any kind of smuggling. But also as a side-effect, we need to see the PA in charge of the Gaza Strip. It’s our business to see the PA run Gaza, to have somebody to deal with . . . we don’t have a relationship with Hamas.”⁴⁰

Libya – As formerly retired Libyan Major General Khalifa Haftar wages a campaign to rid Libya of various Islamist militias, many observers have compared his actions to those of President Sisi, raising questions as to Egypt’s role in the conflict in neighboring Libya. To date, Egyptian media have adopted a supportive tone toward Haftar, and Sisi during his presidential campaign noted that Islamist fighters and unsecured weapons in Libya were becoming a major security threat to Egypt.

Russia – In recent months, Egypt and Russia have held several wide ranging discussions on the expansion of military and economic ties⁴¹ in an effort that many believe is an Egyptian attempt to demonstrate to the U.S. government that Egypt has alternatives when it comes to military-to-military partnerships. The Egyptian armed forces do maintain Russian tanks and other equipment, though according to the *Defense Industry Daily*, their high end inventory consists of almost entirely U.S.-origin systems.⁴² Reportedly, Egypt and Russia may be discussing an arms deal involving the sale of Russian MiG 29 fighters, anti-aircraft systems, and anti-tank missiles worth potentially \$2 billion. How Egypt would finance such a purchase is not known, though some sources are suggesting that the Arab Gulf states would provide funding. Some Israeli press reports have suggested that the Russian government would even consider making Egypt the first foreign customer eligible to purchase the more advanced MiG 35. Overall, given the amount (force structure, officer training, weapons purchases) invested in U.S.-Egyptian military cooperation over a 40-year period, it is unclear how truly willing or able either side is to seek alternatives. According to Minister for International Cooperation and Planning Ziad Bahaa El-Din, Egypt’s attempt to expand ties elsewhere should not be perceived as a “zero-sum game.”⁴³

U.S. Foreign Assistance to Egypt and the FY2014 Appropriations Act

For fiscal year 2014, Congress has appropriated \$1.3 billion in Foreign Military Financing and \$250 million in Economic Support Funds to Egypt; however, the delivery of assistance is subject to certain conditions, such as:

- FY2014 funds may only be made available if the Secretary of State certifies that Egypt is sustaining the strategic relationship with the United States and is meeting

³⁹ Hamas is an Islamist group designated by the U.S. government and many other Western governments as a terrorist organization.

⁴⁰ “Tide of Events forces Gaza’s Rulers to Negotiate,” *The Guardian* (UK), April 26, 2014.

⁴¹ Egypt is a major importer of Russian wheat and it may be seeking discounts on the price of future wheat import deals. In addition, both countries may be discussing long term plans to export Russian liquefied natural gas to Egypt. According to one report, “While a deal could provide mutual benefit, Moscow will have to seriously weigh the significant financial costs of subsidizing Egypt’s ailing economy and military.” See, “Russia Finds a Potential Partner in Egypt,” *Stratfor*, April 17, 2014.

⁴² “All Over Again: Egypt Looks Beyond the USA for New Arms,” *Defense Industry Daily*, November 14, 2013.

⁴³ “Egypt Says Tension with U.S. a ‘Glitch’ in Storied Ties,” *Bloomberg.com*, November 14, 2013.

its obligations under the 1979 Egypt-Israel Peace Treaty. The certification was made in April 2014.

- FY2014 funds are provided to Egypt “notwithstanding any other provision of law,” an exemption that would allow aid to continue despite Section 7008 of P.L. 113-76 which prohibits foreign assistance to a country whose elected head of government is deposed by military coup d'etat or decree. The Administration specifically requested Congress to include notwithstanding authority for Egypt in executive-legislative branch negotiations over the FY2014 appropriations bill.
- FY2014 military and economic aid to Egypt is divided into two tranches: \$975 million may be released after the Secretary of State certifies Egypt has held a constitutional referendum, and is taking steps to support a democratic transition. \$576.8 million may be released after the Secretary of State certifies that Egypt has held parliamentary and presidential elections, and that a newly elected Government of Egypt is taking steps to govern democratically.
- However, if the Secretary of State cannot certify the conditions stated above, then military aid may be made available at the minimum rate necessary to continue existing contracts, except that defense articles and services from such contracts shall not be delivered until the certification requirements are met. Economic aid also may be made available without certification, provided that such funds may not be made available for cash transfer assistance or budget support unless the Secretary of State certifies to the appropriate congressional committees that the Government of Egypt is taking steps to stabilize the economy and implement economic reforms. Moreover, FY2014 funds may be made available without certification provided that they are used for counterterrorism, border security, and nonproliferation programs in Egypt, and for development activities in the Sinai.

As described below, in late April 2014, the Administration announced that it intended to obligate \$650 million in FY2014 FMF to Egypt. This was due to the fact that U.S. holding accounts for FMF to Egypt were running low on funds, and payments to U.S. defense contractors for defense equipment purchased in prior years were due. However, on April 29, Senator Patrick Leahy placed an informal “hold”⁴⁴ on the \$650 million notification, and it is unclear how the U.S. government will pay the private U.S. defense companies making equipment for the Egyptian military. According to one unnamed official, “Going back to the status quo of the past 30 years is not really an option that’s available to us.”⁴⁵

Chronology: Recent U.S. Action on Foreign Assistance to Egypt

Date	Event
January 17, 2014	The President signs into law P.L. 113-76, the FY2014 Consolidated Appropriations Act. Under the law, Congress provides \$1.3 billion in FMF and \$250 million in ESF, though the full release of the funds is conditioned on certifications that first must be made by the Secretary of State.

⁴⁴ Congressional holds on foreign aid are not legally binding on the executive branch. However, since the late 1970s/early 1980s, successive Administrations have generally deferred to holds placed by Members of pertinent committees. This is part of a process by which the executive branch consults with Congress to provide it with information or otherwise address committees’ concerns prior to obligating funds subject to a hold.

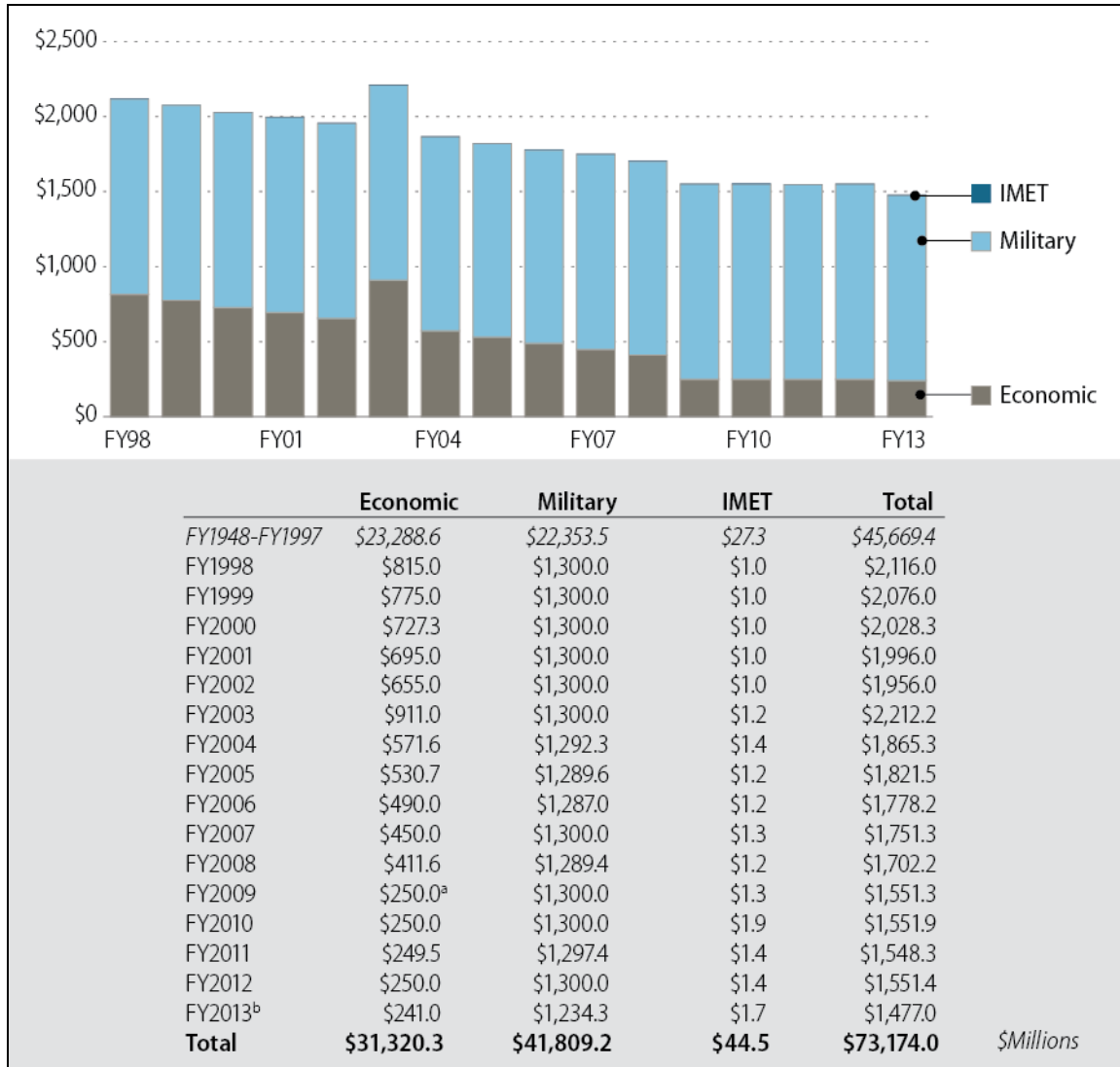
⁴⁵ “Amid Egypt rights abuses, U.S. stalls over more military aid,” *Reuters*, May 20, 2014.

March 4, 2014	The Administration releases its FY2015 Congressional Budget Justification, which seeks \$1.3 billion in FMF for Egypt, but only \$200 million in ESF, or \$50 million below the appropriation for the last six fiscal years.
April 22, 2014	The Obama Administration announces that it will resume delivering ten Apache helicopters to Egypt of which it had suspended delivery in October 2013. In addition, the Administration certifies to the Appropriations Committees, as mandated in the FY2014 Appropriations Act, that Egypt is “sustaining the strategic relationship with the United States; and meeting its obligations under the 1979 Egypt-Israel Peace Treaty.” However, Secretary of State John Kerry, in a phone call to the Egyptian Foreign Minister, indicated that he is not yet able to certify that Egypt is taking steps to support a democratic transition, as required by P.L. 113-76, in order to release two separate tranches of military aid.
April 25, 2014	The State Department notifies Congress of its intent to obligate \$650 million in FY2014 FMF to Egypt under the authorities provided to it by Congress in Section 7041(a)(3) and (a)(5) of P.L. 113-76.
April 28, 2014	An Egyptian judge, who a month earlier had sentenced 529 men to death for killing a police officer, sentences another 683 men to death for a similar crime.
April 29, 2014	Senator Patrick Leahy stated that “I am extremely disturbed by the Egyptian Government’s flouting of human rights and appalling abuse of the justice system, which are fundamental to any democracy. I am not prepared to sign off on the delivery of additional aid for the Egyptian military until we have a better understanding of how the aid would be used, and we see convincing evidence that the government is committed to the rule of law.”
May 13, 2014	In report language accompanying H.R. 4435, the National Defense Authorization bill for FY2015, House Armed Services Committee Members note their support for the President's decision to provide Apache aircraft to the Government of Egypt. According to the report, “The committee further believes that the United States should provide necessary security assistance to the Government of Egypt, specifically focused on areas of mutual security interest. The committee remains concerned that if the United States does not engage through security assistance with the Government of Egypt and the Egyptian military, then other countries, such as the Russian Federation, may fill this gap, which would work at cross-purposes with vital U.S. national security interests.... The committee is concerned by reports that there may have been human rights violations that have occurred in Egypt. The committee encourages the next President of Egypt to address the economic and political needs of the Egyptian people, including the protections for individual freedom and human rights reflected in the new Egyptian constitution.”
May 21, 2014	In an interview in Brussels, seemingly intended to allay some observers’ concerns, General Martin Dempsey, Chairman of the U.S. Joint Chiefs of Staff, remarks that he believes the Egyptian military would use U.S. weapons for their intended purpose and that the U.S. military has oversight mechanisms in place to ensure Egyptian compliance with U.S. law. According to General Dempsey, “If they were to use them for purposes that violated the end-use agreement, then we have the ability to interdict the supply chain and that system would not be much use to them any longer.” ⁴⁶
June 3, 2014	According to one press report, ten Apache helicopters remain in storage six weeks after administration announced their release to the Egyptian government. ⁴⁷ According to one unnamed State Department official, “The aircraft are in storage at Fort Hood, Texas....We are making decisions with respect to our assistance to Egypt in consultation with Congress, and are working to determine when the Apaches would be shipped.”

⁴⁶ “U.S.-Egypt Military ties will Depend on Egypt's Actions -U.S. general,” *Reuters*, May 21, 2014.

⁴⁷ “Obama Administration holding up Apache Helicopters to Egypt,” *Al Monitor*, June 3, 2014.

Figure 4. U.S. Foreign Assistance to Egypt
 \$s in millions



Source: Created by CRS.

- a. In FY2009, Egypt received \$200 million in ESF from P.L. 111-8, the FY2009 Omnibus Appropriations Act. It then received an additional \$50 million in ESF from P.L. 111-32, the FY2009 Supplemental Appropriations Act. [Click here](#) and type table note
- b. Reduced due to sequestration.

Table I. U.S. Foreign Assistance to Egypt, 1946-1997

(\$ in millions)

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL. 480 I	PL. 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWRA	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL. 480 I	PL. 480 II
1972	1.5	—	—	—	—	1.5	—	—	—	—	—
1973	0.8	—	—	—	—	—	—	—	—	—	0.8
1974	21.3	—	—	—	—	—	—	—	8.5	9.5	3.3
1975	370.1	—	—	—	—	—	—	194.3	58.5	104.5	12.8
1976	464.3	—	—	—	—	—	5.4	150.0	102.8	201.7	4.4
TQ	552.5	—	—	—	—	—	—	429.0	107.8	14.6	1.1
1977	907.8	—	—	—	—	—	—	600.0	99.2	196.8	11.7
1978	943.2	—	—	0.2	0.1 Narc.	—	—	617.4	133.3	179.7	12.5
1979	2,588.5	1,500	—	0.4	—	—	—	250.0	585.0	230.7	22.4
1980	1,167.3	—	—	0.8	—	—	—	280.0	585.0	285.3	16.1
1981	1,681.2	550	—	0.8	—	—	—	70.0	759.0	272.5	28.9
1982	1,967.3	700	200.0	2.4	—	—	—	—	771.0	262.0	31.9
1983	2,332.0	900	425.0	1.9	—	—	—	—	750.0	238.3	16.8
1984	2,470.8	900	465.0	1.7	—	—	—	—	852.9	237.5	13.7
1985	2,468.7	—	1,175.0	1.7	—	—	—	—	1,065.1	213.8	13.2
1986	2,539.1	—	1,244.1	1.7	—	—	—	—	1,069.2	217.5	6.6
1987	2,317.0	—	1,300.0	1.8	—	—	—	—	819.7	191.7	3.9
1988	2,174.9	—	1,300.0	1.5	—	—	—	—	717.8	153.0	2.6
1989	2,269.6	—	1,300.0	1.5	—	—	1.5	—	815.0	150.5	1.2
1990	2,397.4	—	1,294.4	1.6	—	—	—	—	898.4	203.0	—
1991	2,300.2	—	1,300.0	1.9	—	—	—	—	780.8	165.0	52.5
1992	2,235.1	—	1,300.0	1.8	—	—	—	—	892.9	40.4	—

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL. 480 I	PL. 480 II
1993	2,052.9	—	1,300.0	1.8	—	—	—	—	747.0	—	4.1
1994	1,868.6	—	1,300.0	0.8	—	—	—	—	561.6	35.0	6.2
1995	2,414.5	—	1,300.0	1.0	—	—	0.2	—	1,113.3	—	—
1996	2,116.6	—	1,300.0	1.0	—	—	—	—	815.0	—	0.6
1997	2,116.0	—	1,300.0	1.0	—	—	—	—	815.0	—	—
Total	45,669.4	4,550	17,803.5	27.3.0	11.2	80.7	82.8	2,620.7	15,923.8	4,114.3	455.1

Notes: Totals may not add due to rounding. No U.S. aid programs for years 1947, 1949, 1950, 1968, 1969, 1970, and 1971. P.L. 480 II Grant for 1993 includes \$2.1 million in Section 416 food donations.

TQ = Transition Quarter; change from June to September fiscal year

* = less than \$100,000

IMET = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

DA = Development Assistance

ESF = Economic Support Funds

PL 480 I = Public Law 480 (Food for Peace), Title I Loan

PL 480 II = Public Law 480 (Food for Peace), Title II Grant

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