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Paul Jabber

**EGYPT'S CRISIS,
AMERICA'S DILEMMA**

Egypt faces daunting challenges in the period immediately ahead. After several years of relative stability, both economic and political trends have turned ominous, as this largest and most important of Arab states presses against the outer limits of its resources. Negative developments in recent months affecting tourism, oil revenues and remittances from millions of expatriate workers in oil-rich Arab states have aggravated the tenuous situation. For President Hosni Mubarak's government an economic crisis is almost inevitable in the near term, and a major political explosion only slightly less likely.

For the United States, impending events will put to a severe test the special relationship that has bound Egypt to this country since the mid-1970s, when the Camp David peace process began. Without careful and attentive management by both Congress and the Administration, this relationship could be entirely swept away, destroying in the process a keystone of U.S. diplomacy in the Middle East. Given the centrality of Egypt to the politics of the region, the consequences would seriously damage U.S. interests in the Arab-Israeli arena, North Africa and the Persian Gulf.

Overpopulated and resource-poor, Egypt has teetered on the brink of financial insolvency for decades. What makes the present situation particularly threatening? Why is America's position so precarious, given the tremendous Egyptian dependence on U.S. aid, which this year alone will exceed \$2.7 billion, and has totaled some \$18 billion over the past decade? What steps can the United States take to better serve its interests?

II

Nowhere are politics and economics more intertwined than in present-day Egypt. Although heavy military spending and

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runaway population growth have compounded the country's difficulties over the past 20 years, the day of reckoning has been staved off so far by sharp increases in foreign exchange revenues witnessed from 1975 to 1984. This was a windfall, resulting mainly from remittances of expatriate workers, capital inflows from oil-rich Arab neighbors, and Egypt's own oil exports.

Over the past year each of these revenue sources has declined significantly, with no respite in sight. In addition, the recent upsurge of terrorism in the Mediterranean, and the American response, have hit the growing Egyptian tourist industry particularly hard. Overall, external revenues are expected to drop by nearly one-third from last year to this.

TABLE 1
FOREIGN EXCHANGE EARNINGS
(US\$ billions)

	1985	1986
Worker Remittances	3.3	2.2
Oil Exports	2.6	1.2
Other Exports	2.1	2.0
Suez Canal Dues	1.0	.9
Tourism	<u>.6</u>	<u>.3</u>
Total	9.6	6.6

The country's solvency was already in doubt even before this catastrophic shortfall. Last year, an emergency supplemental American grant of \$500 million averted default in the repayment of official debt to the United States. Both the World Bank and the International Monetary Fund (IMF) warned Cairo that its budget deficit and export-import gap had reached unsustainable levels. With the foreign debt crossing the \$30 billion mark, even short-term lending by international banks was becoming less available.

In these deteriorating circumstances, the limited economic reforms that Mubarak and his newly appointed premier, the respected economist Ali Lutfi, have gingerly introduced over the past year are woefully inadequate. As the economic crisis forces the government to institute tougher belt-tightening measures, the stage is set for a social and political eruption of a magnitude to threaten the regime.

This, in turn, will severely strain the special relationship with the United States. In the minds of Egyptians, their socioeco-

conomic crisis is inescapably bound up with the question of peace with Israel and the tight U.S. embrace. The late President Anwar al-Sadat had sold his Open Door and Camp David policies to the public as avenues to a new era of prosperity and development. In return for peace with Israel, Egypt would also recover all its national territory, and the Palestinians would gain their autonomy in the occupied territories. Yet, years after the flag of the Star of David was hoisted in Cairo, Egyptians are galled that a portion of land they consider to be theirs—the beachfront sliver of Taba—remains under Israeli control, that more occupied Arab land has been annexed by Israel (in East Jerusalem and the Golan Heights), that Lebanon was invaded, and that Egypt remains ostracized by most of the Arab world. Never broadly popular in Egypt, the separate peace has now come to be regarded as a national humiliation.

In this charged atmosphere, made more volatile lately by repeated use of Israeli and U.S. military power against a widening range of Arab targets, any serious program of economic retrenchment—while absolutely necessary and long overdue—will be interpreted as final proof of the failure of the Sadat policies. The hardships of austerity are certain to generate strong pressures for a reorientation away from the United States and Israel.

Egyptian officials are quick to admit that any resulting cut-off or major reduction in U.S. assistance would greatly complicate the economic problems urgently confronting them. This, however, should be no cause for complacency in Washington, where over the past several years Mubarak's Egypt has been taken somewhat for granted. The argument that Cairo has nowhere else to turn is spurious, even if Arab petro-wealth is on the wane and the Soviet economy is in very poor shape. Change could be forced by passions and needs that do not respond to calculations of foreign-aid optimization, and that are stronger and far more widely shared than those of the dwindling government, military and private sector elites that remain staunch supporters of close ties with the United States.

III

A peculiar phenomenon on the current Egyptian scene is a widespread sense of nostalgia for the Nasserist era, when Cairo was indisputably the political fulcrum of the Arab world and cast a long shadow in world politics as a proud leader of the

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emergent Third World. Ironically, the economic distress facing the country today is in large measure the legacy of that era.

For nearly two decades after Colonel Gamal Abd al-Nasser's coup of July 23, 1952, Egyptian policy was dominated by the drive for pan-Arab unity. In the Third World the 1950s was a decade of struggle against the remnants of the European colonial presence, and Cairo moved aggressively to assert its leadership in the three areas it defined as its overlapping spheres of influence: the Arab lands, the Islamic nations and Africa.

For a time it appeared as if Nasserism was the wave of the future and Egypt indeed would prove to be the Prussia of the Arab world. Beyond the Middle East, Cairo cemented its international standing by becoming a recognized leader of the Nonaligned Movement, and later of the Organization of African Unity. Beginning in 1955 Egypt became a major recipient of Soviet military and economic assistance, including massive aid for the construction of the Aswan Dam.

But active pan-Arab leadership led almost inevitably to policy choices that were ultimately to prove far more expensive than Egypt's limited resources could accommodate on a sustained basis. Such a role required championing Arab rights in the Palestinian issue, and this led to military confrontation with Israel through four wars in 19 years. It encouraged heavy military buildups—fueled by arms races with Israel as well as other Arab states, and by the military character of Nasser's regime—which at their peak in the mid-1970s consumed almost a third of the gross national product. The arms buildups produced intense intra-Arab conflicts, impelled by competing claims to bloc leadership or self-protective measures on the part of threatened governments; the most damaging was the Yemen war, fought by Egypt and Saudi Arabia in 1963–67 at enormous cost to Cairo in both blood and treasure.

Egypt's bid for hegemony began meeting resistance by the turn of the 1960s. With access to Arab resources blocked for the time being, Nasser moved to bring domestic wealth under centralized state control; fearing the West's hostility, he also sought to reduce Egypt's dependence on the international capitalist system. Beginning in 1961, a sweeping wave of socialist measures soon transformed the Egyptian economy. These measures included massive nationalizations, land redistribution, tariff barriers and other import restrictions, and severe limitations on capital movements and foreign exchange

transactions. The direction of trade shifted strongly toward the Eastern bloc, and Soviet aid soared. Rapid industrialization and import substitution under comprehensive centralized planning became the key programs of Egyptian economic policy.

Egypt's isolation from the West became almost total in June 1967 when diplomatic ties with the United States, Britain and France were severed during the Arab-Israeli Six-Day War. Coming after the hemorrhage caused by the Yemen adventure, the closure of the Suez Canal—the main foreign exchange earner at the time—and the enormous military burden left the economy incapable of coping with the demands of a three-percent annual population growth. The occupation of Sinai was followed by six years of total stalemate and intermittent high-intensity combat in the Suez Canal zone. Whatever slim chance existed that state capitalism would prove to be the answer to Egypt's resource scarcity dilemma was dashed.

By the time Sadat had consolidated his hold on power in mid-1971, following Nasser's death the previous September, the Egyptian economy was at a breaking point. While much of the Arab world was ushering in the era of petro-wealth, Egypt found itself locked into the most virulent conventional arms race worldwide, and in a stalemated military confrontation with a superior opponent. Foreign investment was minimal, and Moscow seemed unwilling or unable to deliver either decisive military help or sufficient economic assistance. If total collapse was to be avoided, a radical change in structural economic conditions was imperative; this could only come with an equally radical overhaul of foreign policy orientations and commitments.

IV

Sadat reached for both of these goals in October 1973. He launched a risky war with limited military objectives and a strictly political purpose: to create the conditions for breaking the Arab-Israeli diplomatic log jam by frightening the United States into action, shaking Israel out of complacency, and restoring a psychological equilibrium to the Arab-Israeli power balance without which necessary concessions by both sides would not have been feasible. A creditable Arab performance in the war, and American responsiveness in the form of Secretary of State Henry Kissinger's "shuttle diplomacy" in 1973-75, led to a dramatic shift in Egypt's foreign policy toward the West. By decade's end, Cairo was in virtual alliance with the

United States, relations with the Soviets were in a deep freeze, and a peace treaty with Israel had returned to Egypt substantially all of its national territory.

The shift in domestic policy under Sadat was equally dramatic, with the adoption in 1974 of the policy known as *Infitah*, the Open Door. Initially, this was designed to create conditions attractive to foreign investment capital. Subsequent legislation and government practice have expanded the strategy to encompass extensive liberalization of the economy as a whole. Almost all fields were opened to both foreign and Arab investment, protection was provided against nationalization and confiscation, and tax exemptions were granted. Laws passed in 1975-77 provided additional incentives and opened new opportunities for private Egyptian capital.

According to figures issued by Egypt's Investment Authority, projects worth \$4.4 billion had been approved by the end of the 1970s. Interestingly, it was Egyptian private capital that provided the bulk of the investment (63 percent), followed by Arab (13.2 percent), European Economic Community (6.1 percent), and U.S. (5.5 percent) sources. Few of these projects were actually under way, however, a fact that reflects the continuing obstacles posed by structural shortcomings.

Perhaps more important than the inflow of private investment capital was the psychological and political impact of the Open Door policy on Egypt's major aid donors. Economic liberalization complemented Sadat's post-1973 foreign policy in reassuring the Western world, as well as the conservative Arab governments, that the confrontationist, revolutionary, pro-Soviet politics of the Nasserist period were not likely to recur.

From 1973 to 1976, Egypt received some \$5.1 billion in bilateral aid from Saudi Arabia, Kuwait, the United Arab Emirates and Qatar. An estimated additional \$400 million was provided by multilateral Arab funds. The U.S. contribution was \$1.6 billion, while the IMF, other international institutions and various industrialized countries provided some \$1.1 billion. These amounts reflect published statistics only, and undoubtedly underestimate the volume of funds that in fact entered the economy. Also, they do not include the substantial amounts secretly provided as military assistance by Arab oil producers, which have been estimated at \$1 billion annually.

In the 1977-78 period, which preceded the general cutoff of diplomatic and economic relations between Egypt and the

Arab world precipitated by Sadat's unilateral overtures to Israel, the major item of Arab aid was \$2 billion in budgetary support granted to Cairo by the Persian Gulf states. Bilateral Arab assistance fell sharply from 1976 on, however, as donors became disenchanted with the seeming inability of the Egyptian bureaucracy to use available resources effectively, and troubled by signs of mismanagement and illicit diversion of funds. The slack was taken up by Western aid sources, the United States in particular. American aid, funneled mainly through the Agency for International Development (AID), mounted from \$370 million in 1975 to \$950 million in 1979, and has averaged just over \$1 billion annually in the 1980s. Military assistance did not begin until 1976, when it amounted to only \$68.5 million, but it increased rapidly after the conclusion of the Camp David accords, and has averaged \$1.3 billion in recent years.

As these figures suggest, *Infitah* and its associated foreign policies succeeded in producing substantial capital inflows. Whether these funds have helped create a sound basis for Egypt's economic regeneration is another matter. For the fact is, by and large, Cairo failed to put these large capital inflows to productive use. With continued high military spending, the consumerist outburst caused by the sudden liberalization and the flow of foreign investments primarily into real estate and financial services, only a small proportion went into productive investments in industry, agriculture and infrastructural development. Despite a good performance in terms of growth in GNP (averaging seven percent annually in 1975-83), this new wealth has remained largely inaccessible to the mass of the population.

Politically, the positive initial impact of Sadat's initiatives for the stability of the regime had dissipated by the late 1970s. Most damaging was Egypt's isolation from the rest of the Arab world as the unilateral approach to Israel took hold. Whatever public acquiescence in this bold move existed was due to high expectations of the economic benefits that peace would bring, expectations that Sadat persistently encouraged. As these hopes faded, criticism mounted from Egyptian Islamic fundamentalists, the left, the Nasserists and even from prominent politicians and opinion-makers within the ruling establishment. The harsh political repression that followed set the stage for Sadat's assassination by a group of religious extremists in October 1981.

v

Sadat was succeeded by his vice-president and political heir apparent, former air force commander Hosni Mubarak. In a smooth transition, Mubarak was immediately elected to a full six-year term by the People's Assembly.

Although the new leader left unchanged the fundamental tenets of Sadat's program, including the Open Door, close ties to the United States and continued honoring of the peace treaty with Israel, he gained a significant measure of public support in his first year in office. This resulted from several policy adjustments, begun almost immediately, which foreshadowed the modified course Mubarak would take over the next several years.

Normalization of relations with Israel was reduced to the minimum consistent with the letter of the peace agreement—a task made easier by the Israeli invasion of Lebanon in June 1982. Conciliatory steps were taken to mend relations with the Arab states and the Palestine Liberation Organization. The close embrace of the United States was loosened somewhat, at least in its atmospherics. A tentative relationship with the U.S.S.R. was reestablished by allowing in some 60 Soviet technicians, later followed by an exchange of ambassadors and increased trade flows. Domestically, political controls over the opposition were relaxed, the press was granted more freedom, and some measures to curb corruption were instituted. Most importantly, Mubarak gave credible indications of a serious intent to deal with the perennial economic crisis.

During the past four-and-a-half years, however, it is in this crucial realm of economic policy that Mubarak's tenure has proved most disappointing. There is no doubt that the government is highly conscious of the need for urgent rationalization of spending. Belatedly, some limited steps have been taken, including a reduction in energy subsidies and a tax increase for higher income earners. But there is little indication so far that the president will muster the political courage to launch fundamental structural reforms, which will require, in the apt words of the latest IMF mission report, "the prompt adoption of a strong adjustment package that will be sustained over the years." Such a package would include large cuts in government subsidies and public sector spending, import restraints and unification of exchange rates. In a culture that expects strong personal leadership and visionary inspiration from its rulers,

Mubarak's administration has been marked by overcautiousness in policymaking, and a marked lack of dash in style.

Severe structural problems are partly accountable for the crisis that now looms: inadequate communications and transportation facilities, an antiquated industrial plant, inefficient and overgrown bureaucracies, desperately overburdened municipal services, shrinking agricultural acreage due to urban sprawl—the list seems endless. Whatever momentum may have been generated by favorable GNP growth rates has been offset by population increases. From 22 million Egyptians in 1952, there are now 50 million, and there will be 70 million by the year 2000. A net food exporter in 1972, Egypt today imports more than half its requirements.

A significant share of the blame for Egypt's predicament is the stubborn persistence of the philosophy of statism, of centralized economic planning and management, first implemented in the 1960s. An inefficient and unprofitable coterie of public sector institutions has come to dominate the heights of the economy. The government became the guaranteed employer of last resort. A pervasive system of price controls and state subsidies for consumer goods and services was instituted that includes practically every product purchased by the average Egyptian. An economic safety net was thereby erected under the entire population, but at the cost of spiraling deficit spending. With investment capital, both foreign and domestic, discouraged by these barriers to competitiveness and profitability and frustrated by overwhelming red tape and infrastructural deficiencies, reliance on massive annual infusions of foreign aid has become endemic.

In addition, a sizable foreign debt has accumulated since the economic opening to the West began in 1974; its servicing is today a major additional drag on the economy. Total debt was estimated at \$34.5 billion at the end of 1985, of which some \$9.2 billion was for military purposes and owed mainly to the United States. The nonmilitary debt service last year soaked up almost 32 percent of the country's foreign exchange revenues. This could rise to more than 50 percent in 1986, if oil prices remain at or below the \$15 per barrel level for the remainder of this year.

The looming foreign exchange shortfall comes at a particularly bad time, for Egypt is going through a turbulent period. To its credit, the Mubarak government has allowed a substantial measure of political liberalization, freedom of the press and

TABLE 2
FOREIGN DEBT BURDEN
(US\$ billions)

	1979-82 (average)	1983	1984	1985
Total Debt	21.1	27.7	31.0	34.5
Civilian	16.5	20.3	22.5	25.3
Military	4.6	7.4	8.5	9.2
Total Debt Service	2	3.2	3.3	3.3
Principal	1.2	1.9	1.9	1.7
Interest	0.8	1.3	1.4	1.6

multiparty democracy after 30 years of authoritarian rule. It continues to uphold its peace policy with Israel in the face of heavy opposition from the rest of the Arab world and of mounting military tensions in the region over terrorism and the Palestinian issue. Furthermore, the regime is attempting moderate economic reforms while still retaining a strong measure of social equity between income groups.

Any one of these tasks could seriously test the stability of the current system. The likelihood that the regime can pursue all three without major disruption is low. Cairo's fears of unleashing social unrest if austerity measures were to be introduced are both understandable and justified, since the average Egyptian lives barely above the subsistence level. Bread price increases decreed by Sadat in January 1977 had to be hastily reversed after rioting broke out in several urban areas, and both Tunisia and Morocco have suffered similar bouts of unrest in the past two years. Potentially uncontrollable trouble could be triggered by religious turmoil, by further reductions in subsidies for food, energy or transportation, or if the authorities resort (as in similar past instances) to increased repression in order to curb opposition groups.

The past several months have seen violent demonstrations protesting price hikes, as well as clashes between Muslims and Christian Copts. Another ill omen was the costly rioting in March of this year by thousands of security police conscripts distressed by the miserable conditions of their livelihood and rumors of an extension in their forced tour of duty. The government, was at pains to prove that no foreign hand or organized agitation by domestic opponents was behind the police riots. Their spontaneous character is strong evidence of

the smoldering potential for social self-combustion existing in Egypt today.

VI

Is a bold reform program possible without political chaos? Several important elements work for stability, and should not be overlooked. The homogeneity and cohesiveness of Egyptian society are steadying factors, as are the pervasive bureaucratization of state institutions and the traditional political apathy of the bulk of the population. About 25 percent of the work force is employed in the public bureaucracy, including state enterprises. Its inefficiency and ponderousness are legendary but, given its sheer size, as an employer of last resort the bureaucracy serves as a useful instrument of social and political control for the regime.

Moreover, a strong executive, with power and policy initiative concentrated in the hands of the top leader, has remained central to Egypt's political culture. Except for brief transitional periods, national leadership has been strong, popular, able to govern effectively and generally unchallenged in its legitimacy. The present constitution, enacted in 1978, reflects this. Finally, an omnipresent, well-trained and well-equipped internal security apparatus has helped keep the lid on social unrest.

In practice, however, the president cannot rule without the continuing sanction of the armed forces. With 445,000 men under arms (320,000 army, 80,000 air defense, 25,000 air force, 20,000 navy), in addition to 139,000 paramilitary personnel, the military continues to be the mainstay of the regime. Strong, well-organized, generally conservative in outlook, they are also heavily politicized in the sense that they regard themselves as active guardians of the current political and social order. In or out of uniform, military officers continue to be the "ruling class" in contemporary Egypt. Not only do they provide the top echelon of political leadership, including President Mubarak, Defense Minister Abu Ghazala and Interior Minister Zaki Badr, but also a large proportion of the managerial and technocratic elite that runs the public sector, and a growing percentage of the more prosperous entrepreneurs in the burgeoning private sector.

The military continues to support the general lines of Mubarak's current policies, although there have been rumblings of discontent among younger officers over Egyptian passivity in the face of seemingly provocative policies from Israel in the

past few years, and over the impact of inflation on their standards of living. Mubarak—like Sadat before him—has been very careful not to harm the military's interests. Despite the peace with Israel there have been no major cuts in force levels or overall military spending, and advanced weaponry from the United States is flowing in at the rate of \$1.3 billion annually. Egypt's own arms industries are being revamped, with ambitious hopes for large-scale coproduction of weaponry with U.S. and European firms for export to the Arab states and Africa.

As the overall economy continues to lumber along, the military is purposefully striving toward self-sufficiency. The proceeds of military exports—which in 1983 amounted to over one billion dollars from Iraq alone—are kept within the defense establishment, with no apparent incorporation into the national accounts and no reporting to the parliament. At Sadat's initiative, and with Mubarak's subsequent blessing, the armed forces have undertaken a number of "civic duty" tasks, from engineering and roadbuilding to shoemaking, farming and bakeries. Military sources estimate that roughly 60 percent of all the military's needs are currently produced at their own installations. While this carries some benefits in terms of turning the burden of military preparedness to social use, self-sufficiency also furthers the separateness of the soldiers from the rest of society and encourages an already strong propensity on their part to set themselves up as omnipotent referees of the political system.

Finally, the "new class" fathered by the Open Door policies is an additional important base of support. As a social group, these newly wealthy may be relatively small in number, but they have accumulated much economic and political power over the past decade, and have an enormous stake in the survival of the present system. This group consists mainly of the entrepreneurs, professionals and high-salaried employees of the private economy, and their numbers are growing. They are being joined by members of the pre-1952 *ancien régime* who have resurfaced to claim their old privileged social and economic status, and by the military-technocratic elite of the Nasser/Sadat era, who have used their establishment links—and at times their official positions in the bureaucracy and government—to great profit in the newly liberalized economy. Among organized political groups, the main parliamentary opposition party, the liberal right-of-center New Wafd Party,

best represents this constituency, though many members of the ruling National Democratic Party are also representative of this class.

VII

Public opinion is tilting heavily away from the basic policies of the regime, however. It is not coincidental that with growing economic and social problems has come a resurgence of Islamic fervor among the urban poor and the lower middle class (including a majority of university students) and an increasing willingness on the part of fundamentalist religious leaders to challenge the writ of the government and the legitimacy of present institutions. The Islamic revival phenomenon in evidence throughout the Middle East since the mid-1970s is a direct response to the cultural, social and economic dislocations that have accompanied the process of rapid modernization in recent decades. Where rapid population growth, massive urbanization and gross accumulations of wealth by the elite have coincided with a strong identification by the rulers with what is perceived as the alien and culturally intrusive West, fundamentalism has found fertile terrain for growth. Iran under the shah, and Egypt and Tunisia today, best fit this description.

Although deeply religious, Egyptians are a basically tolerant people, with no history of religious extremism. The overwhelming majority are Sunni Muslims—upwards of 80 percent, most of the rest being Coptic Christians—and the religious establishment, which runs the prestigious Al-Azhar University and the religious endowments, is just another state bureaucracy firmly under government control. Yet fundamentalism is a growing force, and the only one that may be capable of challenging the regime successfully in the years ahead. It feeds primarily on the alienation induced by economic penury, and by the social and cultural stresses caused by *Infitah*. It appeals mainly to the teeming masses of despairing unemployed and underemployed in the urban centers, to restless university students, and to the white-collar salaried class at the lower end of the pay scale. Decrying corruption, Westernization and materialism, fundamentalists call for a radical restructuring of society according to the Shari'a (Muslim law), a turning away from reliance on foreign powers and any special outside relationships, and a recommitment by Egypt to militant struggle for restoration of Jerusalem to Arab control.

The number of religious activists, generally estimated at

10,000, is not high, but the attentive audience is in the millions. The main group is the Muslim Brotherhood, *Al-Ikhwan*, formed in 1928 and long influential in Egyptian politics. It provided men and ideas for the "Free Officers" coup of 1952 that brought Nasser to power, but its influence waned under Nasser's secular nationalism. Although not allowed to organize as a political party, the Brotherhood is represented in the People's Assembly by a handful of deputies elected in May 1984 through an electoral coalition with the New Wafd center-right party. It proselytizes through a number of associations and several publications, of which *Ad-Dawah* ("The Call") is widely read. While it professes to eschew violent action as a means to power, it has a history of political assassinations and secret networking.

A coterie of militant religious groupings known collectively as *Al-Jama'at Al-Islamiyyah* proliferated in the 1970s on college campuses and quickly gained control over student organizations. Their momentum has been checked somewhat in recent years by forceful government intervention. Internal security organs again are heavily present in the universities, and many *Jama'at* activists have been jailed. Nationwide student organizations were banned in 1979, and local bodies were brought under the control of university presidents. However, the overcrowded, understaffed campuses remain hotbeds of opposition to the regime, which could easily spill over into the streets.

Among the extreme religious groups, two are particularly worthy of mention. One, supported by Libya, was *At-Takfir Wal-Hijrah*, which gained notoriety in 1977 when it kidnapped and subsequently assassinated a former minister of religious endowments. It has since been involved in intermittent shoot-outs with the police and rival organizations. The other is *Al-Jihad*, which organized Sadat's murder and fought pitched battles with the security forces in the city of Asyut, apparently in hope of starting an insurrection in October 1981. It is important to note, as an index of the potential seriousness of the challenge that fundamentalism poses to the current system, that among the hundreds of *Al-Jihad* militants who were put on trial in 1981 could be found members of the presidential guard, military intelligence and security services, municipal civil servants, employees of radio and television stations and telephone facilities, as well as students and teachers from at least eight universities.

In its campaign against the policies of the Sadat and Mubarak governments, the Islamic tendency has found ready support

among Egyptian leftists. The left in Egypt today is relatively weak, continues to suffer from the traditional split between Marxists and nationalists, and—as in other Islamic countries—has been forced onto the defensive by the religious revival. Its main asset is that it is the inheritor of Nasserist ideology—still an important legitimizer—and therefore finds its main constituency among those who depend for their livelihood on the state-run industries, the educational system, the bureaucracy and other components of the public sector economy. Unlike the entrepreneurial and service sectors, these groups have seen little benefit from the new economic policies. Because of inflation, many see themselves as worse off. Their resentment is further fueled by the conspicuous consumption of the new *Infitah* class and the relative prosperity of the lucky few who have found employment in the oil-rich states.

Disaffected intellectuals with strong Arab nationalist and/or socialist leanings, who also opposed the separate peace with Israel and close ties to the United States, are in the vanguard of the leftist opposition. The leading organization is the National Progressive Unionist Grouping, also known as the *Al-Tagammu* party. Headed by Khalid Mohieddin, one of the Free Officers group that carried out the 1952 coup, it advocates renunciation of the separate peace with Israel, a quick return by Egypt to the Arab fold, socialist economic policies, and closer ties with Moscow. Other self-avowed neo-Nasserist parties are in the process of formation. The Egyptian Communist Party is banned, however, and there are regular roundups of suspected members and sympathizers.

To the extent that the left has made common cause with the fundamentalists in opposition to the government's foreign and economic policies, it is engaged in a very risky gamble. Overestimating its popular appeal, and misjudging the temper of the times throughout the Islamic world, the left may judge itself capable of prevailing in a secular nationalist Egypt that has turned its face eastward again. But the precedent of the Iranian revolution of 1978 suggests an altogether different fate for secularist nationalism.

VIII

All this is not to suggest that an Iranian-style revolution by Islamic radicals and/or the left is impending in Egypt. The power of the state is too vast, the society's political culture is not hospitable, and the religious establishment is overwhelm-

ingly a part of the system. Rather, by channeling, articulating and exploiting the grievances of the vast majority of underprivileged Egyptians in a time of crisis, these forces may well be in a position to bring sufficient pressure upon the regime to force it to make major changes in its economic philosophy, institutions and foreign policy orientation. The critical threat is of widespread social upheaval that, at best, might lead to indefinite postponement of desperately needed economic rationalization policies, but also could prompt an end to the liberalizing trend of the past decade in both politics and the economy.

In the period ahead, a spiraling of civil unrest in the cities (where more than half the country's population now resides) could induce the military to seek a more direct role in the running of the country's affairs. This may well be the case if it finds itself repeatedly involved in the protection of civil order, as it did during the police riots earlier this year.

A return of the military to the forefront would open a Pandora's box, since a major imponderable is the extent to which the Islamic revival movement in particular, and the malaise currently affecting Egyptian society in general, are at work within the armed forces. A substantial number of middle- and senior-ranking officers have been forced into early retirement over the past several years, reportedly in most cases because of suspected ties to Islamic radicals. Nor should one underestimate the soul-searching and national guilt felt by many officers after the separate peace with Israel. These sentiments are further stirred by what many see as a relinquishment by Egypt of its rightful role as the natural leader of the Arab world.

It would not be surprising if a new military leadership with strong religious leanings and the support of the Muslim Brotherhood should come to power before the end of this decade. Either under Mubarak or a successor regime imposed through political turmoil, Egypt is very likely to be compelled to make major changes of direction. Driven by the need to husband dwindling foreign exchange resources and tap the holdings of the private sector, the Open Door may close, with a return to more tightly centralized neo-Nasserist economic management. Disengagement from the special relationship with the United States, cold war with Israel and a return to the Arab fold would likely follow.

Clearly, the Mubarak government will resist any such drastic

lurch, but the critical variable will be Washington's behavior; both Congress and the Reagan Administration will soon be faced with difficult choices. While the burden of aid to Egypt is extremely heavy for the U.S. taxpayer and still growing (over \$2.7 billion in the current fiscal year, including the \$500 million supplemental grant for emergency aid made this past summer), the political rewards are steadily dwindling. Ironically, anti-Americanism in Egypt is growing in parallel with U.S. aid. Yet Washington's willingness to provide even higher levels of economic aid with less conditionality and more U.S. sensitivity to the delicate course Cairo must tread in its inter-Arab relations are likely to prove indispensable for the maintenance of "Sadat's legacy."

IX

Several major sources of friction between Egypt and the United States have developed in recent years. The way the U.S. economic assistance program is managed by AID is a major irritant. The origin and intent of the aid package was explicitly and purposely political: to reward Egypt for its commitment to the peace process and help its leaders maintain popular support for a pro-American orientation. Its magnitude, approximating that of U.S. aid to Israel, was intended to demonstrate American evenhandedness. However, Jerusalem receives its share in the form of a direct cash transfer while much of Cairo's share is obligated to specific programs subject to AID approval.

Given the tremendous sums involved, a large number of multiyear projects must be identified and managed. According to U.S. General Accounting Office reports, as of fiscal year 1984, 77 different projects were under active AID management in such diverse fields as electric power generation, telecommunications, birth control, finance and investment, representing an outlay of over \$4 billion. To administer this mammoth program, AID's mission in Cairo has grown to become the largest in the world, with some 400 employees and contract staff, in addition to hundreds of additional consultants and other support personnel. Yet a backlog of over \$2.2 billion in undisbursed aid, some of it dating back several years, has accumulated as a result of project delays, intricate approval procedures and frequent discord between the AID mission and the Egyptian bureaucracy over the character and objectives of specific projects. Some of these projects, by AID's own admission, have been approved less because of their potential contri-

bution to sound economic development than because their large size made it easier to complete the obligation of funds available and less burdensome to monitor than if the same moneys had been allocated to a number of smaller projects. Several of the more serious disputes have involved high-level Egyptian officials who have complained that forcing the pace of economic reform under AID pressure might precipitate domestic political instability. The large portfolio of ongoing projects has also created many opportunities for graft and abuse on the part of contractors and others, since sufficient hands-on monitoring cannot be provided.

The upshot of all this is that the original political intent of U.S. assistance has been vitiated, perhaps to the point where the aid program may have even become counterproductive for the United States. Many in the Egyptian elite have come to resent the American role as a multi-strings-attached Trojan horse from which a horde of American proconsuls have emerged to reshape Egypt's economy to their own designs. The high profile of the American presence in Cairo, and the ostentatious life-style of the "new class" that has emerged in a private sector naturally invigorated and supported by U.S. aid policy, are additional liabilities that could prove seriously damaging in a political crisis.

Granting that AID's guidelines and the advice of World Bank economists are what is best for Egypt's long-term economic development, does the program's continuance in its present shape make political sense if it is also fostering anti-Americanism? This is Washington's first dilemma.

The heavy debt burden created by the military component of the aid package has become another source of contention. Underlying Egypt's close ties to the United States since 1977 was a convergence of strategic perceptions and substantial agreement on Egypt's regional role. Particularly under Sadat—only slightly less so, and more quietly, under Mubarak—both governments identified Soviet expansionism as the major external threat, and the militarily weak and politically vulnerable oil-producing countries of the Arabian Peninsula as principal Soviet targets. While the possibility of a direct Soviet attack in the Persian Gulf could not be dismissed—particularly after the invasion of Afghanistan in 1979—internal subversion and cross-border offensives by regional allies or client states were seen as more likely contingencies. The activities of Moscow's closest associate in the Arab world, the People's Democratic

Republic of Yemen (South Yemen), over the past decade exemplified the threat. Aden's support of an extended Marxist insurrection in Oman and its invasion of the Yemen Arab Republic (North Yemen) in February 1979 posed serious challenges to the political status quo in the oil regions. Closer to home, Cairo has perceived an additional range of threats to Egypt proper—all abetted by Soviet arms and encouragement as well—whether in the Arab-unionist zeal and personal animosity of Libya's Muammar al-Qaddafi, in the opposition of the Arab "rejectionists" to Egypt's independent policy toward Israel, or in Marxist Ethiopia's grievances against the neighboring Sudan.

Needless to say, for Washington the survival of the current Egyptian regime has been a primary concern, not only because of its role in the search for a Middle East settlement, but also because of the broader stabilizing impact on the region of a moderate, pro-Western government in the largest Arab state. Egypt's willingness to act beyond its borders was also particularly well received after the United States had lost in Iran the mainstay of its regional defense structure for the Gulf. Arguably, Egypt is better suited to the part of regional watchdog and potential interventionist force than the shah ever could have been. Its traditional stature within the Arab world and the legitimizing agency of pan-Arabism provide it with foils for the exercise of a regional policing function denied any non-Arab power such as Iran.

Cairo thus has perceived U.S. military aid as the basis of a strategic partnership based on common interests, in the context of which it has provided facilities for the use of U.S. forces in Lebanon and the Gulf, participated in joint military exercises with the U.S. Central Command on Egyptian soil, and helped channel U.S. military equipment to American clients in the Afghan conflict and elsewhere. The purpose of this assistance all along has been to strengthen Egypt's security and consolidate the special relationship. Sympathy with the economic plight that has affected both Egypt and Israel, partly as a result of defense spending, did lead Washington to convert all military aid to grants beginning in fiscal year 1985. But the burden of servicing the roughly \$4.5 billion in military debt to the United States that accumulated in 1977-84, and which this year may amount to some \$560 million in interest payments alone, jeopardizes Egypt's economic stability and possibly the very survival of the regime. Given the strong likelihood of

default this year, the country's creditworthiness is threatened. Clearly, a long-term solution must be fashioned without delay, yet budgetary constraints in the United States present major obstacles to congressional approval of debt relief. This is Washington's second dilemma.

Perhaps the most important threat, to the U.S.-Egyptian relationship, however, is one that transcends its bilateral confines. It flows from the persistently destabilizing effect of regional conflicts—such as the Arab-Israeli dispute—on inter-Arab affairs, the relations of individual Arab countries with the United States and the very character of the American approach to the Middle East. The intractable Palestinian issue is particularly insidious and presents the U.S. government with a third dilemma, clearly the most perplexing. It is the only issue that can unite Arab ranks regardless of differences in ideology or regime type, and it alone is capable of mobilizing public opinion throughout the region—and in most of the non-Arab Islamic world as well—around a common theme. Yet it is also an issue on which the United States, with strong links to Israel forged by history, culture and domestic political imperatives, has found it most difficult to satisfy Arab expectations and demands.

Given this reality, the broad strategic, economic and commercial purposes of the United States in the Middle East can be safeguarded over the long haul only by persistent diplomatic containment of this stalemated dispute, pending its eventual resolution by compromise and negotiation among the principal parties. The current war on terrorism launched by the Reagan Administration, with its resort to military force against Arab targets, only complicates the task of American diplomacy.

In an increasingly hostile regional setting, Egypt remains friendly to the United States—and committed to promoting democratic values and economic liberalism—while coping with a set of extraordinarily difficult challenges, many brought on by developments beyond its own control. For the Mubarak government to weather the growing crisis without sustaining crippling damage to the special relationship between Egypt and America, it is essential that Washington take several immediate steps:

—*More flexibility in adapting the U.S. aid program to Egypt's immediate economic needs.* This requires a larger infusion of cash for budget support, job creation and debt relief. It could be accomplished without a major increase in

current legislated aid levels, through a massive reobligation of undisbursed project-related aid, and conversion of most, if not all, of next year's economic assistance package to a cash transfer. As an added benefit, such a conversion would facilitate the withdrawal of a large number of American AID officials currently stationed in country.

—*A large-scale reduction of the burden of servicing the military portion of the debt owed to the United States.* This debt was largely contracted in 1979–84, at market interest rates significantly higher than those available today. A refinancing vehicle could be constructed that would reduce Cairo's interest payments without risking the unwanted precedent of retroactive debt forgiveness or the near certainty of default.

—*A more coherent Middle East policy for the United States that is sensitive to the domestic political threats affecting pro-American governments.* A forceful stance toward declared enemies of U.S. regional interests—such as Libya's Qaddafi or Iran's Ayatollah Khomeini—is entirely appropriate. If the United States is not to defeat its own purposes, however, a commensurate regard for preserving a congenial political environment within which these interests can be pursued is essential. For starters, this requires a far more active search for a comprehensive Arab-Israeli peace settlement than the minimalist approach adopted by the Reagan Administration since its Lebanon misadventure, and abandonment of the will o' the wisp of unilateral military solutions to the scourge of terrorism.

These measures should not be regarded as a panacea for Egypt's deep-seated economic ills, nor would their implementation guarantee that the position of strength that America has enjoyed in Egypt for a decade will survive the turbulence ahead. Their purpose is more realistic and hard-nosed: to optimize the political returns to the United States from its second largest foreign aid package, in light of a changed political and economic environment.

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¹ For example, Jonathan Schell

² The theory to Nov. 1, 198 several weeks later. Carl Sagan, "N Dec. 23, 1983,

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FRANK WISNER NAMED DEPUTY ASSISTANT SECRETARY OF STATE
FOR AFRICAN AFFAIRS

Frank Wisner, who served as U.S. Ambassador to the Republic of Zambia from August 1979 until April 1982, has been named Senior Deputy Assistant Secretary of State in the Bureau of African Affairs.

Ambassador Wisner was born in New York in 1938. He attended Princeton University, graduating with a B.A. degree in 1961.

He joined the State Department as a Foreign Service Officer in December 1961, and after Western Arabic language training in Tangier, Morocco, was assigned to Algiers. In 1964 he was detailed to the Agency for International Development in Saigon, served as Staff Aid to the Deputy Ambassador in Saigon from November 1965 until January 1967, was Special Assistant to the Director of the Office of Civil Operation in Vietnam until December 1967, and during 1968 served as Senior Advisor in the Vietnamese province of Tuyen Duc.

Returning to Washington in December 1968, Ambassador Wisner was Officer in Charge of Tunisian Affairs in the State Department, where he remained until named Chief of the Economic-Commercial Section at the American Embassy in Tunis, Tunisia, in July 1971. He subsequently served a brief tour as Chief of the Political Section in Dacca, Bangladesh from July 1973 until March 1974.

From March 1974 until April 1975, Ambassador Wisner was Director of Plans and Management in the Bureau of Public Affairs in Washington. He then joined the President's Inter-agency Task Force on Indochina Refugees, first as Special Assistant to the Director of the Task Force, and then as Deputy Director. He was Special Assistant to the Under Secretary for Political Affairs, Joseph Sisco, from August 1975 until July 1976.

Ambassador Wisner was named Director of the Office of Southern African Affairs in July 1976, then Deputy Executive Secretary in April 1977. He was sworn in as Ambassador to Zambia in August 1979.

Ambassador Wisner is married and has four children.