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Security continues to drive both Egypt's international relations and domestic policies, with government air strikes against Islamic State targets in Libya and continuing its crackdown on the Muslim brotherhood and secular opponents. A modest recovery in tourist numbers and nascent economic reforms contribute to stronger economic growth, but the International Monetary Fund (IMF) stresses that bolder economic reforms – and respect for the rule of law – are essential.

Regional and domestic security concerns dominate the political agenda...

Egypt launched air strikes on targets in **Libya** on 15 February.¹ The ongoing political power vacuum in Libya and emergence of groups there expressing sympathy with **Islamic State (ISIS)** extremists in Egypt's eastern **Sinai** peninsula have created fears in the government of a new extremist front on its highly-porous western border.

Following the kidnap and murder of 21 Egyptian Coptic Christian migrant workers in the eastern Libyan city of **Sirte** on 14 February, Egyptian president **Abdel Fattah Al-Sisi** (2014-present) ordered the **Egyptian Air Force** to undertake strikes against groups around the city of **Derna**. The killing of the Coptic Christians appears to have been designed to create international shock and provoke a reaction. But it remains unclear exactly how allied to ISIS the Libyan adherents are and the real security implications for Egypt. ISIS has been largely confined to **Iraq** and **Syria** to date:

*"The 15 February air strikes on ISIS were not the country's first intervention in Libya² and have an element of theatre about them. Sisi's parallel call for a **United Nations (UN) Security Council** resolution³ authorising international military intervention in Libya indicates genuine frustration with western policy (in particular). There is also a wider agenda: Sisi and his allies in **Algeria** are keen to discredit and roll back the democratic underpinnings of the **Arab Spring**, and would have no problem with the emergence of a post-[**Muammar**] **Gaddafi** [1969 - 2011] strongman in **Tripoli** and/or **Benghazi**."⁴*

Sisi, in a radio interview that aired on 17 February, also called on the UN to authorise weapons shipments to Libya's internationally recognised government in **Tobruk**, which fled Tripoli following its seizure by the **Libya Dawn** militias. The Tobruk-based government and the militias both claim to be the legitimate Libyan government.

The Egyptian calls for UN-sanctioned action are likely to get a lukewarm response in western capitals. Relations between the government and the **United States (US)** remain poor; also with **Qatar**, which withdrew its ambassador to **Cairo** on 18 February following comments by **Tariq Adel**, Egypt's representative to the **Arab League**, who said that Qatari reservations about the Libya air strikes "had exposed" Qatar's "support for terrorism."⁵

1 MENA, 16 Feb 2015.

2 See ARC Briefing Egypt December 2014

3 Reuters, 17 Feb 2015.

4 Source, Middle East expert

5 Source, Asharq Al-Awsat, 19 February

Cairo moves to clamp down on domestic Islamists...

An increasing focus on Libya has not distracted the government from its ongoing campaign against the **Muslim Brotherhood** and affiliated groups. Social solidarity minister **Ghada Waly** on 23 February dissolved with immediate effect approximately 170 NGOs reportedly affiliated with the brotherhood.⁶ The dissolved groups were spread across nine governorates in Egypt, including **Assiut, Sohag, Aswan, New Valley, Kafr El-Sheikh, Ismailia, Alexandria, Damietta** and **Qaliubiya**.

The crackdown also seems set to extend to the brotherhood's online presence, though with no definite time frame. This seems likely to presage a wider media crackdown on critics of the Sisi government, including among secular and other non-Islamist groups.

*"What the Egyptian government is doing will give further ammunition to those who say that its real goals are twofold: destroy political Islam and (at the same time) all opposition to military rule, using one as an excuse for the other."*⁷

Cairo boosts relations with Moscow... and Paris

Russian president **Vladimir Putin** (2000-2008/ 2012-present) undertook a state visit to Cairo on 10 February. Putin and Sisi are allies – both have a military intelligence background and have found themselves at odds with the US.⁸ **Moscow**, under western pressure for its alleged interventions in eastern **Ukraine**, is looking to diversify its commercial and strategic partnerships.

*"Putin's visit to Cairo was one of a series of capital-hopping trips designed to shore up support from allies and defy **Washington**. Cairo was an eager host in both respects."*⁹

Russia is also reportedly seeking to increase arms sales to Egypt, and exploit the US decision in 2013 to suspend some deliveries following the crackdown on the former government of **Mohamed Morsi** (2012-2013) and his supporters. When the Russian defence and foreign ministers visited Cairo in November, Russian media reported then that the two countries were close to signing a \$3 billion (£2 billion) deal for **MiG-29** fighters and attack helicopters.

Immediately following Putin's visit, Egypt's mineral resources minister announced the signing of a **Gazprom** supply contract for 35 liquefied natural gas (LNG) shipments over a five-year period. The deal, which actually pre-dated Putin's visit, may help Gazprom and **Gazprom Global LNG's** cash flow, as most Gazprom entities have been hit by western sanctions over Russian policy in Ukraine. Foreign investors looking at Egypt will have to find ways of avoiding Gazprom to avoid the bigger reputation risk of sanctions-busting allegations.¹⁰

France has also got in on the defence sales act. In February, it agreed the sale of 24 **Rafale** fighter-bombers to the Egyptian Air Force, in a deal worth approximately \$6 billion.¹¹

*"The provision of the Rafale is a boost for the Egyptian military – its already large base of **Soviet** era weaponry is dated and it is struggling to maintain its modern (but expensive) US equipment. The Rafale saw action in Libya and is a cheap but effective platform."*¹²

6 Daily News Egypt, 23 Feb 2015.

7 Source, security analyst, Moscow

8 Source, Middle East and North Africa analyst

9 Source, Russian analyst

10 Daily News Egypt, 10 Feb 2015.

11 www.defensenews.com

12 Source, defence analyst

Sisi tries to reassure Gulf leaders after alleged derisive audio leaks

On 7 February, Islamist media in **Turkey** published reportedly secret audio recordings dated from before the 2014 elections that appeared to include Sisi and his senior aides deriding Egypt's rich **Gulf** donors. The **United Arab Emirates (UAE)** and **Saudi Arabia** have given Egypt's military-led regime over \$10 billion in grants since 2013 and have reportedly promised another \$10 billion in the run-up to the country's international investor conference in March (see below). According to **Reuters**, the man identified as Sisi in the recordings tells another official:

*"We need 10 billion to be put in the army's account... and we want 10 like them from the Emirates, and from **Kuwait** another 10, in addition to a couple of pennies to be put in the central bank and that will complete the 2014 budget."*¹³

While denying in public that the tapes were genuine, the government state media reported that Sisi had called senior leaders of several Gulf states to stress the value his government placed on the relationship with them. Saudi and UAE authorities also made a public show of solidarity. But,

*"there is no doubt that the tapes were genuine and that the Egyptian military leaders have a contemptuous view of their Gulf cousins in private, a feeling that is probably also mutual [see ARC Egypt Briefings December 2014 and January 2015]. In public, though, they'll all keep up the pretence of fraternity for now, but there is growing impatience in the Gulf with the slow pace of real economic reform in Egypt."*¹⁴

Light at the end of the economic tunnel?

The government is expected to pass a new investment law in early March, in an effort to shore up investor sentiment prior to the heavily publicised **Sharm El-Sheikh** economic summit later that month (see ARC Briefings Egypt December 2014 and January 2015).¹⁵ With consultations ongoing with business leaders from across Egyptian industry, the law will aim at streamlining bureaucratic procedures for domestic and international investors, including the acquisition of industrial land.¹⁶

The finance ministry, industry minister and the prime minister's office have developed the draft law in concert.¹⁷ The main structural change is that investor promotion activity will fall to a new, stand-alone department within the **Investment Authority**. As ever in Egypt, the acid test will not be intentions but how such changes help speed up investment approvals and permits, etc.

The organisers of the March economic summit have stated that 1,800 domestic and international investors plan to attend. They had originally shifted the date of the summit from January to March having failed to secure sufficient investor interest.¹⁸

The **International Monetary Fund (IMF)** on 11 February issued a cautiously optimistic forecast for GDP growth of 3.8% in the 2014 – 2015 financial year and said that this should help reduce headline unemployment.¹⁹ The latest (Q4 2014) figures do seem to indicate that official unemployment levels in Egypt have stabilised at 12.9%.²⁰ Government data also showed an increase in the labour force to 27.7 million people during in the same quarter, an increase of 352,000, or 1.3% compared to the same period in 2013.²¹

¹³ Source, Reuters, 9 February

¹⁴ Source, Gulf political analyst and political adviser

¹⁵ Source, Middle East and North Africa analyst

¹⁶ Source, Middle East and North Africa analyst

¹⁷ Source, Middle East and North Africa analyst

¹⁸ Source, senior oil executive, Egypt

¹⁹ Daily News Egypt, 11 Feb 2015.

²⁰ Source, Middle East and North Africa analyst

²¹ Daily News Egypt, 10 Feb 2015.

"[Reducing] unemployment and broadly boosting the economy is a key stated priority for the president – getting young people into work, off the street and away from extremism is a major security challenge as well as a key to creating popular legitimacy for the regime."²²

The IMF, however, has also added a note of caution. In an interview with the English-language *Daily News* on 14 February, the IMF's Mission Chief in Egypt, **Chris Jarvis**, said:

"The authorities' economic programme is expected to go a long way in addressing Egypt's macroeconomic imbalances and vulnerabilities. However, the authorities' policies would still leave large financing gaps in the medium term, which would need to be covered by greater adjustment or financing, or a combination of the two. So far, the authorities have not requested IMF financing, but we would be ready to consider such a request when the authorities feel it is opportune. In our report, we noted that in addition to a supportive economic environment, investor confidence depends on security and an even-handed application of the rule of law."²³

The rule of law comments have been interpreted by sources as a veiled criticism of the Egyptian government's politicisation of the courts in its crackdown on political Islam and secular critics of military-led rule, the reputational damage it causes Egypt and the deterrent effect this has on foreign investors.

Italy seeks to boost trade with Egypt

Italy will be a major participant at the Sharm El-Sheikh economic summit, with around 100 major Italian companies planning to attend. Italy is Egypt's largest **European Union (EU)** trading partner and third biggest trading partner globally. Egyptian exports to Italy increased 30% in the first half of 2014 alone.²⁴ This trade expansion has resulted in the creation of the **Italian-Egyptian Business Council**, and an Italian business mission visited Cairo in February, comprising 90 companies across a range of industry sectors.

Italian investors seem keen to invest in Egypt's infrastructure, energy and telecommunications sectors, as well as tourism and manufacturing.²⁵ In private, however, Italian companies are looking for greater evidence of political and economic stability before sinking major investments.

"Our experience of working in Egypt pre-dates Sisi. We are very keen to capture the opportunities that Egypt has yet to offer [but] the proof of which is yet to be seen."²⁶

Implications

The security situation in Libya will not improve in the short term but Sisi's evident desire to increase Egypt's regional military and diplomatic reach raises the risk that Egypt will be drawn further into Libya's fragmented internal conflicts. The Putin visit – and decision to buy French warplanes – is part of the same Sisi strategy of demonstrating – especially to the US – that Egypt will punch above its weight and not bow to pressure from outsiders. At the same time, Sisi's hurried reaction to the leaking of his alleged disparaging remarks about Gulf leaders, suggests some sensitivity to the views of outsiders when he depends on their money to shore up the economy.

The economic summit in March seems set to be a major affair and the government will make every effort to present it as a positive catalyst for investment in Egypt. But the jury is still out on whether change is coming fast enough to generate the volumes of foreign capital needed, especially in labour-intensive sectors such as manufacturing and services. Security is also integral to the equation:

²² Source, North African analyst

²³ Source, *Daily News* (Cairo), 14 February

²⁴ Source, Middle East and North Africa analyst

²⁵ Source, Middle East and North Africa analyst

²⁶ Source, major corporate events company owner, Rome

although tourism numbers showed a strong rebound in late 2014 and bookings seem strong for 2015, overall numbers remain well below pre-Arab Spring levels. The fall in global energy prices in 2014 may also have helped boost the GDP figures in the short term.

The IMF's public hints that Egypt needs to go further with reforms and seek external institutional financial support to meet its short-term financing needs, point to the real picture of sluggish change. With a fiscal deficit stubbornly high (in the 10% range) and commitments to spend more on foreign defence equipment, Sisi is also giving his critics room to accuse him of not really joining up the economic dots.