

THE FUTURE OF AMERICAN INVESTMENT IN POST-MUBARAK EGYPT

This article aims at forecasting the future of American enterprise in post-Mubarak Egypt by examining U.S. economic, political, and military interactions over the past half century in the Middle East. Egypt has been a long-time ally of the United States and this relationship has acted as a conduit between Western powers and the remaining nations of the Middle East. Since the 1979 Israeli-Egyptian Peace Treaty, the United States has helped sustain the Mubarak regime both economically and militarily. Although this stimulus has fostered goodwill with previous governments, it is yet to be seen whether or not the new ruling powers will, in retrospect, view these contributions as having funded a totalitarian regime or as an investment in Egypt's future in a post-Mubarak era.

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In 11 February 2011, Hosni Mubarak resigned as the President of Egypt ending approximately 30 years of autocratic rule following 18 consecutive days of relatively peaceful protesting. Mubarak ceded power to the Egyptian military and more specifically to the Supreme Council of the Armed Forces (SCAF).

This piece is an attempt to forecast the future of American enterprises in Egypt by examining U.S. economic, political, and military interactions over the past half century in the Middle East. Since the 1979 Israeli-Egyptian Peace Treaty, the United States has helped sustain the Mubarak regime both economically and militarily at an average of 2 billion dollars per year.¹ Although this stimulus has fostered goodwill with previous governments, it is yet to be seen whether or not the new ruling powers will view these contributions as funding a totalitarian regime or as an investment in Egypt's future.

The examination of Egypt in the context of the Arab Spring and its future relations with the U.S. in specific, and the West in general, is important because of several reasons. First of all, with a population of over 80 millions, Egypt is by far the most populous Arab country and one of the largest in North Africa and Middle East. The size of its population is coupled with the country's strategic geographic location. Thus, on the one hand Egypt is wedged into the Gaza Strip and Israel, and on the other, it dominates North African politics. Add to this the fact that historically Egypt has always played a leading role in the Arab world and the Middle East, sometimes single handedly guiding popular Arab political discourse and policies, as it was the case with Gamal Abdel Nasser during the 1950s to 1970s. It is because of this prominent regional role that Cairo plays, that understanding the possible directions that the country might take becomes paramount to predict, and comprehend the possible influence the U.S. might have, in the newly reshaped and redefined Middle East.

Forgoing historical analysis of U.S. relations with Egypt, suffice it to say that after the 1979 Camp David accord between Egypt and Israel –something that Noam Chomsky describes as a “catastrophe”²– the United States increased its aid to Egypt exponentially. More recently, in an attempt to coerce Mubarak into abdicating his position as the Egyptian head of state, U.S. President Barack Obama sent Frank Wisner, a former ambassador to Egypt, to discuss the implications of the revolution.³ Wisner served under the Central Intelligence Agency earlier in his career, but moved to work as a head attorney for Patton Boggs – a law firm

1 Jeremy M. Sharp, “*Egypt in Transition*”, Congressional Research Service, RL33003, (4 May 2011), p.5, <http://fpc.state.gov/documents/organization/168035.pdf>

2 Noam Chomsky, “Struggle in the Promised Land”, Lecture given on 8 February 2011, Boston College, Chestnut Hill.

3 James Joyner, “Frank Wisner on Mubarak: Gaffe or Conflict of Interest?”, *New Atlanticist, Policy and Analysis Blog*, 7 February 2011, http://acus.org/new_atlanticist/frank-wisner-mubarak-gaffe-or-conflict-interest

that staunchly supports Mubarak regime. Wisner left the meeting making the statement that Mubarak “must stay” and that his leadership in Egypt was “critical” to the country’s future.⁴ Considering Wisner’s political relationship with Patton Boggs, this outcome came as no surprise to individuals familiar with the circumstances. Although the Obama Administration made attempts to distance themselves from these statements, it is still important to note the level of hypocrisy inherent in this kind of decision-making. Either the administration was incompetent in their selection of a government spokesperson or they intentionally created a mixed message in hopes of playing both sides of the revolution. Once again, these types of political interactions are consistent with previous trends and this kind of political cynicism only complicates the future of American business investment in Egypt.

One point of significant contention for U.S. foreign policy is the United States’ seemingly capricious and overzealous use of military force. In particular, many Islamic writers have chastised the United States for its use of military force to liberate Kuwait during the Gulf War.⁵ They argue that the Gulf War was the advent of a foreign policy focused on the excessive use of military force.

The Egyptian Economy: Industry Breakdown and Analysis

On 27th of January 2011 the Egyptian Stock Exchange (EGX) closed as surmounting public unrest spread throughout Cairo and the rest of Egypt causing the index to drop by ten percent over the course of two days.⁶ Nearly two months later on 23rd of March the exchange reopened for trading, immediately plummeting by ten percent.⁷ Private sector executives like Osama Mourad of ArabFinance Brokerage predicted this type of market reaction as the closed exchange fed into the sell-off crowd mentality.

4 Chomsky, (2011).

5 Sami E. Baroudi, “In the Shadow of the Qur'an: Recent Islamist Discourse on the United States and U.S. Foreign Policy”, *Middle Eastern Studies*, Vol. 46, No. 4, (July 2010), p. 571.

6 Robert Shapiro and Yaeli Bloch-Eikon, “Partisan Conflict, Public Opinion, and U.S. Foreign Policy”, Paper presented at *Inequality & Social Policy Seminar*, JFK School of Government, Harvard University, Cambridge, 12 December 2005, <http://www.hks.harvard.edu/inequality/Seminar/Papers/Shapiro05.pdf>

7 “Egyptian Stock Exchange Reopens and is Forced to Close Again”, *BBC News*, 23 March 2011, <http://www.bbc.co.uk/news/business-12839484>

“The Egyptian Revolution has opened the gates for real democratic change in a previously oppressed state, but the subsequent political upheaval has decimated the economy.”

However, this frustration over the struggling equity market quickly became the least of the government's economic concerns as burgeoning social issues and waning Gross Domestic Product growth took center stage. This episode in Egypt's equity markets illustrates the ostensible incompetency of the transitory government. Fraught with corruption, the current leadership within the SCAF and Egyptian military has frozen economic development in order to retain power – a position reminiscent of Mubarak-era authoritarianism.

*"Now with Mubarak gone,
the U.S. must now deal
with multiple voices
in government."*

The Egyptian economy has historically relied on three major industries to push the state's GDP. Of these, the service sector makes up 48 percent of the country's output followed by industrials and agriculture at 38 percent and 14 percent, respectively.⁸

The service industry includes aspects like telecommunications, construction, and commerce, but the largest component is tourism. Egypt's rich history and national landmarks make the state a major target for Western tourism. At an industrial capacity, Egypt has utilized its 4.4 billion barrels of proven oil reserves to export 177,200 bbl/day according to 2009 estimates, while the agriculture sector is primarily comprised of cotton, rice, corn, and wheat production. Natural gas is also a major export with approximately 44.37 billion cubic meters leaving the country per year. These oil and gas exports are significant for Egypt domestically, but they are dwarfed in comparison to the country's Middle Eastern counterparts. Saudi Arabia, Iran, and the United Arab Emirates all rank in the top four as the largest oil exporters while Egypt lags behind 57 other states.⁹

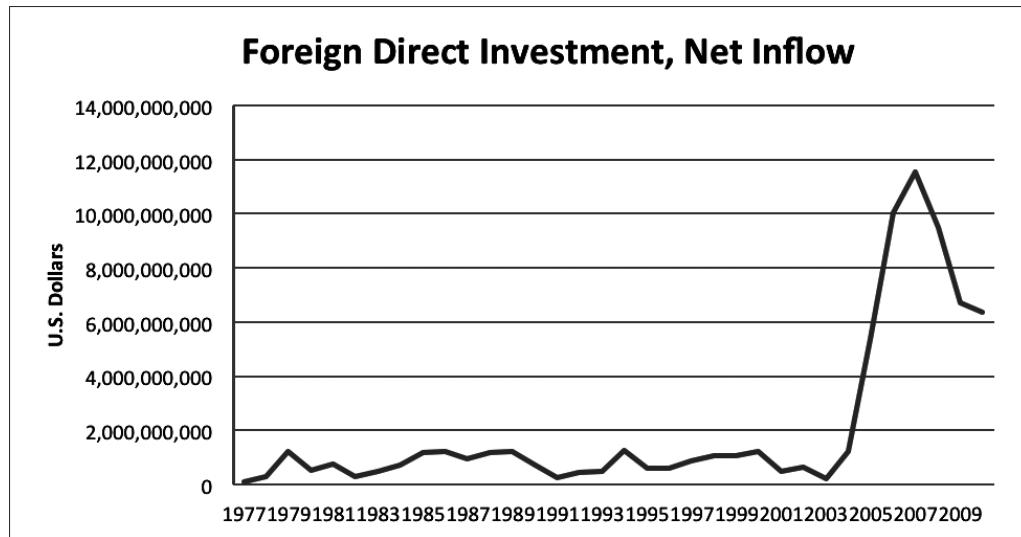
According to the International Monetary Fund (IMF), Egypt saw significant growth recently due to increases in economic stimuli.¹⁰ In fact, the late 2000's saw exponential increases in direct foreign investment that coincided with this domestic investment. The year 2007 marked the peak of this foreign investment influx resulting in over 11.5 billion dollars for Egyptian development.

Consequently, during the decade following the year 2000, the annual GDP carried a healthy 5.13 percent annual growth rate with heavier growth rates of over seven

8 Constantino Hevia and Norman Loayza, "How Fast can Egypt Grow?", *World Bank Research Digest*, Vol.5, No.2, (Winter 2011), http://siteresources.worldbank.org/DEC/Resources/84797-1154354760266/2807421-1288872844438/7530108-1298579950481/How_Fast_Can_Egypt_Grow.pdf

9 Ibid.

10 "Middle East and North Africa: Economic Outlook and Key Challenges", IMF paper prepared for Deauville Partnership Ministerial Meeting, Marseille, France, (September 2011), p. 6, <http://www.imf.org/external/region/mcd/deauville/note091011.pdf>



percent between 2007 and 2009. This growth rate declined to 5.18 percent in 2010 before crashing down to 1.2 percent in the first half of 2011 as a result of the revolution.¹¹ What these statistics indicate is the underlying strength of the Egyptian economy.

Unfortunately, this is where much of the good news ends for the Egyptian economy. The Egyptian Revolution has opened the gates for real democratic change in a previously oppressed state, but the subsequent political upheaval has decimated the economy. Direct foreign investment dropped precipitously after 2007 due to the financial crisis that originated out of the United States. Meanwhile tourism, the largest component of Egypt's service industry, declined by over a third in the wake of the Tahrir Square protests.¹² Unemployment rose from nine percent to just below 12 percent at the end of 2010 and inflation continued to erode an already depressed housing market.¹³ This unemployment figure is closer to 30 percent amongst individuals under the age of 24.¹⁴

What this means for a post-Mubarak Egypt is that economic reforms need to focus on capital appreciation and optimizing the financial system. Efficient financial institutions coupled with enormous capital stock have the greatest potential to spur growth and combat social issues like unemployment. Unfortunately, time is not on Egypt's side. The primary conclusion drawn from this analysis is that

11 Ibid.

12 "Egypt's Tourism Revenues Forecast to Decline \$4 billion in 2011", *Ahramonline*, 6 May 2011, <http://english.ahram.org.eg/NewsContent/3/12/11500/Business/Economy/Egypt-s-tourism-revenues-forecast-to-decline--billi.aspx>

13 IMF, 2011.

14 IMF, 2011, p. 7.

productivity must “[stem] from technological innovation, improved public management, and private sector reforms” for the Egyptian economy to successfully expand.¹⁵

Stakeholders of the Revolution: Protestors and the Transitory Regime

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chanted, “The Army is Ours”, rejoicing in their new found freedom of speech, but in later protests that proclamation has changed to “The Army is Ours! The Military Council is theirs!”¹⁶ This shift is indicative of the fragile relations developing between the military state and the Egyptian people.

Historically, the Egyptian military has been a “black box” of decision-making that has held significant power since 1952.¹⁷ That being said, it is important to note that the military is less of a war machine as it is defined in the United States and more of a political entity in Egypt. Economically, the military garners a massive, yet unknown, budget and it is responsible for producing consumer goods across multiple industries. During some of the larger infrastructure projects, officers are often awarded perks for heading parts of the operation, but problems arise when budgetary elements are examined. The top brass is unwilling to be subjected to any level of criticism which in turn makes budget conversations a taboo. Part of this taboo probably stems from the fact that military service is one of the only available outlets for societal advancement in Egypt.

With the election of Mohammed Mursi –the candidate for Muslim Brotherhood– as president there has been a significant decline in the power balance that the SCAF holds. The most recent manifestation of which was the announcement that the several top brass of the Egyptian military were removed from their posts by the President.¹⁸

15 Hevia and Loayza, (2011), p. 18.

16 Wendell Steavenson, “Who owns the Revolution?”, *New Yorker* 87, 22 (August 2011), pp. 38-57.

17 Ibid.

18 Yolande Knell, “Mursi’s Surprising Swipe at Military Power”, *BBC News*, 13 August 2012, <http://www.bbc.co.uk/news/world-middle-east-19240200>

The Egyptian Revolution came as a surprise to many as it defied the history of oppression. Over the course of the year, millions of protestors have gathered in Tahrir square to voice their anger toward Hosni Mubarak’s police state. The primary reason these protests were successful was due to relations between protest leaders, the military, and the SCAF; however, this relationship is much more troubling under the surface. The protesters in Tahrir Square initially

United States Involvement in the 2011 Revolution

Despite the negative perceptions of the United States that are held by most Middle Eastern Muslims, the U.S. has taken on a unique role within the Egyptian Revolution that favors the development of a democratic state. The anti-secrecy group WikiLeaks released a 2008 confidential cable that described an American embassy helping an Egyptian dissident escape the country to attend a leadership conference for political activism in New York City.¹⁹ Additionally, American officials secretly pressed Mubarak to release other political dissidents who were arrested for opposing the regime. However, these two actions oppose the public position of the United States; a position that was ostensibly supportive of the Mubarak regime. For example, in January of 2011, "...Mr. Obama praised Mr. Mubarak as a partner but said he needed to undertake political and economic reforms".²⁰ This type of political discourse does not represent the breadth of U.S.-Egyptian interaction at that time.

Ultimately, WikiLeaks may have done the United States a favor for releasing these confidential cables. The fact that the American embassy was promoting dissident action three years prior to the actual revolution is indicative of a state intent on pressuring Mubarak into ceding power to more democratic means. From an Egyptian standpoint, the United States has done well to position itself for the upcoming regime.

The developing situation in Egypt from the perspective of the Senate Foreign Relations Committee (SFRC) is one of significant concern especially when it comes to the institution of new leadership. With six different electoral events occurring over the next several months there will be a massive turnover in leadership.²¹ This uncertainty has consequently led to tenuous relations between the two countries. Ultimately, Senator John Kerry, who acts as chairman of the SFRC, views the economics behind the revolution as a driving force for the political landscape. Booming economies create more political stability while depressions tend to open the gates for more radical voices within the public arena.

Interestingly, democracy in the Middle East presents a paradoxical challenge for U.S. foreign relations. In the past, when American politicians wanted to persuade the Arab League to take a particular action, they would gain Mubarak's support to prompt this directive. Now with this conduit of communication gone

19 Tim Ross, Matthew Moore, and Steven Swinford, "Egypt Protests: America's Secret Backing for Rebel Leaders behind Uprising", *The Telegraph*, 28 January 2011, <http://www.telegraph.co.uk/news/worldnews/africaandindianocean/egypt/8289686/Egypt-protests-Americas-secret-backing-for-rebel-leaders-behind-uprising.html>

20 Mark Landler and Andrew Lehren, "Cables show Delicate U.S. Dealings with Egypt's Leaders", *The New York Times*, 27 January 2011, <http://www.nytimes.com/2011/01/28/world/middleeast/28diplo.html?r=2&pagewanted=all>

21 Telephone interview with Perry Cammack, U.S. Senate Foreign Relations Committee's Egyptian policy advisor, 5 October 2011.

the U.S. must now deal with multiple voices in government. Although democracy promotes significant human rights advantages, it stymies political action. For a country that prides itself on spreading republican ideals across the world this is an interesting predicament that the U.S. finds itself in.

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For American businesses, it is imperative that they remain patient in their attempts to launch projects in a post-Mubarak Egypt. In the past, Egypt has largely been a pillar of support for U.S. enterprise, yet just as with the politics, future business relations continue to be very indistinct. For large firms such as General Electric to make that international jump there must be a level of clarity installed within the political arena. Fortunately, this clarity has already

been in the making with the parliamentary and presidential elections, and the challenge for U.S. companies now is to assess the profiles of new leaders in power and evaluate the new political landscape to reinvest in Egypt.

Scenario Analysis

With a comprehensive understanding of the major facets within the Egyptian Revolution it is now important to consider the implications of these facts. Specifically, there are two separate interpretations of the facts. The first, called “Free Market Democracy” is the most ideal as both democracy and capitalism thrive from overturning the oppressive Mubarak regime. The second, “Crony Capitalism” is the idea that the government retains its repressive properties, but capitalism still flourishes through the U.S.’s relation with new leadership.

Scenario One: Free Market Democracy

Following the 2011-12 parliamentary and presidential elections, the new government has been incorporating economic and social reforms prompting an end to much of the public discontent toward Egyptian leadership. This end to mass protest creates a positive feedback loop founded in nationalism. With the political process “righted”, Egyptian citizens are spurred into economic action. Through a wealth of entrepreneurial ventures, capitalism’s true efficacy is demonstrated following a second influx of international investment. GDP growth has been rising to

nine-ten percent which circumvents many of the societal concerns expressed by the PRS Group.²² With unemployment down, –especially of young people– the Egyptian Central Bank's primary task is to control inflation to prevent a second housing depression.

With economic success directly feeding societal order, the military is much less inclined to utilize violent force against the Egyptian population. This new emphasis on human rights will bring an end to the injustice of military tribunals and a new judicial process can be observed. A happier and more politically involved populace is much more willing to accept American/Western support. On the heels of this acceptance, tourism rises as political stability and the fear of violence declines.

From all perspectives this is the ideal situation for a post-Mubarak Egypt. Most likely, conflicting political ideologies will slow down the legislative process creating economic and social unrest. The degree to which this unrest might occur is hard to gauge, but the process will surely not run as smoothly as this scenario projects.

Scenario Two: Crony Capitalism

While parliamentary and presidential elections have yielded stable results, the chances and fear of continued protests might result in the passing of legislation to prompt savings rates and entrepreneurial funding. Although the government has experienced a massive turnover in leadership, the military and its officiating body remain the *de facto* leaders. As Steavenson posited in his work, “Who owns the Revolution?” the military’s “black box” approach to budgeting and direction will help to maintain their influence in government.

Economically, this scenario embodies the concept of brinksmanship. Parliamentary members consistently press each other on reform issues until an 11th hour decision must be made. The policies instituted are effective, but in many cases the government creates more work for themselves in the future by staving off meaningful legislation.

From a human rights perspective, Egypt remains a “ho hum” example of change as military violence continues against protesters especially following the initial parliamentary elections. The United States will continue its jingoist approach to Egypt by supporting members of leadership who present the greatest promise for American indoctrination. Much like the past, this decision will most likely call for more autocratic ideals as this simplifies the United States’ connection to the rest of the Arab League.

22 “Country Analysis – Egypt”, *LexisNexis Academic*, The PRS Group, 1 September 2011, Web, 10 November 2011.
<http://www.lexisnexis.com/hottopics/lnacademic/>

This could lead to the principle of passivity as expressed by Marwan al-Muasher, a Jordanian diplomat, which in essence is based on observing the behavior of Arab governments in the Middle East and where he points out that “so long as the people remain passive and obedient, the Arab leadership may do as they please”.²³ Once the principle of passivity is restored, American firms are likely to increase investment in the country by using a reformed brand that is more agreeable to Egyptian consumers. This scenario is representative of the most likely chain of events and trends however the possibility of U.S. firms to explore possibilities and partnership with new individuals and to utilize the benefits of some of the economic reforms, might lessen the “blow” of this scenario’s darker outcome.

Conclusion

Egypt, along with most of the Middle East, finds itself in very unfamiliar territory during this transition of power. Marwan al-Muasher’s principle of passivity within the Egyptian population has been exceeded bringing on a new hope for democracy within this historically subjugated country. As the citizenry continues to revel in political activism, the outside world can only speculate what the future has in store with so many political forces jockeying for power. At one point content with Mubarak’s reign of power, the United States must come to terms with the prospect of a much more complicated, yet democratic relationship. More specifically, United States firms hoping to expand to Egypt will have a host of scenarios to consider before launching operations in this unknown business environment.

Considering all available data, it seems most likely that some combination of the “free market democracy” and “crony capitalism” scenarios will occur. The Egyptian people, who are supported by many international states and world media outlets, are for the first time forcing central powers to listen to their demands. They have enacted substantive change that has inspired populations throughout the Middle East culminating in the “Arab Spring”. Meanwhile, Egyptian military leaders are desperately clinging to their positions of power. The military is one of the few consolidated forces in the political sphere which causes many to worry about the future of Egyptian democracy. These two forces are producing a democratic process that will be fairly executed, yet it has the potential for significant corruption. American firms should expect a difficult competitive environment if they do not carry positive relationships with government as well as the economic leadership. Furthermore, these international companies should make significant efforts in assimilating their brands to Egyptian culture as most of the Arab population resents past policies of American jingoism.

²³ Joyner, (2011).

With these perceptions in mind, it is imperative that U.S. firms separate themselves from the institution of the U.S. government. Popular opinion of U.S. foreign policy especially amongst the broader Muslim community is very unfavorable and firms would be wise to consider alternatives to their regular international development plans. In the end, building a brand strictly around Middle Eastern values would grant a much greater opportunity for cultural acceptance and profit potential, creating a synergy between Egyptian democracy and Western free market economy.