

Regime Dependence on Foreign Assistance:

**Mubarak and his relationship
with American aid**

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Introduction

The Egyptian government has been a recipient of foreign assistance from the United States for over 60 years. Though the U.S. gains from having an ally in the Middle East, it is the current regime that has accrued the most benefits. Recognition of the U.S.'s hesitancy in offending and alienating the Egyptian government if it reduces foreign assistance, the Mubarak regime has fully integrated receipt of aid into its political survival strategy.

Rent is an income that results from owning natural resources. In his description of rents, Richter divides them into five categories: raw material rents, location rents, strategic rents, political rents, and migration rents – all of which the Egyptian government receives.¹ Strategic rents and political rents are the two forms of rent that foreign assistance takes; the first comes in the form of grants or loans in the form of military or budget aid, and the second takes the form of official development assistance (ODA) and other official flows.² Like the other three types of rent, strategic and political rents allow the regime to enlarge the state's budget. Regardless of whether the foreign assistance is earmarked for a specific project or sector, aid remains highly fungible because it permits the state to spend more in its budget.³ In essence, foreign assistance becomes a source of income that the government can spend in other areas.

In addition to expanding the state budget, foreign assistance lowers the accountability of the regime by removing a back-linkage to the public. Accountability necessitates a relationship between the governed and the government where the government is held responsible for its

¹ Thomas Richter, "Contending Aspects of Authoritarian Survival in the Middle East and North Africa: The Durability of Material Distributions in Morocco, Tunisia, Egypt and Jordan" (6th Pan-European Conference on International Relations. 12-15 September 2007) 10-11.

² Richter 12.

³ Karen L. Remmer, "Does Foreign Aid Promote the Expansion of Government?" *American Journal of Political Science* 48.1 (2004): 79. *JSTOR*. Yale University Library, New Haven, CT. 18 October, 2008. <<http://www.jstor.org/stable/1519898>>.

actions.⁴ The presence of rents breaks this relationship because the regime no longer needs to rely on the public for economic support through taxation. Instead of the government being accountable to its citizens, foreign assistance transfers the power to the donor, who is able to hold the government accountable by withholding commitments. Furthermore, the independent source of income and subsequent decrease in the public's influence on government actions, the regime has reduced incentive to implement sound policies.⁵ The regime can therefore allocate the rent extracted from foreign assistance in the manner most beneficial to its own self-interests.

Without accountability to its citizen, the regime is able to practice patronage politics. The government rewards supporters with bonuses, contracts or access to government resources through appointments to office. In practice, patronage works as a tool to tie individuals to the regime by linking their good fortunes to their continued support. The regime then builds a patronage network through which resources are distributed from the central government to the local government, and finally, to the public. Instead of providing benefits, patronage rewards on the basis of support rather than on performance or productivity. Funds are "allocated by purely political terms" and "used without considering long-term economic needs."⁶ Moreover, with the practice of patronage politics, the ability of the regime to access resources and distribute them becomes paramount in ensuring its legitimacy.

Continued and reliable access to foreign assistance, especially from the U.S., has provided President Hosni Mubarak with a large source of rent, which has reduced the government's accountability to its citizens. Egypt has received over \$55 billion in foreign assistance from the U.S. since Mubarak assumed office on October 14, 1981, which the regime

⁴ Ruth W. Grant and Robert O. Keohane, "Accountability and Abuses of Power in World Politics." *American Political Science Review* 99 (2005): 29. *Cambridge Journals*. Yale University Library, New Haven, CT. 5 October, 2008. doi:10.1017/S0003055405051476.

⁵ Richter 10.

⁶ Richter 9.

has used for its own purposes. Rather than as a tool for developing the economy or strengthening state infrastructure, Mubarak saw the aid as a resource with which to buy support. USAID contracts were only awarded to the regime's supporters, and often to businesses owned by members of Parliament. Furthermore, Mubarak has maintained high levels of subsidies on certain items, which is possible because the aid is fungible. The regime has based its legitimacy on its ability to distribute resources – whether in the form of government contracts or government subsidies – and has come to rely heavily on the rent it receives through foreign assistance. As the U.S. decreases the amount of foreign assistance it gives to Egypt, the regime will lose its distributional abilities and will need to reconstruct the foundation of its legitimacy.

Nasser and Foreign Assistance from the U.S.

Under the pretext of the Cold War and preventing the spread of communism, the U.S. justified its overt use of foreign assistance to ensure support for the “Free World” and to gain access to the Suez Canal and Egypt's airspace. American supporters of Israel complicated the issue by blocking much of the aid flow into Egypt and, by the end of 1949, Egypt had only received \$18 million from the U.S. since 1945.⁷ After the 1952 revolution, the State Department gave aid to the Revolutionary Command Council (RCC) under the following justifications: to entice Egypt to sign on to the Middle Eastern Defense Organization; to prevent the RCC from purchasing arms elsewhere; and to pressure Egypt to reach a settlement with Britain over the Suez Canal.⁸ The State Department earmarked over \$40 million for Egypt in pursuit of Nasser's support for MEDO and the CIA smuggled an additional \$3 million into Egypt for Nasser. Offended, he turned down all aid and used the cash to fund the construction of Cairo Tower, a

⁷ Peter L Hahn, *The United States, Great Britain, and Egypt, 1945-1956: Strategy and Diplomacy in the Early Cold War* (Chapel Hill: The University of North Carolina Press, 1991) 88.

⁸ Hahn, *The United States, Great Britain, and Egypt* 149-150.

downtown radio tower.⁹ Another failed plan by the U.S. was the Alpha plan under which the U.S. was willing to dispense over \$1 billion in five years for a permanent Arab-Israeli peace settlement.¹⁰

Relations between Egypt and the U.S. continued to deteriorate with the Egyptian purchase of Soviet arms from Czechoslovakia in 1955. Following this, the U.S. promised \$200 million, in addition to funding from Britain and the World Bank, for the construction of the Aswan Dam, which was hoped would “alter the direction of Nasser’s diplomacy.”¹¹ Dissatisfied with Nasser’s continued support for non-alignment, the U.S. suspended all of its foreign assistance to Egypt, including the funding promised for the construction of the Aswan Dam, by July 1956. It was not until the U.S. recognized the United Arab Republic in 1958 that Nasser received U.S. foreign assistance again – the U.S. agreed to give the UAR \$110 million in food aid in response to its anti-communist initiatives.¹² After Syria left the UAR, Egypt saw a jump in foreign assistance from the U.S., but American disapproval for Egypt’s involvement in Yemen led to a decline in assistance. Nevertheless, by 1963,¹³ Egypt had become the world’s largest per capita consumer of U.S. food imports, mainly in the form of wheat and between 1956 and 1967, nearly 70% of U.S. assistance to Egypt had been in the form of food aid.¹⁴ All foreign assistance

⁹ Hahn, *The United States, Great Britain, and Egypt* 185.

¹⁰ Peter L. Hahn, *Crisis and Crossfire: The United States and the Middle East Since 1945* (Washington, D.C.: Potomac Books, Inc., 2005) 29.

¹¹ Hahn, *Crisis and Crossfire* 41.

¹² Hahn, *Crisis and Crossfire* 44.

¹³ See Figure 1 for graph of food aid to Egypt (1952-1967).

¹⁴ Jean-Jacques Dethier and Kathy Funk, “The Language of Food: PL 480 in Egypt.” *MERIP Middle East Report* 145 (1987): 23. *JSTOR*. Yale University Library, New Haven, CT. 14 Nov. 2008. <<http://www.jstor.org/stable/3012423>>.

to Egypt ended in 1968 and it was not until 1972 that Egypt began to receive foreign assistance from the U.S. again.¹⁵ [See Figure 2.]

Nasser, unlike his successors, was extremely charismatic and drew support from his public. Following the 1967 defeat, Nasser announced that he had failed his country and that he would step down from the presidency; however, the subsequent public outcry persuaded him to stay in office. During his tenure, Nasser exploited Cold War tensions to his advantage, receiving more foreign assistance from both the U.S. and the Soviet Union than he would have had he endorsed either side. The rents he earned increased state spending to keep the cost of living low and allowed him to guarantee government jobs to all university graduates, swelling the Egyptian bureaucracy. Nasser, however, did not depend solely on foreign assistance; his legitimacy extended beyond the economic fortunes of Egypt. As an ideological leader, Nasser became the figurehead for the Arab World and dominated the rhetoric of the day. Espousing Pan-Arabism, Nasser drew on popular support from outside of Egypt and fashioned himself as the voice of the Arabs.

Sadat's Legacy

Anwar Sadat ascended to the Egyptian presidency following Nasser's death in 1970, inheriting a country demoralized by its 1967 loss against Israel and estranged from the U.S. because of Nasser's non-alignment policies. Lacking Nasser's charisma, Sadat established his legitimacy as president by continuing Nasser's statist policies and maintaining high subsidies on basic commodities. Additionally, Sadat saw an opportunity to regain the Sinai Peninsula, which would undo part of the 1967 defeat and earn the public's support for him. The U.S. and Israel

¹⁵ United States Agency for International Development, "U.S. Overseas loans and grants: obligations and loan authorizations" July 1, 1945-September 30, 2006. <<http://quesdb.cdie.org/gbk/index.html>>.

had jointly raised the prospect of reopening the Suez Canal to international¹⁶ shipping, a source of revenue needed by the income-strapped Egypt. On February 4, 1971, Sadat detailed a partial settlement initiative to the Egyptian Parliament.¹⁷ Eleven days later, Sadat publicly announced a commitment to ending all states of belligerency with Israel, mutual recognition of sovereignty and territorial integrity, and the freedom of navigation of the Suez Canal according to the terms of the 1888 Constantinople Convention.¹⁸ With these initiatives and with Egypt's rejection of the Soviets, Sadat successfully maneuvered Egypt from a state of conflict with the U.S. towards one in which the two countries were working together towards peace.

The rejection of Sadat's overtures of peace by Israel and by his fellow Arab leaders left the Egyptian president with little political support outside of the U.S. By 1972, Sadat had come to the belief that the only way for him to break the deadlock with Israel would be to change the situation on the ground, and so he began planning an attack on Israel in conjunction with Syria's Hafiz al-Asad.¹⁹ Moreover, Sadat recognized that the public would not accept a final settlement following the 1967 defeat. On October 6th, Egyptian and Syrian forces attacked the Israeli-held Sinai Peninsula and the Golan Heights, ending with a proclaimed victory on the part of the Egyptians. The political power gained from the October War enabled Sadat to push forward with the peace process, and in September 1975, Egypt and Israel signed an interim agreement, which did not differ greatly from the terms Sadat had offered in 1971.²⁰ Even prior to the signing of an interim agreement, the U.S. had offered to clear the Suez Canal and to reconstruct

¹⁶ Egypt had effectively placed an embargo on all Israeli shipments since 1948.

¹⁷ Moshe Shemesh, "The Origins of Sadat's Strategic *Volte-face* (Marking 30 years since Sadat's historic visit to Israel, November 1977)." *Israel Studies* 13:2 (2008): 37. *Project MUSE*. Yale University Library, New Haven, CT. 8 Nov. 2008. <<http://muse.jhu.edu/>>.

¹⁸ Shemesh 40.

¹⁹ Shemesh 44.

²⁰ Shemesh 44.

canal cities conditional upon the separation of forces.²¹ After the conclusion of the interim agreement, the U.S. rewarded Sadat by increasing the total economic assistance received by Egypt to \$370 million from \$21.3 million in 1974.²² The majority of the assistance came in the form of USAID loans, \$194.3 million; USAID grants, \$58.5 million; and food aid under PL 480, \$117.3 million.²³ With the inflow of U.S. assistance, Sadat could placate the public by keeping the cost of living low, thereby guaranteeing acceptance for his actions.

As Sadat continued to work towards peace with Israel, the U.S. responded with increased economic assistance. On September 19, 1977, Sadat became the first Arab leader to visit Jerusalem, the Israeli capital, where he began his peace process in earnest. Again, economic assistance from the U.S. jumped to \$907.8²⁴ in 1977, mainly reflected in increases in food aid and USAID grants. Foreseen public resistance to these initiatives were counteracted by a rise in government spending, buying Sadat's legitimacy. A year later, President Carter hosted Israeli Prime Minister Yitzhak Rabin and President Sadat at Camp David, where the three leaders worked for two weeks discussing the terms for the Egyptian-Israeli Peace. The result of this summit was the Camp David Accords, which consisted of two documents. The first outlines a general framework for peace in the Middle East and addresses the major issues of contention: UN Security Council Resolution 242, the West Bank and Gaza, and Arab-Israeli peace. The second document gives a three-month timeframe within which the two parties were to sign a formal peace treaty according to the agreed upon framework. The framework summarized the basic tenants of the forthcoming peace treaty and included all of the terms from the 1975 interim

²¹ Marvin G. Weinbaum, *Egypt and the Politics of U.S. Economic Aid* (Boulder, CO: Westview Press, 1986) 32.

²² 2006 USD values of these figures are \$1,168.6 million and \$74.3 million, respectively.

²³ USAID Overseas Loans and Grants Database

²⁴ 2006 USD value is \$2,487.2 million.

agreement as well as guidelines for the stationing of forces and the inclusion of “full recognition, including diplomatic, economic and cultural relations.”²⁵

Though the parties were unable to produce a treaty within three months of Camp David, on March 16, 1979, Rabin and Sadat officially signed the Egyptian-Israeli Peace Treaty, concluding the peace process that Sadat had begun when he first entered office. In the months between the summit and the signing of the actual treaty, as Sadat showed signs of backing away from the deal for fear of the political cost it held for him, the U.S. negotiators promised full U.S. political and economic support for Sadat. By the end, President Carter had promised Sadat an additional \$300 million in “post-treaty assistance” and \$1.5 billion in supplemental military assistance over three years.²⁶ These “peace dividends” were proof of the U.S.’s commitment to supporting Egypt: “Had Egypt been just another friendly country in the developing world, the level of overall economic assistance from the U.S. would probably not have exceed \$150 to \$200 million yearly.”²⁷ As a number of USAID administrators suggested, aid to the “Egyptian powder-keg” would be a long-term commitment, and “[i]nvestment in foreign policy – Sadat style – was perceived as paying impressive dividends.”²⁸ Proof of Egypt’s importance to the U.S.’ international interests rests in the fact that it is second only to Israel in the total amount of assistance received from the U.S. today.

In addition to currying favor with the U.S. by pursuing peace with Israel, Sadat also attempted to meet many of the IMF conditions, on which both the U.S. and Saudi Arabia, Egypt’s two main monetary backers, insisted in order for Egypt to continue to receive support.

²⁵ “The Camp David Accords: The Framework for Peace in the Middle East.” 17 Sept. 1978. *Jimmy Carter Library*, 11 Nov. 2008. <<http://www.jimmycarterlibrary.org/documents/campdavid/accords.phtml>>.

²⁶ Abdul Karim Bangura, *The Effects of American Foreign Aid to Egypt, 1957-1987* (Lewiston, New York: Mellen University Press, 1995) 13.

²⁷ Weinbaum 3.

²⁸ Bangura 12.

January 17th, 1977, the Deputy Premier for Financial and Economic Affairs, Kaissouny, announced economic reforms consistent with Egypt's new economic strategy: *Infitah*, or "open-door economics."²⁹ It was designed to revive and expand the Egyptian private sector, as well as to attract foreign direct investment within the country. Furthermore, it was conceived to be a complete overhaul of policies relating to prices, management, marketing, employment, and investment.³⁰ Egypt had natural advantages in a liberalized economy: it was strategically located geographically, and had a very large internal market, large supply of skilled and semi-skilled laborers and managers, along with a relatively sophisticated infrastructure.³¹ The new policies, however, were an Egyptian "development strategy for which continuous flows of imported capital, commodities, and technology were indispensable . . . [The state] never expected to be withdrawn from regulating and planning the economy."³² Sadat was intent on disentangling the ideological and political links to development made by Nasser, and so he sought foreign investment in Egypt and new sources of income.³³ The state would liberalize the economy, but would maintain control over its development.

Implementation of the new *Infitah* policies created unrest amongst the affected Egyptian populace. Planners had hoped to save 35% of the 1977 subsidy budget, and the day following the cuts, prices of bread, tea sugar, bottled gas, and other basic commodities rose by up to 60%.³⁴ Violent bread riots erupted immediately and within days, the subsidies were reinstated.

²⁹ William J. Burns, *Economic Aid and American Policy Toward Egypt, 1955-1981* (Albany, New York: State University of New York Press, 1985) 189.

³⁰ Weinbaum 33, 40.

³¹ Bangura 68-69.

³² Mohamed Hamza, "The State, Foreign Aid and the Political Economy of Shelter in Egypt," *Market Economy and Urban Change: Impacts in the Developing World*, ed. Roger Zetter and Mohamed Hamza (Sterling, Virginia: Earthscan, 2004) 81.

³³ Nazih N. Ayubi, "Domestic Politics," *Egypt: Internal Challenges and Regional Stability*, ed. Lillian Craig Harris (New York: Routledge and Kegan Paul, Ltd., 1988) 52.

³⁴ Weinbaum 143.

Resistance during the weeks following the government's policy changes led Sadat to revoke many of the reforms implemented in January in order to prevent mass civil unrest, issuing the so-called "April Decrees."³⁵ Retracting many of the liberalizing policies, Sadat placated his people by ensuring that many of the basic commodities remained subsidized, such as bread and fuel. The U.S., too, saw the potential unrest as a cause for concern and included the bread riots as justification for part of the massive amounts of foreign assistance received in 1977 and 1978. The assistance served not only as a reward for participation in the peace process, but was also a "show [of] support for the shaken regime" and "shift[ed] \$190 million in already committed capital development funds to commodities that would enter the economy quickly."³⁶ Indeed, the massive uprisings were costly to the regime, and it had to resort to mass arrests in order to restore order. To prevent a second round of riots, Sadat worked to insulate consumers from price fluctuations in wheat by putting high subsidies in place. At the same time, he opened the economy to the international market in hopes of attracting foreign investment.³⁷ Despite the partial retraction of the original economic policy, Sadat still promised strong economic growth resulting from *Infitah* policies.

Opposition to the new peace treaty with Israel and nation-wide disaffection with the country's economy took their toll on Sadat's claim to legitimacy. Sadat had isolated Egypt from the rest of the Arab world by signing a treaty with Israel, spurring criticism from factions within his own country. Additionally, Sadat had touted the new economic policies as a way to bring economic prosperity to Egypt. Instead of seeing an improvement in their lives, however, the poor saw the elite gaining new economic power from the reforms as the gap between the rich and

³⁵ Ayubi 59.

³⁶ Weinbaum 37.

³⁷ Dethier and Funk 26.

poor widened.³⁸ Studies from 1979 show that the poor actually received less of a benefit from the subsidies than the upper and middle class.³⁹ Moreover, *Infitah* policies had created a sort of “parasitic capitalism” with very high stakes in the private sector, especially because state contracts remained in the hands of government officials.⁴⁰ These officials, who had access to state resources, operated under a state patronage network and became openly corrupt in their business dealings. Sadat had expected U.S. assistance and development projects to garner support for him, but instead, the government had to crack down on the increasingly powerful opposition. The U.S. had failed to deliver as much as he had expected, and when much of the funding was still forthcoming, his internal problems only worsened.⁴¹ During the annual victory parade, on October 6th, 1981, members of the Egyptian Islamic Jihad assassinated Sadat.

Mubarak Consolidates his Rule

Hosni Mubarak served as Egypt’s Vice President under Sadat, as well as serving as the vice chairman of the National Democratic Party (NPD), the ruling political party. Upon Sadat’s death, Mubarak became the President of Egypt and the chairman of the NDP, but never named a vice president to serve underneath him. In Egypt, all executive authority is vested in the president, who appoints the Cabinet, sets all state policies, and controls the armed forces.⁴² In addition to serving as the single authority figure in Egypt for the past 27 years, Mubarak has also ruled Egypt under Emergency Law no. 162, which has been continuously renewed. This law, first put into effect in 1967 and then reinstated following the assassination of Sadat, essentially allows the president to rule by decree. Accountability is reduced under the emergency law, since

³⁸ Burns 195.

³⁹ Weinbaum 135.

⁴⁰ Hamza 82.

⁴¹ Burns 193.

⁴² Ayubi 54.

Mubarak has a constitutional means of arresting and holding the opposition indeterminably, along with the power to prohibit demonstrations and censor newspapers, all in the name of preserving the state's stability.

Sadat's assassination came during a period of mass unrest in Egypt – openly corrupt officials alienated the public, Islamic radicals were criticizing the secular government, and an uprising by separatists in Asyut, a governate in Upper Egypt, had successfully gained control of the land. The state quickly regained control of the region, and made mass arrests, along with convicting 300 Islamists in connection to Sadat's death. At the same time that the state arrested those linked to the Islamic Jihad cell, Mubarak also authorized the release of secularists arrested under Sadat. This calculated move shifted the power-balance between the secular and religious opposition and prevented the opposition from uniting against the regime. In the 1984 parliamentary elections, the previously marginalized Wafd Party participated freely and “emerge[d] as a leader of the opposition” while the Muslim Brotherhood faced numerous restrictions effectively hobbling its candidates.⁴³ Furthermore, Mubarak's rejection of Islamic fundamentalists showed the U.S. that while he held power, the state would be secular. Another political move of Mubarak's was the charging of a handful of government officials for corruption. This helped to legitimize the new government in the eyes of the people, but also enabled Mubarak to purge the government of his enemies.

In addition to gaining control of the political scene of the country, Mubarak needed to take control of the economic scene. New in office, Mubarak had a window of opportunity to make major changes to the state's economic policies, such as completing the liberalization begun by Sadat. Shortly after taking power, he announced his intentions to review the current

⁴³ Robert Springborg, *Mubarak's Egypt: Fragmentation of the Political Order*, (Boulder, CO: Westview Press, 1989) 183.

economic policies; however, within nine months, Mubarak had retreated from this policy and was focused on maintaining “stability and continuity.”⁴⁴ For Mubarak, this meant the continuation of subsidies on basic commodities in order to keep the cost of living down and only marginal economic liberalization. The U.S., too, realized the need to stabilize the country, especially because of the new Egyptian-Israeli peace treaty, and did not pressure Mubarak to implement reforms. The chaos and uncertainty of the 1977 bread riots were still in recent memory, and at this point, Mubarak needed to strengthen his legitimacy before he could take any economic action.

The high cost to the state of continuing the subsidies coupled with controlled liberalization of the economy would not have been sustainable had the state not had access to supplemental income such as rents. Oil and petroleum, two of Egypt’s exports, still had high prices following the 1979 boom, though the price was dropping. Income from the Suez Canal, which was nationalized under Nasser, also adds to the state’s revenue. Foreign assistance from the U.S., however, was one of the main sources of income that cushioned the blow of the subsidies to the state’s budget. Food aid had peaked in 1980, but still remained close to its highest level, declining only slightly over the next few years. In addition to the high levels of food aid entering Egypt, USAID continued to offer Egypt grants and loans of similar value to the previous year. The main increase in U.S. assistance came military assistance. In 1979 Egypt had received \$1.5 billion in military aid, but next to nothing the following year. The years 1981 and 1982 saw the amount of military aid go up to \$550 million and \$900 million.⁴⁵ There was an agreement made in 1982 for the U.S. to rehabilitate and modernize the Soviet-built Aswan dam,

⁴⁴ Weinbaum 144.

⁴⁵ In 2006 USD, these figures are \$3.56 billion, \$1.1 billion and \$1.7 billion, respectively.

as well as many additional projects to improve Egypt's infrastructure.⁴⁶ Moreover, much of the funding for projects promised to Sadat was finally made available to Egypt, enabling the regime to hire workers to complete massive building projects. Under Reagan, Congress unfroze funds previously earmarked for Egypt: \$31 million to private sector companies, \$20 million for industry, and over \$100 million in loans and grant, in addition to eight commodity-import programs.⁴⁷ In all, Mubarak's first year and a half in office benefited greatly as the pipelines freed up, allowing a steady stream of U.S. aid that Sadat had worked for to enter Egypt.

Constant and reliable foreign assistance from the U.S. was a gift that Sadat had left for Mubarak. The U.S. saw the massive amounts of economic and military aid flowing into the country as a means of ensuring peace with Israel, while the "Egyptian government perceived the aid program as an entitlement for signing the Camp David Accords."⁴⁸ Egypt received almost as much aid as Israel, and as a U.S. government report stated, aid was "a political symbol of evenhanded economic support" from which the benefits that are derived are "strategic, diplomatic, and political."⁴⁹ The foreign assistance from the U.S. is a tangible form of an "interdependent relationship" between the U.S. and Egypt where the U.S. uses aid to strengthen its soft power within the region and Egypt receives peace and political support.⁵⁰ Furthermore, the USAID programs, which were commodity-based, benefited both the U.S. and Mubarak by providing the former with an open market and the latter with a resource to be distributed. The regime was able to consolidate its patronage network using USAID contracts and it was also able to use the external rents to support its subsidy-programs.

⁴⁶ Weinbaum 72.

⁴⁷ Bangura 15.

⁴⁸ Bessma Momani, "Promoting Economic Liberalization in Egypt: From U.S. Foreign Aid to Trade and Investment," *Middle East Review of International Affairs* 7:3 (2003): 91. 10 Oct. 2008. <<http://arts.uwaterloo.ca/~bmomani/MERIA%20Eco%20lib%20and%20Egypt.pdf>>.

⁴⁹ Momani 88.

⁵⁰ Bangura 191.

Focus on Stability

Mubarak's policies enabled him to stabilize the country and his good relationship with the U.S. kept the aid flowing. However, by allowing the country to become dependent on imports such as American wheat and by only slightly opening up the economy, Mubarak further exposed Egypt to exogenous shocks. He paid for this in September 1984, when the price of wheat doubled, resulting in riots, especially in the delta town of Kafr al-Dawwar.⁵¹ Though less widespread than the 1977 riots, it was clear that any major changes in the cost of living could cause a larger rebellion and call the regime's legitimacy into question. By 1986, there had been a sharp decline in oil receipts, and a decline in income in the tourism sector due to security concerns; the Egyptian economy was struggling. Moreover, in February of that year, the Central Security Force mutinied, demanding higher pay, as well as a rash of food riots, workers' strikes, and sectarian conflict.⁵² Egypt's economic and political woes spelled trouble for Mubarak's legitimacy, and the U.S. responded with increased assistance. Looking at Figures 2 and 3, there is a noticeable peak in aid to Egypt during these years. Revenue flowing into government coffers from the U.S. meant that prices could be kept low and stability in Egypt maintained.

One of the most important ways in which the regime kept prices at an artificially low level was through the import of massive amounts of American wheat under PL 480. At one point in time, estimates were that the U.S. paid for one in three pieces of bread in Egypt. Bread was kept so cheap that farmers fed the subsidized bread to their cattle as fodder.⁵³ The food aid, however, served its purposes for both the U.S. and the Egyptian government. First, it helped to keep the overall level of aid close to \$1 billion per year, keeping parity with the amount of aid

⁵¹ Ayubi 56.

⁵² Ayubi 66-67, 70.

⁵³ Robert F. Zimmerman, *Dollars, Diplomacy & Dependency: Dilemmas of U.S. Economic Aid*, (Boulder, CO: Lynne Rienner Publishers, Inc., 1993) 180.

given to Israel.⁵⁴ Second, the aid “allow[ed] the [Egyptian] regime to delay implementing political liberalization by quelling the urban masses.”⁵⁵ Urbanization, a phenomenon dating back to the time of Nasser, strained the weak Egyptian infrastructure and forced the government to focus its attentions on the cost of urban living. “U.S. food aid is a prop for Egypt’s urban food pricing system, without which the Egyptian government would be in big trouble.”⁵⁶ Mubarak, too, recognized the importance of American wheat in maintaining stability, and so he upheld prior subsidy levels, using U.S. food aid to buy regime legitimacy.

The fact that Egypt received so much economic and military support from the U.S. alone meant that the regime was able to postpone any difficult economic reforms because of its access to external rents. Besides a new foreign exchange system to promote exports put into place in 1985, the government did not make any of the reforms necessary, such as lowering subsidies. Some of the main problems facing Egypt were bureaucratic inefficiency, poor planning and execution, major price distortions, and support for failing sectors such as the textile industry, which was no longer competitive internationally. These problems stem from the government’s lack of accountability to its citizens and from the government using the rents derived from the foreign assistance to prop itself up. An effect of the massive amounts of food aid that Egypt received was the movement away from wheat production in agriculture to more profitable crops such as berseem clover, used to feed animals. USAID technological assistance for agriculture based itself on imported objects, which did not benefit the poor, rural farmers.⁵⁷ On top of the economic failures, the situation within the country continued to worsen because family planning programs had failed to slow the growth rate of the population. An increasing number of people

⁵⁴ Zimmerman 180.

⁵⁵ Momani 90.

⁵⁶ Dethier and Funk 26.

⁵⁷ Bangura 193.

were placing a huge strain on the weak infrastructure as large numbers of unemployed migrated to the urban areas; furthermore, they expected the state to be able to support them, which was not feasible.

Wary of destabilizing the country further, Mubarak avoided making any major reforms. In 1987, he had negotiated an Economic Reform and Structural Adjustment Program (ERSAP) agreement with the IMF; however, after only three months, the IMF retracted the agreement because of a lack of commitment to the adjustments. The ERSAP would have severely limited the state's abilities to continue providing high subsidies, and the result would have been a dramatic increase in the cost of living in Egypt. The last time that Egypt had followed an IMF prescription, January 1977, the ensuing bread riots had cost about \$1 billion in damage to the economy.⁵⁸ Nevertheless, because of American pressure, the regime did implement minor changes in the following years – an example of which was the introduction of a kind of bread that cost 2¢ in addition to the regular 0.8¢ piece of bread. The government slowly stopped providing the cheaper of the two, effectively lowering the subsidy on bread. For other items such as sugar, kerosene, bottled gas, gasoline, cigarettes, and rice, the government made lowered the subsidies outright.⁵⁹ Wages remained steady throughout this period, resulting in a rise in the cost of living. Though necessary in order to begin to move towards meeting IMF conditions, these subsidy cuts added to the tension between the government and the public, and were made with great hesitancy by the government.

In addition to the rising cost of living and slowing economy, there was the growing perception that the development projects were failing and that the overall quality of life for the average citizen was not improving. USAID programs had created a dependence on American

⁵⁸ Weinbaum 143.

⁵⁹ Alan Cowell, "2¢ Loaf is Family Heartbreak in Egypt." *The New York Times* 9 July 1990.

imports⁶⁰ and had artificially inflated consumption within Egypt. Moreover, because of the fact that the U.S. distributed funds in large sums versus slowly over time, visible, large-scale projects were favored over more long-term projects. The regime used the projects' contracts to reinforce its own patronage network, and cared less for results than for continued support. The projects were designed to spur industry in Egypt, but ultimately failed because of an inability to export Egyptian products.⁶¹ Even Egypt's largest economic sector, agriculture, was still unable to produce a net profit at the end of a fiscal year.⁶² Criticizing the regime's ties to the West, especially to the U.S., whose USAID-funded factories dotted the country as monumental failures, Islamic movements garnered support from the people and began to constitute a considerable threat to the regime.

During this time, Mubarak relied heavily on U.S. support for the regime and on the fact that the U.S. saw Egypt as a strategic ally in the Middle East. In its support of Egypt, the U.S. had already taken actions to reduce Egypt's overall debt. Between 1982 and 1988, the U.S. forgave Egypt's Foreign Military Financing (FMF) debt, and in 1989, began to provide military assistance solely in the form of grants.⁶³ Even while relieving some of the pressure on the Egyptian government, the U.S, along with the IMF, continued to apply pressure on Mubarak to implement economic reforms. By 1989, the Bush Administration had withheld \$230 million in cash assistance because Egyptian officials were not implementing the necessary changes to the budget. As a result, the Egyptian government announced that it would attempt to reduce the

⁶⁰ Bangura 53.

⁶¹ Ali Abdullah and Michael Brown, "The Economy," *Egypt: Internal Challenges and Regional Stability*, ed. Lillian Craig Harris (New York: Routledge and Kegan Paul, Ltd., 1988) 36.

⁶² Abdullah and Brown 34.

⁶³ United States Government Accountability Office, *Security Assistance: State and DOD Need to Assess How the Foreign Military Financing Program for Egypt Achieves U.S. Foreign Policy and Security Goals* (Washington: GPO, 2006) 5. GAO. 23 Nov. 2008. <<http://www.gao.gov/products/GAO-06-437>>.

deficit by about \$900 million, but it also sought to increase subsidies to the poor.⁶⁴ This move shows that Mubarak was not willing to risk destabilizing the country by reducing subsidies for the poor, even as Egypt's overall debt increased. Though the U.S. had withheld \$230 million, this was a token move if that number is compared to the amount of aid that Egypt continued to receive during those years, which remained above \$2.1 billion total of economic and military assistance.⁶⁵ Looking at Figure 4, it is possible to see the funds that were withheld, but it is also clear that once Mubarak made some minor reforms, the assistance was released to Egypt. In 1990, partially because of Egypt's support during the first Gulf War, the U.S. cancelled the \$6.7 billion in military debt that Egypt had incurred.⁶⁶ In fact, it is the massive amount of U.S. assistance that is often credited with allowing the regime to postpone necessary reforms.⁶⁷

Mubarak Reforms

Despite the U.S.'s generosity, continued economic troubles forced Mubarak to conclude negotiations with the IMF for an ERSAP agreement in 1991. Having committed to an ERSAP, Mubarak had obligations to implement the liberalizing reforms that had been delayed for so long in the name of stability. The agreement required that the state cut subsidies by 14%; however, at the same time, Mubarak was able to expand the military budget by 22% in the same year, using U.S. grants.⁶⁸ Internal politics within the U.S., however, threatened the reliable flow of aid into Egypt. Following the first Gulf War, the U.S. congress began to reassess the value of giving

⁶⁴ Alan Cowell, "International Report; Egypt Faces an Economic Squeeze." *The New York Times* 26 June 1989.

⁶⁵ USAID Overseas Loans and Grants Database

⁶⁶ United States. Congressional Research Service. U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2009 Request (RL 32260; Mar. 7, 2008), by Jeremy M. Sharp. *LexisNexis Congressional*. Yale University, New Haven, CT. 2 Dec. 2008. <<http://www.lexisnexis.com/congcomp/getdoc?CRDC-ID=CRS-2008-FDT-0358>>. 26.

⁶⁷ Hamza 83.

⁶⁸ Eva Bellin, "The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Perspective," *Comparative Politics* 36:2 (2004): 148. *JSTOR*. Yale University Library, New Haven, CT. 23 Nov. 2008. <<http://www.jstor.org/stable/4150140>>.

foreign assistance to Egypt citing the end of the Cold War, the reduction of military threats to Israel⁶⁹, and the lack of results in achieving development goals. Moreover, studies showed that the aid flowing into Egypt was actually detrimental to the growth of democracy and that it was being “used to support government subsidized programs in order to maintain the rather fragile political stability in Egypt.”⁷⁰ Instead of developing, Egypt had stagnated under aid projects that were “more symbolic in nature than economically sound.”⁷¹ With this in mind, Congress determined that foreign assistance to Egypt needed to be “streamlined and eventually eliminated.”⁷² Congress, however, understood the instability of the country and were wary of further destabilizing Egypt, especially because Egypt remained one of the U.S.’s strategic allies.

As Congress considered scaling back the amount of foreign assistance given to Egypt, there was a worry that economic malaise in the country could lead to a political insurgency. Fearing the growing unrest in the country, the Egyptian government had begun to take severe measures against independent organizations, conscripted from trouble-regions, appeased Islamic opponents through Islamization, and sought to improve its service delivery.⁷³ The government had suffered a loss of legitimacy following the 1992 earthquake. It struck just south of Cairo on Thursday, October 12th, shortly after the government offices had closed for the weekend. The Muslim Brotherhood is credited with responding immediately with emergency aid, which greatly strengthened the organization, whereas the government relief first appeared Saturday morning.⁷⁴ To prevent such a loss of legitimacy from recurring, the government revamped its emergency

⁶⁹ Israel’s level of military assistance was the reason Egypt’s military assistance was high.

⁷⁰ Bangura 188.

⁷¹ Momani 90.

⁷² Momani 92.

⁷³ Jon B. Alterman, “Egypt: Stable, but for How Long?” *The Washington Quarterly* 23:4 (2000): 111.

ProjectMUSE. Yale University Library, New Haven, CT, 10 Oct. 2008.

< http://muse.jhu.edu/journals/washington_quarterly/v023/23.4alterman.html>.

⁷⁴ Maye Kassem, *Egyptian Politics: The Dynamics of Authoritarian Rule* (Boulder, CO: Lynne Rienner Publishers, Inc., 2004) 113.

response policies and forbade NGOs from responding.⁷⁵ The government was further challenged in 1993 by attacks on tourists, Copts, and its own troops, even in downtown Cairo. By February 1994, the conditions in Egypt provoked concern among the elite, but also provoked concern in the U.S., where analysts said that Mubarak was in danger of being overthrown by Islamic forces.⁷⁶

In 1995, following the tumultuous year of 1994, Mubarak received about \$375 million more in foreign assistance than the prior year, and most of it came in the form of USAID grants.⁷⁷ This increase in aid corresponds with the decrease of stability in Egypt, and though the amount slowly decreases, it does not drop below the 1994 level for the rest of the decade. In addition to the sustained level of foreign assistance, Mubarak also began to benefit from the actions of the radical Islamists. Major attacks threatening the stability of the country provided the government with an excuse to silence the Islamists. These include the 1995 assassination attempt on Mubarak, and the 1997 attack at the Temple of Queen Hatshepsut in which resulted in the death of 58 tourists. Moreover, having cost the economy approximately \$2 billion in lost revenues, the radical Islamists had lost favor with the public. This shift in public opinion kept the costs of repressing the Islamic threat low because the government was able to “cast [it] as a threat to order and security” both domestically and internationally.⁷⁸ The Islamic threat in Egypt also elicited a fear in the U.S. that the Islamists would successfully overthrow Mubarak, ensuring for Mubarak sustained levels of foreign assistance.

U.S. policy, however, was moving towards building trade – not aid – relationships. In recognition of the change in U.S. policy, Mubarak befriended the business community and began

⁷⁵ Alterman 112.

⁷⁶ Alterman 108.

⁷⁷ USAID Overseas Loans and Grants Database

⁷⁸ Bellin 150.

to create new opportunities for the elite. In the name of liberalization and promoting growth, Mubarak offered the businessmen subsidies to support their investments, and by doing so, he essentially linked the future of the business elite to the regime's stability.⁷⁹ Moreover, by supporting the business elite, Mubarak was able to give the appearance of encouraging liberal economic policies while at the same time, ensuring elite support for the regime. In addition to offering the subsidies to the businessmen, Mubarak also pursued a Free Trade Agreement (FTA) with the U.S., and in 1998, Vice President Gore announced a Trade and Investment Framework agreement between the two countries. Conclusion of the FTA, however, fell through when the U.S. government insisted on Egypt's recognitions of TRIPS.⁸⁰ Though Mubarak's base support had shifted from the Egyptian public to the elite, the recognition of TRIPS would have dramatically raised the cost of prescription drugs available to the public, which would have been strongly resisted. Unwilling to anger the public, Mubarak was forced to go without a FTA and to continue to rely on the largesse of the U.S.

Following the trend of the 1990's, the foreign assistance from the U.S. flowing into Egypt continued to decrease in the years 2000 and 2001, and Mubarak's style of government drew criticism from the U.S. Strong disapproval regarding the imprisonment of Saad Ibrahim, a supporter of democracy and human rights, led the Egyptian Court of Cassation to exonerate him. On September 11th, 2001, however, the tables turned and Mubarak gained some leverage when asking for assistance. The power had shifted to Egypt because of its new strategic importance in the region to the U.S., and, as the U.S. ambassador to Cairo, David Welch, said, "Egypt is our friend and we do not put pressure on our friend."⁸¹ U.S. fears of a widespread rise in

⁷⁹ Alterman 116.

⁸⁰ Momani 95.

⁸¹ Kassem 179.

fundamental Islam meant that Mubarak's secular regime needed to be supported to prevent the region from succumbing to fundamentalism. The conditions that had driven people towards religion – poverty and exclusion from society – needed to be treated. In 2002, Egypt received nearly \$500 million more in foreign assistance than it had the previous year, mostly from the Economic Support Fund.⁸² The U.S. pledged part of the extra funds to alleviate the detrimental effects of the 9/11 attacks on Egypt's tourism industry.⁸³

The amount of foreign assistance going to Egypt from the U.S. has remained high through the present day, despite concerns about the existence of democracy or democratization in Egypt. These concerns, however, have started to show in the distribution of funds. Per the "Glide Path Agreement" made in 1998, in which Egypt accepted an "assistance phase-down" over the course of 10 years, FMF assistance will be held constant while economic assistance is reduced by \$40 million each year.⁸⁴ More recently, in 2007, the U.S. declared that it would be providing \$13 billion in military assistance over ten years,⁸⁵ which was a clear sign to the Egyptian regime that it could rely on U.S. strategic support. Though Mubarak now has guaranteed military assistance for the next few years, the U.S. has been trying to reduce economic assistance because of Mubarak's increasing unwillingness to accept conditioned aid and in hopes of eventually building stronger trade relations.⁸⁶ Over the past few years, economic assistance to Egypt has not only declined, but has also been earmarked for USAID education and health projects, as well as for democracy programs. The funding towards democracy programs

⁸² USAID Overseas Loans and Grants Database

⁸³ Kassem 179.

⁸⁴ U.S. GAO 11.

⁸⁵ U.S. CRS, RL 32260 5.

⁸⁶ U.S. CRS, RL 32260 6.

will “[include] direct grants to Egyptian NGOs,” the outcome of which could be a democratic challenge to the Mubarak regime.

Mubarak has made claims throughout his tenure that democratization was occurring in Egypt. Nevertheless, it was not until 2005 that the first multi-candidate elections took place. Though elections are a necessary condition for democracy and contribute to the regime’s legitimacy, elections have not been fair. Besides the police physically preventing the casting of votes, NDP candidates benefit from their access to state resources for their campaigns. Many Parliamentarians, who run businesses benefiting from generous government contracts, have made electoral giveaways routine.⁸⁷ In addition, the state, which employs one-fifth to one-half of all formally employed workers, releases government bonuses and announces pay raises prior to the elections.⁸⁸ For example, in May before the 2005 elections, Prime Minister Ahmed Nazif announced that the upper limit of the Social Aid and Assistance (SAA) Program’s monthly stipend was to increase to LE 100 from LE 70. The increase was not enough to compensate for changes in price or for inflation, but instead, was a tactic to buy support.⁸⁹ The foreign assistance that Egypt receives allows for flexibility within the government budget to be generous in the months preceding an election in order to garner support.

Buying Legitimacy

The regime does not only abuse its access to state resources around elections, but has enjoyed the unrestricted access to rents throughout its existence. Patronage and cooptation of the public are two defining characteristics of the government. Distributional policies have been a

⁸⁷ Lisa Blaydes, “Electoral Budget Cycles Under Authoritarianism: Economic Opportunism under Authoritarianism in Mubarak’s Egypt,” (*Paper presented at the annual meeting of The Midwest Political Science Association, Palmer House Hilton, Chicago, Illinois, Apr. 20, 2006*) 4.

⁸⁸ Blaydes 5, 7.

⁸⁹ Sabry, “The Social Aid and Assistance programme of the government of Egypt – a critical review,” *Environment and Urbanization* 17 (2005): 38. *Sage Journals Online*. Yale University Library, New Haven, CT. 9 Nov. 2008. <<http://eau.sagepub.com/cgi/reprint/17/2/27>>.

means of controlling public opinion and maintaining support for the regime.⁹⁰ Through the policies enacted by the state, foreign assistance has become a form of rent in Egypt that lends itself to legitimizing the state. Due to the fact the foreign assistance is almost entirely channeled through the receiving government, the government turns into an important source of income. Working for the state is not only profitable for the individual, but also for the regime because the individuals become tied to the state.⁹¹ In order to continue employing individuals, the state increasingly seeks out rents or alternative sources of income. For Mubarak, the massive amount of money going into USAID projects meant that the state had a very large source of revenue to distribute, and as long as it could rely on the aid, the state did not need to rely on results. Projects that employed large numbers of people, regardless of the long-term effect, were beneficial to the state because they distributed wealth.⁹² Furthermore, this patronage system equated public goods and services with the government, increasing its legitimacy.⁹³

Patronage extends beyond the general public and plays a prominent role in the state's relationship with the security forces. Like his predecessors, Mubarak was a military man prior to becoming president, and during his time in office, has managed to keep the security forces behind him. The security forces receive many benefits from the regime that are not available to the general public. For example, members of security forces receive access to study-abroad programs financed by the state as well as "subsidized housing, cars, electrical appliances, groceries, medical care, and leisure facilities."⁹⁴ Moreover, according the U.S. government report, the military is a source of employment in a country with high unemployment rates that

⁹⁰ Hamza 79.

⁹¹ Evan Osborne, "Rethinking Foreign Aid." *Cato Journal* 22:2 (2002): 308. *ABI/INFORM Global*. ProQuest. Yale University Library, New Haven, CT. 15 Nov. 2008.

<<http://proquest.umi.com/pqdlink?did=343568291&Fmt=7&clientId=13766&RQT=309&VName=PQD>>.

⁹² Osborne 309.

⁹³ Ayubi 65.

⁹⁴ Kassem 42.

also provides quality services to its soldiers and their families.⁹⁵ By doing this, the regime ensures that when the security forces are needed to silence the opposition, they will act accordingly in order to protect their benefits. For Mubarak, the security forces need to buy into his legitimacy so that they can be turned to in times of need.

In addition to the benefits afforded to those with military ties, the military itself is the largest recipient of U.S. foreign assistance within Egypt. The U.S. gives about \$1.3 billion annually to Egypt in FMF through its cash flow financing program. This figured constituted 80% of Egypt's military procurement budget and 25% of all FMF assistance that the U.S. provided in 2005.⁹⁶ Reasons behind the U.S.'s generosity include the modernizing and training of the Egyptian military as a regional partner, providing tangible results for upholding the peace with Israel, and guaranteeing U.S. access to the Suez Canal and Egyptian air space.⁹⁷ For Mubarak, the U.S.'s willingness to continue the high flow of foreign assistance has meant that the military budget remains relatively independent from the shifts in the Egyptian economy – as seen earlier, when the government reduced subsidies, the military budget was increased. Besides the amount of aid that Egypt receives, Egypt also receives the benefits of the cash flow financing program, of which Israel is the only other participant. Within the program, the U.S. permits Egypt to pay for military equipment with future years' grants, allowing the military to receive products before paying for them.⁹⁸ Throughout Mubarak's presidency, he has not sought to decrease the military budget in any substantial form, and has repeatedly requested high amounts of military assistance from the U.S. Though Egypt has been at peace with Israel since 1979 and

⁹⁵ United States. Congressional Research Service, "Egypt: Background and U.S. Relations" (RL 33003; Aug. 12, 2008), by Jeremy M. Sharp. *Lexis/Nexis Congressional*. Yale University Library, New Haven, CT, 30 Nov. 2008. <<http://www.lexisnexis.com/congcomp/getdoc?CRDC-ID=CRS-2008-FDT-0948>>. 8.

⁹⁶ U.S. CRS, RL 32260 2.

⁹⁷ U.S. GAO 16.

⁹⁸ U.S. GAO 11.

the security threats within the region stem primarily from militant groups rather than states, there has been no comparable military budget cuts in light of the reduced threat.

Conclusion

Throughout his time as president, Mubarak has successfully met new challenges to his legitimacy and adapted to shifts in U.S. foreign assistance policy. The overall amount of ODA, however, has been steadily declining over recent years. [See Figure 5.] The amount of U.S. ODA, too, has followed this trend. Looking at Figure 6, which traces ODA to Egypt, it is clear that the U.S. has stayed pretty much in tandem with the overall levels of aid given. Furthermore, the graph of U.S. ODA shows that since the turn of the century, the amount of ODA to Egypt stopped being proportional to the overall amount of ODA given by the U.S. American concerns about the status of democracy in Egypt and the effectiveness of U.S. ODA in achieving democracy there coupled with massive reconstruction efforts in Afghanistan and Iraq help to explain this change. The distribution of the kind of aid that the U.S. gives to Egypt has also changed since the beginning of Mubarak's presidency. When he first entered office, Egypt received assistance mainly in the form of USAID grants, economic support, and military assistance. By 2000, military assistance dominated the distribution, supplemented by cash assistance from the Economic Support Fund. Figure 7 clearly illustrates the shifts in foreign assistance over time, as well as demonstrates that under Mubarak, most of the foreign assistance that Egypt has received is not in the form of ODA, but is given as military assistance. As the overall amount of economic assistance decreases, and with Mubarak's reliance on a certain amount of freedom in Egypt's budget that results from foreign assistance, the question arises of whether the regime will be able to maintain its current strategies of cooptation.

Besides the global decrease in the overall amount of ODA, there is also a global trend towards emphasizing good governance. Following this trend, the U.S. established the Millennium Challenge Corporation (MCC) to give aid based on the principles of “good governance, economic freedom, and investments in people” in January 2004.⁹⁹ The MCC has identified Egypt as candidate country; however, it has yet to name Egypt eligible to participate in the program. Of the 15 indicators used in 2005, Egypt only fell below the median in four: political rights, civil liberties, voice and accountability, and trade policy. By 2009, the only improvement in the failing sectors was in trade policy. The scorecards issued by the MCC are indicative of how Mubarak’s regime has maintained its legitimacy. The government implemented reforms to liberalize the economy; however, economic freedoms came at the price of political freedoms. The regime relies on the good performance of the economy for its legitimacy, and to protect itself, has tightened its hold on the political scene. It is unlikely that Mubarak will seek out an MCC contract because many of the MCC’s stated goals of democracy promotion, accountability, transparency, civil liberties, and rule of law come into conflict with the regime’s survival strategy.

Whether the current strategy is viable during the upcoming years is debatable. Having based his legitimacy in the provision of basic goods for the public and in economic performance, opposition to Mubarak has become stronger as shifts in the global economy affect Egypt. On April 6th, 2008, in Mahalla al Kobra, thousands of demonstrators rioted as nationwide, people protested over economic problems, which was “Egypt’s worst unrest since the 1977 riots.”¹⁰⁰ The worldwide food shortages impacted the supply of government-subsidized bread, and the

⁹⁹ “About MCC,” *United States Millennium Challenge Corporation*, 30 Nov. 2008. <<http://www.mcc.gov/about/index.php>>.

¹⁰⁰ Salah Nasrawi, “Fuel and tax increases hit Egyptians on top of food costs.” *The Associated Press*. 6 May 2008. *Lexis/Nexis Academic*. Yale University Library, New Haven, CT. 4 Dec. 2005. <<http://www.lexisnexis.com:80/us/Inacademic/>>.

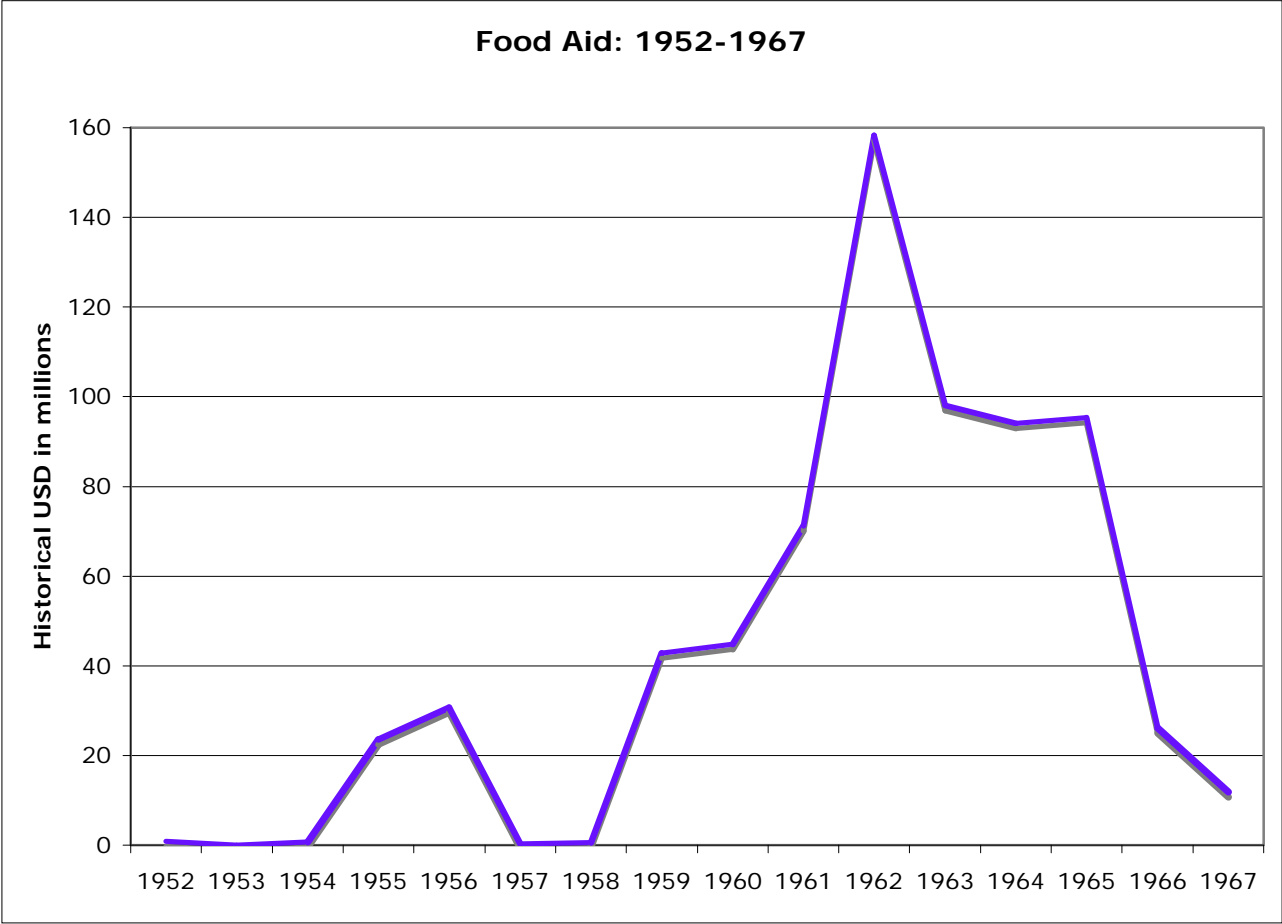
prices of other basic commodities had nearly doubled since the beginning of the year. A week before the protest, the government lifted import duties on certain items in an effort to lower prices.¹⁰¹ Continued pressure on the government and talk of a second nationwide protest resulted in a 30% pay raise for government employees, including the public sector employees, in the beginning of May. To pay for this, the government raised taxes and the price of cigarettes, along with lowering fuel subsidies and removing certain tax breaks.¹⁰² Tensions remain high in Egypt as the economic problems continue, and opposition to the government has spread.

Access to external rents has provided the regime with a disincentive to implement sound policies, and so the regime has delayed or avoided making necessary reforms of its economic policy. Short-term gains have continually trumped long-term economic health under Mubarak. This has been a continual drain on state resources as the regime pays for stability. The regime has become dependent on access to large rents in the form of foreign assistance, but as the overall amount of aid declines, so do the state's resources. If the level of foreign assistance that Egypt receives does drop below the level needed by the regime to maintain stability, it is likely that the state will increase its coercive means. Rather than basing the stability of the regime on distributive policies, the regime will have to use repression in order to maintain stability. The events in the spring of 2008 are evidence of the beginning of a shift in the survival strategy of the regime. Unable to access sufficient rent to maintain its patronage network, the state has begun to meet challenges to its legitimacy with repression. Whether Mubarak will have access to the necessary resources, such as foreign assistance, to placate the public as he has done in the past, or whether he will need to turn to increased repression to maintain stability remains to be seen.

¹⁰¹ Paul Schemm, "Police clash, fire tear gas at protesters in second day of riots in northern Egypt." *The Associated Press*. 7 Apr. 2008. *Lexis/Nexis Academic*. Yale University Library, New Haven, CT. 4 Dec. 2008. < <http://www.lexisnexis.com:80/us/lnacademic/>>.

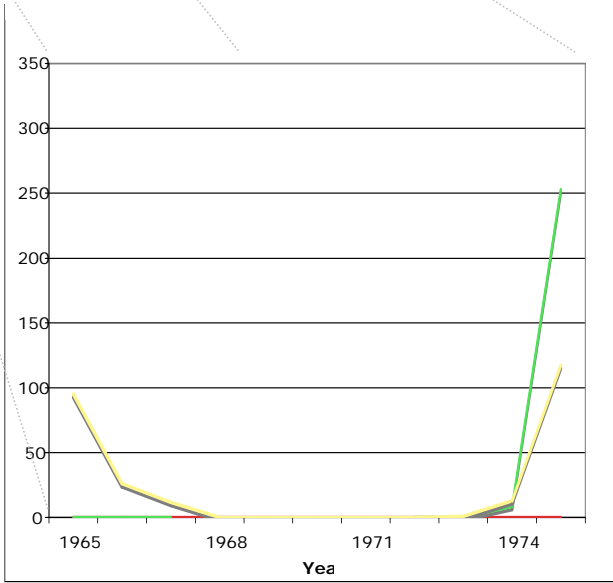
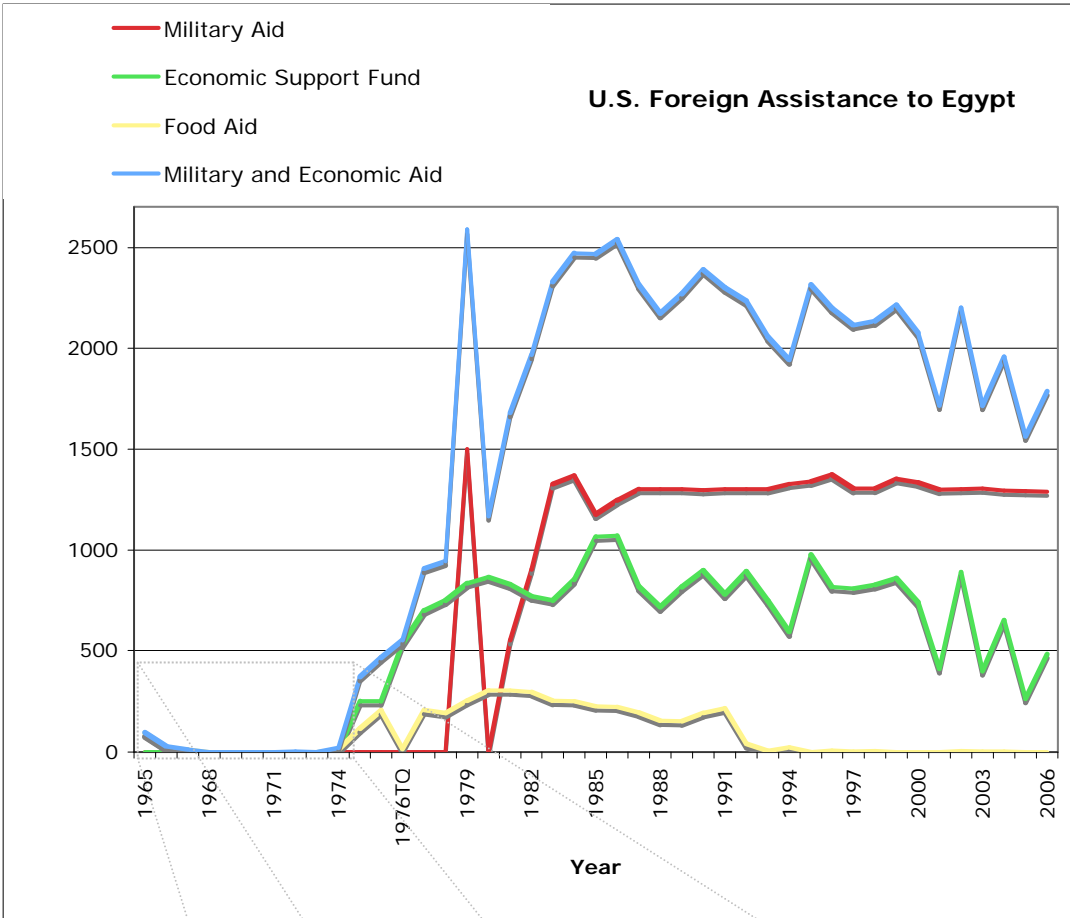
¹⁰² Nasrawi "Fuel and tax increases hit Egyptians on top of food costs."

FIGURE 1



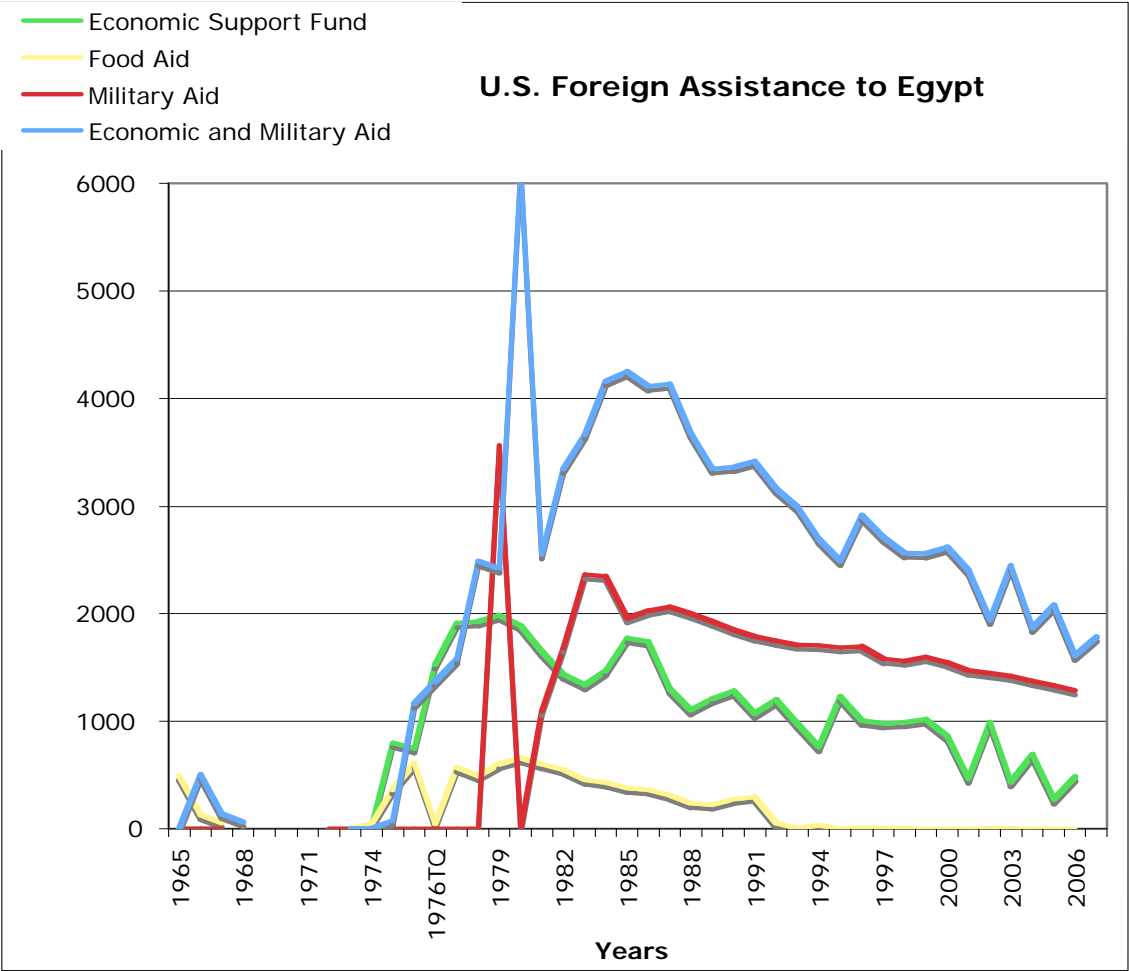
All data taken from the U.S. Overseas Loans and Grants Database (Greenbook)
<http://qesdb.usaid.gov/gbk/>

FIGURE 2



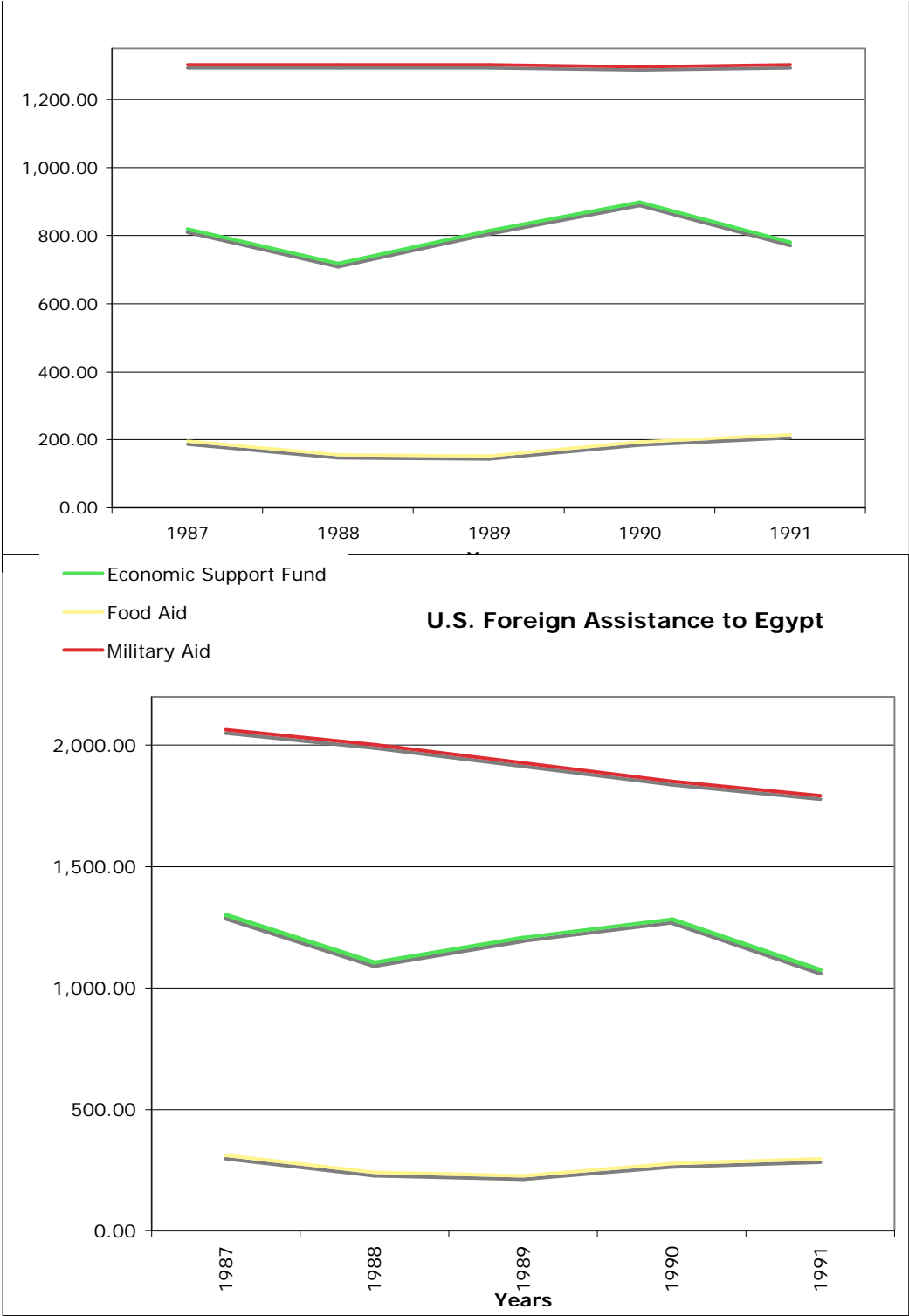
All data taken from the U.S. Overseas Loans and Grants Database (Greenbook) <http://qesdb.usaid.gov/gbk/>

FIGURE 3



All data taken from the U.S. Overseas Loans and Grants Database (Greenbook)
<http://qesdb.usaid.gov/gbk/>

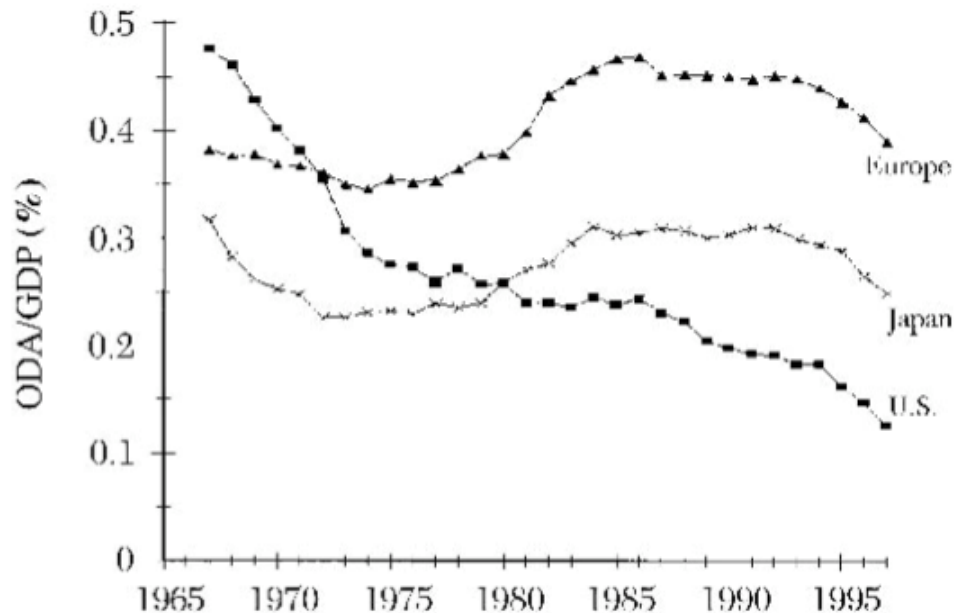
FIGURE 4



All data taken from the U.S. Overseas Loans and Grants Database (Greenbook)
<http://qesdb.usaid.gov/gbk/>

FIGURE 5

NET ODA AS A PERCENTAGE OF GDP IN EUROPE, JAPAN, AND
THE UNITED STATES (FIVE-YEAR MOVING AVERAGE)

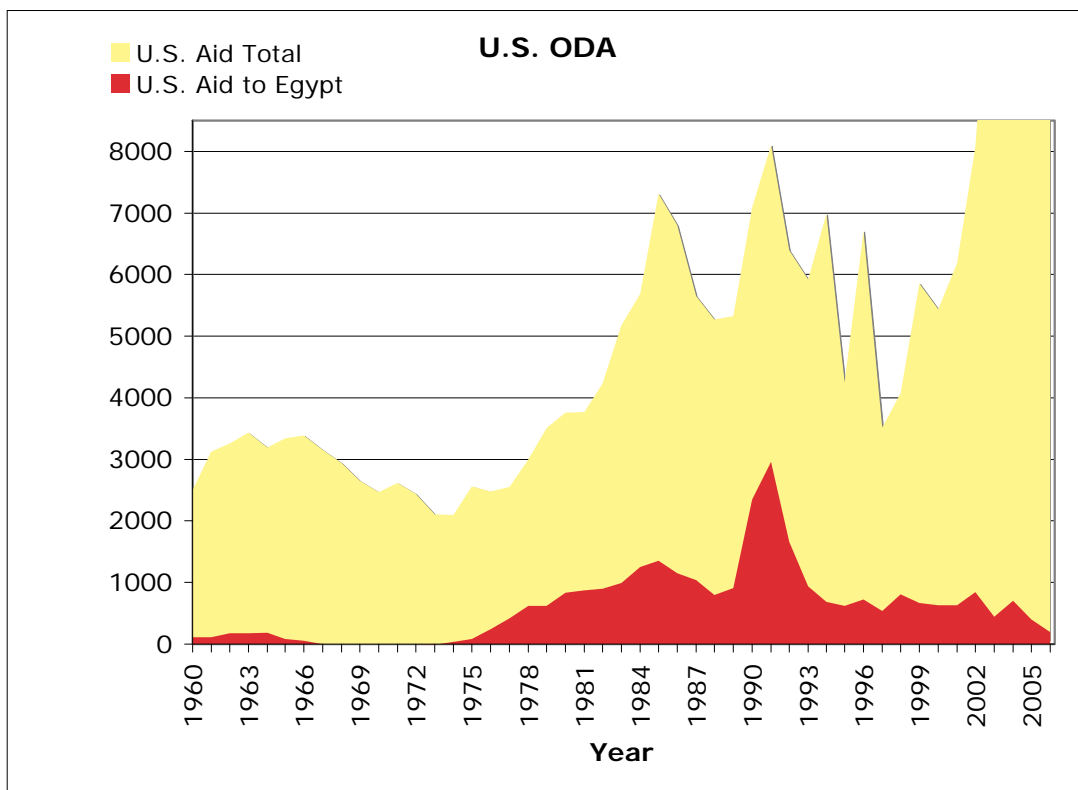
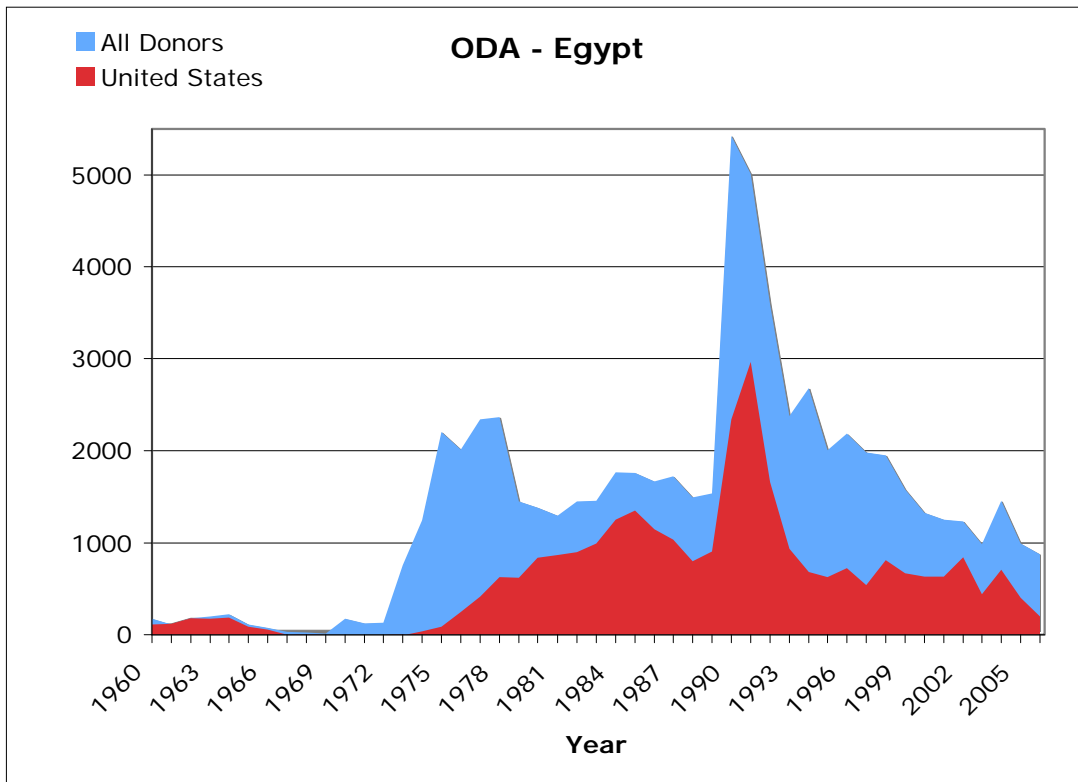


NOTE: Europe is defined as the 18 nations (other than Liechtenstein) that have been members of the European Union or European Free Trade Association during the 1967-97 period.

SOURCE: United Nations, *Statistical Yearbook* (various years).

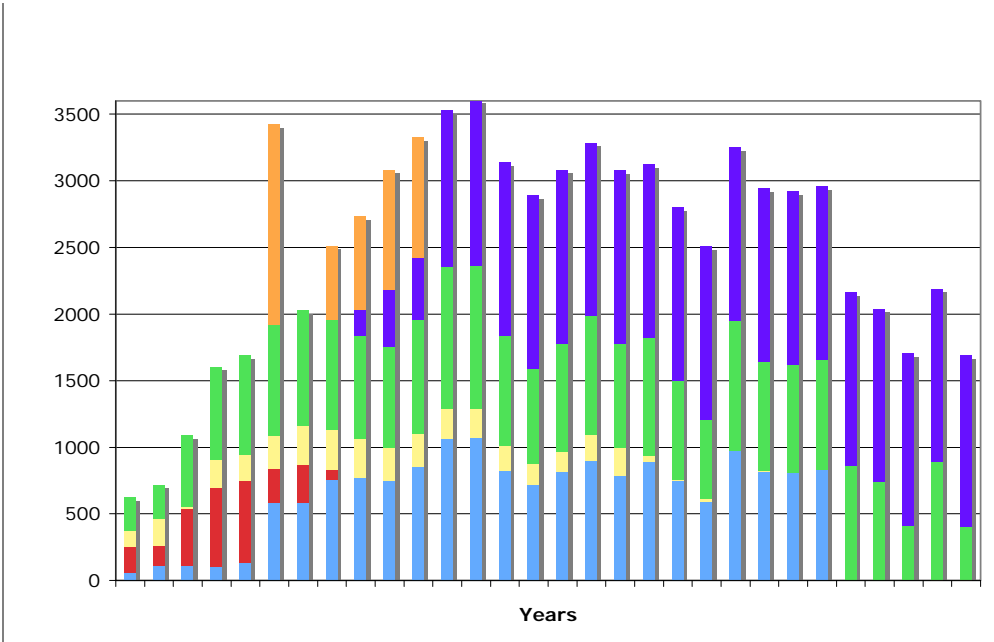
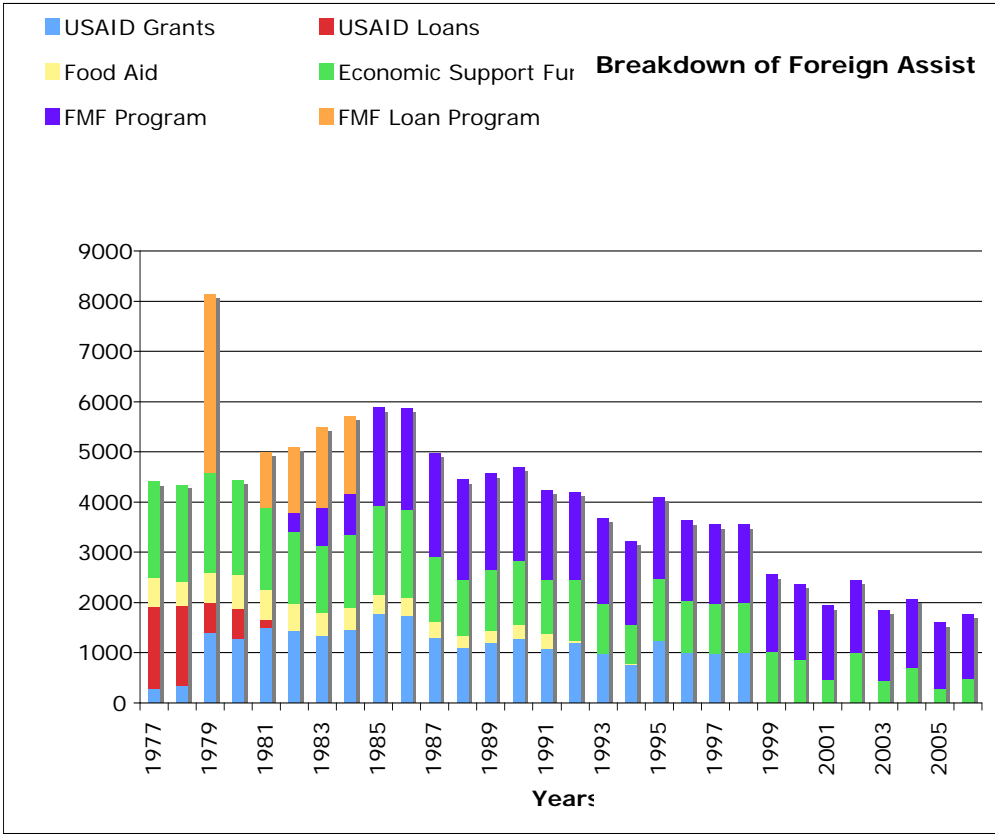
Evan Osborne, "Rethinking Foreign Aid." *Cato Journal* 22:2 (2002): 297-316. *ABI/INFORM Global*. ProQuest. Yale University Library, New Haven, CT. 15 Nov. 2008.
<<http://proquest.umi.com/pqdlink?did=343568291&Fmt=7&clientId=13766&RQT=309&VName=PQD>>.

FIGURE 6



Data extracted on 2008/10/10 15:49 from OECD.Stat

FIGURE 7



All data taken from the U.S. Overseas Loans and Grants Database (Greenbook)
<http://qesdb.usaid.gov/gbk/>

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