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No. 195/2013 dated 16 October 2013

US Freezing of Military Aid to Egypt: How Much of a Dent?

By James M. Dorsey

Synopsis

The decision by the Obama administration to freeze military aid deprives the Egyptian military of its favourite toys but does little to weaken its military capability. It further strains relations with key US allies in the Gulf, and highlights Washington's difficulty in balancing its twin goals of stability and democratisation in the Middle East and North Africa.

Commentary

THE OBAMA administration's decision to impose sanctions on Egypt's military-appointed government following the killing of 51 anti-military protestors in Egypt illustrates the US' limited leverage on one of its closest allies in the Middle East and North Africa. It also reflects its difficulty in striking a balance between acknowledging that the region has entered into an era of messy transition and maintaining close ties to its counter-revolutionary allies such as Saudi Arabia.

Washington had refrained in the past three months to define as a coup the military's overthrow of Egypt's only democratically-elected president and brutal suppression of the Muslim Brotherhood that left more than 1,000 people dead, to avoid being legally obliged to cut off aid.

Reinforcing worries about US stance

The aid freeze comes on the heels of the announcement of a November date for the start of court proceedings against ousted president Mohamed Morsi. It is likely to reinforce Saudi and Israeli fears that Washington is steering a dangerous course not only by its perceived support for fundamental change of the region's established order but also by its willingness to engage with revolutionary Iran, seen by Arab conservatives as a threat to their national security.

In anticipation of the US sanctions, Egyptian interim President Adly Mansour secured pledges for continued support from Saudi Arabia and other cash-rich Gulf states that have already funded his government to the tune of US\$12 billion. In advance of the coup against Morsi, Saudi Arabia had already assured the Egyptian military that it would compensate for any loss of US economic and financial aid.

The Gulf's support has kept the post-Morsi government afloat but does little to address Egypt's festering, structural economic problems nor does it offer the prospect of substituting military hardware for what is the

world's 14th largest armed forces.

Little impact

For now, that is unlikely to matter much. The Egyptian military, battling a rising insurgency in the Sinai, like its Gulf allies has little interest in tinkering with Egypt's 1979 peace treaty with Israel - in retaliation for the sanctions. In longer economic terms however, Gulf cash makes Egypt less inclined to embrace painful economic reforms that can put the country on a sustainable path of economic growth and ensure a more equitable economic development that benefits the population at large rather than a minority. In military terms, Egypt, with some 4,000 tanks and 240 F-16 jets and a budget of \$4.21 billion in 2012, is hardly in dire need of additional hardware.

Rather US military aid served to feed the Egyptian armed forces' appetite for sophisticated American hardware, secure jobs in its military industrial complex and guarantee hundreds of millions of dollars in business for American defence contractors. Ironically, US military aid also reinforced the military's position as a force beyond the control of the government - a fact that has come to haunt the country in its now stalled effort to escape autocracy and move towards a more liberal society.

The expansion of the state-owned productive sector enabled the military to gain access to raw materials that had been intended for the manufacturing of subsidised goods for the poorer, lower ranks of society. US aid that kicked in after Egypt's peace treaty with Israel primarily opened up business opportunities for serving and retired officers, who consequently were often focused on their economic rather than military interests.

A secretive monopoly

The military's secretive commercial empire and monopoly in certain sectors expanded from defence manufacturing into consumer products such as washing machines, refrigerators and televisions, tourism facilities, soccer pitches, agriculture, livestock, butane gas, slaughterhouses and metal sheeting for construction projects as well as services and land reclamation projects.

Often poorly managed and commercially inefficient, military-owned companies dominate the markets for water, olive oil, cement, construction, hotels and gasoline. They account for anywhere between eight and 45 percent of the country's gross domestic product. The ministry, which has 40,000 civilian employees, earns an estimated US\$345 million in annual revenues.

The military's economic empire has allowed it to fund the government when necessary to achieve its political goals. It injected US\$1 billion in 2012 into the central bank to ease the country's cash shortage at a time that the military was in government in the first 18 months after the toppling of President Hosni Mubarak by a popular revolt. Food riots in 2008 prompted military bakeries to distribute bread.

The move reflected the military's ability to supply at a low cost basic goods that were becoming increasingly expensive as a result of economic liberalisation including the floating of the Egyptian pound. "This is why the army is investing in other businesses, such as foodstuff and garments, to generate income," assistant defence minister Major General Mahmoud Nasr said last year.

Any suggestion that the cut-off of US military aid could push the military to finally embrace economic reform is made moot by the influx of Gulf cash. It is unlikely to be persuaded of the need to create a more level playing field, abolish its ability to dictate to Egypt's business elite what commercial activities they can and cannot develop, shrink its commercially inefficient empire, and endorse privatisation.

It nonetheless signals limits to US willingness to endorse autocratic rule that fails to uphold some measure of respect for human rights and more equitable economic development.

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