

-1- 12/10/57
LEN

THE U.S.-EGYPT ASSISTANCE RELATIONSHIP:

SUCCESS, FAILURE, PROSPECTS

BY ROBERT ZIMMERMAN

Introduction

Because of the size and complexity of the U.S. assistance program in Egypt, it is not easily described or understood, either in terms of its purposes or its measurable impact. On occasion, the program is misunderstood, misrepresented and questioned. A recent example is a CBS Evening News broadcast on the U.S. assistance program in Egypt. It asked why the U.S. provides \$1 billion per year to Egypt with so little apparent impact? While briefly commenting upon successful project activities, an overall final impression is that the Egyptian-U.S. assistance relationship failed to achieve its economic and political objectives.

Responding to such criticism is difficult because discreet examples of both success and failure, if taken separately, can be generally accurate. Weaving anecdotes together can distort and misrepresent the nature of the U.S.-Egyptian relationship, either positively or negatively, depending on the objective of the observer.

Given increasing questions about why Egypt and Israel receive an increasingly disproportionate share of global A.I.D.

resources, we must develop a clear perspective about our objectives and purposes in Egypt.

The U.S. relationship with Egypt and its impact must be measured in its economic and political dimensions.

Economically, the relationship operates with varying degrees of success and failure in two dimensions: development projects and policy dialogue. It also operates in a multifaceted political environment in which GOE and U.S. political objectives sometimes of necessity override and even temporarily slow progress toward long term economic objectives. As a result, the U.S.-Egyptian relationship is a case study in the perennial conflict between domestic and foreign policy objectives and development objectives. The only responsible way to measure the impact of our relationship is to look at it historically, in terms of all its objectives. This treatise is an attempt to meet this test and to suggest future courses of action that might insure clearer understanding of and support for our program and its goals.

I. U.S. and Egyptian Objectives

A. Political

The fundamental, overriding U.S. political objective for the United States is establishment of lasting peace between Israel and its neighboring Arab states. The first step toward this objective requires peace between Israel and Egypt. The

essential condition for maintenance of peace between these two states is that they experience the economic and political benefits of that peace.

The U.S. also seeks to extend the peace process to include other Arab states, including particularly Jordan and Saudi Arabia. Our expectation is that as these two states also engage constructively with Egypt and, hopefully Israel, other Arab states will begin to participate as well.

Egypt's fundamental political objectives are the development of a stable democratic system for itself and to become the most powerful political entity in the Middle East. These objectives require peace with Israel and reestablishment of political/economic ties with the other leading Arab states.

B. Economic

Long term peace with Israel is not sustainable unless Egypt can benefit economically and socially from that peace. On the other hand, to obtain and sustain political preeminence in the Middle East, Egypt requires a productive, self sustaining economy. This objective reality has not, until perhaps recently, fully been understood by both the U.S. and Egyptian governments. Egypt has envisaged retaining much of the statist oriented economic structure developed under former

President Nasser. Both governments may have too easily assumed that the economic benefits of peace would accrue inevitably once the waste of resources in war ended. The benefits of the oil boom for Egypt in the late 70's and early 80's, and massive external assistance resources first from Arab states and then the U.S. helped obscure the underlying weaknesses inherent in Egypt's statist economy. More recently, the necessity for economic reform toward self-sustaining, productive economic growth has been recognized by most Egyptians. However, the pace of implementing reform measures is slower than that recommended by bilateral and international donors.

The U.S. assistance program is the primary source of support for these different political and economic objectives. It supports these objectives in different ways and to different degree in each case.

II. The Attainment of Political Objectives

A. Peace

Egypt and Israel are not at war with each other. Moreover, they have succeeded in negotiating different issues such as changes in the status of the Sinai and Taba, which have further strengthened the peace process. Wide differences on the issue of the Palestinians remain but neither country is

prepared to fight over the fate of the Palestinians. Limited but stable progress seems assured for the near future between Israel and Egypt.

This condition would not have been possible without the substantial U.S. economic and military assistance to replace the Arab support Egypt lost after Camp David. On this ground alone, the U.S. \$11 billion ESF "investment" has provided a handsome return.

B. Reestablishment of a Leading Role in the Arab World

A further mutual political objective is the extension of the peace process through Egypt to other Arab states. When Egypt signed the Camp David accords in 1978 the rest of the Arab world abandoned her. All Arab donors cut all assistance and condemned Egypt as a betrayer of the Arab cause. In 1987, however, all of the other Arab/Muslim states in the Middle East with the exception of Libya, Syria and Iran have actively sought to improve ties with Egypt. The Arab League summit meeting of 12 November, 1987 brought this process to a dramatic culmination. It lifted a prohibition on diplomatic ties with Cairo because of its 1979 peace with Israel. Immediately following the Summit, seven Arab states (Saudi Arabia, Kuwait, The United Arab Emirates, Iraq, Morocco, Bahrain, and Qatar

re-established formal diplomatic ties with Egypt. Moreover, for the first time, Israel was not identified as the major threat to the Arab nation. Iran became the bearer of this designation.

The summit meeting publically confirmed the process that had been developing for at least the previous 2 years. During this time many of these Arab states had been looking to Egypt for increased leadership and support. Some (e.g. Saudi Arabia and Kuwait) had already been providing substantial financial support to Egypt.

Clearly, the \$11 billion in ESF revenues provided by the United States over the past ten years has enabled Egypt to weather the political and economic sanctions imposed by its Arab neighbors. Egypt has remained committed to peace and to its relationship to the U.S. As the peace with Israel has strengthened and Egypt has begun to regain and expand its own internal political, economic and military strength, this display of courage and integrity is now working to Egypt's benefit as well as our own. This development, moreover, may even give us an opportunity to indirectly involve Egypt's new Arab donors in the economic policy dialogue process with the IMF and the Paris Club. Virtually all of these donors share a vital interest in Egypt's economic strength. Indeed, it would be a regrettable irony were the resumed financial support from

the Arab states ^{to} result in a relieving of the pressure on Egypt to complete the reform process it has so boldly begun. Even if Arab resources did not enable Egypt to stop its reform efforts, they could so slow implementation of reforms that they compromise the progress toward a productive economy.

C. Democracy in Egypt

Another component of the peace process has been Egypt's quiet but steady and significant progress in the development of a democratic political process. If President Sadat's achievement was ending a state of war for Egypt, President Mubarak's may well be the creation of a viable democratic process and meaningful political freedom for the people of Egypt. Democratic development in Egypt contributes directly to the prospects for stable peace with Israel. History demonstrates that viable, healthy democracies are not military aggressors.

Egypt has the freest press in the Arab world. It has an elected parliament and a legal and lively opposition. In the Spring of 1987, President Mubarak further strengthened the parliamentary and legal basis for his government by calling for new parliamentary elections. He concurrently corrected a flaw in election laws which the Egyptian Supreme Court in 1983 had declared unconstitutional. By this action, Mubarak achieved

two vital political objectives. He enhanced the integrity and power of both the Supreme Court and the Parliament. This strengthening of the democratic political process further enhanced Egypt's standing within the Arab and Third World and reflected well on the U.S.-Egyptian relationship.

For Egypt economic reform and developing democracy reinforce each other. A strong, democratic political process can directly contribute to relevant and realistic reform of the social-economic context for a revitalized Egyptian economy. This process, in turn, further enhances Egypt's Third World leadership.

The relationship established with Egypt through the U.S.'s economic assistance program has contributed to the democratization process. Beyond the transfer of technologies, our technical assistance and training programs also transfer ideas, including democratic principles and processes. Every Egyptian who comes to the United States under one of our programs invariably becomes a witness to our democratic processes and to the economic and social benefits we derive from them. Some of our projects such as the decentralization program, implicitly support a growing constituency for democracy in Egypt. With these activities and increasing

progress toward a stronger economy, our assistance efforts can help the Egyptian democratization process. This is another worthwhile result of our ten years investment in Egypt.

In sum, using these three categories of political criteria alone our \$11 billion ESF investment in Egypt has been well served. But the long-term sustainability of these political achievements with declining direct U.S. involvement still depends on the contribution ESF resources make during the near term toward the economic objectives in our relationship. How well have we done in the economic sphere?

III. Attaining Economic Objectives

A. Background

The CBS report and other critics draw attention to a growing credibility problem in our relationship with Egypt. U.S. aid to Egypt over the past 10 years has totalled over \$11 billion, \$9 billion of which has been disbursed. As Egypt's economic problems continue, the U.S. government, the Government of Egypt and A.I.D. are increasingly subject to the question of why our assistance has had so little impact in creating and expanding Egypt's own capacity (public and private) for self-sustaining economic growth. This question (which could have damaging political consequences) should be addressed from the proper historical perspective.

B. Development Projects and Policy Dialogue: Their
Relevance and Impact

A major share of U.S. economic assistance resources have contributed to individual project successes. Most of our aid from 1976 thru 1984 was provided in a project mode aimed at specific development needs. These projects, which focussed on sector and project goals, were not directly relevant to the kinds of economic structure reform necessary for a generally self-sustaining, productive economy. Power, water and waste water systems, irrigation systems, rural roads, schools, health clinics, oral rehydration, family planning, agriculture research all received considerable AID funding. Project assistance in these areas responded to immediate and compelling needs and have added significantly to Egypt's technological base. Moreover, when these projects were started between 1978-1982, the necessity for extensive economic structural reform was far less urgent and apparent.

Thus, our previous aid was not ill advised or inappropriate given the needs at the time. Moreover, much of the infrastructure we have developed is necessary to support the take off of the productivity oriented economy Egypt so badly needs. Today, however, the impressive benefits of the infrastructure and the health, education and agriculture

programs developed with previous aid, together with the technologies transferred with them, could be threatened if the country's economy can not sustain this previous investment.

Our assistance relationship now includes a major effort to encourage GOE economic reform. The program is being restructured to include cash transfer and sectoral grants designed to support specific reform efforts. The US policy dialogue with cabinet-level Egyptian government leaders has intensified over the past two years. It has expanded with the GOE's decision to include the IMF and IBRD through a standby agreement signed in May 1987. More importantly, the GOE has begun the indispensable policy dialogue with its own people thru the press. Articles now appear that openly question both the feasibility and desirability of continuing unlimited subsidies. There is increasing support for private sector development. Reforms, however small and which were considered impossible or unnecessary only two years ago, are being implemented.

But sustaining these shifts and the ultimate success of our policy dialogue process will depend on additional significant changes in the policy environment and process within which they operate. Any assessment of past assistance and consideration

of future requirements must recognize some of the adverse impact of the political pressures that have driven our program.

C. The Policy Environment and Process

We have already addressed the often overriding political environment in the foreign policy arena. Among the other pressures that have adversely affected the implementation of our assistance program, the most significant have come from the U.S. Congress and U.S. business interests.

Until very recently, many members of Congress have not recognized the adverse impact on the policy dialogue process that derived from congressionally mandated high aid levels for Israel and Egypt. Until 1986, neither Israel nor Egypt had much incentive to put their own economic houses in order when they believed they were entitled to high assistance levels and many in the U.S. Congress agreed with this belief. In a country in which "God will provide" Egypt has not effectively used these resources to develop and expand its own human, natural and financial resources and then to apply these resources for self sustaining development. On the contrary, between 1976 and 1985 Egypt's economic conditions progressively weakened despite our aid. Until mid 1985, when limited conditionality accompanied the supplemental cash transfer for FY/85-86, there had been no premium on performance toward

specific economic and social goals or, indeed, even the fulfillment of GOE implementation responsibilities toward the achievement of many different project specific purposes and goals.

With regard to U.S. business interests, it often appears that the A.I.D. program serves U.S. business interests more than Egypt's or A.I.D.'s development objectives. The operative objective of U.S. business, understandably, has been profit and special privileges in their access to the A.I.D. money provided Egypt. Ironically, many U.S. companies appear to be as dependent on our aid as are the Egyptians. Thus, many businesses, including universities, have worked through their Congressmen to pressure A.I.D. to undertake their special projects. In the power sector, for example, Congressional pressure in the past undermined A.I.D.'s policy dialogue efforts to obtain energy reforms.

Such business-congressional alliances, based on U.S. domestic political objectives, have weakened our policy dialogue objectives in other economic and social areas. When combined with the overriding foreign policy objectives, they inhibit implementation of a coherent and effective policy dialogue process and specific development assistance programs designed over the long term to help Egypt create its own self-sustaining capacity.

After ten years, the adverse consequences for A.I.D. and Egypt of the conflicting forces and conditions under which our A.I.D. program is developed and implemented have become more obvious. It is now clear that failure of the US Egypt assistance relationship would demonstrate that the U.S. is an unreliable ally in the effort of a given state to develop and sustain meaningful economic and social/political independence and security.

IV. The Future U.S. Egyptian Relationship: An Historic Opportunity

A. Background

The last decade of the twentieth century is an important stage in U.S.-Egyptian assistance relations. In many respects the future has already begun. Both the content and style of our working relationship with Egypt and the U.S. Congress is changing. Egyptian leadership attitudes toward economic reform are changing. They now accept that their statist economy is no longer viable. Both the U.S. State Department and A.I.D. are also more closely allied in the effort to ensure success of the economic policy agenda.

Congressional leadership is increasingly recognizing that the U.S. relationship with Egypt is more than simply keeping Israel and Egypt from fighting. The Congressionally mandated

conditionality that links additional cash transfer to economic policy reforms strengthens the A.I.D.-State position in their policy dialogue with the GOE.

It is imperative that the opportunity created by Egypt's economic policy needs not be lost. As we develop our thinking and a new structure for our aid program in Egypt, we might expand our low key, informal but focussed dialogue with key members of Congress and their staff. We need continued relaxed brain storming sessions on the reality in Egypt and what our objectives and methods there should be. A.I.D. and Congress must become closer allies if we are to ensure that our long range policy objectives in the Middle East are not undermined by short run, short sighted interests of Congress, U.S. Business and even A.I.D. and State. Equally important is the need to examine the credibility risk -- and opportunity -- at stake for A.I.D. as an effective assistance agency. We need to incorporate these concerns more directly into our policy dialogue process with the GOE.

B. The Project Portfolio Can Catalyze Fundamental Administrative and Political Change

While cash transfer and public and private CIP, coupled with policy dialogue supported with high level technical assistance can be very effective tools for supporting macro

policy change, our project portfolio presents different problems -- and possibly unique opportunities. A.I.D. has provided immense resources to the development of Egypt's capital intensive infrastructure. We continue to commit more funds to the expansion of this infrastructure, including water and sewerage systems and power plants.

Some of our efforts introduce highly sophisticated technology that will require attention by skilled and motivated manpower with immediate access to maintenance funds and efficient supporting administration. All of these efforts involve potentially large recurrent costs. We have recently begun to delineate the nature and scope of the recurring O&M cost burden across the broad spectrum of our current, past and planned capital infrastructure program. While we cannot yet describe the magnitude of the current costs, they have stretched Egypt's demonstrated capacity and commitment to cover them.

Some observers believe that the Egyptian government apparatus, including its administrative processes, is less able to cope with effective operation and maintenance of public infrastructure and enterprise and to sustain growth than it was 10 years ago. Moreover, it is equally clear that Government policies and practices continue to contribute to the pervasive

economic, social, bureaucratic, technological and scientific stagnation that make effective O&M for such projects all but impossible.

The magnitude and importance of this problem and the opportunity it offers for a creative assistance program are reflected in recent, private comments by one of Egypt's most prominent writers, Youssef Idris. He credits the British with two major contributions to Egypt: modernization of the irrigation system and an independent and effective judiciary. He suggests that Americans could leave a lasting heritage of good will if they would undertake reforming Egypt's system of administration. Idris' correctly emphasizes that Egypt cannot for long remain dependent on a foreign power. But he further admits that Egypt's government and public sector will remain backward and inefficient unless there is radical reform of administration.

Thus, the recurrent O&M cost problem, including particularly its bureaucratic dimensions, represents an opportunity to respond directly to the Idris appeal. We should reflect on the future of our project portfolio in terms of the \$11 billion we have invested in the past. Here is a new arena for dialogue with key Egyptian leaders toward restructuring and even

developing new project assistance to directly focus on activities that will ensure GOE capacity to sustain selected project activities implemented over the past 10 years.

Together we could select certain project activities by sector that we believe should be sustained beyond direct A.I.D. involvement. What are the requirements to ensure GOE capacity to sustain the operation and development impact of past efforts? For example, if we identify a particular project activity, can we delineate and then focus future assistance directly on weaknesses that would need to be overcome to ensure continued GOE implementation of that activity? Some potential areas of weakness by project activity might be any one or combination of all of the following: budgetary, administrative, number and skills in personnel and in management, motivation of human resources, and technology transfer problems.

C. Human Resource Mobilization

Integral to our definition of the "capacity" being sought is recognizing that "capacity" includes not only organizational structures but the people who must lead in these institutions. Do such leaders have the capacity, will and opportunity to inspire and then reward others throughout the organization? The process and substance of inter and

intraorganizational behavior is part of capacity. Is there a commitment to excellence? Can there be such a commitment within Egypt's current bureaucratic polity? All of these issues could be part of a dialogue with Egyptians even outside of the formal government apparatus.

Given Idris' apparent interest in these problems there may be an opportunity to engage him and others in a series of short "seminar" type sessions on the issue of human resource mobilization in Egypt. Indeed, with the return of expatriate workers who previously could not be effectively motivated or mobilized for service within Egypt, one could argue that this issue, whether or not A.I.D. can do anything, should be an important part of our dialogue on future development issues with the GOE. Our expression of interest in this problem might have a favorable, collateral impact among skeptics of the integrity of our development relationship with Egypt.

Admittedly, the capacity of a state to mobilize human resources is primarily a socio-political policy and process problem. But ultimately it is the nature and structure of the economy that will determine how broadly and effectively people can be employed by others or themselves. Perhaps a series of GOE-USAID seminars that included non-government Egyptian

experts candidly discussing obstacles to effective human resource mobilization both within the Egyptian bureaucracy and in the larger social context would be appropriate.

While direct project assistance that would address the more political obstacles is impossible, our private sector and education activities if successful could be described as directly enhancing human resource mobilization in Egypt. We could explore other potential interventions. In sum, we should be more explicit in discussing the human resource mobilization issue as it adversely affects: (a) development in Egypt; (b) implementation of effective assistance projects; and, (c) the linking of selected project activities to the ultimate resolution of this problem.

Conclusion: Opportunities

We are at a turning point in our relationship with Egypt. We stand at a gateway of new opportunities. There has definitely been considerable progress in the political aspects of our relationship both within Egypt and beyond in the Middle East. Our economic policy dialogue has deepened and may be on the verge of expansion in both substance and participation. Egypt has reinitiated involvement with the IMF and World Bank, albeit

with reluctance. Perhaps ways can be found to even include indirectly the Arab donors, who also have a stake in Egypt's economic mobility, in support of the reform process.

Within Egypt exchange rate reform is underway. Many smaller reforms in agriculture and customs though of little consequence without considerably more progress on interest rates and energy pricing, have been instituted. Two years ago there was little happening on the reform front.

Egypt is turning from Nasserite Socialism. U.S. assistance has contributed to this change. It has given us the opportunity to carry on a dialogue to alter the statist economy. Our assistance in project activities (especially those for the private sector) has enabled alternative market oriented processes to be initiated. Thousands of Egyptian participants sent to the U.S. for training have provided alternative perspectives on economic systems. Seeds of both doubt about the past economic approach and hope for future alternatives are planted. Our continued assistance is now as necessary as ever; having plowed the ground and fertilized it with the past ten years of experience we must plant more seeds and tend to their growth.

In the early years we did not have a coherent vision of how all our projects could or should fit together. Nor could we. There was a lot of money. It all had to be spent. Ten years later, these investments, whether successes in terms of our intentions or not, all have given us a knowledge bank for the future. We have learned something about strengths and weaknesses that are technical, administrative, structural, management, personnel and fiscal in nature. All of these strengths and weaknesses give us opportunities and definition for the future. We need to engage in dialogue with the GOE on these areas with a view to prioritizing future project and policy development efforts. Perhaps our major problem now is gearing ourselves, including Congress, to sustain the efforts we have now begun to respond to the opportunities created by both past failure and success.

The necessity that we ensure the GOE's capacity to sustain what we have built, as noted earlier, is at the same time an opportunity to leave the legacy that Youssef Idris says Egypt so sorely needs. Whether intended when we began 10 years ago or not, we are now in a deep multifaceted nation building process with Egypt.

In this regard the changing relationship with Congress also creates new opportunity. Rather than being part of the problem, Congress is becoming part of the solution. Congressional support for our policy dialogue process is clearly manifest in our legislation. It also commits Congress to continued creative participation in our assistance effort. No longer will funds be mandated simply by level as a measure of our commitment to the peace process. They are provided explicitly in support of the ultimate objective: A productive, self-sustaining Egypt. I believe that Congress by this act has now joined A.I.D. and State in a significantly different way in our development assistance relationship with Egypt.

It is imperative that participation of this type be continued and expanded. Congress, A.I.D., State, the Egyptian Government, Academics in both the U.S. and Egypt and, of course, the business community can all become a team with a larger vision of our opportunities in the common purpose of ensuring that Egypt does someday stand entirely on its own, better off because of their relationship with Americans but no longer at all dependent upon us. In many respects the peace we seek will not be complete or even achievable unless this condition is met.

Thus, the U.S.-Egyptian relationship is itself a noble cause. Its success will ensure far more than peace in the Middle East and even the enhanced security for America that is related to this peace. Success with Egypt will carry enormous weight in our competition with the Soviets in the developing world. Success will strengthen the world market place. Success will enhance our credibility in development oriented policy dialogue throughout the Third World. And, again, back in the Middle East, success of the U.S. Egyptian relationship will clearly dam and even break the rising tide of radical Islamic fundamentalism.

ANE/E:RZimmerman:er:10/9/87:1772N