

CHAPTER II:

EGYPT HISTORY AND CURRENT INTERNAL CIRCUMSTANCES

This chapter will be about the internal circumstances of Egypt and its needs of foreign investment in Abdel Fattah Al-Sisi Era.

A. Historical Explanation of Egypt Foreign Affairs and the Suez Canal

Establishment in Colonialism Era

Egypt is politically and economically important in international context. This country has many considerable aspects that makes many countries spread their influences toward this country.

The geographical context is one of the factors that brings Egypt to be deemed as significant country since a long time ago. This country is geographically strategic, it lies between the Mediterranean Sea and Red Sea, which bordered the country with 2 huge continents, Europe and Asia. This condition drives Egypt become a crossroad that connect many continents, which is very important for global trading route and navigation.

The colonialism era has brought Egypt to the next level of geopolitics. In July 1798, Napoleon Bonaparte has landed to Egypt and conquest the country (Joseph A. Obieta, 1970). This conquest became the beginning of the modern phase of Suez Canal. The French constructed a waterway that connects the Mediterranean Sea and Red Sea to shorten the trading route from Europe to Asia and vice versa.

Under Ferdinand de Lesseps as the engineer who designed and supervised the construction, a 160 kilometers long waterway has been built within ten years. However, the project attracted other parties to come and possess a power toward Egypt. United Kingdom is not an exception. The desire of British toward the canal also influenced Egypt's internal affairs. Benjamin Disraeli from the British sides hold 44% of shares of the canal which drove British to the strong position to take control over the canal (Ferguson, 1999), and later on Egypt became a British protectorate in *de facto* (Joseph A. Obieta, 1970, p. 13).

Trading Route of Europe-Asia Map



Figure 3 Trading Route of Europe-Asia
Source: http://www.solarnavigator.net/suez_canal.htm

The canal was controlled by the British until it nationalized in Nasser Administration in 1956 (Metz, 1990, pp. 211-212). During the nationalization, Egypt faced many diplomatic challenges, started from the Cold war effect until the aggression of Israel through the canal.

The Heartland Theory according to Mackinder



Figure 4 The Heartland Theory according to Mackinder

The geopolitics of Egypt and the existence of Suez Canal are the politically important in determining factors in global policies of both superpower countries. The “Heartland” theory of Sir Halford J. Mackinder is describing the system of geopolitical equilibrium between the land power and the sea power. This theory defines the Mediterranean to become a vital sphere for acquiring the global power. He figures the Mediterranean is the true heartland where it locates on the marginal crescent and the Suez Canal area is the capable area of the exercise of both the sea power and land power implementation (Hussini, 1987, pp. 6-7)

The competition between both superpower countries had given an impact through Egypt internal affairs. The unfavorable historical experience with the Western side gave the Soviet Union opportunity to empower her influence. The Soviet Union designed its foreign policy toward the country to be more acceptable. This aimed to achieve Soviet's economics, politics and military objectives. The pressure from the Western side and the Israel aggression led Nasser to be more intense in building relationship with Soviet (Hussini, 1987, pp. 50-55)

Nasser finally signed an arm treaty with Soviet in 1955 to strengthen the country's power in military aspect, and followed by another arms agreement in 1957. The agreements are about the standardization of Egypt arm forces which includes the supporting equipment due to the Suez crisis issue. The second agreement was signed at 1964 for military aid in term of aircraft and marines, which previously none of non-communist country had ever received any of those (Central Intelligence Agency United States of America, 1999).

The presence of Soviet in this country was also figured by some development aid and cultural agreements. However, the penetration of Soviet was a mean to gain security from the third world in a peaceful way.

The Suez Canal dispute gave significant impact toward Egypt's foreign policy. This conflict somehow will affect the Middle East oil transportation access, and sphere of influence among Arabs and Israel was somehow needed to resolve the conflict. According to this, United States under Truman administration

implemented a foreign aid to disseminate influence and accomplish the “Containment of Communism” policy (ushistory.org, n.d.)

The presence of United States was benefited by Egypt in order to untie the bond between her and the British. Moreover, the 1952 revolution was expected to be a golden ticket for United States to gain power over the country after all benefit she offered to Egypt (Han, 2007, p. 49).

Unexpectedly, after Nasser became the head of the country, the relations between Egypt and United States was worsening, and tended to strengthen diplomatic relations with the Soviet Union. The budget cutting of economic aid from United States was the first step of Suez Canal Company nationalization. The worsening relations between Egypt and United States was also indicated by the termination of diplomatic relations from Egypt and the dependency of the country toward Soviet Union military support (Han, 2007, p. 50).

The British, French and Israeli aggression in Suez area and around was condemned by many sides of the world. This was an opportunity for the Soviet to penetrate the dispute. As a respond to the aggression, Soviet has announced an ultimatum regarding the aggression in order to bring back a peace to Middle East by the means of force. The intention was censured and Soviet was warned for an American retaliation if the attack were done (Hussini, 1987, p. 68).

Later on, the United Nation General Assembly brought the Suez dispute as the main issue. Although the British and French firstly vetoed the cease-fire draft resolution, finally it could be done after the pressure from United States and other

countries, followed with the drawing of the aggression forces and the UNEF presence at the dispute area (Joseph A. Obieta, 1970, p. 20).

After Egypt's leadership had shifted to Anwar Sadat due to the death of Nasser, there was a significantly improvement between Egypt and United States. This administration seemed to be different than Nasser administrations when Western influence was refused. The turning of political inclination affected the relations between Egypt and Soviet Union. It even became worse when Sadat terminated the bilateral relations with Soviet Union and created decisions that is contrary with Nasser's policy. (Hopwood, 1982)

The relations between United States and Egypt was re-tightened in 1974 after the Camp David treaty making in which conciliating the Arab-Israeli war. This condition drove Egypt to be the new United States' economic aid receiver after it previously stagnated in Nasser administration (Han, 2007, p. 50).

United States can be considered as the international actor who really keep the ties with Egypt. Despite the fact that the relations of both countries sometimes unstable, United States has never really drawn the influence. After the relations was tightened in Sadat administration, it was back to be unstable in Hosni Mubarak. The leader of Egypt who led the country for 30 years took some decision in regard to refuse United States demand of military intervention toward Libya in 1985 and 1986 (Dunne, 2011).

The relations was improved in the outbreak of the Persian Gulf War in 1991 -1998. Hosni Mubarak has given United States an authority to maintain U.S.

military camp in Egypt sovereign land and cooperating in preserving Arab-Israel peace (Han, 2007, p. 50).

Egypt also became the third biggest United States foreign aid receiver in term of economics and military. The aid was worth a USD 2 billion per year ever since the 1984 and increased in certain fiscal year, followed with a huge investment. (Gerges, 2002, p. 228).

The relations between Egypt and United States somehow inflicted a disappointment from the Arab League. Since the recovery of Egypt position in Arab League after Sadat administration, the endorsement of Egypt to United States coalition in 1991 Gulf war caused the improvement of Islamic radical movement that led to internal conflicts. The internal conflicts were also driven by the high level of corruption in an authoritarian administration, the minimum political participation and the worse economic condition within the country (Metz, 1990, p. 289).

The internal conflicts in Egypt became the beginning of reformation. Moreover, the United States' desire to promote democratic system in Middle East was turned over and provided the revolutionaries to overthrow Hosni Mubarak regime (Dunne, 2011, p. 84). The 2011 revolution finally took over Hosni Mubarak from the administration and continued with General election in 2012 and generated the new president of the country, Muhammad Morsi afterwards.

B. Egypt after Reformation and the Presence of United States

The success of United States promotion of Democracy in Middle East drives the ease of the country to approach Egypt politically and economically. However, Egypt political and economic instability is also a serious challenges of United States.

The existence of oil is another consideration for United States to strengthen the relations. Both countries have agreed about oil exploration and exploitation in Egypt which cost 30 million US dollar for 14 gas and petroleum sites (China Radio International Online, 2009).

The investment somehow requires the country's stability, including the Suez Canal condition which is really important for oil distribution. The canal is able to cut budget for a 10,000 km journey which needs more times and more expenditure (Foreign Affairs, 2013). The importance of Suez Canal is also shown by the data from the Canal's International Navigation Statistics Department, which stated that in 2012, the oil shipments increased by 22.5 percent compared to the data of 2011 (Egypt Independent, 2013).

The oil is not the only reason of United States intention to strengthen the relations. U.S. navy also consider the canal as the most effective and efficient way economically and politically. (Foreign Affairs, 2013)

Despite the conflict between United States and some Middle East countries such as Iran, it does not consider Egypt as either an ally or an enemy as Barrack Obama stated in the interview on The Rachel Maddow Show on MSNBC (Cooper

& Landler, 2012). The importance of Suez Canal and Egypt geopolitics is the most valuable consideration to keep the relations remain stable. The good relations between Egypt and Iran also gives no impact to Egypt's relations with United States. United States was still on its commitment to gives foreign aid to Egypt in term of economic recovery. This is aimed to keep the cooperation with Egypt in Morsi administration therefore United States is able to use the aid as a tool of negotiation toward Egypt (Sharp, 2014, p. 7).

C. The Legacy of Reformation That Egypt Should Face

The shifting of the country's leader could affect the political circumstance and orientation. After the coup d'état toward Morsi from the administration, the former Ministry of Defense, Abdel Fattah Al-Sisi is elected as incumbent president in 2014 with 97% majority vote cast (Ottaway, Egyptians uncertain about future under President Sisi, 2014).

The popularity of Al-Sisi as "superhero" in reformation is one of the factors that drove him to be the leader, however it does not have any correlation with Al-Sisi's capability to run the country and brings it out from country's instability. The reformation has an expensive cost that must be paid by the future administration.

Al-Sisi's administration changes many policies regarding to the current political condition within the country. The overthrown of Mohammad Morsi – who is the former president headed the Muslim Brotherhood regime in the country – resulted in the death of 2,500 Egyptians, 16,000 members of Muslim brotherhood and other 20,000 person including revolutionaries, journalist and opposition were

imprisoned. The phenomena was also followed by the designation of Muslim brotherhood as a radical group and prohibited along the country (Perlov, 2014).

The shifting of president and political system also influence the constitution. The 2014 referendum of new constitution has brought the Egypt to a quite shape. Besides the limitation of Muslim Brotherhood activity in politics, the new policies also prohibit political parties with the basis on the religion, sex, origin, or certain sectarian basis and geographic location (Bertelsmann Stiftung, 2016, p. 13).

The parliamentary also faces many transformation. Since the previous leading party Freedom and Justice Party was attenuated in 2014, Egypt seemed losing the party with basic level of professionalism and experience (Bertelsmann Stiftung, 2016, p. 14).

The uprising 2011 reformation and the widening gap between Egypt and Muslim Brotherhood triggered the insurgent groups to exploit the unstable condition and launch some violence acts over the country. This insurgency was masterminded by some Militant groups, the Bedouin tribesmen, Ansar Bait al-Maqdis, until the Islamic State and Al-Qaeda which operates around Sinai Peninsula (Manfreda, 2017).

In term of economy, Egypt is determined as a country with a low level of economic development. The country is highly dependent on Suez Canal revenue and tourism. Meanwhile the dynamics of population and high level poverty are still viscous over the society. In 2011, the data shown that the poverty and food

insecurity has increased into 20% from 2009, with 25.2% of the people survives below the moderate poverty line (Bertelsmann Stiftung, 2016, p. 16).

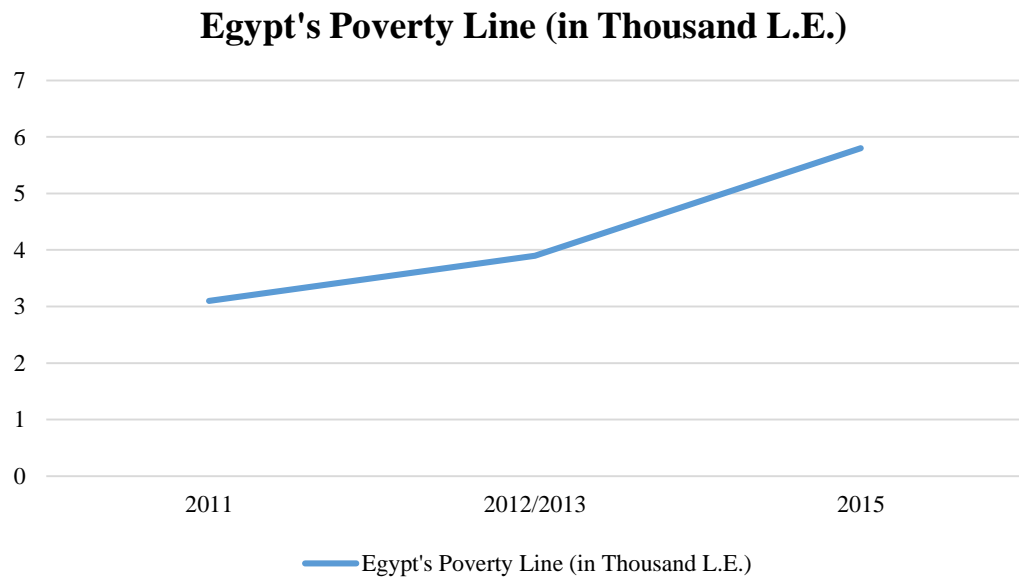


Figure 5 Egypt's Poverty Line
Source: capmas.gov.eg

The country's instability over the region influence the dynamics of the local currency value. Although Egypt is struggling from the effect of revolution, the currency problem was existing even before Al-Sisi became the President. The exchange rate system has been depending its stability toward the Central Bank capacity in accumulating large foreign reserves. These reserves could be used by the Central Bank in order to meet demand for dollars needed to pay for importing goods and could effectively defend the value of pound.

The exchange rate was very significant for Egypt. As an importer of certain commodities such as food and fuel, exchange rate management could be used to maintain inflation. Since the uprising of 2011 revolution has brought crisis toward both politics and economy, the devaluation of Egyptian pound was considered as a mean to recover the current economic circumstances. In the year of 2011, the exchange rate reached 6.01 pounds to the dollar, and it led to a further devaluations.

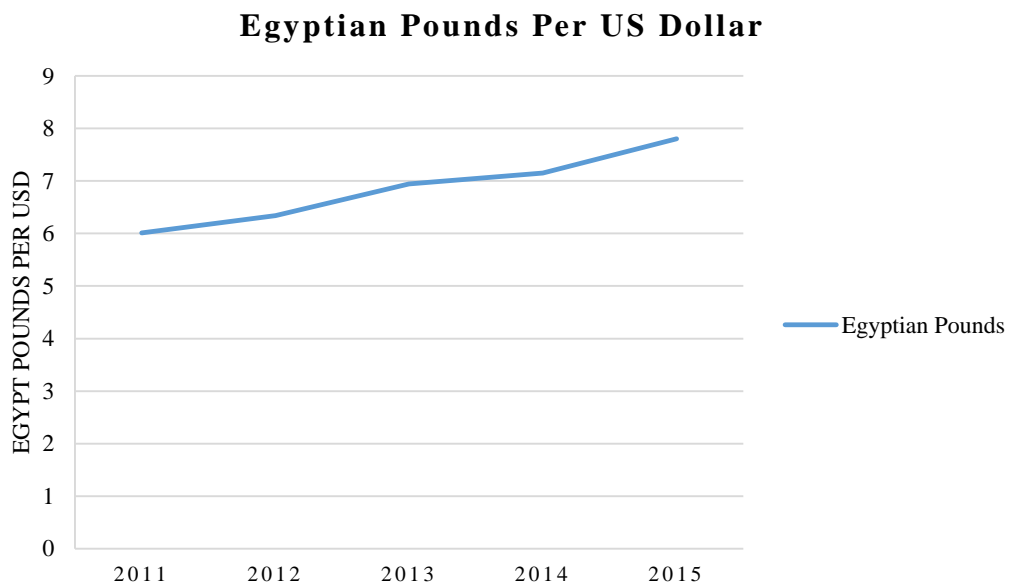


Figure 6 Egyptian Pounds per US Dollar 2011-2016
Source: www.xe.com

The data above shows the increase of Egyptian pounds for each year since the uprising of 2011 revolution. The Egyptian pounds has devaluated to 6.34 pounds to the dollar, and increasing annually. The local currency seems had no longer capability to satisfy the demand for the US dollar, yet the Central Bank reserves could not support the local currency (Ayesh, 2016).

The devaluation of Egypt's pounds could give a significant impact to the society. Besides the currency collapse may attract the foreign investment and

Egypt's capability to afford the import of staple commodities, the high class peoples who use foreign currency for their business could enjoy the benefit. Meanwhile, the poorer will be dropped into the poverty line. The price of commodities after the pounds' collapse is inevitably horrible. The price of certain goods either the basic products or imported products has been increased from 200 until 300 percent (Ayesh, 2016). However, the current circumstance will lead to a large inflation within the country.

Since the 2012, the inflation has raised from 7.2% and keep going into 9.5% in 2013. In 2014, the inflation reached about 10.0%. In 2015, the inflation reached 10.4% and 13.5% in 2016. (Euromonitor International, n.d.)

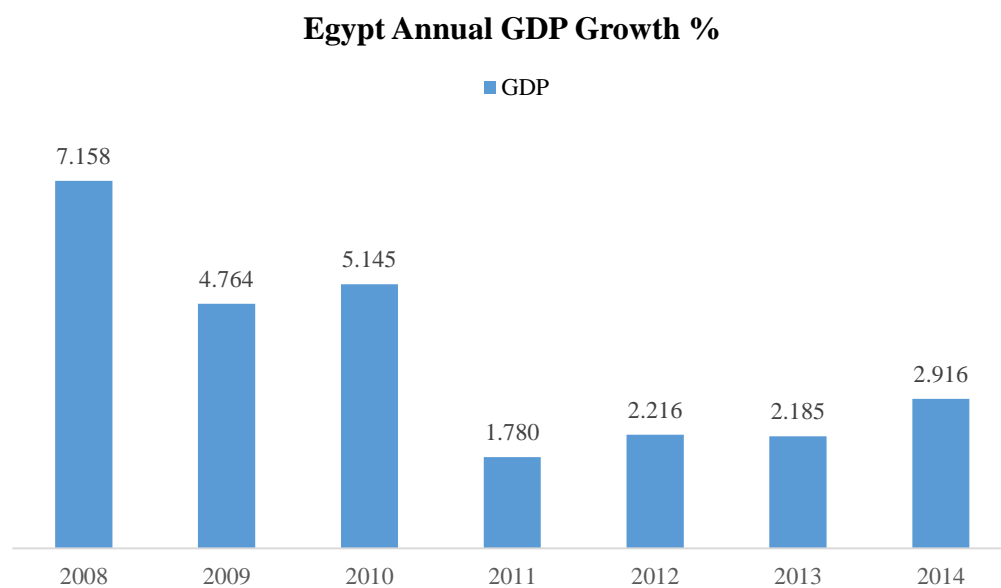


Figure 7 Egypt Annual GDP in Percent
Source: data.worldbank.org

The data above shows the fluctuation of Egypt annual GDP growth, especially before, after, and when the 2011 uprising happened. Based on the data, there was a significant decline right at the moment of revolution. The data figures

the 3 percent decreasing from 2010 to 2011, and seems struggling to reach over 3 percent until 2013 (The World Bank Group, n.d.).

In order to struggle from the deficit and crisis' impact, Al-Sisi made a decision to reduce some subsidies for fuel and electricity and turns the price into the higher level in 2014 (Bertelsmann Stiftung, 2016, p. 20).

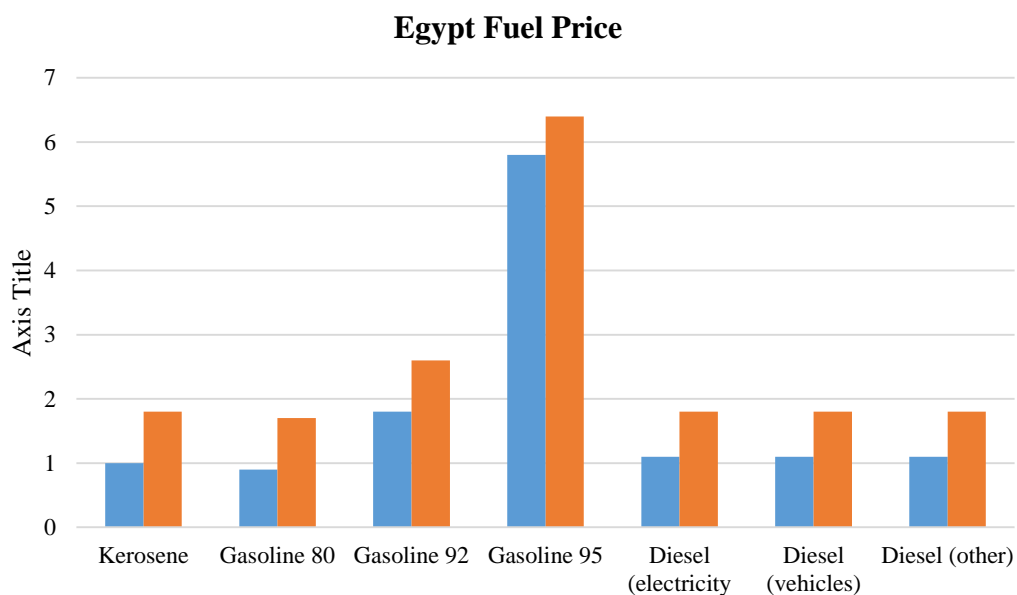


Figure 8 Fuel Price, Le/Liter
Source: Laura M. James. Recent Developments in Egypt's Fuel Subsidy Reform Process. The International Institute for Sustainable Development. 2015.

The diagram above shows the gap between the price of fuel in certain classifications before and after July 2014. Diesel seems to be the one of the commodities with high percentage of subsidy cut after Gasoline 80. Diesel is commonly used for many sectors, from public transportation until the industrial matters. The increase of diesel price may affect industrial productivity. The increase of Gasoline 92 price for 41 percent also affected the lower middle classes, since it is the fuel that is usually used for domestic vehicles (James, 2015, p. 8).

According to the price reformation, the government made some efforts to keep the welfare among the lower middle classes by restraining the increase of public transportation cost slightly. However, public transportation is controlled under private authority in which the government has a few control over this. Therefore, the increase of price is reasonably inevitable (Rashwan, 2014).

Egypt's Population (in Million)

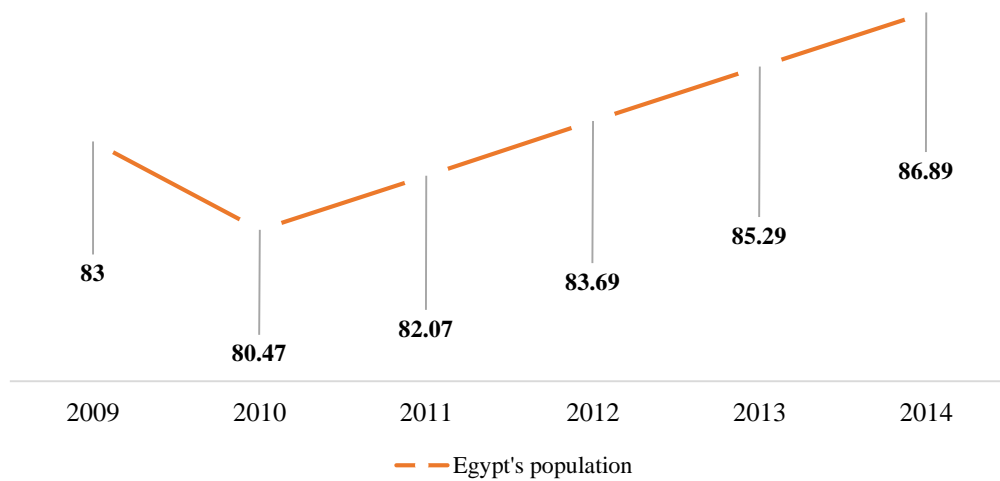


Figure 9 Egypt's Population (in Million)
Source: indexmundi.com

The high rate of population growth is also one of challenges dealing with economic issue. In 2013, Egypt reached 2.55 percent for population growth rate but has been decreased into 2.4 percent in 2015 and has a remained stable percentage in 2016. However, it is five times of developed countries population growth rate and two times of some developing countries (National Voluntary Review on the Sustainable Development Goals, 2016). The rapid population growth may affect the rates of inflation, poverty, and unemployment and raising the standards of living.

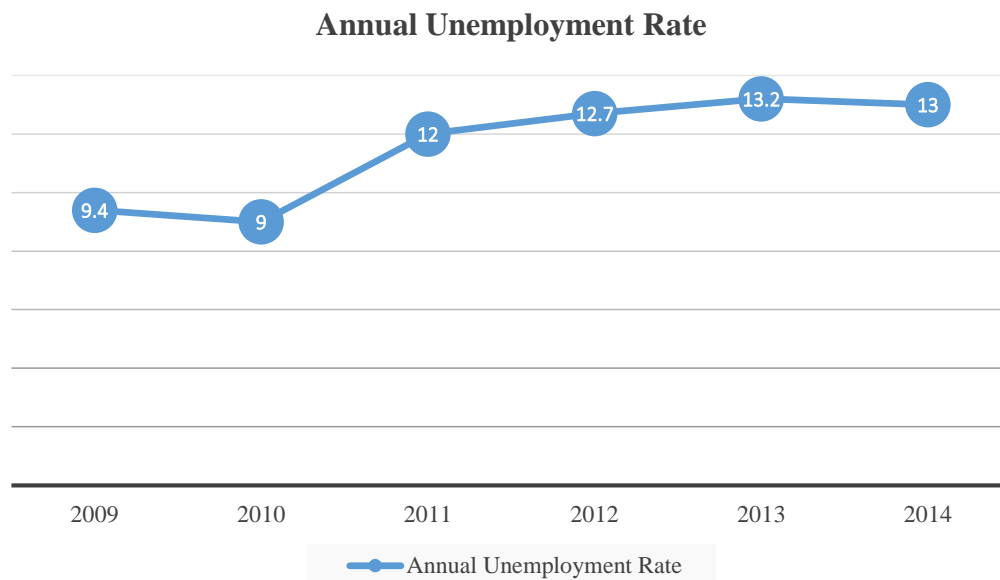


Figure 10 Annual Unemployment Rate (in Percent)
Source: capmas.gov.eg

The data above shows the unemployment rate of Egypt from 2009 until 2014. It defines the condition of people in Egypt before the uprising of 2011 revolution, the year when the revolution happened, and after the revolution. Based on the chart, it is clearly seen that there was a significant changes from 2010 to 2011, which is exactly the outbreak of 2011 revolution. The unemployment even

increased into 13.2 in 2013 and remained stable around 12-13 percent in this recent (Central Agency for Public Mobilization and Statistics).

Tourists Arrival

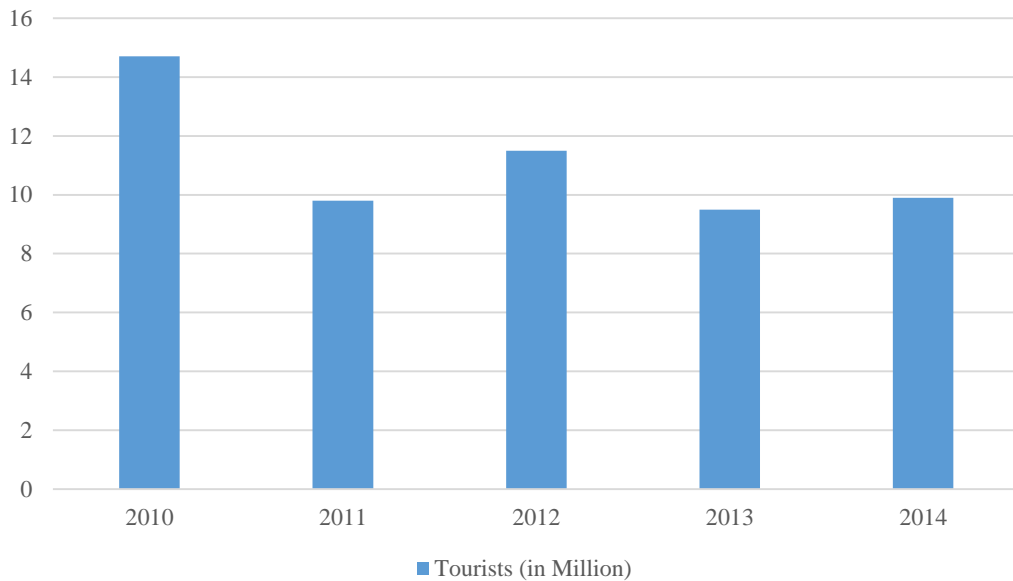


Figure 11 Tourists arrival (in Million)
Source: capmas.gov.eg

Egypt is well known as a country with plenty of tourism objects; the pyramids and sphinx at Giza, the Abu Simbel temples south of Aswan and the Karnak Temple Complex and Valley of the Kings near Luxor. Unfortunately, it could not be denied that the political instability affects Egypt's attractiveness. In this term, security issue became the biggest burden for Egypt to deal with. Since the outbreak of revolution at 25th January 2011, Egypt faced the worst wave of terrorism, which gives a quite significant decrease on tourism activities. The people's anxiety to travel around Egypt has raised regarding to the issue. There were many trip, flight, hotel and cruise booking has been cancelled. The cancellation has left the travel agencies alone to survive with the condition. The

rising food cost due to the post-revolution effect also forced many restaurants to be closed, giving tourists no option to find any food in the city. Moreover, the increase of criminal rate and chaotic circumstance pushed Bank along the country closed (Nassar, 2012).

Although the revolution has been ended, the challenging problem for the next administration has just began. The legacy of the revolution will bring Egypt to a new stage of survival. Therefore, the suitable strategy for Al-Sisi administration should be implemented to deal with the challenges.