MERIA

PROMOTING ECONOMIC LIBERALIZATION IN EGYPT: FROM U.S. FOREIGN AID TO TRADE AND INVESTMENT

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In the early to mid-1980s, the United States became frustrated that its financial assistance was being wasted by Egypt's inefficient, statist economy and wanted the Egyptian government to pursue economic liberalization. At the same time, the United States, observed that its foreign assistance program was less than optimal at effectively leveraging economic reforms. After the 1990-1991 Persian Gulf War, Congress put pressure on the administration to create a new economic relationship that would lessen Egypt's aid dependency on the United States, and promote economic liberalization in Egypt. Specifically, Congress advocated 'trade and not aid' as the new rationale for the bilateral relationship. The Presidents' Council, created by the two governments in 1994, along with several recent trade agreements, has become the cornerstone for this U.S. policy of pursuing economic liberalization in Egypt.

THE U.S.-EGYPTIAN FOREIGN AID RELATIONSHIP

The 1974 Open Door Policy (also referred to as *infitah*) and the 1979 Camp David Accord renewed Egyptian-U.S. diplomatic relations, and the resumption of what has become a substantial amount of foreign assistance. Historically, Egypt has been a leading military and political power in the region; for instance, leading the Arab front in wars against Israel. Egypt's incorporation into the American domain was therefore perceived to be essential for Middle East peace. Once accomplished, in addition to the relative calm it created, a pro-western Egypt also removed an important source of Soviet influence in the region. It became apparent to subsequent American administrations that foreign aid to both Egypt and Israel was a worthy investment in order to maintain this relative Middle East peace.(1)

With the Camp David Accord, Egypt began to reap approximately $2 billion per annum in U.S. aid, the second largest allocation after Israel. *(see Table 1 in Appendix)* Aid to Egypt was, at its core, "a political symbol of evenhanded economic support," as one U.S. government report put it, especially as the large sums Egypt received were beyond its capacity to effectively absorb.(3) In fact, development experts believe that had Egypt's economic assistance been based on economic need rather than on political objectives, Egypt would have received $100-$200 million in U.S. assistance.(4) This was a far cry from the approximately $1 billion devoted to solely to economic aid.

For the United States, the benefits of foreign aid to Egypt were strategic, diplomatic, and political. Egypt had led every Arab war with Israel, supplying most of the personnel and military power. A pacified and neutral Egypt, it was hoped, would prevent further Arab-Israeli wars, at least on the interstate level. While there were no permanent U.S. military bases in Egypt, in exchange for the foreign aid, U.S. forces were allowed access and were granted the ability to deploy equipment at strategic military posts in Egypt.(5) The United States and Egypt also regularly held joint military exercises called Bright Star, which involved infantry, airborne, artillery, and armored forces.(6) Moreover, military cooperation with Egypt allowed for a quick military reaction, including naval passage through the Suez Canal, to developments in the oil-rich Persian Gulf. This proved especially useful during the 1991 Persian Gulf War. In a declassified State Department report, the United States asserted that:

> The thrust of our security assistance program is to build a modern force with interoperable equipment capable of maintaining Egypt's defense and of working effectively with U.S. forces in coalition warfare. Egypt's strong military is a stabilizing force in the region. Its strength is at an apex when combined with U.S. forces in regional coalition operations, as was demonstrated during the Gulf War. We rely on Egyptian cooperation in providing quick transit of Egyptian airspace and through the Suez Canal. The U.S. military routinely conducts 6-8 transits of the Suez Canal and some 500 military overflights of Egypt each month. Egypt has developed extensive experience in peacekeeping and its military forces are working to enhance these abilities. At our request, Egypt contributed significantly to UN peacekeeping operations in Somalia. Egypt also participated in peacekeeping operations in Bosnia and provided troops or observers in Georgia, Liberia, Mozambique, Western Sahara and Namibia.(7)

To this day, military interoperability, regional access, and influence in military affairs are an important part of the American rationale for military aid. Correspondingly, U.S. foreign aid to Egypt is mostly comprised of military aid.

U.S. foreign aid to Egypt also has ensured the preservation of a moderate Arab regime capable of playing a legitimizing, diplomatic role in Middle Eastern affairs. In addition to its military and political capabilities, historically, Egypt has also been a key intellectual center of the Arab and Muslim world.(8) Hence, in addition to its legitimizing role in U.S. operations against Iraq in 1990-1 (as well as in Somalia and Bosnia), Egypt was often a meeting point for U.S. peacemaking efforts between Arab states, Israel and the Palestinians. President Mubarak was also frequently brought into these discussions, acting as an Arab figurehead in diplomatic situations. Furthermore, the Egyptian-Israeli peace served as an example for other moderate Arab states to emulate. The United States hoped that peace with Egypt would create a domino effect in the region, turning rogue states into friendly ones.(9)

The political advantages of U.S. foreign aid to Egypt were significant. Increasing Egyptians' standard of living promised to prevent a further rise of Islamic fundamentalism in that country, and thereby, the region. It was especially hoped that U.S. economic and food aid would undermine radical political elements. One senior administration official commented:

> No one is trying to underestimate the [Islamic extremist] threat. But what you have in Egypt and part of--a large part of our aid effort to Egypt is targeted on this is--is economic reforms, because it is only through moving forward on the economic/social agenda that one is able...to undercut the ability of these Islamic extremists to undermine the

political process, and quite frankly, come to power.(10)

The United States wanted to ensure, above all, Egyptian regime stability. U.S. foreign aid, it was believed, would undercut the ability of Islamic extremists to attain power while increasing the popularity of the Egyptian regime. Moreover, U.S. economic and food aid would allow the regime to delay implementing political liberalization by quelling the urban masses through government subsidies. In short, foreign aid to Egypt fulfilled U.S. strategic, diplomatic, and political objectives, while it was also intended to be a conduit for future economic liberalization.

U.S. FOREIGN AID AND EGYPTIAN ECONOMIC LIBERALIZATION

One of the understated purposes of U.S. foreign aid has been to promote economic liberalization in Egypt. Some of the economic reforms, sought by the U.S. administration, included fiscal discipline, reducing government expenditures, increasing tax revenues, liberalizing interest rates, liberalizing exchange rates, liberalizing trade, promoting foreign direct investment, deregulating the public sector and safeguarding property rights. By the mid-1980s, however, the U.S. government recognized that its foreign assistance program to Egypt was ineffective at pushing these essential economic reforms forward. Part of the problem was that the United States Agency for International Development (USAID) was reportedly pressured into implementing projects that were more symbolic in nature than economically sound. USAID found itself promoting projects that clearly showed Egyptians that the project had been paid for by the United States. This was partly a reaction to the skepticism that Egyptians felt toward U.S. foreign aid. As a result, overly large and expensive projects were implemented merely because they were highly visible to both the Egyptian regime and Egyptian people.(11) These same projects then tended to clash with overall U.S. objectives of advancing economic liberalization in Egypt.

The United States also found that U.S. aid was inefficiently absorbed into the Egyptian economy because of inadequate economic reforms. A U.S. Government Accounting Office (GAO) report noted that "U.S. policymakers believed that Egypt might not have the capacity to absorb increased project aid and that the actual impact on the economy would depend on Egypt's response to basic economic reforms..."(12) Washington believed that money spent on Egypt was being wasted because of the inefficiencies in the statist Egyptian economy. USAID officials also believed that Egypt should take advantage of the cushion that foreign assistance gave the Egyptian government and implement economic liberalization, calling this "a window of opportunity" that Egypt continued to ignore.(13)

The United States wanted Egypt to implement economic reforms, but recognized that it would not be able to pressure Cairo into pursuing economic liberalization. U.S. government reports indicated that "...although State [Department] officials agree with the need for structural changes in the [Egyptian] economy in the long term, they believe that pushing too hard for these changes may raise political tensions... and could adversely affect other important aspects of our bilateral relationship."(14) The State Department acknowledged that Egypt would not tolerate overt U.S. pressure to liberalize its economy. Similarly, USAID reported to the GAO that "...the Egyptian Government would greatly resent any effort on the part of the United States to condition or even create the appearance of conditionality being attached to assistance."(15) USAID, however, had, on occasion, tried to use funding as leverage for policy reform. One incident involved pressuring the Egyptian government to increase electricity tariffs, which led to a negative reaction by the Egyptian government. According to the State Department, because of this incident with USAID, “the Egyptians felt misled” and the State Department observed, “This was a case in point of how not to go about leveraging reforms.”(16)

USAID was unable to use funds as leverage because the “political realities of this program make it difficult… to steadfastly follow a strategy of denying funding to a sector or project if the GOE [Government of Egypt] does not make policy reforms.”(17) In other words, the Egyptian government perceived the aid program as an entitlement for signing the Camp David Accord, where equality of treatment between Egypt and Israel was supposedly guaranteed.(18) In consequence, USAID found that the aid at its disposal did not give the organization any real influence to induce Egypt to alter its economic policies.

Moreover, the USAID mission complained that--despite having a staff of several hundred Americans--they were unable to manage the large sums of money promised to Egypt.(19) Another difficulty with U.S. financial assistance was that such large amounts of funds were amassed in preparation for upcoming projects, such that at one point more money was in the pipeline for projects than was actually being spent on projects.(20) Hence, because of both political and management difficulties, USAID was unable to influence the Egyptian government into liberalizing its economic policies.

The United States needed a viable instrument to help push Egypt into economic liberalization, while being able to ensure the political stability of the Egyptian regime.(21) Although there continued to be much discussion regarding the efficacy of U.S. foreign aid, few proposed that it be removed entirely, mainly because of the underlying belief within U.S. administrations that aid preserves peace in the Middle East.(22) Nevertheless, by the mid-1990s, the U.S. administration sought to use trade and private foreign investment as a means of pushing Egyptian economic liberalization forward.

SHIFT IN INSTRUMENTATION: TRADE AND NOT AID

During the Cold War, U.S. foreign aid was used to keep states in line and loyal to U.S. interests and objectives. As the notion of a country defecting to the Soviet side became obsolete following the end of the Cold War, the United States’ need to dispense foreign aid decreased while its desire to advance its position in the global economy through private investment increased. In addition to this shift from doling out foreign aid to increasing private investment, what foreign aid remains has often been modified to promote private U.S. investment.(23)

This increased propensity to promote private U.S. investment is the result of an increasing perception that the country’s strategic objectives are relatively secure. U.S. administrations in the post-Cold War era have supported this shift in instrumentation as part of a larger “strategy of preponderance,”(24) a strategy aimed at preserving the United States’ military and economic preeminence by economically engaging potential opponents and discouraging the emergence of other rivals for global power.(25) Some of the many measures taken following the Cold War to preserve U.S. economic primacy through promoting private U.S. investment include:

- expanding free trade agreements;
- increasing the prominence of the Commerce Department’s Foreign and Commercial Service office to promote U.S. exports;
- creating the National Export Strategy to

assist private American firms compete internationally;

- creating the Advocacy Center (in the Department of Commerce) to help private U.S. firms resolve international disputes with foreign governments; and
- creating the National Economic Council in the White House to mirror and co-ordinate with the traditional National Security Council.(26)

After the 1991 Persian Gulf War, Congress reassessed the value of foreign aid to Egypt, among other countries. Questions regarding the utility of aid to Egypt and to other states in the post-Cold War era were raised in Washington and in academic circles, especially as the raison d'etre for U.S. aid--checking Soviet influence--was no longer applicable.(27) This created tension between Congress and the Executive, as the former insisted that funds to Egypt were "going down the drain."(28) At the same time, public opinion grew strongly against continued foreign aid to both Egypt and Israel, as demonstrated in two 1994 polls conducted by the Chicago Council on Foreign Relations and the Wirthlin Group, and a 1995 poll conducted by the Program on International Policy Attitudes at the University of Maryland.(29) By 1993, Congress began recognizing that foreign assistance to Egypt needed to be streamlined and eventually eliminated. A 1994 Congressional Budget Office (CBO) report to the U.S. Congress suggested that "one possible approach would [be to] reduce grant aid given to Israel and Egypt to about the level that prevailed immediately after the Camp David Accords, saving more than $1 billion a year in budget authority by the end of the decade."(30) Congress also argued that aid to Egypt should be decreased for strategic reasons. These reasons included:

> The end of the Cold War and corresponding cessation of Soviet loans to Mideast arms purchasers, as well as the effects of the Iran-Iraq War and the Persian Gulf War, together have reduced the military threats to Israel substantially. And if aid to Israel can be cut, funds going to Egypt... a country with only modest external threats probably can be too... At a time when around 30 major armed conflicts are being waged around the world, it is not clear that the Middle East deserves such a disproportionate share of available funding.(31)

Momentum for reduction in U.S. aid increased even more when the Palestinian Liberation Organization (PLO) and Israel signed the Declaration of Principles in 1993. One writer asserted that it had become "increasingly difficult to justify paying Cairo huge sums to do what is, presumably, in Cairo's best interest--remain at peace with Israel." (32) When Jordan and Israel made peace in 1994, the strategic value of Egypt appeared even more tenuous. Still, Jordan's peace with Israel, while important to overall U.S. strategic objectives, only slightly reduced the value of Egypt's role in the peace process, as Jordan is a small country with little military presence in the region. The symbolic value of Jordan's incorporation into the peace camp was, however, essential. Consequently, in 1997, Congress appropriated an additional $100 million to Jordan, allocated from both Egypt and Israel's economic aid.

This redistribution of aid was one manifestation of the Congressional pressure on the White House to reduce the aid dependent relationship with Egypt and redirect assistance to other states. At the same time, Congress recognized the importance of a pro-western Egyptian government and did not want to jeopardize future Middle East peace.(33) The CBO report warned that:

> Larger cuts in aid could well be imprudent. Israel and Egypt remain very important U.S. allies in a region still fundamentally unstable and dangerous. Moreover, Egypt's political stability--a linchpin of the prospects for lasting Middle East peace--is hardly assured at this time, and its prognosis might worsen if economic conditions deteriorated further.(34)

Clearly, ensuring peace in the Middle East required a prosperous Egyptian economy, and the CBO report recognized that economic malaise in the country could lead to political insurgency. The dilemma was how to decrease U.S. foreign assistance to Egypt while ensuring that the Egyptian government pursued economic liberalization. The solution decided upon was to increase American-Egyptian trade ties through promoting private sector investment while reducing official assistance. This was thought to ensure economic liberalization and growth in Egypt while preserving a strong American-Egyptian relationship. This was also in keeping with Congressional debates over changes to the future of U.S. foreign assistance programs, specifically "whether the United States still needs to maintain an active, globally focused economic aid program, or can it be transformed as a smaller, more targeted instrument, with some elements being 'privatized' that would support only the highest U.S. foreign policy interests."(35) Privatizing elements of the foreign aid program was considered to be a viable option in the case of Egypt.(36)

Congress pressed the Executive in 1993 to change the underlying principle of U.S. foreign assistance to 'trade and not aid.' Through increased foreign trade and stronger bilateral economic relations, Congress sought to preserve Middle East peace and promote economic liberalization in Egypt while decreasing official foreign assistance. In 1993, a senior administration official commented, "a key link to the talks on assistance with Egypt was the importance that the President [Clinton] and the U.S. attach to Egypt's economic reforms, which in the U.S. view are vital to the future of Egypt. And we want to continue to be as supportive as possible in that effort and helping Egypt progress toward self-sufficiency is a key objective."(37) Economic cooperation instead of aid dependency was the new aspiration for future American-Egyptian economic relations.

In 1995, U.S. Ambassador to Egypt Edward Walker stated, "what we really want to encourage is a relationship with Egypt based on trade, friendship and a partnership that is not ultimately based on aid," suggesting that the new relationship "represents a concerted effort by the U.S. business community and the U.S. government to expose American business to the opportunities of the region." Walker added, "[my] staff has diplomatically observed in our commercial publications that there are many American companies over the horizon waiting for the situation [of state control] to clarify."(38) The new initiative was to make "Egypt open for U.S. business." While the Executive and Congress generally considered enhanced trade with Egypt to be of more strategic and political than economic benefit, it was also thought that trade would be a more effective strategy than aid at inducing economic liberalization.(39)

In 1994, Vice President Al Gore was placed in charge of a dialogue with President Husni Mubarak to find a basis for the bilateral relationship with Egypt after the end of aid.(40) The new relationship was formally called the U.S.-Egypt Partnership for Economic Growth and Development. The purpose of the initiative was to foster American private investment in Egypt as an alternative to official U.S. government aid, ushering in a new model for U.S.-Egyptian relations.

The structure of the partnership consisted of various committees in charge of promoting private sector development. The committees included Economic Policy, Trade, Investment, and External Finance; Technology; Sustainable Development and the Environment; and Education and Human Resource Development. Some of the activities of the committee on Economic Policy, for example, involved providing technical advice on privatization, WTO rules, intellectual property right protection, improving Egyptian capital markets, establishing government securities, improving sales tax rules and agricultural price liberalization.(41) The partnership effectively started to promote American private sector initiatives and to promote economic liberalization.

Most importantly, the new relationship was institutionalized with the advent of a bi-national consultative council. The partnership established a joint private sector Presidents' Council, one in Egypt and one in the United States, to advise each government on opportunities to further advance Egyptian economic liberalization and bilateral economic relations.(42) The Council was composed of both American and Egyptian representatives who consulted independently, bilaterally and with their respective governments. The Council became an important policymaking forum on economic issues affecting both countries.(43)

The Presidents' Council consisted of 15 American and 15 Egyptian corporate representatives. Among the American companies involved were Lucent Technologies, Motorola, Citibank, General Electric, Pfizer, and Babcock and Wilcox. The U.S. representatives were mainly derived from the oil industry, and also from the telecommunications and pharmaceutical sectors. The Egyptian companies included the Egyptian British Bank, Ezz Group, Fine Foods Group, Nile Clothing Company, and the Orientals Group. Many of these companies have well-established connections with the Egyptian elite and are close to President Mubarak. These crony capitalists include the President's son, Gamal Mubarak, who was acting chair of the Egyptian Presidents' Council (a fact that lends credence to the suggestion that Egypt has changed its domestic base of support from public employees to business elites).(44)

The Presidents' Council became a new means of communicating American desires for Egyptian economic liberalization. The Council's influence in shaping Egyptian economic policy is evident. Public impression of the Council was that it had become the prime source for policy ideas, and in effect the new 'shadow cabinet' in Egypt.(45) This was, however, denied by members of the Council itself. The Egyptian Co-Chair of the Presidents' Council remarked, "The Council has a purely consultative role and has no executive authority of any kind."(46) A United States Information Service (USIS) spokesperson suggested that, despite the Egyptian Council's attempts to keep a low profile, it is widely regarded as an elite club.(47)

The Presidents' Council worked to advance many structural economic reforms, such as helping Egypt to privatize the telecommunications, banking, customs and taxation sectors. In March 1997, President Clinton said "the U.S.-Egypt partnership for economic growth and development has made a real difference by promoting privatization and tariff reduction."(48) President Clinton added, "The Presidents' Council… has achieved dramatic success, increasing trade and economic reforms, and deepening support for necessary economic reforms."(49) Vice President Gore and President Mubarak's joint statement affirmed that "the private sector must continue to play the role of a full partner with government in

Egypt's development," and welcomed the continuing input of the U.S.-Egypt Presidents' Council.(50)

American members of the Council have lobbied Congress for expanding Egyptian-U.S. trade relations into a free trade agreement; they have consulted with Egyptian Ministers to advance economic policy reforms; and have defended U.S. corporations, such as Babcock and Wilcox, Lucent Technologies and Microsoft, in disputes with the Egyptian government.(51) American members have also advocated U.S. corporate interests in Egypt and had strong connections to Vice President Al Gore's Office, the Treasury Department and the State Department.

In 1998, the Egyptian-U.S. relationship expanded further. On May 3, 1998, Vice President Gore announced the new Trade and Investment Framework Agreement (TIFA), which extended the scope of the 1994 U.S.-Egyptian Partnership for Economic Growth and Development.(52) U.S. Trade Representative Charlene Barshefsky highlighted that "entering into a TIFA with Egypt marked the first step toward creating freer trade between our two countries, and established the basis for stronger economic ties to bolster our joint efforts at further peace in the region."(53)

Though the TIFA was an important first step towards creating a legal framework for a future Free Trade Agreement (FTA) with Egypt, there are several issues that must be overcome before such an agreement is signed, including U.S. domestic concerns, such as the impact on unskilled American workers.(54) Such an FTA, if signed however, would have great importance as it would in effect create the beginning of a regional free trade area in the Middle East. As stated in a Congressional letter to President Clinton on November 1, 2000: "a U.S.-Egypt free trade agreement, when combined with free trade agreements with Israel, the Palestinians, and Jordan, would form the basis for a Middle East Free Trade Region with the essential peace partners. Regional economic integration will be a key to lasting peace and stability in the region."(55) Others, such as U.S. Trade Representative Charlene Barshefsky, have also mentioned such an agreement's importance for regional peace, "Free trade talks are not substitutes for peace negotiations, but they can help by giving countries a stake in each other's prosperity."(56)

After Congress approved the FTA with Jordan in October 2000, Congressional support for a similar agreement with Egypt started to mount.(57) The American members of the Presidents' Council were instrumental in alerting the Congressional members who had signed the letter in support of Jordan's trade agreement of the need to do the same with respect to Egypt.(58) As a result, forty-five Congressional representatives sent a letter to President Clinton on November 1, 2000, urging the administration to begin negotiating a FTA with Egypt and citing the geopolitical and economic benefits of such an agreement. Congress also noted that an FTA would be a suitable step toward streamlining official assistance to Egypt and would support the ten-year economic assistance phase-down negotiated between the two countries in 1998.(59)

Despite moderate Congressional support for a FTA with Egypt, the Clinton administration had reservations regarding the readiness of Egypt to become a full trading partner. Then U.S. Ambassador to Egypt Daniel Kurtzer highlighted several measures that needed to be implemented in Egypt before negotiating a FTA. The Government was to pursue:

> 1) full implementation of the WTO TRIPS [Trade-Related Aspects of Intellectual Property Rights] agreement; 2) implementation of the WTO Customs Valuation

> Agreement; 3) joining the WTO Information Technology and Basic Telecommunications Agreement; 4) liberalization of additional services and additional tariff reductions; 5) additional IPR [Intellectual Property Rights] protection; 6) improving Egypt's standards and inspection program; and 7) consider joining the WTO Government Procurement Agreement.(60)

While the Clinton administration was hesitant about entering into a FTA with Egypt, Egyptian diplomatic sources claim that George W. Bush's administration is more willing to formalize such an agreement.(61) Secretary of State Colin Powell discussed a proposed FTA during his trip to Egypt in February 2001. Presumably the talks went well, considering that President Mubarak announced on March 1, 2001 that he would be going to Washington to initialize a FTA with the United States in the coming months.(62) However, despite initial Egyptian optimism, a FTA did not arise from President Mubarak's trip to Washington. According to Egyptian government sources, the U.S. government requested that Egypt immediately implement the TRIPS agreement in order to protect U.S. pharmaceutical companies' patent rights in Egypt. For fear of social unrest, particularly following the revival of uprisings in the Palestinian occupied territories, which produced sympathy rallies in the streets of Cairo, the Egyptian government declined to sign the TRIPS agreement.(63) In a May 2003 speech to Egypt's American Chamber of Commerce, U.S. Ambassador to Egypt David Welch added that customs reforms, liberalization of trade in textiles and the removal of bans on some American meat products needed to be addressed.(64) Furthermore, in a June 2003 trip to the Middle East, U.S. Trade Representative Robert Zoellick stated that, despite advancements in intellectual property rights reform, "...what's important for Egyptians to recognize is that this [a FTA] is not just going to be handed to them on a plate by foreign ministers because Egypt is a big and important country. It's going to require some work."(65) Consequently, the Egyptian and U.S. governments have yet to finalize a FTA.

CONCLUSION

Egypt plays an important role in achieving the United States' strategic objectives in the Middle East, and consequently, the United States contributes approximately $2 billion per year to uphold that pro-Western regime. By the mid-1980s, Congress and the U.S. administration began to push for increased economic liberalization through foreign aid, but this produced very limited results. With the end of the Cold War, the United States sought to reduce Egypt's dependency on economic aid and to liberalize Egypt's economy using a new policy of increasing the amount of private investment in the country. This new strategy produced the U.S.-Egypt Partnership, its Presidents' Council, and several new trade agreements, which may eventually culminate in a free trade agreement between the two countries. Promoting economic liberalization in Egypt has been productive. Egypt has shed many of its statist policies through currency devaluation, increased privatization, trade liberalization, better fiscal management, and increased foreign investment.

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NOTES

1. William Quandt, "American-Egyptian Relations," *American-Arab Affairs*, Vol. 22, No.3 (Fall 1987), p. 2.
2. Clyde Mark, "Egypt-United States Relations," *CRS Issue Brief for Congress*, IB93087, 9 (February 9, 2001), p. 15.
3. U.S. Government Accounting Office (GAO), Egypt's Capacity to Absorb and Use Economic Assistance Effectively, September 15, 1977, ID-77-33, (Washington DC: GPO, 1977), p. 1.
4. U.S. Government Accounting Office (GAO), "The U.S. Economic Assistance Program for Egypt Poses a Management Challenge for AID," July 31, 1985, GAO/NSIAD-85-109, (Washington, DC: GPO, 1985), p. 7.
5. William Quandt, The United States and Egypt: an Essay on Policy for the 1990s, (Washington, DC: Brookings Institution Press, 1990), p. 33.
6. Clyde Mark, "Egypt-United States Relations," p. 11.
7. Department of State (DOS), "Briefing Papers for Vice President's Trip to Egypt," Declassified Cables, (August 1994), p. 3. This document was acquired through the Freedom of Information Act.
8. Gregory Aftandilian, Egypt's Bid for Arab Leadership: Implications for U.S. Policy, (New York: Council on Foreign Relations Press, 1993), p. 80.
9. See Robert F. Zimmerman, Dollars, Diplomacy, and Dependence: Dilemmas of U.S. Economic Aid, (Boulder: Lynne Rienner Publishers, 1993); James Phillips, "Options for the U.S. as Egypt's Time of Reckoning Nears," *The Backgrounder*, The Heritage Foundation, Vol. 546, No. 10 (November 1986), pp. 1-12; Alfred Atherton, Egypt and U.S. Interests, (Washington, DC: John Hopkins University, 1988); Gregory Aftandilian, Egypt's Bid for Arab Leadership: Implications for U.S. Policy, (New York: Council on Foreign Relations Press, 1993).
10. White House, Office of the Press Secretary, "Background Briefing by Senior Administration Official," White House Press Release, (October 25, 2:35 P.M. EDT. 1993), p. 8.
11. U.S. GAO, "The U.S. Economic Assistance Program for Egypt Poses a Management Challenge for AID," p. iii.
12. U.S. GAO, "Egypt's Capacity to Absorb and Use Economic Assistance Effectively," p. 1.
13. U.S. GAO, "The U.S. Economic Assistance Program for Egypt Poses a Management Challenge for AID," p. 9.
15. U.S. GAO, "The U.S. Economic Assistance Program for Egypt Poses a Management Challenge for AID," p. 20.
16. U.S. GAO, "The U.S. Economic Assistance Program for Egypt Poses a Management Challenge for AID," p. 10.
18. Zimmerman, Dollars, Diplomacy, and Dependence, p. 83.
19. U.S. GAO, "The U.S. Economic Assistance Program for Egypt Poses a Management Challenge for AID," p. iii.
20. See Heba Handoussa, "Fifteen Years of US Aid to Egypt: A Critical Review," in Ibrahim M. Oweiss, ed., *The Political Economy of Contemporary Egypt*, (Washington, DC: Georgetown University Press, 1990), pp. 109-124.
21. See Bessma Momani "American Politicization of the IMF" *Review of International Political Economy*, (forthcoming), for a discussion of how the U.S. government used its influence in the IMF to ensure Egyptian economic reforms were undertaken while keeping soft conditionality.
22. Edward Walker, "United States-Egyptian Relations: Strengthening Our Partnership," *SAIS Review*, Vol. 17, No. 1 (Winter-Spring 1997), pp. 147-62.
23. For a description of changes in U.S. foreign aid, see Curt Tarnoff and Larry Nowels, "Foreign Aid: An Introductory Overview of U.S. Programs and Policy,"

CRS Issue Brief for Congress 98-916F, (April 6 2001), p. 9.

24. This was expressed officially in March 1992, when the Department of Defense leaked a Pentagon report entitled 'Defense Planning Guidance' to the New York Times that stated: "We [the United States] must account sufficiently for the interests of the large industrial nations to discourage them from challenging our leadership or seeking to overturn the established political or economic order...we must maintain the mechanisms for deterring potential competitors from even aspiring to a larger regional or global role," quoted from Christopher Layne, "The Unipolar Illusion: Why New Great Powers Will Rise," *International Security*, Vol. 17, No. 4 (Spring 1993), p. 6. The document also stated that "the United States should be postured [sic] to act independently when collective acts cannot be orchestrated," quoted from Patrick Tyler, "US Strategy Plan Calls for Insuring No Rivals Develop," *New York Times*, March 8 1992, p. A6.

25. See Michael Mastanduno, "Economics and Security in Statecraft and Scholarship," *International Organization*, Vol. 52, No. 4 (Autumn 1998), p. 844.

26. See Institute for National Strategic Studies, "Strategic Assessment 1996: Instruments of US Power," (Washington, DC: National Defense University, 1996), Chapter 5.

27. See Duncan Clarke, "U.S. Security Assistance to Egypt and Israel: Politically Untouchable?" *The Middle East Journal*, Vol. 51, No. 2 (Spring 1997), pp. 1-21.

28. As stated by a Congressional aide in a personal interview.

29. See Clarke, "U.S. Security Assistance to Egypt and Israel: Politically Untouchable?" p. 10.

30. U.S. Congressional Budget Office (CBO), "Enhancing US Security Through Foreign Aid," April, 1994, (Washington, DC: GPO 1994), p. xxi.

31. U.S. CBO, "Enhancing US Security Through Foreign Aid," p. 67.

32. Clarke, "U.S. Security Assistance to Egypt and Israel: Politically Untouchable?" p. 3.

33. Select members of Congress also had vested interests in maintaining aid levels to Egypt because it was tied to contracts benefiting their constituencies' interests, such as businesses, universities and U.S. farmers. See Zimmerman, <u>Dollars, Diplomacy, and Dependence: Dilemmas of U.S. Economic Aid</u>; Handoussa, "Fifteen Years of US Aid to Egypt: A Critical Review;" US GAO, "Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed," June GAO/T/NSIAD-93-106. (Washington, DC: GPO 1993), pp. 35-36.

34. U.S. CBO, "Enhancing US Security Through Foreign Aid," p. 67.

35. Congressional Research Service (CRS), "Regional Free Trade Partners and U.S. Interests: What's Next?" Report to Congress 95-392F, (March 13, 1995).

36. A good example of how this was to be encouraged include changes made to the economic aid program. Part of the economic assistance given to Egypt was earmarked for the Commodity Import Program (CIP), which required the Egyptian government to use the funds to purchase commodities from American government-owned enterprises (such as garbage trucks, tractors and fire trucks). Congress later privatized the CIP by making private sector commodities eligible under the program.

37. The White House, Office of the Press Secretary, "Background Briefing by Senior Administration Official," White House Press Release, (October 25 1993, 2:35 P.M. EDT).

38. Quoted in *Business Monthly*, "U.S. Ambassador at AmCham Luncheon, Egypt is Open for Business," (September 11, 1995), p. 47.

39. See *CRS*, "Regional Free Trade Partners and U.S. Interests: What's Next?"

40. Based on a personal interview with a former Congressional aide in March, 1999. Also see The White House, Office of the Press Secretary, "Remarks by President Clinton and President Mubarak to Press," White House Press Release, (October 16 1994 1:35 P.M. EDT).

41. U.S. Embassy, "The U.S.-Egypt Partnership for Economic Growth and Development," (Cairo: US Embassy). <http://www.usis.egnet.net>

42. Since the change in U.S. administrations, the Presidents' Council has been renamed the Business Council.

43. Presidents' Council, "Report on US-Egypt President's Council Visit to Cairo and Alexandria," mimeo, (Washington DC: Chemonics International Inc, 1999), p. i.

44. See Jon Alterman, "Egypt: Stable, But for How Long?" *Washington Quarterly*, Vol. 23, No. 4 (Autumn 2000), pp. 107-118.

45. See Paul Jabber, "Egypt's Crisis, America's Dilemma," *Foreign Affairs*, Vol. 3 (Summer 1986), pp. 960-980; Denis Sullivan, "Bureaucratic Politics in Development Assistance: The Failure of American Aid in Egypt," *Administration and Society*, Vol. 23, No. 1 (May 1991), pp. 29-53. The term 'shadow cabinet' has been referred to in Heba Handoussa, "Fifteen Years of US Aid to Egypt: A Critical Review," in Ibrahim M. Oweiss, ed., *The Political Economy of Contemporary Egypt*, (Washington, DC: Georgetown University Press, 1990), pp. 109-124. This was similarly suggested in personal interviews with IMF staff members involved in the IMF-Egypt 1996 negotiations.

46. Quoted in *Business Monthly* "The President's Council Fired Upon By All," (May 11, 1997), p. 18.

47. Presidents' Council, "Report on US-Egypt President's Council Visit to Cairo and Alexandria," p. 34.

48. White House, Office of the Press Secretary, "President's News Conference with President Hosni Mubarak of Egypt," White House Press Release, (March 10, 1997), p. 269.

49. White House, Office of the Press Secretary, "President's News Conference with President Hosni Mubarak of Egypt."

50. White House, Office of the Press Secretary, "Joint Statement Following Meeting of Vice President Gore and President Mubarak," White House Press Release, (March 28, 1997), p. 1.

51. Based on information disclosed in personal interviews with a member of the Presidents' Council in the month of April, 2000.

52. Presidents' Council, US-Egypt President's Council; US Ambassador to Egypt, Daniel Kurtzer, in a presentation to the Egyptian Center for Economic Studies on July 18, 2000, referred to the TIFA as a "stepping stone to a FTA", found on the website of the President's Council <http://www.us-egypt.org/FTA/Kurtzer%20FTA%20Presentation.ppt>. Currently in the Middle East, the United States has a FTA with Israel (signed in 1985) and Jordan (signed in October 2000).

53. United States Trade Representative, "US and Egypt Inaugural Trade and Investment Agreement," Office of the USTR Press Release 99-96, (Washington, DC: November 18, 1999) <http://www.ustr.gov/releases/1999/11/99-96.pdf>

54. Ahmed Galal and Robert Lawrence, Building Bridges: An Egypt-U.S. Free Trade Agreement, (Washington, DC: Brookings Institution Press, 1998), p. 9.

55. U.S. Congress, Letter to President Clinton, November 1, 2000. (Cairo: US Embassy 2000). <http://www.us-egypt.org/senateletter.html>

56. "US, Egypt should consider trade pact," Reuters, [Cairo], (December 13, 2000). <http://www.arabia.com/egypt/article/print/english/1,5130,8349_Business,00.html>

57. "FTA Back in Focus" *Al-Ahram* Weekly On-line, No. 520, (February 8-14 2001). <http://www.amcham.org.eg/operation/events/Events03/David%20Welch.asp>
58. Presidents' Council, "US-Egypt President's Council."
59. U.S. Congress, Letter to President Clinton, November 1, 2000. It was proposed that economic assistance to Egypt should decrease by 5% yearly to $400 million in 2007. See Al-Ahram, "FTA Back in Focus."
60. Daniel Kurtzer, Presentation, US-Egypt President's Council, (July 18 2000). <http://www.us-egypt.org/ecesremarks.html>
61. Al-Ahram, "FTA Back in Focus."
62. Al-Ahram, "FTA Back in Focus."
63. According to an Egyptian government source, the Government believed that it would be best to delay signing the TRIPS agreement until it was a mandatory requirement under the WTO. Under WTO rules, least-developing countries were given a moratorium until January 1, 2006. Although Egypt is not considered a least-developing country, as classified by the WTO, Egyptian government officials believed that it could delay signing the TRIPS agreement until required by all members. The more immediate concern was fear of social unrest accompanying increases in pharmaceutical prices. The streets of Cairo were already unsettled because of renewed conflict between Israelis and Palestinians.
64. David Welch, "US Ambassador's Speech to the American Chamber of Commerce in Egypt," American Chamber of Commerce in Egypt, Cairo, May 28, 2003. <http://www.amcham.org.eg/operation/events/Events03/David%20WelchSpeech.asp>.
65. Robert Zoellick, "Transcript of the Press Availability," Remarks at Jollie Golf Conference Center, Sharm El Sheik, Egypt, (June 22, 2003). <http://www.ustr.gov/releases/2003/06/2003-06-22-sharm.pdf>

Appendix

Table 1: Composition of U.S. Foreign Aid to Egypt (in millions)(2)

Aid Type	1979	1981	1983	1985	1987	1989	1991	1993	1995	1997
Military	1500	550	1325	1175	1300	1300	1300	1300	1300	1300
Economic	835	829	750	1315	815	815	780	747	1113	815
Food	253	301	255	227	196	152	218	4	0	0
TOTAL	2588	1680	2330	2717	2311	2267	2298	2057	2413	2115