REFLECTIONS ON THE REVOLUTION IN EGYPT, PART II

HEARING

BEFORE THE

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THE MIDDLE EAST AND SOUTH ASIA

OF THE

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REFLECTIONS ON THE REVOLUTION IN EGYPT, PART II

WEDNESDAY, JUNE 20, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE MIDDLE EAST
AND SOUTH ASIA,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 1:30 p.m., in room 2200 Rayburn House Office Building, Hon. Steve Chabot (chairman of the subcommittee) presiding.

Mr. CHABOT. We're going to come to order. I believe the ranking member, Mr. Ackerman, will be here very shortly. The folks that are at the back, if you'd like to make your ways in a little bit and over here, I'm fine with that because I've been told that we're going to have to close the door at some point. I apologize for having a smaller meeting room. Two of the other subcommittees, yes, you can keep coming in. I know we've got some more folks out there. Normally, we're in the larger room. This is, I think, the first time in the last 2 years we've been in the smaller room. Because two of the other Foreign Affairs subcommittees have a joint hearing going on. So they're in the larger room. But feel free to come over this way, too, if there's not sufficient room over there.

I'm Steve Chabot. I'm the chairman of the Foreign Affairs Subcommittee on the Middle East and South Asia. As I said, I know the ranking member, Mr. Ackerman, will probably be here shortly. We believe we're going to be interrupted by votes here within the next 10 minutes or so. I think there are three votes which will take about ½ hour. So we're going to try to get through as much of this as we can before the votes happen. Even when the bells go off for the votes, we have about 5 to 10 minutes before we have to actually go, so we'll try to get in as much as we can. Maybe the introduction of the witnesses as well.

In any event, I want to thank everyone for being here this afternoon. I want to welcome my colleagues who will be arriving shortly, and all the folks that have shown interest in this particular hearing on Egypt this afternoon.

Just over 1½ years ago, Hosni Mubarak resigned as President of Egypt in response to massive and sustained protests by the Egyptian people. Unfortunately, as the last year has illustrated far too well, freedom rarely marches steadily forward in a straight line. A year and a half into the transition, Islamist groups have won a majority in the parliamentary elections. The Muslim Brotherhood candidate for President, Mohamed Morsi, appears to have won in

the recent run-off election. The Egyptian economy is on the verge of collapse. The trial against civil society NGO workers is still ongoing and perhaps most disturbingly recently, measures implemented by the SCAF appear to have the effect of actually rolling back democratic progress.

The events of the past week have been especially alarming. On June 13th, the Supreme Council of the Armed Forces, SCAF, reauthorized the use of military tribunals in cases involving Egyptian citizens. On June 14th, the Supreme Constitutional Court ruled that one third of the Egyptian Parliament was elected illegally. This prompted the SCAF to declare the entire Lower House of Parliament invalid. And on June 15th, the SCAF dissolved it and assumed full legislative authority.

The Egyptian parliamentary leadership has refused to recognize the decision, prompting security forces to surround the Parliament building. The SCAF also has now invalidated the standing constituent assembly, the body which was charged with writing the new constitution, and has taken it upon itself to appoint the new panel.

Finally, on June 17th, as the polls in the Presidential runoff election were closing, the SCAF issued an addendum to the March 2011 transitional constitution which, among other provisions, gives the SCAF veto power over any provisions of the forthcoming constitution.

We all knew Egypt's path toward democracy was not going to be without its bumps. With the President and the nearly 47 percent of the elected seats in the Egyptian Parliament going to the Muslim Brotherhood, and nearly a quarter to other Islamist parties, it is clear that Islamists will dominate the Egyptian political landscape in the near future.

And we all knew that the Egyptian military was to no small degree operating in uncharted territory in its efforts to oversee a democratic transition. But I don't think anyone expected events to unfold quite as they have.

While I continue to question the Islamist commitment to the principles of democracy, I believe the SCAF would have a positive and reinforcing effect, but unfortunately, far from calming the situation, I feel the recent decisions taken by the SCAF will only stoke already-inflamed tensions between the military and the public. And I also fear that the SCAF has lost a tremendous opportunity to be a force for good. Democratic transitions, even under the best of circumstances, are fraught with potential peril and a nascent Egyptian Government could have benefitted from a steady hand to help guide it forward. That opportunity appears to be departing and it is time for us all to face the fact that the genie, as they say, it out of the bottle.

Equally disturbing, however, is the state of the Egyptian economy. Since the revolution began, spending on public sector salaries and food and energy subsidies have skyrocketed, leading to a predicted budgetary deficit of $23 billion. Authorities have been financing this deficit by borrowing from domestic banks and using the country's foreign exchange reserves which have fallen nearly 60 percent from approximately $36 billion in early 2011 to $15.5 billion in June 2012.

The situation is fundamentally unsustainable. If foreign exchange reserves continue to dwindle, officials may be forced to depreciate the value of the Egyptian pound, a move that could boost interest rates and reduce asset values, potentially stalling any economic recovery. Sooner or later, Egyptians are going to have to face the fact that serious structural reforms are needed and they're going to need outside help. Although the International Monetary Fund and World Bank have offered assistance, some maligned officials, in particular, the Minister of International Cooperation, Fayza Abul Naga, have obstructed progress, citing the loan and its potential conditions as threats to Egypt's sovereignty. This is absurd and I would caution the forthcoming Egyptian Government to reconsider this stance as well as Abul Naga's role in any future government. Such a loan would offer Cairo the opportunity to make critical economic and governmental changes while continuing to provide for a Egyptian population in the meantime.

Although Egypt's exact path to democracy remains unclear, what is clear is that Egypt is an important country, a very important country, that is going through an extraordinary transition. I hope to see power handed over to a civilian government that is committed to a pluralistic Egypt that remains an ally of the United States and committed to peace with Israel. Decisions about U.S. assistance to Egypt must ultimately be shaped by the choices and policies made by whatever Egyptian Government that the Egyptian people choose to elect.

We have an interest in strongly supporting a democratic government that respects the rights of its citizens and rule of law, fosters greater economic opportunity and observes international obligations. We would obviously react very differently to any government that does not respect the institutions of free government, discriminates against or represses its own citizens, or which pursues policies which are destabilizing in the region. That said, we should be careful about making judgments too quickly. I suspect that the transfer of power, the government formation, and the constitutional revision process are going to take some time.

For decades, Egypt has been a critical ally to the United States and the global war on terror and in pursue to Arab-Israeli peace. Egypt has been, and I hope will remain, a leader in the Arab world and a force for peace in the region. I hope our witnesses here today can help us both understand the current state of affairs in Egypt and guide U.S. policy accordingly.

And at this time I would like to yield to the distinguished ranking member of this committee, the gentleman from New York, Mr. Gary Ackerman.

Mr. ACKERMAN. Thank you very much, Mr. Chairman. I want to start by thanking and commending all of our witnesses for appearing today and trying to help us to understand what's happening in Egypt and what it means for the United States and our national security.

If making predictions is a sucker's game, then making predictions about Egypt must be a sort for mad men, degenerate gamblers, and otherwise distinguished, sane, and expert congressional witnesses. [Laughter.]

Welcome. Every prediction about the Egyptian revolution, except for change, followed by uncertainty and capped off by the unexpected has failed. The path of the Egyptian revolution began not with Hosni Mubarak's expected death, but with that of a frustrated fruit peddler in Tunisia. President Mubarak was removed from power not by the masses, but ultimately by his fellow generals. And the generals of the Supreme Council of the Armed Forces, the SCAF, having seized power, have shown themselves alternatively painfully hesitant and spastically aggressive in their rule. What could not happen, did. What one expected now seems—what no one expected, now seems obvious. And what will finally come to be is not much clearer today than it was a year ago.

One of our nation's greatest writers, William Faulkner, who chronicled the way of the American South, continued years later to be shaped and gripped by the drama of the Civil War and the failure of Reconstruction authored a brief, but compelling warning to all those who expected to move swiftly and cleanly from one period to another. "The path," Faulkner wrote, "is never dead. It's not even past."

The many twists and turns of Egypt's post-Revolutionary transition accord with this idea because with the notable exception of Hosni Mubarak, the people contending for power in Egypt today are by and large the same people they were on January 24, 2011. Their outlook, goals, prejudices, and experiences did not disappear or transform when Hosni Mubarak ceased to be President. Even this revolution, as in every revolution, it is power, power, who will have it, what limits there will be upon it, and upon whom and for what ends it can be applied, power that is the object of the current struggle.

There was only one prediction that I heard that has held up. I heard it from one of the key actors in the present drama. About a year ago at a private dinner party, this top shelf player was being questioned aggressively about the prospects for the then upcoming parliamentary elections and what it would mean if the Muslim Brotherhood won. The elections, again and again, with almost impossible politeness, he deflected the question. "Their victory," he asserted, "was very unlikely. Really, almost inconceivable." But the questions continued to be thrown at him without respite.

"What would happen if they did win the elections? How can you be sure they're not going to win the elections? What if you're wrong? What if they have more strength than you think?" After ducking and dodging throughout the meal and with dessert departing untouched and no relief in sight, he finally retreated with some tinge of anger and got to the bottom line. He actually answered a different question. "The Muslim Brotherhood will never rule Egypt," he said.

That statement wasn't a prediction or a pledge for our benefit. It was an expression of a commitment that was much a part of this man as the marrow in his bones. Subsequently, I've gotten to know him better. He's a man of his word. And like it or not, he promises and he delivers.

It was in the wake of the Supreme Constitutional Court's action against the Parliament and in favor of the candidacy of the former

prime minister following the outcome of the Presidential election and vote in the shadow of the newly SCAF-issued amendments to the constitutional declaration. The question I wish had been pressed upon him once the Muslim Brotherhood is blocked from power, what then?

I suspect his answer would be something along the lines of saying the Nile will continue to flow. I guess we'll see.

Mr. CHABOT. Thank you very much. And at this time I'm going to go ahead and introduce the panel. You've probably heard the buzzers going off which is us being called for a vote on the floor. If the second bell hasn't gone off by the time I get through the introductions we may get in one of the testimonies here before we head over there, but I'll go through these quickly.

Our first witness will be David Schenker, who is the Aufzien Fellow and director of the program on Arab politics at the Washington Institute for Near East Policy. Previously, he served in the Office of the Secretary of Defense as Levant country director and was awarded the Office of the Secretary of Defense Medal for exceptional civilian service in 2005. Mr. Schenker holds an M.A. in Modern Middle Eastern History from the University of Michigan and a B.A. in Political Science and Middle East Studies from the University of Vermont.

Next, we have Michele Dunne, who is director of the Rafik Hariri Center for the Middle East at the Atlantic Council of the United States. Prior to this, she was a senior associate at the Carnegie Endowment for International Peace, and editor of the Arab Reform Bulletin from 2006 until 2011. She was also previously a Middle East specialist with the U.S. State Department where her assignments included serving on the National Security Council staff, on the Security of States Policy Planning staff in the U.S. Embassy in Cairo, and U.S. Consulate General in Jerusalem in the Bureau of Intelligence and Research. She holds a PhD in Arabic Language and Linguistics from Georgetown University where she was a visiting professor for 2002 until 2006 and we welcome you here this afternoon, Doctor.

And finally, we have Jon Alterman who holds the Zbigniew Brzezinski chair in global security and geostrategy and is director of the Middle East Program at CSIS. Prior to joining CSIS, he served as a member of the policy planning staff at the U.S. Department of State and is a special assistant to the Assistant Secretary of State for Near Eastern Affairs. Before entering government, he was a scholar at the U.S. Institute of Peace and at the Washington Institute for Near East Policy.

The second bell went off, I didn't quite make it. However, we've been joined by the former chair of the Full Foreign Affairs Committee, Mr. Berman from California, and as is the practice of this committee, if he'd like to take a minute for an opening statement? Okay, unfortunately, we have to head over to vote and we may not make it, especially as we get older, we get a little slower getting over there. So—and we don't want to miss a vote, so at this time, we will recess and as I understand we have about three votes, so we should be back ballpark around ½ hour. So we are in recess at this time.

[Recess.]

Mr. CHABOT. Okay, we're back in session and unless Mr. Berman has changed his mind about making an opening statement we'll go right to the witnesses and I'm assuming by his grin, that he is not.

So we've introduced the panel, so Mr. Schenker, you're recognized for 5 minutes. We again apologize for the temperature. I don't want to say it may be slightly cooler, because you've been here longer than I have. It doesn't feel quite as hot as it did, but we've got a lot of people in a relatively small room. We have a 5-minute rule. You have 5 minutes. The yellow light will come on. You'll have 30 seconds, excuse me, 60 seconds to wrap up and we ask you to stay within that if at all possible. So you're recognized for 5 minutes, Mr. Schenker.

STATEMENT OF MR. DAVID SCHENKER, DIRECTOR, PROGRAM ON ARAB POLITICS, WASHINGTON INSTITUTE FOR NEAR EAST POLICY

Mr. SCHENKER. Chairman Chabot, Ranking Member Ackerman, it's an honor to participate in this important hearing on the subject of vital national interest. I thank you for the opportunity to present my views to this committee today.

Today's hearing could not be more timely, well, actually, given the dynamic nature of post-revolt politics in Egypt, tomorrow might have been somewhat better. Earlier this week, it seemed the Muslim Brotherhood's Mohammed Morsi had won Egypt's hotly contested Presidential election. Tomorrow, however, it would not be surprising if we had learned that erstwhile Mubarak Prime Minister Afhmed Shafiq is Egypt's new chief executive. At this very moment, we just don't know. What we do know is that regardless who Egypt's next President is, barring an unexpected retreat of political power, Egypt will continue to reside with the military. And in order to maintain this power, Egypt's military will likely have to take increasingly repressive measures.

Meanwhile, this military, and whatever government emerges in Egypt, are together going to have to contend with a series of increasingly complex challenges that have in the last 16 months reached the crisis point. Foremost among these difficulties is the economy which has deteriorated precipitously since last year's revolt. Foreign reserves plummeted, capital has fled, foreign direct investment has dried up, inflation is taking hold, and tourism has dropped to a fraction of its pre-2011 levels.

In May, Minister of Finance Mumtaz Saad predicted that elections would "be the beginning of the national economic recovery." His assessment was overly optimistic. The effort to revitalize the economy will be hampered not only by continued political uncertainty and unrest, but also by the worsening security situation. The immediate aftermath of the revolt saw a rash of prison escapes and a surge in violent crime in Egypt, including car jackings, armed robberies, and kidnapings, a situation that drove much of the appeal for "law and order President candidate, Ahmed Shafiq." The security deficit is most conspicuous in the Sinai where armed groups are claiming allegiance to the ideology and agenda of al-Qaeda are becoming increasing active and Bedouin tribesmen have been kidnaping tourists and harassing the multi-national force and

observes. Operations by Gaza-based terrorists against Israel are emanating from the Sinai are also on the rise.

It's difficult to discern whether the Egyptian military is incapable or just unwilling to secure the Sinai. Both scenarios are troubling. Not only is insecurity in the Sinai unlikely to be contained indefinitely to the peninsula, should Israeli-Egyptian ties further deteriorate, border incidents will become more subject to populist politics and difficult to manage.

The bleak economic and security picture is accompanied by equally grim prospects for return to political normalcy. For the foreseeable future it seems, the Muslim Brotherhood and the SCAF will be locked in an ongoing and destabilizing struggle for power. At the same time, the Muslim Brotherhood will be challenged from the right by the Salafists, their chief political and ideological rivals, pushing the Brothers to take an even military line.

Regardless who prevails in the Presidential contest, Egypt seems destined for a combination of populist, Islamist, and authoritarian politics. While this may not imply an end to the peace agreement with Israel or strategic ties to the United States, changes in policies that impact women, political pluralism and religious tolerance could complicate bilateral relations with Washington. At the same time, the absence of a Parliament and a President with limited powers will diffuse authority, making it difficult for Washington to work with civilian leaders in Cairo on issues of mutual interest.

Continued military preeminence in Cairo may in the short term guarantee some long-standing U.S. strategic interests in Egypt: Priority access to the Canal, over slights, counterterrorism cooperation, and the maintenance of the peace treaty with Israel. But it is an inherently volatile situation. The opposition, Islamists and liberal alike, are sure to employ anti-U.S. populist politics as a cudgel against the military and should the military crack down and reinstitute draconian measures, it will further stress U.S.-Egyptian relations.

Sixteen months on the transition in Egypt is not over. Indeed, it is just beginning. And with limited leverage, Washington is going to have to pick its spots with both the military and civilian leadership. Populism, along with the social justice imperative of the revolution, will make it more difficult to sustain a critical political commitment to economic reform in Egypt. Washington must encourage Egypt to remain dedicated to economic reform and continue to remind Cairo of the inverse relationship between radicalism and foreign direct investment.

At the most basic level, however, Egypt is going to have to help itself. Already, the Salifists and the Muslim Brotherhood have opposed a Japanese loan to expand the Metro system in Cairo which Islamists consider is interest and prohibited by Islam. The Salifists are also opposed to the $3 billion IMF loan. It's not clear whether the Muslim Brotherhood and the SCAF will come down on this critical funding. At the end of the day, the sine qua non for maintaining the substantial U.S. aid package to Egypt is a continuity of the core elements of the strategic partnership. While the instinct may be to lower the standard for other less pressing issues, Washington should, in fact, take the opposite tact. If democracy in Egypt is ever to take root, regardless of who is at the helm, Cairo should be held

to a high standard in this coming period in terms of human rights, religious freedoms, political pluralism, and women's rights. Revoking or reconfiguring the U.S. aid package right now would likely be more provocative than productive. Lest these issues fall by the wayside, a periodic congressional report requirement for the administration could keep this issues on the front burner.

Egypt with 83 million people is too big and too important to fail. But a return to authoritarianism, either religious or secular, would also be a failure, dashing Egypt's aspirations, undermine U.S. interests in the region and ensuring continued instability in this critical state. Thank you.

[The prepared statement of Mr. Schenker follows:]

U.S. House of Representatives

Committee on International Relations

Subcommittee on the Middle East and South Asia

"The Revolution in Egypt: Turning Point?"

Testimony by David Schenker, director, Program on Arab Politics

The Washington Institute for Near East Policy

June 20, 2012

The uprising that toppled President Hosni Mubarak was an incredible achievement for Egyptians. Under Mubarak, Egypt was a key regional ally of Washington, a reliable peace partner for Israel, and an island of stability in a turbulent Middle East. But Mubarak was also an authoritarian, whose ruling party presided over an increasingly repressive state apparatus at home. With Mubarak gone, Egyptians have a chance to chart their own course. And over the past year and a half, they have been doing so via unprecedented political contestation. Sixteen months after the revolt, however, it's not clear that Egypt is headed for either democracy or stability.

This week's elections promised to be the culmination of a prolonged period of instability. Instead of signaling the onset of normalcy, however, the apparent election of Muslim Brotherhood's Freedom and Justice Party (FJP) candidate Mohammed Morsi touched off a renewed round of instability in the state. Two Constitutional Court decisions issued only days before the presidential elections threatened to derail the voting. The first ruled that one candidate—former Prime Minister Ahmed Shafiq—would be allowed to compete, notwithstanding a law that banned former regime officials from participating. The same day, the court also disqualified one-third of the seats elected by party list during the winter parliamentary elections, a decision that led to the dissolution of the four-month old parliament.

Meanwhile, with parliament dissolved, the Supreme Council of the Armed Forces or SCAF has assumed legislative powers, and has announced that it would appoint the Constitutional drafting committee, a body that had previously been selected by the now-dissolved Islamist-controlled parliament. Already, this new body is inserting language ensuring the military remains unaccountable to civilians. Taken together, these steps have been understood by many Egyptians as a soft coup, safeguarding the continued dominant political position of military. In the process, the legitimacy of Egypt's leadership and formally respected institutions—in particular the judiciary—have been undermined.

Revolutions are messy, but the last year and a half in Egypt has been particularly erratic. And the political volatility is sure to continue. The SCAF has announced that it will return to the barracks on June 30, but this will not represent an end to the military's role in and above Egyptian politics. Indeed, the Muslim Brotherhood's control of the executive (if confirmed)—and, most likely, the next legislature—puts the Islamists on a collision course with the military. Egypt's Islamists are already refusing to recognize the court decision dismissing parliament. At the same time, the SCAF's monopolization of Constitution-writing is sure to make the process contentious. Making matters worse, security in the Sinai and throughout much of Egypt continues to deteriorate.

Economic Morass

Egypt today faces enormous challenges. Notwithstanding the ongoing democracy deficit, perhaps foremost among Egypt's ongoing difficulties is the economy. The economy has long been a source of dissatisfaction for Egyptians, a problem often summarized by the now-axiomatic World Bank statistic that some 40 percent of Egyptians survive on less than two dollars a day. In recent years, though, the combination of low wages, high under-employment, and inflating prices of commodities contributed to an acute sense of desperation. To wit, in an April 2011 International Republican Institute poll, 64 percent of Egyptians identified "low living standard/lack of jobs" as the key factor influencing their decision to support or participate in the uprising.

Since the revolt, the Egyptian economy has degenerated to the point of crisis. Foreign reserves have plummeted from $36 billion in February 2011 to less than $15 billion, capital has fled, foreign direct investment has dried up, inflation is taking hold, and tourism—a sector that traditionally sustained about 11 percent of the economy—has been reduced to a fraction of its pre-2011 levels. Not surprisingly, not only have rates of poverty and unemployment increased, frustrations have spiked among the vast majority of Egyptians who expected their household finances to improve in 2011. The dour mood is reflected in popular polling. In March 2012, 88

percent of those polled said they were pessimistic about Egypt's economic prospects—an astounding increase from 11 percent just a month earlier.[1]

Short on cash and with precious few sources of revenue, Cairo is borrowing from domestic banks at interest rates in excess of 15 percent to help cover its $23 billion budget deficit. It also borrowed $1 billion from the Egyptian military. To fill the gap, the Government is also issuing its own bonds, including notes sold in April due in 2040 providing a return of 8.3 percent.[2] In an effort to stem capital flight and declines in the market, earlier this month Prime Minister Ganzouri banned local brokerage firms handling securities from dealing with foreign equity outside of Egypt. The purpose of the bank, as the chief economic analyst at the leading Egyptian daily *Al Masry al Youm* observed, was to "close the door to funds moving abroad."[3]

In May, the Minister of Finance Mumtaz Saad predicted that elections would be "the beginning of national economic recovery."[4] Notwithstanding the minister's optimism, however, it's not clear when, how, or if the situation will improve. Much will depend on the trajectory of Egyptian politics. No doubt, ongoing protests will undermine efforts to return to economic normalcy. So too will continued clashes between state security forces and the civilian opposition.

The Egyptian bourse has been particularly jittery since the revolt. After losing half its value in 2011, the stock market rebounded in early 2012. Since then, however, political shocks have left the bourse shaking. When the Muslim Brotherhood reversed its decision and announced this past April that it would run a candidate for president, for example, the EGX 30 stock index dropped almost four percent. On June 18th, the market constricted another 3.4 percent, a twenty percent dive from its post-revolt peak in March.

Egypt's young demographic and growing consumer class remain attractive to investors. Indeed, just last year, Procter & Gamble built a $1.5 billion diaper factory outside of Cairo. Still, foreign direct investment will not return to Egypt so quickly, particularly given the likelihood of a devaluation of the Egyptian pound. Another concern for foreign investors will be the economic policies of post-Mubarak Egypt.

Free Market Future?

There appears to be broad consensus among Egypt's political (and military) leadership that the country should continue along the path of free market economics. In the current populist political environment, however—given that the clarion cry of the revolt was "social justice"—free market capitalism may be a tough sell. Indeed, despite a doubling of per capita GDP from $3,000 in 1998 to $6,000 in 2009, economic reform is negatively viewed by most Egyptians.

Starting in 2004, the Mubarak regime introduced a series of economic reforms which resulted in impressive economic growth. In 2007, Egypt posted real gross domestic product (GDP) growth of 7.1 percent; 7.2 percent in 2008; and a 4.7 percent rate of GDP growth in 2009. Compared to previous years, growth in 2009 seems low. Yet given that this growth occurred at the low point of the global economic downturn, the number was remarkable.

Impressive numbers aside, the vast majority of Egyptians did not benefit much from the reforms. At least in part, the problem was that the benefits of economic expansion failed to trickle down to the poor while Mubarak regime associates profited richly from the new rules and the privatization process. As a result of this dynamic, Egyptians today largely associate the era of economic reform with corruption and crony capitalism.

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[1] Maryam Badr Eddin, "Al Maalumat: Inkhifad thiqa al mustahlik al Masri khilal Maris binisba 2.1%," *Al Yawm al Saba*, April 11, 2012.
[2] Muhammed Ahmed Al Sadani, "Irtifa al 'aaid al sandat al dolarat bisabab taakir qurud sunduq al naqd," *Al Masry al Yawm*, April 12, 2012.
[3] Amir Haidar, "Al Ganzuri, youthir ta'amal sharikat al samsara fil isham al ijnabi," *Al Masry al Youm*, June 4, 2012.
[4] Mohsin Abdl Raziq, "Wazir al maliya: Al Mashad al intikhabi bidaya lita'fi al iqtisad," *Al Masry al Youm*, May 24, 2012.

Notwithstanding, Egypt's Islamists –both the Muslim Brotherhood and Salafist parties--have said they are committed to free-market economics and have issued economic programs that largely adhere to this model. (A notable exception is some support for trade protectionism). Muslim Brotherhood officials have visited Egypt's bourse and declared support for the institution, and the organization's former deputy supreme guide and one-time presidential candidate Khairat al-Shater is an unabashed entrepreneur and millionaire. As Brotherhood member and businessman Hassan Malik told the Egyptian daily *Al Masry al Youm* in October 2011, Mubarak-era economic policies were "moving in the right direction." The problem, he said, was that they "were marred by rampant corruption and cronyism."

While these sentiments may be reassuring, it's unclear if they'll be sufficient. Al-Shater, for example, has suggested that there will be "social constraints" on the private sector in an "Islamic system" of government favored by the Brotherhood. And Morsi has issued a number of problematic populist and expensive campaign promises, including forgiving the debts of all Egyptian farmers and providing raises of 400 percent to Egyptian soldiers.

Perennial Economic Challenges

Regardless of who heads the new Government, prevailing populist politics in Egypt will complicate the implementation of sound reform-minded economic policies. Even if Egypt's next Government pursues good policies, however, perennial challenges remain-- chief among them endemic unemployment. Egypt needs 6 percent annual GDP growth just to provide enough jobs for the 650,000 Egyptians that enter the job market every year. This past year, growth only reached 2.5 percent, and is forecast to drop to under 2 percent in 2012.

Subsidies are also a significant drag on the economy. Energy and food subsidies—a relic of Nasserist socialism of the 1950s—comprise $24 billion of Egypt's $105 billion budget this year. In the 1970s, then-President Anwar Sadat tried to phase out some of these subsidies, a move that resulted in widespread riots. The Mubarak government had likewise pledged as part of its economic reform initiative to phase out fuel and electricity subsidies by 2014, but had accomplished little by the time he was deposed.

The new Egyptian Government budget includes a 27 percent reduction in fuel subsidies. It's a positive first step, especially given that 90 percent of this assistance goes to the top 20 percent of Egyptian households—a subsidy that International Monetary Fund (IMF) Middle East and Central Asia Department director Masood Ahmed says targets the rich. Reform of the food assistance, however, in particular the $2.7 billion to subsidize bread, is not likely to occur anytime soon. Egyptians have come to depend on government food subsidy, especially for wheat products. Today the state is the world's top wheat importer, bringing in about 7 million tons per year to feed the import-dependent state. Egypt's insolvency makes payment for the subsidies increasingly difficult.

Global increases in the food prices combined with rising local unemployment, and a lower value for the Egyptian pound could prove a volatile combination. Back in May 2011, Maj. Gen. Mahmoud Nasr of the SCAF held a press conference in Cairo, in which he said the poverty rate could reach 70 percent, inspiring a "revolution of the hungry."

The Security Problem

To a great extent, an improved economy and prospects for a more stable Egypt are dependent on the re-establishment of security. The immediate aftermath of the revolt saw a significant deterioration in security in Egypt, including a series of widely reported prison escapes and a surge in violent crime, including car-jackings, armed robberies, and kidnappings. A series of factors have contributed to the deterioration, not the least of which has been that security forces have lost personnel, capacity, and motivation since the uprising. An influx of weapons from Libya hasn't helped, either. Despite Mubarak's resignation and promises to reform the police and state security services, the security situation has failed to improve. The spike in crime drove much of the appeal for Ahmed Shafiq in the presidential contest. He was, essentially, the law-and-order candidate.

The most conspicuous manifestation of the security deficit is in the Sinai, where armed groups claiming allegiance to the ideology and agenda of Al Qaida are becoming increasing active. These groups are largely believed to have been responsible for the 14 attacks on the natural gas pipeline between Egypt and Israel and Jordan in the Sinai. Lately, Bedouin tribesmen have also become a threat, kidnapping tourists and harassing the Multinational Force and Observers (MFO). On 29 July 2011, hundreds of Bedouin shouting Islamic slogans exchanged fire with security services and attacked the El-Arish police station in northern Sinai, killing three civilians and two security officers. In March 2012, a group of armed tribesmen surrounded the MFO camp at El Gorah for eight days, demanding the release of Bedouin imprisoned nearly a decade earlier for terrorist bombings. More recently, on June 11, 2012, a group of unidentified assailants ambushed police and military along the El-Arish ring road.

Operations by Gaza-based terrorists against Israel emanating from the Sinai are also on the rise, with once-infrequent cross-border rocket strikes and cross-border attacks becoming a routine occurrence. Earlier this week on June 18, terrorists entered Israel from the Sinai and detonated a road-side bomb, killing one Israeli civilian. In August 2011, the Popular Resistance Committees (PRC), a Palestinian organization, launched a cross-border raid on Israel from Egypt that killed eight Israelis, including two soldiers. Making matters worse, while in pursuit of the attackers in August 2011, Israeli forces killed six Egyptian soldiers, a development that sparked a bilateral crisis.

It's difficult to discern whether the Egyptian military is incapable or just unwilling to secure the Sinai. Both scenarios are troubling. Insecurity in the Sinai is unlikely be contained to the peninsula indefinitely: Egypt has a troubling history of terrorism in the Nile Valley targeting westerners, Coptic Christians, and the state alike. And should Israeli-Egyptian ties further deteriorate, border incidents will become more difficult to manage. Still firmly in control in August 2011, the SCAF was able to ignore popular demands to expel the Israeli ambassador from Cairo and prevent Israeli ships from transiting the Suez Canal. If and when the SCAF returns to the barracks, however, a similar situation might be handled in a less productive way. As it happened, the State was barely able to secure Israeli diplomats in Cairo, who were almost lynched by an angry mob.

US Policy Implications

Muslim Brotherhood officials had pledged another "more violent" revolution if Shafiq had been elected, so Morsi's apparent win may at least temporarily forestall a clash with the military.[5] Still, the victory was not decisive, and it's safe to say that few will be truly happy with Morsi's victory. As the disqualified Islamist erstwhile presidential candidate Abdel Monem Aboul Fattouh pointed out while endorsing Morsi on the eve of the election, the choice was between "bad and worse."

It's unclear how the Muslim Brotherhood and the Salafists will perform when elections are eventually held for the new parliament. Some Egyptian analysts like Mahmoud Salem, who is better known by his blogging moniker "Sandmonkey," say Islamist popularity has been on the decline in recent months based on broken promises, few legislative accomplishments, and a rising fear or theocracy. At the same time, it appears likely that the Muslim Brotherhood will be challenged on the right by the Salafists, their chief political and ideological rivals, a development that could push the Brothers to take an even more militant line. Before the parliament was dissolved, this dynamic was already playing out.

The biggest competition in the coming months, however, is likely to be between the Muslim Brotherhood and its allies, and the SCAF, a struggle that may involve mass protests, further destabilizing Egypt.

Although the military via extremely friendly constitutional amendments may have the upper hand for the immediate future, for Washington the election of Morsi is a clarifying moment. Depending on what powers the president retains, Morsi may have an opportunity to impact the policy agenda via the selection of a cabinet.

[5] Almost certainly, if Shafiq is somehow declared the victor on Thursday June 21, mass demonstrations will ensue.

While this would not immediately impact Egypt's foreign relations, the peace agreement with Israel, or strategic ties to the US, populist and/or Islamist policies that impact women, political pluralism, and religious tolerance could complicate bilateral relations with Washington. Calls by senior Muslim Brotherhood officials and leading FJP boosters for the re-establishment of the caliphate and the liberation of Jerusalem will do little to help, either.

Egypt's economic policies could also impact the relationship, especially given the Administration's pledge—articulated on March 3 by State Department spokeswoman Victoria Nuland—that the US was "committed to ensuring Egypt's economic and financial stability." While the prospect of Egypt as a failed state is unappealing, it's not exactly clear what the administration's commitment entails -- or whether the obligation will endure implementation of illiberal and repressive legislation in Cairo.

Washington and the international community should encourage Egypt to commit to economic reform and to lay out a clear vision of where the economy is headed. The US can also continue to emphasize to Egypt and its Islamist-led Government the inverse relationship between radicalism and foreign direct investment. At the most basic level, however, Egypt is going to have to help itself. Already, the Salafis and MB have opposed Japanese loan to expand the Metro System in Cairo, which Islamists consider as *ribh*, or interest, and prohibited by Islam. The Salafis are also opposed to the $3 billion IMF loan. Will the Muslim Brotherhood be able to withstand the pressure?

For the foreseeable future, even if the military returns to the barracks, it will remain the key power center in Egyptian politics. For many Egyptians, this status quo is undemocratic and unacceptable, falling well short of the goals of the revolt. This dynamic alone is sure to contribute to an ongoing tense environment in Egypt, perpetuating the instability of the past 16 months. The absence of a parliament and a president with limited powers will likewise diffuse authority, making it difficult for Washington to work with civilian leaders in Cairo on issues of mutual interest.

Continued military preeminence in Cairo may in the short term guarantee some longstanding US strategic interests in Egypt—priority canal access, over-flights, counterterrorism cooperation, and the maintenance of the peace treaty with Israel-- but it is an inherently volatile situation. The opposition, Islamist and liberal alike, is likely to employ anti-US populist politics as a cudgel against the military, and, should the military crackdown and re-institute draconian measures, it will further stress bilateral relations.

Sixteen months on, the transition in Egypt is not over. Indeed, it is just beginning. With limited leverage, Washington has to pick its spots with both the military and the Islamist leadership. The *sine qua non* for maintaining the substantial US aid package to Egypt is the continuity of the core elements of the strategic partnership. While the instinct may be to lower the standard for other, less pressing issues, Washington should in fact take the opposite tack. If democracy in Egypt is to take root, Cairo should be held to a high standard in this coming period in terms of human rights, religious freedoms, political pluralism, and women's rights.
Egypt, with 83 million people, is too big and too important to fail. But a return to authoritarianism—either religious or secular—would also be a failure, dashing Egyptian's aspirations and undermining US interests in the region.

Mr. CHABOT. Thank you very much. I appreciate your testimony this afternoon.

Dr. Dunne, you're recognized for 5 minutes.

STATEMENT OF MICHELE DUNNE, PH.D., DIRECTOR, RAFIK HARIRI CENTER FOR THE MIDDLE EAST, ATLANTIC COUNCIL

Ms. DUNNE. Thank you, Mr. Chairman, for the honor of testifying before the subcommittee. I'll summarize the written statement that I've submitted.

With the conclusion of their first post-revolution Presidential election, Egyptians should have been celebrating this week, the transition from inter-military rule to government by elected civilians. Instead, they're back demonstrating in Tahrir Square. The question, Mr. Chairman, is whether the democratic transition in Egypt has gone irretrievably off the rails or whether it can get back on track.

We're awaiting the final results of the Presidential election. Today, a coalition of judges who set out to do a parallel count of the vote announced that they agreed with the Muslim Brotherhood, that Freedom and Justice Party candidate Mohamed Morsi won by about 900,000 votes out of a total of about 25 million votes cast. But the Presidential Election Commission, whose decisions are final and cannot be appealed in court, is now reviewing complaints of irregularities by both campaigns and will announce the final results soon, perhaps tomorrow.

Unfortunately, demonstrations and violence might well ensue, particularly if the Commission disqualifies enough votes to name former Prime Minister Afhmed Shafiq the winner. Sixteen months after promising to oversee a democratic transition, the Supreme Council of the Armed Forces, the SCAF, was as of last week on the verge of finally surrendering executive powers. But at the eleventh hour, as you know, the Supreme Constitutional Court invalidated the law under which the Parliament was elected and the SCAF acted quickly to reclaim legislative powers from what Egyptians call the Parliament of the revolution in which Islamists held a majority, as well as to limit the new President's power.

So among the most troubling elements of this supplementary constitutional declaration issued by the SCAF on June 17th is that it gives the SCAF the power basically to control the writing of the new constitution, to control who will be on the assembly that writes that constitution, to set the timetable and to object to any article in the constitution. It also will allow the SCAF to retain legislative powers and budgetary authority for months, perhaps even through the end of this year, until—because now, parliamentary elections cannot take place until there is a—until the new constitution is already in place. And then, of course, there will need to be a revision of the electoral law and so forth based on the court decision. So this is going to draw out for quite a while. And the SCAF will, according to this decree, be able to remain free from control by the new President who will be unable to appoint any senior defense ministers or make decisions on any military matters.

In sum, this constitutional declaration removed the Parliament as a counterweight, the SCAF, and it positions the military as a power separate from and above civilian authorities, and it forces

the writing of a new constitution in haste and under the pressure of military rule.

Now Egyptians are now asking whether this court ruling invalidating the Parliament was an impartial ruling, particularly after a series of indications from senior members of the judiciary that some of them now feel they need to take aside in this power struggle between the SCAF and the Brotherhood, which is truly unfortunate because the judiciary was among the most respected institutions in Egypt. But even if it was—let's say it was an impartial court decision to invalidate the law under which the Parliament was elected. It really doesn't justify the SCAF's declaration after that. The SCAF could have simply called for new parliamentary elections. It did not have to see some of the powers that the existing constitutional declaration would have given the President. And it certainly did not have to cease control of the writing of a constitution.

This disruption and manipulation of the political transition—I have to say as I was thinking about this, the phrase Etch-a-Sketch transition came to mind. Every once in a while when the SCAF sees that it doesn't like the way things are going with the transition, they just sort of shake it up and start drawing it all over again. You know, it does come at the expense of Egypt's economy, as Mr. Schenker was just saying, as well as national security, because both of these things are going to suffer as a result of the ongoing struggle between the military and the Brotherhood.

Now the United States might not be able to control or change the behavior of Egypt's SCAF. They appear to be willing to pay any price to avoid bowing to the choices of the voters. But the United States can and should decline to use its taxpayers' funds to support such leaders. The United States should withhold assistance until the situation in Egypt clarifies, withhold at a minimum military assistance, while articulating a desire to build a new partnership with Egypt once it's on the road to becoming truly democratic, to respecting the rights of all its citizens, and to playing a responsible and peaceful regional role. Thank you very much.

[The prepared statement of Ms. Dunne follows:]

IDEAS. INFLUENCE. IMPACT.

Reflections on the Revolution in Egypt, Part II

Subcommittee on the Middle East and South Asia
Committee on Foreign Affairs
U.S. House of Representatives
June 20, 2012

Testimony by

Michele Dunne
Director
Rafik Hariri Center for the Middle East
Atlantic Council

Thank you, Mr. Chairman, for the honor of testifying before the subcommittee.

With the conclusion of their first post-revolution presidential election, Egyptians should have been celebrating this week the transition from interim military rule to government by elected civilians. Instead, they are demonstrating in Tahrir Square again. The question, Mr. Chairman, is whether the democratic transition in Egypt has gone irretrievably off the rails or can get back on track.

The Supreme Council of the Armed Forces (SCAF) promised in February 2011 that they "would not go back on their promise to surrender the country to civilian authorities within six months" and that "the pre-January 25 status quo will never return."[1] Sixteen months after making that promise, the SCAF was on the verge of finally surrendering executive powers to an elected president, having given over legislative powers six months ago to an elected parliament. But at the eleventh hour, the SCAF acted in concert with the Supreme Constitutional Court to reclaim legislative powers from the "Parliament of the Revolution" in which Islamists held a majority, as well as to limit the new president's powers. After the court declared the parliamentary elections law invalid on June 14, thereby requiring the assembly's dissolution, the SCAF issued a supplementary constitutional declaration that allows it to:

- control the writing of a new constitution, having arrogated the power to appoint the constituent assembly and set the timetable for writing the document, as well as to object to any article;
- retain legislative powers for at least four months more, or until after a new constitution is in place (new parliamentary elections will not take place until one month after the constitution is approved in a popular referendum); and

[1] "SCAF: We will return authority to civilians and the constitutional committee will complete work within 10 days" (report of SCAF meeting with editors of major newspapers), *al-Masry al-Youm* (Arabic), February 15, 2011.

- remain free from control by the new president, who will be unable to appoint a new defense minister, hire or fire any military officer, or make any decision on military matters.

In sum, the declaration positions the military as a power separate from and above elected civilian authorities, and forces the writing of a new constitution in haste and under the pressure of military rule.

SCAF officials have said repeatedly in public and in private that they do not want to rule Egypt. That might be true, but what these developments show is that they want even less to allow anyone else, including democratically elected representatives, to rule the country. While there is a fig leaf of judicial legitimacy to the decision invalidating the parliament, it is difficult to escape the conclusion that the military leadership saw that Mohammad Morsy, candidate of the Freedom and Justice Party (formed by the Muslim Brotherhood), was about to win the presidency and acted preemptively to deprive the Brotherhood of its parliamentary majority.

Even if the invalidation of parliament was the result of an impartial judicial ruling, there would be no justification for the SCAF's recent declaration. The SCAF could have simply called for new parliamentary elections to be held as quickly as possible, without seizing powers from the president and forcing the writing of a constitution before a new parliament could be chosen.

It seems likely, however, that senior members of the Egyptian judiciary (one of the few institutions that enjoyed credibility with the public) have decided to take sides in this power struggle. The June 14 ruling came on the heels of a number of other judicial moves that served SCAF interests, including:

- a Ministry of Justice decree granting military police and intelligence officers the authority to arrest civilians, in effect resurrecting the hated state of emergency that expired on May 31 and could not be renewed without parliamentary approval;
- the legally-weak June 2 conviction of former President Mubarak on charges of failing to prevent the use of violence, which is likely to be overturned on appeal, while acquitting all six of the high-ranking security officers in the case. This continues a pattern established by the SCAF, in which a couple of top level officials will be sacrificed while those likely to have had real responsibility for violence against protesters are protected.
- public statements by Judges Club President Ahmad al-Zend, who said during a June 7 press conference that he and other members of the judiciary would not have agreed to supervise parliamentary elections had they know what the outcome would be, and warned that, "From this day forward, judges will have a say in determining the future of this country and its fate. We will not leave it to you to do with it what you want."

This disruption and manipulation of the political transition to serve military interests also comes at the expense of Egypt's economy and national security, which will suffer as a result of the ongoing struggle between the military and the Brotherhood. The economy is teetering on the brink of disaster, and the new developments will push off for months the time when international financial institutions and donors feel confident enough to make loans and grants to a new Egyptian government. Meanwhile the lawless atmosphere in the Sinai continues to present threats to Israel (as seen in the June 18 incursion in which one worker was killed) and to inhibit a return of tourists to Egypt; it will be difficult for the new president and military to impose order there amidst this political chaos.

The US administration has chosen until now to place its bet with the SCAF, showing consistent support for the Egyptian military despite pervasive human rights abuses and even a campaign against American

non-governmental organizations carried out under military rule (which still continues). It is time to reconsider that bet, and to apply the conditions that the Congress placed on future military assistance, which the administration chose to waive in May. The United States might not be able to control or change the behavior of Egypt's generals, who appear willing to pay any price to avoid bowing to the choices of Egyptian voters. But the United States can and should decline to use its taxpayers' funds to support such leaders. The United States should withhold assistance for now, while articulating a desire to build a new partnership with Egypt once it is on the road to becoming truly democratic, respecting the rights of all of its citizens, and playing a responsible and peaceful regional role.

Thank you, Mr. Chairman.

Mr. CHABOT. Thank you very much.

Dr. Alterman, you're recognized for 5 minutes.

STATEMENT OF JON B. ALTERMAN, PH.D., DIRECTOR, MIDDLE EAST PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. ALTERMAN. Thank you, Mr. Chairman, Ranking Member. It's a great honor and a pleasure to appear again before you this afternoon to discuss developments in Egypt. Watching Egypt for the last 18 months has been a humbling experience. I've been constantly surprised. And although conspiracy theories abound, I'm convinced that everybody is completely making this up as they're going along and they've been doing so for some time now.

Each of status quo is deeply troubling to us as Americans and its allies, but it seems to me it's not sustainable. Our strategic goal has to be to try to influence Egyptian politics so they become more inclusive and ultimately more resilient. While I'm discouraged of what's happened in Egypt in recent months, I'm not yet ready to despair, nor should you be.

Events in Egypt are disturbing, in part, because hopes were so high in February 2011. Egypt's protests then seemed to promise the rise of a more pluralistic and inclusive country. The image of Egypt that emerged from the revolution was a country that embraced young and old, rich and poor, Christian and Muslim, religious and secular, urban and rural.

Through the Mubarak years, where I lived off and on in Egypt, there was often a sort of dour xenophobia that lurked under the surface. It seemed to me to reflect a certain insecurity and lack of self confidence among Egyptians, a manifestation of their awareness that they were once a world leading civilization, more recently that led the Third World, but they have fallen far behind former peers such as South Korea and ceded influence in the Arab world to the wealthier countries in the Gulf. All of that evaporated with the advent of the protests that brought down Hosni Mubarak. The world's eyes were on Egypt for the first time in a half century. Ordinary Egyptians were lionized and Egypt once again seemed to be in the vanguard of a movement that led hundreds of millions of people.

With the military's reassertion of power, that hope has evaporated. The question of what U.S. policy should be in the midst of all this is both important and subtle. Long before the fall of Hosni Mubarak, there were pathologies in the U.S.-Egyptian relationship that needed addressing, but weren't being addressed. We have to address those pathologies and define a relationship going forward that serves both our interests and our values.

As I've told this committee before and as I've written other places, I've long thought it would be helpful to right size our aid relationship with Egypt. The steady provision of $1.3 billion a year in annual military assistance over more than 30 years has led to an environment in which each side feels deeply taken for granted. I can't tell you what the level of U.S. assistance to Egypt should be, nor is it my role to. Instead, the U.S. Government needs to sit down with the Egyptians, have a serious discussion about what we need, about what they need, and what each is willing to do for the

other. The relationship has lost the intimacy of the 1970s and the eight figures should reflect that. In my judgment, reshaping the aid package will actually improve our relationship with Egypt in the longer term.

I don't think—I do not think it's advisable to condition U.S. aid on political milestones in Egypt for two reasons. First, conditionality works best when it's quantitative, triggered by discrete and concrete metrics. Qualitative conditionality tends to invite endless debate and argumentation, not compliance.

Additionally, conditioning the aid on political outcomes creates a powerful impulse on the part of the target state to demonstrate resistance and bravado and it's often counterproductive. We also have to be careful to take the long view. We're only in the middle of what will be a long and drawn out process of political change in Egypt. The Muslim Brotherhood and young revolutionaries aren't going to go away and the military is going to have to work hard in the coming months to preserve its legitimacy. Here, I think, we need to think about two relationships which I am sure members of this committee know better than I do, the U.S. relationship with Turkey, the U.S. relationship with Pakistan. We've had an uninterrupted relationship with Turkey and they have gone through military coups and had a more democratic evolution. We cut our military relationship with Pakistan in the 1990s. There are people who talk about the lost generation in the Pakistani military. It did nothing to heal the civil military tensions in Pakistan.

Egypt has a growing economic problem and I think that will likely guide the leadership toward political compromise and more inclusive politics because if there's political turmoil, they simply won't be able to access international capital. They won't be able to get IMF loans and a whole range of things, I think, will be much more difficult and the Egyptian leadership needs it to be to have success on any terms.

For Israelis who looked at events in Egypt with great alarm, I think the army's actions must come as a great relief. The Egyptian military has sophisticated understandings with the Israeli counterparts and the Egyptian military now remains in control. Overall, I think, Egypt's political evolution and that of the broader Arab world hasn't stopped. And in my judgment, this is another sign that Israel needs to build out its relations with Arab republics. There's already a sort of grudging acceptance of Israel and I think this is a sign the future is coming and Israel needs to reach broader.

For the United States, this isn't where we thought we'd find ourselves 18 months ago. Our allies in the Egyptian military promised something different and we expected something different. Yet, it's important to remember that we're only in the middle of what will surely be a long transition to an unknown new status quo. We should hold fast to our interests and to our values in Egypt and in the long run, I'm confident that change is coming and the U.S. can play a constructive role influencing it in a positive direction.

Going forward, one idea should guide us. We should aim to enlarge our partnerships in Egypt, not limit them, and build on that fertile ground that encompasses a shared interest between our two countries. Thank you.

[The prepared statement of Mr. Alterman follows:]

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Statement before the House Foreign Affairs Committee
Subcommittee on the Middle East and South Asia

"THE REVOLUTION IN EGYPT: TURNING POINT?"

A Statement by

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June 20, 2012
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Watching Egypt for the last 18 months has been a humbling experience. As someone who has closely followed the country for more than 20 years, the twists and turns have provided constant surprises and opaque riddles. Throughout, I have heard elaborate theories about how a recent event is confirmation of an elaborate long-term plan of one party or another to seize control. The Muslim Brotherhood, the "deep state" of intelligence operatives, the army—all supposedly are working through elaborate schemes to seize the future of the country, and the latest development at any given time is merely the latest twist in the script.

In fact, I don't think there is a script in Egypt, and I don't think there has been one for some time. I don't think there are outcomes that are foreordained, and I don't believe all of the stories of plotting and scheming that dates back to the first weeks after the fall of Hosni Mubarak. Instead, I see a story of struggle and improvisation, of unintended consequences and dashed aspirations.

As we look at the current state of affairs in Egypt, it is important to remember that the struggle and improvisation have not ended. The status quo is deeply troubling to us as Americans and as allies, but it is also not sustainable. Conditions in Egypt will continue to evolve for some time. The strategic goal for U.S. policy is to play an ongoing role helping to influence Egyptian politics so that they become more inclusive and ultimately more resilient. Following on the goals of the National Democratic Institute, the International Republican Institute, the International Foundation for Electoral Systems, and any number of other organizations that have sought to help Egypt in its transition, our goal should be promoting a more resilient Egypt rather than the triumph of any one party over another. I am deeply discouraged at what has happened in Egypt in recent days and in recent months, but I am not yet ready to despair, nor should you be.

I will be the first to admit that my own aspirations for Egypt have been dashed. The promise of Egypt's political change was the rise of a more pluralistic and inclusive Egypt. It was implicit in the protests of January and February 2011. The image of Egypt that emerged from the revolution was a country that embraced young and old, rich and poor, Christian and Muslim, religious and secular, urban and rural. Through the Mubarak years, when I lived on and off in Egypt, there was often a dour xenophobia that often lurked just below the surface. It seemed to me to reflect a certain insecurity and lack of self-confidence among Egyptians; a manifestation of their awareness that they were once a world-leading civilization, and more recently one that led the Third World, but that they had fallen far behind former peers such as South Korea and ceded influence in the Arab world to wealthier countries in the Gulf.

All of that evaporated with the advent of the protests that brought down Hosni Mubarak. The world's eyes were on Egypt for the first time in a half-century. Ordinary Egyptians were lionized, and Egypt once again seemed to be in a vanguard of a movement that led hundreds of millions of people.

Initially I was cautious, because it seemed to me in February 2011 that the military had not yet yielded power. By time I was an election observer for Egypt's parliamentary elections in December 2011, it felt like a true revolution was at hand. Situated as I was in Beheira Province, deep in the farming lands of the Nile Delta, there was no question that Islamist parties were capturing the bulk of the vote. I saw hundreds of soldiers guarding polling places. They were acting honorably and dispassionately to allow people to express their political will, even if it wasn't to the liking of the military leadership. In past years, the army and the police had moved to cut off voting that wasn't going their way; this time, it seemed, things were different.

We have been through any number of convolutions since then, with parliamentary antics of all stripes and presidential candidates rising and falling and being disqualified. There is little question in my mind that where we are now is not where the ruling generals thought then would be the case. In a society—and in a military—that stresses rote memorization and repetition, Egypt has been convulsing through several rounds of improvisation. Importantly, there are many more rounds to go.

The question of what U.S. policy should be in the midst of all of this is an important one, but also a subtle one. Long before the fall of Hosni Mubarak, there have been pathologies in the U.S.-Egyptian relationship that needed addressing but were not being addressed. One of the challenges we have now is how to calibrate our response so that we shape a relationship that serves our interests and our values in the midst of rapidly changing circumstances.

I want to make several observations and recommendations here:

1) On aid and conditionality
2) On political evolution and U.S. interests
3) On the Egyptian economy
4) On the strategic landscape

Aid and Conditionality

As I have told this committee before, and as I have written elsewhere, I have long thought that it would be helpful to "right-size" our aid relationship with Egypt. The steady provision of $1.3 billion in annual military assistance over more than 30 years has led to an environment in which each side feels taken for granted. The split was captured when the Chairman of the Joint Chiefs of Staff, General Dempsey, traveled to Cairo to win the release of democratization workers for U.S.-based NGOs. Despite the long-standing military relationship, General Dempsey came back empty-handed. Two months later, the NGO workers were released on exorbitant bail. To many Americans, this was an insult from a long-standing ally, as were the trumped-up charges themselves. To many Egyptians, the release represented another capitulation to U.S. influence, and was the

"direct" result of Dempsey's visit two month's prior. Both sides focused on the apparent ingratitude of the other.

In recent years, Egyptian diplomats have complained to me about provisions in U.S. law that allocate some of the appropriated aid to provide direct support to Egyptian NGOs. "That's our money," one told me. "What you do with your money is your business, but that's our money." There is a tremendous sense of entitlement.

I cannot tell you what the level of U.S. aid to Egypt should be, nor should I. Instead, the United States government should sit down with the Egyptian government and have a serious discussion about what we need, what they need, and what each is willing to do for the other. It is hard for me to imagine that we will want to continue current levels of aid given recent events in Egypt, and it is equally hard to imagine that the Egyptian military will not seek more distance from the United States. The relationship has lost some of its intimacy, and the aid figures should reflect that. In my judgment, reshaping the aid package will actually improve the relationship in the longer term.

What I don't think would be advisable, however, is to condition U.S. aid on political milestones in Egypt, for two reasons. First, conditionality works best when it is quantitative, triggered by discrete and concrete metrics. Qualitative conditionality invites endless debate and argumentation, and parties often put even more time into lawyering the outcomes rather than meeting the conditions. Additionally, conditioning aid on political outcomes creates a powerful impulse to demonstrate resistance and bravado on the part of the target state. It wraps itself in the flag and proudly announces it will not succumb to foreign diktats, thereby undermining the very political outcome the conditionality sought to produce.

Political Evolution and U.S. Interests

However alarmed one is by events in Egypt this past week, and I am quite alarmed, it is clear to me that we are only in the middle of what will be a long and drawn-out struggle. The Muslim Brotherhood continues to be able to mobilize more than 10 million voters, and some of the nascent revolutionary youth movements that helped spark public protest 18 months ago have begun to retrench. The military, meanwhile, must be careful to husband its legitimacy, which is far from a given in the coming months. Some of Ahmed Shafiq's popularity came from Egyptians who are afraid of chaos, but even more seemed to come from Egyptians who were struggling economically and yearning for some kind of stability. Rioting and economic deterioration will undermine that stability.

I believe the military dissolved parliament only after it had a good understanding of Egyptian public sentiment. As I read it, people felt the parliament was ineffectual and unable to address the problems of the country. For the time being, the military owns all of those problems now, and it can lose its popularity and legitimacy in a matter of months if it cannot deliver.

Delivering, it seems to me, will require reaching out broadly to Egyptian society, demonstrating to a range of political actors that it will be more inclusive. We have seen some of this in their statements in the last 24 hours. While it bears watchful waiting and some caution, early moves seem to suggest that the military's ambitions are not unlimited.

From a policy perspective, two other U.S. bilateral relationships seem relevant to me: Turkey and Pakistan. In both countries, the U.S. has sustained bilateral relationships over decades amidst struggles between the military and civilian leaderships. Turkey had a series of military coups, in 1960, 1971, and in 1980, but it has ultimately produced a robust civilian government that incorporates Islamist voices in a secular framework. We can argue on the margins, but overall we have seen a pattern in Turkey in which generals have loosened their grip on power and the resultant state is resilient, economically successful, and a partner to the United States.

I'm much less sanguine about Pakistan, where civilian-military rivalry seems to be accelerating, along with religious extremism and anti-Americanism. There is no one source for Pakistan's pathologies, but people who study Pakistan often point to the period after Pakistan tested its nuclear device as crucial. The United States suspended its relationship, ceased working with Pakistani military officers, and surrendered important influence in the country. Our military talks about a whole "lost generation" in the Pakistani military of people who never worked with American counterparts, and with whom cooperation is difficult. Pakistan's trajectory is increasingly alarming, and U.S. influence in Pakistan is increasingly tenuous.

If we had to choose, we should seek to help Egypt follow a relationship more like Turkey than like Pakistan. We will not determine Egypt's political evolution, as we were not determinative in either of the other cases, but we are not without influence, and we should not surrender that influence.

On the Egyptian Economy

Egypt has a growing economic problem, exacerbated by a young population that felt excluded from growth in the Mubarak years and which is being ground down in the faltering economy of the present period. Egypt's political turmoil inhibited both foreign and domestic investment.

If political turmoil ensues in Egypt, it will be very difficult to attract any investment. This is one of the forces drawing the military to move toward inclusive politics. Interestingly, measured political change is likely to open up more capital from the wealthy GCC states, which pledged billions but largely stayed on the sidelines. I was in the GCC last week and spoke with several members of the senior leadership. They were terribly alarmed at the prospect of a Muslim Brotherhood victory in the presidential elections, which they saw as consolidating Muslim

Brotherhood control over all of Egyptian politics. From this, they predicted, the Brotherhood would begin encircling the region, soon to win Syria, and then topple the monarchy in Jordan, and then work their way through the other countries of the region. Their instinct was clearly to try to make the Muslim Brotherhood government fail in Egypt, and they would have withheld much of their capital. In my judgment, they must be relieved by the return of some version of the status quo ante in Egypt, and I believe that billions of dollars in capital will begin to flow in the coming months, providing the Egyptian government can reach an agreement with the IMF. As you know, the IMF proffered such an agreement last August, and it fell prey to Egyptian politics. While the hemorrhaging of Egypt's foreign reserves seems to have stalled, there is a keen need for an IMF agreement, which the United States should not obstruct.

On the Strategic Landscape

Eighteen months ago, amidst tremendous enthusiasm, it seemed like we were months away from the end of tyranny in the Arab world. No change was more dramatic than Egypt, when a president who could not be nudged for almost thirty years was toppled in a movement that took merely 18 days. In political terms, it was the blink of an eye.

In retrospect, Mubarak's fall—and Ben Ali's fall a few weeks earlier—was just the opening volley in a series of political changes that are likely to rock the Arab world for a decade or more. As we have seen by the very different politics that prevail today in the three neighbors of Egypt, Libya and Tunisia, there is no obvious outcome to political change, and no natural form to either the politics or parties that follow authoritarianism. I expect we will see more variance still, depending on factors such as global energy prices, the health of individual rulers, and a host of contingencies that we can't even contemplate. Events in the last week in Egypt change the pace of change, but they cannot change the fact of change. Islamist movements have become legal, youth have become networked and mobilized, and their major victories and defeats are still ahead of them. I don't think there's any going back to the way things were before.

For Israelis, who had looked at events in Egypt with deep alarm, the current pause is a great relief. The Egyptian military has sophisticated understandings with its Israeli counterparts, and Israel's southern border will be a much more predictable security environment in the coming months than appeared to be the case just a few weeks ago. Overall, however, Israelis must understand that the Middle East is a changing place, and one in which the deals of recent decades are unlikely to suffice. Some Israelis look at political upheavals in Egypt and Syria and conclude that treaties with neighbors cannot survive public approval, so in a world in which governments are more subject to the desires of their publics, there is no use in pursuing them. I would argue the opposite: that in a world in which Arab publics are almost certain to have increasing voice in governance, Israel should seek to build on what is already a grudging acceptance among regional publics.

For the United States, this is not where we thought we would find ourselves 18 months ago. What has happened is not what our allies in the Egyptian military had promised, nor what we had expected. Yet, it is important to remember that we are only in the middle of what will surely be a long transition in Egypt, to a new status quo that no one knows. We should hold fast to our interests and our values in Egypt, and we should not abandon them because of setbacks. In the long run, I am confident that change is coming to Egypt, and the United States can play a constructive role influencing it in a positive direction. This is a long-term process, and success will require both patience and skill. Going forward, one idea should guide us: We should aim to enlarge our partnerships in Egypt, not limit them, and build on that fertile ground which encompasses the shared interests between our two countries.

Mr. CHABOT. Thank you very much and members now will have 5 minutes to ask questions of the panel and I'll begin with myself.

One element of both the NGO raids and Egypt's declining IMF financing which has gotten considerable attention has been the central role of Egypt's Minister of International Cooperation, Fayza Abul Naga. In an editorial, the Washington Post recently noted that—and this is kind of a long quote:

> "The campaign against the International Republican Institute, National Democratic Institute, and Freedom House, along with a half dozen Egyptian and European groups, is being led by the Minister of International Cooperation, Fayza Abul Naga, a civilian hold over from the Mubarak regime. Abul Naga, an ambitious demagogue is pursuing a well-worn path in Egyptian politics whipping up national cinema against the United States as a way of attacking liberal opponents at home."

Referring to the U.S. funding of NGOs like IRI and NDI, she has reported to have said,

> "Evidence shows the existence of a clear and determined wish to abort any chance for Egypt to rise as a modern and democratic state with a strong economy since that will pose the biggest threat to American and Israeli interests, not only in Egypt, but in the whole region."

That's her quote.

It is also reported that financing from the IMF and World Bank were declined because according to Ms. Abul Naga, the terms of the loan were incompatible with the national interest, again, her words. She is reported to have added that "the government would not accept conditions dictating by the World Bank or the International Monetary Fund."

It's my belief that—let's face it, the chief agent provocateur, since the revolution, this person has shown very clearly that she cannot be trusted as the custodian of American taxpayer dollars or even as an advocate for Egypt's own self interest. Do you believe Ms. Abul Naga's—that she'll continue to have a place in the forthcoming additional government? And if so, how should the United States react? And I would leave that up to anyone.

Mr. Schenker?

Mr. SCHENKER. Ms. Abul Naga has remarkable staying power. She is, for lack of a better term, Fahlul. She survived the Mubarak administration in fine shape and has the ears of the SCAF very clearly. Her star has risen and she's doing very well. I would say certainly that she, in my eyes, very clearly she was responsible for the NGO crisis. I think a lot of people see it as this was something that was engineered by her. I think she has been subsequently PNGed by the U.S. Government which I think was warranted.

We've had a long history of problems with Ms. Abul Naga. If you go back and look back at these Wikileaks documents, you'll see a stack about this thick of complaints from the U.S. Embassy about how Ms. Abul Naga is undermining our efforts to improve the aid process or to really implement what we think was necessary for Egyptian development.

Ms. Abul Naga has also had a very interesting response to the accepting of foreign funding, the IMF money. She has actually taken a leading role so far on this Japan issue where the Muslim Brotherhood and the Salifists say that they can't accept the money from Japan, some $450 million for the Metro system because it's interest. Ms. Abul Naga, we will call her Sheikha Abul Naga for her religious credentials, has come forward and issued an edict saying that no, no, it's not interest and we can take this because the Government of Japan is not a money-making endeavor. So it's a very odd role she's had, but it's persistent.

Mr. CHABOT. Does anybody else want to add anything? Yes, Dr. Alterman and Dr. Dunne.

Mr. ALTERMAN. I think she's not in as secure a position as she appears from Washington, partly because of her history. She was a close, personal friend of Suzanne Mubarak. A lot of her friends have been discredited. I think she is desperate in many ways. She has been trying to control the money and her objection to U.S. aid was that it bypassed her. She is about controlling the money and controlling all the international money that goes to Egypt.

I think she sees Egypt slipping through her fingers. I think she sees the role slipping through her fingers. I think rather than seeing her as a powerful woman who is standing up to the United States, she is trying to build herself up as a powerful person who is standing against the United States to shore up what is ultimately a very, very weak position both in the broader Egyptian public and also in the current Egyptian Government.

Mr. CHABOT. Thank you. Dr. Dunne?

Ms. DUNNE. Yes, you know, in addition to the role that Ms. Abul Naga played in the whole NGO issue and I certainly agree, she drove the whole thing. I hope that Egyptians see the damage that she did to Egypt's relations and the foreign assistance that Egypt could have and frankly should have received in the last 16 months because she was so insistent basically on wanting cash budget support and was sure that that would come if Egypt held out and so they didn't take other kinds of assistance, for example, an IMF loan on very soft terms and so forth that they should have taken.

I hope this is recognized within Egypt, but that's not for certain. And she has a very strong relationship with senior members of the SCAF and if they continue to hold sway, then we can't exclude the possibility that she would appear once again in a prominent position in the new cabinet that will be named in the coming weeks. So that is something the United States might want to raise privately.

Mr. CHABOT. Thank you very much. My time has expired. The gentleman from New York is recognized for 5 minutes.

Mr. ACKERMAN. Well, now that we've burnished her street credentials, there was a play on Broadway in which right before the last act the audience every night got to vote on what the third act was going to be, how it was going to turn out or who done it or whatever it was. Of course, there were a limited number of possibilities and presumably whatever score they announced, that's what they did.

We don't really get to vote in the last act anywhere, specifically Egypt. There's a well-known adage that countries don't have

friends, they have interests. What would the outcome of this final act of this particular part of the play be in the interests of the United States? Would our interests be long term in democracy should always prevail and the will of the people should be adhered to? Not analogous in any way, but back in the '30s, the National Socialist Party seemed to have a slam dunk in the election. Nobody thought what Nazis did was a good thing. The world didn't approve, but certainly they didn't steal an election.

What was in our interests to do business with them? To not do business with them?

In Egypt, if the SCAF comes up short in votes, and I guess it depends on who's counting, but they really came up short in votes, is it in the U.S. interest that an organization that says things about adhering to national obligations and treaties, et cetera, remain in power? Or if the bad guys are promising terrible things, I mean I guess it's more analogous of what happened once upon a time, not too long ago in Algeria where the election yielded enough results for them to change to a new constitution that the majority party that was coming in agreed that they wanted to do and have an Islamic republic rather than a democratic country. And the President just voided out the election.

Sometimes you root for the bad guy. I remember once as a much younger congressman trying to explain my vote before a newspaper editorial board and they wanted to know why I voted that way. And I just looked them in the eye and said sometimes you have to stand up and do the wrong thing.

What's in our interests doing what we know? We don't want the outcome in most elections to go through and just ignore them or what?

Dr. Alterman?

Mr. ALTERMAN. Mr. Ackerman, I think our interest is having some sort of hopeful stalemate which brings in——

Mr. ACKERMAN. So group prayer.

Mr. ALTERMAN. Group prayer. Everybody hold hands, which brings in a wide variety of parties who come to believe that they can win in the future. It seems to me that the mark of a democracy is not people's willingness to win, but their willingness to lose because they feel if they lose one round, they can win a future round. And I think the great danger right now in Egypt, the reason why people fear tremendous violence over the coming weeks is a sense that if you don't lock in a victory now, you will never live to fight another day. That's what happened in Algeria and more than 100,000 deaths as a consequence.

I think to my way of thinking the best possible outcome is one where the military feels they have a stake in making it work. The Muslim Brotherhood feels they have a stake in making it work. The young revolutionaries who had so much hope of where this would all go, so you know, well, we don't like Morsi or Shafiq, but we could live to fight another day. We could have a better set of candidates in the future, and ultimately bringing all these groups to feel if they hold their nose and it's good enough because they will be able to compete again I think is the best we can hope for right now. And it's not certain we're going to get there.

Mr. ACKERMAN. Does Egypt have a long enough tradition of free and fair elections to be able to base the hopes that you live to fight another day, but that day may be fought for by your great, great, great grandchildren?

Mr. ALTERMAN. I think they have enough tradition of good enough. And Egypt has been getting by on good enough for a long time and I think good enough is politically the best outcome we can hope for right now.

Mr. CHABOT. The gentleman's time has expired. The gentleman from Florida, Mr. Bilirakis, is recognized for 5 minutes.

Mr. BILIRAKIS. Thank you, Mr. Chairman. I appreciate it very much. I have a couple of questions. Since the fall of Mubarak, we may have seen the end of authoritarian regime, but we have yet to see the rise of a new democratic leadership. Late last year, a few of my colleagues and I called for an end to the unconditional aid, U.S. aid to Egypt as long as the persecution and attacks on Coptic Christians and other religious minorities continue. For a brief time, we thought we had a victory. We thought we were successful. The House released its Fiscal Year 2012 funding bill and placed conditions on the U.S. aid.

As we know, things continue to get worse in Egypt. There was a crackdown on—you mentioned the program of democracy NGOs and their staffs including the U.S. citizens. Before moving forward, I want to remind the committee that the Egyptian Government has yet to drop the charges on the U.S. citizens and I want to hear an update on that.

But Secretary Clinton, and of course, the Obama administration, decided to waive the new restrictions and continue to provide U.S. taxpayer dollars and military aid to a country that disregards the basic principles of human rights and religious freedom. Now months later, it is clear that their decision to waive was not only untimely in my opinion, but wholly without merit.

The trial, I understand, is scheduled to convene on July 4th and our U.S. citizens will be tried in absentia. With all that said, I'd like to ask a couple of questions. How do we engage Egypt to ensure that human rights and religious freedom for Christians and all religious minorities are respected? Can we expect the new Egyptian Government to drop charges against the U.S. citizens? What's the status there?

Also, how do we ensure that whoever comes to power in Egypt can protect Israel, of course, our important ally from any threats or attacks? And of course, to keep the peace agreement between Israel and Egypt?

For the panel.

Mr. CHABOT. Whoever would like to answer.

Mr. BILIRAKIS. Whoever would like to take the question.

Mr. CHABOT. Dr. Dunne?

Ms. DUNNE. Congressman, you've raised some extremely important issues here. And I think in a way it links back to Congressman Ackerman's question because you know what we really need to be in favor of in Egypt is the development of a strong democratic system. And this is, I think, what Dr. Alterman was saying in somewhat more picturesque terms, but a system in which people believe that there will be accountability through the ballot box and

so forth and also that there's a—they can work out these issues such as how the rights of all citizens will be protected. And that's certainly something the United States has to stand up for.

But I think it's only going to happen in a system where Egyptians can work out their differences in a peaceable way.

I really worry that if we take a narrow view of this and say well, we'd rather see the military than the Brotherhood in power and therefore, you know, forget about this whole democracy thing, that it will lead to a situation of ongoing conflict and violence. We really can't turn the clock back 5 years or something like that. Egyptian society, it isn't where it was. And I don't think people will accept it. So it will lead to a situation of ongoing conflict and a lot of that will be taken out against Christians and other minorities inside of Egypt, I'm convinced.

Mr. BILIRAKIS. How do we engage? Excuse me for—what is your suggestion?

Ms. DUNNE. I think that we do need to continue to provide support to NGOs and stand up for them. Now before this Parliament was just dismissed, there was a draft new law on NGOs that would have allowed much better conditions. Maybe not absolutely perfect, but much better operating conditions for both Egyptian and foreign NGOs. And that—and although it's not directly related to the case against the Americans which will resume in court on July 4th, people felt that if a new NGO law was passed, that somehow it would make the case easier to resolve against the people who are on trial.

Now, you know, all of that has been absolutely thrown up into the air, since there now won't be a Parliament for many months in Egypt. They won't be able to pass a new law. And so the current conditions will continue to go forward. And that's going to make it very difficult to have the sort of engagement that we really would like to have with the Egyptian Government on these issues.

Mr. CHABOT. The gentleman's time has expired.

Mr. BILIRAKIS. That's fine. Can someone comment on the peace treaty with Israel?

Mr. CHABOT. If somebody would like to briefly comment.

Mr. BILIRAKIS. Thank you.

Mr. ACKERMAN. That's a brief subject. [Laughter.]

Mr. SCHENKER. It's quite alarming, a lot of what we're hearing, but we do have certainly the military being the leading supporter of the peace treaty in Egypt and we also have statements from senior officials in the Muslim Brotherhood saying that while they find that certain provisions of Camp David to be abhorrent or inappropriate, that they're not calling for war. I think that you're going to have a very deteriorating bilateral relationship between Egypt and Israel. I think you can see very clearly a trajectory where the Israeli Ambassador and the highest level of representation of the two countries no longer exists, that there's no longer an ambassador, et cetera. But whether the bilateral relations are broken or peace treaty, I don't think that's on the table any time in the immediate future. And that will be the case as long as the military has a say and the constitution that the military is busy writing, they have a provision that they will have to be consulted by the President in terms of declaration of war. We'll see if that sticks.

I'm more concerned about how these states are going to get along as security deteriorates in the Sinai. I think that there are—just the number of land mines that are out there with these al-Qaeda affiliates or wannabes that are taking hold, with the lawlessness, with—even the MFO, the Multinational Force Observers, are being limited in their operations now, that are meant to oversee and ensure the ongoing commitments of the peace treaty. And I think this is very problematic. The question is in terms of the next crisis whether there will be somebody for the Israelis to call and get a response.

It came very close, perilously close, to having six Israeli diplomats lynched last year after one of these incidents. In the future, if there's this type of populist politics, you may not have a mechanism that works efficiently to prevent a tragedy.

Mr. CHABOT. The gentleman's time has expired. The gentleman from Connecticut, Mr. Murphy, is recognized for 5 minutes.

Mr. MURPHY. Thank you, Mr. Chairman. I wanted to ask Mr. Ackerman's question maybe a different way. He asked about what our interests were and Dr. Alderman gave, I think, a very good summary what the best case scenario might be. So let me ask it maybe the opposite way.

You know, sometimes you engage in policies designed to encourage something you want and other times you engage in policies to discourage something you don't want. And so the opposite or the flip side of Mr. Ackerman's question is what's the worst case scenario for the United States of all of the various things that could play out between the existing parties or parties to come, the Salifists, for instance, what do we want to guard against happening here?

Mr. SCHENKER. I think the worst case scenarios are imaginable here, an Islamist President, an Islamist Parliament, that is authoritarian in nature in its own right. This is democracy unfulfilled. You have the process. You have the institutions and yet it goes the wrong direction. I think if you look even worse than that, you're going to have the Brotherhood sitting in a Parliament eventually, depending on what happens in the best case scenario. A freely elected Parliament looks somewhat like it looks right now and you're going to have the Salifists on the far right, basically pressing the Brotherhood to take even more militant positions and they're going to give in and go to this more populist, more Islamist route. That's not going to be good for minorities in Egypt. It's not going to be good for U.S.-Egypt relations.

You've got basically two Turkey models competing right now in Egypt. One is the old Turkey model where the military maintains control and shores the national security issues. And you've got the new Turkey model where the Islamists may, in fact, be looking to have civilian control, are looking for civilian control and bringing the military to heel and then do whatever they want with the civilian system. And I can see many bad things emanating from that.

Ms. DUNNE. Congressman, if I might briefly give another worst case scenario, it is that the military that was once in power behind the scenes is in power explicitly and you know is tampering with the democratic process and violating human rights, putting civilians to military trials, cracking down on civil society, meanwhile,

enjoying a great deal of American assistance and therefore, the United States is incurring the hatred of many, many people in Egypt because the United States is seen as supporting all of that. And that is the current situation. It's the current worst case scenario.

Mr. MURPHY. So we've got one is the Islamist President. One is the status quo.

Mr. ALTERMAN. The third is if you combine these two scenarios that you have a military crackdown which creates a violent and increasingly radicalized opposition, increasing amounts of violence, tens or hundreds of thousands of deaths, populist politics that ultimately push the military from power and what you have is not some sort of restrained, deal-seeking Islamist political party that's trying to work within an Egyptian context, but instead a radicalized, anti-American, anti-Israeli, populist force which is as totalitarian as anything the world has seen and which not only affects Egypt and its immediate neighborhood, but also begins to spread some of those ideas and ideology more broadly through the Middle East affecting a whole range of American interest. I don't think it's likely, but I think if you're talking about that's the worst case, I think you combine those two, you get that, and then you project it out to the rest of the Middle East and that's what you could be looking at.

Mr. MURPHY. So does that mean as scared as we may be of what the Muslim Brotherhood brings to the presidency or to the Parliament, the best U.S. policy in the short term is to get the SCAF out of the way or get the military out of the way as quickly as possible?

Mr. ALTERMAN. My argument would be—it's unclear the extent to which they've been willing or could be made willing to work with each other. There are constant rumors of deals involving the SCAF and the Muslim Brotherhood. I think our best case scenario, my judgment, is finding ways for them and others to work out some sort of comity to go forward and preserving struggles for the future.

Mr. CHABOT. The gentleman's time has expired. We'll go to a second round now and I'll recognize myself for 5 minutes.

I know all of you have mentioned some of the economic implications and the problems that exist right now and in fact, I guess the bottom line is Egypt stands on the threshold of a potential economic disaster. With cash reserves dwindling, budget deficits skyrocketing, and little sign of the political will to execute requisite economic reforms, a true crisis may be just around the corner.

What measures does Egypt need to take to ensure its near-term and long-term economic viability? And how can the U.S. best encourage Cairo to institute these measures? And what happens if the Egyptian economy does collapse? I'll perhaps go down the line unless somebody wants to take it.

Doctor, do you want to take it?

Ms. DUNNE. The Egyptian Government, who is ever in power, needs to be careful about their budgetary situation and they have started to do this. They have started to roll back fuel subsidies. Fuel subsidies, in particular, are the thing that have been devouring the Egyptian budget and so forth. But to be honest with you, I mean beyond that the economic conditions in the political transi-

tion are closely linked. The reason that there's no IMF deal right now is because of the political chaos in Egypt and the fact that this transition keeps being interrupted and prolonged and changed and so forth.

Whether it is international financial institutions or other donors, they want to give money to a government that they believe is going to be there long enough to live out the terms of the agreements and also that the money is going to be used wisely and not going to be just gobbled up immediately. This is really a problem. They need to get the political transition moving forward as it should have been this week moving forward and then they will be able to get the economy back on its feet.

The security situation is also extremely important. They're not going to get tourists returning until they get the security situation in Sinai and elsewhere under control. And that's going to require police reform which is something that—reform of the police and internal security and getting them back operating normally, that still hasn't happened 16 months into this transition.

Mr. MURPHY. Thank you. Mr. Schenker.

Mr. SCHENKER. We're facing, I think, potentially, and I think the SCAF pointed this out about a year ago that if things don't improve that you will have a second revolution being a revolution of the hungry, that the traditional World Bank numbers say that 40 percent of the people in Egypt live on less than $2 a day. I think a year after the revolution, it's probably closer to 50 percent of the people in Egypt.

If you talk to people and there's polling immediately after the revolution, people said that 80 percent of the people expected that their standard of living would increase after the revolution. I think just the opposite has happened. Meanwhile, you have a heavy pressure notwithstanding this great step that was taken toward the fuel subsidies. I think there's going to be a heavy pressure to keep and even increase some subsidies and government salaries and a pressure to hire more people with the high unemployment rates. The Government of Egypt needs some 7 percent growth per year to create the 600,000 or 700,000 jobs a year that are just needed to remain at an even unemployment. And to get the kind of growth, you need security. You need stability. You need a political process and confidence in the Government of Egypt and that's not going to happen any time soon.

Mr. CHABOT. Before I run out of time, let me just get one more question in. And Dr. Alterman, if you'd like to take this one. Analysts disagree to some degree over how the Muslim Brotherhood will ultimately react depending on how much it's in power and how this all plays out, but whether it will moderate its traditionally religiously inspired hard line traditions or not. What do you expect to occur? What is reasonable to expect? I know we're speculating to a considerable degree here. And how do Islamists or anybody who is in power there expect to revive the heavily European dependent tourist industry, for example, if they're legislating restrictions on women's dress or ban alcohol or other things which may well be on the horizon?

Mr. ALTERMAN. First, I think nobody knows and they don't know. I mean this is a movement which has been going through a tre-

mendous change as it has come into the public, as it's engaging in politics. So I think there's a part about the future of the Muslim Brotherhood, its future unity, the extent to which hard liners and old line guys versus the young generation versus more political people versus more religious people, how that whole battle turns out, I think, remains uncertain.

My guess is if they want to legislate different regulations for tourists, that's very easy to do. There are a number of countries in the Gulf, for example, where tourists can drink, tourists can gamble, nationals cannot, and I could certainly see that happening in Egypt.

But I think that part of this also depends on what the political evolution over the coming year or so is. I mean if the Brotherhood is competing for votes and is looking for the center of Egyptian politics, there are a lot of people in the center of Egyptian politics, Christians, secular Egyptians, even religious Egyptians who are skeptical about the Brotherhood, who say you have to convince me. And I think there are ways that that can turn into moderation of some of the more extreme forms. If you radicalize the Brotherhood, the radicals will come to the fore.

I was just in Moscow yesterday and I was talking to a Turk who said, you know, the Brotherhood is more democratic in Turkey, but we were moderating them for 20 years. And I think there are some people who have had the experience of Islamist politics in Turkey who will tell you that there's nothing wrong with Islamists in government, just don't give them everything up front. Make them compete for the middle. Persuade people that their intentions are good and then you can live with them.

Mr. CHABOT. Thank you very much. My time has expired. The gentleman from New York, Ranking Member Mr. Ackerman is recognized for 5 minutes.

Mr. ACKERMAN. So who is going to tell the Egyptians we figured out what they should do? [Laughter.]

We're kind of playing at the margins right here of all sorts of theoreticals and in some scenarios we may be able to actually have a little bit of influence and in some absolutely none and in others whatever we do to influence, will have the complete opposite effect.

I think I heard that one of the better outcomes would be if everybody had some kind of a compromise. I think we've got a pretty clear indication that the SCAF is able to compromise. They're very pragmatic. They know what their needs are. They know what their creature comforts are. They seem to know how much that would cost and that there's a price tag on it and they know where to send the bill.

Can the street or better yet, the brotherhood, or can the people to their right, Salifists, and whoever else that might be out there, can they compromise? Can the ideologues compromise? The generals, it appears to me, are not ideologues at all, ever. And anybody, I think, who has ever met with them, going there or coming here, they have needs and wants and what they're willing to do. It's not pie in the sky. It's not religion. It's all practical.

Can you compromise—can the other side compromise?

Mr. ALTERMAN. Sir, I think in many ways, the Brotherhood since 1928 has been finding ways to compromise on and off. They have

been playing a long game. They have agreed not to be an official political party for decades until they just became a political party for this election. They have agreed to play a long game to try to win social support and Islamize the society, rather than control the government.

I think in point of fact, the Brotherhood has some people who would not feel uncomfortable making the kinds of deals that you make in Congress. There are ideologues to be sure, but I think there are a lot of people who are political pragmatists, who are very good at getting out the vote, who are very good at doing things for the constituents and who would be at home in any political body anywhere in the world. And I think it's people like that who are the promise for making a deal both with the military and with the U.S. Government and with the Israelis.

Mr. ACKERMAN. These are the people who initially pledged that they weren't going to contest for the presidency and they compromised by going back on what they said they weren't going to do.

Mr. ALTERMAN. One explanation for that is that they believed that the army was going to shut them out and the only way to guarantee that they had a role was to compete for the presidency. We don't have insight into their decision making, but that's an explanation that's been offered.

Mr. ACKERMAN. I don't mind betting $10 million with somebody because I don't have it. I'll get into the ring with Jersey Joe Walcott or Killer Kowalski or something because I know that's not going to happen. And if I think I could beat them, then it happens. I'm older than you. [Laughter.]

That was when wrestling was real. [Laughter.]

It's a matter of they're not going to do it. They're not going to put up a candidate for President until they think they can win the presidency. That's the practicality of it. But I think it's also an indication not that they're practical, but it's an indication of it's a way of getting to what they want. Do they want an Islamist state? There's a question. I know the military answer. It's a hell no. Where are the Salifists on this? Where is the Brotherhood? Where is the street? Where are all the people who didn't vote? We don't know these big answers. It makes it pretty dangerous.

Mr. CHABOT. The gentleman's time has expired. The gentleman from the Commonwealth of Virginia, Mr. Connolly, is recognized if he would like to ask questions.

Mr. CONNOLLY. I thank the chair. Before I do, I just want the record to show emphatically, in large print, Mr. Ackerman admitted he's much older than I am. [Laughter.]

Mr. ACKERMAN. I'm a politician. Just disregard anything I say. [Laughter.]

Mr. CONNOLLY. He's also retiring, so he——

Mr. ACKERMAN. It costs him nothing.

Mr. CHABOT. He's open to say pretty much anything he wants.

Mr. CONNOLLY. Let me ask our panelists, and welcome to all of you and forgive me for being late. I'm in a markup at the Oversight and Government Reform Committee that is bound and determined, God knoweth why, to issue a contempt citation against an honorable man. That's a different subject.

I am concerned about the status of the NGO personnel. I know our colleague from Florida talked about the Americans, but what about the Egyptians? I met them when I was last there a few months ago and these are terribly dedicated patriots trying to effectuate change in civil society and they are being put in the dock, in the cage, particularly for the women among them. It's very humiliating and very hard to explain back home to their families and so forth.

I want the United States to stand with those brave Egyptians and we don't want the word to spread that somehow we only care about your nationality if you're an American. We actually, I hope, are sort of blind with that respect. We care about all of the people who work at these NGOs who are trying to make theirs a better society.

So I'd be interested in your take on their status and what more the United States can and should be doing or not to try to assist it.

Dr. Dunne, do you want to begin—whoever.

Mr. SCHENKER. Congressman, fortunately, the NGOs, IRI, and NDI, et cetera, are actually continuing to pay the Egyptian nationals who remain in Egypt and are on trial. They're also paying their legal fees. This makes sense, obviously. There's also one American who has remained in Egypt to fight the charges on his own volition.

I think that this is going to go on for some time and it's helpful that the United States Government or these NGOs have stepped forward to support this personnel, but this is going to be an issue that is ongoing for some time and there's—we can make statements and if the judicial process works and Egypt has had a history of judicial independence for some time, although that's come into question of late, this ridiculous political trial should be thrown out in which case these NGO workers may have difficulty finding work going forward, although it may also be a badge of honor to have done this for them.

Ms. DUNNE. Congressman, the Egyptian employees and the Americans are all still on trial. The next hearing is to be July 4th and there was to be a new draft NGO law that might have made it easier for NGOs, both foreign and Egyptian, to operate. It was in the Parliament. It was in the committee and would have been voted on, but now the Parliament, of course, is dissolved. And there probably isn't going to be another Parliament for months. So this unfortunate situation is going to continue.

I think the United States has to be discussing with the Egyptian Government, with the new President and the new government that will be appointed, how civil society is going to be treated in the future and make it clear that this is going to determine not only to some extent how the U.S.-Egyptian relationship is going to go, but also Egypt's relations with Europe and so forth. This whole struggle has caused a lot of programs to be suspended, even though as Mr. Schenker noted, maybe some of the employees are still being paid, but all of the activities that those NGOs were supposed to carry out are all just suspended. Nothing is happening. No new money is moving.

Meanwhile, Egypt is going to have lots of elections and so forth and things where those NGOs could have been making an important contribution. And it's a real shame. We were discussing a little bit earlier, Minister of International Cooperation, Fayza Abul Naga, and whether she would be appearing in the new government or not. So this is clearly one of the issues that the United States needs to take up behind the scenes with the Egyptian Government.

Mr. CONNOLLY. Thank you. Mr. Alterman.

Mr. ALTERMAN. Congressman, if I could just say, I was an election observer in the second round of Egyptian elections in December, and I just want to echo what you said about not only the patriotism, but the dedication and the true qualities of the Egyptian NGO workers I came across. It was inspiring, not because they were serving American interests, but because of how passionately they believed they were serving Egyptian interests. It's a credit to us and we should stand by them.

Mr. CONNOLLY. I thank you. My time is up. Thank you, Mr. Chairman.

Mr. CHABOT. Thank you. The gentleman's time has expired and I want to say that I agree with the comments the gentleman made relative to the NGO folks. And the only thing I disagree with was his non-germane comment relative to the attorney general and the case that's going on in another committee which we shall not debate in this committee. So in any event, that concludes the business that we have before this committee. And I want to thank the witnesses this afternoon for testifying. I think this was very helpful to the members. We will convey this to our colleagues who were not able to be here today. Procedurally, the members have 5 days to revise and extend any statements or submit any additional questions. And if there's no further business to come before the committee, we're adjourned. Thank you.

[Whereupon, at 3:32 p.m., the subcommittee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

Subcommittee on the Middle East and South Asia
Steve Chabot (R-OH), Chairman

June 19, 2012

You are respectfully requested to attend an OPEN hearing of the Subcommittee on the Middle East and South Asia, to be held in Room 2200 of the Rayburn House Office Building **(and available live, via the Committee website at http://www.hcfa.house.gov)**:

DATE: Wednesday, June 20, 2012

TIME: 1:30 p.m.

SUBJECT: Reflections on the Revolution in Egypt, Part II

WITNESSES: Mr. David Schenker
Director
Program on Arab Politics
Washington Institute for Near East Policy

Michele Dunne, Ph.D.
Director
Rafik Hariri Center for the Middle East
Atlantic Council

Jon B. Alterman, Ph.D.
Director
Middle East Program
Center for Strategic and International Studies

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON MESA HEARING

Day Wednesday Date June 20 Room 2200

Starting Time 1:33 Ending Time 3:31

Recesses 1 (1:45 to 2:31) (to) (to) (to) (to) (to)

Presiding Member(s)

Steve Chabot

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☐

Electronically Recorded (taped) ☐
Stenographic Record ☐

TITLE OF HEARING:

Reflections on the Revolution in Egypt Part II

SUBCOMMITTEE MEMBERS PRESENT:

Ackerman Connolly Bilirakis
Chabot Murphy

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

Howard Berman

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Connolly
Bilirakis

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED 3:31

Subcommittee Staff Director