

Research Paper

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# Egypt and the Gulf

## Allies and Rivals



### Summary

- Egypt and the Gulf Arab region have long been important poles of political, military economic and cultural power and influence in the Middle East. Under the presidency of Gamal Abdel-Nasser, Egypt was the dominant force in the region, but the balance of power shifted towards the Gulf in the 1970s, as Egypt's economy faltered and the Gulf Arab states reaped the benefits of resurgent oil prices in the wake of the 1973 OPEC embargo. The popular uprising against President Hosni Mubarak's regime in 2011 elicited divergent reactions in the Gulf. The leaders of Saudi Arabia and the United Arab Emirates (UAE) were concerned about the risks of a movement for revolutionary change spreading to their own region, while Qatar saw an opportunity to strengthen its regional role through supporting the Muslim Brotherhood.
- The forcible removal of Egypt's elected president, Mohammed Morsi of the Muslim Brotherhood, in July 2013 by the army commander, Abdel-Fattah el-Sisi, ushered in a new era in Egypt–Gulf relations. The UAE, Saudi Arabia and Kuwait quickly mobilized financial support for the new administration. Abu Dhabi's crown prince, Mohammed bin Zayed, known for his intense opposition to the Muslim Brotherhood, signalled his strong support for the new regime by visiting Cairo only weeks after hundreds of Morsi's supporters were killed.
- Between July 2013 and August 2016, the UAE, Saudi Arabia and Kuwait provided about \$30 billion in aid to the Sisi regime through placing deposits with the Central Bank of Egypt and supplying petroleum products as grants. The UAE sought to link its aid to a programme of economic reforms, but the Egyptian government finally decided in mid-2016 to negotiate a loan agreement with the International Monetary Fund (IMF). Since the signing of the \$12 billion loan with the IMF in November 2016, Egypt has no longer been reliant on Gulf Arab financial support, although some of the deposits placed previously have been rolled over on reaching maturity.
- During the Sisi era, Egypt has benefited from its economic links to the Gulf over a wide spectrum of activities. The UAE and Saudi Arabia in particular are increasingly important export markets for Egyptian companies, as well as major sources of foreign direct investment. The financial aid provided by Sisi's Gulf allies in 2013–16 has also helped to underpin the surge in Egypt's arms procurement. Another critical element in the economic relationship is the presence of millions of expatriate Egyptian workers in the Gulf, who are responsible for a large share of the annual inflow of about \$25 billion in remittances.
- Egypt's most important political relationships in the Gulf have been with Saudi Arabia and the UAE. Ties with Saudi Arabia were affected by the death of King Abdullah at the start of 2015 and by the subsequent emergence of Mohammed bin Salman as the most influential figure in the kingdom. During a visit by King Abdullah's successor, King Salman, to Cairo in April 2016, Egypt announced a decision to cede sovereignty over two Red Sea islands, Tiran and Sanafir, to Saudi Arabia. Relations soured after this decision was challenged in the Egyptian courts, but the issue was resolved in favour of the deal. Egypt played no active role in the Saudi- and UAE-led intervention in Yemen, but joined its two principal Gulf allies and Bahrain in imposing sanctions on Qatar in mid-2017.

- Relations between Sisi and Crown Prince Mohammed bin Zayed have remained close throughout the past seven years. The UAE and Egypt have been among the most important external supporters of the Libyan National Army, commanded by Field Marshal Khalifa Haftar, although they have not created an overt alliance in this arena. Egypt has adopted a more prominent diplomatic profile in relation to Libya, while the UAE has been more deeply engaged militarily, to judge from assessments by the panel of experts tasked to monitor adherence to the UN embargo on the supply of weapons to Libya. The relationship between the Egyptian and Emirati leaders is underpinned by a strong shared ideological antipathy to the Muslim Brotherhood.
- Following the completion of the IMF programme in 2019, the Egyptian economy is in a much stronger position than it was in the early period of Sisi's rule, even though this has exerted a harsh toll on the 60 per cent of the population classified by the World Bank as poor or vulnerable. There is no pressing need for direct financial support from the Gulf, but Egypt still depends on economic linkages through trade, investment, tourism and remittances. In this respect, the balance of power has tilted marginally back towards Egypt. However, Egypt is still beset by deep internal political contradictions, as reflected in the regime's heavy reliance on coercion and repression, and the economy remains vulnerable to external shocks – of which the coronavirus pandemic is a prime example.

### Introduction

Egypt's political, economic and cultural connections with the Gulf Arab region have a long and rich history, going back to the efforts of Mohammed Ali Pasha, the Ottoman ruler of Egypt, to exert influence across the region in the first half of the 19th century. In the modern era, dating from the Free Officers' revolution of 1952, Egypt's political relations with the Gulf have veered between conflict and close cooperation, while the economic relationship has taken on features of dependency, in the form of financial support from the oil-rich Gulf states and flows of remittances from the millions of Egyptians working in these countries.

The current Egyptian ruler, President Abdel-Fattah el-Sisi, received critical support from Saudi Arabia and the United Arab Emirates (UAE) at start of his regime, and has largely endorsed the regional political and military strategies of these two dominant Gulf Arab players, albeit with some reservations, notably over Yemen. Sisi has now entrenched his rule and laid the basis, through amendments to the constitution, for remaining in power until 2030.

The Egyptian economy is in much stronger shape than when Sisi seized power in 2013. This has lessened the degree of financial dependence on the Gulf. Sisi is also seeking to project Egypt's influence in the Arab world, Africa and further afield in several areas, including military power, energy, trade and even healthcare. These ambitions do not, of themselves, conflict with the aspirations of Saudi Arabia and the UAE to project their own power and influence, but there is and will continue to be an edge of rivalry in Egypt's relations with the dominant Gulf Arab powers.

As regards the remaining four member states of the Gulf Cooperation Council (GCC), Egypt has lent support to the Saudi- and UAE-inspired sanctions on Qatar, but without taking any action that would risk compromising its own interests, and has sought to develop strong and independent relations with Oman, Kuwait and Bahrain.

This paper will focus primarily on the Egypt–Gulf relationship during the Sisi era, although it will also place this relationship in the context of earlier periods during which similar themes have been evident.

### Modern historical context: Sadat, Mubarak and Morsi

The modern template was set after the October 1973 Arab–Israeli war, when Egypt was in dire need of financial support and the Gulf Arab states were enjoying the fruits of the surge in oil prices in the wake of their embargo. There was a hiatus after President Anwar el-Sadat's historic visit to Jerusalem in 1977, which triggered an Arab political and economic boycott of Egypt and prompted Egypt to turn to the US and other Western states for financial support.

Sadat's successor, Hosni Mubarak, set about restoring ties with the Gulf, and was helped in this task by the emergence of the Islamic Republic of Iran as a perceived threat to regional security. Mubarak later established his credentials through the Egyptian army leading the Arab contribution to the Desert Storm campaign to drive Iraqi forces out of Kuwait in 1991, and this resulted in significant financial rewards through the cancellation or rescheduling of Egyptian debts owed to the Gulf Arab states (as well as to the US and other Western governments). During the final two decades of Mubarak's rule, relations between Egypt and the Gulf remained in a relatively stable balance: Egypt's need for financial assistance became less acute, but Mubarak made little effort to dominate the regional

agenda; Saudi Arabia was constrained during the 1990s in particular by weak oil prices, while Qatar and Dubai emerged as ambitious new players in the Gulf. Both Egypt and the Gulf Arab states sought to avoid becoming embroiled in the Iraqi conflict in the wake of the US-led invasion of 2003.

The popular uprising in January 2011 that led, within 18 days, to Mubarak leaving office came as a profound shock to the Gulf Arab leaders. They had assumed that Mubarak would be protected through the close strategic relationship that Egypt had established with the US over the previous three decades. The willingness of President Barack Obama to let matters take their course, and in effect to recommend that Mubarak should step aside, prompted a reassessment by Gulf Arab rulers of their own previous assumptions about supposed security guarantees from the US. Among other impacts, the uprisings in Egypt and elsewhere in the Arab world presented distinct challenges and opportunities for the most assertive and ambitious of the Gulf Arab states. Within the Arabian peninsula, Saudi Arabia and the UAE moved quickly to suppress the protest movement in Bahrain, and the GCC lent support to the ill-fated efforts to chart a political transition in Yemen after the fall of President Ali Abdullah Saleh.

More broadly in the region, there was a sharp distinction between the approaches of Qatar, on one side, and Saudi Arabia and the UAE, on the other. Qatar saw an opportunity to capitalize on its strategy of supporting the Muslim Brotherhood and related groups as models for the integration of political Islam with representative democracy. Doha became a magnet for Islamist groups seeking finance and, in the cases of Syria and Libya, military support. Saudi Arabia's main focus during the initial Arab Spring period was Syria, where it sought to cultivate opposition elements operating outside the scope of the Muslim Brotherhood, including both Salafists and groups that did not define themselves in Islamist terms. The UAE's leadership, in particular Abu Dhabi's crown prince, Mohammed bin Zayed, had a deep aversion to political Islam in all its forms. The UAE took an uncompromising position towards the Muslim Brotherhood in most of the post-Arab Spring arenas, in particular Egypt, Yemen and Libya. It largely avoided any entanglement in Syria, although Dubai afforded a safe haven for members of President Bashar al-Assad's family and business entourage. Following the mid-2017 sanctions imposed on Qatar by the UAE, Saudi Arabia, Bahrain and Egypt, the Emirati minister of state for foreign affairs, Anwar Gargash, remarked that the UAE had convinced Saudi Arabian leaders to stiffen their position with regard to political Islam.<sup>1</sup>

During the first post-Mubarak phase in Egypt, the Gulf Arab states kept a low profile, as the three main domestic political forces – the army, the Muslim Brotherhood and the popular movement that had been responsible for the uprising – sought to establish their respective positions. Within two months of Mubarak's departure on 11 February 2011, the army had established a large degree of control over the political process by pushing through a constitutional referendum that set out a sequence of parliamentary and presidential elections, culminating in the drafting of a new constitution. The Muslim Brotherhood supported this plan, which played to its strengths, given its extensive grassroots organization. The revolutionary movement was opposed, but lacked the organizational coherence to support its argument that deep constitutional reform should take precedence.<sup>2</sup> The Gulf Arab states had no obvious influence on these deliberations, and were conspicuous by their absence from a G8 conference in the French resort of Deauville in May. Western governments used the conference to pledge financial support for Egypt, whose interim

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<sup>1</sup> Royal Institute of International Affairs (2017), 'The UAE View of the GCC Crisis: What Happened and What Happens Next?', members' event, 17 July 2017, <https://www.chathamhouse.org/file/uae-view-gcc-crisis-what-happened-and-what-happens-next> (accessed 13 Mar. 2020).

<sup>2</sup> Hellyer, H. A. (2016), *A Revolution Undone: Egypt's Road Beyond Revolt*, London: Hurst & Company. See pp. 43–54 for a detailed account of the constitutional referendum and the respective positions of the military, the Muslim Brotherhood and the revolutionary movement.



prime minister, Essam Sharaf, was among the guests. (Also present was the Tunisian prime minister, Beji Caid Essebsi, who went on to become president of Tunisia in 2014, serving until his death in July 2019.) Sharaf's government had identified a financing gap of \$12.5 billion, and held preliminary talks with the International Monetary Fund (IMF) about a loan programme to help cover this, but the Supreme Council of the Armed Forces (SCAF), which had assumed sovereign powers, decided against pursuing this option.

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The first clear instance of Gulf involvement in post-Mubarak Egyptian politics came with the surge in support for Hizb al-Nour, a Salafist party, during 2011. Salafist groups in Egypt had for some time benefited from financial flows from officially sanctioned charities in Saudi Arabia, as well as from donors in other Gulf states, notably Kuwait. These funds had been mainly directed towards charities and media outlets, but with the launch of the party in June 2011, the Gulf-based donors played an important part in enabling Hizb al-Nour to mount a powerful electoral challenge to the supremacy of the Muslim Brotherhood. In elections for the lower house of parliament between November 2011 and January 2012, the Islamist bloc led by Hizb al-Nour won 24 per cent of the seats, while the Muslim Brotherhood-dominated Democratic Alliance won 46 per cent. However, there is little evidence that the strong electoral performance of Hizb al-Nour and its subsequent positions – notably in support of Sisi's removal of Mohammed Morsi as president in 2013 – were part of a centrally driven strategy orchestrated by Saudi Arabia.<sup>3</sup>

The activist Gulf players – Qatar, Saudi Arabia and the UAE – did not play a conspicuous role in the 2012 presidential election, which culminated in a second-round victory for Morsi, the Muslim Brotherhood's candidate, on 24 June. Morsi secured 51.7 per cent of the vote, compared with 48.3 per cent for Ahmed Shafiq, who was widely viewed as the candidate of the former regime establishment and enjoyed the backing of the army. The success of the Muslim Brotherhood's campaign was attributable to the depth of its national organization, including finance mobilized by prominent business figures in its leadership, and to the strong aversion to Shafiq among supporters of the revolutionary movement. Morsi's victory was also clearly a boon to Qatar, and of deep concern to the leaders of the UAE and Saudi Arabia, but these Gulf actors lacked the local networks and contacts to have a significant influence on the outcome. As the result was awaited, the Muslim Brotherhood made clear that there would be dire consequences were Morsi to be denied the victory that its members were convinced he had won. The Egyptian military and intelligence establishment resisted the temptation to intervene in favour of Shafiq. This may have been based on judgment that to do so would be too risky, and that opportunities would arise

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<sup>3</sup> Stéphane Lacroix, an authority on Islamist movements in Saudi Arabia and Egypt, has cast doubt on theories suggesting that, because Hizb al-Nour received funds from sources in Saudi Arabia, it followed instructions from the Saudi authorities. See Lacroix, S. (2016), *Egypt's Pragmatic Salafis: The Politics of Hizb al-Nour*, Washington, DC: Carnegie Endowment for International Peace, <https://carnegieendowment.org/2016/11/01/egypt-s-pragmatic-salafis-politics-of-hizb-al-nour-pub-64902> (accessed 16 Mar. 2020).

in the future to co-opt or remove the Muslim Brotherhood administration. It has also been suggested that the Obama administration, along with other Western governments, exerted pressure to ensure there should be no tampering with the result.<sup>4</sup>

By the time Morsi assumed office, Egypt's need for external financial assistance had become acute. Foreign exchange reserves (excluding gold) had dwindled to \$10 billion, from \$32.5 billion at the end of 2010. Qatar stepped in by providing Egypt with a total of \$7 billion in short-term deposits and medium-term notes, while Saudi Arabia and Libya placed deposits with the Central Bank of Egypt amounting to \$1 billion and \$2 billion respectively; Saudi Arabia also issued a \$500 million bond to support Egypt.<sup>5</sup> Morsi sanctioned the reopening of talks with the IMF, which yielded a staff-level stand-by credit agreement of \$4.8 billion in November 2012 – although his administration ultimately decided against proceeding with this agreement, and a scheduled meeting of the IMF's executive board to approve the facility on 19 December was cancelled at the request of the Egyptian government.<sup>6</sup>

Yet the cash infusions from Qatar, Saudi Arabia and Libya proved insufficient to stop the further erosion of Egypt's foreign exchange reserves. The economic crisis faced by the Morsi administration was an important factor in the plans hatched by military and intelligence commanders in the early months of 2013 to force him from office. These plans garnered crucial political and financial support from the UAE and Saudi Arabia, and to a lesser extent from Kuwait, and ushered in the current phase of Egypt–Gulf relations.

### Sisi's debt to his Gulf Arab backers

The route of Abdel-Fattah el-Sisi to power came via a campaign of popular protest against the Morsi government during the first half of 2013. This culminated in mass demonstrations at the end of June and a palace coup on 3 July, carried out by Sisi himself as defence minister and commander of the Egyptian armed forces. The rebellion against Morsi was orchestrated by figures with ties to the Egyptian military, and was, to varying degrees, supported by the US, Israel, the UAE and Saudi Arabia, on the basis of their deep misgivings about the Muslim Brotherhood being in charge of such an important regional power as Egypt.

Saudi Arabia and the UAE were quick to declare their approval of Sisi's action, and underlined this with generous financial transfers. A powerful UAE delegation led by Crown Prince Mohammed bin Zayed visited Cairo at the start of September, just two weeks after an estimated 1,000 people had been killed when the security forces stormed protest encampments set up by supporters of the ousted president.<sup>7</sup> The alacrity with which the Emirati and Saudi leaderships announced their backing for

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<sup>4</sup> Hellyer (2016), *A Revolution Undone*, p. 62.

<sup>5</sup> For information on these facilities, see Central Bank of Egypt (2013), *Quarterly Report Volume 42: External Position of the Egyptian Economy*, Cairo: Central Bank of Egypt, <https://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/ExternalPosition.aspx?p=3> (accessed 16 Mar. 2020).

<sup>6</sup> Confidential communication to the author. This period is covered in more detail in Butter, D. (2013), *Egypt in Search of Economic Direction*, Briefing, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/publications/papers/view/195724> (accessed 14 Mar. 2020).

<sup>7</sup> Fordham, A. (2013), 'Mohammed bin Zayed visits Cairo to 'stand by our brothers in Egypt'', *The National*, 2 September 2013, <https://www.thenational.ae/world/mena/mohammed-bin-zayed-visits-cairo-to-stand-by-our-brothers-in-egypt-1.477295> (accessed 16 Mar. 2020).

Sisi prompted the question of whether they had played a part in enabling the coup – which has since been officially termed the ‘30 June Revolution’. According to recordings subsequently leaked from the Egyptian Ministry of Defence and to confidential testimony from US officials, it is highly likely that the UAE provided funds to support the activity of Tamarrod, the movement that organized the mass petition against Morsi.<sup>8</sup>

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Sisi’s own connections to the Gulf went back to his stint as defence attaché in the Egyptian embassy in Riyadh in the final period of the Mubarak presidency – he had been recalled to Cairo in early February 2011 to take up the post of head of military intelligence, replacing Murad Mowafi, who in turn took over as head of the General Intelligence Service from Omar Suleiman, one of Mubarak’s closest aides. As part of the promotion, Sisi had become a member of the SCAF, the army’s supreme council, which ruled Egypt until Morsi’s eventual assumption of the presidency. Morsi himself had also shaken up the military hierarchy early in his presidency, in August 2012, choosing Sisi as the new defence minister and army commander (replacing Field Marshal Mohammed Tantawi) and promoting another relatively young SCAF member, Sedky Sobhi, to the position of chief of staff of the armed forces (replacing Sami Anan).

As mentioned, the subsequent ousting of Morsi in mid-2013 prompted immediate financial support from several Gulf Arab states. In the days following the coup, Saudi Arabia, the UAE and Kuwait announced a \$12 billion aid package, half of which would consist of long-term, low-interest deposits with the Central Bank of Egypt, with the remainder being provided as grants, mainly in the form of supplies of petroleum products. The initial transfers, including \$2 billion each from the UAE and Saudi Arabia during July, were reflected in a rise in long-term deposits within the central bank’s quarterly tally of external debt, from \$3 billion at the end of June 2013 (comprising placements by Saudi Arabia and Libya) to \$9 billion in September (reflecting placements of \$2 billion each by Saudi Arabia, Kuwait and the UAE). Offsetting some of these inflows, the remaining short-term deposits and medium-term bonds from Qatar were subsequently paid off as they reached maturity over the following two years, while the \$2 billion deposited by the Central Bank of Libya was paid back by mid-2018.

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<sup>8</sup> This has been extensively investigated by David D. Kirkpatrick, both in articles in the *New York Times* and in his book. See Kirkpatrick, D. D. (2018), *Into the Hands of the Soldiers: Freedom and Chaos in Egypt and the Middle East*, London: Bloomsbury; Kirkpatrick, D. D. (2015), ‘Leaks Gain Credibility and Potential to Embarrass Egypt’s Leaders’, *New York Times*, 12 May 2015, <https://www.nytimes.com/2015/05/13/world/middleeast/leaks-gain-credibility-and-potential-to-embarrass-egypts-leaders.html> (accessed 14 Mar. 2020); and Kirkpatrick, D. D. (2018), ‘The White House and the Strongman’, *New York Times*, 27 July 2018, <https://www.nytimes.com/2018/07/27/sunday-review/obama-egypt-coup-trump.html?> (accessed 14 Mar. 2020).



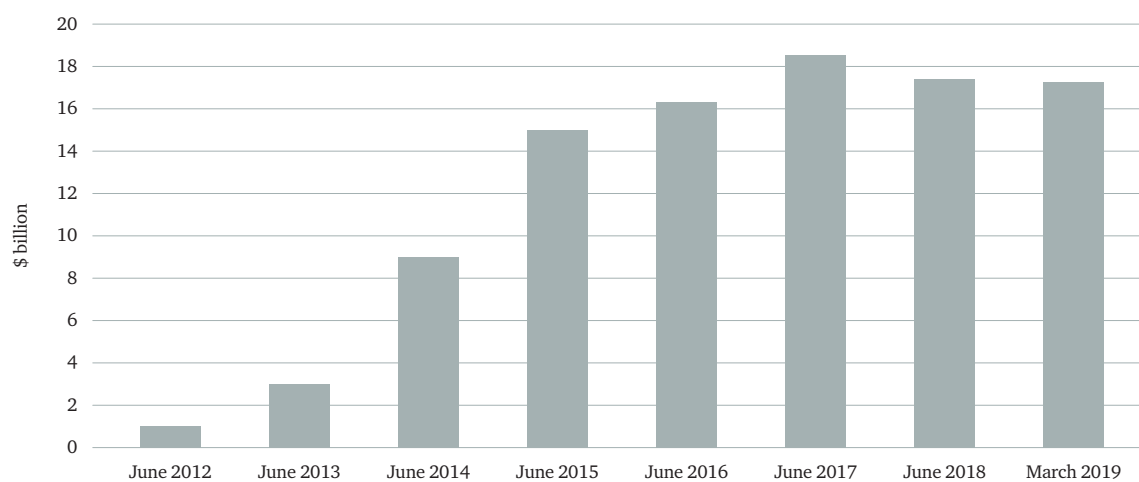
**Table 1: Long-term deposits by Gulf Arab creditors (as of December 2018)**

	Date of placement	Amount	Interest rate	Maturity
Kuwait	24/09/2013	\$2 billion	12-month Libor	20/09/2019
	21/04/2015	\$2 billion	2.5%	22/4/2019, 23/4/2019, 22/4/2020
Saudi Arabia	09/05/2012	\$1 billion (\$500 million outstanding)	3-month Libor	09/05/2019–09/11/2020
	19/07/2013	\$2 billion	3.0%	19/07/2019
	22/04/2015	\$2 billion	2.5%	22/04/2019, 22/04/2020, 22/04/2021
	23/09/2016	\$2 billion	4.5%	01/07/2019
	16/05/2017	\$1 billion	4.5%	01/07/2019
UAE	17/07/2013	\$1 billion	3.0%	15/07/2021
	17/07/2013	\$1 billion	3.5%	17/07/2023
	22/04/2015	\$666.7 million	3.0%	20/04/2021
	22/04/2015	\$1.333 billion	2.5%	22/04/19, 22/04/2020
	13/05/2016	\$1 billion	2.5%	30/05/2019, 30/05/2020, 30/05/2021
	31/08/2016	\$1 billion (\$900 million outstanding)	4.0%	31/08/2022

**Totals**

	Principal	Interest	Total
Kuwait	\$4 billion	\$100.4 million	\$4.14 billion
Saudi Arabia	\$7.5 billion	\$218.2 million	\$7.72 billion
UAE	\$5.9 billion	\$525 million	\$6.43 billion
Total	\$17.4 billion	\$843.6 million	\$18.24 billion

Source: Central Bank of Egypt (2013), *Quarterly Report Volume 64: External Position of the Egyptian Economy*, <https://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/ExternalPosition.aspx> (accessed 16 Mar. 2020).

**Figure 1: Long-term deposits with Central Bank of Egypt, \$ billion**

Source: Central Bank of Egypt (2019), 'Monthly Statistical Bulletin 273', December 2019, [https://www.cbe.org.eg/\\_layouts/15/WopiFrame.aspx?sourcedoc={6C51BD9C-502C-4256-BE0E-A1B72C32B2DB}&file=External%20Sector%20Data%2020276.xlsx&action=default](https://www.cbe.org.eg/_layouts/15/WopiFrame.aspx?sourcedoc={6C51BD9C-502C-4256-BE0E-A1B72C32B2DB}&file=External%20Sector%20Data%2020276.xlsx&action=default) (accessed 27 Mar. 2020).

To compensate for the withdrawal of funds by Qatar, there was a second set of deposits of \$2 billion each from the UAE and Saudi Arabia in April 2015. These two core Gulf allies deposited a further \$5 billion in total in 2016 and 2017, in a move designed to complement a \$12 billion extended fund facility that Egypt signed with the IMF in November 2016 (see below).

As a result, according to details provided by the Central Bank of Egypt in its quarterly bulletins on the country's external financial position, the total amount of deposits peaked at just over \$18 billion in mid-2017. This came down to \$17.4 billion in 2018, following the repayment of the final instalments to Libya. The most recent bulletin available as this research paper was being written covered the period up to the end of 2018. This showed that \$10.4 billion was due to be repaid (mainly comprising principal) to the UAE, Saudi Arabia and Kuwait during 2019. Based on monthly central bank figures for Egypt's net international reserves up to January 2020, it appears likely that some, if not all, of these maturities have been extended, although there have not been any official announcements. Typically, the central bank inserts a note in its monthly reserve update to explain any significant change resulting from a debt repayment. Foreign exchange reserves (excluding gold) remained stable at about \$40 billion during 2019, with no exceptional payments noted. Roughly half of the total due in 2019 was scheduled to be paid to Saudi Arabia in July, redeeming deposits of \$2 billion and \$3 billion, but the central bank's reserve figures do not give any indication that payments of that magnitude were made during that month. More clarity on the status of the deposits should come once external debt and balance-of-payments data for the whole of 2019 are published.

The Gulf deposits have played an important part in the increase in Egypt's total external debt to \$106 billion as of March 2019, up from \$43 billion in June 2013. However, these deposits are not classified as part of the government's public debt (of which the external component stands at about \$50 billion), according to the Ministry of Finance's definition.<sup>9</sup>

The other main source of documented Gulf aid to the Sisi administration has been grants and supplier credits to finance the import of petroleum products. The bulk of the grants came in the two years following Morsi's overthrow. In the 2013/14 (July–June) fiscal year, such grants totalled £E95.9 billion (\$13.7 billion at the then prevailing exchange rate), and in the following year they reached £E25.4 billion (\$3.4 billion), with part of the reduction stemming from the fall in oil prices. The value of grants fell sharply thereafter as the financing for fuel supplies switched to supplier credits – although there was a rise to £E17.7 billion (about \$1 billion at the average exchange rate following devaluation) during 2016/17, reflecting capital grants from the UAE to finance investment projects, according to the Ministry of Finance.<sup>10</sup>

However, budgetary support from the Gulf donors came with some conditions. The UAE, in particular, sought to ensure that the aid would enable the Egyptian government to achieve financial sustainability through enacting economic reforms. (This was similar to the efforts of the same donors to put pressure on the Sadat administration in the mid-1970s to rein in wasteful budget spending, after they had provided grants and loans to support Egypt in the aftermath of the October 1973 war with Israel. Their attempts to push the government towards embracing an IMF-backed package of fiscal reforms had caused some resentment within Egypt.)<sup>11</sup> The aid to Sisi's administration was accompanied

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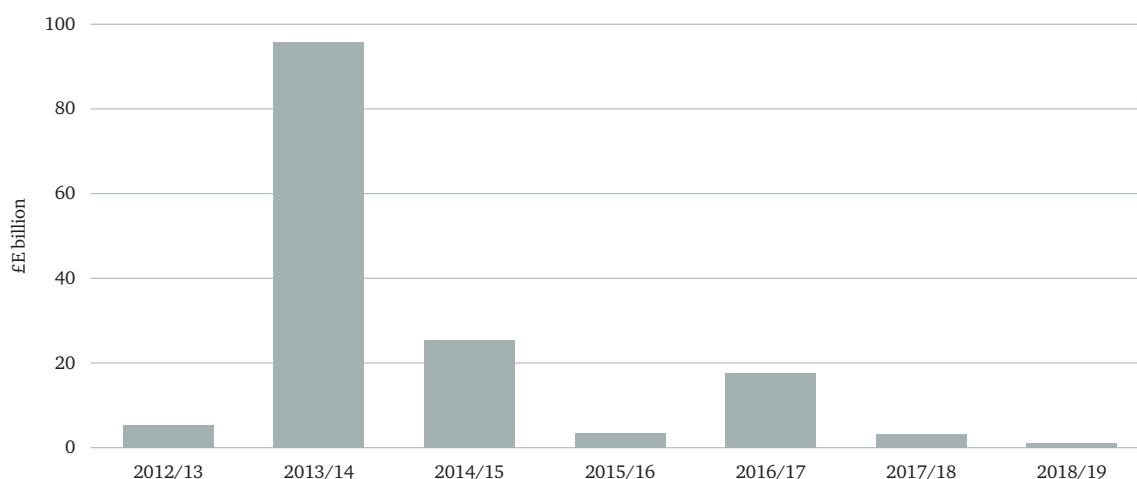
<sup>9</sup> Clarification provided to the author in July 2019 by Mohammed el-Maait, Egypt's finance minister.

<sup>10</sup> Ministry of Finance of Egypt (2019), *Monthly Financial Report June 2019*, <http://www.mof.gov.eg/MOFGallerySource/English/Reports/monthly/2019/June2019/section%204.pdf> (accessed 13 Mar. 2020).

<sup>11</sup> Waterbury, J. (1983), *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*, Princeton, New Jersey; Guildford, Surrey: Princeton University Press, pp. 414–21.

by a reform package drawn up for the UAE government by Lazard investment bank and Strategy& (formerly Booz Allen). The package was overseen by Sultan al-Jaber, a minister of state in the UAE government who was later appointed chairman of the Abu Dhabi National Oil Company.

**Figure 2: Grants to Egypt from Gulf Arab donors, £E billion**



Source: Ministry of Finance (2019), *The Financial Monthly*, December 2019, <http://www.mof.gov.eg/MOFGallerySource/English/Reports/monthly/2019/December2019/section%204.pdf>.

Egyptian officials sought to play down suggestions that the UAE was seeking to impose a kind of shadow IMF programme. An unnamed Egyptian official was quoted by the *Financial Times* as explaining: ‘It is more a reform attitude rather than a programme: more like, how can we help you reform or study certain things like, for instance, the investment environment? Or how can we reduce the oil companies’ debt?’<sup>12</sup> The active involvement of Sultan al-Jaber did help some UAE-based companies to resolve problems that they had faced following the departure of Mubarak. One such company, Dana Gas, explicitly acknowledged the UAE official’s role in the conclusion of a deal in which the company committed itself to new investment in return for the settlement of arrears on payments due from the Egyptian government for sales of natural gas.<sup>13</sup>

However, the deposits and grants from the Gulf donors in the three years following the removal of Morsi provided only brief respites, as each infusion of funds was deployed in a vain effort to defend a heavily overvalued exchange rate. Egypt’s foreign exchange reserves stood at \$11.2 billion in June 2013, on the eve of Sisi’s coup (having fallen to just below \$9 billion earlier that year, before Qatar stepped in with its final tranche of aid). The initial round of post-Morsi Gulf deposits pushed reserves up to about \$15 billion, but these slipped back to \$11.6 billion at the end of 2014. Another round of deposits lifted reserves to \$16 billion by April 2015, but again they slipped back to \$11 billion within 12 months. Sisi and his central bank governor, Tarek Amer, concluded by mid-2016 that Egypt had little choice other than to seek support from the IMF.

<sup>12</sup> Kerr, S. and Saleh, H. (2014), ‘UAE aims to ensure its billions are spent wisely in post-Morsi Egypt’, *Financial Times*, 26 February 2014, <https://www.ft.com/content/da3480c8-9e47-11e3-b429-00144feab7de> (accessed 14 Mar. 2020).

<sup>13</sup> Manfredi, F. (2014), ‘Dana Gas, Egyptian government negotiate agreement, with UAE support’, *Daily News Egypt*, 27 November 2014, <https://www.dailynewssegypt.com/2014/11/27/dana-gas-egyptian-government-negotiate-agreement-uae-support/> (accessed 13 Mar. 2020).

In August 2016, the IMF announced that it had reached a staff-level agreement on a \$12 billion extended fund facility – the amount to which Egypt was eligible had been increased at the start of the year as part of a global adjustment of IMF quotas. There were two implicit preconditions for the final approval of this programme. One was devaluation, couched by the IMF in terms of improving ‘the functioning of the foreign exchange markets’. The other was for the Gulf donors to provide another tranche of finance: ‘It would also be very helpful for Egypt’s bilateral partners to step forward at this critical time,’ the IMF statement said.<sup>14</sup>

The UAE obliged with a \$1 billion deposit later in August, and Saudi Arabia transferred \$2 billion in September, with a further deposit of \$1 billion in May 2017. These were the final instances of overt financial aid from Sisi’s Gulf supporters. The central bank went ahead with the flotation of the Egyptian pound on 3 November 2016, leading to a 50 per cent devaluation of the currency, and the IMF board approved the loan programme eight days later.

By early 2018, Egypt’s foreign exchange reserves had reached a plateau of about \$40 billion, providing a comfortable cushion of six months’ cover for imports of goods and services. By this metric, Egypt’s balance-of-payments position is now relatively secure, and there is no immediate requirement for additional financial support from the Gulf Arab donors. Moreover, under the stewardship of the IMF programme, the government has brought its fiscal deficit down to a manageable level; the deficit had peaked at about 17 per cent of GDP (excluding the Gulf grants) in 2013/14. Gross public debt, while still high at around 90 per cent of GDP, is on a downward path. Despite these improvements, there is no guarantee that Egypt will not need financial support from its Gulf allies in the future, in particular in the event of a major external shock – such as the COVID-19 pandemic, which has already forced Egypt in effect to close down its tourism sector and is also likely to hit remittances as Egyptian workers in the Gulf and Europe are laid off.

### Investment, arms, trade and remittances

The other main modes of Gulf support for the Egyptian economy are through investment, financing of weapons procurement, trade, remittances and tourism. During the Sisi era, there has been a significant increase in foreign direct investment (FDI) inflows into Egypt from the UAE and Saudi Arabia, according to figures published by the Central Bank of Egypt (see below). FDI inflows from Qatar have dipped slightly, but there have been no major divestments. Egypt’s spending on weapons procurement has increased strongly, although there is no evidence in the public domain that Sisi’s Gulf allies have underwritten arms deals. Saudi Arabia and the UAE are among Egypt’s top trading partners, largely thanks to sales of oil and petroleum products to Egypt but also reflecting increased Egyptian exports, to the UAE in particular. Roughly half of the 9.5 million Egyptians registered as expatriates in the 2017 census (the most recent) live in the Gulf,<sup>15</sup> and they account for a large part of the inflows of remittances. These inflows have averaged more than \$20 billion per year over the past five years, accounting for roughly one-quarter of total current-account

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<sup>14</sup> International Monetary Fund (2016), ‘Egypt: IMF Reaches Staff-Level Agreement on a Three-Year US\$12 Billion Extended Fund Facility’, press release, 11 August 2016, [https://www.imf.org/en/News/Articles/2016/08/11/09/49/pr16375-Egypt-IMF-Reaches-Staff-Level-Agreement-on-a-Three-Year-US\\$12-Billion-Extended-Fund-Facility](https://www.imf.org/en/News/Articles/2016/08/11/09/49/pr16375-Egypt-IMF-Reaches-Staff-Level-Agreement-on-a-Three-Year-US$12-Billion-Extended-Fund-Facility) (accessed 16 Mar. 2020).

<sup>15</sup> Of whom 2.9 million live in Saudi Arabia, 765,000 in the UAE, 500,000 in Kuwait and 230,000 in Qatar. See Al-Youm, A. (2017), ‘9.5 million Egyptians live abroad, mostly in Saudi Arabia and Jordan’, *Egypt Independent*, 1 October 2017, <https://egyptindependent.com/9-5-million-egyptians-live-abroad-mostly-saudi-arabia-jordan/> (accessed 16 Mar. 2020).

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receipts.<sup>16</sup> The Gulf makes a further contribution to Egyptian foreign exchange earnings through tourism, as visitors from the Middle East (most of them from Gulf Arab states) account for about one-fifth of total tourist arrivals.<sup>17</sup> As mentioned, however, the effects of COVID-19 mean that foreign exchange inflows are likely to take a hit in 2020, and the timing of a return to relative normality remains unclear.

### Foreign direct investment

The contribution of Gulf Arab countries to total gross FDI inflows into Egypt has ranged between 10 per cent and 20 per cent over the past decade. Gulf investors have typically focused on real estate, retail, finance, telecommunications and logistics. The energy sector has also attracted interest: entities from Saudi Arabia and the UAE were prominent among the 30 or so international investors in the 1.5-GW Benban solar power park to the north of Aswan, while Qatar Petroleum is one of the lead investors in a major new refinery to the north of Cairo that came on stream in November 2019.

Much of the recent Gulf investment flow into Egypt has reflected progress with projects that have been under way for some time, rather than any major new initiatives. Nevertheless, the rise in FDI from the UAE recorded in the tally provided by the Central Bank of Egypt is striking. One of the largest UAE-based investors is the Majid Al Futtaim group, whose local affiliate, MAF Misr, opened up its first mall developments in Egypt in the early 2000s. At the time of the uprising against the Mubarak regime, Majid Al Futtaim had embarked on one of its most ambitious schemes, the Mall of Egypt, southwest of Cairo. The mall eventually opened in March 2017. MAF also opened a new mall in the Almaza area of eastern Cairo in October 2019. In early 2018, MAF signed an agreement with the National Services Project Organisation, one of the main investment vehicles of the Egyptian armed forces, to develop 100 Carrefour supermarkets across Egypt. A separate UAE-based company, Al Futtaim Group, has developed the Cairo Festival City real estate, mall and entertainment complex. Emaar Properties, one of the largest developers in Dubai, also has a significant presence in Egypt through an affiliate, Emaar Misr, which raised \$290 million in an initial public offering of its shares on the Cairo stockmarket in 2015. Emaar is headed by Mohammed Ali Alabbar, a close associate of Dubai's ruler, Sheikh Mohammed bin Rashid Al Maktoum. The company embarked on its first projects in Egypt in the mid-2000s, and has built up a large real estate portfolio, including Uptown Cairo (in the Mokattam area, above the Old City), Marassi (on the Mediterranean) and Mividia (part of the New Cairo development).

However, Emaar has made little progress with its proposed Cairo Gate shopping mall in 6 October City, and a bid by Alabbar to be one of the lead investors in the New Administrative Capital came to nothing, following a failure to reach agreement on commercial terms. When the new capital scheme was unveiled at the March 2015 Sharm el-Sheikh economic conference, Alabbar – ostensibly as a leading investor in a bespoke real estate equity fund – was heavily involved, presenting a model of the proposed development. As yet there has been no significant Gulf Arab investment in the new capital, which has been undertaken by a joint venture between the Egyptian armed forces and the new urban communities agency of the Ministry of Housing. Likewise, a proposal announced in March 2014 for Arabtec, an Abu Dhabi-based company, to invest in the construction of 1 million

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<sup>16</sup> Central Bank of Egypt (2019), 'Monthly Statistical Bulletin: External Sector Data 270', [https://www.cbe.org.eg/\\_layouts/15/WopiFrame.aspx?sourcedoc={FFE741C8-5353-417D-8222-D813E5D88F83}&file=External%20Sector%20Data%20270.xlsx&action=default](https://www.cbe.org.eg/_layouts/15/WopiFrame.aspx?sourcedoc={FFE741C8-5353-417D-8222-D813E5D88F83}&file=External%20Sector%20Data%20270.xlsx&action=default) (accessed 13 Mar. 2020).

<sup>17</sup> Central Bank of Egypt (2019), 'Monthly Statistical Bulletin: Real Sector 270', [https://www.cbe.org.eg/\\_layouts/15/WopiFrame.aspx?sourcedoc={BDBE5A7E-4396-42B7-8AB2-CE57936B630D}&file=RealSector%20270.xlsx&action=default](https://www.cbe.org.eg/_layouts/15/WopiFrame.aspx?sourcedoc={BDBE5A7E-4396-42B7-8AB2-CE57936B630D}&file=RealSector%20270.xlsx&action=default) (accessed 13 Mar. 2020).



homes for low- and middle-income families, has stalled, even after its scope was reduced to 100,000 homes. As the new capital project evolves, with ministries scheduled to move into the area from late 2020, Gulf investors such as Emaar may show a revived interest.

Despite the setbacks for some projects involving Emirati investors, FDI from the UAE averaged about \$1 billion per year between 2014/15 and 2017/18. A large part of this is likely to have stemmed from investments by Etisalat, which holds one of the four mobile-phone licences in Egypt. Etisalat paid \$535 million in October 2016 to acquire a 4G licence, and recently indicated that it is investing \$200–250 million per year in upgrading its infrastructure in Egypt. UAE-based Dana Gas is the only company from the Gulf to have invested as an operator (as opposed to a minority equity partner) in Egypt's upstream oil and gas sector. The company has faced a persistent struggle to recoup arrears owed by the Egyptian government, and it decided in late 2019 to sell its assets in Egypt, even though the arrears have fallen steadily over the past few years. The stock of UAE investment in Egypt may show a significant increase in 2020, following the bid by First Abu Dhabi Bank to acquire the Egyptian affiliate of Lebanon's Bank Audi. The Lebanese bank is selling this profitable subsidiary as part of efforts to bolster its finances in its home market, in compliance with instructions from the Lebanese central bank to banks to increase their core capital.<sup>18</sup> That said, the deal could be held up, or derailed, by the impact of the coronavirus pandemic and the worsening of Lebanon's financial crisis.

**Much of the recent Gulf investment flow into Egypt has reflected progress with projects that have been under way for some time, rather than any major new initiatives. Nevertheless, the rise in FDI from the UAE is striking.**

FDI from Saudi Arabia and Kuwait has also risen since Sisi came to power, but to a lesser degree in cumulative terms than has been the case with the UAE. Some of the best-known Saudi investors in Egypt, including Prince Alwaleed bin Talal (whose assets include hotels in Cairo, Alexandria and Sharm el-Sheikh) and Fawaz Alhokair (whose largest investment in Egypt is the Mall of Arabia, in 6 October City), were among the dozens of Saudi business people detained in the Riyadh Ritz Carlton hotel in late 2017 and subsequently forced to hand over assets to the Saudi authorities. The incident prompted Alwaleed to sell some of his regional hotel interests to raise cash. These included his stake in Mövenpick, which operates a number of hotels and resorts in Egypt. Both Alwaleed and Alhokair have recently indicated that they intend to continue to invest in Egypt. The Ritz Carlton affair prompted capital flight from Saudi Arabia, part of which is likely to have been invested in Egyptian assets. The decision by the UK's Vodafone to divest from the Egyptian mobile-phone sector has opened the way for Saudi Telecom to enter the market. Vodafone announced in January 2020 that it had issued a memorandum of understanding for the sale of its 55 per cent stake in Vodafone Egypt to Saudi Telecom for \$2.39 billion.<sup>19</sup> The Saudi Telecom investment could climb above \$4 billion if the eventual deal includes the sale of the remaining 45 per cent stake, held by Telecom Egypt.

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<sup>18</sup> Reuters (2020), 'Lebanon's Bank Audi chooses Egypt's EFG Hermes as financial advisor in deal to sell its Egypt unit', 26 January 2020, <https://www.reuters.com/article/bank-audi-egypt-ma-efg-hermes/lebanons-bank-audi-chooses-egypts-efg-hermes-as-financial-advisor-in-deal-to-sell-its-egypt-unit-idUSL8N29V067> (accessed 25 Mar. 2020).

<sup>19</sup> Vodafone (2020), 'Vodafone group and STC sign a memorandum of understanding in relation to Vodafone's 55% shareholding in Vodafone Egypt and a new partner market agreement', news release, 29 January 2020, <https://investors.vodafone.com/news-releases/news-release-details/vodafone-stc-sign-mou-re-55-vodafone-egypt> (accessed 16 Mar. 2020).

Inflows of FDI from Qatar fell sharply in the year following the overthrow of Morsi, but recovered to an annual average of about \$175 million in the following three years. Qatar’s support for the Morsi government was reflected in the rise of Qatari FDI during his one-year presidency, although one of these deals – Qatar Petroleum’s 27.9 per cent stake in the \$1.1 billion equity of the Egyptian Refining Company – was announced on 14 June 2012, two weeks before Morsi’s inauguration. Later that year, Qatar National Bank (QNB) acquired National Société Générale Bank, the second-largest privately owned bank in Egypt, for \$2 billion. (The scale of this deal is not reflected in the FDI figures for this period, most likely because the bulk of the equity was sold by France’s Société Générale.) Both Qatar Petroleum and QNB have held on to their investments in these assets, despite the tensions in Egyptian–Qatari relations since the overthrow of Morsi and, more recently, with the sanctions imposed on Qatar since mid-2017 by Bahrain, Egypt, Saudi Arabia and the UAE.

**Table 2: Share of inflows of foreign direct investment (FDI) into Egypt, \$ million, July–June fiscal years**

	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
Net FDI inflows	8,236	7,720	7,993	6,935	6,380	4,178	3,753
Gross FDI inflows, including	16,393	13,163	13,366	12,529	12,546	10,856	10,274
US	1,571	2,244	1,833	813	2,116	2,230	2,183
EU	9,950	7,952	8,711	7,877	6,523	6,610	5,625
UAE	1,104	1,075	857	1,329	1,383	401	481
Saudi Arabia	478	297	344	313	650	284	192
Qatar	382	165	167	195	94	109	376
Kuwait	684	112	150	133	237	130	46
Bahrain	192	88	113	165	136	194	263

Source: Central Bank of Egypt (2019), ‘Monthly Statistical Bulletin: External Sector Data 274’, [https://www.cbe.org.eg/\\_layouts/15/WopiFrame.aspx?sourcedoc={E6A4460A-7D09-434C-9AB1-B3C843F581ED}&file=External%20Sector%20Data%20274.xlsx&action=default](https://www.cbe.org.eg/_layouts/15/WopiFrame.aspx?sourcedoc={E6A4460A-7D09-434C-9AB1-B3C843F581ED}&file=External%20Sector%20Data%20274.xlsx&action=default) (accessed 13 Mar. 2020).

## Foreign trade

Qatar’s trade with Egypt has tailed off over the past three years, but this has mainly been attributable to the winding down of Egypt’s imports of liquefied natural gas (LNG) as its own natural gas production has increased, rather than to political factors. During the Morsi presidency, Qatar agreed to donate five cargoes of LNG to Egypt to cover contractual obligations to investors in Egypt’s own LNG export plants, which had stopped operating owing to the shortage of domestic gas supply. Qatar was among the main suppliers of LNG once Egypt started up its import facilities in 2015, and this was reflected in an increase in Qatar’s exports to \$966 million in 2015/16 and nearly \$2 billion in 2016/17. Supplies from Qatar started to decline after the mid-2017 boycott, and by late 2018 Egypt had stopped importing LNG altogether.

**Table 3: Egypt's main trading partners, \$ million, July–June fiscal years**

Exports	2018/19	2017/18	2016/17	2015/16	2014/15
US	2,856	2,081	1,810	1,275	2,186
Italy	2,424	2,587	2,066	1,739	2,384
UK	1,846	1,722	1,165	1,196	1,503
<b>UAE</b>	<b>1,560</b>	<b>2,512</b>	<b>2,896</b>	<b>2,547</b>	<b>1,757</b>
Germany	1,168	1,021	860	708	747
India	1,108	1,135	699	824	1,495
<b>Saudi Arabia</b>	<b>1,057</b>	<b>1,036</b>	<b>965</b>	<b>1,095</b>	<b>1,081</b>
Turkey	1,030	1,135	909	709	863
Switzerland	976	915	762	585	406
Spain	856	796	765	422	322
World total	28,495	25,827	21,728	18,705	22,245
Imports	2018/19	2017/18	2016/17	2015/16	2014/15
China	6,012	5,406	4,308	4,728	5,195
<b>Saudi Arabia</b>	<b>4,932</b>	<b>3,589</b>	<b>2,837</b>	<b>2,816</b>	<b>4,304</b>
Russia	4,575	3,171	2,630	2,933	1,880
US	3,384	2,941	2,915	2,588	3,904
Germany	3,086	2,963	2,726	3,220	3,149
<b>UAE</b>	<b>2,608</b>	<b>3,311</b>	<b>2,906</b>	<b>3,418</b>	<b>3,998</b>
Turkey	2,588	1,937	1,877	2,036	2,219
UK	2,385	2,132	1,902	1,929	1,807
Switzerland	2,367	1,969	1,928	1,845	1,965
<b>Kuwait</b>	<b>2,106</b>	<b>1,531</b>	<b>n/a</b>	<b>n/a</b>	<b>2,325</b>
Italy	2,058	1,921	2,066	1,739	2,078
France	2,032	1,993	1,815	2,151	1,832
India	1,888	1,494	1,514	1,338	1,704
<b>Qatar</b>	<b>n/a</b>	<b>n/a</b>	<b>1,825</b>	<b>966</b>	<b>n/a</b>
World total	66,529	63,103	59,003	57,388	61,305

Note: n/a = not available, as outside the top 15 trading partners for the relevant fiscal year.

Source: Central Bank of Egypt (2020), *Monthly Statistical Bulletins*, <https://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/MonthlyStatisticalBulletin.aspx> (accessed 13 Mar. 2020).

The UAE and Saudi Arabia have, meanwhile, continued to rank among the top six exporters to Egypt, mainly thanks to the supply of petroleum products. This has been consistent over the past six years, apart from a hiatus between October 2016 and March 2017 when Saudi supplies were suspended in an apparent gesture of displeasure with Egyptian court rulings in respect of the transfer of sovereignty over the Tiran and Sanafir islands to Saudi Arabia. (Previously, these two islands in the Gulf of Aqaba had been in Egyptian hands since 1950, ostensibly for security reasons related to a perceived military threat from Israel.)<sup>20</sup> The sovereignty transfer had been announced during a visit to Egypt in April 2016 by King Salman bin Abdelaziz Al Saud, during which a five-year, credit-backed fuel supply deal was struck.

<sup>20</sup> For background on the Tiran and Sanafir issue, see Tahrir Institute for Middle East Policy (2017), *Tiran and Sanafir: Developments, Dynamics, and Implications*, Washington DC: Tahrir Institute for Middle East Policy, <https://timep.org/wp-content/uploads/2017/08/Tiran-and-Sanafir-Developments-Dynamics-and-Implications-web.pdf> (accessed 17 Mar. 2020).

Recent trade data issued by the Central Bank of Egypt show a steady rise of Russia up the rankings. During the 2018/19 fiscal year, Russia moved into third place, behind China and Saudi Arabia, among exporters to Egypt (see Table 3). Russia is a major source of wheat imports for Egypt, but it is likely that its total sales of \$7.7 billion during 2017/18 and 2018/19 also included military equipment (see below), following a string of major arms deals announced over the past few years.

### Arms trade

Between 2014 and 2018, Egypt rose to third place among the world's arms importers, according to the Stockholm International Peace Research Institute (SIPRI).<sup>21</sup> Egypt's share of 5.1 per cent of such imports would be equivalent to about \$25 billion, based on separate estimates by SIPRI that the global arms trade totalled \$100 billion per year during this period. Part of this would be covered by the \$1.3 billion annual military sales grant from the US to cover its arms exports to Egypt, but under Sisi Egypt has diversified its procurement, with major purchases of aircraft and naval vessels from France, Russia and Germany. According to SIPRI, during 2014–18 France was Egypt's largest supplier (accounting for 37 per cent of shipments), followed by Russia (30 per cent), with the US in third place with a 19 per cent share. Aside from the US deals, much of the financing for the arms procurement remains opaque. This has fed speculation that Egypt's Gulf allies may have underwritten some of them, in particular the sales by Russia.

**Table 4: Top 10 arms importers, 2014–18**

	% share of world total	
	2014–18	2009–13
Saudi Arabia	12.0	4.3
India	9.5	13.0
Egypt	5.1	1.8
Australia	4.6	3.6
Algeria	4.4	3.1
China	4.2	4.8
UAE	3.7	4.2
Iraq	3.7	1.6
South Korea	3.1	3.8
Vietnam	2.9	1.8

Source: Wezeman et al. (2019), *Trends in International Arms Transfers, 2018*.

Even if there is no conclusive evidence of direct Gulf financing for the surge in military procurement under Sisi, the other, overt forms of financial support have played an important part in enabling this allocation of resources. The strategic objective, from Sisi's perspective, would appear to be to bolster Egypt's capability to deal with a range of potential threats emanating from the region. These would include: Persian Gulf and Red Sea security, in the context of the risk of a widening conflict between Egypt's Gulf Arab allies and Iran; the threat from Turkey to Egypt's eastern Mediterranean natural gas interests; the threat posed by the Grand Ethiopian Renaissance Dam to Egypt's vital interests in the flow of water down the Nile; the ongoing threat from Islamist terrorism in northern Sinai

<sup>21</sup> Wezeman, P. D., Fleurant, A., Kuimova, A., Tian, N. and Wezeman, S. T. (2019), *Trends in International Arms Transfers, 2018*, Stockholm: Stockholm International Peace Research Institute, <https://www.sipri.org/publications/2019/sipri-fact-sheets/trends-international-arms-transfers-2018> (accessed 17 Mar. 2020).

and the Western Desert; and the risk of a renewal of tensions with Israel, despite the current close security ties between the two neighbours. In most of these areas, Egypt's interests are complementary to those of its principal Gulf Arab allies, Saudi Arabia and the UAE, but that will not necessarily always be the case.

### Strategic strings attached to Gulf support

The Gulf's generous financial support to the Sisi administration and the close and multi-layered economic ties between Egypt and the Gulf are part of a wider strategic relationship, involving both common and conflicting interests. Egypt's rulers since the days of Mohammed Ali Pasha have harboured a strong sense of their country's geopolitical importance. However, Egypt's efforts to project power beyond its borders have tended to end in costly failure, and the nationalism espoused by its modern leaders has served the primary purpose of consolidating power and privilege at home, rather than providing the basis for expansionism. The appetite for power projection among Gulf Arab states has been a relatively recent development, originating in the post-1973 oil boom. The influence of Egypt relative to the Gulf Arab states has also been affected by the regional interests of external actors, in particular the US, the Soviet Union (and more recently Russia), Europe and China, as well as by the actions of regional powers such as Israel, Iran, Iraq, Syria, Libya and Ethiopia.

Since the 1970s Egypt has sought to leverage its geostrategic importance for financial support. This was evident in President Sadat's peace overtures towards Israel, which were rewarded with billions of dollars in US aid (although the military component was a mixed blessing, as it was initially provided in the form of loans that became a heavy burden when interest rates shot up in the 1980s). The transactional aspects of the aid provided by the Gulf are less clear-cut. The Gulf Arab donors have judged that a collapse of the Egyptian economy would not be in their interest, owing to the risks of regional destabilization, and the UAE in particular has viewed with alarm the prospect of the Muslim Brotherhood entrenching its control over Egypt. At the same time, there has been an implicit commitment that the Egyptian armed forces would be ready to step in if any of the Gulf states faced an urgent security threat, although this has rarely been put to the test. As host of the League of Arab States summit in Sharm el-Sheikh in March 2015, Sisi sought to breathe life into the idea of setting up a joint Arab military force, but little has been heard of this since.<sup>22</sup> Egypt is a member of the Saudi- and UAE-led Arab coalition formed in 2015 to restore to power the government of Abd Rabbu Mansour Hadi in Yemen, but has not played a conspicuous combat role. Its participation has been sanctioned by the National Defence Council as being 'to defend Egyptian and Arab national security in the Gulf, Red Sea and Bab al-Mandab areas'.<sup>23</sup> Egypt has also largely steered clear of the Syria conflict, while maintaining discreet contact with the Assad regime.

In Libya, Egypt has played a more active role, in light of the security threat emanating from Islamist groups in the border area, including a number of Egyptian jihadist commanders.<sup>24</sup> Egypt has provided arms and political support for Field Marshal Khalifa Haftar's Libyan National Army (LNA), but the country's involvement has been less hands-on than that of the UAE, whose forces have played

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<sup>22</sup> The Embassy of the Kingdom of Saudi Arabia (Washington DC) (2015), 'Final Communique of the 26th Arab League Summit', 29 March 2015, <https://www.saudiembassy.net/statements/final-communique-%E2%80%8E26th-arab-league-summit> (accessed 17 Mar. 2020).

<sup>23</sup> Reuters (2017), 'Egypt extends participation in Yemen conflict', 22 January 2017, <https://www.reuters.com/article/us-yemen-security-egypt/egypt-extends-participation-in-yemen-conflict-idUSKBN1560RS> (accessed 17 Mar. 2020).

<sup>24</sup> For example, Hisham el-Ashmawy, a former army officer currently being tried on terrorism charges, who was captured by LNA forces in the eastern Libyan town of Derna in October 2018 and then handed over to Egyptian authorities. See BBC News (2018), 'Libyan forces capture Egyptian jihadist Hisham Ashmawi', 8 October 2018, <https://www.bbc.co.uk/news/world-africa-45789449> (accessed 17 Mar. 2020).



a direct role in the conflict on the ground and through airstrikes on behalf of the LNA. According to the UN Panel of Experts on Libya, which is tasked with monitoring adherence to the arms embargo established under Security Council resolution 1973 of 2011, the UAE (along with Jordan) has been responsible for the bulk of the arms transfers to Haftar's forces, while Egypt's role has been less conspicuous. A recent UN report, issued at the end of 2019, stated that Turkey, Jordan and the UAE 'routinely and sometimes blatantly supplied weapons, employing little effort to disguise their source'. It notes that the panel has sent 26 letters to the UAE authorities with queries about such transactions, of which 16 are listed as unanswered, while only four letters have been sent to Egypt, two of which were unanswered. There is a record of Egypt transferring transport helicopters to the LNA in 2016, along with eight MiG-21 jets prior to 2015, and Egypt has been suspected of providing indirect support for the UAE's operations, for example through allowing warplanes to refuel.<sup>25</sup>

**Egypt, for reasons of geography, has little option but to remain engaged in Libya, but Sisi appears to be increasingly convinced that this should be a multilateral exercise.**

In the political and diplomatic spheres, Egypt has adopted a higher profile. This was evident in the summit on Libya arranged by the German chancellor, Angela Merkel, in Berlin on 19 January 2020. Sisi attended in person, and was actively involved in the discussions among the political leaders present. The UAE had a more low-key presence, represented by the foreign affairs minister, Abdullah bin Zayed, although Mohammed bin Zayed held separate talks with Merkel on the eve of the conference.<sup>26</sup> Despite efforts deployed at the Berlin conference, the Libyan conflict has intensified, and taken on wider regional dimensions, with Turkey stepping up its role with the deployment of fighters from areas of northern Syria under its control. Egypt, for reasons of geography, has little option but to remain engaged in Libya, but Sisi appears to be increasingly convinced that this should be a multilateral exercise. The UAE may eventually conclude that, as with Yemen, it may be prudent to trim its Libyan ambitions.<sup>27</sup>

Egypt has shown no appetite to become embroiled in the tensions between the dominant Gulf Arab states and Iran. In April 2019, Egypt pulled out of a US-led initiative to form a Middle East security alliance aimed at containing Iran, expressing doubts as to its seriousness and concerns about the risks of ratcheting up tensions with Iran.<sup>28</sup> These risks have grown following the series of suspected Iranian operations in the UAE and Saudi Arabia since May 2019, which culminated in the 14 September drone and missile strikes on the Abqaiq and Khurais oil installations in Saudi Arabia. The Saudi and Emirati response to these incidents has been notably restrained, as they digest the implications of any further escalation in light of the unreliability of their principal external protector, the US, under the Trump administration.

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<sup>25</sup> United Nations Security Council (2019), 'Letter dated 29 November 2019 from the Panel of Experts on Libya established pursuant to resolution 1973 (2011) addressed to the President of the Security Council', <https://undocs.org/S/2019/914> (accessed 17 Mar. 2020).

<sup>26</sup> Gulf Today (2020), 'Sheikh Mohamed, Merkel discuss regional developments in Berlin', 18 January 2020, <https://www.gulftoday.ae/news/2020/01/18/sheikh-mohamed-merkel-discuss-regional-development-in-berlin> (accessed 17 Mar. 2020).

<sup>27</sup> In a profile of Mohammed bin Zayed, published by the *New York Times Magazine* in January 2020, the author, Robert Worth, quotes an unnamed former US diplomat ('who admires MBZ') as saying: '[The UAE] are looking to stage-manage and cleave out the parties they don't like ... They will learn they can't do that ... You may stir a pot that boils over because of your meddling.' See Worth, R. F. (2020), 'Mohammed bin Zayed's Dark Vision of the Middle East's Future', *New York Times Magazine*, 9 January 2020, <https://www.nytimes.com/2020/01/09/magazine/united-arab-emirates-mohammed-bin-zayed.html> (accessed 17 Mar. 2020).

<sup>28</sup> Kalin, S. and Landay, J. (2019), 'Egypt withdraws from U.S.-led anti-Iran security initiative – sources', Reuters, 10 April 2019, <https://www.reuters.com/article/us-usa-mesa-egypt-exclusive/exclusive-egypt-withdraws-from-u-s-led-anti-iran-security-initiative-sources-idUSKCN1RM2WU> (accessed 17 Mar. 2020).

Egypt's involvement in the security of the Gulf goes back to the second decade of the 19th century, when, at the behest of the Ottoman authorities, Mohammed Ali Pasha dispatched forces to quell the first Wahhabi-Saudi emirate. The campaign, led by the Egyptian ruler's son, Ibrahim Pasha, culminated in the capture of the emirate's capital in Diriyeh and the execution of its leader, Abdullah bin Saud. Egyptian forces remained active in the Arabian peninsula until 1840, as Muhammed Ali Pasha sought to extend his own power independently of the Ottomans. This period has little direct relevance to current Egypt–Gulf relations, but does resonate with nationals on both sides with some sense of history.<sup>29</sup>

In more recent memory was the Egyptian intervention in Yemen between 1962 and 1967. The Egyptian army had initially sent advisers to support republican officers who had seized power from the Yemeni monarchy. The intervention provided an opportunity for the Egyptian military commander, Abdel-Hakim Amer, to showcase the army's prowess, and thereby strengthen his position *vis-à-vis* the president, Gamal Abdel-Nasser. As Saudi Arabia, the UK and the US stepped up their support for the royalists, the Egyptian intervention forces became drawn into a taxing and ultimately disastrous guerrilla war, tying down 70,000 troops at the peak of the deployment in 1965. The war was a huge drain on the resources of the Egyptian armed forces, and took a heavy toll on morale and discipline. It was a major contributory factor to the catastrophic defeat of the Egyptian army at the hands of Israel in June 1967.<sup>30</sup> Following the Houthi takeover of the Yemeni capital, Sanaa, in September 2014, Egypt showed a willingness to join Saudi-led efforts to restore the UN-recognized Hadi government; indeed, Egypt is still nominally a member of the coalition formed for this purpose. However, beyond a token show of force by the Egyptian navy, there has been no evidence of any significant military contribution to the Saudi- and UAE-led campaign in Yemen.

The Houthi rebellion came at a sensitive juncture in Egyptian–Saudi relations. Quite apart from the painful historical legacy, Egypt had no clear national interest in becoming embroiled in the Yemen conflict. But Sisi did have reason to be concerned at the risks of offending Mohammed bin Salman, the rising power in Saudi Arabia and one of the younger sons of King Salman (who had ascended to the throne in January 2015 on the death of King Abdullah bin Abdulaziz Al Saud). The support that Sisi had garnered from Saudi Arabia before and after his ouster of Morsi had been secured through close consultation with King Abdullah's inner circle of advisers, led by Khaled al-Tuwajjri, the head of the royal court. These advisers were removed on Salman's accession, and Tuwajjri was among those detained in the Ritz Carlton anti-corruption purge at the end of 2017. Although Sisi would have liaised with the Saudi defence ministry during his time as military attaché, he left Riyadh just before Salman was appointed defence minister in 2011.

Another concern was the tone of the criticism within the new Saudi regime towards the late King Abdullah's circle over its embrace of Western values, which suggested that King Salman had some sympathy with Islamist politics. Sisi's relations with the incoming Saudi regime were further compromised by the release of a series of recordings purportedly of conversations between himself and senior military aides within an office at the Egyptian Ministry of Defence. The recordings

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<sup>29</sup> Observation from author's conversations in Egypt and the Gulf. The Egyptian campaigns in the first half of the 19th century are described in some detail in a doctoral thesis submission in April 2013 to the University of Exeter by Abdulaziz Mohammed Hassan Ali Al Khalifa on the career of Shaikh Abdullah bin Ahmed al-Fatih Al Khalifa, the fifth ruler of Bahrain's Al Khalifa dynasty, who lived between 1795 and 1849. See Al Khalifa, A. A. (2013), 'Relentless warrior and shrewd tactician: Shaikh Abdullah bin Ahmad of Bahrain 1795-1849: a case study of Shaikhly statecraft in the nineteenth century Gulf', <https://pdfs.semanticscholar.org/6102/3cebe8d78270106510c1055f8397125efcee.pdf> (accessed 17 Mar. 2020).

<sup>30</sup> Kandil, H. (2012), *Soldiers, Spies and Statesmen: Egypt's Road to Revolt*, London, New York: Verso, pp. 71–72.

included references to Gulf aid, conveying the impression that Sisi and his entourage viewed such funding as an entitlement, and that a significant portion could be diverted to the Egyptian military for its own use. In one of the recordings, Sisi was supposedly heard asking Abbas Kamel, his principal adviser and subsequently head of the General Intelligence Service, why he was laughing at the amounts being discussed. ‘They have money like rice,’ the man identified as Sisi said. The Egyptian government cast doubt on the veracity of the recordings, which were issued by Mekameleen, a Turkey-based television channel associated with the Muslim Brotherhood. However, independent analysis of the recordings suggested that they were likely to have been genuine. The exchanges on the Saudi and UAE aid would have confirmed suspicions among the Gulf donors of the real views of Sisi and his entourage.<sup>31</sup>

By early 2016, the Egyptian and Saudi leaders were ready to rebuild the relationship. In April, King Salman made a state visit to Egypt, during which he signed several economic agreements, including a commitment for Saudi Aramco to supply 700,000 tonnes per month (equivalent to about 180,000 barrels/day) of petroleum products for five years, financed by medium-term credits. At the end of the visit, the Egyptian government announced that it had reached agreement with Saudi Arabia on the demarcation of the maritime border, and that this entailed confirming Saudi sovereignty over the islands of Tiran and Sanafir (see above). There had been no attempt by the Egyptian government to prepare public opinion for the announcement. The decision prompted impassioned criticism in Egypt on the grounds that the case for the islands being part of Saudi Arabia was open to contestation, that the cabinet had no right to pronounce on issues of sovereignty, and that the deal amounted to selling Egyptian territory in return for Saudi financial support.

A group of lawyers launched legal objections to the agreement and secured a ruling from an administrative court to declare it null and void. In October 2016, it emerged that the Saudi Aramco fuel deliveries had been suspended. There was no immediate explanation, but commentators suggested that the legal cases against the territorial deal may have been a factor, alongside other issues, notably Egypt’s voting record on Syria at the UN Security Council and the participation of a high-level Egyptian official delegation at a conference on Sunni Islam in Grozny in Russia (Saudi Arabia had lodged strong objections both to the conference and to Egypt’s attendance). The oil supplies resumed in April 2017 after the Egyptian government decided that parliament should have the last word on the Red Sea islands deal – the maritime demarcation law was passed in June of that year.

Another important development affecting Egyptian–Saudi relations was the election of Donald Trump as US president in late 2016. The announcement in mid-March 2017 by the Egyptian petroleum ministry that the Saudi supplies were to resume coincided with the first meeting in Washington between Mohammed bin Salman (who would be elevated to the position of crown prince three months later) and Trump. There was no overt link between the two events, but it made sense for these two regional allies of the US to present a unified front to the new president. The strength of the new relationship between these parties was symbolized in May when Sisi, King Salman, Trump and his wife, Melania, were pictured laying their hands on a glowing orb at an anti-terrorism event in Riyadh.<sup>32</sup>

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<sup>31</sup> Kirkpatrick (2015), ‘Leaks Gain Credibility and Potential to Embarrass Egypt’s Leaders’.

<sup>32</sup> *New York Times* (2017), ‘What Was That Glowing Orb Trump Touched in Saudi Arabia?’, 22 May 2017, <https://www.nytimes.com/2017/05/22/world/middleeast/trump-glowing-orb-saudi.html> (accessed 17 Mar. 2020).

Egypt's relations with the UAE during the Sisi period have been more settled than has been the case with Saudi Arabia. This can be attributed to the strong personal conviction of Crown Prince Mohammed bin Zayed in the cause of combating the Muslim Brotherhood. This appears to have been instilled in him by the combination of exposure during his youth to the influence of a prominent Egyptian Muslim Brotherhood scholar,<sup>33</sup> and his subsequent aversion to the Islamist group when he became involved in developing a national security agency with the assistance of Fouad Allam, a former senior official in Egyptian intelligence. Allam had worked in the General Investigations Directorate in the Egyptian Ministry of Interior in the 1960s, and had been caught up in a power struggle within the Nasser regime in which the Muslim Brotherhood was implicated.<sup>34</sup> He later rose to be deputy head of the State Security Intelligence Service under President Sadat, before moving to the UAE in the 1980s, where he acted as a mentor to Mohammed bin Zayed.<sup>35</sup> The UAE authorities considered the growing appeal of the main domestic Islamist political movement during the 1980s and 1990s as evidence of a wider Muslim Brotherhood agenda to infiltrate and ultimately take control of Arab countries. The approach of the UAE security services hardened in the early 2000s, in the wake of the 9/11 attacks in the US, in which two of the hijackers were Emirati citizens. The strength of the support provided to Sisi, both before and after the removal of Morsi, and the brutal suppression of the Muslim Brotherhood are unsurprising given Mohammed bin Zayed's connections to Egyptian security officials and his harsh attitude towards the Islamist group.

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The UAE and Egypt had a shared distaste for Qatar's hosting of prominent Muslim Brotherhood-connected figures such as Yusef al-Qaradawi and Ezzedine Ibrahim.<sup>36</sup> During the latter part of the reign of King Abdullah, Saudi Arabia sought to ease tensions with Qatar; these tensions had previously flared up in March 2014 when Bahrain, Saudi Arabia and the UAE withdrew their ambassadors from Doha. There was a partial reconciliation at the end of that year, leading to the return of the ambassadors, as the Gulf leaders sought to close ranks in the face of the alarming territorial advances made by Islamic State of Iraq and Syria (ISIS) in parts of the region. In December 2014, Sisi received Sheikh Mohammed bin Abdelrahman bin Jasim al-Thani, an assistant foreign minister, bringing a message from the Qatari ruler. He was accompanied by Khaled al-Tuwajjri from the Saudi royal court (who was also the private secretary to King Abdullah). Two days after the Qatari envoy's visit, the Doha-based Al Jazeera television station announced the suspension of the operations of its Egypt-dedicated channel, Al Jazeera Mubasher Misr, which had been accused within Egypt of acting as a propaganda outlet for the Muslim Brotherhood. The station said that the unit would be folded

<sup>33</sup> Mohammed bin Zayed was quoted in a Wikileaks cable from 2007 as telling a group of US diplomats that 'in the 1970s and early 1980s I was one of them', in reference to the Muslim Brotherhood. See Kirkpatrick, D. D. (2019), 'The Most Powerful Arab Ruler isn't M.B.S. It's M.B.Z.', *New York Times*, 2 June 2019, <https://www.nytimes.com/2019/06/02/world/middleeast/crown-prince-mohammed-bin-zayed.html> (accessed 14 Mar. 2020).

<sup>34</sup> Kandil (2012), *Soldiers, Spies and Statesmen*, p. 75.

<sup>35</sup> Fanack (2017), 'UAE and the Muslim Brotherhood: A Story of Rivalry and Hatred', *Fanack Chronicle*, 16 July 2017, <https://fanack.com/united-arab-emirates/history-past-to-present/uae-muslim-brotherhood/?highlight=UAE+and+the+Muslim+Brotherhood%3A+A+Story+of+Rivalry+and+Hatred> (accessed 17 Mar. 2020).

<sup>36</sup> Hedges, M. and Cafiero, G. (2017), 'The GCC and the Muslim Brotherhood: What Does the Future Hold?', *Middle East Policy Council Journal*, 24(1), <https://www.mepc.org/journal/gcc-and-muslim-brotherhood-what-does-future-hold> (accessed 17 Mar. 2020).

into another channel, Al Jazeera Mubasher al-Aama, and that it would seek permits from the Egyptian authorities for the new operation to broadcast from Cairo. Al Jazeera Mubasher Misr had been broadcasting from Doha since shortly after the removal of Morsi as president in July 2013.

This reconciliation initiative was interrupted by the death of King Abdullah in January 2015. Over the following two years, Mohammed bin Salman steadily built up his power base within Saudi Arabia, and developed a close working relationship with Mohammed bin Zayed. The new Saudi leadership cracked down on the Sahwa Islamist political movement, which had been tolerated under King Abdullah, and at the start of June 2017, in league with the UAE, Bahrain and Egypt, imposed severe sanctions on Qatar. Later that month, Mohammed bin Salman further strengthened his grip on power by taking over the title of crown prince from Mohammed bin Nayef.

Egypt's participation in the blockade of Qatar was consistent with Sisi's strategy of alignment with the two rising powers of the region, with a common denominator of opposing the Muslim Brotherhood in all its forms. However, it is doubtful whether Sisi had any significant input in the decision to escalate the dispute to this level. The blockade came at the high point of the accord between the Saudi and UAE leaders, and was underpinned by a shared conviction that the advent of the Trump administration meant that the US could now be relied upon to take a more robust stance towards both Iran and the Muslim Brotherhood, in contrast to the more emollient approach during the Obama presidency.

For Sisi, joining the blockade had some risks. Egypt no longer depended on financial aid from Qatar, but the 250,000 Egyptians working in Qatar contributed an important share of the flow of remittances, and any move by Qatar to repatriate its investments in Egypt would have been highly disruptive. It quickly became clear that neither Egypt nor Qatar was interested in aggravating the situation. Qatar provided assurances on the status of Egyptian workers, and the Egyptian central bank governor, Tarek Amer, made clear that there was no question of Qatar's biggest investment in Egypt, its stake in QNB Alahly bank, being affected. Free passage for Qatari LNG through the Suez Canal was also guaranteed, and Qatar Petroleum maintained its investment in the Egyptian Refining Company project, which will help to reduce Egypt's dependence on imported petroleum products from 2020 onwards.

One area in which Qatar and Egypt have been obliged to continue to cooperate has been on Gaza. Since the takeover of the territory by Hamas, an Islamist movement with Muslim Brotherhood roots, in 2007, a division of labour has evolved between Egypt and Qatar over managing the successive security crises in Gaza. The Egyptian intelligence services have undertaken the task of political and security mediation between Hamas and Israel, as well as hosting talks aimed at fostering reconciliation between Hamas and Fatah, the party of the Palestinian president, Mahmoud Abbas. Qatar has underpinned these processes by providing finance, with grudging cooperation from Israel and the Palestinian Authority. In the wake of the 2017 blockade of Qatar, the UAE made a bid to insert itself into this process. Its chosen vehicle was Mohammed Dahlan, a former Fatah leader who had wielded authority in Gaza prior to the Hamas takeover. However, these efforts made little headway, and at the end of 2017 Khaled Fawzy, who had been the pivotal figure on the Egyptian side, was dismissed from his position as head of the General Intelligence Service. He was eventually replaced by Abbas Kamel, and in late 2018 Qatar concluded a fresh agreement to provide finance for the Gaza administration. Egypt's priority in its dealings with Hamas has been to inhibit the efforts by the Sinai Province arm of ISIS to use Gaza as a logistical resource for its insurgency in northern Sinai.



## Future prospects for the Sisi–Gulf alliance

Many of the issues that formed the basis of the alliance that has developed between Egypt, Saudi Arabia and the UAE since 2013 remain relevant today, but in a number of crucial respects the political and economic context has changed. President Sisi invoked the cause of fighting political Islam when asked, during a visit to the US in September 2019, about the recent protest demonstrations in Cairo and other parts of Egypt.<sup>37</sup> However, there was no evidence of any active Muslim Brotherhood role in these protests, which had been inspired by allegations by a former contractor for the Egyptian army about corruption and the contrast between the lavish lifestyles of the military elite and the hardship endured by the majority of Egyptians. Egypt and the UAE are still aligned in Libya on the side of Field Marshal Haftar's LNA against the Government of National Accord, which includes elements with Muslim Brotherhood roots; moreover, the UAE's recent moves in Yemen to bolster the position of the Southern Transitional Council have been partly driven by a determination to block any resurgence of the Muslim Brotherhood-connected Yemeni Islah movement.

Yet the credibility of using the threat of a Muslim Brotherhood comeback as a pretext for continued suppression of political and human rights within Egypt and for military interventions around the region is starting to wear thin. The Gulf Arab states are now more preoccupied with dealing with the consequences of the Trump administration's 'maximum pressure' campaign against Iran, and with President Trump's increasingly erratic policy interventions. Whereas President Obama may have been faulted for failing to provide any support to Mubarak, for withdrawing prematurely from Iraq, and for appeasing Iran, the Muslim Brotherhood and President Assad of Syria, Trump's low-key reaction to Iran's attack on the largest oil-processing facility in Saudi Arabia on 14 September 2019 has been profoundly unsettling for the Gulf Arab leaders. His sudden decision to pull US forces out of Syria the following month, apparently against the advice of his Middle East policy and military advisers, and to the advantage of Turkey, Assad, Russia and Iran, has only added to the consternation of the US's traditional allies in the region.

Sisi, Mohamed bin Salman and Mohammed bin Zayed were heavily invested in the Trump presidency. For Sisi, Trump afforded useful protection against critics in the US Congress of Egypt's human rights record; the US president has also been receptive to Sisi's arguments on the importance of combating political Islam. For the Saudi and UAE leaders, Trump's hard line on Iran was welcome, and they even saw some merit in the so-called 'deal of the century' on Palestine that was being drawn up by the president's son-in-law, Jared Kushner. Yet while Sisi and his Gulf allies may once have drawn assurance from the prospect of a two-term Trump presidency, any such confidence in the value of their strategic ties to the US has now been shaken. It will be hard to restore this confidence, no matter who is in the White House after the 2020 election.

On one level, this may reinforce the will of these three prominent Arab states to work together to resolve regional issues, without reference to the US or other outside powers. This cooperative approach has been used to good effect in the Horn of Africa and in Sudan, where UAE and Saudi finance, with Egyptian political support, has helped in brokering peace between Ethiopia and Eritrea

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<sup>37</sup> White House (2019), 'Remarks by President Trump and President El-Sisi of Egypt Before Bilateral Meeting, New York, NY, 23 September 2019, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-president-el-sisi-egypt-bilateral-meeting-new-york-ny/> (accessed 17 Mar. 2020).

and in managing the transition in Khartoum following the fall of President Omar al-Bashir. These initiatives have served a strategic purpose in checking the spread of Turkish and Iranian interests in that region.<sup>38</sup>

The Syria conflict and growing tensions with Iran in the Gulf present more formidable challenges. Saudi Arabia has long since relinquished any active role in supporting opponents of the Assad regime, but its previous involvement in financing and arming some rebel groups could disqualify it from leading any reconciliation moves with the Syrian president. Egypt, under Sisi's presidency, has maintained an effectively neutral stance on Syria, and has on several occasions hosted visits from Ali Mamlouk, a senior Syrian intelligence official who was recently promoted to the position of vice-president for security affairs. The UAE, likewise, has not played an active role in the Syrian conflict, and a number of Emirati business groups are currently pursuing investment opportunities in Syria. Sisi has developed a close relationship with President Vladimir Putin of Russia, which could open the way for a broader Russian–Arab approach to resolving the Syria conflict. However, this would require dealing with other stakeholders, in particular Turkey and Iran. The chances of success for such an approach would depend on the readiness of the Gulf Arab states to provide finance. Saudi Arabia, Kuwait and the UAE are major contributors to the UN-coordinated humanitarian aid disbursed within Syria and to refugees around its borders, but they might balk at providing direct financial support to the Assad regime. There also appears to be no appetite among Egypt or its Gulf partners to contemplate any sort of peacekeeping military deployment in Syria.

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The Abqaiq and Khurais attacks in Saudi Arabia exposed the extreme vulnerability of Gulf Arab energy installations and infrastructure. They also exposed the lack of credible military options available for the Gulf Arab states to back up their posture of trying to reduce Iranian influence in the region. Saudi Arabia and the UAE are now desperately searching for an exit strategy in Yemen, and are casting around for ways of easing tensions with Iran, including through enlisting the support of Russia. Egypt has little useful to offer in these areas. Despite heavy spending on military equipment over the past few years, the Egyptian armed forces have not demonstrated the capability to operate effectively in combat. Tens of thousands of Egyptian troops have been tied down for years in northern and central Sinai fighting a relatively small local insurgency. The new equipment purchased for the army, navy and air force is coming from a range of different sources: the US, Russia, France and Germany. This poses complicated challenges for systems integration. Another important consideration is that the recent rise in military spending has come after a long period of attrition in the armed forces. Hazem Kandil cites figures to show that military spending in Egypt fell from 33 per cent of GDP in the mid-1970s to 19.5 per cent in 1980 and just 2.2 per cent in 2010.<sup>39</sup>

The main concerns for Egypt in terms of regional security relate to Libya (although Egypt remains reluctant to become deeply involved on the ground, in contrast to the UAE), the eastern Mediterranean (in relation to Turkey's efforts to impede natural gas development around Cyprus)

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<sup>38</sup> International Crisis Group (2019), *Intra-Gulf Competition in Africa's Horn: Lessening the Impact*, Brussels: International Crisis Group, <https://www.crisisgroup.org/middle-east-north-africa/gulf-and-arabian-peninsula/206-intra-gulf-competition-africas-horn-lessening-impact> (accessed 17 Mar. 2020).

<sup>39</sup> Kandil (2012), *Soldiers, Spies and Statesmen*, p. 183.

and along the Red Sea. The possibility of military conflict with Ethiopia over the Grand Ethiopian Renaissance Dam remains an extreme scenario, but Sisi has a domestic political imperative to back up his references to this issue as a matter of vital national interest with at least an implicit suggestion of a military option. Iran does not figure among Egypt's regional security priorities.

The shift in the balance of power within the Arab world from Egypt to the Gulf since the 1973 war has been reflected in the chronic dependence of Egypt on financial support from its oil-rich neighbours. Egypt may have the largest population among Arab states and, arguably, the most potent armed forces, but its ability to project power and influence has been undermined by economic weakness. This is clearly an affront to the nationalist sensibilities of Sisi's circle. Egypt may now have an opportunity to tilt the scales back in its direction, as the Saudi–UAE drive for regional dominance has started to falter and as Egypt, for the time being at least, is no longer so heavily reliant on external financial aid. However, the recent positive sheen on Egypt's economic performance, as reflected in indicators such as solid GDP growth, a primary budget surplus, buoyant foreign exchange reserves, and falling inflation and unemployment, is offset by the harsh reality that poverty has risen sharply over the past decade and that Sisi's administration is widely perceived as both corrupt and hideously repressive. The impact of the COVID-19 pandemic is also likely to put pressure on the Egyptian economy until such a time as restrictions on travel and daily life around the region (and beyond) are lifted. Further political convulsions in Egypt can by no means be ruled out, and in the event of a fresh political crisis, the Gulf Arab states would be expected to be on hand to pick up the economic pieces.

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Cover image: Crown Prince of Abu Dhabi Mohammed bin Zayed is welcomed by Egypt's President Abdel-Fattah el-Sisi in Cairo on 19 June 2017.

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