

The Politics of Gulf Aid to Egypt

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- The Russian invasion of Ukraine has exposed Egypt's economic overdependence on the outside world and vulnerabilities to fluctuations in world food prices.
- The Gulf states' aid has so far helped Egypt avert an emerging economic crisis and the social, economic, and political upheaval that could follow.
- The financial support of Gulf Arab states to Egypt should be assessed in the context of their evolving foreign and security policies since the Arab uprisings of 2010-2011.

Since Russia invaded Ukraine on February 24, 2022, oil-rich Gulf states have scaled up their investments and bank deposits to Egypt, the Arab world's most populous nation with more than 100 million citizens. They have helped Egypt cope with the spiraling inflation in food and energy prices in the wake of the Russian invasion of Ukraine. This brief looks at the impact of rising food insecurity in Egypt and addresses the economic and political objectives underlying foreign aid and investment activities by Arab Gulf states in Egypt.

The Russia-Ukraine war and food security in Egypt

In March 2022, the [World Bank](#) warned that soaring energy and food prices, already impacted by the Covid-19 pandemic and climate change, could lead to social unrest in the Middle East and North Africa (MENA). Since the Russian invasion of Ukraine, many governments around the world have struggled to find new food supplies and cope with rising prices. The war has posed a particularly grave food security threat to Egypt. Egypt imports almost half of its food supplies and is one of the world's largest wheat importers, in part due to its policy of subsidizing bread prices for the poor and cutting cultivation of water intensive crops like wheat to save water.

Egypt's basic staple is bread (*'Aish*, is the Egyptian term for bread, which also means "life"). It has long been state subsidized. Nearly [70 percent of Egyptian households rely on subsidized food](#) and flour. In fact, both Russia and Ukraine [accounted for nearly 80 percent](#) of Egypt's wheat import in 2021. Not to

mention that tourists from Russia and Ukraine were an important part of Egypt's local tourism market. Also, the Egyptian pound depreciated in March 2022, losing almost 15 percent to the US dollar, driving many investors to exit Egypt's bond market and causing [capital flight of \\$4-7bn over March 2022](#). The war also came at a time when the Egyptian government has been trying to boost the economy and improve productivity in cooperation with the International Monetary Fund (IMF). In 2016, Egypt obtained an IMF loan of \$12bn, conditioned on a reduction in public spending. Since then, the [government has reduced spending on energy subsidies, floated the currency, introduced value-added tax, and curbed its public wage bill](#). As a result, inflation rose about 30 percent in 2017. Yet, despite the IMF assistance, Egypt is still unable to make itself financially secure and remains deeply vulnerable to external shocks. Egypt once again [requested another loan from the IMF](#).

Currently, Egyptian policymakers are facing a dilemma of cutting down on subsidies when the price of wheat is surging. This means that the Egyptian government must spend more on bread subsidies as it struggles to find alternative sources from elsewhere. In late June 2022, [Egypt received \\$500 million loan from the World Bank](#) for its food program to purchase wheat from India.

Addressing bread shortages is among the most urgent security challenges the Egyptian government is facing since the July 2013 military coup that overthrew the late president Mohamed Morsi and brought former Defense Minister, Abdel

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Fattah al-Sisi, to power in June 2014. Food subsidies in Egypt have significant political dimensions. They are a centerpiece of the regime's "social contract" with the people since 1950s and are needed to maintain social peace in a country where almost [30 percent of the population live below the poverty line](#). In other words, raising the price of bread could lead to serious social unrest events. Hence, maintaining food subsidies is extremely important in promoting regime stability, legitimacy, and longevity. For instance, the food riots of early 1977, which spread to all of Egypt's major cities, were triggered by increases in the price of food staple. The riots ended only when the government rescinded the austerity measures. Egyptians also protested over bread in 2007 and 2008 when food prices increased dramatically, and during the 2011 uprising that brought down Egypt's longest-serving president, Hosni Mubarak. These incidents of social unrest serve as a constant reminder of the political and social costs of food price spikes.

Gulf Arab aid to Egypt

Since the start of the Russian invasion of Ukraine, the Gulf Arab states have provided Egypt with billions of dollars in aid and investments. These were made available by the recent surge in oil prices which generated huge financial abundance for the Arab oil exporting states. Their financial support has helped the Egyptian government pay for social services and subsidized bread. In March 2022, UAE announced a package of investment of \$2bn, followed by Qatar's \$5bn investment, and Saudi Arabia's \$5bn deposit in Egypt's central bank to stabilize the valuation of the Egyptian pound. Once again, in early April 2022, they pledged \$22bn to help Egypt avert a currency crisis. According to [Bloomberg](#), Gulf investments in Egypt include purchases of stakes in local banks and industrial companies, as well as Commercial International Bank, Misr Fertilizers Production Company and Alexandria Container and Cargo Handling Company. In June 2022, during a visit to Cairo by the Saudi crown prince, Saudi and Egyptian companies signed [14 agreements worth \\$7.7bn](#) ranged from renewable energy to petroleum, infrastructure, agri-foods, and pharmaceutical industry.

This financial support is expected to address and make up for Egypt's current urgent imbalances and vulnerabilities as well as to reduce the need for Egypt to borrow on the international markets. The Arab Gulf states are also trying to build on the momentum Egypt was having since it started its austerity measures in 2016. While such financial support is helping Egypt offset the impact of the Russian war in Ukraine, the Gulf states' focus on investments also reflects their long-term thinking of brining some returns home to their capitals as

part of their own economic diversification strategies in non-oil sectors. Crucially, through these loans and investments in Egypt and elsewhere, the Arab Gulf states are seeking to expand their political clout and sphere of influence in the MENA and beyond.

Why does Egypt matter to the Gulf states?

The large spike in the Gulf states' material assistance to Egypt is being driven by domestic and regional political calculations. The Arab Gulf states have played a critical role in Egypt's economy since the first oil boom of 1973. Crucially, their growing financial support has been detrimental in shoring up support for the Egyptian government of President Abdel Fattah al-Sisi, blocking any political change as well as helping Egypt regain economic strength since 2011. They have realized that the Arab uprisings of 2011 and the rise to power of Islamists, particularly the Muslim Brotherhood (MB), through the ballot box carry the risk of contagion effects spreading mass protests into the Gulf, where the MB have a presence. In 2013 alone, Egypt received \$12bn from the Gulf states when the Egyptian military ousted Egypt's first democratically elected President Muhammad Morsi. By providing aid to Egypt, the Gulf states want to stop political Islam from taking hold in Egypt and the broader region.

Simultaneously throughout the last decade, Qatar, UAE, and Saudi Arabia have been undergoing remarkable changes. That includes shifts in economic governance and state-society relations, as well as the rise to power of a younger generation of leaders such as Saudi Arabia's crown prince Muhammad Bin Salman, Qatar's Emir Tamim bin Hamad, and UAE's Muhammad bin Zayed. Although the United States remains a vital security partner, these young leaders have recently taken more ownership and agency of their own security agendas. To avoid the possible chaos of another uprising in Egypt and the MENA, they have also adopted unprecedented assertive policies, including military interventions in Bahrain, Yemen, and Libya. Egypt is also part of [an emerging Arab-Israeli axis to contain Iran](#) and its proxies in Lebanon, Syria, Yemen, and Iraq.

Egypt's prime geopolitical importance allows Egyptian leaders to access abundant international largesse. The Gulf aid has so far helped maintain a stable Egypt and strengthen Sisi's hold on power. However, the sustainability of such a state of dependency and indebtedness in the long run is an open question as geopolitics continues to be the main driving force behind the Gulf aid, and structural factors that enabled protest contagion in 2011 remain potent in Egypt and elsewhere in the MENA.

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