



Comparative Geopolitics – A Geopolitical Analysis of Egypt

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1.0 Introduction

This purpose of this report is to explain and analyze the current geopolitical situation in Egypt. Different aspects of Egypt's geopolitical situation will be explored, such as its historical background, demographics, society, economy, the current political situation and state system. Moreover, based on the geopolitical analysis, recommendations will be made on how to improve the environment in Egypt in order to better stimulate business and long-term growth.

2.0 Historical Background

Occupying a focal geographic bridge linking Africa and Asia, contemporary Egypt is the inheritor of a civilization dating back more than 6,000 years. Egypt's strategic location has made it the object of numerous conquests: by the Ptolemies, Romans, Greeks, Arabs, Fatimids, Mamluks, Ottomans, and Napoleon Bonaparte. The Arab conquest of 641 was one of the most important events in Egyptian history because it resulted in the Islamization and Arabization of the country, which endure to this day. The most recent conquerors were the British who's investment in Egypt and Britain's need to maintain control over the Suez Canal resulted in the British occupation of Egypt in 1882. Although Egypt was granted nominal independence in 1922, Britain remained the real power in the country. Genuine political independence was finally achieved between the 1952 Revolution War of 1956.

For contemporary Egypt, the Free Officers' 1952 Revolution, spearheaded by Gamal Abdul Nasser, has clearly been one of the most important events. Nasser's charismatic leadership institutionalised the role of the military and created an authoritarian state that pursued goals of "Arab socialism." These goals centered on the implementation of agrarian reform, nationalization of key industries, a one-party state (the Arab Socialist Union--ASU) and closer ties with the former Soviet Union and Eastern Europe internationally.

Egypt's current head of state is President Mohammed Hosni Mubarak who has ruled since October, 1981. He demonstrated a commitment to gradualism aimed at modifying and preserving the best elements of his predecessors' accomplishments while building domestic consensus, tolerating opposition, promoting an equal partnership between the public and private sectors, allowing greater democracy and constitutionalism, and relying on technocrats for advice. In addition, through skilful diplomacy he has gained Egypt's return to the Arab fold and assumed a leadership role in the Arab world while simultaneously maintaining good relations with the West.

3.0 Geography

Egypt is located in Northern African bordering the Mediterranean Sea between Libya and the Gaza Strip. Besides these two countries, Egypt also borders Sudan and Israel. Egypt covers an area of approximately 1 million square kilometers and the terrain consists of a vast desert plateau interrupted by the Nile valley and its delta in which 99% of the population lives. Only 3.5% of the total land area is cultivated and permanently settled. The capital of Egypt is Cairo, which is located by the bank of the Nile River in Northern Egypt.



The climate in Egypt is mainly desert with hot summers and moderate winters. This brings forth numerous natural hazards such as periodic droughts, flash floods, driving wind and sandstorms as well as frequent earthquakes and landslides. Agricultural land is being lost to urbanization and desertification. Other problems include oil pollution threatening wild life, water pollution because of agricultural pesticides and rapid population growth, all which overstrain natural resources. The supply of fresh water is also a problem as there are very limited natural fresh water resources away from the Nile, which is the only perennial water source in Egypt.

4.0 Society

The roots of the Egyptian civilization go back more than 6,000 years to the beginning of settled life along the banks of the Nile River. The country has an unusual geographical and cultural unity that has given the Egyptian people a strong sense of identity and pride in their heritage as descendants of humankind's earliest civilized community. Today Egyptian society reflects both its ancient roots and the profound changes that have occurred during the last two centuries as the country has become increasingly urbanized and industrialized. Nevertheless, approximately half the population still lived in rural areas where settlement patterns remained defined, as they had been since pharaonic times, by the Nile River and irrigated agriculture.

The current population of Egypt is 68 million (estimate July 2000) of which 61% percent are between 15 to 64 years old. Population growth was estimated at 1.72% in 2000, while the life expectancy of the total population is 63 years. The biggest ethnic group is called the Eastern Hamitic stock, which consists of Egyptians, Bedouins and Berbers. Other ethnic groups are among others the Greek, Armenian and European (primarily French and Italian). 94% of the population are Muslims (mostly Sunni), while a variety of others form the rest.

At the end of the 1990's Egypt remained under the social, political, and cultural dominance of the elite class, a pattern it has retained since pharaonic times. Although the personal, ideological orientation, and cultural values of the ruling class changed drastically after the 1952 Revolution, the gulf between the urban elite and the popular masses has remained large, with a considerable wealth gap between the poor and rich. Furthermore, a rapidly growing population (the largest in the Arab world) will continue to stress Egyptian society and overtax resources as the country enters the new millennium.

5.0 Economy

The 1952 Revolution gave a priority to economic development and made the state the prime economic agent of Arab socialism. After the October war of 1973 a new open-door policy (*infitah*) was declared which succeeded in generating a large inflow of foreign funds in the form of remittances, foreign grants, and aid, especially from the United States after the signing of the Camp David Accords with Israel. The economy also grew at impressive rates. But the negative side of the policy was that the country was flooded with imports, and the government was compelled several times in the 1980s to reintroduce import restrictions.

During the later rule of Mubarak, private investment has been encouraged but funds have flowed largely into the service sector and agriculture rather than into industry, despite government development plans. The shortage of skilled personnel, especially in the technical and industrial spheres, has also had a major negative impact on the economy.

During the past decades Egypt's agricultural output has not kept pace with population growth. Although pricing reforms and the elimination of government quotas for most crops helped increase output, production has remained insufficient. A major challenge facing Egypt is better exploitation of its water resources, including exploration for new underground water, particularly in the Western Desert, and improved irrigation technology. Government development plans promote the use of energy sources such as electricity, oil, gas, and coal and encourage continual improvements in updating telecommunications and the transportation network of roads, railroads, and canals.

Egypt's major sources of foreign exchange, which it uses for development projects and for purchasing imports, are oil revenues, Suez Canal tolls, tourism income, and workers' remittances from the approximately 2.5 million Egyptians working abroad.

Egypt faced a serious economic situation in the late 1980s and early 1990s: stagnation and ultimately negative economic growth in addition to heavy indebtedness. After two years of negotiations with the International Monetary Fund, the Egyptian government finally concluded an agreement which required Egypt to increase prices of certain basic commodities such as natural gas, fuel oil, gasoline, electricity, flour, and rice by eliminating or reducing subsidies. Mandated, as well, were the devaluation and unification of the Central Bank exchange rate and the exchange rate of commercial banks, rising of the interest rate, and reforming of the foreign investment law.

Egypt's economic situation became particularly critical in 1990 because of the Persian Gulf crisis. The economy suffered due to lost remittances from workers, loss of exports to Kuwait and Iraq, lost tourism income and Suez Canal tolls. Estimates of unemployment in early 1991

were as high as 20 percent. On the other hand, a large proportion of Egypt's debt obligations were forgiven after the war due to Egypt's help in the Persian Gulf crisis.

The government has also recognised the need to restructure management style in the public sector and banking to encourage greater efficiency and productivity. Rising inflation plagued Egypt between 1987 and 1989 and had increased between 20 and 25 percent annually. However, by 1999 the inflation rate had dropped to 3.7%.

Throughout the later period of the 1990's a series of IMF arrangements - coupled with massive external debt relief resulting from Egypt's participation in the Gulf war coalition - helped Egypt improve its macroeconomic performance. Through sound fiscal and monetary policies, Cairo has tamed inflation, slashed budget deficits, and built up foreign reserves. Although the pace of structural reforms - such as privatization and new business legislation - has been slower than the IMF envisioned, Egypt's steps toward a more market-oriented economy have prompted increased foreign investment. Lower combined hard currency inflows - from tourism, worker remittances, oil revenues, and Suez Canal tolls - in 1998 and the first half of 1999 resulted in pressure on the Egyptian pound and sporadic dollar shortages, but external payments were not in crisis. Despite ample reserves, the Central Bank did not provide sufficient hard currency to commercial banks and Cairo restricted imports for a short period; these developments confirmed to some investors and currency traders that government financial operations lack sufficient coordination and openness. Monetary pressures have since eased, however, with the continued oil price recovery, which started in mid-1999, and a moderate rebound in tourism.

Currently 40% of the labour force is occupied in agriculture, 38% in services and 22% in industry. The unemployment rate (a 1999 estimation) is 11.8% and the biggest export partners are the European Union (47% of exports), USA (14%) and Turkey (8%).

6.0 Politics

Egypt is officially a republic and it is divided into 26 regional administrative areas. The legal system is a mixed system based on English common law, Islamic law and Napoleonic rules.

The role of government has been prominent not only in Egypt's economic life but also in other spheres, such as political parties, parliamentary organisation, elections, the judiciary, and the military. The Constitution of 1971 validated a mixed presidential-parliamentary-cabinet system with power concentrated in the hands of the president, who had extensive opportunities to bestow patronage, including the appointment of the prime minister, and who could legislate by decree in emergencies. Whereas the People's Assembly, the elected lower house, theoretically could exercise a check on the president, in reality this did not occur, and the assembly had no role in foreign affairs or defence matters. The upper house, the Consultative Council, was an advisory body created in 1980 when the Central Committee of the Arab Socialist Union, then the only legitimate political party, became the nucleus of the council. The major event affecting Egypt's relations with the Arab world and the broader international sphere was clearly its decision to side with Saudi Arabia and the United States in opposing Iraq's invasion of Kuwait on August 2, 1990. Also the majority vote in 1989 to readmit Egypt to the Arab League, since it was expelled in 1971 after signing a peace treaty with Israel, enforced the indication of improved Egyptian relations with all Arab states.

Today, the president is nominated by the People's assembly for a six year term. The Peoples assembly has 454 seats of which 444 are elected by popular vote and 10 appointed by the president. Members serve for five-year terms. The nomination of the president must further be validated by a national popular referendum which was last held in 1999 (the next to be held in 2005) and validated President Mubarak for a fourth term. The prime minister is appointed by the president. In addition, there is an Advisory Council with only a consultative role and consists of 264 seats of which 176 elected by popular vote and 88 appointed by the president. The president possesses basically unrestricted power to appoint and dismiss officials, including vice president or vice-presidents, prime minister and members of Council of Ministers, military officers, and governors of the twenty-six administrative subdivisions known as governorates.

Under Mubarak's rule, the People's Assembly has acquired greater authority over minor matters of state and more freedom of debate; assembly committees also exercise an oversight role with regard to cabinet ministers. The National Democratic Party (NDP) has remained the dominant party, but it is largely an appendage of the government. In the most recent vote the NDP received 72% of votes, independents 25% and the opposition 3%.

Political pressure groups are not common in Egypt, and despite a constitutional ban against religious-based parties, the technically illegal Muslim Brotherhood constitutes Mubarak's most significant political opposition. Mubarak has tolerated limited political activity by the Brotherhood for his first two terms, but has moved more aggressively in the past six years to block its influence. Other political pressure groups such as trade unions and professional associations are officially sanctioned

7.0 The state

Egypt has been governed by powerful centralized rule since ancient times, when the management of irrigated agriculture gave rise to the pharaohs, absolute god-kings. This experience produced a propensity toward authoritarian government that persisted into modern times. Egypt's centuries of subordination to foreign rule, its long struggle for independence, and its continuing dependency on other countries generated a powerful nationalism that made national legitimacy crucial to the acceptance of the authoritarian state. In more recent years, the spread of political consciousness put rulers under growing pressure to accommodate demands for participation.

8.0 Geopolitical situation

Egypt has an essential geopolitical situation in the Middle-East as it controls the Sinai Peninsula which is the only land bridge between Africa and remainder of Eastern Hemisphere. It must therefore be strong enough to dominate its environment or risk becoming the victim of outside powers. Its security is also linked to control of the Nile, on whose waters its survival depends. It has, therefore, had historical ties with Sudan and has sought satisfactory relations with the states on Sudan's southern borders, Uganda and Zaire

The greatest threat to Egypt in contemporary times has been the threat that Israel, backed by a superpower, would block its access to the East. Egypt also controls the Suez Canal, which is the shortest sea link between the Indian Ocean and the Mediterranean Sea.

These facts combined with the country's considerable size and its juxtaposition to Israel gives it a major role in Middle Eastern geopolitics.

9.0 Summary

Egypt's unique geographical position has played prominently in this country's development. Although, much of its land is vast desert terrain, the Suez Canal gives Egypt one of the most important geographical areas of the region. Egypt has historically been dominated and ruled by a variety of civilisations, and only recently has the country once again began to find itself as an independent state.

Egypt has been relatively successful at balancing its role within the Arab world while simultaneously maintaining relations with the West. This balancing act is vital to Egypt's continual development and is of central importance to promoting a positive environment for business. Egypt recognises that it must open up its market and move towards a more democratic state in order to prosper in the future. It has already benefited from significant IMF aid by instilling these types of measures. However, Egypt must be careful not to alienate its Arab neighbours by moving too fast or by being viewed as too friendly with the West. This is amplified because Egypt borders the very war-active prominently Arab, Middle East.

Within Egypt many improvements can be made to improve the environment for business. For example, continual improvements in technology, telecommunications and transportation networks. Increasing agricultural output to keep pace with population growth will put less strain pressure on the government to implement policies that stifle production. However, two prominent themes emerge that will ensure a better environment for business. First, the government must be committed to economic reform with a long-term focus. The problem in the past has been that the government have not always seen their reforms through to the end and have backtracked if difficulties arose. The government must be able to gain confidence from its own people and the rest of the world that it is truly committed to reform and is capable of implementing sound monetary and fiscal policies. Second, peace in the Middle East is essential for providing a good environment for business in Egypt. When conflicts arise, Egypt is often forced to choose between the West and the Arab World, and most often alienates a strategic partner.

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