



CARNEGIE
MIDDLE EAST CENTER



THE EGYPTIAN ARMED FORCES AND THE REMAKING OF AN ECONOMIC EMPIRE

Shana Marshall

APRIL 2015



CARNEGIE
MIDDLE EAST CENTER

**THE EGYPTIAN ARMED
FORCES AND THE REMAKING
OF AN ECONOMIC EMPIRE**

Shana Marshall

This paper was prepared under the auspices of a grant from the International Development Research Center.

© 2015 Carnegie Endowment for International Peace. All rights reserved.

Carnegie does not take institutional positions on public policy issues; the views represented herein are the author's own and do not necessarily reflect the views of Carnegie, its staff, or its trustees.

No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from the Carnegie Middle East Center or Carnegie Endowment. Please direct inquiries to:

Carnegie Endowment for International Peace
Publications Department
1779 Massachusetts Avenue NW
Washington, D.C. 20036
P: +1 202 483 7600
F: +1 202 483 1840
CarnegieEndowment.org

Carnegie Middle East Center
Lazarieh Tower, 5th floor
Bldg. No. 2026 1210, Emir Bechir Street
P.O. Box 11-1061 Riad El Solh
Beirut
Lebanon
Carnegie-MEC.org

This publication can be downloaded at no cost at Carnegie-MEC.org.

Contents

About the Author	v
Summary	1
Introduction	3
The Evolution of Egypt's Modern Military Economy	4
Attracting Investment in the Mubarak Era	5
Protecting Investment Partners and Production Sites	6
A Coalition With the Muslim Brotherhood	9
The Suez Canal Project and Strains in the Relationship	11
Consolidating Gains in the Post-Morsi Period	14
Future Challenges	18
Conclusion	20
Notes	23
Carnegie Middle East Center	30

About the Author

Shana Marshall is associate director of the Institute for Middle East Studies and research faculty member at the George Washington University's Elliott School of International Affairs. She earned her PhD in International Relations and Comparative Politics of the Middle East at the University of Maryland in 2012. Her dissertation, *The New Politics of Patronage: The Arms Trade and Clientelism in the Arab World* (forthcoming, Columbia University Press), examines how Middle East governments use arms sales agreements to channel financial resources and economic privileges to domestic pro-regime elites. Her work has appeared in the *Middle East Report* (MERIP), the *International Journal of Middle East Studies*, *Middle East Policy*, and *Jadaliyya*.

Prior to coming to George Washington University, Marshall was a research fellow at the Crown Center for Middle East Studies at Brandeis University and the Niehaus Center for Globalization and Governance at Princeton University. Her current research focuses on patterns of military entrepreneurship in Egypt, Jordan, and the United Arab Emirates, as well as how forms of bribery are adapted over time to circumvent existing legal regimes.

Summary

The Egyptian military has gained unprecedented power since overseeing the ouster of two Egyptian presidents, Hosni Mubarak in 2011 and Mohamed Morsi in 2013. With its major political rivals sidelined, more than \$20 billion in Gulf aid, and widespread domestic support for General-Turned-President Abdel Fattah el-Sisi, the Egyptian Armed Forces (EAF) has restarted its defunct industrial operations, secured control over massive infrastructure projects, and inserted generals at virtually all levels of government. But political overreach and internal rivalries may prove obstacles to long-term EAF control.

Regaining Lost Ground

- Since the uprising that removed Mubarak, the EAF has proved itself the ultimate arbiter of Egypt's economic and political system.
- By protecting the strategic assets of its major investment partners during periods of unrest and taking control of the bidding process for major government procurement, the EAF has become the primary gatekeeper for the Egyptian economy.
- Morsi's Muslim Brotherhood government acquiesced to many of the EAF's key demands. But that temporary pact broke down when Morsi tried to sideline the military on megaprojects such as the Suez Canal development plan and Toshka, a land reclamation project.
- Sisi continues to attract substantial support from international investors and foreign governments, notably Saudi Arabia and the United Arab Emirates, which have replaced the United States as the regime's top patrons.

Future Scenarios

Divisions within the military could surface. The EAF's new allies and heightened influence may bring out cleavages that had been submerged, as factions struggle to stake a claim to new economic and political turf.

Evidence that the military worked behind the scenes to foment protests and weaken rivals could undercut its power. Revelations that began to emerge in late 2014 about the military's direct role in financing anti-Morsi protests, as well as the leadership's overt manipulation of the legal system and the media, may ultimately drive a wedge between the regime and its liberal supporters.

Institutional survival may trump the military's economic and political aspirations. The EAF's greatest concern is not a threat to its economic empire but the return of widespread antigovernment protests. If a military-led government must call on its own troops to violently put down protests, it risks both an internal schism and a legitimacy crisis.

The U.S. government is likely to continue military assistance despite the program's failure to elicit reform from or enhance accountability of the EAF. This partnership, underscored by the March 2015 lifting of a temporary U.S. ban on weapons to Egypt, will become an even greater political liability for Washington as violence against Egyptian civilians continues.

Introduction

The Egyptian Armed Forces (EAF) is often referred to as a “black box”—especially with regard to the institution’s role in the domestic economy. Most of the military-controlled economy is off the books, and many of the EAF’s sources of influence are obscured—such as its control over parliamentary seats titularly reserved for peasants and workers.¹

However, close observation of typically opaque institutions during periods of political upheaval can reveal significant insights that are not readily apparent under everyday conditions. This is certainly the case in Egypt, where the once obscure military hierarchy has assumed increasingly overt and powerful political roles since the 2011 revolution that ousted Hosni Mubarak. It was the Supreme Council of the Armed Forces (SCAF), a small body of top officers that convenes only in times of war or emergency, that took power and ruled the country until the Muslim Brotherhood’s Mohamed Morsi was elected president in June 2012. When Morsi was ousted in a coup one year later, a military-backed interim government (nominally headed by civilians) took control, tasked with overseeing a new round of voting that ended with the election of former defense minister General Abdel Fattah el-Sisi as president in May 2014.

The EAF’s assumption of formal political power forced the institution’s leadership to take a number of extraordinary steps, not least of which was the issuance of official statements in defense of the military’s economic operations, which had previously been considered state secrets. In a press conference held by the SCAF in spring 2012, then assistant minister of defense for financial affairs Major General Mahmoud Nasr divulged the annual revenue of the military’s businesses (\$198 million) and its take of the state budget (4.2 percent).² Nasr stopped short of providing any evidence to support these figures, but the military’s decision to formally respond to very public criticism of its involvement in the economy marked a departure from the past.

The EAF’s efforts to maneuver between Egypt’s other political power brokers—primarily the Muslim Brotherhood and the so-called *feloul* (or leftovers) from the Mubarak regime—played out against a backdrop of authoritarian breakdown that made the economic resources and political practices of the military visible in a way they never had been before. The military’s subsequent struggle to reclaim control over critical enterprises has highlighted how the EAF uses its institutional influence to finance its operations, provide perks for its officer corps, and otherwise shape Egypt’s domestic political economy.

Many global actors—from the Gulf states to Russia to Japan—are now vying for influence with the country’s new political leadership, and presenting a fundamental challenge to the decades of diplomatic primacy enjoyed by Washington policymakers. The response of the U.S. policy community has been to call for increased military assistance and a light-touch approach to criticizing the new government.

Many global actors are now vying for influence with the country’s new political leadership, and presenting a fundamental challenge to the decades of diplomatic primacy enjoyed by Washington policymakers.

But even if Washington doubled its \$1.3 billion in annual military aid, the sum would still be dwarfed by an estimated \$20 billion in Gulf financial assistance that has flowed into regime coffers since 2013. For now, neither Washington’s money nor its rhetoric is

likely to elicit major changes from the Egyptian government. A wiser bet would be to pressure the United States’ Gulf allies to check the regime’s most extreme excesses, including the continued violent repression of opposition activists.

The Evolution of Egypt’s Modern Military Economy

The Egyptian Armed Forces’ contemporary influence must be situated within the broader context of mid-twentieth-century Pan-Arab nationalism and the prevailing development model, which identified the military as a key protagonist in indigenous industrialization and economic modernization. Under the theory of state-led development, the public sector was central to economic growth, and Egypt’s military became the engine of industry and the supplier of public services. Even the U.S. Agency for International Development treated the EAF as a preferred contracting partner.

Under President Gamal Abdel Nasser, who led Egypt from 1956 to 1970, the resources of the state were steered toward the military, whose engineers and contractors took the lead in land reclamation projects, public infrastructure, the provision of basic commodities, and the domestic manufacturing of consumer appliances and electronics, as well as the production of industrial and agricultural inputs like steel and fertilizer. High-ranking members of the officer corps were also appointed to replace civilian factory managers;³ the presence of these military administrators in various state-owned and quasi-public enterprises created an influential constituency primed to support a continued EAF presence in the economy.

The military’s productive activities shifted slightly under Nasser’s successor, Anwar el-Sadat, to concentrate more narrowly on defense-related manufacturing. Not only did Sadat establish the Arab Organization for Industrialization (AOI) for the primary purpose of manufacturing military aircraft, he also shifted Egypt’s diplomatic focus from the Soviet Union to the United States, in

part because the Americans were a more reliable source of military equipment, technology, and training. And, while the Soviets had emphasized the transfer of finished products, the U.S. military aid dollars that accompanied Sadat's 1979 peace with Israel were channeled specifically into indigenous defense production, including the rehabilitation of armament factories built by the Europeans decades earlier.⁴

Under Hosni Mubarak, who became president after Sadat's 1981 assassination, the EAF's historic position as the architect of Egypt's modernization began to erode in earnest. The military did manage to maintain a long list of financial and industrial privileges, including subsidized fuel inputs, control over lucrative real estate, conscript labor, capital equipment transferred under arms sales agreements, preferential access to state contracts, and the use of special permits to exercise extralegal oversight in sectors ranging from petrochemicals to tourism. But the economic return on these privileges decreased as the Egyptian state lost market power relative to private investors and international lenders. At the same time, a precipitous decline in public investment chipped away at the established avenues the military used to support its manufacturing base and provide jobs to its own personnel.

Attracting Investment in the Mubarak Era

In order to hedge against the Mubarak government's campaign of economic liberalization and privatization, Egypt's military leaders diversified their formerly statist economic portfolio with financing and technology from foreign and domestic private sector sources, as well as joint partnerships with a variety of nonmilitary businessmen and foreign interests.⁵

These novel funding and technology sources gained the EAF entry into global supply chains in industries ranging from automobile manufacturing and the production of computer hardware to wastewater recycling and solar panel fabrication. The EAF also worked to maintain its role as a domestic supplier and subcontractor in infrastructure projects—such as wind farms—financed by foreign donors.⁶ In addition, the EAF succeeded in securing small shareholdings in some of the high-profile projects that formed an important component of the Mubarak regime's economic program—including the privately operated cargo container facilities that were being built at Egypt's maritime ports.

These joint ventures represented significant new investment from state banks and international lenders and, in the case of maritime transport, some of the world's largest shipping conglomerates. The enormous private investment in Egypt's port sector triggered growth in complementary industries in which the military remained active, such as inland rail and the network of river barges that provides transport along the Nile.⁷ And because many of these joint ventures were organized in holding companies under the authority of the Ministry

of Investment, the Egyptian state was liable for potential financial losses while the EAF had de facto control over revenues.⁸ This arrangement was not lost on regional investment analysts, who highlighted the “full support” of the government that these holding companies enjoyed as a factor for potential investors to consider when examining the viability of subsidiaries and joint ventures.⁹

It was precisely such investor confidence that the military had in mind when it deployed to protect the strategic assets of high-profile private sector investment partners during the unrest of 2011–2012, actions that included the violent repression of labor demonstrations that threatened production at critical sites.

Protecting Investment Partners and Production Sites

The immediate power vacuum resulting from Mubarak’s ouster—amplified by decades of repression and surveillance of political opposition—left the military as Cairo’s preeminent power broker. And the fluidity of the Egyptian political landscape that followed dramatically increased the military’s perceived value as an investment partner. The SCAF-managed transition allowed the EAF to send several signals to potential investors:

1. The military is able to secure continued immunity from government oversight for its enterprises (and business partners).
2. During periods of volatility, investing alongside the coercive arm of the state provides added security for costly assets.
3. The potential marginalization and prosecution of Mubarak’s disgraced business associates could open up new space for investment and lead to the resale of previously privatized state assets, including land.

Many international firms and investors proved receptive to these messages and eager to placate the generals in hopes of exercising influence in the postrevolutionary economy.¹⁰ One proximate result was the rapid intensification and expansion of weapons coproduction contracts that were signed in the final days of Mubarak’s rule and during the SCAF’s early tenure.

Although joint production between the EAF and foreign defense firms had been ongoing for years, it failed to generate any significant export contracts for the Egyptian military, aside from deals to send surplus or repurposed systems to poor countries that could not afford better alternatives or sales pushed through under U.S. auspices.¹¹ However, that began to change in the waning years of Mubarak’s rule. A 2010 report from the U.S. embassy in Cairo showed that technology transfer requests from the Egyptian Armament Authority had increased considerably over the previous year. This reflected the generals’ desire

to expand the export of weapons that contained U.S. technology, including potential sales of M1A1 tanks to Iraq, ammunition to Saudi Arabia, and technical support for Turkey's arsenal of Hawk missiles.¹² During this same period, EAF officials also requested U.S. permission to give tours of military production facilities to officials from Iraq and Tunisia.¹³

As Mubarak's power waned, the military doubled down on its efforts to secure joint production agreements with foreign defense firms, which meant not only a better chance at future exports, but also access to new technologies and potential positions for officers in prestigious new ventures. For example, in February 2011—just as Mubarak teetered on the brink of a forced resignation—the Egyptian navy renegotiated a \$13 million contract with the U.S. firm Swiftships that had originally been signed in 2008. The revised contract, which came at an increased cost of \$20 million for the same four patrol vessels in the original contract, provided for an Egyptian shipyard to participate in the assembly and production of the vessels. Such conditions entail significant institutional benefits for the military, including technology transfer, the construction of new facilities, the import of additional capital equipment, long-term contracts for spare parts and repairs, and new personnel training.

The ultimate sign that the EAF remained open for business came five months later in July 2011, when—despite continued violence against demonstrators and hundreds of thousands in Cairo's Tahrir Square protesting the SCAF government—the United States announced the eleventh installment of the \$1.3 billion M1A1 tank coproduction program.

In September 2011, amid continued demonstrations, the Turkish company Yonca-Onuk JV signed an agreement with Egypt to manufacture six armed patrol boats at the EAF's shipyard in Alexandria.¹⁴ Prior to this deal, collaborative arms production between Egypt and Turkey had taken place on one occasion—and even then only at the behest of Washington.¹⁵ However, the combination of the EAF's magnified influence and the perceived inviolability of the U.S. military assistance program (which provides for the bulk of Egypt's defense procurement budget) increased the EAF's allure as a partner for foreign defense firms.

To buttress the confidence of its investment partners, the EAF issued various signals that it would work to maintain order at all costs, including by vilifying labor activists as thugs, violently breaking up strikes, and issuing bizarre threats—such as an intention to end a railroad worker strike by conscripting the offenders directly into the army. When work stoppages made the news, military officials were quick to reassure observers that ordinary operations would not be disrupted.¹⁶

The EAF also deployed troops to secure the assets of its corporate partners. During the 2011 uprising, the Egyptian subsidiary of the Kuwait-based Kharafi Group, which has a number of joint ventures with the EAF,¹⁷ was

provided with an armored guard to ensure safe delivery of equipment to its al-Shabab power plant. According to the company's newsletter:

The Egyptian military provided forces, reinforced with tanks, to protect the client's major power sites in Al Shabab and Damietta. The Egyptian military also used armed military personnel to escort the transportation of large pieces of equipment for the gas turbines from Al Ismailiya Port to the Al Shabab site.¹⁸

Despite the unrest, the Kharafi Group quickly announced an \$80 million investment to expand its industrial infrastructure in Egypt.

Similarly, while many financial deals were put on hold amid the uncertainty surrounding Mubarak's successor, private equity firms whose deals included companies and investors with military connections were less likely to be delayed by the SCAF government. One firm, Citadel Capital (now Qalaa Holdings), bought into a large logistics company in 2009 whose chairman was a retired general, and in fall 2011—despite heightened unrest and continued uncertainty—was able to secure a major loan backed by the U.S. government's Overseas Private Investment Corporation.¹⁹

Private equity firms without a history of doing business with the military—such as those associated with Hosni Mubarak's youngest son, Gamal—were less fortunate.²⁰ Equally unfortunate were businesses known (or believed) to be affiliated with members of the Muslim Brotherhood. Just as the presidential palace and major public hospitals were strategically abandoned by military police in an effort to undermine Morsi's authority (and personal safety) at key junctures, these Brotherhood-linked enterprises were denied the type of police and security protection provided to army-partnered businesses like the Kharafi Group.²¹

The EAF also repressed labor demonstrations that took place in the vicinity of large economic operations in which the military had direct financial stakes—including petrochemical processing plants, export zones, maritime ports, and multinational manufacturing ventures. This was particularly true in Suez, where military police (and plainclothes police from the Interior Ministry) clashed repeatedly with protesters and striking workers.²² Work stoppages at Cairo Airport—where executive and upper-level management positions have been increasingly reserved for retiring officers as a sort of unofficial pension program²³—were also broken up by military police.

By contrast, during Morsi's presidency, the military was slow to intervene. Protests and labor demonstrations succeeded in disrupting operations at Ain Sukhna (on the Red Sea) and shut down the East Port Said facility for three days in spring 2013; several large maritime shipping companies actually switched their routes to off-load in Israel to avoid delays. Work eventually resumed at both locations after the conclusion of negotiations with union leaders. But when agreements went unfulfilled nearly one year later under Sisi's new government, riot police and troops from the Third Army were dispatched

to disperse strikers at Port Said, and in Ain Sukhna, military personnel off-loaded and serviced the waiting vessels themselves.²⁴ The stark contrast in the military's propensity to intervene suggests a purposeful strategy designed to exacerbate the economic failures of the Brotherhood's Freedom and Justice Party (FJP) government.²⁵

Throughout the postrevolutionary period, the SCAF also used its strategic investments to influence news coverage. In public statements highlighting what he said were the EAF's charitable contributions to the Egyptian economy, Major General Nasr cited a \$58 million cash infusion for the Egyptian Radio and Television Union. But what Nasr did not point out was that the military's Arab Organization for Industrialization is invested alongside the union in the Egyptian Satellite Company. The company, known as Nilesat, proved to be a reliable counterrevolutionary partner for the military in the fall of 2013 when it blocked the Al Jazeera news station from using a Nilesat satellite to broadcast images of the ongoing crisis in Egypt.²⁶ (That is not the only time Al Jazeera was targeted. Three journalists from the Qatar-based station were sentenced to lengthy prison terms in June 2014 after they were convicted on broadly discredited charges of falsifying news and aiding the Brotherhood.)²⁷

A Coalition With the Muslim Brotherhood

Actions taken by the EAF leadership to shape the post-SCAF political system also helped the military maintain and expand its institutional control over critical economic resources. The military succeeded in obtaining assurances of support (or at least noninterference) on key issues from the elected leadership of the FJP. Military leaders also tried to steer high-level economic policy in a direction that would selectively benefit their own operations, and they engaged in deft political maneuvering meant to marginalize or co-opt many of the power centers from the previous regime.

Many postrevolution policies pursued by both the SCAF and Morsi—such as slashing fuel subsidies to industrial manufacturers—posed little threat to the military's economic activities, because the military's subsidies are off the books and therefore would not be affected by the cuts.

Because the military's balance sheets (and therefore also its energy costs) are kept secret, SCAF looked like a collection of fiscally responsible decisionmakers, but in reality the burden fell disproportionately on the military's competitors.

Perhaps most importantly, the SCAF ensured that the major political parties participating in Egypt's new electoral regime would support the military's continued immunity from budgetary oversight. Despite some early demands for accountability,²⁸ Egypt's Illicit Gains Authority was unable to secure jurisdiction over military officers, in part because many influential legal scholars

Many postrevolution policies pursued by both the SCAF and Morsi—such as slashing fuel subsidies to industrial manufacturers—posed little threat to the military's economic activities, because the military's subsidies are off the books and therefore would not be affected by the cuts.

prioritized prosecuting Mubarak's business cronies over bringing the military under civilian legal authority.

Amazingly, the same constitutional principles enshrining legal immunity for the military that originally elicited harsh condemnation from the FJP were ultimately included in the constitution that was submitted by Morsi in December 2012.²⁹ Also guaranteed in subsequent constitutions was an exemption from the ban on forced labor (allowing for the continuation of the military's conscript labor system) and secrecy for the military's institutional finances. Earlier, the Muslim Brotherhood had actively reined in its young supporters, discouraging them from participating in anti-SCAF protests in the months leading up to the parliamentary and presidential elections of 2012 and removing much of the momentum from demands for military accountability.³⁰

This modus vivendi between the FJP and the military would prove to be brief, but it was visible in an array of areas, from the end of a de facto ban on the promotion of openly religious soldiers (including the admission of Morsi's nephew to a military training academy in March 2013) to Morsi's vocal support for the military hierarchy in the aftermath of a damning 2013 government report showing that soldiers and police had committed serious crimes during the revolution and the unrest that followed.³¹ Egyptian media also reported on the terms of alleged deals between the SCAF and the FJP that included "safe exit" provisions providing legal immunity for SCAF members; an agreement that the FJP would not put forth a presidential candidate that the military leadership deemed unacceptable; and an arrangement that would grant the military control over high-level economic policy and leave jurisdiction of the service ministries (education, youth, culture, etc.) to the Brotherhood.³²

Morsi's unilateral declaration of an end to the privatization of public-sector companies also fits the narrative of an EAF-FJP accord, because military factories would likely have been in line for the next round of sell-offs. The same goes for Morsi's deft hand in reshuffling some of the military hierarchy (including SCAF members), sending high-ranking officers out with lucrative and influential posts in the Suez Canal Authority, the Arab Organization for Industrialization, and positions in the Defense Ministry, and choosing their replacements from among the ranks of senior commanders.³³ In addition, Morsi promised to address some of the military's top grievances, vowing to reestablish a military presence in the Sinai and diversify Egypt's sources of foreign weaponry and training.³⁴

Beyond this list of accords, the most telling examples of the military's success in enhancing its economic position through an alliance with the FJP were found in a few high-profile projects announced during Morsi's brief tenure.³⁵ A February 2013 announcement posted on the FJP's official party website revealed that the Ministry of Military Production had "acquired" the defunct (and highly indebted) Al-Nasr Automotive Manufacturing Company (Nasco).³⁶ The manufacturing and assembly of passenger cars and other nonmilitary vehicles

has always been central to the economic fortunes of Egypt's military, as the technologies, facilities, and equipment made available through the collaborative manufacturing of military vehicles can also be used in the production of civilian vehicles sold by the military on the domestic market.

A genuinely indigenous automobile industry was originally envisioned as a critical component of Egypt's economic modernization, so the resurrection of Nasco was highly symbolic.³⁷ Another sign of goodwill between the FJP and the EAF came during Morsi's visit to Russia in April 2013, when he elicited a promise from Moscow to invest Russian state funds in the ailing automobile enterprise,³⁸ whose assets the EAF likely acquired for free.

The short-lived economic partnership forged by the FJP and the military can also be seen in the much-hyped "Egyptian iPad"—a tablet computer called the Inar. Although this project had been in the works for years, little progress was made until the summer of 2012, when the FJP-led government issued a large public tender for tablets. According to the *Daily News Egypt*,³⁹ bids were placed by three consortia, two of which included foreign multinationals. What the article did not make clear was that all three consortia included military-owned firms, among them the AOI, the Benha Electronics Company (part of the Ministry of Military Production), and the Arab Company for Computer Manufacturing, whose shareholder list includes AOI, Benha, and the Ministry of Military Production.

Like the plan to revive Nasco, the Egyptian tablet project was announced on the FJP's official website, which also boasted of advance export orders for the tablet from Kuwait, Qatar, and Saudi Arabia, in addition to enormous orders placed by various Egyptian government ministries. The tender was ultimately awarded to Benha, although many in the Egyptian tech sector saw the Inar as an overhyped PR stunt and questioned the ability of the winning consortium to program a basic operating system for the new tablet.

Although small-scale industrial projects like automobile manufacturing and tablet assembly were fertile ground for agreement between the Egyptian military and the Muslim Brotherhood, the massive Suez Canal Corridor Development Project proved too much for the uneasy alliance.

The Suez Canal Project and Strains in the Relationship

Although small-scale industrial projects like automobile manufacturing and tablet assembly were fertile ground for agreement between the Egyptian military and the Muslim Brotherhood, the massive Suez Canal Corridor Development Project proved too much for the uneasy alliance.

Turning the Suez Canal into a major logistics hub and center of heavy manufacturing has long been an aspirational goal of the military's economic planners, who had made various proposals to establish solar, wind, and geothermal

power stations in and around Suez to capitalize on the area's industrial manufacturing potential. The military's own companies would (of course) play key roles in constructing and providing equipment for such projects, as both the Ministry of Military Production and AOI have factories capable of manufacturing things like towers, gearboxes, and fiberglass blades used in wind turbines. When FJP officials announced plans in late 2012 to turn the canal into a global logistics hub, it seemed the political will and state support for such a project was finally available.⁴⁰

However, just as the FJP announced the canal plans, an Egyptian government consultant revealed that oversight of the expansion would be in the hands of a single chairman who would have the rank of deputy prime minister and report directly to Morsi, relegating the EAF to just one among many government bodies involved in the effort.⁴¹ This move to marginalize the military's role in the largest infrastructure project in decades may have been critical to the FJP's ultimate loss of EAF support.

It is difficult to overstate the canal's importance to the military—not only in terms of generating revenues but also in terms of providing the EAF with a justification for inserting itself into discussions of long-term economic planning. Many canal-related services were already being performed by military firms, which would have suffered if the EAF were shut out of the major decisionmaking processes surrounding the canal development plans. Conspiracy theories alleging the imminent sale of the canal to foreign interests have always been a classic way to drum up nationalist opposition to incumbent governments and remind citizens of the military's responsibility for securing Egypt's strategic resources.

Both the canal's economic importance and its symbolism made the corridor expansion plan the fulcrum of the developing struggle between the EAF and FJP. The flurry of official statements that followed the initial FJP announcement demonstrates the boundary lines that both sides attempted to draw around their spheres of authority. On March 19, 2013, Morsi announced that India was to be Egypt's lead partner in the massive expansion. But just two days later, a headline in *Misr El Gdida* read, “[Defense Minister] Sisi warns Morsi and [Prime Minister Hisham] Qandil—There will be no title given to land near the Suez.”⁴² A military official quoted in the article said that the government's plans for the Suez expansion project would not move forward until the details were approved by the EAF, and he warned against any foreign involvement in the project that might cause future controversies (a clear reference to Morsi's negotiations with India). The official continued with a list of the military's requirements, which included sole jurisdiction for Egypt's courts over any disputes concerning industrial or commercial projects, and stricter rules for foreign companies.

Another military spokesman subsequently reiterated these requirements, insisting that the firms and supervisors involved in the project must be widely respected and not subject to the whims of any particular political party (coded

language meant to refer to the EAF leadership). An announcement released two days later, on March 23, by the official Egypt State Information Service responded to the military's statements by stressing that the organization established to oversee the canal expansion would be under the authority of the presidency and, by implication, not under the jurisdiction of the EAF.

Although FJP officials followed up this stark announcement with a series of vague accommodations meant to allay the military's concerns, many of their statements stopped short of acquiescing to an EAF veto. The FJP's housing minister, Tarek Wafiq, insisted the government would show military leaders the draft law concerning the project and listen to their vision, but he did not agree to accommodate any objections or alter established plans for the canal.⁴³

But three months later Wafiq was forced to backpedal, announcing that the military—which he said was now “100 percent” behind the Suez project—would be the sole entity with the authority to grant licenses to firms working on the project, although by this point the alliance may well have been beyond repair. (It was later revealed that during this period, Morsi was attempting to replace Sisi, then the defense minister, with someone more malleable, a plan that was ultimately abandoned in the face of opposition from within the military establishment.)⁴⁴

Contention surrounding the two parties' contradictory approaches to intervention in Syria revealed further strains in the relationship, as did the FJP government's planned response to demonstrations calling for the president's resignation.⁴⁵ Military officers made public statements warning that FJP-sponsored violence against the protesters would not be tolerated, and displayed increasing resentment of duties like guarding Morsi's residence and enforcing the FJP's unpopular curfews.⁴⁶

When the demonstrations turned violent, the EAF recalled its military police from key installations such as public hospitals, which invited looting and prompted strikes by frightened healthcare personnel,⁴⁷ exacerbating Morsi's perceived security failures. The military also went to extraordinary lengths to underscore the regime's economic failures in the lead-up to the July 2013 coup, releasing strategic reserves to alleviate chronic fuel shortages and endless queues almost immediately after the president was taken into custody by the military.⁴⁸

Although the EAF appeared to have secured immunity for its economic fiefdom under the FJP, this temporary accord was clearly less robust than it seemed at the time. And it was a far cry from December 2011, when Brotherhood activists showed their support for the military by planting themselves squarely between army commandos guarding government buildings and secular/leftist protesters who were angry over the deaths of fellow activists.

Consolidating Gains in the Post-Morsi Period

Under both Sisi and the military-backed interim government that preceded him, the regime's economic rhetoric centered on the improvement and expansion of public services; the provision of basic commodities at "appropriate prices"⁴⁹; the resumption of major infrastructure initiatives, including land reclamation and the expansion of public transportation; and the revival of major manufacturing operations.⁵⁰

Morsi's ouster and the consolidation of the new military regime have facilitated the EAF's capacity to channel state funds to projects in which it has an interest. A \$20 million loan extended by the National Bank of Egypt in January 2014 to

a subsidiary of Tharwa Petroleum—in which the military has a direct stake—is one example.⁵¹ Although the company did little business with the state between 2011 and 2013, it was granted two major concessions in a brief period after Morsi left office.⁵²

Similarly, there are signs that state-owned shares of the highly profitable telecom company Vodafone Egypt are being transferred to military ownership,⁵³ which would open up opportunities for retired officers

to partner with the firm on new ventures.⁵⁴ Subsidizing military enterprises through state-owned banks and parceling out coveted contracts to the firms of retired generals is an old practice, but it is likely to escalate in intensity given the military's new grip on power.

But large infrastructure projects remain the area with the greatest potential for military participation; these include primarily Toshka—the "New Valley" land reclamation project—and the Suez Canal expansion program.

Plans for the Suez Canal Corridor Development Project—now firmly in the hands of the military-dominated Suez Canal Authority⁵⁵—have become more ambitious under Sisi. The project involves the expansion of six Egyptian ports, the construction of a number of tunnels and industrial zones, and the dredging of a parallel canal to allow for two-way traffic. The latter is already being constructed by the EAF's Engineering Authority. The contract for the project's overall master plan was awarded to Gulf-based consulting and contracting firm Dar Al-Handasah (owned primarily by Jordanian and Lebanese shareholders) and its Egypt-based subsidiary Dar Egypt,⁵⁶ in which the Egyptian army is thought to be a partner.⁵⁷ Several complementary projects have also been initiated in the maritime transport sector, including new warehouse construction and contracts for the provision of large-scale equipment like tugboats.

Despite embarrassing mishaps caused by poor planning (including the flooding of the parallel canal digging site, which Egyptian army engineers located too close to the existing canal), the larger project is extremely popular with Egyptians. When the government announced the offer of investment

Morsi's ouster and the consolidation of the new military regime have facilitated the Egyptian Armed Forces' capacity to channel state funds to projects in which it has an interest.

certificates in September 2014 to raise funds for the project's initial stages, the certificates sold out in just eight days—raising nearly \$9 billion. Purchases were restricted to Egyptian nationals—a policy no doubt aimed at reminding Egyptians that the foreign financing solicited to build the original canal in the mid-nineteenth century was a primary driver of the country's bankruptcy and subsequent occupation by the British. Relying solely on indigenous financing simultaneously harkens back to Nasser's state-building campaign while also solidifying the symbolic connection between the military and the canal itself.

Foreign companies are, however, involved in the actual work required to expand the canal.⁵⁸ One foreign executive was impressed by “how fast this came on the market, how fast it was tendered,”⁵⁹ likely because there was no oversight of the actual bidding process. Aspects of the project certainly have the ring of a dictatorial pipe dream, such as Sisi's very public demand that the parallel canal be dredged by the army in one year as opposed to the three years that engineers estimated was necessary to complete the work. This same bizarre note was also present in the government's March 2015 announcement that it planned to relocate the entire capital to a 700-square-kilometer stretch of empty desert east of Cairo.⁶⁰

Even with the successful sale of canal financing certificates, huge projects such as these require the collaboration of wealthy private investors and foreign government patrons. Morsi, the interim military-backed government, and Sisi have all actively sought a rapprochement with major investors and influential elites who either withdrew because of uncertain economic conditions or were themselves potential targets of government prosecution due to their ties with Mubarak or the Muslim Brotherhood. Sisi's attempts at such “extrajudicial reconciliation” with former regime cronies was greatly smoothed by the interim government's passage of Law 32, which bans third parties from challenging the terms of public contracts.⁶¹ This left only the government or investors with the legal standing necessary to pursue claims through the administrative courts, making it impossible for citizens to challenge deals on the basis of sweetheart loans, below-market valuations of state assets, and other methods commonly used to reward regime cronies.

Sisi's efforts are likely to focus on wealthy individuals with interests and investments in those sectors most important to the military, like Alwaleed Bin Talal, a Saudi prince whose Kingdom Agricultural Development Company (Kadco) is the primary investor in Toshka, the multi-decade land reclamation project meant to re-create the Nile valley in the southern reaches of Egypt.⁶² In 2010, a group of lawyers and Egyptian nongovernmental organizations (NGOs) filed suit against Talal, claiming Kadco's land purchase violated a host of Egyptian laws, including those related to land use, labor requirements, tax regulations, and agricultural exports.⁶³ In 2011, the SCAF government postponed the lawsuit, and sought the direct intervention of Saudi Arabia's King Abdullah in an effort to get Talal to settle, which he eventually did by

renegotiating the contract to accept a smaller parcel of land. However, opposition to Toshka (and the corrupt land deals that it spawned) had long been a rallying cry for the Muslim Brotherhood, and when the FJP became the dominant party in parliament in early 2012, its members made no secret of their opposition to the project's continuation.⁶⁴

But abandoning Toshka would have dealt a major blow to the EAF, which has multiple contracting companies involved in various aspects of the project, in addition to military-trained engineers working for private subcontractors and suppliers. Indeed, after removing Morsi, the military-backed interim government wasted no time in issuing statements about its renewed commitment to the project. By September 2013, regional media reported major new investments from Saudi Arabia and the United Arab Emirates (UAE),⁶⁵ which have been keen supporters of both the interim military-backed government and Sisi's new regime.

There were also reports that the government had taken steps to lure more investors to Toshka, including the construction of new industrial food production facilities and the establishment of a holding company to facilitate the sale of additional land.⁶⁶ Sisi's new plan for Toshka—now estimated at \$140 billion—is a dramatic expansion of the one originally conceived in 1985; it has grown to include 48 new cities, eight airports, fish farms, a railroad, and a massive eight-lane highway.⁶⁷

Sisi's Long Live Egypt Fund—assigned the account number 037037, a nod to July 3, 2013, when Morsi was ousted—is meant to be one source of financing. It has reportedly garnered donations from the region's wealthiest businessmen, including Talal, Naguib Sawiris (through his Orascom conglomerate), and the chairman of Egyptian Steel, as well as the military's National Service Projects Organization, several big-name banks, a slew of celebrities, and the employees of the Sonesta hotel chain.

Exactly who will oversee the account remains unclear. According to an official-looking statement attributed to the Egyptian consulate in Australia, the fund will be subject to the authority of Egypt's central auditing bureau and supervised by Sisi himself and the governor of the central bank along with the sheikh of al-Azhar, the seat of Egypt's Islamic establishment, and the pope of Egypt's Coptic Church.⁶⁸ Other sources suggest the supervisors will be a mix of government officials and businessmen,⁶⁹ while yet another says that Sisi will be the lone supervisor.⁷⁰

A \$4.9 billion stimulus package—largely financed by the UAE—has predictably gone to fund major infrastructure contracts awarded to companies affiliated with the military.⁷¹ A decree issued by the interim military-backed government in 2014 expanded the ability of ministers to sign no-bid contracts, which had the effect of funneling huge chunks of public investment to military firms and their partners,⁷² which have also been awarded major service contracts, including long-term concessions for operating (and collecting usage

fees for) some of Egypt's busiest highways.⁷³ During just the first ten months under the interim government, the military landed nearly \$770 million in contracts,⁷⁴ and over \$1 billion in no-bid government contracts over the course of three months in fall 2014.⁷⁵

The military's preferred partners have also benefited. One notable example is a \$40 billion project for low-income housing that was awarded to Dubai-based developer Arabtec Construction. Defenders of the military cite the need for rapid stimulus in justifying the noncompetitive award procedure. But that process is in stark contrast to the obstructionism (from both the military and remnants of the former ruling party that were still operating inside Egypt's bureaucracy) that derailed a number of Turkish and Qatari investment agreements that were signed by then president Morsi.⁷⁶

In addition to generous support from the Gulf states,⁷⁷ other would-be allies are lining up to do business in Egypt. Russia—in addition to its support for automaker Nasco—has committed to upgrading both the Egyptian Iron and Steel factory at Helwan and the state's large aluminum producer Egyptalum, as well as providing development assistance for the Aswan Dam's electricity-generating plants.⁷⁸ China has likewise been identified as a partner in large infrastructure projects, including new power stations, a high-speed rail project, and the Suez Canal project.⁷⁹

Aid-financed military assistance from the United States also continued to flow to Cairo under both the military-backed interim government and Sisi's government, despite lukewarm protestations about regime violence from the U.S. State Department. In the two months immediately following the coup, the U.S. Department of Defense signed nearly \$300 million in new contracts to deliver or coproduce military equipment with Egypt.⁸⁰ One of those contracts, which teamed BAE Systems with Egyptian military factories to construct radar systems for military cargo aircraft, was signed on September 6, 2013, amid a peak in violent confrontations between supporters of the army and backers of Morsi.⁸¹ On June 22, 2014, just two weeks after Sisi was sworn in, the United States announced the release of \$575 million in previously frozen military aid, which was followed in December 2014 by another \$1.3 billion.

European Union countries are similarly scrambling to get in Sisi's good graces. Although France suspended arms sales to Egypt in 2011, the government has signed agreements with Sisi worth more than \$7 billion since the start of 2015—including deals for fighter jets and battleships.⁸² Competition for a French deal concluded in February 2015 was fierce, with several other eager would-be patrons, including Russia, China, and the UAE, making competing offers to upgrade Egypt's existing arsenal of French aircraft themselves or transfer secondhand jets from their own stocks. Military cooperation with the UAE has also ramped up in the wake of Morsi's ouster—including three joint training exercises between March 2014 and October 2014 and sustained

intelligence and operational coordination in joint strikes against Islamic State targets in Libya.

Despite the flood of new allies and economic assistance, these sudden influxes of power and resources can drive intragroup conflict, and, like any large organization, the Egyptian military must make decisions on how to divide the spoils. The military's greatly enhanced control over the state may in fact bring to the fore divisions and cleavages that had previously been submerged, and cracks may surface within the EAF as factions struggle to stake a claim to new economic and political turf.

These could be relatively benign contests, such as the competition between the Ministry of Military Production and the Arab Organization for Industrialization

to produce their own competing versions of tablet computers.⁸³ Such a contest is clearly a waste of resources and emblematic of the EAF's poor economic planning—but is not an existential confrontation.

However, the repeated leaks of military officers' taped conversations, which began in late 2014, are suggestive of a more destructive rift within the leadership. Early tapes revealed the military's overt manipulation of the Egyptian legal system designed to ensure Morsi's conviction on charges of treason.⁸⁴ But subsequent tapes have been even more damning. They

provide powerful evidence of what many secular activists feared, mainly that the military hierarchy and its supporters in the Gulf financed and directed the massive demonstrations that precipitated Morsi's ouster in July 2013. The tapes, which directly implicate Sisi and his closest advisers and confidants, appear to have been leaked by others within the military hierarchy who are unhappy with the status quo.

The military's greatly enhanced control over the state may in fact bring to the fore divisions and cleavages that had previously been submerged, and cracks may surface within the Egyptian Armed Forces as factions struggle to stake a claim to new economic and political turf.

Future Challenges

The speed and intensity with which the EAF has reconstituted its economic and political empire in the post-Mubarak era is staggering. In addition to restarting defunct industrial operations and securing control over massive infrastructure projects, military generals are now nearly ubiquitous in the halls of government. Seventeen of Egypt's 27 provincial governors are military generals (nineteen if two police officers of equivalent rank are included) and the remaining civilian governors share rule with 24 major generals serving as deputy governors, secretaries-general, and assistant secretaries-general.⁸⁵

Although this certainly demonstrates a consolidation of power for the military, it may also suggest uncertainty among the EAF leadership over the longevity and sustainability of a military-led government. In an environment of

uncertainty, the natural response is to quickly accumulate as much economic and political control as possible to hedge against future power struggles. But this strategy could (and most likely will) backfire, as grants from the Gulf states dwindle and the regime's excesses continue to fester.

Many military coups follow a similar pattern: initial public support for the ouster of an unpopular civilian government is followed by a period in which the military consolidates power and becomes increasingly repressive and corrupt.

The pattern in Egypt seems largely similar. Initially the military was able to portray its actions as concrete expressions of the people's will—first in refusing to support Mubarak, and subsequently in ensuring Morsi's ouster by rejecting a compromise with the FJP leadership.⁸⁶ The SCAF's decision to make two major deposits into the central bank to prop up the flagging Egyptian currency (in late 2011 and again in 2014); its early rebuff of an International Monetary Fund loan agreement; and Sisi's refusal to pander to Egypt's traditional patrons (the United States, Western Europe, and major international donor agencies) were well-crafted moves designed to highlight the differences between the military leadership and the disgraced regime of Hosni Mubarak.

Since his election, Sisi has raised taxes on the very wealthy and attempted to scale back some of the excesses of big business by imposing a new capital gains tax—while also loosening currency controls. This has earned his government significant public praise. It is also increasingly clear that the scions of Egypt's most influential institutions—including the judiciary and the media—are firmly in the Sisi camp, and are willing to lend their institutional weight to the president's goals.

But revelations since Sisi took power about the military's efforts to weaken the FJP government⁸⁷ and the EAF's direct role in fomenting and financing the anti-Morsi protests, as well as the leadership's contempt for (and overt manipulation of) both the legal system and loyal media outlets,⁸⁸ are unlikely to pass unnoticed.

It is also possible that the EAF will decide that the institutional cost of failure exceeds the benefits of being formally in charge. The greatest concern for Egypt's military hierarchy is not its economic empire, but the return of widespread domestic unrest. Civilian governments that call on the army to put down protests can avoid full responsibility for violence and bloodshed—but military governments like Sisi's have no such luxury. The army is the regime and the regime is the army. This is why cash aid and commitments to finance major infrastructure projects have so quickly cemented ties between Sisi's government and the Gulf monarchies. It is housing projects, water treatment facilities, and vocational training programs (funded by Saudi Arabia, Kuwait, and the UAE) that will assuage public anger—keeping the military out of the streets and helping it avoid existential challenges to its legitimacy. This is also why the police are

The greatest concern for Egypt's military hierarchy is not its economic empire, but the return of widespread domestic unrest.

ubiquitous in the everyday violence and surveillance meted out against activists and ordinary citizens—the Interior Ministry is at once both the military’s enforcer and its scapegoat.

For most of the EAF’s recent history, its role in the economy has been defined less by its dominance of megaprojects and more by its ability to leverage marginal influence across an enormous range of enterprises financed by both foreign capital and wealthy Egyptian businessmen. This is a role it could maintain under a friendly civilian government, which would insulate the military from responsibility for economic failure and (some degree of) political violence. This form of military economic interference has rarely been onerous enough to deter would-be investors in sectors such as energy, petrochemicals, and real estate, which are where foreign investment in Egypt has long been concentrated. It is, however, enough to ensure that the military remains an important gatekeeper for investment in new projects.

Sisi’s security measures—including a law that formalized the military’s role in protecting critical infrastructure (previously the remit of police)—are likely to enhance that gatekeeping role by generating additional contacts and linkages between the generals and the businessmen that finance this infrastructure.⁸⁹ Such conditions suggest that future foreign investment is likely to be more concentrated in ventures where the military has a stake—not less. There is no reason to believe a subsequent civilian government would be willing or able to reverse these policies.

Conclusion

The Egyptian military’s current dominance—buttressed by popular support and Gulf assistance—leaves U.S. policymakers with few meaningful options to pressure Cairo on human rights or political reform. Withholding military aid is less of a threat than it once was, as the \$1.3 billion annual sum is dwarfed by the magnitude of Gulf assistance, which has exceeded \$20 billion since 2013. Even absent Gulf assistance, U.S. military aid to Egypt has not kept pace with inflation, and so it provides only a fraction of the institutional benefits it did in the past.⁹⁰

Unless the U.S. government is willing to impose a ban on the export of coveted military items or spare parts (both extremely unlikely), the EAF will be able to obtain what it needs through regular purchasing channels using Gulf funds. The ability of U.S. defense industry lobbyists to dictate export policy, the relaxation of U.S. rules governing the sale of spare military parts in 2013,⁹¹ and the illicit proliferation of defense technology have

The ability of U.S. defense industry lobbyists to dictate export policy, the relaxation of U.S. rules governing the sale of spare military parts in 2013, and the illicit proliferation of defense technology have all further weakened the ability of U.S. policymakers to use military assistance as a form of leverage.

all further weakened the ability of U.S. policymakers to use military assistance as a form of leverage.

Nor would a large increase in military aid necessarily improve relations with Cairo, as the U.S. military assistance program has in fact been extremely costly to the Egyptian side. U.S. military aid enabled the continuation of expensive industrial collaboration ventures whose resources could have been put to better use in the civilian private economy (or even in some of Egypt's better-performing civilian public sector enterprises). The future price for spare parts, maintenance, storage, and site security is compounded with each new tranche of "free" weapons. And if the military leadership is now responsible for the performance of the civilian economy, it must deal with such competing priorities.

Institutional priorities will also necessarily bump up against the professional and financial aspirations of high-ranking members of the officer corps, many of whom see Sisi's presidency as their ticket to privilege. A number of retired EAF generals have in the past reaped substantial benefit from U.S. military aid contracts by acting as private sector service providers—renting warehouse space, coordinating shipping logistics, and providing other services to facilitate the functioning of the military assistance program.

But it is precisely this system of top-heavy institutional privilege that contributed to the malaise and resentment that has been brewing among the ranks of junior officers for over a decade. If many observers see the U.S. military aid program as basically a giveaway to Egypt's top brass, then the perception among the rank and file and junior officers must be similarly negative. And in any military—including Egypt's arguably dysfunctional one—institutional cohesion and loyalty are fundamental requirements that no armed forces leadership can afford to ignore.

Steven Cook of the Council on Foreign Relations called in early 2015 for an increase in U.S. military aid, arguing that more money would help keep Egypt from sliding out of the U.S. orbit and into closer relations with potentially hostile states like Russia.⁹² Cook argued that boosting U.S. assistance would not only help to secure the EAF's more parochial interests—mainly its admittedly bloated arsenal of tanks and fighter jets—but would also serve genuine strategic goals by supplying new weapons and training for counterterrorism operations in the Sinai, where hundreds of Egyptian soldiers have been killed in clashes with violent Islamists.

However, the provision of additional funding for counterterrorism operations is only a good option if the violence in Sinai is being waged by transnational terrorists who are temporarily exploiting the area because it is a relatively ungoverned space. If this is the case, bringing in more weapons and troops may indeed help protect Egyptian soldiers—thus tempering the EAF's current siege mentality that Cook identifies as an obstacle to political reform. But such an increase will do little to improve regional security in the long term, as these groups will just relocate to less militarized spaces in neighboring states. Evidence that U.S.

weapons are already being used in acts of collective retribution that decimate entire communities in the Sinai is also a major concern—and will no doubt engender more violent opposition to the military government.

If, on the other hand, violence in the Sinai originated from groups with legitimate grievances that are specific to the military government in Egypt—which seems to be the case—then the solution requires political negotiations and concessions from Sisi’s government, not more weapons. Political negotiations and restorative justice for both secular and religious victims of the current and former regimes are what is needed, and more U.S. money for weapons will bring about neither of those.

Notes

- 1 Jeff Martini and Julie Taylor, "Commanding Democracy in Egypt," *Foreign Affairs* 90, no. 5 (September/October 2011): 131.
- 2 "Army Gets 4.2% of State Budget, Says SCAF Member," *Al-Masry Al-Youm*, March 3, 2012. Also see "Egypt Army Protects Business," *Hürriyet Daily News* (Turkey), March 30, 2012. These estimates are more conservative than those provided by the former minister of military production, Sayed Meshaal, who justified the cost of new defense-industrial complexes by citing dramatic increases in output at the military's production facilities, giving a figure of \$483 million in production for the 2009/2010 fiscal year, and revenues of \$345 million.
- 3 Hicham Bou Nassif, "Wedded to Mubarak: The Second Careers and Financial Rewards of Egypt's Military Elite, 1981–2011," *Middle East Journal* 67, no. 4 (Autumn 2013): 4–5. Also see Anouar Abdel-Malek, *Egypt: Military Society, the Army Regime, the Left, and Social Change Under Nasser* (New York: Random House, 1968).
- 4 Joe Stork, "Arms Industries of the Middle East," *Middle East Report* 144 (January/February 1987): 13. Although influential military leaders were able to capitalize on this new relationship with the United States to increase financing and political support for the expansion of the military's presence in a range of nondefense sectors as well, this was often done with an eye toward developing feeder industries that could be incorporated into Egypt's military-industrial production, or as more instrumental efforts to secure revenue sources for financing the perquisites and salaries of influential officers.
- 5 In addition to providing a new investment stream, the EAF's collaboration with the private sector has also produced new sources of information on military ventures, including literature from trade associations representing large sectors where the military has investments and joint operations (such as energy, manufacturing, agriculture, and transportation), press releases and annual reports issued by firms doing business with military companies, business intelligence publications, and marketing material. Shana Marshall and Joshua Stacher, "Egypt's Generals and Transnational Capital," *Middle East Report* 42, no. 262 (Spring 2012): 12–18.
- 6 Wind farms located at Hurghada, Zafarana, and along the North Coast involve collaboration with Denmark, Germany, Japan, the Netherlands, Italy, Spain, and the United States, as well as many Egyptian military companies, including AOI's Helwan and Saqr factories, the Suez Shipyard, and Cairo Contracting Company (part of the National Company for Construction and Development/NCCD). See "European Governments Help Egypt to Build Zafarana Windfarm," *Wind Power*, July 8, 2009. Also see New and Renewable Energy Authority, Egyptian Ministry of Electricity, "Wind Energy: Local Manufacturing," slide presentation, www.slideshare.net/rcreee/local-manufacturing, accessed January 16, 2014.
- 7 Railroad cars and related hardware are manufactured by the AOI's General Egyptian Company for Railway Wagons and Coaches/SEMAF, and military companies own

- 52 percent of the barges operating along the Nile, including the relatively new Nile River Transport Company established by the Ministries of Defense and Military Production, which received contracts from several large state-owned conglomerates shortly after its creation. See “Egypt: Transport & Logistics,” *Capital Research*, May 25, 2010, 18. Also see “NRPMC Inaugurates Its River Port in Tanash With Strategic Shipments of Wheat,” press release, Citadel Capital, February 23, 2010, <http://citadelcapital.com/press-releases/nrPMC-inaugurates-its-river-port-in-tanash-with-strategic-shipments-of-wheat>.
- 8 “Impact of Liberalization of Trade in Services: Banking, Telecommunications and Maritime Transport in Egypt, Morocco, Tunisia and Turkey,” Bilkent University (Turkey) Center for International Economics, and Cairo University, Faculty of Economics and Political Science, December 2005, 301.
 - 9 “Egyptian Maritime Transport Industry,” *Capital Research*, July 14, 2009.
 - 10 This appears to have shifted as the Muslim Brotherhood gained ground relative to the SCAF in the lead-up to the presidential elections that brought Morsi to power. Investors—especially those in the oil and gas industry—were courting allies from among the business elite of the Brotherhood and trying to erode the military’s influence over contracts in that sector. See Alistair Beach, “Majors Vie With Egypt’s Generals Over Oil,” *Daily Star*, April 14, 2012.
 - 11 Egypt also exported weapons to Somalia, Oman, Sudan, and North Yemen, as well as armed factions backed by the United States, including the Afghan mujahideen and the forces of Hissene Habre in Chad. See Joe Stork, “Arms Industries of the Middle East,” *Middle East Report* 144 (January/February 1987). The EAF was also granted a contract to produce parts for F-16s that were assembled in Turkey, then reexported to Egypt under the Peace Onyx Program.
 - 12 U.S. Embassy, Cairo, “TPT Blanket Approval for Non-Technology Transfer Requests,” February 28, 2010.
 - 13 U.S. Embassy, Cairo, “Egypt Responds Positively to End-Use Training,” June 17, 2009.
 - 14 Ipek Yezdani, “Egypt Eyes to Buy Turkish Unmanned Aerial Vehicles,” *Hürriyet Daily News*, September 19, 2011. The vessels referred to are MRTP-20 fast-intervention craft.
 - 15 The only cases of collaborative arms production of which I am aware are the Peace Onyx program of the late 1980s/early 1990s, in which Turkey produced F-16s jointly with U.S. firms and then sold the planes to Egypt (which produced some minor components for use in the jets); and possibly a late 1980s agreement that saw the Turkish firm MKEK build a facility in Egypt to produce 105mm tank rounds. Omer Karasapan, “Turkey’s Armaments Industries,” *Middle East Report* 144 (January–February 1987): 29.
 - 16 Officials at the Suez Canal Authority (SCA), which is dominated by high-ranking EAF officers, repeatedly issued press statements insisting that a February 2011 wave of strikes by employees of the SCA’s subsidiaries would not have an impact on canal traffic. Amr Ramadan, “Canal Authority Says Suez Strikes Not Disrupting Traffic,” *Daily News Egypt*, February 20, 2011. See also Ashraf Ghazy, “Back to Normality: How Egyptian Ports Are Settling Back Into the Old Routine,” *Port Technology*, February 7, 2011, and Michelle Wiese Bockmann, “Suez Canal Seen Kept Open by Egyptian Army as Ship Agent Suspends Service,” Bloomberg News, February 1, 2013.
 - 17 One such project is the International Pipe Industry Company—the largest manufacturer of oil and gas piping in the region—which Mubarak-era minister of military production Sayed Meshaal described as a “model of cooperation” between the state and private sector.” See “Successful Model of Arab Cooperation: The Largest Producer of Oil and Gas Pipes in the Middle East,” *Al-Ahram*, April 2, 2005 [in Arabic], www.ahram.org.eg/Archive/2005/4/2/ECON2.HTM. Other joint ventures include

- Maxalto, which manufactures computerized ID cards, and the Arab Company for Computer Manufacturing.
- 18 “Commitments Delivered Despite Severe Pressures,” *Transmissions* (Kharafi National corporate newsletter), no. 28 (May 2011), 6, www.kharafinational.com/images/transmission/2011/Transmission%2028.pdf.
 - 19 Citadel Capital bought into National River Port Management Company in 2009; the firm’s chairman, Maged Farag, is a military general.
 - 20 Gamal Mubarak owned an 18 percent stake in EFG Hermes private equity. The firm and its investments were a target of government auditors during the SCAF’s tenure.
 - 21 Mohammad Fadel, “What Killed Egyptian Democracy?” *Boston Review of Books*, January 21, 2014, www.bostonreview.net/forum/mohammad-fadel-what-killed-egyptian-democracy.
 - 22 Salma El-Wardani, “Two of the Seven Suez Canal Companies Suspend Strikes,” *Abram Online*, July 7, 2011.
 - 23 Yezid Sayigh, “Above the State: The Officers’ Republic in Egypt,” Carnegie Paper, Carnegie Endowment for International Peace, 2012.
 - 24 “Labor Groups Condemn Crackdown on Strikes in Port Said and Ain Sokhna,” *Mada Masr*, April 29, 2014.
 - 25 Recently leaked tape recordings suggest the UAE and Egypt’s military leadership were integral to funding and organizing the anti-Morsi rallies. “New Sisi Leaks Exposes UAE Support for Military Coup,” *Middle East Monitor*, March 2, 2015, www.middleeastmonitor.com/news/africa/17273-new-sisi-leaks-exposes-uae-support-for-military-coup.
 - 26 Lisa O’Carroll, “Egypt Accused of Jamming Al Jazeera,” *Guardian*, September 7, 2013.
 - 27 “Dark Day for Media Freedom as Al Jazeera Journalists Convicted,” Amnesty International, June 23, 2014, www.amnesty.org/en/news/dark-day-media-freedom-al-jazeera-journalists-convicted-2014-06-23.
 - 28 The *Manhouba* campaign is an attempt to demand public disclosure of the military’s business enterprises; its two founders have both been arrested while attempting to distribute documentary evidence of the military’s economic operations.
 - 29 Wael Eskandar, “Brothers and Officers: A History of Pacts,” *Jadaliyya*, January 25, 2013.
 - 30 These calls included a boycott of the July 2011 sit-in. Ibid.
 - 31 “Egypt Army Denies Torture Allegations,” Agence France-Presse, April 12, 2013.
 - 32 Eskandar, “Brothers and Officers.”
 - 33 Hazem Kandil, “Deadlock in Cairo,” *London Review of Books*, March 21, 2013.
 - 34 Stratfor, “Egypt Floats a Revision to the Camp David Accords,” August 14, 2012, www.stratfor.com/analysis/egypt-floats-revision-camp-david-accords. Yezdani, “Egypt Eyes to Buy Turkish Unmanned Aerial Vehicles.”
 - 35 Zeinab Abul-Magd, “Chuck Hagel in Egypt’s Economic Chaos,” Atlantic Council, April 29, 2013, www.atlanticcouncil.org/blogs/egyptsource/chuck-hagel-in-egypt-economic-chaos.
 - 36 Ibid. In actuality, the minister of military production said he would operate the car company once its financial position was “revised” (that is, once the company’s debt was wiped clean). See Mona El-Fiqi, “Comback Car,” *Abram Weekly*, May 21, 2013.
 - 37 Despite several government announcements of plans to revive Nasco, there is no evidence that passenger car assembly has resumed.
 - 38 “Investment Minister: Russia Agrees to Develop Steel Complex, Nasr Car Company in Egypt,” Egyptian State News Service, April 20, 2013.
 - 39 Mohamed Aladdin, “Experimental Project to Produce Domestic Tablet Computers,” *Daily News Egypt*, July 16, 2012.

- 40 Government figures predict revenues of \$100 billion from tolls and other shipment-related business, up from current revenues of \$5.4 billion. Patrick Werr, "Egypt Sees Revenue in Suez Canal Corridor Project," Reuters, October 10, 2012.
- 41 Ibid.
- 42 "Sisi Warns Morsi and Qandil—There Will Be No Title Given to Land Near the Suez," *Misr El Gdida*, March 21, 2013.
- 43 Taha al-Najjar, "Housing Minister: We Will Not Pass Canal Development Law Without Army Approval," *Rose al-Yousef*, March 21, 2013.
- 44 Kandil, "Deadlock in Cairo."
- 45 "Army Source Dismisses Egyptian Military Intervention in Syria," *Abram Online*, June 16, 2013.
- 46 As Kandil notes, by January 2013, the military was not only guarding then president Morsi's residence in Cairo, but also imposing government-mandated curfews in three cities in Suez. An interesting comparison to draw here is the much lighter contingent of police guarding Morsi's residence in February the year before, when the presence of demonstrators forced Morsi to use the back door to exit. Morsi eventually replaced the interior minister who had overseen those operations (something he was unable to do with Sisi). See Kandil, "Deadlock in Cairo."
- 47 Fadel, "What Killed Egyptian Democracy?"
- 48 Morsi was taken into custody on July 3. By July 4, the fuel lines had vanished.
- 49 On the day that he named eighteen new provincial governors (half of whom were retired military officers), Adly Mansour, president of the military-backed interim government, told the assembled governors that their priorities were to "improve public services, provide essential commodities at appropriate prices, and bring about security in the Egyptian street." Tom Perry, "Egypt Restores Ex-Generals' Role in Provinces," Reuters, August 13, 2013.
- 50 In addition to the Toshka project, major bank loans have also been made to upgrade Egypt's rail system, including a recent \$130 million project to finance the construction of new rail cars, which was awarded to SEMAF, a subsidiary of the military's AOI.
- 51 Sayed Badr, "NBE Grants US\$20 mln Credit Facilities for Sino Tharwa Drilling Co.," *Amwal Al-Ghad*, January 16, 2014. The loan was announced the day after voting was concluded in the referendum on the 2013 draft constitution, which was put forth by the military-backed interim government, and heavily criticized for leaving military legal immunity intact and failing to impose any oversight on EAF economic operations.
- 52 These include the right to develop Sea Bird Field (alongside Tanmia and the state-owned General Petroleum Corporation) signed in November 2013, as well as an exploration contract signed with the Petroleum Ministry in October 2014.
- 53 Egyptian news outlets report the sale of Vodafone shares to "sovereign bodies," a term that Samer Atallah points out is used to refer to military intelligence. Samer Atallah, "Seeking Wealth, Taking Power," Carnegie Endowment for International Peace, November 18, 2014, http://carnegieendowment.org/sada/index.cfm?fa=show&article=57252&solr_hilite=.
- 54 Members of the officer corps have already inked large contracts with Vodafone, including Major General Samir Fathi's firm, Egyptian Tracking Services and Information Technology Company (ETIT), which provides web-based vehicle-tracking services geared toward commercial banks and tour operators.
- 55 Islam Atrees, "Canal Zone Project Entrusted to the SCA," *Daily News Egypt*, October 6, 2013.
- 56 Sara Aggour, "Investment Opportunities in Suez Canal Project Are Endless: Dar Al-Handasah Director of Operations," *Daily News Egypt*, September 16, 2014, www.dailynewsegyp.com/2014/09/16/investment-opportunities-suez-canal-project-endless-dar-al-handasah-director-operations.

- 57 “Egypt Awards Suez Hub Project to Consortium of Army, Gulf Engineering Firm,” Reuters, August 19, 2014, www.reuters.com/article/2014/08/19/egypt-suezcanal-idUSL5N0QP28F20140819.
- 58 Of the six work zones, one is being dredged by the military itself; the five others by companies from the United States, the Netherlands, Belgium, and the UAE.
- 59 Stephen Kalin, “Egypt Signs With Six International Firms to Dredge New Suez Canal,” Reuters, October 18, 2014, www.reuters.com/article/2014/10/18/us-egypt-suezcanal-idUSKCN0I70IC20141018.
- 60 Patrick Kingsley, “A New New Cairo: Egypt Plans £30bn Purpose-Built Capital in Desert,” *Guardian*, March 16, 2015, www.theguardian.com/cities/2015/mar/16/new-cairo-egypt-plans-capital-city-desert.
- 61 Amr Adly, “The Future of Big Business in the New Egypt,” Carnegie Paper, Carnegie Middle East Center, November 19, 2014, <http://carnegie-mec.org/2014/11/19/future-of-big-business-in-new-egypt>.
- 62 The goal of the reclamation project was to relocate 20 percent of Egypt’s population to this new valley, where cities and fields would be fed by a system of canals stretching from Lake Nasser to the Western Desert.
- 63 Tamim Elyan, “Lawsuit Aims to Annul Saudi Prince’s Toshka Land Deal,” *Daily News Egypt*, October 20, 2010.
- 64 Bradley Hope, “Egypt’s New Nile Valley: Grand Plan Gone Bad,” *National*, April 22, 2012.
- 65 The UAE had also made previous investments in Toshka—but these were announced prior to Morsi’s election. See “UAE to Carry Out Three Giant Projects in Egypt—Minister,” Egyptian State News Service, May 14, 2012, and “20,000 Feddans to Be Cultivated in Toshka,” All Africa, May 17, 2012, <http://allafrica.com/stories/201205170546.html>.
- 66 Waleed Abu al-Khair, “Egypt Cultivates Investment in Toshka Region,” *Al-Shorfa* (regional media supported by U.S. CENTCOM), September 13, 2013.
- 67 Stephen Kalin, “Sisi’s Economic Vision for Egypt: Back to the Future,” Reuters, May 22, 2014.
- 68 “A Message From the Egyptian Consulate of Sydney Regarding the ‘Long Live Egypt’ Fund,” posted on the website of the Australian Coptic Movement (ACM) on July 17, 2014, www.ausma.com/2014/07/a-message-from-the-egyptian-consulate-of-sydney-regarding-the-long-live-egypt-fund.
- 69 “Long Live Egypt Fund Collects EGP2.3 bln in 2 Months,” *Mubasher*, August 19, 2014, <http://english.mubasher.info/EGX/news/2585789/Long-Live-Egypt-Fund-collects-EGP2-3-bln-in-2-months#.VQngbhDF9O8>.
- 70 Passant Rabie, “A Donation Plea for Egypt to ‘Live Long,’” *Mada Masr*, September 14, 2014, www.madamasr.com/sections/economy/donation-plea-egypt-live-long.
- 71 Projects range from transportation (roads, bridges, tunnels, and pedestrian walkways) to massive low-income housing projects, hospitals, schools, and bakeries. Mohamed El Dahshan (Egyptian blogger), “The Egyptian Army Collects Billions in Government Contracts,” January 3, 2014, <http://eldahshan.com/2014/01/03/army-contracts>. Cited in Samer Atallah, “Seeking Wealth, Taking Power,” *Sada*, Carnegie Endowment for International Peace, November 18, 2014, <http://m.ceip.org/sada/?fa=57252>. See also Mahmoud Al Waqa’, “Through Sole-Sourcing, Armed Forces Control the Implementation of Government Contracts and Collection of Road Tolls,” *Yanair*, March 29, 2014, <http://yanair.net/archives/31896>.
- 72 For an account of the controversy surrounding a Saudi firm involved in the Suez Canal expansion project, see Ahmed Gamal el-Din, “Egyptian-Saudi Engineering Venture Wins General Contract,” *Al-Akhbar*, August 20, 2014, www.al-akhbar.com/node/213809.
- 73 Adly, “The Future of Big Business in the New Egypt.”
- 74 Ibid.

- 75 El Dahshan, “The Egyptian Army Collects Billions in Government Contracts.”
- 76 Kandil, “Deadlock in Cairo.”
- 77 “Egypt’s Economy: Pyramid Scheme,” *Economist*, February 21, 2015, www.economist.com/news/finance-and-economics/21644197-arab-worlds-biggest-country-struggling-revive-its-fortunes-pyramid-scheme.
- 78 Sara Aggour, “Russian Industrial Zone to Be Established in Egypt,” *Daily News Egypt*, March 26, 2014, www.dailynewsegyp.com/2014/03/26/russian-industrial-zone-established-egypt.
- 79 Amwal Alghad, “Egypt Seeks to Attract More Chinese Investment,” *Amwal Al Ghad*, September 10, 2014, <http://demotest.amwalalghad.com/en/investment-news/industry-trade/29618-egypt-seeks-to-attract-more-chinese-investment.html>.
- 80 All contracts from Department of Defense contract database: www.defense.gov/contracts. These contracts can be found at the following sites: www.defense.gov/contracts/contract.aspx?contractid=5077; www.defense.gov/contracts/contract.aspx?contractid=5098; www.defense.gov/contracts/contract.aspx?contractid=5108; www.defense.gov/contracts/contract.aspx?contractid=5122.
- 81 U.S. Department of Defense, “Contracts,” Defense Logistics Agency, September 6, 2013, www.defense.gov/contracts/contract.aspx?contractid=5128. The contract announcement also lists other collaborative production partners, including Australia, Canada, Norway, Poland, and South Korea.
- 82 “France Wins Deal to Sell Rafale Combat Jet to Egypt,” BBC News, February 12, 2015, www.bbc.com/news/business-31449564.
- 83 In September 2013, AOI introduced its own tablet computer called the Pluto—produced in collaboration with tech giant Intel—which will directly compete with the Inar tablet produced by Benha, which is under the authority of the Ministry of Military Production.
- 84 Azzam Tamimi, “Egypt’s New Shocking and Potentially Indicting Leaks,” *Middle East Monitor*, December 5, 2014, www.middleeastmonitor.com/articles/middle-east/15666-egypts-new-shocking-and-potentially-indicting-leaks.
- 85 Tom Stevenson, “Egypt: Land of the Generals,” *Middle East Eye*, November 7, 2014, www.middleeasteye.net/in-depth/features/land-generals-1661973598. Also see Nassif, “Wedded to Mubarak.”
- 86 It is now known that Sisi rebuffed efforts by U.S. and EU envoys to broker an agreement between the military and the FJP leadership, despite positive overtures from the latter.
- 87 Long fuel lines were a major source of discontent in the waning days of Morsi’s presidency, but the military released supplies from its strategic fuel reserves to alleviate shortages only after deposing Morsi. “Petroleum Authority Officials Granted Arrest Powers,” *Mada Masr*, September 9, 2013.
- 88 Borzou Daragahi, “Recording Claims to Show Egypt Leaders’ Disdain for Gulf Donors,” *Financial Times*, February 8, 2015, www.ft.com/intl/cms/s/0/fbe57902-af8a-11e4-b42e-00144feab7de.html#axzz3UIQoMjTt.
- 89 Sharif Abdel Kouddous, “Egypt’s 1984,” Carnegie Endowment for International Peace, October 30, 2014, <http://carnegieendowment.org/sada/2014/10/28/egypts-1984/hsy2>.
- 90 Zeinab Abul-Magd, “U.S. Military Aid to Egypt Lost Value,” *Jadaliyya*, July 25, 2013, www.jadaliyya.com/pages/index/13186/us-military-aid-to-egypt-lost-value.
- 91 Cora Currier, “In Big Win for Defense Industry, Obama Rolls Back Limits on Arms Exports,” *ProPublica*, October 14, 2013, www.propublica.org/article/in-big-win-for-defense-industry-obama-rolls-back-limits-on-arms-export.
- 92 Steven Cook, “How to Get Egypt’s Generals Back on Our Side,” *Foreign Policy*, January 5, 2015, <http://foreignpolicy.com/2015/01/05/how-to-get-egypts-generals-back-on-our-side-sisi-military-us-foreign-policy>.

Carnegie Middle East Center

The **Carnegie Middle East Center** is an independent policy research institute based in Beirut, Lebanon, and part of the Carnegie Endowment for International Peace. The center provides in-depth analysis of the political, socioeconomic, and security issues facing the Middle East and North Africa. It draws its scholarship from a pool of top regional experts, working in collaboration with Carnegie's other research centers in Beijing, Brussels, Moscow, and Washington. The center aims to impact policymakers and major stakeholders by offering fresh insight and ideas that cultivate a deeper understanding of the region and by developing new approaches to the challenges of countries in transition.

The **Carnegie Endowment for International Peace** is a unique global network of policy research centers in Russia, China, Europe, the Middle East, and the United States. Our mission, dating back more than a century, is to advance the cause of peace through analysis and development of fresh policy ideas and direct engagement and collaboration with decisionmakers in government, business, and civil society. Working together, our centers bring the inestimable benefit of multiple national viewpoints to bilateral, regional, and global issues.

BEIJING

BEIRUT

BRUSSELS

MOSCOW

WASHINGTON

THE GLOBAL THINK TANK



CARNEGIE
MIDDLE EAST CENTER

Carnegie-MEC.org