EGYPT IN TRANSITION: THE CURRENT ECONOMIC SITUATION AND THE ROLE OF INTERNATIONAL ASSISTANCE

FRIDAY, JUNE 22, 2011
9:15 A.M. ET
WASHINGTON, D.C.

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Transcript by Federal News Service
Washington, D.C.
JEFFREY GEDMIN: Good morning to everybody. My name is Jeff Gedmin; I’m president and CEO of a London-based group called the Legatum Institute. And it’s my pleasure to welcome you. I see a number of familiar faces and lots of expertise. The audience is loaded with expertise today and we’re eager to hear from you in the discussion round.

Let me – before I introduce our discussants, the panel, I’ll say a word about the purpose and the project at hand. The Legatum Institute, together with Carnegie Endowment and also in association with the Atlantic Council, took a team of economists and experts – for want of a better expression, experts on international transitions – to Egypt recently, early summer. And as many people are doing these days – including, I’m sure, in this room – we took a week and we listened and we learned. And we spent time with everybody that we could access from right to left and religious and nonreligious, in media, politicians, business leaders and so forth.

And we walked away with an assessment. It’s a kind of collection of data and our view on one particular slice of the Egyptian transition. And that is the economic challenges that the country faces right now and the more general question: How can the international community and the United States assist? And how can it avoid doing harm?

I think everybody on this panel agrees that Arab Spring is a remarkable moment. And I think it’s a – it’s one of those inconvenient facts of life, but something very important has happened and is happening at a moment when the United States and many of its allies are quite preoccupied: preoccupied at home and preoccupied abroad.

I think it’s further complicated – this, I believe, great historic moment – because – the fall of the Berlin Wall was somehow different for maybe a variety of historical and cultural reasons, but I remember, when the Berlin Wall came down in November 1989, picking up The Washington Post and reading a story of a schoolteacher who, somewhere in the Midwest, got the news and just started crying. And it was just a visceral attachment that many Americans and Europeans had to the end of communist Europe, the dissolution of communism.

I’d like to suggest at the top of the program that what’s happening in the Middle East is as important and as profound as an opportunity – that what happens next will take a very long time to play itself out, and it will have many surprises and many detours. And nevertheless, those of us who think about policy and think about these countries want to analyze a little bit and drill deep a little bit and figure out what it is we can understand right now and how we can puzzle through how to assist intelligently.

So the Legatum Institute and the Carnegie Endowment, in association with the Atlantic Council, has produced this report. It’s titled Egypt’s Democratic Transition: Five Important Myths about the Economy.
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and Mara Revkin, who works with Michele at the Atlantic Council now, who is our Arabic-speaking ace and researcher who has spent a lot of time in the region.

And now, to the panel itself. I’m going to start with – I’ll introduce each as they speak, if you don’t mind. And I’m going to start with Uri Dadush who is a member of the team, who leads the international economics program here at Carnegie and is a co-author of the report, and ask you, Uri, to kind of scene-set for us about Egypt, the transition and the report, and enunciate what you think the key points or key findings are. Uri.

URI DADUSH: Yes, thank you very much, Jeff. And thank you very much, Michele and Jeff, for having had the idea for this initiative and having spearheaded the whole effort. I do want to say on a personal note that I’ve conducted a number of missions over the years in developing countries. And the mission we did in Egypt was really one of the most – one of the best – the best organized, the highest level of discussion that I can remember in many instances. And that says a lot about your organizational capacities and your – and your contacts.

The – I’m going to make four main points, observations about the Egyptian economy, and at each of points, do a policy conclusion.

So the first point is that the underlying long-term dynamics, long-term dynamics of the Egyptian economy are strong. And when you have a revolution, people say, everything that went before was terrible. Well, that’s not what I see in the data of the Egyptian economy and the meetings that we had. Before the revolution, Egypt was a rapidly-growing, quite diversified economy. It did remarkably well during the financial crisis of 2009. Although there’s a general perception about inequality and the fact that the winners were very few, that is not borne out by the official data that is there. And it is not borne out by household surveys conducted by the World Bank and by various other surveys that have been done. Those surveys show that income inequality in Egypt is actually reasonable by international standards, it is actually – Egypt is more equal according to those numbers than the United States is, for example – which is not saying a lot, by the way, but the – and also, that the income inequality in Egypt did not deteriorate in the course of the last several years of rapid growth; it may actually have become a little more equal, which suggests that the fruits of economic growth were fairly widely distributed. The gap between lagging and leading regions was narrowing, according to the available – the available data.

Now, this is not to say that there aren’t a lot of issues in Egypt, of course. Egypt has a high public debt by the standards of developing countries, and it has mainly remained sustainable because of the relatively high rate of growth and relatively high rate of inflation in the economy and a large degree of financial repression that has kept interest rates low. And of course, there are a lot of poor people in Egypt. Unemployment, particularly youth unemployment is very high. And the business climate is weak and there is high corruption. But I just want to stress that there is nothing new in this – in these overall observations. And this has been true of Egypt for a very, very, very long time.

The main point here is to underscore the message often given by Marwan Muasher, our vice president for the Middle East region, who is not here today. And that is that the roots of the Arab Spring are not primarily economic; they’re primarily political and they are about voice.

The main policy implication of this observation is that the Egyptian economy is fundamentally sound and had been moving in the right direction. So therefore, if you can take it back onto an even keel, the economy – meaning, you
can restore confidence and not damage the progress made on market reforms over the last several years – this is an economy that can continue to grow rapidly and share the fruits of growth among a large part of the population. So that’s the first point.

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The second point is that the main need of Egypt now is not a large dose of short-term money. And to – we kind of reached that conclusion before we left Cairo and before we learned – which was several days later – that Egypt turned down IMF and World Bank money.

And one thing I’ve learned over many years in development is that when a country is desperate, it does not kick out the IMF and World Bank, especially programs that had very little conditions and were coming at reasonable interest rates. And this is really consistent with the first point that I made, that this is an economy in reasonably good shape in a long-term sense.

However, obviously, with the revolution and the tremendous disruption that occurred, this is an economy that, in the short term, is under pressure because of no growth in investment, the collapse of tourism, which accounts for over 10 percent of GDP, and capital outflow, capital flight. So the growth rate of Egypt is projected to be about one percent this year, which is a huge diselevation from the 4 ½, 5 percent of last year. But there’s really nothing surprising to me in this, given the enormity of the change and the way that the change was effected.

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But now, some semblance of security and stability has returned; there are strong signs that the economy is beginning to stabilize – to stabilize again.

The budget shortfall that existed and the financing gap that exists is, to a large extent, due to the fact that – the worsening of the budget gap – due to the fact that in the initial budget, which has now been revised downwards, expenditure was intended to increase at 25 percent, which, of course, is a huge rate, even accounting for the fact that Egypt is projected to have a high inflation rate this year, somewhere in the vicinity of 15 percent. But it really is no surprise that, in a budget that was initially scheduled to rise by at least 10 percent in real terms, once people put their mind to it – the Council of the Armed Forces put their mind to it, obviously – they were able to find significant savings. And furthermore, some significant amount of money is coming from other countries. It’s not entirely transparent who is giving what and how, but the combination of budget – the reduction in the increase in spending – and international financing has made it possible for Egypt, at least for the time being, to say, no, thank you, to the IMF and to the World Bank.

And one of the reasons we say they don’t need all that additional money is that, frankly, the money that they have had has not been spent particularly well. They have added half a million workers, turned them from temporary workers to permanent workers. That’s going to have big repercussions for the budget going forward. And they also have enacted a high – big hike in the minimum wage as it applies to the public sector, but this will have repercussions for the private sector.

So the bottom line, from a policy perspective, is that while more money can maybe create a cushion for the transition, that may or may not be needed. Just pumping in more money in the short-term without conditions may actually be counterproductive for the long-term stability of Egypt, especially given the high debt levels that I have mentioned.
The third point, I’ll touch on just briefly because Michele and Marina are much better equipped than I am to talk about the politics. But you can’t talk about the economy without saying something about the politics.

My impression – this is my point three – is that the very conflicting signals coming out on economic policy from – and the back and forth – should not – it should not be overplayed. It should – not too much should be read into it because this is an interim government which entirely lacks the legitimacy to undertake long-term reform or, indeed, to express a long-term vision for the economy. And understandably, given the fact that we are now just about to have elections in Egypt – we’re about to establish a new constitution, all right, so it’s not just that players are going to change, but the rules of the game are going to change in a way that is as yet undefined. So very understandably, the interim government is cautious. And very understandably, people are very concerned about public opinion. And that’s how you should read several of the populist measures that have been taken.

So it’s difficult to – it’s to – it’s difficult at this point to assess the political risks that will attach to the sustainability of market reforms over the coming years.

But my main policy message here is, to the doubters, have faith. Have faith that over time, a democratic government of Egypt will go in the direction of market reforms. And I say “have faith” in part because, frankly, this is the way the world is going and has gone after many ups and downs all around the world. The trend is unmistakable.

But furthermore, to be specific about Egypt – again, this revolution was not about market reforms. It was a political revolution; it was not a revolution against market reforms. The Muslim Brotherhood that I know Michele will talk about, for example, knows it cannot challenge the status quo without incurring a huge political risk. And the army has a significant economic role and it concerned about its position, but also has a very high stake in the outcome.

And people understand that if there is a wholesale retraction from market reforms then investment will not come back and then they are going to be inheriting the big unemployment problem and what to do about it. So that’s my main point here, is it’s very difficult to read the tea leaves on this issue, but you should have faith. I think there is quite a high probability that in the end they’re going to come out and continue on the path of market reforms, although they may not do so at the same speed as the previous government.

The fourth and last point I want to make is that the international community needs to work on a longer-term, more comprehensive approach to the Arab Spring. So here it’s all very well for the G-8 to get together and, as is quite customary in these international summits, to announce $20 billion – big, you know, dramatic headline figure.

But then when you dig here are the problems. Number one, of course, this money is predominantly – very, very predominantly loans or possibly equity injections. There is very little by way of grants – not surprising, in a way, because Egypt is a middle-income country; it is way above the threshold of income where countries attract non-concessional aid – aid in general. And while the $20 billion shows support and is a dramatic manifestation of support, it is of course undefined. It is uncoordinated. It is piecemeal. And there is no overriding strategy. So that’s one of the things that has to be corrected.
Now let me stress that Egypt’s transition will – and the economy – will succeed or fail essentially on its own efforts, not on foreign money or foreign assistance. That is the key. So the international community already now, while being aware of the fact that the interim government is not going to undertake long-term reform commitments, nor should it in keeping with the principle of a democratic transition towards a legitimate government, the international community needs to know that it’s not going to happen immediately. As Jeff said, this is act one, scene one of a five-act play.

However, the international community can begin to think about a more comprehensive approach to Egypt. And here the key is, of course, the success of the Egyptian private sector and the connection between the European private – between the Egyptian private sector and world markets. And that is why the comprehensive initiative that I’m talking about will have to be a concerted trade initiative, a concerted private investment initiative.

And without going into details, partly for lack of time, at this point I point you to the experience of the accession countries in Eastern Europe and the way that they were brought into the fold, the money that was spent on them, the way it was spent on them over a period of many years with very clear conditions about what the reforms that they had to do were, while at the same time providing them with big access to international markets.

And here, of course, not only the European Union has a role, but so does the United States, and so do many other countries that have an – vital interest in the success of this economic transition. And I’m referring, of course, to the gulf countries. And I’m referring, of course, to China and India, which are not often mentioned in this context. But they are also large oil importers that want this to succeed.

Thank you.

MR. GEDMIN: Uri, thank you. We will go on to the other colleagues, but let me – I’m tempted to ask a lot – I’ll just ask one question. You talked a little bit about the interplay between economics and politics. And you said, Uri, that this revolution was principally about politics. Or you said it was principally not about economics.

Now – this underscores that but I’d just like you to comment on it. We at the Legatum Institute publish a study called the prosperity index. And it’s a kind of broad look at well-being in hundred countries around the world, but not just economics. I went back to see what we published last year on Egypt, a year before the Arab Spring. And lo and behold it jumps off the page in short hand: economy improving, public dissatisfaction on the rise. OK? Say a word about that.

MR. DADUSH: Look, I mean, it’s about human nature. That’s the way I look at it. You can – human nature is, first of all, not just about the rate of change, it’s about the situation, the level that people are observing, OK? So it’s all very well to say, you know, the economy is growing very rapidly, but if you are an unemployed youth, and particularly if you’re a middle-class, educated unemployed youth, you are going to be very unhappy. So that’s one answer.

And but the second answer, which is even more fundamental, is there is a point where people say: I want voice. I want to be represented. I don’t want to be told what to do. I don’t want to walk around in fear for expressing my opinion. And when is that point reached? Well, that’s of course very, very difficult to say.
But clearly, and this – we have discussed at some length and I’m sure that Michele and Marina will pick it up – but clearly there was a phenomenon here of a combination of advancing – (chuckles) – a middle class – advancing middle class because they were growing quite rapidly. There is a combination of that, there is a combination of higher expectations, more educated people, technology and ability to communicate, communications with the world and understanding how the rest of the world works. And at some point we reach the breaking point, not – despite the economic improvement that was happening – perhaps even because of the economic improvement that was happening. Thank you.

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MR. GEDMIN: Uri, thank you. Now we’re going to turn to my right to Michele Dunne, quite recently of the Carnegie Endowment, now leading an important center at the Atlantic Council and co-chairman of the group. Michele.

MICHELE DUNNE: Thank you, Jeff. And thank you, Jeff, for your being sort of the driving force behind this project, and Uri for being the economic brains behind the project.

I’m going to speak a little bit about the political context, although I want to start by saying a word about this issue of economic versus political grievances and the Egyptian uprising. From my point of view, I do think that this dissatisfaction with corruption and cronyism and the sense that – the sense that economic benefits were not fairly shared was a significant factor behind this uprising – certainly not the only one. And I know that it’s very typical when countries – when countries carry out macroeconomic reforms the way Egypt did, for them to be accompanied by a certain degree of corruption and cronyism and for the benefits to trickle down slowly.

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From my point of view in Egypt – I agree with Uri that the benefits were trickling down; the data show that the benefits were trickling down, but very slowly. And from my view they – the Egyptian government ran out of time with this, and it’s partly because of then we turn to the political side: the human rights abuses, the political corruption, the fact that there was a very, you know, unresolved succession – leadership succession scenario and so forth. So I guess I see it really as a combination between the two.

So there – in the current period as well, there’s a close relationship between the political and economic situations during the transition. One thing that struck me during the trip that we all took in June was that when we sat down and talked with politicians and people from civil society and political movements and so forth they would, you know, express a worry that the economic situation might get bad, and that might undermine the political transition at some point – undermine political support, as we know often happens in political and democratic transitions around the world.

On the other hand, when you sat down with economists and business people, they would say, well, we just can’t get this economy back on its feet if they don’t get that political thing moving, right? There has to be a political process underway, meaning we have to move to parliamentary and presidential elections. So I found people in Egypt – people who were primarily concerned with politics and people primarily concerned with the economy sort of pointing fingers at each other as to who was the bigger problem.

So there is a situation now in which it is very difficult to make economic decisions. And Uri indicated this. Whether we are talking about ministers, bureaucrats and investors, everyone, you know, has their own set of fears. I’ll return to the ministers in minute, because obviously that’s been a big story over the last week or two, but even
Investors obviously are afraid to – afraid to, you know, put their money down. Business people feel there’s a witch hunt going on with prosecutions of a lot of business people who had ties to the old regime. Bureaucrats are afraid to sign any piece of paper for fear of being implicated themselves in future prosecutions, so afraid to sign – you know, whether it’s simply things like building permits and so forth. A lot of this is not happening.

And ministers – now, we’ve seen this change in the Egyptian cabinet and they’re – it’s absolutely couldn’t be clearer why ministers working on everything, but including economic issues, would be afraid to take any kind of bold decisions. There is also a very strong public sentiment against business people. One of the things that happened in the most recent cabinet change – cabinet change and re-change – was that the person who was initially proposed to be the minister of industry and trade, Ahmed Fekri, a business man, ended up having to be dropped just because he was a business man. So there’s very – there’s strong – there’s public sentiment and there’s certainly sentiment in – among sort of the revolutionaries, the protesters who have returned to Tahrir and elsewhere, against the business community.

There is now a cabinet in place, and they – the economic ministers are a real mix here. The minister of finance, Hazem Beblawi, is a very well-known economist and a well-known, basically liberal, pro-free-market type of economist. But there are others. Mahmoud Eisa, the new minister of industry and trade is more of a – more of a bureaucrat, somebody more with a government background. Gouda Abdel Khalek has stayed as the minister of social solidarity – very much a leftist and pro state control. And Faiza Abu Naga, the minister of planning and international cooperation, has also remained in this cabinet. And again, someone associated with – frankly, with the Mubarak – with the Mubarak regime and with strong state control. So we don’t have here, even in the new cabinet, a group of ministers working on economic affairs who share some kind of an economic philosophy.

Now, as we look at the political transition, there were also decisions issued over the last couple of days that indicate where the political transition is going. So the Supreme Council of the Armed Forces has now issued revisions to a couple of laws effecting the elections. And we – the electoral process now is due to begin in mid-September – September 18th – meaning elections will probably be held sometime between mid-October and the end of November. And this is going to be a lengthy process because elections will be held in three rounds with a couple of weeks in between each round. (Chuckles.) So we’re talking about something like a six-week process of elections for the parliament.

There will be elections for both the People’s Assembly and the upper house – the Shura Council, and a lot of seats. We’re going to see over 500 seats in the People’s Assembly and about 300 out of the 390 seats in the Shura Council to be elected at this time. The electoral system for the People’s Assembly will be half proportional representation and about half by individual districts. And they’ve established a pretty low threshold for parties to enter via proportional representation. In other words, they don’t have to win that many votes to get in; I think it’s about – it’s about half a percent of the overall vote. That’s still significant; it means the tiniest parties won’t get in.

But – and we’ve also seen this decision to – that they – that the SCAF has said that they will not invite international monitors. And this is an expression – one of several expressions we’ve seen of sort of anti-foreign sentiment. And this is very interesting. A lot of this, frankly, seems to be coming from the military leadership itself with support from some in the government and with some support from political forces and protesters in Tahrir. But we have
not seen major protests in Tahrir with people holding up placards saying “no” to international observers. It’s — anyway, it’s very complex where these sort of various expressions of anti-foreign sentiment are coming from, whether it’s refusing international observers or whether it’s refusing world bank and IMF loans.

So what we’re looking at — we’re going to have very complicated large-scale elections in Egypt with a very complicated electoral system, a very complicated system of judicial supervision of elections which is unique to Egypt. And it looks that it’s likely to produce a very fragmented parliament. It’s unclear to what extent political parties, and of course there are many of them now being formed in Egypt, will unify under joint lists in the elections or in voting blocs within the parliament afterwards. There will be some, there definitely will be some. But it’s not clear to me at this point that there would only be several large voting blocs. I think there will be more — there will be more fragmentation than that.

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There’s also — in this electoral system, they’ve retained the idea that half of the individual district seats have to have be workers and farmers. Most of the political parties and movements oppose this, with the exception of the leftists, because it’s seen as a way to allow some of the traditional large — traditional large families and so forth and former supporters of the former ruling party, the National Democratic Party, to get back into the parliament.

The SCAF has issued these electoral regulations; I would say it’s not clear that this is completely over yet. There already are some of the civil society and political groups ginning up opposition to some aspects of the electoral law. The protesters are out there in significant numbers in Tahrir and elsewhere, and we will see whether some of the aspects of what has been announced about the elections will be challenged and whether the SCAF will have to make revisions. I think that’s still a possibility.

Now, briefly, what does all this mean for the economy? I think what this says is that, first of all, there’s going to be a transitional government in place. I don’t know if it will be this cabinet because we’ve seen a lot of — we’ve seen a number of cabinets come and go. But there will be a transitional cabinet in place for at least another six months and probably longer than that because under the current system, of course, the cabinet doesn’t arise out of the parliament, the cabinet is appointed by the president.

So we’ll have these parliamentary elections in the fall; they will start then a constituent assembly, selected — start the writing of a new constitution. It’s not entirely clear how soon after that presidential – a presidential election will take place and a new cabinet will be appointed. As Uri mentioned there could be significant change to the political system in the new constitution that could — that could change how the cabinet gets appointed and so forth.

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So — and there’s going to be, after the elections I think — the parliamentary elections, the focus is going to turn to the constitution and the process by which a new constitution will be written and approved. So what all of this means is you’re not going to have an Egyptian cabinet – president and cabinet in place that is going to be able to make coherent economic decisions for some time now — I would say six months at the bare minimum, and I would bet that it’s longer than that — is nine to 12 months or so.

Meanwhile, the military stake in the economy, which as I’m sure you’re aware is quite significant, remains off the table for discussion for the foreseeable future. I’m sure you’re aware there’s been conversations about whether the military will get some sort of special role in the new constitution and whether that role would mean that there won’t
be civilian oversight of the military and the military budget, and therefore what it’s earning from the economy, and so forth. So that’s a very large topic related to the economy that is off the table for now.

Also, in terms of the political scene, I would say there is not much progress so far among political forces and so forth in Egypt about what they want from the economy – as well as the political system. But I’m setting that aside for the moment. What do they want from the economy? When we were there, every political party and group that we met with said virtually the same thing: We want a market economy but with social justice. Right? People certainly associate the way that the Mubarak government ran the old economy with corruption, cronyism, lack of fairness and so forth. And there is a bit of an impetus toward more state control.

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But they’re still an awareness that Egypt needs to generate hundreds of thousands of jobs every year to keep up with the growing labor force, and that both domestic investment and foreign direct investment are absolutely critical to generating those jobs, and therefore that it will have to be a market economy, it will have to be open to the outside world in some significant degree. But I would say that the political forces so far are not making a lot of progress into translating that general slogan of market economy with social justice into specific programs.

Frankly, the one that’s done the most so far is the – is the party established by the Muslim Brotherhood. The Freedom and Justice Party has taken a stab at this and they have more economic information, you know, or information about their economic program available. That’s not to say it’s a well-developed economic program but they’re trying. So we may see some of the other – the other political forces beginning to follow suit.

And I – just a final word. I agree absolutely with you, Uri, that the United States and Europe need to engage with Egyptians about these issues; encourage them to be thinking seriously about the economy amidst this very – all this political turmoil, which is very difficult to do; be thinking about the nature of their – what their economic needs are going to be and what that’s going to mean about their relationship with the outside world about attracting investment; and about – especially trade relationships, I agree, in the longer run will be extremely important.

That doesn’t – I don’t think Egypt is ready today to negotiate a free-trade agreement with the United States or a greatly enhanced trade relationship with Europe. But I think we should be encouraging them to begin thinking along these lines. It’ll probably be a year or two, perhaps even more, before they’re in the place to make those kind of decisions.

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MR. GEDMIN: Michele, thank you. I want to ask you one quick question before we go on. And it’s about the election observers, an issue that came out in the news this week. What is – here’s my view. The elections may be flawed but probably will not be failed – that international observers probably would have given Egypt the benefit of the doubt in this moment of transition. What was the calculation? Was this nationalism, xenophobia? Were there other calculations? Because Egypt certainly loses more than it wins by this decision.

MS. DUNNE: Yeah, I agree with you on that, Jeff. First of all, I’d – this might not be entirely over. There definitely are people inside of Egypt who are starting to speak up already about saying, you know, this is a mistake, we should have international monitors or international observers. And of course, this is not about any kind of international forces running the election. It’s also not about international observers replacing domestic monitors, which would be much larger, much more important and will definitely be there.
But – look, I – it’s – it does seem to me that it would be a tremendous missed opportunity for Egypt to hold, you know, the first elections that it is going to say are free and fair and open and transparent elections and yet to exclude international observers. This has become the norm around the world. And even, frankly, in the Middle East – in Arab countries who want to say they’re holding free elections – you know, Jordan, Palestine, Yemen, et cetera, Iraq, they are inviting international observers. So why Egypt should exclude them at this point, frankly, you know, it’s hard to understand. And I’m not sure whether it will – it will stand.

And it’s possible that it could be defined in such a way – observers rather than monitors, whatever it is – so that it will take place after all. So I’m not sure that’s over yet.

MR. GEDMIN: Thank you.

Marina Ottaway of the Carnegie Middle East Program thinks a lot and writes a lot about these issues. And, Marina, you’re invited to add anything you wish to add, but also warmly invited to critique the report and to respond to Michele and Uri. Please.

MARINA OTTAWAY: OK, thank you. Let me start out by, you know, reminding what was the issue they brought into the introduction to the report. That is, what is – you know, which is essentially that of the importance of economic measures in securing this transition, essentially, and also the fact that it’s very important for the transition to be successful in Egypt because of the influence that Egypt has in the region and so on. I have some – I have some questions about both issues.

One is that of the influence in the region; I think that is the easiest to answer because in a sense the days when Egypt was the, you know, really had a tremendous influence in the region are long gone. And whether or not Egypt is going to reassert that position is very much open to question. The Saudis are very determined not to let Egypt reacquire that position, for one thing. And furthermore I would argue that all these transitions have their own internal dynamics.

I am not assured that success in Egypt in the end is going to do anything about improving or decreasing the possibilities of successful transition in Tunisia, which I think has a lot more to do with the relation between the religious and secular elements than on anything that happens in Egypt. So I would just urge a word of caution here that I don’t think we should jump to conclusions. And particularly it does not – therefore it should not be taken to mean that Western countries should put a lot more effort in Egypt than anywhere else because this is not really going to make the difference.

The second issue is that of what influence is the economic policy, economic measure, the state of the economy, going to have on the transition in the short term? And I would argue that in the short term probably it’s really politics first. And I would argue that anything that happens in the economy in the short terms is largely irrelevant to whether the transition succeeds or fails or what is the direction of the transition. There is going to be transition one way or another.

We are not going to go back to kind of this – the situation that existed by the Mubarak regime. The question is what is – what’s the next step and so on. And I don’t think the economy’s going to – the economic policy, economic measure, the state of the economy are going to have much of an impact in the short run. In the long run
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it may be very important. Let me try to – sort of to develop a little more this idea of the short run versus the long run.

There is a study that I think it’s worthwhile keeping in mind by Adam Jaworski (ph) of Princeton that shows over a – and this is study that it’s now several years old. It has nothing to do with the Arab transitions, essentially. But it’s looking at democratic transition in general and the relationship between the democratic transitions. And he uses this measurement, per capita income, as a broad measure of the economic conditions in the country. And his conclusion, which I think it’s very convincing in terms of the data – I don’t think he has an explanation for why it is this way, but it’s very convincing in terms of the data – shows that the economy has no impact on whether or not a transition takes place. The economy has a huge influence on whether or not the economic transition lasts.

In other words, people are going to – a country can attain democratic transition no matter what the economy situation is. The data is pretty strong that the ones that succeed are the ones where the economic conditions are better. The ones that last, where 10 years later that you still have a democratic system in place, the economy becomes all important. And I think this is something that’s worth keeping in mind.

Now, why am I stating that what the economic measures are not going to have an impact in the short run? And I would argue that the only economic measures that – and here you have to distinguish between the economy on one side – and I know for an economist it’s probably an aberration – but it’s an economy that Uri showed that has pretty strong features, essentially, and people’s lives, which are – and people experience their lives and not the microeconomic indicators, essentially.

And the only measures – economic measures that make a difference in people’s lives and therefore might affect their – the way they vote or that might affect their – the position that they take the politics of the transition are exactly those measures that we dearly hope that the government will not – will not implement because they would be populist measures that put money in people’s pockets now. If you think what might help and influence on how people vote on the choices that people make are the issues like increasing subsidies, creating more public sector jobs – in other words, measures that are going to have an immediate impact – essentially, impact that can translate into money in people’s pockets.

And as I said, I think there have already been some measures of that sort. And I totally agree that to be disastrous if the government continues along those lines. The kind of measures that the report talks about, that Uri was talking about, are measures that are going to work in the long run, that are working over a period of years. And here I’m – you know more than I do about that. What is that – what is time horizon? But economic measures are not short-term tools for political – for political – to create political results.

This has been something that has plagued U.S. foreign policy for many, many years. From the Alliance for Progress in Latin America, well, it’s really nice to implement – you know, I think real economic reforms starts paying off, I don’t know, five years, 10 years? I mean in terms of when it really starts trickling down in people’s lives. The transitions are taking place now. They are going to – the elections are going to be in the next – you know, in the next – even in the worst-case scenario it’s going to be less than a year before that process is over.

And I can’t envisage anything that the government can do short of those populist measures that really makes a difference in terms of how people live. And that includes, I think, also what outsiders can do – what Western
countries can do. Starting trade negotiation, although I totally agree with all the measures – with all the things that Uri says – you know, these are things that are going to pay off in the long run.

Now, that’s not an argument for not trying to work towards those measures beginning now because it takes time before they get – before they pay off. But they will not influence – we should have no illusion that we can influence the transition by what – in the – in the next few years by what we are doing it terms of providing aid, not providing aid, pushing the government in a sort of direction.

Let me add one – another issue: that I am not sure at this point – when we say we should encourage governments to take certain steps and so on – I’m not sure who is it that we are going to encourage because the government is pretty much a revolving door now. The cabinet has – you know, a lot of ministers have been changed. I – if I were to bet, I would suspect that there will be more changes in the cabinet before the – you know, before we have presidential election and something less transient being set up – so that essentially it’s very difficult to influence economic policy.

Maybe we can start planting the seeds of thinking in certain directions, but in terms of dealing with a government that is in a position to take decisions, I think it’s going to be very difficult because, very frankly, I think the present government cannot take decisions. It’s not going to be able to do it. As Michele pointed out, the bureaucrat – not only the bureaucrats but the ministers are scared to take decisions because the ax is going to fall on their neck the next time and there is – it’s a very, very kind of – the country is paralyzed right now.

The report refers to this issue of the subsidies which are one of the, you know, the banes of the Egyptian economy. I totally agree that in theory it is possible to target the subsidies much better. There are ways of maintaining a safety net without having these across-the-board subsidies. I lived in Egypt for four years. I used subsidized sugar for four years because there was no other sugar to be bought in the country. It did not make any sense, but there was no other sugar to be bought in the country. Yes, the system just does not – does not make sense. It’s a – (inaudible).

Keep in mind that governments have been – successive Egyptian governments have been trying to address that issue since 1977 when the first food riots took place. And this has proven the death traps for all the governments. And it’s certainly not going to be this government who is going to touch on this issue, particularly in an election period. Frankly, no government in its right mind would touch the issue during an election period – in a time when you already have a mobilized – a mobilized population.

So – now, does that – the question is – first is, what can we do? Because in many ways that is really the – you know, we know ideally what should be done. And I think the report does a very good job of, say, of stating the – of setting forth essentially what should be a plan for economic growth, for putting the economy on the – on an even keel. The question is, is there anything that can be done by Western countries, essentially, in the short run that will make an impact? And on whom would those measures have an impact?

And I would argue two things. One is that whatever measures Western – the U.S. government, European countries take now, are going to have much more of an impact on the relationship between those countries and the new Egyptian government than they’re going to have on Egypt itself in the short run. In other words, I think what the
United States does now – it’s a question of how it positions itself towards the transition in Egypt rather than how it influences the transition.

And there are some disturbing trends here, and I – you know, that I think people in Egypt are noticing. Economic aid – despite the fact that the Egypt turned down the IMF and the World Bank – the IMF money – despite these certainly anti-Western tendencies that are coming out in the form of refusing not only the loans but the presence of election observers and so on, you still get the bad marks for not offering the aid.

In other words, they might not want it, but if you don’t offer it that’s not – that’s not good either. And one of the problems that the United States faces now – and Europe faces now – is that in fact that there is very little aid that’s being offered. And it makes the situation worse in the case of the United States that most of the financial transfers to Egypt go for military aid and not for – and not for economic aid. And that is certainly something that you hear a lot about from Egyptians.

So I think there is – I think it will be very important for the U.S. to reconsider some of the priorities. I know it’s extremely difficult. First of all, I know from a budget point of view, you know, these are different pots of money; it’s not so easy to move from one – from one to another. And also I understand very clearly that from the point of view of the United States the only – the best relations they have with this – you know, in this situation in which we are dealing with a kaleidoscope of people coming and going; the military is the only fixed point. So that it’s not – that relations with the military are very important, but I think it is something that we need to keep in mind that you hear a lot when you talk to Egyptians – and not only to Egyptians, in the entire region, that there is really very little economic aid being offered while military aid continues at the same – at the same levels.

So these are issues that – are they going to make a difference in terms of how the transition is taking place? I would argue, no, they are not going to make a difference. Are they going to make a difference in what is going to be the future relation between the United States and whatever government emerges in Egypt? Probably. And I think this is – and also – that’s number one.

And second, the kind of – assuming that the U.S. and the – and perhaps more so the international financial institutions – can have an impact on the economic thinking of – not just of the government, because this government, it’s not going to be there very long, but all the political parties – of the people who, in the end, will – you know, will control the economy in the future.

I think, to the extent that we can have an impact there, that is certainly important in terms of what’s going to happen four or five years from now, but not what’s going to happen right now. So let me stop there.

MR. GEDMIN: Marina, thank you. You said at the top of your comments – and thank you, very, very interesting and thoughtful observations – you said at the top that you were very skeptical of the thesis that because of its size and cultural importance, if Egypt succeeds, it will have a big effect on other countries, and each has its own narrative and own dynamic. At the same time, is it possible that if Egypt fails and then two or three years from now, we have a new dictatorship there, would that fact conceivably embolden other authoritarian forces and deflate democracy advocates in other countries and have that kind of vibration effect?
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MS. OTTAWAY: I don’t know. I mean, I – will it deflate – you know, part of the problem in answering the question is that we don’t know what is it that motivates people, in the end, to take things in their own hands. I mean, we have not been able to predict what was going to excite our publics into – you know, into the uprisings, essentially. I don’t think we are in a position to say what’s going to deflate any more than we were able to predict that it was going to happen.

But I really think we need to focus a lot on the internal dynamics. I think there has been too much emphasis on the demonstration effect of one country. There is no doubt that there has been some inspiration, but I think people have been quick to draw the comparison with the Eastern Bloc, essentially. And what we have forgotten, very often, is that in the case of the Eastern Bloc countries, there was common factor that helped the transition; that is the fact that Russia stopped – that the Soviet Union, I should say, at the time – stopped supporting these governments. There is no similar under – common underlying factor under the – that ties all the – all the Arab countries together because there was no single element – (inaudible).

[01:02:52]

MR. GEDMIN: Point taken, Marina, thank you.

Let us now – I’m sure that Uri and Michele would love to jump in and respond to what Marina said. But let us open up to you, to the audience. And then may – I think – do we have handheld microphones that are coming? And we’ll take this gentleman right there. Would you identify yourself? And everybody asking questions, if you would please be succinct and we’ll do the same thing up here to get as many people in as possible. Yes, sir.

Q: Thank you. It’s Dana Marshall (sp). And I wanted to ask a question that all three of the – or all four of the panelists there have discussed, but I want to draw you out, try to focus you a little bit more clearly on what I think is a very central issue here. And that’s the question – Michele had mentioned that this trickle-down with the growth that we had – some evidence of that, but obviously, a lot of evidence of very huge income disparities in that country, and that the Muslim Brotherhood has a policy, though it’s not very well-defined, that speaks to that.

It’s one thing to talk about economic reform – I think all of us are for that – but it seems to me that the goal of that country – in fact, any country – ought to be not so much just economic reform for its own sake, but helping to make sure that the benefits of economic growth are more widely spread. Frankly, you could talk about that even in the United States, but focusing just on Egypt, I wanted – the specific question is, what specific policy actions would you recommend to the finance minister and other economic leadership in the country to try to encourage a more equitable distribution of growth when it returns?

MR. GEDMIN: Uri, would you like to tackle that? I also failed to mention you’re well-known at – particularly to this crowd – but you are also CEO of the Economic Intel – Economist Intelligence Unit, you’ve been at the World Bank. And I’m going to allow the others to respond too, but you’re – that’s a perfectly suitable question for you.

[01:04:54]

MR. DADUSH: I struggle a little bit, because I can tell you that the Gini coefficient, which is the internationally accepted measure, most commonly-used measure for – of the income distribution of Egypt – if I remember correctly, is about 0.31 which is actually not a particularly unequal income distribution, a lot less unequal than many developing countries, a lot less unequal than in the United States, United Kingdom, et cetera, et cetera.
Now, maybe that number is fabricated, completely wrong, but these are the numbers that are available, have been available a long time, and now verified to the degree that they can by the World Bank. And the income distribution has not been getting worse, according to these statistics. And regional surveys, as I have mentioned, suggest that there’s been some equalizing tendency. So that’s the data that I have available.

And, you know, there’s enormous amount of discontent. That’s why we have a revolution. Why the discontent is there, well, you know, I guess that’s what these kinds of meetings are about – are about discussing. Clearly, there are a lot of poor people in Egypt. Clearly, there have been poor people for the last 500 years, all right? So I’m making this point because I want to stress the fact that it is at least not empirically verified by the numbers that that is the essential issue that we’re dealing with. I want to stress that point.

That being said, of course, more can be done to help poor people in Egypt. So what are the measures? Some of them are discussed in the report.

The fuel subsidies use up – and I should’ve said more about the fuel subsidies in my presentation – the fuel subsidies use up about 9 percent of GDP. I think it’s 9 percent of GDP, or is it 9 percent of the budget? I can’t remember. It’s a huge number – 9 percent of GDP, yeah, I believe. And it’s a very, very large number.

These fuel subsidies – again, as been documented – aid well-off families. They get twice as much as poor families, OK? So reducing these few subsidies and targeting the support towards poor people would not only have a redistributive effect of significant magnitude; it would also help deal with the very serious budget problem that Egypt has.

More generally, the subsidies – there’s a lot more than fuel subsidies; fuel subsidies, that’s the most important, but the food subsidies are there and there are various other subsidies in the system, that, again, could be reduced according to World Bank analysis while having very, very little impact on poor people.

And providing the wherewithal to provide more internationally accepted types of assistance to poor people, such as conditional cash transfers, which are small – relatively small payments by national standards but important payments to poor people that go on a regular basis, conditional on simple things like making sure that children go to school, so establishing the – and that children health gets checked up every so often – these conditions help establish the possibility that in the long term, you’re going to get poverty reduction in the – in the country. And these are being successfully applied now in Mexico; they have been successfully applied in Brazil, but apparently they have also successfully been applied in Jordan.

And we met with the minister of social justice when we were in Egypt and – so he made the point that they don’t have the capacity to target these subsidies. And I have no doubt that they don’t have the capacity today to identify exactly who the poor people are and to target that. But this has been done repeatedly in many different contexts, including in Arab contexts. And there is no reason why that cannot be done.

Anyway, that’s – sorry if it’s a long answer, but that’s one set of measures.
There are a number of others which are very well-understood. For example, investment in primary education and, particularly primary education and insisting on education for women is in the long term a poverty alleviation measure of great importance.

The investment in the rural areas, particularly infrastructure investment that links the rural areas to markets, are other important investments because the rural areas is where a lot of the poverty is concentrated. A lot of this stuff can be done at relatively small expensive by reallocating expenditure that is wasteful at the moment or making investments that actually have a quite a high social and often private rate of return.

MR. GEDMIN: Uri, thank you. Michele, you wanted to get in on this?

MS. DUNNE: Yeah, just briefly. Uri has discussed sort of the – I think the larger, longer-term measures to reduce poverty and decrease income inequality. I wanted to mention just a couple of shorter-term things, some of which are already being looked at in Egypt. You know, under the old regime people who were – who were close to the regime, who were – you know, for example, members of parliament from the ruling party and so forth – had access to economic advantages that others didn’t have access to. And two of the most important ones were access to credit, you know, on reasonably good terms, and access to special benefits like the use of state land for private development – you know, either grants of state land or purchasing state land at far below market prices, that sort of thing. Those sort – those things are – the state land’s issue is already being looked into.

So just correcting some of those things – for example, you know, the use of state land, you know, doling out state lands for private use – that would correct some of the inequality. The credit problem is also a big one, and that’s something on which there already is some international engagement on how to be able to offer, for example, small- and medium-enterprises much better access to credit.

And the other issue is privatization of state industries. That was hugely controversial in Egypt and definitely was subject to a lot of corruption and favoritism. So there won’t be any privatization of state industries for some time. In fact, there’s discussion of renationalization of some of the privatized industries, which I hope won’t happen. But that certainly privatization is off the table for now. Eventually it will have to be reinvented – this will probably be several years down the road – but they’ll have to reinvent a way to continue the process of privatizing at least some of the state industries in an fairer, more transparent way.

MR. GEDMIN: Thank you. Yes, sir?

Q: Zack Smith, Al-Jazeera, Arabic. I wanted to ask a question focusing more on the political situation right now. As we all know, protesters returned to Tahrir Square on July 8th and they’re still there in large numbers. Yet, at the same time, the Islamist forces in the country, from the Muslim Brotherhood to the Salafis, have condemned these protests and have really refused to take part. The Brotherhood in particular is seen as being kind of partner with the military and the status quo. What do you see – what does the panel see as the tension between the leftist protests right now taking place in Tahrir Square, and the Supreme Council and the Muslim Brothers and other Islamist forces that are now participating? Thanks.

MS. OTTAWAY: Well, let me try to address part of the issue. I think we still don’t understand very well what is the relationship with the SCAF and the Muslim Brotherhood. I mean, there are a lot of rumors about the fact that
they are very close. I’m not sure that that’s the case at all. And certainly, you know, we shouldn’t assume that the military is monolithic. Don’t forget that there have been proposals – suggestions – ideas floated from within the SCAF, from some members of the SCAF, but also from elsewhere in the military to the effect that the constitution should give a special role to the military the way the old Turkish constitution gave to the Turkish military so that it could be – the military could be the defender of democracy, which is a bit of an oxymoron but we’ll gloss over that, in case the Islamists should become too powerful in the country.

So I think it’s a very ambiguous relation and I think we – unfortunately, one of the things that we really do not know about Egypt now – we know very little about the military. The military is paying a very important role and we really don’t know very much about what’s happening – what’s happening within the military. So I do not make that – you know, take that for granted that the – that the SCAF and the Muslim Brotherhood are in alliance.

Concerning the political – why is it that the Muslim Brotherhood and even the Salafi don’t want to move – stood out against the protest is that they have long been in favor of moving towards election as quickly as possible. The Muslim Brotherhood are very – are confident that they are better prepared than any of the other parties, because keep in mind that in the recent elections the Muslim – the Muslim Brotherhood was the only organization, although it was not a party, that got a substantial number of votes. Other – the already existing political parties like the Wafd, the Tagammo, and so on got almost nothing. And the new political parties that have formed since the revolution are totally untested. So the Muslim Brotherhood is better placed to contest elections now rather than later on.

MR. GEDMIN: Mm-hmm. Michele?

[01:16:19]

MS. DUNNE: Yeah, just let me add a couple of words. I agree with Marina that I think it’s not necessarily a clear alignment of the leftist and other – and liberal and other political forces on one side and the Brotherhood with the SCAF on the other side. I think the Brotherhood continues to do what is has always done, which is it makes these tactical alliances, and they’re always temporary, to, you know, cooperate with this group or the other group. You know, they were with Mohammad ElBaradei and his, you know, seven-point proposal for change. You know, they’re – now they’re with the Wafd. At a certain time they seemed to be siding with the SCAF.

I mean, and we’ve seen, as Marina indicated, I think the Brotherhood has expressed unhappiness with this idea of a bill of rights or some sort of pre-constitutional document coming out. You know, it still isn’t finalized, but it’s being worked. And the SCAF seems to be willing to do that as kind of a concession to those who wanted the constitution first. The Brotherhood is not happy with that.

[01:17:31]

They’ve also said they’re not happy with the electoral system that’s been announced, that they would rather see a greater proportional – a greater share of proportional representation in the electoral system. So there’s not complete agreement between the Brotherhood and the military. And they’ve been in and out of these protests. You know, they sort of decide, you know, each episode, you know, whether they’re in or they’re out.

MR. GEDMIN: Michele and Marina, could I ask you a question flowing from that about the Muslim Brotherhood? After this program this morning we’re going over to Capitol Hill and Senator Lieberman is hosting us for a session on the report and a briefing over there. And I imagine that in particular on Capitol Hill we’re going to get a lot of questions about the Muslim Brotherhood. And like the military, they’re not a monolith. And as we learned, Michele, on a couple of our trips – we’ve been twice in the last 60 days – just kind of one factoid that I was not
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aware of, you probably were: that among other things the Muslim Brotherhood in Egypt is the largest operator of hospitals in the entire country, 160-some. So a variety of reasons – this group has tradition and this group has roots and this group is part of the fabric of Egyptian society.

So what I put to you is: If you’re a U.S. policy maker, or you’re the American embassy in Cairo, and you cannot, I would suggest, isolate or ignore – how do you engage? And what is the basis for that conversation? What do you advise the president or the secretary of State or people working the U.S. embassy in Cairo? Maybe Michele first and Marina second.

MS. DUNNE: OK. I would say two things, Jeff. First of all, the U.S. government has decided, and I think correctly, to, you know, to have contacts with the – with the Freedom and Justice party founded by the Muslim Brotherhood, just with – just as with all other political parties, and that it can, you know, speak to people from the party or from the Brotherhood itself. And I don’t think this is about some sort of big dialogue or negotiation of some kind between the United States and the Muslim Brotherhood. I think it should be much lower key.

All the important negotiation is among Egyptians themselves – among, you know, Islamist and other political forces. I don’t think it’s for the United States to get in the middle of that. And at the same time, I don’t see any reason – we’ve never called the Muslim Brotherhood in Egypt a terrorist organization; there’s no reason for American diplomats not to talk to people from the Muslim Brotherhood as they do to others in the political scene.

[01:20:19]

Second of all, regarding U.S. policy and U.S. assistance toward Egypt – and we’ve seen this move on the part of the House to somehow indicate that, you know, there could be a cut-off of U.S. assistance if the Brotherhood was in the – was in the Egyptian government and so forth. I really think the United States should save any decisions about whether or not to aid the Egyptian government and so forth to – should determine those decisions by what the policy of the Egyptian government itself is, and not what various players – whether it’s the Freedom and Justice party or others – are going to say in elections about a variety of topics and what their platforms are and so forth.

And as I said before, at least the way the Egyptian political system is now, you don’t – you’re not going to have a coalition government arising out of the parliament. That’s not the way the political system works. The government will be appointed by the president, who is separately elected. So, you know, it doesn’t – for the president, it doesn’t look likely at all that you’re going to have the Muslim Brotherhood in the government, in the sense of being in the cabinet or in charge of ministries.

[01:21:32]

MR. GEDMIN: OK. Thank you. Marina?

MS. OTTAWAY: I think it’s very – I mean, I was rather appalled the other day by the secretary of State announcement that the United States is going to start talking to the Muslim Brotherhood. We should have been doing it for the last, you know, the – for the last 10 years, if not longer. I mean, it just makes no sense to pretend that one of the political – major political forces in the country – and of course, one of the problems is that we don’t know how important it is because there have not been elections that have – fair enough to measure what the – what the strength of the Muslim Brotherhood should be.

But it seems to me that the policy of not talking to any political actor, you know, which is not a terrorist organization – and then I hope the CIA is talking to them in some form or other – (chuckles) – it’s absurd. So that
I think it’s – at the same time, I also was appalled by the fact that we made a big deal of it. We don’t need – and I totally agree with Michele – we don’t need engagement with the Muslim Brotherhood. We don’t need – we should talk to them.

I would like to think that any, you know, political officer in Egypt who is doing his job at this point talks to all political parties, that tries to understand what all political parties are doing. And as part of that talk they talk to the Muslim Brotherhood. So it’s not a question of engagement. And I think the last thing we should do is this, you know, U.S. to make it part of an opening towards the Muslim world. This is just a political party like the other political parties.

[01:23:14]

MR. GEDMIN: Thank you. Let’s take this gentleman here, and then – no? And then he’s been waiting. Then we’ll come right back to you, and then the back of the room. Now let me tell you, we have 15 minutes. So I’m going to say short questions and shorter answers to get more in. Yes, sir?

Q: Yes. My name is Greg Aftandilian and I’m an independent consultant. My question is for Michele about the issue of educational reform in Egypt, because it seems that one of the problems of youth unemployment is that many of these youth come out of universities with really unmarketable skills at this point. And a lot of people have said that the Egyptian university system has been in a state of decline for several decades now. Have any of the political parties that you’ve talked to talked about this issue or are thinking about this issue of education reform? Thank you.

[01:24:03]

MS. DUNNE: Briefly, Greg, I agree with you. This is a hugely important problem in terms of resolving the employment issue in Egypt. I don’t see a lot of focus on this. I mean, certainly once you sit down and have serious conversations with people, everybody acknowledges this. But it just doesn’t seem to be high on the list of priorities. And it’s one of those things, you know, as Marina indicated about some of the other economic issues, that there’s a long-term payoff, but that it, you know, could involve some difficult decisions in the short term. So, you know, I think that’s going to be another one of these things that’s going to be kicked down the road for at least a year or two before people can really get to it in a serious way.

MR. GEDMIN: Thank you. This gentleman here; there’s a microphone right there.

Q: Thank you.

MR. GEDMIN: Here, and then back there.

Q: My name is – (inaudible) – Hussein (ph). I’m an Egyptian-American living here in Washington, D.C. Uri, you articulated a great presentation and your conclusion was – is to have faith. And I hope you’re right. I’d like to see the other panelists – do you agree that you should have faith in what’s going to happen?

MR. DADUSH: The other panelists. The other panelists.

MS. DUNNE: Marina, do you want to go first this time?
MS. OTTOWAY: OK. I don’t think the – I think it could go either way, very frankly. I am not – I’m not ready to say I see clear indications that Egypt is, you know, marching triumphantly towards democracy. I don’t – but I don’t see any reason to say the transition has completely failed. I think probably – you know, countries usually muddle through. The question is, you know, it’s not going to – we are not going to see disappearance of all the members of the old regimes from power.

I think these elections that – where half the seats are going to be – to be contested in single-member districts is going to play in the hands of a lot of the so-called – the NDP independents – that is, those people who got elected as independent and then gravitated towards the NDP. I think those people will still be in the parliament. So we are certainly not going to see a revolution in the sense of the composition of the parliament and so on. That does not mean that things will not be – you know, cannot be better than they were before. That’s as far as I can go.

MS. DUNNE: (Inaudible) – I mean, I guess I would say have hope in the sense that, you know, I am hopeful about where Egypt is going. But I think it is going to take a while. And the thing is to, you know, have hope about the medium to long term. I think there is – there’s reason for concern in the short term. We’ve raised here, you know, a lot of reasons for concern about the political situation in the short term, but I want to bring out something that’s in the report that we haven’t really brought out here this morning, which is the worry about a possible economic crisis – not right now, but let’s say a year from now.

And this is where, I think, Marina, there is a – there is a possibility for the economy to have a negative impact on the political transition. If the Egyptian government doesn’t tackle the issue of the fuel subsidies, for example, or other ways to get the budget deficit under control, there is still out there the possibility of an economic crisis. They have – they have chosen to do without the financial cushion that they could have had from the World Bank and IMF loans, understanding they didn’t want to take on additional external debt, OK. But they’ve now gone without the cushion they could have had.

There is still the possibility of a bad situation developing. And if you would get into a real economic crisis with capital flight and hyperinflation and so forth, then I think you could see people panicking and withdrawing support from the political transition and calling for a restoration of an authoritarian government or, you know, something like that. That’s the thing to look out for and to, you know, be vigilant about, you know, hoping that and doing, you know, encouraging the Egyptian government to do whatever it can not to allow a disastrous economic situation developing. And I don’t know what Uri thinks. I mean, we certainly didn’t see that as being likely in the short term, but I think we still saw that as a possibility in the medium term, the one- or two-year time frame, that something like that could still happen.

MR. GEDMIN: Michele, thank you. I’m going to add, because you asked a simple question whether we have faith. And you as an Egyptian –

Q: I was going to ask for yes or no.

MR. GEDMIN: (Laughter.) I’m going to add and say, yes. And I’m just going to share with you quickly these observations. First of all, we all know that this is not Eastern Europe, and this is not 1989, and each country has its own dynamic and own narrative, OK? So that’s said.
But I have to tell you, I remember the 1980s traveling in Eastern Europe. I remember vividly in 1987, two years before the Berlin Wall fell, being with friends in East Berlin, and they were East Germans, and they couldn’t leave and I could. And I was leaving, and as I left they looked – you know, literally you could look; it was just there. They looked over there and they said – (in German) – we will never go there. OK? And two years later it was completely new world, OK?

Second thing from Eastern Europe – and, no, Egypt is not East Germany or Poland 1989, but the Legatum Institute just has a new colleague who is director of our political studies named Anne Applebaum who is a Pulitzer Prize-winning historian, and you read her in The Washington Post. Anne just went to Egypt, but not with us; she went with her husband who is the – Radek Sikorski, who is the Polish foreign minister. And she and Radek found that everybody there was interested in Poland. Why? Because they said Poland 20 years ago was poor, underdeveloped. And now you’re becoming president of the European Union in only two decades. I mean, all these problems and all these troubles, but some people had the perspective of, in only two decades you’ve managed to accomplish that?

And the last thing I wanted to say is everyone we met with in Egypt – including people in the hotel, including people in the café, including the cab drivers – that there was a great inspiring sense of, this was a victory for human dignity. How many times did we hear, we took our country back, we own this now, we decide our own fate? Now, that doesn’t mean that there won’t be a multitude of challenges and backtracking, but I think if you have a people like that, that is inspired like that, and has this rich capital, your human capital – I think if you take the long term, how could you be a skeptic?

MR. DADUSH: One –

MR. GEDMIN: Uri?

MR. DADUSH: One quick point, why I have faith. The last 30 years are years of a mass movement towards a market economy around the world. Who is left? North Korea, Cuba – that’s not Egypt.

MR. GEDMIN: This gentleman has waited patiently; thank you, sir.

Q: Thank you, sir. This is Dr. Ruiz (ph); I’m adjunct faculty with Tufts University and I’m an – (inaudible) – consultant in the restorage (ph). I have two points I mean to raise here: first, when the administration waved the flag – I mean, the U.S. administration – that they would suspend, I mean, the economic aid to Egypt in case radicals would get into the new cabinet; at the same time the administration is in touch with Muslim Brotherhood, maybe other people. So what is the definition of radicals in terms of the U.S. Department – (inaudible)? This is one point.

Second, few months ago, maybe almost a year now, something called QIZ has been brought up in the United States, which means for example people in Egypt have to be preselected – I mean companies carefully selected, and then they cannot do business with the United States unless they go through some kind of relationship with partners in Israel. How can you find that today, and how that is working and how that will have an effect or impact on the expected improvement in the economics of Egypt? Thank you.
MR. GEDMIN: Thank you, sir. Marina, would you going to tackle that second?

[01:33:19]

MS. OTTAWAY: On the second one – on the qualified economic zones – it’s not that only companies that do business with Israel can do business with the United States. There is a regulation that says that products that have the component of a certain percent – and I cannot remember what it is – of Israeli made – you know, a certain percentage of Israeli-made components –

MR. GEDMIN (?): Ten percent.

MS. OTTAWAY: – can be exported to the United States duty-free.

MS. DUNNE: Duty-free. Right.

MS. OTTAWAY: That is – but that does mean then that target businesses cannot export to the United States. That only applies to the solicitation of the duty regulations. So your facts are not quite correct on that one.

[01:34:05]

MS. DUNNE: On the issue of the definition of radicals – so this move to suspend aid – this is from the House of Representatives, you know, it’s not the – it’s not the U.S. administration, it’s not the Senate either. So I think it probably doesn’t have much life, it’s just a signal from – basically from the House Foreign Affairs, you know, Committee of concern about the Muslim Brotherhood or something like that. But it does not reflect – there’s no overall U.S. policy decision to cut off assistance to Egypt should there be Muslim Brothers in the government, which as I said is an unlikely scenario in any case. But I don’t think that’s – you know, I don’t think that either the administration or the Senate sees it that way.

MR. GEDMIN: We are running out of time and I’ve see – I see two hands in the last row. We’ll get you both in and then we’re going to conclude. Grab a microphone.

Q: Danielle Uver (ph) from the Project on Middle East Democracy. And my question was – I guess, for Michele and Marina or whoever – was that in light of the recent SCAF decision not to have international monitors in the elections, I know it’s, like, sparked some criticism that the March referendum, you know, wasn’t as transparent as it could have been, especially since, you know, protesters have insisted, especially earlier, that the constitution must come first. So I was wondering what the implications of that really could be for the next election and that what the U.S. can do to ensure in negotiations or encouraging either international monitors or a way to make sure that the next parliamentary and presidential elections are transparent.

MS. DUNNE: Do you want me to –

MR. GEDMIN: Please, Michele?

MS. DUNNE: OK – OK. So one thing is – you know, another thing to be concerned about in the short term in Egypt is how well the parliamentary elections will be run. I mentioned that this is going to be – these are enormous elections. The number of seats to be elected, very complicated system, it’s going to play out over weeks. It’s a very, very complicated scenario. And I do think there’s a real issue in terms of the electoral commission in Egypt that will run these elections being prepared to do it.
Let’s set aside the whole issue of fraud or election rigging or anything like that. Just merely administering the elections in a way that is effective enough so that at the end of the day everyone accepts the results as being credible, and especially the people who lose the elections accept the results, you know, because of the transparency of the process – that is really in doubt. I mean, it’s something that I’m very concerned about just because it’s a very short time. I mean, thank goodness they did postpone them a little bit, but it’s not a long postponement. So that’s something to be concerned about.

Now, in terms of international observers, you know, I’ve already made the case that I think it would be a tremendous mistake for Egypt to go forward without them and to set that precedent in their first, you know, free elections of not having international observers. In the end, I think it’s going to depend on whether forces inside of Egypt – Egyptian civil society, the political parties, the political movements, the youth movements, et cetera – if they strongly call for inviting international observers, then I think, you know, the United States, the Europeans and others can support that call.

I think that if they don’t then it’s going to be – it’s going to be very difficult for – if there isn’t much of a call for it inside of Egypt I think it’s going to be difficult for the United States to somehow insist on this. So we’ll have to see. As I said, I think over the next few days we’ll see – we’ll see some – you know, I’m expecting some level of mobilization – I don’t know how big it will be – but I know some of the groups in Egypt are mobilizing to express unhappiness with a number of aspects of the electoral arrangement, including the exclusion of international observers.

MS. OTTOWAY: Yeah, just very briefly, I have a slightly different take on this. I think we exaggerated the importance of international observers. I don’t think the presence of international observers makes a difference between a good election and a bad election, very frankly. What the presence of international observers does is allow us to speak with some – I think it reassures the West much more than the people in the country itself. It’s – the really important thing is how well the elections are organized. And that is what is going to determine whether Egyptians believe in the results of the elections rather than the presence of international observers.

And what I worry about is that an election that stretches over one month can – (inaudible) – lead to the situation that we saw in previous elections, particularly in 2005 where the results of the first round of election becomes known before the election – the other elections take place and then all sort of hanky-panky starts taking place as a result. That’s what I think the main concern is, not the presence or absence of international observers.

MR GEDMIN: Thank you. Final question. Yes, please?

Q: My name is Rohilda Maliki (ph), I’m a student in Georgetown-Qatar and currently an intern at the National Council on U.S.-Arab Relations. I have two quick questions, one of them you’ve sort of addressed so I believe the answer will be short. In terms of the international observers during the elections, when you have gulf countries such as Qatar and Saudi Arabia promising to not only bring in aid to Egypt but also investment on the condition of free and fair elections, do you believe that that might influence their decision to actually send in that investment and aid in terms of, like, trusting the process of the elections?
And my second is, I’m a little bit confused about the status of these living complexes such as Medneti (ph) and Adrehab (ph) and what-have-you that the business elite owned in Egypt and then were trialed for corruption and stuff. I don’t understand what the status of these living complexes are now. So if you can explain that. Thank you.

MR. GEDMIN: Michele?

[01:41:06]

MS. DUNNE: Well, first of all, on the issue of gulf assistance, now of course you know, as you indicated, one is different from another. I’m not sure that the conditions on Saudi assistance would be the same as on Qatari assistance and so forth. But to be honest with you, my impression is that the willingness of the gulf countries to offer Egypt that assistance is much more related to the posture Egypt is going to take in foreign affairs and whether they’re going to – you know, on certain issues that are critical to the Gulf countries, like Bahrain and even like Syria and so forth, that Egypt is going to kind of stay within an Arab consensus.

And we just saw now the newly appointed, you know, head of the Arab League Nabil El-Araby, you know, go to Syria and sort of say there shouldn’t be foreign interference there. There have been a lot of visits by the Egyptian prime minister, foreign minister, et cetera to the gulf to sort of assure them on what Egypt’s relations with Iran will be, and you know, to what extent Egypt is going to become a driving force for democracy throughout the Arab world versus, you know, focus on its own democracy and stay within an Arab consensus on foreign affairs. So to me, that’s probably the more important conditionality versus how elections are conducted in Egypt.

You know, frankly, I don’t know all the ins and outs of the Medneti (ph) and other cases. I mean, this is – this is an example of exactly what I was talking about of the use of, you know, state lands or lands acquired at little or no cost for private development and so forth. And there – you know, this has been a huge on-going case. I’m sorry I can’t give you the, you know, the final word on it.

MR. GEDMIN: Michele, thank you. We are at the moment of the final word. I’m going to start with you, Marina, and then work back to Uri. You started; you’re going to finish: a take-away from this conversation – Egypt in Transition – one idea in one sentence that you want everybody in this audience to walk away with. (Laughter.)

MS. OTTAWAY: Well, I think I said what I had to say. But let me repeat my answer to this gentleman that –

MR. GEDMIN: OK. That’s a good – good offering. Michele?

MS. DUNNE: I have to use my final sentence to disagree with Marina about the importance of Egypt because demographically it’s one-fourth of the Arab world, and even though it’s quite true that the Egyptian government lost the initiative diplomatically and so forth, I think that Egypt has an enormous capacity to recapture that influence both diplomatically and in terms of soft power if Egypt can present, you know, a compelling model of, you know, an Arab country that is moving forward in the – in the –
MR. GEDMIN: So Egypt’s model matters. One sentence contradicts or takes exception with Marina at the top. Uri, one idea, one sentence.

MR. DADUSH: Yeah, I think the transition will succeed.

[01:44:27]

MR. GEDMIN: That would be one idea in one sentence. (Laughter.) Take a second, go ahead, go ahead, go ahead. (Laughter.)

MR. DADUSH: Because it is the will of the people.

MR. GEDMIN: OK. Now, raise your hand – raise your hand in the audience – raise your hand if you have not been in Egypt.

Q: Ever, or –

MR. GEDMIN: OK. Ever – ever.

MS. OTTAWAY: He didn’t know who qualified.

MR. GEDMIN: So to you I would say, go. Thank you all very much. Have a good morning. Thank you. (Applause.) Thank you, well done.

MS. DUNNE: You’re a great moderator, Jeff.

[01:45:16]

(END)