



Egypt's Gaza Dilemmas

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What's new? The Gaza war poses several challenges for Egypt – from the prospect that Israeli military operations might end up pushing masses of Palestinians into the Sinai Peninsula to its repercussions for the already precarious Egyptian economy.

Why does it matter? Thus far, Cairo has turned the crisis somewhat to its advantage, leveraging Western fears that what is happening in Gaza could destabilise Egypt. But the risk of spillover remains, and the cash infusions Egypt has received could paper over economic problems whose solutions require structural change.

What should be done? Western capitals should continue rejecting any notion of Palestinians being forcibly displaced from Gaza and pressing the parties to halt hostilities. The international institutions, donors and – ideally – Gulf capitals aiding Egypt should press for reforms, notably loosening the military's grip on the economy, that are crucial for long-term stability.

I. Overview

The Gaza war has Egypt on edge, as Cairo contemplates the humanitarian catastrophe on its eastern border and worries about spillover at home. Since fighting began, Egyptian leaders have feared that Israeli operations will forcibly displace hundreds of thousands of Palestinians into the Sinai Peninsula, but the conflict poses other challenges, too. It has siphoned hard currency out of the economy, deepening Egyptians' hardships. The authorities have won a partial reprieve, securing fresh investment from the Gulf and help from other foreign creditors, partly by playing on Western fears of a surge of refugees toward Europe. But not all the dangers have passed. As Israel ramps up incursions into Gaza's southernmost city, Rafah, Egypt's Western partners should continue to warn against displacement from the strip, while pushing both sides to cease hostilities and rushing in life-saving aid. In aiding and investing in Egypt, the European Union (EU), International Monetary Fund (IMF) and ideally Gulf states should press for structural economic reform, while not losing sight of political change, both of which remain vital to the country's long-term stability.

From the war's onset in October 2023, Egypt has vehemently rejected the idea broached by several Israeli officials that Gaza's Palestinians should go to Sinai, keen to avoid a refugee crisis that would threaten its national security and further unsettle the Middle East. Cairo's attitude stems from principled solidarity with the Palestinian cause and historical suspicions of Israel's intentions toward the Palestinians. But Egyptian officials also worry that an influx of Palestinians, including militants,

into the Sinai could revive the jihadist insurgency that wracked the peninsula for some years. Western partners have, at least since mid-October 2023, taken a clear stance against such displacement, while the actual threat of it has waxed and waned. But it remains uppermost on Egypt's list of concerns, particularly given the escalation in Rafah.

Egypt has been actively involved in diplomatic efforts to end the war. Along with Qatar, it has mediated between Israel and Hamas in pursuit of a ceasefire that would allow for hostage/prisoner exchanges and vastly increased humanitarian aid for Gaza. Such diplomacy has, as in previous rounds of fighting in the strip, provided Egypt with the opportunity to demonstrate continued value to the U.S. and others as a potential broker of Middle East stability. But the war has also forced Cairo to consider possible new political and security arrangements for the Palestinian territory. Though officials are reluctant to talk in detail about this subject absent a ceasefire, they are clear that Egypt hopes, once the war ends, to be able to nudge Israel and the Palestinians toward resuming talks aimed at achieving a comprehensive settlement based on an independent Palestinian state.

The conflict in Gaza has had significant domestic repercussions, particularly as, even before October 2023, Egypt was reeling from high inflation and ballooning debt. In the war's early months, Egypt saw severe disruptions in revenues from natural gas exports, tourism and Suez Canal transit fees, the last due to anxiety in the shipping industry about attacks by Yemen's Houthi rebels in the Red Sea. The government, having appealed to foreign partners for relief, won new funding from the EU and the IMF as well as a major investment from the United Arab Emirates. That money bought some respite, staving off economic collapse. Yet it is unclear how long the benefits will last. Nor is President Abdel Fattah el-Sisi's standing among Egyptians certain, as expressions of public outrage about the war may create room for protest directed at the government over increasingly harsh living conditions.

Egypt's foreign partners should continue rejecting any mass displacement from Gaza and pressing for an end to the war there, while leveraging support for Egypt to encourage reform. The war's terrible human toll is reason enough to do everything possible to stop it, but it is also true that the risks of spillover for Egypt will endure as long as it continues. To date, Cairo has used Egypt's predicament to extract aid and investment from partners worried about its stability, but that approach may not hold over time. The economy remains a concern, as Egypt will need sufficient hard currency to meet its debt obligations in the future. Better levelling the playing field between state-owned (especially military-owned) firms and the private sector is essential to boosting business activity. Ideally, too, the government would make moves to open up the public sphere, by allowing civil society and opposition parties to organise freely and releasing political prisoners, for example. Persuading the Sisi government to adopt such economic and political reforms will be an uphill struggle, but doing so is crucial for Egypt's resilience in the face of present and future shocks.

II. Egypt's Gaza Red Lines

Since Israel began bombarding Gaza, directly after Hamas's 7 October 2023 attack, Egypt's priority has been to forestall any possibility that Palestinians might be displaced en masse into Sinai. From the outset, Cairo feared that Israel might seek to expel Gaza's people or create conditions inducing their flight through intense, indiscriminate bombing and shelling that destroys civilian infrastructure. In the early stages of the fighting, amid a drumbeat of calls from current and former Israeli officials for pushing Palestinians out of the strip, its anxiety grew.¹ A clear stance against such displacement, starting in mid-October, from the U.S. and other Western partners went some way toward calming Egyptian officials, but their fears resurged as ceasefire talks faltered over the following March and April. Israel's military operation in Rafah, now under way, have exacerbated worries about Palestinians' expulsion.

Egyptian officials from President Sisi on down repeatedly say any such action would cross a red line.² They have not spelled out precisely how Egypt would respond should that line be crossed, but doubtless the relationship with Israel would suffer. In private, some Egyptian diplomats suggest Cairo might go as far as suspending the 1979 peace treaty that brought an end to decades of formal hostilities between the countries.³

Egypt's stance is rooted partly in principle. Cairo does not want to be seen as abetting the destruction of the Palestinian national movement and its political aspirations. Egyptian officials have long feared a repetition of the events of 1948 (known as the Nakba, Arabic for "catastrophe"), when Palestinian refugees were forced to flee their homeland and subsequently barred from returning by the new Israeli state. Another Nakba could compel Egypt to permanently shelter a considerable number of refugees from Gaza.⁴ It could shift still more of the burden of the Palestinian question onto Arab countries. The most comprehensive form of burden shifting would be the so-called three-state solution, whereby Israel would seek to return control of Gaza to Egypt and parts of the West Bank to Jordan.⁵ Far-fetched as these ideas may sound, Egyptian officials suspect that Israel, or at least parts of its body politic, have precisely such long-term plans.⁶ Another mass expulsion or displacement, finally, would end any hope for Palestinian statehood, a cause with which Egyptians feel heartfelt solidarity.

¹ See Can Efesoy, "Israeli officials accused of inciting war crimes in Gaza with violent rhetoric", Anadolu Agency, 18 November 2023.

² In a November speech, Sisi affirmed "Egypt's unequivocal and unwavering position, namely its categorical rejection of the plan for the forced displacement of our Palestinian brothers, either from the Gaza Strip or the West Bank to Egypt and Jordan". Speech by Abdelfattah al-Sisi, "Long Live Egypt, Long Live Palestine' Event", Egyptian Presidency, 23 November 2023.

³ Crisis Group telephone interviews, Egyptian diplomat, October 2023 and April 2024. Crisis Group interviews, Egyptian and Western diplomats, Cairo, November 2023. After Israel moved into Rafah, a senior Egyptian official said the operation had put the 1979 treaty at great risk. "Israel moves deeper into Rafah and fights Hamas militants regrouped in northern Gaza", Associated Press, 12 May 2024.

⁴ Crisis Group interviews, Egyptian diplomats, October-November 2023.

⁵ This idea has its proponents. See, eg, John Bolton, "A 'Three-State Solution' for Middle East Peace", American Enterprise Institute, 15 April 2014; and Gerson Hacoheh, "The Three-State Solution", The Begin-Sadat Center for Strategic Studies, 19 June 2018.

⁶ Crisis Group interviews, Egyptian diplomats, October-November 2023.

But within Egyptian officialdom the questions of principle mingle with deep-seated anxieties about security. Egypt lost the Sinai Peninsula to Israel in the 1967 war, recovering it in full only in 1982, following the 1973 war and the diplomacy that culminated in the 1979 peace treaty. During Muslim Brotherhood-affiliated President Mohamed Morsi's truncated term in office (2012-2013), security agencies suspected that he might collude with Hamas, a Brotherhood offshoot, to create an Islamist alliance in Sinai.⁷ That did not happen, but a version of the same scenario haunts security officials today. For decades, a jihadist and at times Islamic State (ISIS)-linked insurgency has roiled the northern Sinai, sometimes cooperating with militants in Gaza – though not Hamas, which opposes ISIS – and officials fear that an influx of Palestinians to the peninsula could embolden it.⁸ They also worry that a large Palestinian population in Sinai would turn it into a staging area for attacks on Israel, leaving Egypt in the unenviable position of having to suppress such activity or suffer Israeli reprisal.⁹ From the war's early days, they took such concerns to Egypt's Western partners.

For the most part, world powers have adopted clear positions against such displacement. In the first few days of the conflict, media outlets reported that European leaders were dangling financial incentives, such as debt cancellation, before officials in Cairo in exchange for Egypt accepting Palestinian refugees.¹⁰ On 15 October, however, U.S. National Security Advisor Jake Sullivan indicated that, “in terms of the larger question of whether those who leave can return, the United States has a very simple proposition on this: it's [that] when people leave their homes in conflict ... they deserve the right to return to those homes. ... And this situation is no different”.¹¹ Since then, Western capitals have strongly opposed any notion of Palestinians being forced out of Gaza.

For its part, Cairo fiercely disputes that it could be bribed into taking in Palestinian refugees.¹² As a U.S. diplomat said, “there is a clear red line imposed by the Egyptians, and we are going to respect that”.¹³ Egypt's rejection of the idea of forcible displacement of Palestinians into Sinai was arguably instrumental in establishing international consensus against such a plan.

Egypt's worries about mass displacement have deepened with Israel's incursions into parts of Rafah. On 7 May, Israeli troops took over the Palestinian side of the Rafah border crossing, temporarily closing it (as well as, for a time, Kerem Shalom,

⁷ Sahar Aziz, “Sinai's role in Morsi's ouster”, *Sada* (Carnegie Endowment for International Peace), 20 August 2013.

⁸ Crisis Group Commentary, “Egypt's Expanding Jihadist Threat”, 31 January 2018.

⁹ Crisis Group interviews, Egyptian journalists and Western diplomats, Cairo, October-November 2023.

¹⁰ “Israel's Netanyahu lobbied EU to pressure Egypt into accepting Gaza refugees”, *Financial Times*, 30 October 2023; and Itamar Eichner and Lior Ben Ari, “Israel pressures Egypt to take in Palestinian refugees”, *Ynet*, 31 October 2023.

¹¹ “Transcript: National Security Advisor Jake Sullivan on ‘Face the Nation’, Oct. 15 2023”, CBS News, 15 October 2023.

¹² There have been reports that some Egyptian officials were open to considering the offer, but that the security establishment quickly and firmly rejected the idea. Crisis Group interviews, Egyptian journalists, Cairo, November 2023. In mid-November, Foreign Minister Sameh Shoukry denied that the government had ever entertained the notion. Abdel Latif Wahba and Tarek El-Tablawy, “Egypt denies debt relief offered to accept Gaza Palestinians”, Bloomberg, 16 November 2023.

¹³ Crisis Group interview, U.S. diplomat, Cairo, November 2023.

a crossing between Gaza and Israel, after a Hamas rocket attack killed Israeli soldiers there). In the following days, the flow of aid into the strip slowed to a trickle, threatening to exacerbate the already dire humanitarian situation.¹⁴

A U.S. official described Egypt as “livid” about these Israeli moves.¹⁵ The Egyptian foreign ministry issued a statement of protest, in particular condemning Israel’s occupation of the Palestinian side of the Rafah crossing.¹⁶ In his remarks cautioning Israel against launching a full-scale military invasion of Rafah, President Biden sounded a similar note, noting that Israeli operations were “right on the border. And it’s causing problems with, right now, in terms of – with Egypt”.¹⁷ As Israel’s incursions into Rafah expanded, Egypt announced its intention to formally intervene in support of South Africa’s case against Israel at the International Court of Justice.¹⁸ Egypt has also refused Israeli requests to allow aid shipments already in transit to be diverted to Kerem Shalom, fearful that this step will constitute de facto acceptance of Israel’s garrison at the Rafah crossing and ease international pressure on Israel to halt its operations.¹⁹ The standoff threatens to deepen Gaza’s humanitarian distress, alarming U.S. and aid agency officials, who hope to persuade Egypt to alter its approach, at least temporarily.²⁰

The Rafah incursions have likewise magnified fears that Palestinians in Gaza might make a panicked push toward the border. Already, Israel’s offensive has killed over 34,000 Palestinians and displaced 75 per cent of the 2.2 million population inside the strip.²¹ Many of these people have sought shelter in Rafah. An Egyptian official suggested that by forcing Palestinians to mass in the south, Israel could in effect compel Cairo to accept refugees as the only means of avoiding an even greater humanitarian catastrophe.²² A U.S. diplomat seemed to share this concern, musing that given Gaza’s limited capacity to shelter internally displaced people and the inadequacy of the humanitarian aid getting into the territory, Egypt might feel increasing pressure to take in large numbers of refugees to alleviate horrible conditions inside the strip.²³ Scenes of Palestinians already uprooted from their homes fleeing tent cities in Rafah seemed to evoke this spectre.

Already in February, Egypt seemed to be taking preparatory measures for this scenario. It appeared to quietly start building a buffer zone along the Gaza border to accommodate up to 100,000 refugees, though authorities are understandably

¹⁴ Mehul Srivastava, Mai Khaled and Heba Saleh, “Israel’s Rafah attack cuts aid for Gaza to a trickle”, *Financial Times*, 8 May 2024.

¹⁵ Crisis Group telephone interview, U.S. official, May 2024.

¹⁶ Tweet by Ahmed Abu Zeid, Egyptian foreign ministry spokesperson, @MFAEgypt, 10:21am, 7 May 2024.

¹⁷ Kevin Liptak, “Biden says he will stop sending bombs and artillery shells to Israel if it launches major invasion of Rafah”, CNN, 9 May 2024.

¹⁸ Tweet by Ahmed Abu Zeid, Egyptian foreign ministry spokesperson, @MfaEgypt, 4:01pm, 12 May 2024.

¹⁹ Vivien Yee and Ronen Bergman, “Actions by Israel and Egypt squeeze Gaza aid routes”, *The New York Times*, 10 May 2024.

²⁰ Crisis Group telephone interview, U.S. official, May 2024.

²¹ Crisis Group Middle East Report N°244, *Stopping Famine in Gaza*, 8 April 2024. See also Mai Khaled and Heba Saleh, “Gazans search in vain for medicines”, *Financial Times*, 6 February 2024.

²² Crisis Group telephone interview, Egyptian diplomat, November 2023.

²³ Crisis Group interview, U.S. diplomat, Cairo, November 2023.

vague about its purpose.²⁴ The North Sinai governor initially denied reports about the buffer zone, presumably to avoid embarrassment, saying workers were constructing a logistical hub for humanitarian aid.²⁵ Separately, Foreign Minister Sameh Shoukry indicated that, while Palestinian displacement into Sinai was unacceptable, Egypt was ready to deal with any arrivals “humanely”.²⁶ Likewise, an Egyptian official denied that the construction was meant for displaced Palestinians, but promptly added that “this is not to say we won’t cater to the displaced if an offensive on Rafah causes an influx”.²⁷ Presumably, officials fear that publicly admitting that they are preparing for eventualities including mass displacement risks seeming to give Israel an implicit green light, but at the same time they cannot afford to get caught off guard by an event that would have wide-ranging repercussions for Egypt’s stability.

Events in Rafah highlighted a related Egyptian red line regarding the Philadelphi Corridor (also known as the Salah al-Din Axis), a narrow strip of land running along the border between Egypt and Gaza.²⁸ At various times during the war, Israeli officials have signalled their intent to take over the corridor, suggesting that Egypt is unable or unwilling to stop the weapons smuggling that takes place underneath it.²⁹ When Israel withdrew from Gaza in 2005, it agreed to new security arrangements along the border as military deployments in Sinai are governed tightly by the 1979 treaty.³⁰ As part of these arrangements, Egypt was permitted to station 750 lightly armed guards in the corridor. Egypt has characterised potential Israeli encroachment on the corridor as violating Israeli treaty obligations.³¹ Officials in Cairo have privately expressed unease with having Israeli soldiers near sensitive Egyptian installations.³² Lastly, should Israel reoccupy the border, it would have complete control of all crossings into and out of Gaza.

All the above scenarios sharpen Egypt’s sense of vulnerability, which has been growing for years as its regional influence, though still considerable, has declined. Both trends – the heightened threat perception and the waning clout – accelerated following Egypt’s 2011 uprising, which led to the ouster of President Hosni Mubarak, who had held power since 1981. The turmoil continued with the military’s removal of Morsi, whose Muslim Brotherhood had won the first post-Mubarak elections. Today, the war in Gaza, and attacks by Yemen’s Houthi rebels on commercial shipping in the Red Sea, which have greatly reduced traffic through the Suez Canal, have

²⁴ Summer Said and Jared Malsin, “Egypt builds walled enclosure on border as Israeli offensive looms”, *The Wall Street Journal*, 15 February 2024; and tweet by Sinai for Human Rights, @Sinaifhr, 9:27pm, 14 February 2024.

²⁵ “North Sinai governor denies rumors of ‘constructing displacement camps’ for Gazans in Egyptian Rafah”, *al-Ahram*, 15 February 2024.

²⁶ “Egypt says displacement is unacceptable, but will deal with civilians humanely”, Reuters, 17 February 2024.

²⁷ Crisis Group interview, Egyptian official, March 2024.

²⁸ Salah al-Din is the old Arab name for the area. The Israeli military gave it the code name Philadelphi, which has stuck, though it has no historical significance.

²⁹ Nadav Shragai, “What can Israel do with the Egypt-Gaza border?”, *Israel Hayom*, 1 February 2024.

³⁰ Brooke Neuman, “A New Reality on the Egypt-Gaza Border (Part I): Contents of the New Israel-Egypt Agreement”, Washington Institute for Near East Policy, 19 September 2005.

³¹ Amr Kandil, “Egypt warns Israeli retaking of Philadelphi Corridor would violate peace treaty”, *al-Ahram*, 15 January 2024.

³² Crisis Group telephone interview, Egyptian diplomat, April 2024.

accentuated Cairo's feeling of insecurity. Unable to marshal the resources that regional powers such as Israel, the Gulf Arab states and Türkiye can muster, Egypt has had to appeal to outsiders, including Western governments, to drive home the message to Israel that a breach of the Gaza border and/or occupation of the Philadelphi Corridor would unacceptably endanger Egypt's national security, with implications for the broader region.

III. Cairo's Diplomatic Efforts

Besides worrying about a refugee influx, Cairo is actively involved in diplomatic efforts to end the war in Gaza or at least bring about an extended pause. Despite its diminished regional status, Egypt retains a central role in Gaza-related matters by dint of geography and its longstanding linkages to the strip. In the first years of the Sisi presidency, Cairo pursued a hard line against Islamist movements, both within Egypt and elsewhere in the Middle East, and sought to deepen Hamas's isolation by enforcing a stringent blockade on Gaza. In 2016, however, it modulated its approach to Islamists, including Hamas, as it sought the Palestinian group's cooperation in countering the jihadist insurgency in the Sinai.³³ This shift enabled Egypt to retake its place as mediator in the various rounds of fighting between Israel and Hamas in subsequent years.

Egypt's efforts this time around have been most visible since December 2023, when it put forward a ceasefire initiative that hinged on Hamas and Islamic Jihad yielding control of the strip to a group of Palestinian technocrats distant from the main political factions in return for a lasting cessation of hostilities.³⁴ The proposal outlined a phased ceasefire to enable the release of Israeli hostages and Palestinian prisoners, as well as the return of displaced Palestinians to Gaza's north. Cairo has hosted continued discussions since then, seemingly working closely with Qatar, which has also mediated, and carrying messages among the various parties. With Qatar's ties to Hamas coming under increasing scrutiny in Washington – the movement has its political office in Doha – Egypt has taken on a more central role in the latest rounds of talks.³⁵ Crucially, Egypt, along with Qatar, has conveyed various guaran-

³³ Crisis Group interviews, Egyptian researchers, Cairo, November 2023. See also Maged Mandour, "Egypt's Shifting Hamas Policies", *Sada* (Carnegie Endowment for International Peace), 26 July 2021.

³⁴ "Egypt sets out ambitious Israel-Gaza ceasefire plan", *Al Jazeera*, 25 December 2023.

³⁵ Criticism of Qatar in Washington stems from hostility to Hamas, which the U.S. holds responsible not just for starting the war but also for blocking efforts to end it. Both the Biden administration and members of Congress have suggested that Qatar is doing too little to "pressure" Hamas to release the remaining hostages. "U.S. tells Qatar to evict Hamas if it obstructs Israeli hostage deal", *Washington Post*, 4 May 2023. Qatar views such accusations as unfair. Majed al-Ansari, an adviser to the Qatari prime minister, said "Qatar is being used as a political punching bag", noting that Doha agreed to host the Hamas office in 2012 at Washington's request. "Every time we get close to a deal, there's sabotage, from both sides": Top Qatari official tells *Haaretz* both Israel and Hamas are to blame", *Haaretz*, 27 April 2024.

tees from the U.S. to Hamas about the eventual permanence of a ceasefire if it complies with the terms of a phased agreement.³⁶ On this basis, Hamas said it accepted a phased ceasefire on 6 May, just before Israel moved into Rafah.

Beyond this plan, Egyptian officials – like many of their Arab counterparts – are reluctant to talk about long-term arrangements for the strip absent a ceasefire and even, some say, a clear vision for how to get to Palestinian statehood. They argue that the focus should be on ending the violence, as conditioning a ceasefire on a new dispensation in Gaza would allow Israel more time to prosecute the war, rendering a political resolution even more difficult.³⁷ In the words of an Egyptian official, “The details of the ‘day after’ are negotiable and manageable, but first we need a ceasefire and a two-state solution, not just the ‘horizon’ for one, as [U.S. Secretary of State Antony] Blinken likes to put it”.³⁸

Egyptian officials are also loath to openly discuss the idea of an Arab force deploying to Gaza to provide security guarantees – an option repeatedly floated by Western officials. Cairo and other Arab capitals are wary of this scheme, not least because Arab soldiers would likely be portrayed as occupying the strip on Israel’s behalf, perhaps even coming under attack, but the prospect of a security vacuum in Gaza and the lack of viable alternatives has meant that it continues to circulate. In January, U.S. officials indicated they did not see any option involving Egyptian forces as viable.³⁹ But recent discussions of post-war options, which continue alongside the ceasefire talks, have broached the possibility, which a U.S. official described as “hard but not dead”.⁴⁰ In early May, another U.S. official noted that Cairo may be more willing to consider such a “radical change to policy” because other options are not readily clear and because, without a multinational force, “Israel may take the Philadelphi Corridor and stay”.⁴¹

For Egypt, it is important that future security arrangements not come at the expense of a political solution, which Cairo believes cannot happen absent reform of Palestinian political institutions. Former Egyptian diplomats, journalists and researchers with access to government officials agree that the Palestinian factions should unify in a renewed national movement before the Palestinians resume negotiations with Israel.⁴² Expressing a consensus view among these peers, an Egyptian analyst argued to Crisis Group that:

The PLO [Palestine Liberation Organisation] needs to be reformed to include Hamas and other groups. The reform of the PLO will be one of the main tasks for Egypt after the war, the first step to encourage a moderate evolution of Hamas,

³⁶ Crisis Group interview, U.S. official, Washington, April 2024.

³⁷ “Shoukry says all efforts should be centered on ending conflict in Gaza”, State Information Service (Egypt), 16 November 2023.

³⁸ Crisis Group interview, Egyptian official, March 2024.

³⁹ Crisis Group interview, U.S. official, Washington, January 2024.

⁴⁰ Crisis Group interview, U.S. official, April 2024.

⁴¹ Crisis Group telephone interview, U.S. official, May 2024.

⁴² Crisis Group interviews, Egyptian diplomat, former diplomats, journalists and researchers, Cairo, November 2023.

to include it in the Palestinian resistance movement and eventually leading to a new PA [Palestinian Authority] and a unified government.⁴³

An Egyptian official stressed that it is not Cairo's place to mediate among the various Palestinian factions to bring about national reconciliation, though Egypt has done so before, for instance hosting talks between Fatah and Hamas. Still, many see reconciliation as a necessary precursor of negotiations with Israel, with only a reformed PLO and PA able to engage with Israel to hammer out a settlement based on the two-state solution. Past months have seen little movement toward such reconciliation, and the prospects for reform of Palestinian institutions are hardly auspicious.⁴⁴ Egyptian researchers tend to argue that some form of transitional period between the end of the current war and a new round of negotiations might be necessary for any progress on this complex issue.⁴⁵

IV. An Economic Lifeline for Egypt

The Gaza war has also had significant economic repercussions for Egypt. In the war's first weeks, Israel suspended natural gas extraction from its offshore Tamar field and blocked the subsea pipeline to Egypt, worrying that Palestinian armed groups would target this infrastructure.⁴⁶ Egypt uses the Israeli gas for both re-export and domestic power generation. It is unclear what volume is earmarked for what purpose, but Egyptians felt the effects of the shortage, as Cairo extended rolling blackouts it already had in place from one to two hours a day in order to free up more of its own gas for export.⁴⁷ Even though Israel resumed its gas exports to Egypt in November, blackouts have continued, except for a short respite during the month of Ramadan from mid-March to mid-April.⁴⁸ Fears of a wider Middle East war also pushed many tourists to reconsider plans to visit Egypt, particularly southern Sinai, with cancellations reaching 25 per cent in early November.⁴⁹

The economy suffered also from a sharp drop in revenues from Suez Canal transit fees, a key source of foreign currency. Houthi attacks on commercial shipping in the Red Sea pushed up insurance costs and encouraged a growing number of shipping companies to avoid these waters – and thus the canal, which connects

⁴³ Crisis Group interview, Egyptian researcher, Cairo, November 2023.

⁴⁴ For background on obstacles to reform, see Crisis Group Middle East Report N°238, *Managing Palestine's Looming Leadership Transition*, 1 February 2023.

⁴⁵ Crisis Group interview, Egyptian researcher, Cairo, November 2023.

⁴⁶ Crisis Group Middle East Report N°240, *Rethinking Gas Diplomacy in the Eastern Mediterranean*, 26 April 2023. See also Patrick Werr and Sarah El Safty, "Egypt's stumbling economy faces new pressures from Gaza crisis", Reuters, 10 November 2023.

⁴⁷ "Egypt to extend electricity load shedding to 2 hours per day", *Daily News Egypt*, 30 October 2023.

⁴⁸ "Egypt renews power blackouts two hours per day after the end of the presidential elections", *Al-Araby al-Jadeed*, 13 December 2023 [Arabic]; Belal Nawar, "Egypt suspends power cuts for Ramadan", *Egyptian Streets*, 25 February 2024.

⁴⁹ "Up to 25% of tourist reservations in Egypt canceled due to Gaza crisis: Official", *Egypt Independent*, 7 November 2023.

them to the Mediterranean.⁵⁰ In April, an Egyptian official claimed that canal revenues had dropped by 50 per cent in the first quarter of 2024.⁵¹ While Western warships in the Red Sea have intercepted the vast majority of the Houthi missiles and drones, the attacks have escalated. In January, the U.S. and UK began carrying out counterstrikes on Houthi military sites in Yemen, but thus far these have failed to restore commercial traffic.⁵²

These shocks to the Egyptian economy came in the midst of a major debt and cost-of-living crisis that erupted in 2022. The IMF, which had loaned \$3 billion to Egypt in late 2022, suspended disbursement of the money in 2023 when it became obvious that Egyptian authorities would not follow through with agreed-upon reforms. These included floating the national currency's exchange rate and reducing the military's footprint in the business sector.⁵³ In particular, tackling the military's vested interests proved too sensitive for the authorities. Under Sisi, military-owned and military-linked firms have come to dominate many sectors of the economy by taking advantage of tax breaks and conscripts' cheap labour, among other things, often crowding out private business. For instance, they have won most of the construction contracts in Sisi's ambitious infrastructure program. The president saw this arrangement as a way to secure the military's loyalty and rely on trusted associates to get all the building done swiftly. He is now reluctant to take remedial measures, fearing a destabilising backlash.⁵⁴

The Egyptian government also worried that a currency devaluation would drive up inflation, pushing millions of Egyptians to spend less while working several jobs to make ends meet.⁵⁵ In June 2023, Sisi declared:

Many people demand a flexible exchange rate. We are flexible on this. But when the matter concerns Egypt's national security and the Egyptian people are affected? No, no, no, no.⁵⁶

The authorities chose to postpone devaluation of the Egyptian pound until after the country's December 2023 presidential election, raising foreign currency in the meantime by selling state-owned assets to create a buffer that could cushion the blow of a future exchange rate devaluation. In July, the government announced asset sales of \$1.9 billion, saying it expected more transactions in the following

⁵⁰ "Houthi attacks on vessels in Red Sea sound alarm for global trade", *Financial Times*, 5 December 2023; and "Shippers avoiding Red Sea transits after attacks, watching Suez Canal traffic", S&P Global Commodity Insights, 11 December 2023.

⁵¹ "Red Sea attacks decrease Suez Canal revenues by 50%: Planning Minister", *Egypt Today*, 28 April 2024.

⁵² Crisis Group Commentary, "What Next After U.S. and UK Strikes on the Houthis?", 13 January 2024.

⁵³ Yezid Sayigh, "Egypt's State Ownership Policy and the Military Economy: An Irreconcilable Gap? – Assessing Egypt's State Ownership Policy: Challenges and Requirements", Carnegie Middle East Center, 8 May 2023.

⁵⁴ Riccardo Fabiani and Michael Wahid Hanna, "Egypt in the Balance?", Crisis Group Commentary, 31 May 2023.

⁵⁵ Inflation kept going up anyway, reaching a record high of 40.3 per cent in September 2023. "Inflation in Egypt", *Barron's*, 8 December 2023.

⁵⁶ Quoted in "The Egyptian president puts an end to the controversy on the currency devaluation: 'A matter of national security'", *Al Arabiya*, 15 June 2023 [Arabic].

months.⁵⁷ Meanwhile, it continued to support the value of the pound, which was hovering at around 30 to the dollar, while on the black market it stabilised at around 40. But the Gaza war's impact shattered this precarious balance, as the black-market rate jumped to 50 pounds to the dollar in November and hit 70 in January.⁵⁸

Seeing Cairo's predicament, and its reluctance to make unpopular reforms, Western capitals began to be more accommodating, as they knew socio-economic collapse in Egypt could only compound the crises elsewhere in the region. In late October, the EU Commission began work on a financial package for Egypt without conditions.⁵⁹ "The EU funds promised to Egypt are linked to the fear of instability", explained a European diplomat.⁶⁰ The Europeans seemed particularly concerned about the prospect that deteriorating conditions could prompt mass migration. EU Commission President Ursula von der Leyen stated in an October letter to EU leaders: "[Egypt] hosts a growing number of refugees, and we have a responsibility to support it".⁶¹

Europe made good on this pledge the following spring. On 17 March 2024, a delegation led by von der Leyen and comprising the Austrian, Belgian, Greek and Italian prime ministers met with President Sisi in Cairo to announce €7.4 billion in proposed new assistance for Egypt. The mix of concessional loans, investment and grants will target budget support, mobilise funds for the green and digital transitions, and improve cooperation on migration and security.

The IMF took a similar path. Like the Europeans, it softened its stance toward Egypt late in 2023, signalling that it was ready to negotiate a bigger loan.⁶² In November, IMF Managing Director Kristalina Georgieva confirmed that her institution was considering an increase in view of the Gaza war's impact.⁶³ Shortly thereafter, it became clear that the Fund's largest shareholder, the U.S., stood behind her. In December, a U.S. official expressed support for a new IMF approach, saying Washington recognised Egypt's "changed circumstances and environment". The official went on to explain that, while the Biden administration still believed that economic reforms were necessary, their pace would be affected by events.⁶⁴ Eventually, in late March, the IMF and Egypt reached a deal that granted Cairo a significantly larger financial envelope, which went from \$3 to \$8 billion.⁶⁵

But an even bigger contribution to Egypt's financial stability had come before the EU and IMF announcements in late February, when the UAE's Abu Dhabi Developmental Holding Company agreed to pay \$35 billion for rights to build residences,

⁵⁷ Sarah el Safty, Nayera Abdallah and Momen Saeed Atallah, "Egypt announces sale of \$1.9 billion worth of state assets", Reuters, 11 July 2023.

⁵⁸ "Egypt's black market dollar value reaches historical high, exceeding 70 EGP", Egyptian Streets, 30 January 2024.

⁵⁹ Laura Dubois and Henry Foy, "EU accelerates Egypt aid package as it fears fresh wave of refugees", *Financial Times*, 23 October 2023.

⁶⁰ Crisis Group interview, European diplomat, Cairo, November 2023.

⁶¹ Gregorio Sorgi and Jacopo Barigazzi, "Von der Leyen pushes aid deal with Egypt in bid to stem migration to Europe", *Politico*, 25 October 2023.

⁶² Crisis Group interviews, Western diplomats, Cairo, October-November 2023.

⁶³ "IMF may need to augment Egypt program amid Gaza war impacts, Georgieva says", Reuters, 18 November 2023.

⁶⁴ Crisis Group interview, U.S. official, Washington, December 2023.

⁶⁵ "IMF Executive Board Completes the First and Second Reviews of Extended Fund Facility Arrangement for Egypt, Approves Augmentation of the Arrangement", IMF, 29 March 2024.

tourist resorts, hotels, entertainment venues and service facilities in a 170 sq km area in Ras al-Hekma on the Mediterranean coast. The mega-deal will unlock an enormous investment, with \$15 billion disbursed within two weeks of signing it and the remaining \$20 billion to be transferred soon.⁶⁶ This agreement alone will plug Egypt's external financing gap for 2024 and inject significant liquidity into the economy. In the announcement's immediate aftermath, the black-market exchange rate recovered to around 50 pounds to the dollar.⁶⁷

The Ras al-Hekma deal reflects the Gulf states' insistence on moving from donor to business logic in supporting Egypt financially, even though their engagement continues to be guided by concerns about the country's economic stability. An Emirati official said Egypt had first sought a grant, and then a loan to be repaid with Suez Canal revenues, both of which requests the UAE rejected.⁶⁸ The UAE views construction on the Mediterranean coast, by contrast, as a sound investment that will see real returns. Likewise, media outlets indicated in the following days that Saudi Arabia is ready to strike a similar bargain to develop land around Ras Gamila in the southern Sinai.⁶⁹

The financial boosts from the IMF and UAE – and the promise of another from the EU – enabled the Egyptian government to devalue the pound while limiting the impact on the economy. On 6 March, Cairo raised interest rates by 600 basis points to 27.75 per cent and allowed the pound to float freely, leading to devaluation. The official exchange rate fell from around 30 to 50 pounds to the dollar, where it subsequently remained.⁷⁰ This new level was on par with the black-market rate. The injection of money contributed to stabilising the economy and allowed Egypt to enact a much smaller devaluation than would have been possible otherwise. Still, the exchange rate adjustment fuelled inflation and affected millions of Egyptians, who continued to struggle with rising living costs.⁷¹

Questions remain, however, about the economic and political reforms tied to the IMF and EU packages, both of which are key to the country's long-term stability. Some worry that the authorities' commitment to measures negotiated with the IMF might be only partial. The new plan focuses on fiscal consolidation, slowing the pace of infrastructure spending and levelling the playing field for private firms competing with state-owned enterprises, including those run by the military. The IMF expects the government to eliminate tax breaks and preferential treatment for all state-owned

⁶⁶ "Hoping to ease currency crisis, Egypt signs \$35 billion deal with UAE for Ras al-Hekma", *The New Arab*, 23 February 2024. The \$35 billion total includes the \$11 billion the UAE already had on deposit in Egypt's central bank. "Explainer: All you need to know about the landmark multi-billion-dollar Egypt-UAE Ras El-Hekma deal", *al-Ahram*, 24 February 2024.

⁶⁷ Tweet by Ziad Daoud, @ZiadMDaoud, 8:57am, 28 February 2024.

⁶⁸ Crisis Group interview, UAE official, February 2024.

⁶⁹ Mirette Magdy, "Multi-billion Gulf power play focuses on Egypt as Mideast war rages", *Bloomberg*, 7 March 2024.

⁷⁰ Heba Saleh, "Egypt secures \$8bn IMF deal after removing currency controls", *Financial Times*, 6 March 2024.

⁷¹ Crisis Group interview, Egyptian journalist, Cairo, February 2024. See also "Egyptians turn to cut-price markets as inflation hits Ramadan", *France 24*, 13 March 2024.

companies.⁷² But Cairo's State Ownership Policy does not encompass sectors where military firms are dominant, such as cement, automobile manufacturing and real estate, while it explicitly protects "strategic" sectors in which these companies are market leaders.⁷³ NGO activists are sceptical that the government will extend the policy to military-owned companies, as that might destabilise the political system.⁷⁴ With international pressure on Egypt declining, the IMF may be unable to muster the will to suspend loan tranches should Cairo delay or water down these measures.

Also unclear is how much reform European capitals will get – in fact, how much they expect – in exchange for the additional assistance announced in March. In the joint declaration that followed the summit, the EU underlined its commitment to backing reforms, namely implementation of Egypt's National Strategy for Human Rights and the IMF program, with its funds.⁷⁵ EU officials underline that they first sought to shield Egypt from the economic impact of the Ukraine war, with the conflict in Gaza only hastening the new support. They portray the partnership as only the first step, leaving to further memoranda of understanding to specify the measures that Brussels expects to see in return for this money. At the same time, they recognise the challenges in making some of these reforms and that progress on sensitive files, such as human rights, is likely to be piecemeal at best.⁷⁶ Media outlets and European civil society groups have highlighted that the deal mirrors similar EU arrangements with Tunisia and Mauritania, which aim mainly to beef up these countries' migration controls.⁷⁷

Increased foreign credit and investment should suffice to support the Egyptian economy in the short term, reducing the fiscal and external pressure it faces, but in the long term the same problems could return without reform. The inflow should bridge Cairo's financing gap until 2027, when loan repayments are expected to decline.⁷⁸ But the extra funds may leave certain structural imbalances, such as the advantages military-owned companies hold over the private sector, unaddressed, as Egypt is no longer in such desperate need of hard currency. Indeed, the Western and Gulf bailouts may reinforce Egyptian officials' unhealthy perception that the country is too big to fail. Without reforms to boost private-sector activity and exports, the long-term risk is that Egypt may again find itself on the brink of economic meltdown and in need of emergency external support, as it did after an IMF loan in 2016, which brought no structural improvement in the country's economic outlook.

⁷² "Arab Republic of Egypt: First and Second Reviews Under the Extended Arrangement Under the Extended Fund Facility, Monetary Policy Consultation, and Requests for Waiver of Nonobservance of a Performance Criterion, and Augmentation and Rephrasing of Access-Press Release; and Staff Report", IMF, 26 April 2024.

⁷³ Yezid Sayigh, "Egypt's State Ownership Policy and the Military Economy: An Irreconcilable Gap? – Assessing Egypt's State Ownership Policy: Challenges and Requirements", *op. cit.*

⁷⁴ Crisis Group telephone interviews, international NGO activists, March 2024.

⁷⁵ "Joint Declaration on the Strategic and Comprehensive Partnership between The Arab Republic Of Egypt and the European Union", EU Directorate-General for Neighbourhood and Enlargement Negotiations, 17 March 2024.

⁷⁶ Crisis Group interviews, EU officials, Brussels, April 2024.

⁷⁷ "EU announces \$8bn package for Egypt as part of deal to check migration", *Al Jazeera*, 17 March 2024; and Patrick Werr, "EU pledges billions of euros for Egypt as it seeks to curb migration", *Reuters*, 17 March 2024.

⁷⁸ "Egypt required to pay \$29 bln in external debt in 2024: CBE", *al-Ahram*, 3 October 2023.

V. Popular Solidarity with Gaza

The conflict in Gaza has resonated deeply with Egyptians, reinvigorating grass-roots mobilisation in support of the Palestinians. President Mubarak often allowed pro-Palestinian demonstrations – albeit tightly controlled ones – as a way for people to vent their frustrations. Sisi and his advisers have generally kept such activities locked down, believing that they would create a platform for broader opposition to the government.⁷⁹ Yet the groundswell of solidarity with Palestinians in Gaza – which began at the outset of Israel's post-7 October campaign and has increased as the death toll mounts – has forced the authorities to permit occasional protests, albeit under the security forces' watchful eye.⁸⁰

This about-face was reflective of the depth of public sentiment, but it also discomfited authorities torn between their desire to ride the wave of popular anger and their instinct to keep a lid on political expression. In the initial days of the Israeli offensive, spontaneous demonstrations took place in Cairo and Alexandria, though security forces intervened to cordon them off.⁸¹ As they had often done under Mubarak, pro-government institutions tried to channel the fury. On 20 October, they organised a major gathering in Cairo “in support of the political leadership” after Sisi remarked that he – like millions of Egyptians – opposed pushing Palestinians into Sinai.⁸² It somewhat backfired. Thousands of protesters, incensed by what they saw as the authorities' attempt to exploit what was happening in Gaza for political purposes, broke through police lines to reach Tahrir Square, centre stage for the 2011 movement that toppled Mubarak, shouting anti-Sisi slogans.⁸³ Security forces arrested around a hundred people.⁸⁴

A gap between state and society was also evident in the response to calls for an anti-West and anti-Israel commercial boycott. Starting in early October, a grass-roots campaign to stop buying products associated with the Israeli occupation of the Palestinian territories spread rapidly through Egypt, hurting sales for companies

⁷⁹ For analysis of the link between pro-Palestinian protests in Egypt in the early 2000s and the popular protests in 2011, see Reem Abou-El-Fadl, “The Road to Jerusalem through Tahrir Square: Anti-Zionism and Palestine in the 2011 Egyptian Revolution”, *Journal of Palestine Studies*, vol. 41, no. 2 (Winter 2021); and Hossam El-Hamalawy, “From Palestine to Tahrir Square”, *Spectre Journal*, 15 January 2024.

⁸⁰ Hesham Sallam, “The Egyptian Public and the War on Gaza”, *Middle East Report*, no. 309 (Winter 2023); and Reem Abou-El-Fadl, “The war on Gaza has sharpened Egyptian popular grievances – both on Palestine and at home”, *The Guardian*, 29 November 2023.

⁸¹ Omar Sharara and Sara Seif Eddin, “Police forces stop pro-Palestinian demonstration in Azhar mosque”, *Mada Masr*, 13 October 2023.

⁸² “Why is Sisi asking for a ‘popular mandate’ to deal with the Gaza crisis?”, *Al-Araby al-Jadeed*, 20 October 2023 [Arabic].

⁸³ Ahmed Azab, “Egyptian demonstrations to give mandate turn into support for Gaza and enter Tahrir Square”, *Al-Araby al-Jadeed*, 20 October 2023 [Arabic].

⁸⁴ “More than 100 detained in Egypt after pro-Palestinian protests – lawyers”, Reuters, 24 October 2023.

such as Starbucks, McDonalds and Pepsi, despite local business associations warning that Egyptian workers might lose their jobs.⁸⁵ Unwilling to approve or condemn this mobilisation, the authorities avoided comment.

The December 2023 presidential election was something of a non-event amid all the tumult, neither sparking unrest nor addressing public frustration. Sisi won comfortably – an outcome that was never in doubt. The authorities appear to have hoped to stage-manage the race to make it look more competitive than the one in 2018, when Sisi received 97 per cent of the vote. Still, they did not feel comfortable allowing his challengers to mount genuinely independent campaigns. Presidential hopeful Ahmed Tantawi, a former parliamentarian, had emerged as the most popular of them, energising supporters with outspoken criticism of Sisi's policies. But harassment and administrative hurdles prevented Tantawi from gathering the required endorsements, forcing him to abandon his candidacy and ending any semblance of an open contest.⁸⁶ Sisi wound up running against a handful of others with small followings, garnering 89.7 per cent of the vote. The preceding repression got little scrutiny abroad, thanks to Egypt's prominent role in diplomatic efforts to bring the Gaza war to a close.

Six months into the war, there is considerable public horror at the scale of Palestinian suffering and strong desire among opposition figures to express solidarity with Gaza.⁸⁷ Many Egyptians, especially younger activists, are frustrated at Egypt's perceived weakness in the face of Israel's military campaign.⁸⁸ Some have accordingly speculated that activism related to Gaza could breathe new life into anti-government agitation.⁸⁹ Pro-Palestinian protests during the second intifada in the early 2000s provided a training ground for the anti-Mubarak movement. The current mobilisation may offer opportunities for younger Egyptian activists to exchange ideas and test tactics. The generation that has come of age since Sisi rose to power in 2013 could lead the way: these young people did not suffer the bitter disappointment that has coloured the views of their elders, who led the uprising against Mubarak and then watched as the country's democratic experiment collapsed.

Such possibilities are not lost on the authorities themselves. They continue to act with a heavy hand to suppress pro-Palestinian mobilisation. Following an early

⁸⁵ Thaer Mansour, "Egyptian companies hit by boycott for Gaza 'illegally' pass cost to workers", *The New Arab*, 4 December 2023; and Muhammed Khalid, "Boycott campaigns in Egypt: Effective weapon or friendly fire?", *al-Ahram*, 3 November 2023. The boycott occurred in tandem with similar popular actions in other Middle Eastern countries.

⁸⁶ "Main opposition hopeful abandons run for Egypt presidency", *France 24*, 13 October 2023. Judicial authorities later charged Tantawi with disseminating unauthorised endorsement forms, sentencing him to one year in prison and banning him from running for parliament for five years. The court suspended his sentence after he paid bail and appealed the verdict. Thaer Mansour, "Egypt sentences ex-presidential candidate Ahmed Tantawi to a year in prison for 'unauthorised endorsements'", *The New Arab*, 7 February 2024.

⁸⁷ Crisis Group telephone interview, Egyptian activist, April 2024.

⁸⁸ Crisis Group telephone interview, Egyptian opposition leader, April 2024.

⁸⁹ See, eg, Reem Abou-El-Fadl, "The war on Gaza has sharpened Egyptian popular grievances – both on Palestine and at home", *op. cit.*

April protest at the Journalists' Syndicate in Cairo, for example, the authorities arrested ten participants, perhaps triggered by anti-government slogans and chants.⁹⁰

VI. Steps to Preserve Egypt's Stability

The war in Gaza has had costs and benefits for Cairo. It has cast Egypt's exposure to regional turmoil in sharp relief, creating a humanitarian catastrophe on the country's eastern border that could threaten national security. The war has also highlighted Egypt's structural economic weaknesses, hitting its main sources of foreign currency. The government has struggled to control popular mobilisation, as protesters refuse to play by its rules. Yet Cairo has leveraged Western fears of instability to extract concessions from its main foreign partners. While unable alone to counter Israeli threats of Palestinian mass displacement, its firm rejection of that option (along with other Arab governments) helped hammer home the dangers, as Egyptian officials intimated that they might suspend or revoke the 1979 treaty were Palestinians expelled from Gaza. It has also retained a central position in negotiations about a Gaza ceasefire and, possibly, the future of the Israeli-Palestinian conflict. It has secured new funds from the UAE, IMF and EU that should help the country weather the war's repercussions, despite refusing to comply with IMF-mandated reforms.

In the medium to long term, however, Egypt's weaknesses are likely to come back to haunt the authorities. The economic situation remains precarious, as the authorities have not yet presented a development model for the future. Politically, it is unclear whether the impact of the exchange rate devaluation and rising living costs will trigger unrest, though there was no such sign in the immediate aftermath of the March devaluation. Nor has the danger of a Palestinian exodus from Gaza into the Sinai entirely subsided, particularly if the Israeli operation in Rafah expands.

Against this backdrop, Egypt's Western and Gulf partners should continue to amplify Cairo's uncompromising opposition to any suggestion that Palestinians be displaced from Gaza and support an immediate ceasefire. Washington and European capitals should continue to support Egyptian and Qatari mediation efforts, which remain the best option for ending hostilities in Gaza. Likewise, Western partners should signal clearly to both Egypt and Israel the need for diplomacy to find a compromise on the Philadelphi corridor that neither impinges on Cairo's sovereignty nor neglects Israel's security concerns. The solution should include immediate steps to re-establish the humanitarian aid access that has been disrupted by Israeli military operations in Rafah.

As for financial help, the EU and IMF should strive to balance their understandable wish to provide support for Egypt with continuous pressure to enact much-needed

⁹⁰ "Egyptian authorities arrest 10 after a pro-Gaza rally calling for severing ties with Israel", Associated Press, 5 April 2024. A participant in the demonstration noted that most of those arrested were veteran activists who had participated in the 2011 uprising. This person also pointed to the harsh anti-government slogans, as opposed to chants simply expressing solidarity with Gaza, as the potential reason for the arrests. Crisis Group telephone interview, Egyptian opposition leader, April 2024.

political and economic reform. Both institutions should still press Cairo to fully implement its State Ownership Policy and apply it to those sectors that were left out of this measure to level the playing field for the private sector. While these reforms are undoubtedly sensitive, they would, as the IMF stipulated in the updated program agreed with Egypt, help strengthen the country's long-term political and economic stability. In particular, the EU should clearly define what it expects to see from Egypt on the economic front, including streamlining trade requirements and simplifying regulations for the business sector. In addition, the EU should make sure that the trade and investment opportunities afforded by its financial aid package to support Egyptian firms in the renewable energy and digital sectors do not end up reinforcing the military's grip on the economy.

The EU should also press the Egyptian authorities to make the governance reforms highlighted in the EU-Egypt joint declaration, such as Egypt's National Strategy for Human Rights. While this policy includes some positive recommendations, such as curbing pretrial detention and reducing the number of crimes punishable by death, the EU should try to go beyond its limited scope.⁹¹ In particular, the Europeans, with support from the U.S., should encourage Cairo to introduce measures to protect Egyptians' right to demonstrate peacefully and organise in political parties. Given how U.S. and European authorities have dealt with pro-Palestinian protests during the war in Gaza, the Egyptian government is likely to be less receptive to such admonishments than usual. Its Western partners are aware of this problem. In explaining U.S. silence on the conduct of Egypt's presidential election campaign, a U.S. official said, "We know the Egyptians really don't want to hear from us on any of this at the moment".⁹² Still, the West should not simply drop the subject altogether.

Since ousting President Morsi in 2013, the military has worked assiduously to squelch independent political life, but this approach has cost Egypt considerable international good-will, spurred an alarming brain drain and walled off the leadership from salutary public debate. Systematically excluding civil society and political opposition groups from policy discussions has stoked frustration throughout Egyptian society and made decision-makers often unable to incorporate the concerns of constituencies like the private sector, civil society and labour unions, fueling the risk of destabilising unrest in the near or distant future. Beginning the process of political reform – potentially including the release of political prisoners, allowing peaceful protests and laying out transparent rules for establishing parties and running news outlets – would build a sturdier foundation for getting through future crises.

⁹¹ "Egypt: 'Disconnected from reality': Egypt's National Human Rights Strategy Covers Up Human Rights Crisis", Amnesty International, 21 September 2022.

⁹² Crisis Group interview, U.S. official, Washington, November 2023.

VII. Conclusion

The Gaza war is a reminder of Egypt's historical and political enmeshment in the question of Palestine. In 1979, when Egypt signed the first treaty between Israel and an Arab state, it antagonised the PLO and people around the Arab world by forging what amounted to a separate peace. Cairo's priority in coming to terms with Israel was to regain control of the Sinai. In putting this interest first, Egypt realigned regional politics but without insisting on a just, lasting solution for the Palestinians – an approach that, in some ways, foreshadowed other Arab states' normalisation deals with Israel. Since the 1979 treaty, Egypt has striven to balance its national interests, particularly related to insecurity in the Sinai, with support for the Palestinian cause. Concretely, this effort has meant rejecting any direct responsibility for the plight of people in Gaza while backing attempts to reach a diplomatic settlement based on the two-state solution.

Today, with the Gaza war entering a new and dangerous phase, Egypt once again finds itself in a precarious position. It has shored up global opposition to forcible displacement from Gaza, while securing aid and investment to deal with the economic repercussions of the crisis. But serious risks remain. It is imperative for Western and other partners to reaffirm their own stance against displacement, while simultaneously exerting pressure on Israel and Hamas to halt hostilities and getting more aid into Gaza. At the same time, they should balance their understandable concerns with Egypt's stability in the short term with a focus on reforms that could boost the country's longer-term resilience.

Cairo/Washington/New York/Brussels, 16 May 2024

Appendix A: About the International Crisis Group

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early-warning bulletin, providing a succinct regular update on the state of play in up to 80 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

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Comfort Ero was appointed Crisis Group's President & CEO in December 2021. She first joined Crisis Group as West Africa Project Director in 2001 and later rose to become Africa Program Director in 2011 and then Interim Vice President. In between her two tenures at Crisis Group, she worked for the International Centre for Transitional Justice and the Special Representative of the UN Secretary-General in Liberia.

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