

Egypt's Security and Economic Nexus

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INTRODUCTION

Since the Arab Spring and the 2011 uprising², Egypt's stability has been challenged by three regime changes within six years, a destabilized Libya on its western border, increased terrorism, and serious economic crises. Despite these tests, Egypt has remained relatively stable and averted descending into the same chaos seen in Libya, Syria and Iraq, a stark and noticeable contrast in a region that has been otherwise imploding. This paper aims to explore Egypt's turmoil and stability by focusing on Egypt's security and economic nexus.

It is within this nexus that analysts predict potential flashpoints, in part due to the Islamic State's campaign in the Middle East, and a major economic transition underway in Egypt. Likewise, it is within this nexus where democratic institutions, such as NATO nations have the greatest potential to shape a constructive outcome. Recognizing the implications of the security and economic nexus is important as Egypt's trajectory has implications for many nations' strategic interests, particularly within three areas of strategic importance (geography, diplomacy, and demographics) ([Sharp, 2017](#)).

On the geographic front, the Suez Canal provides the shortest maritime route between the East and West as a passage for 8% of all annual global maritime shipping. More than 30 American warships pass annually through the Suez, making Egypt an important asset in the U.S. defense posture in the Middle East, Europe, and Africa ([Sharp, 2014](#)).

Diplomatically, Egypt plays a key role in the Israeli-Palestinian peace process and continues to adhere to the 1979 peace treaty with Israel, thereby preserving peace between the two countries. Egypt is also a staunch supporter of the U.S. fight against al-Qaeda and the Islamic State across the Middle East, allowing the American military to access airspace and intelligence. To date, more than 2,000 U.S. military planes pass annually through Egyptian territory, a number that increases several-fold during crises ([Alterman, 2016](#)).

Egypt is also the first line of defense against migration and terrorism in Europe since the influx of refugees from 2015 and 2016 ([El-Shimy et al. 2017](#)). Egypt is the Arab world's most populous nation resulting in a small fraction of migration to Europe, yet the crises in Syria and Libya have demonstrated the dire consequences of collapsing Arab states and the enormous humanitarian costs for those escaping conflict.

SECURITY

Regional turmoil and Egypt's turbulent political transition (marked by three regime changes since the 2011 Arab Spring uprising) have created fertile conditions for increased Islamist insurgency, including the emergence of the Islamic State's affiliate Wilayat Sinai in Egypt's Sinai Peninsula, and a threat from homegrown violent groups in the mainland. Some analysts have

² Also known as the January 25 Revolution.

warned that the Egyptian insurgent landscape may be shifting “in disturbing ways” as summarized in the key trends below ([Velez-Green 2017](#); [Awad and Hashem, 2015](#)).

Key Trends

Attacks spiked after 2013, but began to drop in 2016. The number of insurgent attacks in the Sinai Peninsula and the mainland increased from around 370 in 2013 to nearly 1,100 in 2015 before dropping to slightly below 800 in 2016 ([Egypt Security Watch, 2017](#)). Most of the attacks were carried out on police, military personnel, or installations.

While Egypt was beset by Islamist insurgency against then-President Hosni Mubarak in the 1980s and 1990s, the level of violence since 2013 is “unprecedented in Egypt’s modern history” ([Awad et al., 2015](#)). Analysts view the removal of Muslim Brotherhood’s President Muhammad Morsi from power in the 2013 popularly-backed coup and ensuing crackdown on Islamists under the 2014 elected President Abdel Fattah el-Sisi as a defining era in the escalation of violence ([Tahrir Institute for Middle East Policy, 2015](#)).

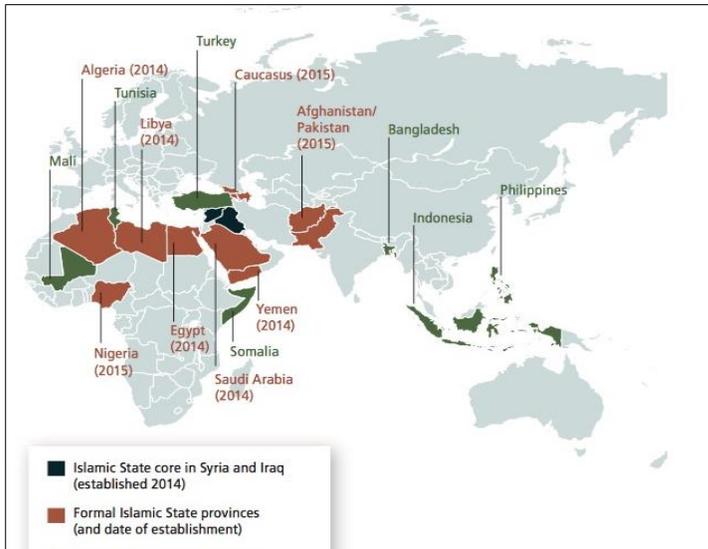
Attacks are concentrated mainly in North Sinai. While in 2013 the attacks were mostly limited to the North Sinai Peninsula, since 2015 sporadic attacks have been reported on Egypt’s mainland, particularly in Greater Cairo, Fayoum, and Sharqia ([Tahrir Institute, 2015](#)). However, in 2016 nearly 85% of attacks, or around 660 incidents, continued to be concentrated in North Sinai alone. The remaining 130 or so incidents were reported across Egypt’s mainland in 2016, which constitutes an 80% decrease in the mainland terror attacks compared to 2015 ([Tahrir Institute, 2017](#)). Many of these mainland attacks were carried out by homegrown, organized violent groups rather than the Islamic State.

New insurgent groups have emerged. According to a Carnegie Endowment for International Peace study, Egypt’s changing insurgent landscape reflects several broad categories ([Awad et al., 2015](#)). The first category includes the Sinai Peninsula-based Salafi jihadists, such as the homegrown Ansar Bayt al-Maqdis that are affiliated with Islamic State and have limited operational presence in the mainland. The second category includes mainland-based Salafi jihadists associated with, or supporters of, al-Qaeda (e.g. al-Murabitun and Ajnad Misr). The third category includes a novel type of homegrown, non-jihadi, violent groups emerging since 2014, composed of mostly Islamist youth and members of the Muslim Brotherhood (e.g. Hasm and the Allied Popular Resistance Movement). The following section elaborates on several of these groups.

Islamic State in Egypt

Since 1970, the Sinai Peninsula has been home to radical Islam and area where terrorist groups took advantage of post-2011 turmoil ([Green, 2017](#)). In the early 2000s, jihadists carried out several attacks on tourist destinations under the umbrella organization Al-Tawhid Wal-Jihad, a group later decimated by Egyptian security forces.

Figure 1. Wilayat Sinai in the Context of Islamic State State’s Global Footprint



Source: Extracted from [RAND Corporation, 2017](#).

The 2011 uprising that ended President Hosni Mubarak’s 30-year rule resulted in temporary loss of control over parts of Sinai and the release of jihadists from Egypt’s prisons ([Sabry, 2015](#); [Horton, 2017](#)). From this revolution, the homegrown terrorist group, Ansar Bayt al-Maqdis (ABM), an al-Qaeda affiliate, arose.

Initially, the group focused on Egypt’s gas infrastructure in Sinai. Once the Muslim Brotherhood’s Mohamed Morsi was ousted from his presidency in July 2013, ABM increased activity in Sinai, launching an all-out war on the Egyptian regime and security forces. Since November 2014, the

group has escalated activity by pledging allegiance to the Islamic State, changing its name to Wilayat Sinai, and becoming one of the Islamic State’s eight provinces outside Iraq and Syria (*Figure 1*).

Wilayat Sinai³, an Egypt-based Islamic State affiliate does not control major population centers in Egypt ([RAND, 2017](#)). Wilayat Sinai’s Egyptian presence is estimated at fewer than a thousand fighters in a tiny stretch of the northern part of the Sinai Peninsula. This small territory covers approximately 910 km² with approximately 100,000 residents, or less than 0.1% of Egypt’s territory and population. The group established control in the small village of Sheikh Zuweid in early 2015 and according to RAND, has not expanded its control beyond this area as of early 2017

Figure 2. Islamic State’s Control of Territory in Egypt

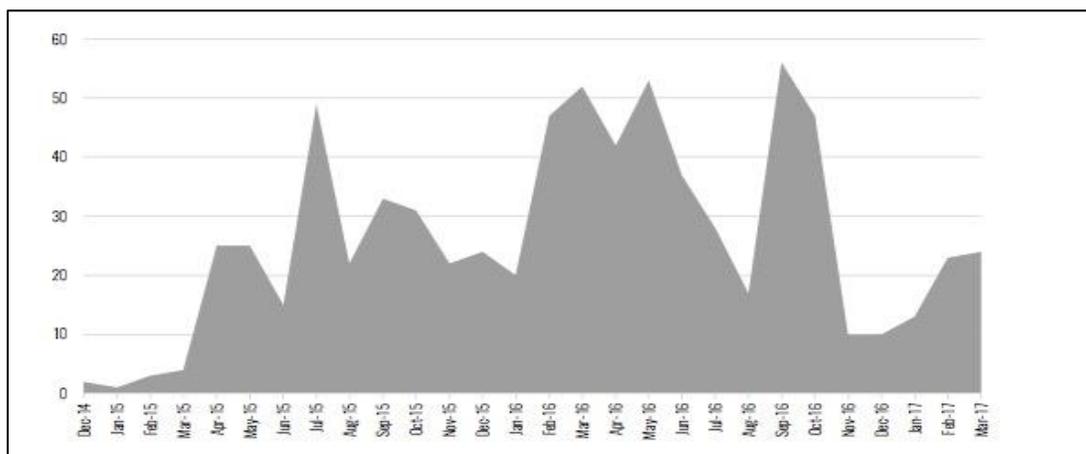


Source: Extracted from [RAND Corporation, 2017](#).

³ Formerly Ansar Bayt al-Maqdis (ABM)

(Figure 2) (RAND, 2017). The group's presence and its operations are limited almost exclusively to North Sinai. As illustrated below in Figure 3, Wilayat Sinai's attacks in Northern Sinai increased from around 140 in 2014 to over 650 in 2016, declining in the first quarter of 2017 (Egypt Security Watch, 2017).⁴

Figure 3. Wilayat Sinai Attacks in North Sinai, December 2014 – March 2017



Source: [Tahrir Institute for Middle East Policy, 2017](#)

The Islamic State alliance provided ABM access to resources and knowledge as evidenced by increased sophistication of attacks and frequency of online propaganda (Tahrir Institute, 2015). Islamic State activity in Sinai largely mirrors the tactics used in Syria and Iraq, following a clear command structure, deploying roadside bombs, suicide bombers, and snipers (Jones et al., 2017). While ABM did not advertise its activities on social media before joining the Islamic State, the group has established and deployed a social media presence since 2014. In line with Islamic State strategy, Wilayat Sinai uses media to advertise its charitable efforts, such as food distribution, as well as to issue threats and warnings to Sinai's residents against cooperation with the Egyptian military.

Egypt's Counterterrorism Strategy in Sinai

Despite launching its largest military operation in Sinai since the 1973 war with Israel, the Egyptian military has struggled to defeat Wilayat Sinai due to the challenging operational terrain of the North Sinai (Horton, 2017). Further, the Wilayat Sinai exploit long-standing anti-government grievances of Sinai's large population of Bedouin tribes who see themselves as excluded from Egypt's economic and political life. Using the Sinai's rocky landscape and lack of roads, Wilayat Sinai has ample cover for hit-and-run attacks and training, making the area difficult to patrol. The Sinai has long served as a haven for illicit trade and trafficking in arms, drugs and people, with neighboring conflicts in Libya, Syria, Iraq and elsewhere in the region

⁴ Due to media blackout in North Sinai, it is unclear whether the decline represents a real decline of attacks or decreased reporting of attacks.

providing increased opportunities for transfer of advanced weapons, fighters and knowledge to Sinai.

Other observers attribute the military's limited ability to defeat a small number of Wilayat Sinai fighters in a tiny stretch of Sinai to what many civilian critics describe as the government's "scorched earth" approach to counter-insurgency ([Aziz, 2017](#); [Laub, 2013](#)). These critics argue the army's use of conventional warfare tactics to fight an unconventional enemy has resulted in losing the hearts and minds of Sinai's alienated Bedouin tribes in the process. While most of the residents of Sinai do not support Wilayat Sinai, the government's heavy-handed counterinsurgency tactics and perceived long-standing state neglect of North Sinai have elicited distrust and anger among the local community.

As Michael Horton, a Jamestown Foundation senior analyst for Arabian affairs points out "without at least limited support or at least the acquiescence of local tribes, Wilayat Sinai's ability to operate as an effective insurgent organization would be greatly limited" ([Horton, 2017](#)). Analysts agree that while an increased Egyptian military presence in Sinai is necessary to stabilize the area, conventional warfare tactics alone are not sufficient without incorporating sustained tribal engagement and focus on civilian security and development projects ([RAND Corporation, 2017](#); [Aziz 2017](#)).

Islamic State in Egypt's Mainland

In 2015, Islamic State-affiliated cells emerged in Egypt's mainland, and since 2016 the Islamic State has claimed responsibility for several high-profile attacks in Cairo, including several attacks on Coptic churches in 2016 and 2017. Though these cells are much smaller than those operating in Sinai, their emergence proves the Islamic State's attempt to expand its foothold ([Reuters, 2017](#)). According to a RAND study, the group's activity in the mainland mirror tactics used by cells in Tunisia and Europe ([RAND Corporation, 2017](#)). Reliance is thrust on small, clandestine groups guided by uniform guidelines, such as how to make home-made bombs from directions published online.

The Islamic State targets Coptic churches to stoke sectarian tensions among Egypt's majority Muslim population and the estimated 10 million Coptic Christians. While the Islamic State has successfully heightened sectarian tensions in Iraq and Syria, experts largely argue that such a strategy would fail in Egypt where there is a strong Egyptian identity that transcends religious affiliation ([The Jamestown Foundation, 2017](#)). Similarly, Mokhtar Awad argues that the Islamic State's efforts to inflame sectarian strife in mainland Egypt where 97% of the population resides is unlikely to succeed due to the relative cohesiveness of Egyptian society and the strength of the central government. In fact, stoked sectarian violence would more likely backfire as it did in the 1980s and 1990s when jihadist attacks on civilians derailed any base of popular support ([The Atlantic, 2017](#)).

In contrast to Sinai where the Islamic State has benefited from conditions unique to the area, analysts agree that Islamic State's extreme views limit the group's appeal among the vast majority of Egyptians, without the support of whom it will be difficult to establish a strong foothold in the mainland ([Horton, 2017](#); [Velez-Green 2017](#)). Egypt's extensive experience with radical Islam and

recent involvement with the Muslim Brotherhood ousting during the popularly-backed coup, (preceded by massive protests) effectively inoculated most citizens against such ideas ([Hessler, 2017](#)). According to one European diplomat, for Egyptians supporting the Sisi-led coup, “the Islamists [in Egypt] suffered a political defeat... We tend to see them as defeated by the security forces, but the political defeat may have been just as big” ([The New Yorker, 2017](#)).

Polling data further supports this sentiment. In line with generally negative views of the Islamic State in the Arab world, only 3% of Egyptians expressed support for the group in 2014 when the Islamic State was at its height of appeal by proclaiming a caliphate in Iraq and Syria ([Pollock, 2014](#)). Since then, the Islamic State’s territory “has shriveled from the size of Portugal to a handful of outposts [and] its surviving leaders are on the run” ([The New York Times, 2017](#)).

By 2017, the Islamic State has lost substantial control over the population and territorial areas in its strongholds in Iraq, Syria, and in territories held by affiliates. In Syria and Iraq, the Islamic State’s control over Syrian and Iraqi populations declined by 56% and 83% respectively ([RAND Corporation, 2017](#)). Similarly, the group experienced a 75% drop in population control in Nigeria, almost 100% drop in Libya and 87% drop in Afghanistan ([RAND Corporation, 2017](#)). As discussed earlier, in Egypt, the Islamic State continues to control only a narrow stretch of northern Sinai.

While the major loss of territorial control in the near term may result in a spike of spectacular terrorist attacks across the globe⁵, analysts project that over time “the group’s capacity to recruit, fund, organize, and inspire such attacks will likely diminish, and its brand may lose its allure if the Islamic State no longer controls territory in Iraq and Syria” ([Jones et al., 2017](#)).

Rising Homegrown Militancy in the Mainland

Egypt is facing a novel threat of rising extremism in the mainland mainly fuelled by the fracturing of the Muslim Brotherhood following the popularly supported ouster of Muslim Brotherhood’s Mohamed Morsi from the presidency in July 2013 ([Awad, Hasem, 2015](#)). Morsi’s failed presidency, the government’s subsequent war on terror against Islamists (including a crackdown on the Muslim Brotherhood⁶), and the group’s designation as a terrorist organization has led to an internal crisis within Egypt’s largest Islamist organization, contributing to a growing radicalization of the group’s youth and rise in anti-government activity in Egypt’s mainland ([Madamasr, 2016](#); [Hasem 2016](#)).

An increasing number of Brotherhood members, especially angry youth targeted by the government’s anti-Brotherhood campaign, now reject the old guard’s strategy of nonviolent incrementalism that has, in their view, failed to yield the needed political change ([Hudson Institute, 2017](#)). As a result, “many of the Brotherhood youth now favor violent revolution instead

⁵ This includes Egypt as witnessed by high visibility attacks on Coptic churches.

⁶ The Brotherhood is the Egypt’s largest Islamist organization with supporters numbering in the hundreds of thousands or millions, according to different estimates.

of nonviolent, incremental reform,” according to Velez-Green with the Center for a New American Security ([Velez-Green, 2017](#)).

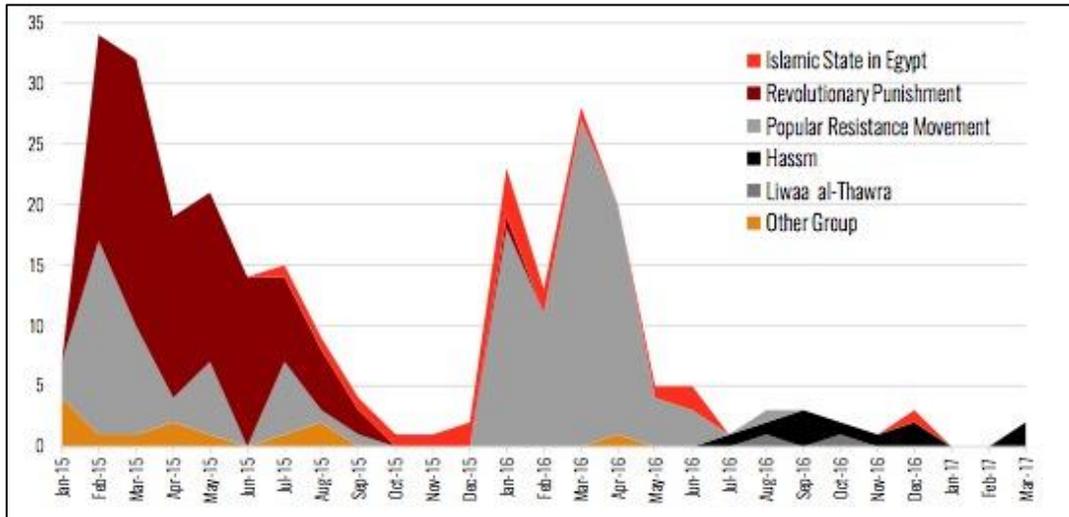
In addition, since 2013, there emerged several new, homegrown Islamist groups that do not subscribe to Salafist jihadism, as Islamic State, al-Qaeda affiliates, or supporters do. In the same way Wilayat Sinai has exploited popular discontent in Sinai, this new category of insurgent groups are attempting to exploit Muslim Brotherhood’s and other Islamists’ dissatisfaction with Sisi’s government in the mainland ([Carnegie Middle East Center, 2015](#)).

One of these newly formed insurgent groups is the Hasm Movement that declared its existence in July 2016. The Hasm Movement, whose name translated means “settling an argument,” has unsuccessfully targeted high-profile regime figures including former Grand Mufti Ali Gomaa, Assistant Attorney General Zakaria Abdul Aziz, and one of the three judges who tried former President Morsi, among other targets ([Egypt Independent, 2016](#)).

The group portrays itself as a resistance movement rather than a terrorist cell and calls for an end of military dictatorship ([Tahrir Institute, 2017](#)). Thus far, the Hasm Movement is nationalist in focus, exhibiting relatively moderate religious views (for instance condemning Wilayat Sinai’s attacks on Coptic churches), and does not appear to have ambitions beyond Egypt. Similarly, groups like Ajnad Misr and the Allied Popular Resistance Movement position their rhetoric around unfulfilled revolutionary demands and the illegitimacy of the state to attract supporters. These groups’ revolutionary narrative resonates with Egypt’s disaffected Islamists more so than with Islamic State’s calls for jihad against an apostate regime ([Velez-Green, 2017](#)).

To date, the Egyptian regime has contained the threat these groups pose in the mainland as the ability to launch large-scale terror attacks has been limited ([Horton, 2017](#)). However, analysts project that this type of violence will likely continue to come in waves, with periods of intense activity and others of dormancy as security forces gain the upper hand ([Awad et al., 2015](#)). This fluctuation in violence (periods of intense activity and others of dormancy) is demonstrated in *Figure 4*. In sharp contrast to periods of increased violent activity in mainland Egypt outside of Sinai in the first quarters of 2015 and 2016, in the first quarter of 2017 claimed attacks dropped to three incidents, representing the lowest Q4 incidence of terrorism in mainland Egypt in the past 4 years ([Egypt Security Watch, 2017](#)).

Similarly, while analysts project that waves of attacks by the jihadi terror groups such as Sinai-based Islamic State affiliate Wilayat Sinai and al-Qaeda supporting al-Murabitun will continue, these groups are unlikely to pose an existential threat to the Egyptian regime unless they successfully exploit the anti-government sentiment among Islamist youth to establish a strong foothold in the mainland’s major population centres. Mokhtar Awad and Mostafa Hasmem, specialists in Islamist and Salafist groups in Egypt caution that the true prize is the potential thousands of recruits from the current amalgam of thus-far non-jihadi violent youth and the ranks of the Muslim Brotherhood and other anti-governmental Islamists ([Awad et al., 2015](#)).

Figure 4. Claimed Attacks in the Egypt's Mainland

Source: [Egypt Security Watch](#), The Tahrir Institute for Middle East Policy, 2017.

ECONOMIC DEVELOPMENTS

As discussed in the previous sections, the Islamic insurgency poses a threat, but will not likely destabilize the entire country with terroristic acts ([Pusztai, 2015](#)). Observers consider Egypt's economy as arguably the country's greatest source of potential future instability ([International Crisis Group, 2017](#)). Since 2011, the political turmoil and concerns about terrorism have deterred investors and tourists, causing revenues to plummet and sending Egypt into an economic downfall.

In November 2016, at the height of its economic crisis, Egypt signed a \$12 billion, 3-year loan program with the International Monetary Fund (IMF), providing Sisi's government with a temporary solution. In exchange for the loan, Egypt has embarked on a major economic reform program, including strict austerity measures, the liberalization of the currency, reducing energy subsidies and public wages, introducing a value-added tax, and reforms to the business environment ([World Bank, 2017](#)).

While these reforms are important steps towards restoring the competitiveness of the Egypt's economy, bolstering the private sector and attracting foreign investment, the reforms are straining the population in the short term. Annual inflation and food prices increased approximately 30% in 2017, a serious indicator in a country where large segments of the population live in poverty and therefore spend a greater percentage of their income on food ([Bloomberg, 2017](#); [Associate Press, 2017](#)).

These painful reforms are taking place against the backdrop of an overall unemployment rate oscillating around 13% with youth unemployment at around 36% in a country of 90 million, where more than half of people are below the age of 30 ([CAMPAS, 2016](#)). While the increased

living costs have triggered sporadic public unrests, observers largely agree that following the several years of unrest and insecurity, the population is exhausted and largely recognizes the necessity of reforms ([Masr, 2016](#); [El-Shimy, Dworkin, 2017](#)). Indeed, some note that even Sisi's fiercest critics fear the alternatives ([The New Yorker, 2017](#)). In the context of the Arab Spring and the ensuing domestic and regional turmoil, older generations see Sisi as standing for order. According to Anwar Sadat a former activist in Egypt, "...whether Sisi is a perfect choice or not, we have no choice but to have him succeed...Egypt cannot afford a third revolution" ([The New Yorker, 2017](#)).

Sisi came to power in 2014 after an estimated fourteen million people protested the government of Muslim Brotherhood's Mohamed Morsi. Taking 96% of the vote, Sisi promised security, stability and economic prosperity. The fact that Sisi's focus on economic and security stabilization continues to resonate with the large segments of the population is apparent in polls which demonstrate that Sisi's popularity remains relatively high. At the end of 2016, Sisi's approval rating reached 82% among those of age 50 or more and 50% of those younger than 30 years which constitute approximately 60% of Egypt's population ([AllAfrica, 2017](#)).

Prospects

Despite the short-term pain, experts project that the IMF bailout package and the reforms underway have the potential to improve Egypt's economy in the long-term. In 2017, Egypt's economy has started to show improvements, demonstrating that the bitter treatment (in the form of the IMF reforms) is starting to work ([The Economist, 2017](#)). Moody's January 2017 sovereign outlook for the Levant and North Africa gave Egypt the highest strength assessment in the region by early February 2017, and Egypt's Foreign Exchange Reserves increased by nearly \$10 billion compared to 2016 ([Moody's, 2017](#); [Congressional Research Service, 2017](#)). The World Bank forecasts the country's economic growth will reach 3.9% by the end of 2017, accelerating to 4.6% in 2018, and 5.4% in 2019 if Egypt follows through on reforms ([The World Bank, 2017](#)).

While in the near term, high inflation is likely to have a negative short-term effect on Egyptian households, the World Bank further projects that inflation will decrease to 14.2% in 2018, further easing to 11.3% in 2019 ([The World Bank, 2017](#)). In an effort to alleviate the pressure on the most vulnerable population, the Egyptian government is required to reallocate a portion of savings from tax increases and subsidy cuts to social protection programs to support the poor and elderly.

In another positive sign of the cautiously improving economic condition, the Egyptian currency float required by IMF has attracted foreign investment into the Egyptian market. In another clear sign of growing confidence in the Egyptian economy, major European energy companies are investing in Egypt again, and demand for Egyptian government bonds and treasury notes increased substantially in early 2017([The Economist, 2017](#)). At the same time, the weaker currency and the introduction of tariffs on imports have reduced Egypt's trade deficit and helped local Egyptian businesses, particularly those in manufacturing, as consumers switched from expensive imports to cheaper domestically sourced alternatives ([The Economist, 2017](#)).

Several of Sisi's ambitious investment programs are also paying off, while other programs are demonstrating a potential to bolster the economy in the future. The Zohr gas field, discovered in the Mediterranean in 2015, is projected to bring billions of dollars' worth of natural gas into the economy for domestic use or export ([El-Shimy et al. 2017](#)). The Cairo population will also benefit from the extension of its underground metro service and a new network of highways connecting previously under-served communities.

In light of these developments, in its first review nearly a year since Egypt signed the \$12-billion loan in November 2016, the IMF evaluated Egypt's economic performance as being on track, resulting in a new \$1.25 billion disbursement ([Associated Press, 2017](#)). According to the IMF report, "Macroeconomic stability is still fragile and the reform agenda is difficult, but the authorities have demonstrated a strong resolve to contain the risks" ([International Monetary Fund, 2017](#)).

The first signs of improved confidence in Egypt's stability are also evident in the tourist industry which serves as one of Egypt's leading foreign currency exchange providers and a key contributor to both GDP and job creation. The number of tourists visiting the country declined sharply after the 2011 Arab Spring uprising, particularly following the 2015 downing of a Russian passenger plane over the Sinai by the Islamic State which led to a 50% revenue drop in 2016 compared to the previous year ([Express, 2016](#)). However, sector participants such as Ayman Altaranissi, director general of the Egyptian Tourism Federation, argue that it is important "to keep the troubles in perspective," with industry executives arguing that the situation "has been distorted and exaggerated, with the international press choosing to focus on the few tragedies and missing the larger picture" ([Oxford Business Group, 2017](#)).

Despite the decrease, the tourism market has overall proven resilient as tourism from local and regional destinations remained strong and the market never shut down completely. While the totals had dropped to 2005 levels from their historic highs, "they were still twice the 1982-2005 average of 469,000 visitors a month," and tourism continued to contribute between around 11%-14% to the Egypt's GDP every year since 2011 compared to a high of 19.5% in 2007, according to the World Travel & Tourism Council ([Oxford Business Group, 2017](#)). In its effort to re-establish Egypt's position on the tourism market, following the 2015 incident involving foreign visitors, the Egyptian government in collaboration with international partners embarked on strengthening security procedures at airports and in hotels. While security concerns and flight bans have continued to hinder the sector's full recovery, in 2017 the tourism sector began to see cautious signs of improvement as foreigners take advantage of cheap hotel bargains caused by the devaluated Egyptian pound ([The Economist, 2017](#)). Indeed, visitor numbers increased by 54% in the first 7 months of 2017, compared to the same period in 2016. Tourism revenue rose to \$1.5 billion in the fourth quarter that ended in June 2017, from \$510 million in the same period a year ago ([Bloomberg, 2017](#)).

Following the ouster of President Morsi Mohamed Morsi in 2013, Egypt's economy and security has also benefited from improved relations with more affluent regional powers such as Israel and anti-Muslim Brotherhood governments in Saudi Arabia, United Arab Emirates and Kuwait, with

the latter group of oil-rich Arab states providing approximately \$23 billion to help the President's Sisi's regime stabilize the economy at the beginning of his presidency ([Al Jazeera, 2017](#)).

Youth and Unemployment

The continued success of these reforms is crucial for long-term stability given the country's projected population increase. According to a Carnegie Endowment for International Peace study, Egypt's population of around 90 million in early 2017 is increasing by approximately 1 million every six months, with more than 600,000 job seekers entering the labor market every year ([Dunne, 2017](#)). This number will increase in coming years as Egypt's population rapidly multiplies, with demographers projecting an increase to 150 million people by 2050 ([Newsweek, 2017](#)). According to Egypt's state statistics-gathering body, the future unemployment problem "constitutes a threat to national security," and is "worse than terrorism," considering that the revolution in 2011 was partially triggered by the economy's inability to absorb the hundreds of thousands entering the job market each year ([Newsweek, 2017](#)).

In an analysis of the causes of youth unemployment in Egypt, the Brookings report *Educated but Unemployed: The Challenge Facing Egypt's Youth* warns that if the specific problem of youth unemployment is not addressed, Egypt will likely face instability – and perhaps another uprising in the years to come ([Brookings Institution, 2016](#)). Abdel Ghafar's research shows that due to mismatched skills, it is difficult for educated Egyptians to find work as evidenced by the unemployment rate of 34% for university graduates compared to just 2.4% of youth who have less than primary level education ([Ghafar, 2016](#)). A survey by the International Labour Organization (ILO) showed that around 48% of Egyptian youth are working in jobs that do not match their education, while a 2014 World Bank study revealed that private sector firms were not able to find qualified candidates for 600,000 vacancies despite the large pool of job seekers ([World Bank, 2016](#); [World Bank 2014](#)). At the same time, critics argue that Sisi's current economic policies are not positioned to attract labor-intensive industries or services investment, and do not encourage creation or growth of the small and medium enterprises, which have the capacity to create the most jobs ([Dunne, 2017](#)).

CONCLUSION

The 2011 uprising and the turmoil that followed both in Egypt and the region tested Egypt's stability. Since 2011, the country has experienced three regime changes, increased domestic Islamist insurgency, terrorist threats from the Islamic State both in Sinai and the mainland, and an enduring, yet fragile economic recovery. Despite these challenges, and in sharp contrast to other regional countries most notably Libya, Syria and Iraq, Egypt has managed to navigate the domestic and regional turmoil without descending into instability and chaos.

So far, the Egyptian regime has kept in check the development of the Islamist insurgency, but the threat has potential to escalate in the future. In the Sinai Peninsula, the Islamic State has benefited from conditions particular to Sinai, and the group's efforts to establish a strong foothold in mainland Egypt are faltering despite a number of high visibility attacks against Coptic churches.

However, there is a consensus among experts that if the jihadi groups succeed in expanding to the mainland by recruiting potentially thousands of non-jihadi, anti-governmental Islamists, particularly dissatisfied youth and the ranks of the marginalized Muslim Brotherhood, the Islamic State could pose an increased threat to Egypt's security.

The geopolitical importance of Sinai makes addressing increased instability critical. Although geographically isolated between the Suez Canal and the Arabian Peninsula, Sinai links key regional states such as Egypt, Palestine, Jordan, Israel and Saudi Arabia ([Middle East Institute, 2017](#)). Following the loss of territory in its major strongholds in Syria and Iraq, analysts caution that the continued foothold in Sinai is now "more important to ISIS than ever" ([Middle East Media Research Institute, 2017](#)). While it is difficult to predict what impact an Islamic State collapse in Syria and Iraq, and potential return of foreign fighters will have on Wilayat Sinai, analysts warn that the Islamic State may focus on the Sinai Peninsula as an alternative to lost territory and as a gateway to Egypt and also North Africa, Israel, Gaza, Jordan, and Saudi Arabia ([Green, 2017](#)).

Equally critical are the outcomes of the current economic reforms. Egypt's economy has been recovering from its lowest point in decades and is the country's greatest source of potential instability in the long-term. Sisi's government made genuine attempts to stabilize and reform the economy and these efforts are beginning to deliver positive outcomes. However, it remains to be seen whether the government will continue to build on these positive indicators in the years to come. The danger is that any unchecked increase in violence will exacerbate the economic hardship of this Arab world's most populous nation, triggering a vicious cycle of popular discontent and socioeconomic protests that radical groups will exploit, plunging the country into instability.

This scenario is by no means inevitable. RAND Corporation experts argue that Egypt, along with the support of the international community, has the capability to degrade the Islamic State and improve security in Egypt and the region ([Jones et al., 2017](#)). Egypt's approach to counterinsurgency in the coming years, its ability to partner with allies and adopt best counterinsurgency and counterterrorism practices, and its willingness to continue to carry out the necessary economic reforms to provide opportunities for its increasing youth population will determine whether the Islamic State finds fertile ground in the mainland or whether Egypt will remain a relative island of stability in this turbulent region.

RECOMMENDATIONS

MILITARY AND SECURITY

- Alexander Velez-Green at The Center for a New American Security recommends President Trump uphold former President Obama's decision to deny Egypt's use of U.S. provided foreign military financing grants to buy new conventional assets, such as the F-16 fighter jets and M1A1 tanks. He argues that "future U.S. military aid to Egypt should be restricted to the equipment required to conduct counterterrorism, border security, Sinai security, and maritime security missions" ([Velez-Green, 2017](#)).

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- According to Seth Jones at RAND Corporation, in the near term, U.S. and European NATO counterparts should focus on advising and training Egyptian security forces in counterterrorism and counterinsurgency best practices to create a proactive rather than reactive security strategy for the mainland and the Sinai Peninsula ([Jones, et al., 2017](#)). On a related note, NATO partners might also consider prioritizing the development of programs designed to facilitate the exchange of intellectual capital between NATO nations' and Egyptian law enforcement practitioners. Particular focus should be given to identifying and cultivating best practices for the use of force to manage protests in the social media era ([Velez-Green, 2017](#)).
- A major RAND Corporation study on the Islamic State concludes the U.S. and other NATO allies should pursue a “light roll-back strategy” by improving the capacity of Egypt to help address the underlying grievances among local populations that have allowed the Islamic State to gain a foothold in Sinai. In the expectation that the loss of Islamic State territory in Iraq and Syria will lead to a reverse flow of foreign fighters to North Africa, the study recommends expanding basing access in North and West Africa ([Jones et al., 2017](#)).
- RAND Corporation advises focusing on a population-centric strategy in which internal security forces establish a presence in the Sinai Peninsula's population centers. The goal is to create conditions where local residents feel confident to report on Islamic State-Sinai Peninsula activities and provide the government the intelligence necessary to penetrate and ultimately “break the terrorist network” ([Jones et al. 2017](#)).
- Along similar lines, Sahar Aziz at Brookings argues Egypt and its U.S. and European allies should shift some resources from the current military-driven model to a development-driven model that incorporates and empowers Sinai residents to become partners in both weakening terrorists and improving the quality of life in Sinai ([Aziz, 2017](#)).
- Steven Cook with the Council on Foreign Relations recommends developing a trilateral American-Egyptian-Israeli security, intelligence, counter-terrorism mechanism that facilitates the flow of information among the security establishments of all three countries ([Cook, 2014](#)).

SOCIO-ECONOMIC DEVELOPMENT

- Experts from the European Council on Foreign Relations and the Center for a New American Security recommend a U.S. and European offering of additional economic aid to help the Egyptian government provide or finance food and other important social welfare initiatives as well as technical assistance to facilitate Egypt's pivot to economic liberalization ([El-Shimy & Dworkin, 2017](#); [Velez-Green, 2017](#)).
- Anticipating economic reform will likely be a slow and painful process, the U.S. and European partners should consider encouraging the Sisi administration to design a political agenda to mitigate blowback caused by slow or failed economic reform. This agenda's goal should be to provide Egyptian Islamists with an outlet for their grievances that do not include violence ([Velez-Green, 2017](#)).
- Michelle Dunne with the Carnegie Endowment for International Peace calls for assisting Egypt investment in human development, particularly in the Sinai Peninsula, by devoting a large sum of new economic assistance to merit-based scholarships at leading universities,

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including the American University in Cairo, or vocational training at quality institutions. ([Dunne 2017](#)).

- Sarah Azis at Brookings advises the government to introduce regulation demanding all businesses benefiting from development or government aid to hire Sinai residents in an effort to incorporate Sinai residents into development strategies ([Aziz, 2017](#)).
- Instead of the military crafting or managing development projects in Sinai, the state could consider granting private development experts and qualified officials in the ministries of local development, education, health, and housing a leading role in converting Sinai from a conflict zone into a safe and prosperous governorate ([Aziz, 2017](#)).
- Along similar lines, Aziz and Jones et al. advise to better incorporate the residents of Sinai into the process of making and implementing strategies in the region. Jones et al. recommends that Egypt should increase its engagement with tribes in Sinai, such as the Tarabin in the northern area of the peninsula, to resist the Islamic State's encroachment on tribal lands. Aziz argues the Egyptian government could consider enacting affirmative action and quotas for Sinai residents' participation in local government ([Aziz, 2017](#); [Jones et al., 2017](#)).
- The World Bank advises refocusing active labor market policies on building a skilled labor force to support reintegration of those unemployed into the labor market. The proposed intervention is launching a national skills development and employment programme, which incorporates technology-based solutions, such as projecting future skills demanded by the labour market, bridging the information gap, offering targeted training programs, career counselling services, improving job matching, and job search efficiency ([World Bank, 2017](#)).
- Carnegie and Brookings call for greater attention to the root causes of youth unemployment in Egypt and, in particular, the Egyptian higher education system and the mismatch between needed skills and graduates ([Ghafar, 2016](#)).
- Ultimately, the Egyptian government and its Western donors should commit to a long-term, development plan that "prioritizes human development, recognizing that it is a prerequisite for sustainable security ([Aziz, 2017](#)).

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