

The Influence of U.S. Aid on Egypt's Economic Development

Xiyao Zeng^{1,*}

¹*School of Maritime Economics and Management, Dalian Maritime University, Dalian, Liaoning, 116026, China*

**Corresponding author. Email: zxy098@dlmu.edu.cn*

ABSTRACT

Different types of foreign aid have different effects. And the impacts on the recipient countries always changes. Since Egypt has received aid from the U.S. for a long time, there are many different perspectives about the positive and negative influence of U.S. aid. This analysis can be used for reference for future study of the aid relationship and finding a suitable method to overcome the negative effect of aid. This article concludes by summarizing and analyzing the existing articles. Overall, while the aid helps Egypt overcome the difficulties and encourage the liberalization of the economy. Some disapproval voices show that Egypt is dependent, and the aid did not play an effective role in Egypt's economic development. At the same time, a few quantitative research also show the negative influence of U.S. aid in the short and long term. And the government needs to change its way of planning aid. It is not aid that contributes to the positive and negative influence, but the way donors provide aid and the way recipients use the aid that counts.

Keywords: *U.S. aid, Egypt economic development, U.S.-Egypt relationship, Foreign aid*

1. INTRODUCTION

Egypt is a large recipient of U.S. aid; we cannot analyze its economic development without U.S. assistance which includes military and economic aid. After a long time of development, foreign aid has become one of the important elements of Egypt's economic development [1]. Because of the differences in the level of the development of the productive forces, political environment, diplomatic policy, there are always aid relationships between Egypt and United States. And Egypt has been receiving military, economic and social aid for many years. Therefore, the economic development in Egypt is somewhat influenced by U.S. aid.

In the first place, Egypt faced different development dilemmas. And they need the aid to pull through. Meanwhile, U.S. aid shows its benefits in Egypt's economic growth, reform, and liberalization. The most prominent one is the "Open Door" policy during Sadat's administration which is widely regarded to be promoted by U.S. aid. While former president Nasser favored socialism, infitah was a huge transformative policy. Infitah facilitated the growth of the private company and introduced a lot of foreign capital [2]. At the same time,

it was criticized which shows that there are not only positive influences but also some bad effects in U.S. aid. As time passed, many articles put forward doubts about the effectiveness of U.S. aid. They argue that Egypt's economic development depend too much on foreign aid that the ability of independence declined, and the competitiveness of domestic industry was weakened [3]. For example, in agriculture, most of the food in Egypt is imported and this discouraged the enthusiasm of farmers.

However, we can still see the growth in the GDP of Egypt. Is that a sign that the benefits of U.S. aid in Egypt outweigh the disadvantages? One quantitative research shows that in the short term, U.S. aid has a positive influence. But when we observe the aid for a longer time, the negative effects appear [4]. In this article, we are trying to discuss the positive and negative impacts of U.S. aid in Egypt through different qualitative research and quantitative researches.

This article uses foreign aid in Egypt, U.S. aid and Egypt economic development, U.S. aid to Egypt, and U.S. assistance to Egypt as the keywords for research. The resources are from Google Scholar and ACADEMIA. And the time range is from 1970 to 2021. There are twelve articles selected for analysis, and in the

following content, we will classify these articles and make a summary.

2. U.S. AID AND ECONOMIC CHANGES IN EGYPT

2.1. U.S. Aid Contributed to The Liberalization of Egypt's Economy

From president Nasser to his successor Sadat, Egypt received aid from different camps. At the same time, economic reform was conducted with the political environment changing. The socialist economy in favor of the Soviet Union was no longer the direction of Egyptian policymaking. Instead, Egypt's economy was moving towards a mixed economy and openness. At the same time the main donor of foreign aid to Egypt was also changed from the Soviet Union to the United States. And the open economic environment has created many opportunities as well as challenges for Egypt.

2.1.1. Policy under Nasser

While Nasser's goal is the establishment of a united Arab country, the U.S. aims to keep peace and stability in the Middle East. The differences between them result in their tense relationship [5]. Because Nasser's government refused to follow the open economy, the aid from the U.S. was limited [6]. As a result of shrinking the aid of the U.S. and British to build the Aswan Dam, Egypt nationalized Suez Canal [7].

And Egypt under Nasser turned to rely on Soviet aid. Its policies were introduced towards socialism. The government nationalized the financial institutions [7]. Financial development is not determined by the market itself but is controlled by the Egyptian government. The agricultural reform policy limited private property, and the private enterprises were nationalized with the implementation of two five years plans of industrialization. The relationship between market supply and demand is no longer the decisive factor of economic development. However, the alliance broke down at the beginning of Sadat's reign when the Soviet Union refused to provide assistance in weapons. And Egypt gradually transfer their policy from a socialist economy to the mixed economy [5].

2.1.2. Sadat's infitah

When President Sadat came to power, the political situation changed. Egypt and Israel reached an agreement in 1979. And US aid plays a vital role in the peace between Egypt and Israel. Egypt accepts assistance from the U.S. and agrees to maintain peace with Israel. [5]. There was a more peaceful environment

for Egypt to develop its economic reform which was called the "Open Door" policy. This is the symbol of Egypt's economic liberalization. And many policies and measures were carried out for an open economy.

One perspective says that the alleviation of the tense international environment between the east camp and the west camp was one of the reasons for Infitah. And the new policy encouraged the expansion of private companies and foreign investment [2]. While Egypt's economy became more open, the "Open Door" policy is a sign of a shift towards the Western camp.

Most of the articles show that it was the U.S. aid that promoted the "Open Door" policy, which is a symbol of economic liberalization. The assistance of America during Sadat was accompanied by the political purpose of the powerful country. The U.S.'s Cairo Agency for International Development (AID) implied Egypt authorities to reduce the centralization of the economic policy and gave the private enterprises more space to grow [2]. Relatively, the government of Egypt widely accepted the financial aid which led the policymakers ineluctable affected by donors [8]. In that case, AID was called "a direct actor in the open-door policy" [6]. And the U.S. was looking forward to economic reform like liberalizing trade. Overall, U.S. aid shows a positive impact on Egypt's economic liberalization. However, some articles show that Egypt experienced a deficient reform of liberalizing. As a consequence, U.S. financial aid cannot bring out an adequate effect. And U.S. government changed the strategy to combine foreign aid with trade to promote liberalizing [9].

Egypt benefited from the "Open Door" policy. There was a growth in its annual GDP and a decline of the deficient of services and foods. However, these advantages are accompanied by some negative effects. The development of Egypt's economy was closely connected with the foreign economic environment. And the liberalization resulted in class differentiation, which suggested that people need to cost more to live [2]. And these bad influences cannot be isolated from U.S. assistance.

2.2. Aid and The Voice of Disapproval

In addition to the economic liberalization mentioned above, there are many other benefits that Egypt gains from U.S. aid. And most of the articles acknowledged that U.S. aid has positive influences on Egypt, while they also mentioned aid from foreign countries is bad for Egypt's economic development. An article says that the U.S. aid consciously change Egypt's policies of trade and investment. There is a reduction in the cost of import and export trade. These changes have a positive influence on Egypt's economic openness. Meanwhile, it mentions the continuity of the benefits as an issue [10]. Another research says that most of the assistances don't

focus on Egypt's economic progress. And the political purpose of the U.S. government is to maintain a stable political situation [5]. We can find evidence from the difference in the amount of military and economic aid.

Table 1. U.S. foreign aid to Egypt (\$ in millions)[11]

Year	Economic	Military
1984-1997	23288.6	22353.5
1998	815.0	1300.0
1999	775.0	1300.0
2000	727.3	1300.0
2001	695.0	1300.0
2002	655.0	1300.0
2003	911.0	1300.0
2004	571.0	1292.3
2005	530.7	1289.6
2006	490.0	1287.0
2007	450.0	1300.0
2008	411.6	1300.0
2009	250.0	1300.0
2010	250.0	1300.0
2011	249.5	1297.4
2012	250.0	1300.0
2013	241.0	1234.3
2014	200.0	1300.0
2015	150.0	1300.0
2016	150.0	1300.0

Table 1 includes data on U.S. economic and military aid to Egypt from 1984 to 2016. As can be seen from the above data, the total amount of economic aid is far lower than the total amount of military aid.

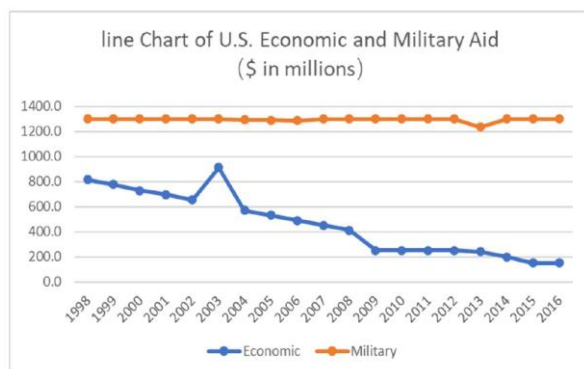


Figure 1 Line chart of U.S. economic and military aid[11]

As we can see in the figure 1, U.S. economic aid to Egypt was generally smaller than military aid. The number of economic aid to Egypt from the United States declined while the amount of military aid remained

stable. Therefore, the gap between economic aid and military aid is growing. The U.S. aid for Egypt's economic development is far less than military aid.

The military aid aims to keep the peace of the Middle East, such as stopping terrorist attacks from happening. Therefore, there is skepticism that the purpose of the assistance is not promoting economic development [12]. From this point of view, the existence of bad influence is reasonable. And two related negative effects are listed below to verify.

2.2.1. Reduced ability of independent development

Over 2 billion dollars were taken in annually for Egypt's industry, agriculture, and social development. And Egypt was regarded as one of the most dependent countries [8]. According to the dependency theory, developed countries are trying to transfer the property from developing countries [3]. The developed country benefits from the relationship with the developing country. At the same time, the connection between them grew closer. This is a dangerous signal for the country in a vulnerable position. Egypt relied too much on importing foods. And there is a viewpoint that the U.S. assisted Egypt in food for its political factors. For example, they sell domestic crops to promote their own development [6]. This indirectly brought negative impacts on Egypt's economic dependency. U.S. aid did not help Egypt to make the most of its resources [3]. Because the domestic farmers can not compete with the cheap agriculture products, the foreign aid disappointed the domestic farmers' enthusiasm for improving production and efficiency. Egypt's economic development is affected by changes in the international market. In addition, its domestic economic structure is unbalanced. And there are political groups that struggle with their interests. These are contributing factors to Egypt's economic dependency. And they are also considered to be the reasons for the ineffective use of U.S. aid. [13].

2.2.2. Inefficient using of aid

There is another opinion that shows that the huge investment of the U.S. in Egypt did not give full play in Egypt's economic development. About \$13 billion were spent by the AID to improve the economy. However, there were still a lot of questions. Such as the high rate of inflation and accumulated huge amount of debt, while industry, education, healthy care shows no significant improvement [15].

The aid from the United States is restrictive. Unlike Israel, Egypt needs to follow the terms of American assistance. Egypt is required to import from the U.S. and use the U.S. Human resources for consulting. This is one

of the political reasons for the ineffective use of U.S. aid. The AID operates the Helwan housing project in Cairo. And it is a pity that this project does not reach its target completely [15]. And the form of aid is limited too. The U.S. Economic Support Fund controls the aid money. At the same time, it encourages importing from the U.S. And it is partial to the U.S. companies. As a consequence, many companies from the U.S. are involved in engineering projects in Egypt. Furthermore, compared to Israel, most of the U.S. assistance is not cash transfer. From 1975 to 1990, most aid activities are in the form of projects and import programs [16].

2.3. A Gap in Quantitative Research of American Aid to Egypt

Many view the US aid to Egypt from a subjective perspective. And there is a suggestion for reducing subjective evaluation and using more data-related methods to compare cost and effectiveness [5].

While there were a lot of qualitative researches about U.S. aid and Egypt policy, economic development, most

of them rarely think of the connection between U.S. aid and Egypt in quantitative terms. Only a few articles use the econometric model to measure the effectiveness. One uses the Autoregressive Distributed Lag to test the effectiveness of U.S. aid from a long and short period, which shows that openness to trade is important whether it's for a long time or a short time. However, aid is not a significant factor for short time economic development. And it has a bad influence on long time development [4]. Another research contains Johansen cointegration test and Vector Error Correction Model shows that the aid has a bad influence on Egypt development whether long or short time [18]. The third one uses a vector autoregressive model to analyze the variables. It adopts the augmented Dickey-Fuller test, the impulse response function, and the autoregressive inverse roots graph for assistance.

For a better understanding of the difference between articles from different ages and methods, there is a summary table 2 that collects relevant ideas from eleven articles.

Table 2. Summary of points of the articles

Number	Summary of main points of the articles		
	References	Opinions related	method
1.	Weinbaum, M. G. (1983).	Since 1974, the dependence of Egypt on U.S. aid has increased. And the U.S. aid has some negative influence on Egypt.	Qualitative research
2.	Weinbaum, M. G. (1985).	There is an obvious connection between U.S. aid and Egypt's economic liberalization.	Qualitative research
3.	Weinbaum, M. G. (1986).	U.S. aid has some negative influence on Egypt's economic development. There is not sufficient evidence indicating that the dependence of aid brings some huge adverse effect on Egypt's economy.	Qualitative research
4.	Morsy, S. A. (1986).	U.S. aid has some bad influence on Egypt's independent development.	Qualitative research
5.	Taher, N. (2001).	There is a fluctuant balance relationship between aid recipients and donors.	Qualitative research
6.	Momani, B. (2003).	U.S. aid is one of the methods for American to help Egypt's liberalization. But it is less effective than they thought.	Qualitative research
7.	Attia, S. M. (2009).	Technical assistance for Trade Policy implemented by USAID benefit Egypt's trade and investment.	Qualitative research
8.	Sharp, J. M. (2009, May).	Some people in congress thought U.S. aid was inefficient.	Qualitative research
9.	Abd El Hamid, H. (2013).	There are some negative impacts of foreign aid on Egypt's long and short time economic development.	Quantitative research
10.	Emara, N., Plotkin, D., & Stein, A. (2013).	Aid rarely has some important influence on Egypt's economy in the short term but has some negative impacts in the long term.	Quantitative research
11.	Jadallah, D. (2015).	U.S. aid brings about some bad influence on inflation, employment and deficit. It shows that Egypt needs to obey America's target.	Qualitative research
12.	AboElsoud, M. E. (2018).	There were no negative or positive impacts on Egypt's economic	Quantitative research

Number	Summary of main points of the articles		
	References	Opinions related	method
		development. Both donor and recipient countries need to work to change the situation.	

Table 2 shows twelve articles from 1983 to 2018, of which nine use qualitative research methods and three use quantitative research methods. Quantitative researches involve the short-term and long-term influence of U.S. aid to Egypt. And the result shows that there are some bad effects on Egypt in the long run. Although GDP figures show that Egypt's economy is growing, the pace of growth is clearly being affected. Questions about U.S. aid to Egypt grew as the day passed. Both the U.S. and Egyptian governments need to find new ways to deliver and receive aid.

3. CONCLUSION

The positive influence is obvious at first, especially under the Sadat administration. U.S. aid contributes to Egypt's economic liberalization and help Egypt to transform its economy from Nasser's policy. However, some negative effects appear over time. Such as class differentiation. At the same time, the development of Egypt is closely influenced by the foreign environment. And Egypt gradually loses the ability to develop independently which is evidence of inefficient U.S. aid. In addition, two quantitative research illustrate the long-term negative effects of U.S. aid through data.

It is difficult for us to identify the boundary of bad effect and positive influence just through qualitative research. Because the aid may be to avail in some fields while it is a piece of bad news in another aspect. More data related to the amount and the way of U.S. aid and Egypt's economic growth are needed to show the relationship between U.S. aid and Egypt's economic development in short term and long term. We need quantitative researches to compare the positive and negative impacts in different aspects and learn about the more important side that stands out. And the analysis of the impact can provide a reference for better methods of constructing aid relationships.

REFERENCES

- [1] D. Jadallah, Economic Aid to Egypt: Promoting Progress or Subordination? *Class Race Corporate Power* 3(2) 2015 1. DOI: 10.25148/CRCP.3.2.16092106.
- [2] M.G. Weinbaum, Egypt's Infitah and the politics of US economic assistance, *Middle Eastern studies* 21(2) 1985 206-222. DOI: 10.1080/00263208508700624.
- [3] M.G. Weinbaum, Dependent Development and U.S. Economic Aid to Egypt, *International journal of Middle East studies* 18(2) 1986 119-134. DOI: 10.1017/S0020743800029755.
- [4] N. Emara, D. Plotkin, A. Stein, Foreign aid and growth in Egypt: The role of economic policy, *Journal of Business and Economics* 4(11) 2013 1170-1175.
- [5] M. (n.d.). Botros, The Role of Aid on the Course of U.S.-Egypt Relations. https://www.academia.edu/33000974/The_Role_of_Aid_on_the_Course_of_U_S_Egypt_Relations
- [6] S.A. Morsy, US aid to Egypt: an illustration and account of US foreign assistance policy, *Arab Studies Quarterly* 8(4) 1986 358-389.
- [7] J. M. Sharp, Egypt: Background and US relations. LIBRARY OF CONGRESS WASHINGTON DC CONGRESSIONAL RESEARCH SERVICE. 2009, May.
- [8] M.G. Weinbaum, Politics and development in foreign aid: US economic assistance to Egypt, 1975-82, *Middle East Journal* 37(4) 1983 636-655.
- [9] B. Momani, Promoting economic liberalization in Egypt: From US foreign aid to trade and investment, *Middle East* 7(3) 2003 88-101.
- [10] S. M. Attia, The Role of USAID in Development in Egypt. 2009.
- [11] J. M. Sharp, Egypt: Background and US relations. LIBRARY OF CONGRESS WASHINGTON DC CONGRESSIONAL RESEARCH SERVICE. 2021, September.
- [12] A. Khattab, Prince Alwaleed Bin Talal Bin AbdulazizAl Saud Center for American Studies and Research. 2012.
- [13] D.J. Sullivan, The Political Economy of Reform in Egypt, *International Journal of Middle East Studies* 22(3) 1990 317-334. DOI: 10.1017/S0020743800034097.
- [14] D.J. Sullivan, Bureaucratic Politics in Development Assistance: The Failure of American Aid in Egypt, *Administration & society* 23(1) 1991 29-53. DOI: 10.1177/009539979102300102.
- [15] N. Taher, In the shadow of politics: US AID-government of Egypt relations and urban housing

intervention, *Environment and Urbanization* 13(1)
2001 61-76. DOI: 10.1177/095624780101300105.

- [16] R. Bush, *Crisis in Egypt: Structural Adjustment, Food Security and the Politics of USAID, Capital & Class* 18(2) 1994 15-37. DOI: 10.1177/030981689405300102.
- [17] A.E.H. Hoda, *Foreign Aid and Economic Growth in Egypt: A Cointegration Analysis*, *International journal of economics and financial issues* 3(3) 2013 743-751.
- [18] M.E. AboElsoud, *Did USAID promote economic growth prior to the 2011 Egyptian Revolution?* *Journal of Chinese economic and foreign trade studies* 11(3) 2018 219-235. DOI: 10.1108/JCEFTS-05-2018-0013.